

5. HOW DO WE GET THERE? A STRATEGY FOR ACHIEVING OUR VISION OF OREGON

In this section three key initiatives and several supportive initiatives are proposed to achieve the vision and goals set forth in this plan. If we act on these, we are confident that Oregon will become a more diversified, prosperous economy over the next 20 years, and will maintain the quality of life that Oregonians value so highly.

These strategic elements are founded in the work of the State Legislature, which developed specific goals and priorities for economic development policy this past decade. As reflected in ORS 184.004, key goals include: continued economic expansion to provide jobs for Oregon citizens, increased levels of per capita income, and emphasis on well paid jobs to assure the security of Oregon families.

With these goals in mind, the Legislature assigned priority to developing the state's human resources, promoting economic activity in small communities, promoting sectors of the economy that compete in national and international markets, promoting development that provides family wage jobs, and promoting sectors in which Oregon has a comparative advantage.

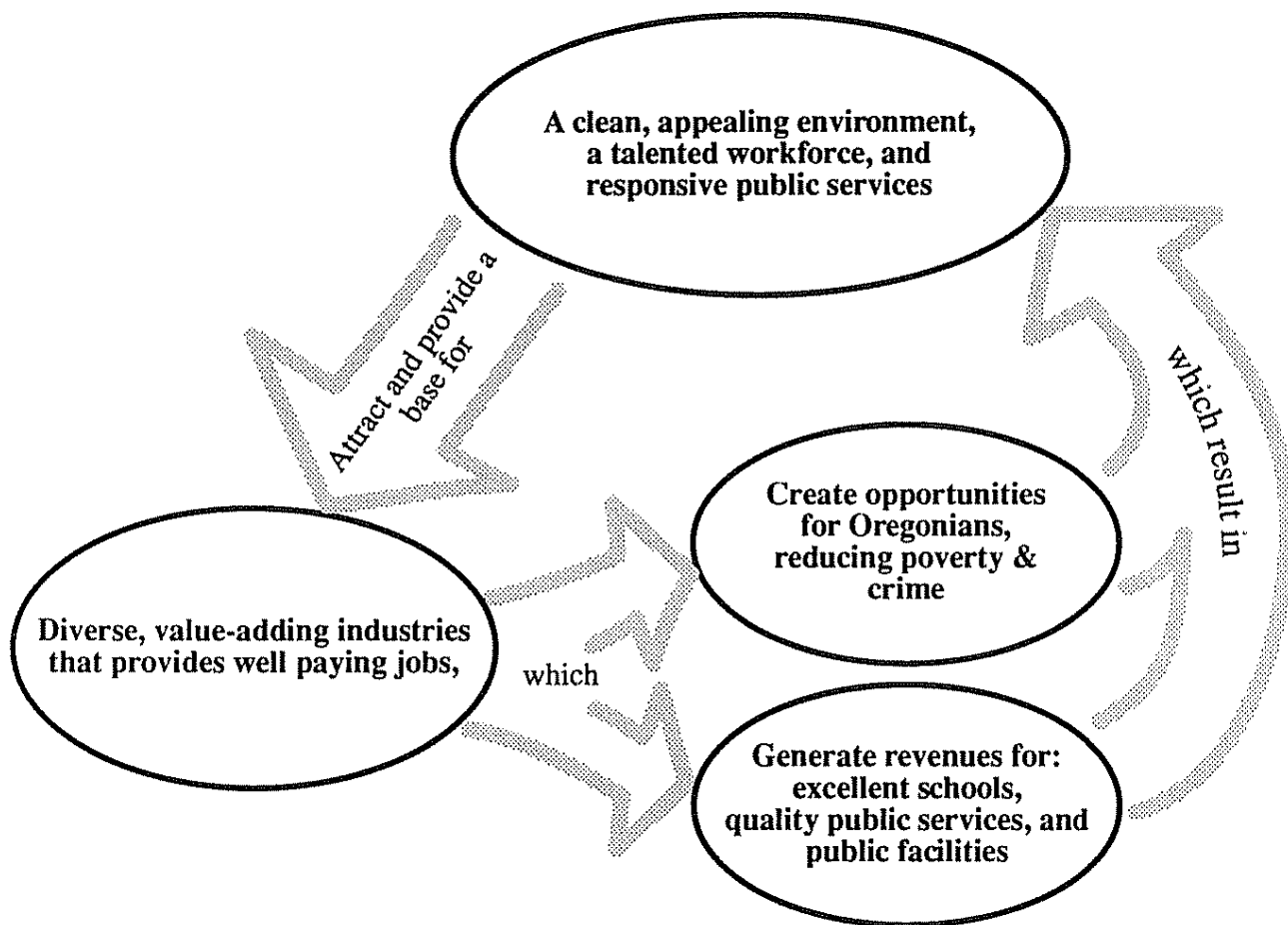
This plan draws upon these legislative goals and priorities, and further suggests that maintaining environmental quality and public services are additional other central goals that should both follow from and be built into the state's economic strategy.

