ECONOMIC DEVELOPMENT COUNCIL

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BOOM OR BUST - CAN WE COMPETE IN THE 21ST CENTURY?

This is Day 2 of the New Era. (Or is the "Newt" era?) Republicans are already toppling the old order in Washington, D. C. There will also be a new look politically in Washington State as 40 freshmen enter the State House of Representatives to create a huge new Republican majority.

Our natural tendency is to look forward to new ideas and new legislation - some clapping their hands with anticipatory glee and others wringing theirs in dismay. The election created a whole new set of hand wringers - environmentalists, labor unions, trial lawyers, and liberal Democrats.

But if we are to create a prosperous future, we must remember and learn from our history. I took office 30 years ago this month as Governor on the eve of a huge economic boom in Washington State. Unemployment dropped to less than 4 per cent and Boeing's workforce soared past 100,000. Five years later the aerospace industry collapsed, Boeing lost 70,000 jobs, and statewide unemployment surged past 13 per cent. We recovered by the mid-1970's only to face another deep recession in 1980. We recovered again and most of us can remember the halcyon days of the mid-1980's. By 1990 recession once again struck. Now by mid-decade we are embarked again on a period of economic stability and growth.

The ten year cycles are eerily regular. The recessions of 1970, 1980 and 1990 did not always occur during periods of national recession, but always paralleled recessions in the aerospace industry measured by job shrinkage at the Boeing Company. Each time the recession was less onerous and recovery was faster. Why? Because our economy is rapidly diversifying as intelligent entrepreneurs create new business opportunities.

But the Year 2000 is rapidly approaching. Will we sink into another recession or will we have the courage, intelligence and heart to create a more stable future for our children? More of that later.

Our political history is as fascinating as our economic past. The 1960's were years of turmoil. Frustrations over poverty exploded in urban riots, campuses rebelled over a seemingly endless war in Vietnam and environmental enthusiasts set the stage for the first Earth Day in 1970.

I just re-read a series of speeches I gave in 1969 entitled "The Linfield Priorities". I said then "violence is intolerable. Yet in a time of turmoil, violence is no greater a sin than ignorance. For violence may temporarily disrupt society, but ignorance will most assuredly destroy it..."
"It is about time that the citizens of this country began to take stock of themselves. It is about time that we stopped yelling 'law and order' and 'victory at any cost' at the top of our lungs, and began to assess our problems with candor and honesty. It is about time we recognized that this democracy can survive violence and protest, but it cannot survive ignorance and war and poverty and, above all, the citizen who says, 'protect me, but don't involve me.'"

It sounds dismayingly similar to today. But there was a difference. We suffered the mindless chants of students shouting "Hey, hey LBJ - how many kids did you kill today?" But we also heard John Kennedy exhort us to "ask not what your country can do for you, but what you can do for your country." And Martin Luther King in his famous speech to 200,000 demonstrators in Washington D.C. said "I have a dream...". They were leaders of vision in a time when public service was respectable.

Where are today's visionary leaders? We have just concluded the nastiest election in my memory. Virtually all campaign advertising was enormously distorted and negative. But the campaign was only an incident in the steady drumbeat of negative stories on politics and politicians. Locally, television stations and fatuous talk show hosts delight in screeching about waste in government. The stories are great for ratings, but woefully short on balance and accuracy. It's inappropriate now to tell racial, ethnic, or religious jokes so everyone descends on politicians. But by constantly trashing our political leaders, we also breed disrespect for our own system of government. The result is a new political landscape dotted with constitutional amendments and initiatives designed to protect citizens from "evil" politicians. Proposed constitutional changes on balanced budgets, term limits, and prayer in schools will almost certainly be voted on in the current Congress. Our constitution is strong because it is amended rarely and then to expand freedoms, not restrict them. The balanced budget amendment is a loony idea that is meaningless until we decide how to keep a national standard set of books so we can measure balance. The interpretation of that amendment would turn over fiscal decision making to the Supreme Court for years to come.

