

Forest Grove Rotary 2/19/86  
Delivered at Pacific University

Intro by Bob DuValle

Its a genuine pleasure to come back to Forest Grove, Pacific University and to this building, the sight and scene of many of my former crimes as a student and administrator at Pacific University. Many have been the meetings that I have attended in this very room and its a real homecoming in a very real sense to be back with you today. In fact, as I was thinking about visiting with you today I recall that when I was a young information director on campus here, back in the late 60's, the very first public speaking engagement I had was before the Forest Grove Rotary Club. I can remember even now my knees knocking and barely getting through the speech. Not really what you'd call a class A performance. But I remember also at that meeting you also had George Horner leading you in song and you really weren't class A singers either. So some things never change, right?

I'd like to tell Bob how much I appreciate being named by my Alma Mater to the Board of Trustees. Bob didn't realize at the time, and I guess the Board didn't either, that at one time I water ballooned the President of the University. If that knowledge had been in existence I might not have been named to the Board of Trustees. I did confess later and Bob said, "you can keep your seat, Les, if you promise not to do it again." I made that promise.

I thought what I'd do today is to share a few views with you in looking forward to the future about a subject that is near and dear to each of us. That's the question of economic development. It's on the minds of every single Oregonian. Why wouldn't it be? We haven't recovered from the last recession yet. We're still trying to recover 40,000 jobs that we had before the last recession that we lack today. I think what all Oregonians want, of every political stripe, all age groups, and every description, is a recovery and a long term sustainable prosperity for our country that fully brings Oregon into the picture.

This certainly is my top priority in the Congress: trying to bring Oregon into the recovery and then building that kind of future for ourselves. What I want to see is what I think you want to see. That is flourishing main street businesses. We want new industries and manufacturers. We want stable, basic industries and we want diversification in our economic base. Particularly here in Oregon where we've been too wholly dependent on only a few industries. These things I think we have in common.

We have current challenges in each one of those aspects. Current challenges based on current issues that are pending currently in the Congress of the United States, the state Capitol and elsewhere. I'd like to also say that each of us in the private and the public sector, wherever we might be, at any level of government ought to do one other thing as well. Notwithstanding how pressing these current challenges are, we should look out on the horizon and try to prepare our state, our community, and our country for the challenges that will be out there on the horizon in the future. If we tend only to the current crises we neglect taking those steps which will prevent the future crises. And so we have two tasks at one time: tending to the immediate and paying attention to the potential problems of the future.

I'd like to talk, very briefly, about economic development from both of those standpoints today. The flourishing of downtown businesses, main street businesses, all of the rest that we see and enjoy here in Oregon stem, as we all know, from this miracle called the American free enterprise system. That system created the economic machinery that was developed here, took root here, and flourished here, particularly in the post year periods after the industrial revolution. I think we can get a clue about what we need to do to tend to the basic well being of that economic machine by looking for a second at the past and what occurred here on these shores shortly after the Industrial Revolution.

Let me share with you a quote by Daniel Bornstein who wrote the book The Americans. I recommend it to you. He described what happened during those years that built this economic piece of machinery which has produced incomparable wealth in our country. Listen to the words from that book, The Americans. "The American system of manufacturing prized generalized intelligence, literacy, adaptability, willingness to learn. Open minds were considered more valuable than mere trained hands." Technicians and industrialists from England noticed a type of workman being created in the United States that was altogether different than what they'd known on their shores. They noticed that the most skilled mechanics showed such timidity within their own country resulting from traditional notions of how work was to be performed there. They noticed attachments to old systems within the British economy such that even the most talented persons kept England considerably behind this phenomenon known as America. And in America, he goes on to say, "Americans do not depend on dexterity. What they depend on is intellect." Intellect. Trained minds. Human capital. That was immediately after the last industrial revolution.

Now lets take a look forward to the next industrial revolution. And, my friends, we have one coming, believe me. I think we can draw some clues from that statement as to what it will take to prepare America and make it ready, and more important, make Oregon ready to be a part, a player in that new industrial revolution.