The Circle of Prosperity

As illustrated in Figure I-6, the economic strategy proposed here recognizes the vital circle of interdependence between healthy communities and prosperous private enterprises. The community, whether town, region, or state, is the main supplier of business. It provides work force, land, neighborhoods, schools, streets, bridges, water, ports, and government services. Business, in turn, provides a strong economic base -- jobs, goods, services, and tax revenues. When these sectors, public and private, support each other, the economy will prosper. Conversely, when the community fails to provide good public services or when businesses falter, a downward spiral can ensue. The principle way each of these sectors can best support one another is for each to maintain and reinvest in its own capacity.

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Figure I-6. The circle of prosperity. Quality communities and a prosperous private sector reinforce one another.



During the 1980s in Oregon this circle of interdependence was damaged. The national recession severely hurt Oregon businesses causing a loss of income and jobs. Tax revenues dropped, forcing communities throughout the state to cut back on vital public services which now impede the long term prospects for the state.

Businesses are growing again and the state is beginning to reinvest in facilities vital to a good climate for business in the long run. It is critical that Oregon return to the circle of prosperity by making the investments in people, community services, and facilities that will provide a base for long-term business growth.

A CLOSER LOOK AT THE KEY ELEMENTS OF OUR STRATEGY

As we restore elements of structural support between the community and the business sectors that were damaged by the last recession, it is important to define more clearly key investments and initiatives necessary to build a comparative advantage for the future.

The Oregon economy will shine if we pursue six initiatives. The first three -- on the work force, environment and international culture -- will distinguish our state from others as a place where the work force is uniquely talented, where the natural environment is preserved and maintained, and where the people have wide cultural horizons. These distinctions will make Oregon attractive to many businesses and to the skilled people needed to drive productive enterprises.

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The next three initiatives -- on partnerships, public facilities and services, and business costs -- are vital support elements to any serious economic development strategy. We must pursue them to create the right climate for healthy economic growth.

1. Oregon will commit itself to provide the best educated and trained work force in the United States by the year 2000, and a work force competitive with any country in the world by the year 2010. Education and training must be part of the strategy for any state that is seriously planning its economic future. Oregon can be no exception. Revolutionary changes in technology and the globalization of the economy are placing a premium on a highly skilled work force. There is disconcerting evidence that U.S. citizens are not as well prepared as citizens of other advanced countries in such critical areas as math and science, and foreign language and cultural awareness. This puts us at a serious competitive disadvantage.

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...and we must measure our progress toward these objectives in regular testing of Oregonians...*

While we take pride in the quality of our work force and our innovative education institutions, there remains much to achieve as we prepare for the next century. We propose to back up our commitment to produce an excellent work force by governing our educational institutions to meet pre-established targets for literacy and other skill attainment

and by systematically measuring our progress toward these objectives through regular cross-sectional testing of Oregonians (including those already in the work force). We propose to set ambitious goals for educational attainment in several areas, including basic literacy, analytical skills, and knowledge of foreign languages and cultures, especially along the Pacific Rim.

Achieving these goals will require unprecedented cooperation between business, labor, social service agencies, and schools to revamp programs to meet the challenges of the next century. While the steps are spelled out in greater detail in a later section of this report, these are some of the initiatives that will be required.

- **Children's Agenda.** We must place a strong emphasis on fostering the well being and development of children in their very early years, especially those raised in single-parent, low-income families. This children's agenda will help youngsters to develop basic knowledge and skills, and a sense of security and self-worth that will contribute to their healthy development as adults.
- **Stable Schools, Essential Skills.** Our primary and secondary schools need to be well-financed, and must set ambitious standards for student retention, basic and analytical skills development, and career preparation.
- **Business-Education Ties.** Continuing education and retraining programs must be bolstered to reflect the declining number of new entrants into the work force and the growing number of workers who will need retraining and re-education over the next 20 years. These programs are currently uncoordinated and scattered among a variety of public and private sector institutions. Some programs meet local needs well, but others suffer because business and education institutions are not communicating well with one another. In some cases, small businesses have limited access to retraining courses for their workers. Throughout the state, continuing education suffers from fragmentation of service delivery, resulting in duplication of programs in some areas and lack of programs in others.
- **A World View.** Greater emphasis on science and math education, and international languages and culture is needed throughout the education system, including primary school levels.

