

SENATE COMMITTEE ON BUSINESS & CONSUMER AFFAIRS

January 15, 1999 Hearing Room C

1:00 p.m. Tapes 2 - 4

MEMBERS PRESENT: Sen. David Nelson, Chair

Sen. Lee Beyer, Vice-Chair

Sen. Rick Metsger

Sen. Randy Miller

MEMBER EXCUSED:

Sen. Charles Starr

STAFF PRESENT: Y. Sherry Sheng, Administrator

Nancy Masee, Administrative Support

MEASURE/ISSUES HEARD:

Oregon's Economy--Present & Future

Factors Affecting Oregon's Economy & Role

Regional Differences Affecting Economic Growth

Introduction of Committee Bills LC 400, LC 2067,

LC 1607, LC 1735, LC 2086.

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
TAPE 2, A		
007	Chair Nelson	Opens meeting at 1:05 p.m. Asks for background on state economy.

OREGON'S ECONOMY PRESENT & FUTURE

010	Sarah Gates	<p>Economist, Economic Analysis, Department of Administrative Services (DAS). Presents (EXHIBIT A). Gives background on Oregon's economic background. Describes Oregon's changing economy:</p> <ul style="list-style-type: none"> • Declining timber industry • Electronics industry development • Health Supply Services are now important • Construction sector has developed due to high tech industry • Oregon's employment is currently declining <p>Remarks that California's economy is improving. Emphasizes that the Asian financial crisis impacts Oregon.</p>
060	Gates	<p>Continues report on how the economy is fluctuating. States that the Asian economy is directly related to Oregon's economy. Observes that construction is slowing. Forecasts that Asian economies will begin to recover in 1999 and beyond. Says less price pressure will result in more demand. States growth will improve in Oregon as Asia's economy improves.</p>
75	Gates	<p>Comments that expectation is that when Oregon comes out of the downturn it will resume its competitive growth rate. Lists economic conditions in Oregon:</p> <ul style="list-style-type: none"> • Prices are now average in the state • Housing costs are on the high side • Wages are slightly lower than average • Low energy costs are available to consumers & business • Macro economic policies for the nation are better • Interest rates and inflation are under control • International conditions remain negative in Oregon • Industry diversity is better than the 1980s <p>States that Oregon is expected to come out of the downturn, and it will continue to be a high growth state.</p>
104	Sen. Miller	<p>Asks if projections are different from December, and how often these assumptions are reviewed. Comments that he is not so optimistic as the report indicates.</p>
112	Gates	<p>Responds the Department of Administrative Services' (DAS) forecasts are quarterly. This forecast includes some of the national forecasts. Remarks that employment has improved in the past two months in Oregon due to weather and retail sales. DAS is not ready to say things will change for the better. DAS is analyzing data for their March report.</p>
130	Sen. Miller	<p>Asks if the Brazilian situation has an impact on Oregon.</p>
135	Gates	<p>Responds Brazil is not a major export market in the Oregon economy, but Asia, Europe, and Canada are.</p>

139	Sen. Beyer	Comments the long term forecast is for above average growth. Asks if growth in the metropolitan area will affect other parts of the state. Forecasts higher growth in Bend and Central Oregon.
155	Chair Nelson	Asks about developing a broad economic base.
157	Gates	Responds that the forecast is for economic growth in the Willamette Valley and also Central Oregon.
178	Chair Nelson	Asks about human activity resources in broadening the economic base in Oregon. Asks about average wages for different job areas.
185	Gates	States the growth is forecast (long-term) in higher education jobs and short-term for on-the-job training jobs. Responds that high tech wages average \$40,000. Says Oregon's average wage is \$30,000. Comments that the manufacturing sector has a much higher average wage than the service sector.
194	Chair Nelson	Comments on the General Fund amount of \$10 billion. Asks how the state will develop its economic base in DAS's view. Asks what the Legislature should be looking at to promote incentives or disincentives toward the economic base.
200	Gates	Recommends a diversifying economy that will allow economic downturns. Emphasizes incorporating technology and educating the workforce by developing skilled workers in the industry base, and developing export markets.
214	Sen. Beyer	Reports that high wages are in manufacturing. Asks if there are ways of creating higher wage jobs.
239	Gates	Encourages jobs that require higher skill levels as they will bring higher wages. States those people with higher education will tend to get jobs with higher wages. Suggests continuing to expand the sectors with high tech jobs, and encouraging more companies with those kinds of jobs.
255	Sen. Miller	Comments on lack of space for facilities and lack of qualified workers in the metro area. States that growth versus no growth in land use management dictates population and industry.
289	Chair Nelson	Introduces Ralph Shaw, Chair of Governor's Council on Economic Advisors, and Henry Raetz, Swiss banker, with experience in Europe.
<u>FACTORS AFFECTING OREGON'S ECONOMY AND ROLE</u>		
302	Ralph Shaw	General Partner, Shaw Venture Partners. Presents (EXHIBIT B) Reports on Oregon's high rating as an attractive place for start-up businesses, and comments on export markets' importance in Oregon, and Oregon's primary growth industries.