As a voter I am outraged by those sanctimonious term limiters who would steal from me the freedom of my vote. They are now debating how many terms officeholders should be limited to, but some of them don't deserve more than one term.

Congress needs no balanced budget amendment - just courage enough to balance the budget. Voters need no term limits - they can turn rascals out at every election. School children need no prayer amendment, they can and do pray by themselves regularly.

Here in Washington, we are already feeling the unintended consequences of recent initiatives. "Three strikes and you're out" is misguided and costly. It was aimed at locking up for life those who were convicted of three serious crimes. We are discovering that the first
to be permanently put away aren't the ones we thought they would be. Eventually we will be keeping 70 and 80 year olds incarcerated at great expense just to feel good. What earthly evil can they perpetrate in their dotage?

Even Initiative 601 is designed to save us from ourselves. Its limitations on spending bear little resemblance to the needs of our people. Over 80 per cent of our state budget is spent on those under 21 and over 65. Those age groups are growing far faster than our population generally, but 601 doesn't recognize that. Its requirement for supermajorities for new taxes has now spread to the national House of Representatives. Setting these higher hurdles by a current majority may be convenient, but it's also extraordinarily dangerous. What will the next majority require supervotes on? Environmental issues, abortion, campaign reform?

Well-respected national columnist David Broder said it well in a recent essay, "Why should it be harder for Congress to raise taxes than declare war? Does this proud new Republican majority wish to say on its first day in office: we value money more than lives?"

I guess I am a contrarian. I think government works pretty well. It put men on the moon, won the cold war, and carried out Desert Storm successfully. Our government built the world's best transportation arteries. It delivers water, takes away garbage and sewage, fights fires and provides police protection. It preserves our environmental legacy in national parks and wilderness areas, ensures clean water and clean air. Government provides a vast safety net for our people through Social Security and Medicare and is the last resort for housing, food and medicine for those too poor to provide for themselves.

Is government always honest? Of course not. Is it efficient? Sometimes, but it is subject to costly legislative restraints designed to protect citizens. Is government responsive? Usually it is. Remember, government employees work with the vagaries of a constantly shifting set of laws, each one supported by a majority when it was passed and few of them ever reviewed again by their legislative parents. Our system works remarkably well, considering our citizens' natural yearning for better protection, lower taxes and more services. Well, I've been wanting to say all of this for a long time and you know, it feels good.

What about our future? Nancy and I welcomed our first grandchild, Eloise, on December 26th. She will turn 21 in the year 2015. What will her world be like? Population is likely to be 50 per cent higher than today. 8 billion people will crowd our planet. The Asian economy will soar, creating new markets, but also added consumption of limited natural resources. America will be different - more diverse and potentially more productive. Our local economy will succeed only insofar as we are competitive in an increasingly dynamic global economy. Medical advances will increase the health and longevity of our population. Communications will be instantaneous and universal.

Most of all, new technologies and unusual events will impact the future in ways we
cannot yet comprehend.

When the subject is our economic climate, however, many attempt to analyze the present and prescribe cures for the future. The results of these reports depend heavily on their authors and sponsors. The Washington Business Roundtable in a yet-to-be-released report measures Washington against other states in almost 100 economic factors. The results are mixed, but the prescriptions predictable - lower business taxes. The State Office of Financial Management, in contrast, paints an extraordinarily rosy picture of Washington's future business prospects. A Manufacturer's Tax Study Commission created by the last session of the Legislature just issued its report. It compared tax burdens with 11 other competing states and found that Washington should lower its business tax burdens in order to be more competitive. It should be noted, however, that Oregon had the lowest business taxes in most categories and they depend primarily on a state income tax. (I just couldn't let that one go by!)

I was particularly attracted, however, to a recent article in Money Magazine identifying the 20 top spots for entrepreneurs in the United States. They had no special interest in our state, but four of the top 20 are in Washington - Bellingham, Seattle, Vancouver and Spokane. That's more than any other state. The article identified five fundamental ingredients for entrepreneurial success. One, a vigorous local economy based on diverse industries. Two, an educated work force. Three, a great transportation network. Four, a good quality of life. And five, an abundance of the two C's - cash and construction. All of these reports are fascinating reading, but offer differing and sometimes conflicting prescriptions for economic success.