Education dominates state and local government expenditures. How well we govern and manage the education system will be a critical determinant of economic growth in the future.

Most states have recognized the importance of education, and in recent years have adopted some form of education reform to improve the quality of the work force.

Many states have required more rigorous measurements of school performance, especially at the elementary and secondary level. Our proposed strategy can be distinguished from other states by its emphasis on measurement of the education attainment levels of all Oregonians (not just the performance of individual programs), and by establishing goals for Oregon that all the institutions can work together to achieve. The first step for such an effort will be to draw together leaders from education, business, labor and social services to define the work force skills needed for an advanced economy. The next step will be to identify and implement initiatives to achieve those skills, and then to test Oregonians to insure that they are acquiring those skills.

2. Oregon will maintain its environmental quality and protect against congestion in order to keep its competitive advantage in overall quality of life. Oregon's passion for protecting the environment, and systematically planning for land and transportation development, is a competitive advantage for two reasons. First, as we compete for the entrepreneurs, professionals, and firms that will drive Oregon's economy in the future, Oregon's attractive physical environment and well-planned urban and open spaces will increasingly be a major draw. As congestion and pollution mount in other regions along the West Coast (particularly gridlock, groundwater contamination, and air pollution) Oregon increasingly will be able to offer quality of life as a major competitive advantage. Second, the broad consensus within the state about the importance of urban planning and environmental planning has created a regulatory environment that anticipates problems, and constructively solves them. While any regulatory system generates controversy and a certain amount of dissatisfaction, the fact that Oregon plans in advance how land will be used reduces uncertainty for businesses that want to expand here or come here.

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For years economists have been conducting econometric studies to decipher what makes one region's economy grow faster than another's. The studies tried to find specific policies that states and communities could use to stimulate the growth of private businesses, based on the theory that you must create jobs before you can generate economic benefits for individuals and households (in other words, jobs attract people). All the studies came up empty. There are no sure models.

More recently, economists have found evidence that rather than jobs attracting people to an area, an area can attract people who bring jobs with them or who create jobs. In such cases, we can create employment opportunities by providing environmental attractions and

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other amenities that assure that people will want to live here. People demand higher wages in regions without access to such amenities. Conversely, Oregon residents seem to accept this region's environmental and cultural amenities as an addition to their real incomes -- a supplementary compensation in the form of attractive neighborhoods, affordable housing, good schools, uncongested roads, pristine vistas, and accessible outdoor recreation.

To keep our competitive edge in quality of life, there are a number of environmental issues on which business and public interest groups will need to cooperate. Broadly, we must take actions to assure that urban areas are able to grow without the congestion, sprawl and pollution that plagues other United State's cities. We must assure that air and water quality is protected. We must assure access to outdoor recreation opportunities. Finally, there are steps the State can take to streamline regulatory processes to make them more understandable to businesses.

3. Oregonians will become so knowledgeable about world languages and cultures that international business will become fully ingrained in activities of Oregon companies, and Oregon will become a truly comfortable place for foreign companies and people to be. The growth in international trade generally, and Pacific Rim trade specifically, creates tremendous opportunities for Oregon. During the next two decades, Oregon's economic growth will depend in large part upon our ability to export more of our products, to attract foreign investments and visitors to our state, and to increase the flow of goods through the states.

The key to achieving all of these opportunities is for Oregonians to become fully aware and accepting of world cultures. While investments in ports, and specific efforts to assist businesses at exporting can help, ultimately the state's success in taking advantage of international business opportunities rests on the ability of Oregonians to become fully familiar with world cultures and languages. International business should become as ingrained in Oregon life as domestic business is today.

Building international awareness will be the result of the energies of hundreds of institutions and the collective effort of all Oregonians. Schools, communities, and civic organizations already have made great strides towards expanding international programs. The State System of Higher Education, the community colleges, and primary and secondary schools should be encouraged to review their curriculum and

programs concerning languages and cultural understanding. State agencies should foster and support community and private organizational efforts to establish cultural exchanges that broaden Oregonians' awareness of international opportunities. The State should foster and support a variety of international institutes and conferences.