337	Shaw	Describes industry of bio-science and medical technology industry in Oregon. States this industry is still small due to the time required to get approval for products. States that Oregon Health Sciences University (OHSU) is in the top two percent of the research institutions competing for research dollars in the United States.
TAPE 03,A		
009	Shaw	Describes OHSU programs: <ul style="list-style-type: none"> • Neuro-science • Oncology • Endocrinology • Genetic discoveries • Infomatics ñ computers & health care delivery Describes Vollum Institute, Providence Health System, Earle A. Chiles Research Center, and Oregon Medical Laser Center.
030	Chair Nelson	Asks if the technology infrastructure is in place in Oregon to support these industries.
036	Shaw	States this is divided into several technologies. Says new catheters to carry the laser beams had to be developed to treat strokes. Comments that Minneapolis and OHSU worked on this.
054	Shaw	Emphasizes treatment using laser beams is a major breakthrough in the treatment of strokes. Says OHSU is one of the best sites in the world in treating strokes. States the actual potential for the economy depends on where the catheters are made. Explains they may be made out of state, but money will flow into the state to support additional research. States the more efficient use of limited capital is being attempted.
060	Chair Nelson	Comments that California and Washington, being larger states, are ahead of Oregon in fiber optics. Asks if Oregon has enough to handle the industries described.
069	Shaw	Describes telecommunications in Portland. Says the downtown core is getting closer to meeting demand, but is not there yet. Says he does not know areas outside of Portland. States that Oregon needs scientists who need the support of the programs.
0086	Chair Nelson	Comments on David Michaels from OHSU Foundation who proposed that if the state could come up with an amount of funding, the private sector could supply and endow five chairs in research. Claims a 14 multiplier effect will result.
093	Shaw	States industry depends on private grants. Comments that grants come in from the government. Says OHSU has new research facilities, and the key is getting the grants. States the private sector in Oregon cannot raise this capital.

106	Sen. Beyer	Asks (microphone breaks up sound) how good research ideas can be transferred from the private sector to the public sector.
109	Shaw	States OHSU focuses on basic research. Emphasizes that private enterprise is not considered a large resource of funding by OHSU.
127	Chair Nelson	Asks what Oregon can do to assist the industry.
130	Shaw	Describes St. Vincent's issue. Says an understanding does not exist between the private sector and public sector. Says the private sector needs encouragement to transfer technology.
155	Chair Nelson	Asks if the regulatory climate is right.
157	Shaw	Says the private sector is not understood, and needs to be bridged. States the need to transfer technology exists.
166	Sen. Beyer	Comments that it is happening in other parts of the country, and wonders how it happens.
171	Shaw	Suggests trying something similar to the venture capital business and emerging company business that got started in Oregon in the 1980s. Because unemployment rates were high, the problems resulted in infrastructures being developed to start-up business.
230	Shaw	Describes what has happened in Washington State and California as business was motivated by venture capital investments.
250	Chair Nelson	Asks how to develop capital to enhance a broad economic base.
257	Shaw	Describes the large amount of venture capital that goes outside Oregon. States that the Oregon Investment Council has a bias against venture capital investing in Oregon. Describes Olympic Venture Partners in Portland based in Washington as about the only venture capital investing company in Oregon and has the president of Mentor Graphics as its general partner.
278	Chair Nelson	Comments the committee needs to look at who will invest in the state of Oregon.
279	Henry Raetz	Board Member of Trafina Privatebank, Switzerland, and Karstadt, largest department store in Germany. Describes the situation in Europe and Asia. Comments that it is hard to sell to poor people. Believes the economies will revive and grow but not as big as before. States foreign markets are not equal and in the future there will be some that are better than others.
323	Raetz	Says China and Japan will improve their situations. Says each country is

		different, and will be highly competitive. Emphasizes that cost control and innovation in the economy will boost foreign sales. States new products and new companies need to be developed to increase buying.
360	Raetz	Discusses the creation of the "Euro" monetary exchange. Discusses unemployment in Europe. Says buyers are lacking there.
TAPE 2,B		
010	Raetz	Continues discussion on the importance of introducing new products. Says in his opinion the Euro will be a stronger currency than the Dollar in the long run. Says the interest rate in Europe is lower than in the U.S.
033	Chair Nelson	Asks about taxing policies in Europe and if there are incentives to help business investment.
043	Raetz	Describes high taxation resulting from the countries' need to meet their social needs. Says he does not know how they are going to solve their problems, but suggests the solution will be through the political process.
054	Chair Nelson	Asks how Oregon can use new technology to increase the economy.
056	Raetz	Suggests creating an environment to attract educated people with low taxes and new products.
063	Shaw	Comments on Oregon's comfortable environment. Says Oregon has no big company headquarters here. States that in Oregon there is very little visibility of markets outside the United States. Says there is a local and regional view. Suggests stimulating a better understanding of how to reach markets outside the United States. Predicts the demographic growth and growth in wealth will be in Asia. Cautions that a better understanding in Oregon of what can be accomplished outside the country would be of value.
085	Shaw	Discusses space available in Oregon by electronic industries that have vacated. States there is, now, space of high quality at reasonable rates.
102	Raetz	Compares Oregon to Switzerland in climate, size, and population, which is a big attraction to people.
115	Shaw	Comments that the Bend-Redmond area will shrink in high tech workers, and this will be a severe blow to Central Oregon's economy.
120	Chair Nelson	Asks if this is due to the Asian crisis.
125	Shaw	Responds that it is primarily due to the Asian crisis.