I believe there are eight elements which could propel Seattle and King County into world class economic status.

Number one: This state and region needs regulatory reform NOW. Conflicting rules managed by a multitude of agencies create chaotic conditions for anyone attempting to start or expand a business enterprise. The Legislature should spend more time in oversight of the laws it has passed rather than adding new ones. The Governor should initiate a review, agency by agency, of all current regulations with the goal of eliminating the unnecessary, simplifying the required, and streamlining the process. The same should be done at city and county levels immediately. It is unconscionable for a simple permit on a new home in Seattle to take four months to issue when the same is done in Portland in five days.

Number two: the Growth Management Act is an important attempt to try to manage growth in a region which is rapidly strangling on congestion and land abuse. The act, however, is layered on top of the state's Environmental Policy Act and other local planning and zoning ordinances. The Legislature this session should merge and streamline the activities of SEPA and the Growth Management Act with a goal of predictability and certainty for those who seek to build new homes, new stores and new business enterprises.
Requirements under the act should be clear, concise and understandable.

The alternative may be proposed property rights initiatives which would change radically the management of our urban region. Rational planning could be cast aside for unchecked, rampant development. These initiatives arise out of understandable frustration, but their unintended consequences and costs could be devastating to our economic future.

**Number three:** We revel in the quality of life in our region and the beauty which surrounds us on all sides. But bit by bit the open shorelines and the unique woodlands of our Puget Sound Basin are succumbing to development. We must continue the investment we began four years ago at state and county levels to preserve the unique natural areas of our state. We cannot wait for a more prosperous time or the most important of these preserves will be lost and we will be unable to show our grandchildren what this land was like before humans touched the earth. We will lose our natural heritage.

**Number four:** Good transportation is essential to a healthy economy. Our region has an excellent and well maintained highway transportation network. It is rapidly succumbing to congestion as population and industry crowd our Puget Sound Basin. A rapid, comprehensive transit alternative is imperative if we are to avoid the strangulation that will kill economic growth. The people of Pierce, King and Snohomish Counties will have an opportunity this spring to invest in a transit system that could help rescue this area from transportation gridlock.

The last session of the Legislature also authorized a new public/private partnership for construction of selected new transportation arteries. Financing would be partially through toll revenues, which is common in most parts of the country, but not here. Some will propose to the Legislature that these ventures be stopped, but we cannot accomplish some critically needed projects without these new initiatives.

**Number five:** We must fully utilize our natural advantages to build economic strength. One of the most important of these is low cost electric energy. More and more of our manufacturing processes are using electricity and we enjoy the lowest power rates in the United States. That is a dramatic competitive advantage. The basic producer of our low cost hydroelectric power is the Columbia River System, much of it managed through the Bonneville Power Administration. The current national administration proposed changes that would radically increase power rates at Bonneville. Strong reaction from the Northwest Congressional delegation halted this proposal temporarily. But we must seek a permanent solution that will guarantee stability in power rates and remove the threat of Congressional tinkering. Electric rates are under siege from another source. The Northwest Power Planning Council under pressure by the courts and federal fisheries agencies could order costly fish protection measures that will be of questionable benefit. Foolishly raising the cost of energy based on shaky science is not only highly speculative, but wrongheaded. The decline of our salmon fishery is due largely to overfishing in the
ocean and changes in the ocean currents. Few know that the largest salmon runs on the Columbia River in the past 50 years were in 1986 after all the dams were built.

**Number six:** A great region is measured by a great central city. And a great central city is identified by its vibrant core. When the core of a city dies, so does the city and when a city dies, so does the region. Seattle is at an important crossroads in its history. Plans are currently being prepared to expand our convention center, to rehabilitate our retail core by redevelopment of the Frederick and Nelson block, build a new downtown symphony hall, construct a baseball stadium, build the urban village and major park of the Seattle Commons and rehabilitate Seattle’s entire waterfront by replacing the Alaskan Way viaduct with a system of tunnels and connecting traffic arteries.