While increasing Oregonians' basic awareness of world cultures and languages is central for the long-term development of a strong business climate in Oregon, there are more specific steps that can be taken now to help businesses develop international trade opportunities. The Economic Development Department, the Department of Agriculture, and the Department of Forestry provide a variety of services to help companies reach export markets. They should become a broader resource to small and medium size businesses inexperienced with international trade. We also need to step up our efforts to help the agriculture and forest products industries crack international markets, helping Oregon companies overcome both tariff and non-tariff trade barriers. State and local governments also have successfully recruited foreign companies to invest in Oregon. These efforts should continue in the future.

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The transportation facilities that provide access to national and international markets also play an important role in building international business. While this strategy does not envision Oregon becoming a dominant transportation hub along the coast, efforts should be made whenever possible to improve facilities that give Oregon better access to international markets.

SUPPORT INITIATIVES

■ **Oregon will build strong partnership between business, government, labor, education, and citizens groups to identify opportunities to build competitive advantage.** Individual businesses drive the Oregon economy. They are the source of products, jobs, wealth, and community vitality. Yet they can't provide these benefits alone. They depend on other entities for support and cooperation, and they need to work closely with these groups in order to compete on the world stage.

Government needs to take the initiative in helping to forge such partnerships. Government affects business performance through its influence over infrastructure, education, and public policy. Government has a leading role in helping businesses that choose to locate and grow here. Government is in an ideal position to facilitate the process of collaboration among institutions.

The partnership arrangements that will be needed to support an advanced economy are too numerous to list here. However, we can identify several of the more important ones:

- **A Common Vision.** Oregonians must share a vision of the state's future -- the direction of the state's economy, public services, and environmental quality, and the steps that need to be taken to achieve that future. This plan proposes the creation of the Oregon Development Board to facilitate such a consensus and measure our progress in achieving a common vision of Oregon's future.
- **Business-Education Teamwork.** The business community and the education community must work together at all levels to accomplish four objectives in particular: 1) assure that the workers of the future have the skills and problem-solving abilities that will be required of a competitive, internationally oriented economy, 2) assure that the workers and managers of today are provided with ongoing training to keep them abreast of new ideas, markets, and production technologies in their fields, 3) retrain workers displaced from jobs in shrinking industries, and 4) utilize schools and research centers to explore new ideas and technologies and to transfer new ideas and technologies into the private sector for application. This plan proposes several steps to enhance the business-education partnership. It proposes creation of a permanent state-level science council to oversee technology transfer, and it proposes creation through the Economic Development Department of industry development officers and industry advisory committees to facilitate communications between Oregon's industries and schools, State agencies, and other institutions.
- **Inter-governmental Cooperation.** State Government needs to work closely with local government to assess local capacity for growth and identify steps local governments and the State can take to enhance that capacity. This plan proposes 1) continued support for the Regional Strategies Program (with additional dollars for technical assistance), 2) the establishment of the Oregon Partnership Program to review local capacity and identify opportunities for improvement, and 3) a cooperative effort by the Department of Land Conservation and Development and the Economic Development Department to help localities assess whether adequate land for commercial and industrial development is available. Such assistance is particularly important in rural communities.
- **Business-Government Efforts.** The business community and state and local government need to work together to resolve regulatory problems and to

coordinate infrastructure development to accommodate business location and expansions. Much progress has already been made in this regard through the reorganization and strengthening of the Economic Development Department. This plan suggests small business assistance as a target for improvement.

- **Work Place Productivity.** Labor and management need to jointly develop work place practices that maintain employment security while increasing business productivity and competitiveness with producers elsewhere. Flexible work rules, productivity incentives, employee participation, and continuing training can greatly enhance competitiveness. This plan recommends a major effort to support work place productivity improvements in the forest products industry.
- **Environmental Protection.** Business needs to cooperate with environmental interests to find ways to protect the environment while accommodating growth. Several actions to facilitate greater cooperation in forest planning, air and water quality and land use issues are discussed in this plan.
- **Oregon will provide quality infrastructure and basic services that support business activity and attract talented people to the state.** Oregon has a tradition of maintaining a sound infrastructure of roads, ports, airports, libraries, parks, and other public facilities, and of providing good public services. Such infrastructure and services help make Oregon a place that attracts productive people and that supports business operations. Quality infrastructure and public services must remain a foundation for building Oregon's economy in the future.