Let's just take a glimpse at what the future portends in terms of what this new economic machine is going to be producing. Jobs are going to be produced from such things as the design, the operation, and the maintenance of new sophisticated, almost unimaginable information systems. Artificial intelligence is going to be the name of the game in competition with world industrial powers and the ability to produce machines that provide artificial intelligence will raise computer technology to absolutely new heights. Heights that are almost beyond imagination today. Jobs will be produced in the field of robotics, will be replacing monotonous manual jobs and performing the more hazardous tasks in the economy. Robotics will play a major part in the new economy of the future. Ocean industries will be introduced in a way that we have not previously thought of at all. Not only traditional fishing but the mining of the sea beds. Fishing for new stocks of food and finding new food products from vegetables and plant life that today go to waste. And, of course, we don't have to imagine too much about another part of the future in terms of job production and that's the whole frontier of space. It is the last frontier. This economic machine is going to have to turn to space and make it a component part of the job production of the future or we will not be competitive.

What do I mean by that? I don't mean just the training of astronauts and pilots and the like but specialists in communications, computers, electronics, energy and pharmaceuticals. If you talk to people who are doing the cutting edge thinking today in terms of industrial production they will describe concepts of manufacturing in space, in zero gravity environmnets, where state of the art electronics equipment and the rest can be produced at cost and with efficiencies that simply cannot be realized here on earth.

These are only a few of the things that are facing us in the future. The list could go on and with the time, in a short meeting like this, it is not possible to list all of the possibilities, but it gives us a taste of what we need to do to prepare ourselves for the future that is rapidly coming upon us. I would say that each of those industrial dimensions of the future carry with it more, not fewer, opportunities for small business growth as well.

If America is fully competitive in these industrial sectors it will create an amount of wealth and opportunities for spin off development in small business and entrepreneurial enterprises that are impossible to predict today.

The economy is not a zero sum game. It's an ever expanding thing and you can't do just one thing. We open up space to manufacturing and God only knows what kind of economic possibilities are present here on earth as a result of that. So the small business sector clearly will have opportunities from the spin off of the wealth and the growth that these new sectors will provide for our state and country as a whole.

But, as leaders in business and in government, we need to be honest about the challenges that face us as we prepare ourselves for that future that may await us ten or twenty years from now. The challenge is already evident. It's evident to me as a Member of Congress looking at some of the intelligence reports that I receive on the Defense Committee. I see what kind of technology is being researched and developed by our industrial trading partners. Japan, for example. Japan is easy to point to, frankly, because it is blazing some trails that give us some clues about what we need to do to prepare for this future. Japan's growth has dropped from 10% as an annual rate of growth to 4% today.

Japan is already taking major steps to reverse that decline in growth that they have recently come through. They are focusing on knowledge based industries. They've invested a billion dollars in such things as optical measurement. Measurements. Super computers. The fifth generation in computers. And they have started late and they have 17 of the world's top 100 computer manufacturing firms. Japan is doing today, with an eye toward the future, what I described above. And he who masters those elements will be dominant economically and industrially in the years to come.

With that kind of a challenge and that kind of a future facing us I think that it is important to examine what we're doing now to be fully ready, to be full players and full competitors in that kind of future. It's my contention, and I say it not just because I have returned to my Alma Mater, that as we sort out the priorities in our government today and as we set policies we ought to develop an investment strategy that recognizes that that future demands investment in human resources. The human capital is going to be the key to success, industrially, in the future that we face.

We've got a job to do as we sort through the process of budget cutting which is a point that I want to come to in a minute.

As we sort through the job of budget cutting and reducing the deficit we need to make sure that that which we do spend keeps an adequate level of investment in the human mind so that we can be fully ready for the kind of future that I have described.