It's a long list and the immediate reaction is to say "we can't do it all - we must do them in some priority order." That kind of small thinking will doom our downtown core and stall our economic growth. There need be no prioritization, for each one of these projects has its own timetable. When each is ready, we ought to proceed. Instead of viewing these elements as costs we should recognize them as investments in our own future.

The symphony hall has a commitment of $54 million of private money for its development. The convention center and the retail core renewal will generate economic activity and tax revenue that will amply cover their costs. Some may question whether a baseball stadium is connected with economic activity. But the most popular American sports team in Japan today is the Seattle Mariners. And the most popular American athlete is Ken Griffey, Jr. That is a big advantage for Seattle in recognition for both tourism and business from one of our major trading partners.

Recent studies done for the Seattle Commons and for the City of Seattle both come to the same conclusion. That a Seattle Commons over the next 30 years would generate far more in new city tax revenue than all of the operating expenses necessary for the Commons. In addition, the County, Port, and State will gain new tax revenues. All of these projects have the capacity to expand our tax base.

Many other city needs cry out for support, low cost housing, neighborhood councils, and police protection. These needed services can be financed in one of two ways. Either raise tax rates or expand our tax base to provide more revenue without raising taxes. That requires understanding, investment and courage. The spirit that galvanized Seattle into action for the World's Fair in 1961 needs to be regenerated for all of these important projects which would change the face of Seattle.

**Number seven:** the Business Roundtable and Money Magazine both identified an educated workforce as an essential ingredient for economic success. Money Magazine said "in fact, the Seattle Tacoma area had the best educated workforce of any place we surveyed, a factor that helped earn it the Number 7 spot in our ranking. Some 65 per cent of the area residents have finished at least one year of college compared to the national
average of only 45 per cent."

Higher education skills will be critically important in our 21st Century economy. That will make the University of Washington the major driver of our local economy. In 1993 the state provided $371 million to the University for operations and capital projects. More than three times that much came from non-state sources. The University of Washington is second among all universities in the country in total research grants and the number one public university in federal research grants for the past 20 years. Not only does the University educate over 33,000 students per year, but graduates 9,000 talented additions to our workforce.

Research efforts at the University during the past two decades have spawned 38 new companies, generating hundreds of millions of dollars in sales and thousands of new jobs. A recent economic impact study shows that the University generates $9 for every $1 provided by the state, generating a return unmatched by almost any other state expenditure.

But higher education and the University in particular are facing difficult political times. The Republican Contract, if adopted as written, would cost the University of Washington $30 million per year in lost research grants. The limitations of Initiative 601 coupled with rising demands for other services, put higher education into a giant financial nutcracker. Legislators must understand the economic importance of our higher educational system and its key research university. Our future economic health as well as state tax revenues, will depend on that understanding.

Number eight: Civic, city, and civil all come from the same Latin root - civis, meaning "member of a community, citizen." If we are to succeed as a great city, then we must all be members of the community. If we are to be true citizens, then we must do more than vote. We must be continuing active participants in the civic arena.

Once again let us engage in civil debate. Once again let us join together in the generosity of volunteerism. Once again, let us seek progress jointly rather than obstruction separately.

The leaders of tomorrow will not be those talk show hosts who cater to the base emotions of people, nor the politicians who blithely promise what they know they cannot deliver. It will not be those rigid environmentalists who will see you in court if they don't get all they seek. Nor will it be the business leader who always skirts the edge of appropriate behavior.

Leadership must come from those who have the vision to see tomorrow, the intelligence to plan wisely, and the civility to listen to others.

Economic development is not just about jobs and profits. It is also about building a better community, creating maximum opportunity for all, and leaving a promising legacy for
our children.

We cannot ignore economic development during boom times and build crash programs during recessions.

The task of the King County Economic Development Council is a continuing, constant, and complex endeavour.

For Eloise and all of our children and grandchildren, may you dream grandly and plan wisely in building a world class 21st Century community.