132	Chair	Asks how the state can address this.
134	Shaw	Responds that the state can help companies expand and hire back the workers in Bend-Redmond. Suggests there are companies in California that might locate in the area. Cautions the Bend-Redmond market needs to be met soon. States that if there were new loan programs in that area similar to those that aided Intel, LSI Logic, and Fujitsu expand, these workers would stay.
157	Sen. Miller	Asks about projected growth in high tech employment. Asks if the view of the high tech industry is too optimistic.
165	Shaw	Responds that Intel is the key to the high tech in Oregon, and Intel laid off 2,400 last year. Explains that competition from other companies exists, but Intel recovered the next quarter. States that Intel has a positive outlook, but that other companies have not changed significantly.
195	Shaw	Suggests there will be more stability in the electronics industry in Oregon in 1999.
202	Sen. Miller	Comments on the Bend-Redmond problem. Wonders whether the community wants to accommodate the potential increase in population. Asks about the current tax levels in the European countries, and the Russian economy.
225	Raetz	Explains that each country is different. Says Germany has 54 percent income tax, and France has 60 percent. States that when the Russian government collapsed, the economy collapsed. Says the marketing economy did not succeed, and that Russia has no money to buy. Predicts the future of oil in the Baku area may open up some trade. Comments that Poland, Hungary, and Czechoslovakia are better off.
314	Chair Nelson	Thanks Ralph Shaw and Henry Raetz.
<u>REGIONAL DIFFERENCES AFFECTING ECONOMIC GROWTH</u>		
318	Emery Castle	Oregon State University, Professor Emeritus, and former head of Resources for the Future, Washington, D.C. Discusses implications of the economy on rural areas in his studies (EXHIBIT C).
353	Castle	States that rural welfare is affected by urban, national and international affairs. Says rural areas should not be thought of as isolated areas. Explains that sparsity of population and distance distinguish the rural populations from urban areas. Comments that the basic problems are the same, but the way the problems are manifested are different.
TAPE 3,B		
007	Castle	Describes rural areas in relation to their growth and economies. Says rural areas

		are diverse in that some have no growth or very slow growth and others are having rapid growth. States that technology transfer teaches doing, and that the impact of technology will continue.
045	Castle	Continues describing study of satellite cities that will grow. Predicts that uneven development will continue in rural places, and that populations must assess their problems locally.
088	Castle	Comments on the importance of a realistic view of the rural areas. Compares two rural communities as to retired population due to excellent medical facilities of one community over another. States that nationally college towns in rural areas do better than surrounding areas in attracting retired populations.
133	Castle	Emphasizes the need to assess the area. Says government services in rural areas are an attraction. States that where there is moderate growth, managing the capital stock needs to be in the interest of the community in the future, or the community may be worse off.
211	Castle	Comments on the land use system in Oregon. Discusses assimilation of minority populations in rural areas as an issue. States rural poverty problems exist, implemented programs have missed the real issues, and environmental quality needs to be addressed in rural areas.
291	Castle	Comments on a good education system in rural areas. Says consolidation of schools took place and changed the rural education. States that fiber-optic access by rural areas should exist, but just how is not known. Describes his observation of how Wal-Marts are taking over the rural areas in trade. Comments that the food processing industry is going out of rural areas to more centralized areas.
377	Sen. Miller	Asks what is meant concerning environmental issues in rural districts.
381	Castle	Responds that environmental conditions related to range areas with cattle were made compatible. Extractive industries can be made consistent with environmental interests.
TAPE 4,A		
010	Castle	Describes how people in rural areas adjust to environmental issues that arise.
020	Sen. Miller	Asks about retirees locating in small towns with colleges due to tax policies.
022	Castle	Responds that in his opinion, taxes are a factor in retirees locating elsewhere.
024	Chair Nelson	Asks for questions. Opens possible introduction of committee bills.

INTRODUCTION OF COMMITTEE BILLS

036 Sen. Miller MOTION: Moves LC's: 400, 2067, 1607, 1735 BE INTRODUCED as committee bills.

VOTE: 4-0

040 Chair Nelson Hearing no objection, declares the motion CARRIED.

045 Chair Nelson Recesses meeting. Reopens meeting.

060 Chair Nelson MOTION: Moves LC 2086 BE INTRODUCED as a committee bill.

VOTE: 4-0

Chair Nelson Hearing no objection, declares the motion CARRIED.

063 Chair Nelson Adjourns meeting at 3:00 p.m.

Submitted By, Reviewed By,

Nancy Masee, Y. Sherry Sheng,

Administrative Support Administrator

EXHIBIT SUMMARY

A ñ Written testimony, Sarah Gates, 7 pp.

B - Written testimony, Ralph Shaw, 20 pp.

C - Written testimony, Emery Castle, 1 p.