Unfortunately, during the 1980s Oregon has been forced to cut back on its investments in public facilities, and the state risks severe deterioration in the quality of its basic services. Local governments reduced capital expenditures by 40 percent between 1981 and 1986. Now they face enormous demands for capital improvements, notably in roads, sewers, and water systems. In tight fiscal times, cities and counties tend to reduce or eliminate capital outlays instead of cutting back or eliminating entire programs. Such reductions occurred when federal outlays for state and local government assistance were also declining, thus compounding the shortfall. Estimates of the backlog of Oregon's infrastructure needs go as high as \$10 billion.

The State has fallen behind as well. Studies in program after program -- prisons, mental health facilities, highways, parks, fish hatcheries and universities -- tell a similar story: funds available are insufficient for basic maintenance, let alone additional capacity to accommodate growth.

Infrastructure crisis is a quiet crisis. The symptoms become apparent only slowly as buildings and bridges deteriorate, potholes get bigger, and prisons become too crowded. Unfortunately, the expenditures that are required to upgrade facilities on a routine basis generally become far more costly once a problem has reached emergency proportions.

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Because infrastructure and basic government services are important to economic growth, identifying steps to maintain Oregon's infrastructure is a crucial part of the State's strategic plan. We need to assess needs and develop a rational way to invest to reap the largest economic payoff.

There are near-term actions and long-term initiatives that can be taken to address our infrastructure needs.

One near-term, relatively painless step for correcting the infrastructure problem is to spend most of the revenues currently anticipated by the State as proposed in the Governor's budget. The State's expenditure limitation adopted by referral to Oregonians by the 1979 legislative session sets limitations on the growth of the State budget by tying future expenditures to the growth rates of the past. In concept, the spending limitation was designed to hold State Government to a fixed percentage of total state income. In reality, because of the way the formula was devised, the limitation *reduces* the percentage share of State Government. During the past recession, State Government was forced to cut back below the spending limit requirements because of reductions in tax revenues. Those austerity budgets are now the base upon which future expenditures can be made. (See Part II for greater detail.) When the economy is doing well, Oregon can begin to deal with the backlog of unmet, essential needs without raising taxes *if* the expenditure limit can be exceeded.

Other impediments to infrastructure improvements must be addressed over the longer term. Specifically, local governments in Oregon are constrained from increasing the total revenues from property taxes by more than 6 percent per year without specific voter approval, regardless of the overall growth rate of the community. Other states do not restrict total revenues. They restrict the tax rate itself. The Oregon system creates the peculiar result that in high growth communities revenues received through property taxes from additional construction of homes, shopping areas, or industries will not necessarily be able to be used to pay for services. Such limitations severely hamper the planning efforts of local

communities and their ability to match service systems to growth. Some restrictions on the assessment powers of local government have merit, but the current nature and extent of such restrictions arbitrarily inhibit Oregon's sound development. They should be reviewed.

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More fundamentally, the state needs to get a much better handle on the extent of its infrastructure problem, and comprehensively review the financing alternatives to provide for a quality infrastructure. The state needs to develop a capital budget that anticipates infrastructure needs for the future, (and which measures the costs of deferring maintenance). It needs to review an array of financing options to assure that Oregon's infrastructure, overall, is maintained. We tend to grapple with infrastructure issues as individual pieces, looking for specific sources of revenue for specific problems. The state needs to systematically review the issue in its entirety. If we don't, we risk entering the next century with our public facilities crumbling.

In addition, to preserve public safety, the state needs to comprehensively address the issue of crime and drugs. There are many components to solving the state's crime problem, ranging from building more prisons to clamping down on drug traffic to creating opportunities for disadvantaged youth. To retain Oregon's reputation as a safe, livable place, crime reduction must be a high priority. A decision to spend lottery dollars for prison construction is just one illustration of that commitment.

■ **Oregon will concentrate on policies that contain the cost of doing business.** To be competitive nationally and internationally, Oregon businesses must vigorously work to cut costs. As partners with Oregon business, local governments and the State must strive to keep expenditures, taxation, and regulatory policies from imposing unnecessary or harmful costs on business.

Oregon's basic strategy here should be to concentrate on policies that can result in lowering or containing overall business costs, rather than measures that help some businesses at the expense of others. Because Oregon's overall economic growth will come from the expansion of thousands of relatively small firms, we need to focus on initiatives that improve the ability of all Oregon businesses to compete. In the near term, we need to lighten the burden of worker's compensation, unemployment insurance, and energy rates. In the longer term, we need to consider a comprehensive health care cost containment strategy.

Finally, as part of the overall review of government spending and tax policy described above, we need to consider alternative tax structures. While Oregon's tax levels, overall, are reasonably competitive, reliance on income and property tax may skew location decisions for at least some kinds of businesses.