Let me give you some statistics to show you why I think we have more work to do. Only 6% of all college students in the United States today are studying engineering. That compares to 21% in Japan and 37% of all students in West Germany. We have 6%. Over the past 15 years Japan and Germany have doubled their output of engineers. I don't know what we've done in terms of output of engineers here but I'm willing to bet we're turning out more lawyers than we are engineers. With all due respect to the lawyers that may be here, we also need to put concentration on the people who will be generating wealth and preparing for that industrial future as well as making sure that we have the barristers and the peoples of the courts that will protect our rights.

Here's another fact that I will share with you keeping in mind as a backdrop that future that I have described. According to the National Science Foundation, from 1968 to 1980, basic research which, of course is the foundation for each one of those sectors that I named, had declined by 27% as a fraction of the federal budget. As a fraction of the nations GNP over that same period of time, it had declined by 16%. A recent study by the National Society of Professional Engineers found that 2.2 billion dollars should have been spent in the last decade just to bring existing and required instructional laboratories to the world state-of-the-art level here in the United States. Investments that were not made. One half of all high school graduates in the United States take no math or science beyond the 10th grade level. Approximately 95% of Japanese teenagers graduate from high school compared to 74% in the United States. Only 38% of the high school students in the United States take one year of Chemistry. In the Soviet Union, which is a country I study day after day on the Defense Appropriations Committee, there is a requirement of 4 years of study of Chemistry including a year of organic chemistry. It ought to be understood that when the National Commission on Educational Excellence published its report in 1983 it came to this conclusion. Its one I share not to alarm you but to rouse you to a national agenda. This is the conclusion they reached. They said, "If an unfriendly foreign power had attempted to impose on America the mediocre educational performance that exists today we might have viewed it as an act of war. As it stands we have allowed this to happen to ourselves. We have even squandered the gains in student achievement made in the wake of the Sputnik challenge. Moreover we have dismantled essential support systems which help make those gains possible. We have, in fact, been committing an unthinking, unilateral, educational disarmament."

I think its time to make America ready. Make it ready for that future. Correct the shortcomings that are outlined for us. Use that as a roadmap to make the successes we need, to lay the cornerstones we need, to put in place the cobblestones we need in the pathway toward industrial success in the decades to come.

The question is how do we make Oregon and America ready for that future? Let me just outline as briefly as I can what I see as a blueprint for such steps. In doing so I am really sharing with you my own thinking as your Representative from this district in the U.S. House - the thinking that I have behind the votes that I cast in trying to prepare us for that economic future that we face.

First and foremost, on the agenda has to be debt reduction. Some people ask me, "Les, why on earth did you vote for the Gramm-Rudman deficit reduction bill?" Let me tell you why I voted for G-R. G-R is the only deficit reduction proposal in the 12 years that I've represented in the Congress, having myself supported at least 6 different proposals that would accomplish the same thing, that had a chance of passing. G-R, though it may not be pretty, and though its going to require sacrifice, will require 20% reduction in the deficit each year in the next five years so that in five years time we can get this question of expenditures and incomes on an even keel in a balanced position. Nothing is more critical than bringing to an end the introduction of this economic arsenic called deficit spending that is permeating the entire economic system and has penalized Oregon to such a drastic degree. Of course its penalized our country as a whole. Our trade deficit is a result in part of a budget deficit that is out of control. The inadequate housing market of course is traceable to the same thing. I think we all understand what the consequences of deficit spending are.

What G-R intends to do is to simply put government on a pay as you go basis. It says, if you want to increase spending in one part of the budget, you can do that but you must find off-setting cuts in some other part of the budget. You have to meet a 20% deficit reduction target. Or if you can't find off-setting cuts somewhere else you've got to have the guts to raise taxes to finance that increase in spending. If you can't do either - if you can't find off-setting cuts and you don't want to raise taxes then you can't increase spending. You must meet that 20% cut on an annual basis in order to meet the deficit reduiction goal. That is critical. Why is it critical? Let me put it this way. From the time George Washington raised his right hand and took the oath of office as our first President to the day Jimmy Carter delivered his farewell address this nation accumulated one trillion dollars in total national debt.

In the following five years in our national experience that national debt doubled and became a two trillion dollar item. If we go at the current pace we will add another trillion dollars to that debt in the next five years. Debt service alone is the third largest item in the federal budget and it is larger than all of the educational programs that the federal government is providing for our young people today. Debt reduction! Number one on the list of priorities. We must free up the capital we need by the reduction of government borrowing to invest in technology, to invest in new product development, to invest in factory expansion, invest in all the things we need to do to be fully ready for that future that is out there staring us in the face with foreign competitors gearing up for the same competition.

Secondly, I would put tax reform on that blueprint for the future. By tax reform, that does not mean in my judgment, the recently House passed tax bill. The problem I had with that tax bill was that it didn't end up providing alot of simplicity. It was very thick. It ended up creating new loopholes where there had not been loopholes in the past. In protecting others, really what you had was a new list. A list of new tax winners and new tax losers and not a heck of a lot of simplicity and not a heck of a lot of fairness. More than that it forget to deal with structural weaknesses in the American economy today.

What are some of those? Let me just name two. One is the savings rate of the United States. Our savings rate is 2%. In Japan it is approximately 15%. With a savings rate as anemic as ours there is just no way that we will have the capital to invest in all that's needed to pioneer space, to tap the resources of the ocean, to fully tap and take advantage of that economic future that I described.

Why not use this current tax bill? Instead of putting a dollar penalty on IRAs for every dollar that goes into a 401K pension program why not reward savings? Why not say, "For the first 3 or 4 thousand dollars you put in a passbook savings account you can get earnings tax free, America." I'd love to be able to see Hal Andrews and other bankers locally put an add in the paper asking, "You want tax free interest up to 3 or 4 thousand dollars? Come down and deposit here." What would that do? It would do wonders for the individual savers. On top of that it would do wonders for the capital pool we've got to have to get the machinery of this economy moving fast enough to be ready to be fully competitive in the future.

Let me mention one other thing. I also think tax reform ought to include incentives for research and development. Remember those stats I mentioned about how R & D has been declining?

I support a bill that expands R & D tax credits that went out of existence on December 31st. It expands it so that companies can loan equipment to research and educational institutions and shelter the costs from taxes. They can loan executives, scientists, mathematicians, chemists, others to teach in research institutions and shelter their salaries from taxes as well. What would that do? I think it does two things. It puts a bridge between business and industry and education which I think is long overdue. It also improves the caliber of research and teaching that takes place in our institutions and I think that's absolutely needed in the years to come. I don't see us returning any time soon to the 60's when things will be funded as direct outlays through the budget.

Finally, I think America just needs an investment strategy. I think when we look at the Federal budget that we ought to look at it not just as a document that has line items in it, sum totals, and a grand total bottom line down at the bottom. I think we need to have a budget that brings about that contraction of overall spending. It should also be looked upon as a dollars and cents statement of national objectives. In that statement we ought to have an investment strategy that targets those areas where we are weak. We need to improve through R & D tax credits but also through holding on to what little remains of student aid programs and the rest. A commitment. A national commitment to higher education so we do have the human capital we need to fully be practitioners and players in that ball game that is sitting out there 10, 15, 20, 30 years in the future.

On that point of human capital, let me return to that statement made in the book that I opened with and repeat it to you now in closing. It goes back to the past but it describes what human capital and our investment meant to the prosperity we have enjoyed in America up to now. I repeat: "The American system of manufacturing prized generalized intelligence, literacy, adaptability, and the willingness to learn. Open minds were more valuable than trained hands. In the American system the British said, 'you do not depend on dexterity, physical skills of that kind. You want and you have intellect.'" Today, I would say that the lessons of the past are our beacon to the future and it is that framework that guides the decisions that I make as a member of the House Appropriations Committee in trying to work for sensible investments and deficit reductions for Oregon and for the country.

I appreciate the chance to come home and meet with this club. I enjoy being back. Thank you very much.