First Interstate Economic Development Seminar

Max S. Baucus
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* "required information*
Thanks, Jim.

I want to congratulate you for organizing this timely conference. You and First Interstate are demonstrating the kind of leadership that we need from our business community.

Let me be blunt.

Montana is in the midst of an economic crisis.

During the 1970s, agricultural exports and energy prices created an economic boom.

But the boom has gone bust.

Virtually all of our basic industries have hit hard times.
We've lost 5,000 jobs in forest products and hard-rock mining.

We've lost 3,700 jobs in agriculture.

Wheat prices have fallen to their lowest levels since 1979.

We've seen a record number of farm foreclosures.

Petroleum output and coal production are much lower than expected.

Perhaps worst of all, we're not creating enough new industries to pick up the slack.

Economist David Birch recently concluded that Montana was just about the least entrepreneurial state in the union. The world, he said, is passing us by.

It's a sobering situation. And it's tempting to throw our hands up in despair.
But we only have two choices: try something or do nothing.

As FDR told an audience in Butte 52 years ago, during the darkest days of the Great Depression, "One one side is cynical and unsympathetic acceptance of things as they are. On the other side is our determination and faith in the possibility of change."

Montana and the World Economy

So what's going on?

As Montanans, we like to think of ourselves as a people—and a state—set apart.

In many ways, that's true.

We're friendly. We're independent. We appreciate the land and its resources.
As John Steinbeck wrote, "Montanans are not caught up in the frantic bustle of America. They possess the calm of the rolling grasslands."

But when it comes to economics, Montana is not really set apart.

We're caught up in the complicated operation of the international marketplace.

The price we'll get for copper hauled out of the Columbia Pit in Butte depends on events in Washington, London, Chile, and Zambia.

The price of our wheat depends on such diverse factors as the weather in Africa, government policy in India, and the effects of the Chernobyl nuclear accident.

Whether we like it or not, we are just a small part of the world. Distant forces shape our future. If we want to survive and prosper, we must understand these forces and adapt to them.

The Changing World Economy
THE MOST POWERFUL FORCE AT WORK IN TODAY’S ECONOMY IS CHANGE: CONTINUAL, TUMULTUOUS CHANGE.

ONE IMPORTANT CHANGE HAS BEEN INCREASED FOREIGN COMPETITION.

AFTER THE WAR, AMERICAN INDUSTRIAL MIGHT DOMINATED THE WORLD ECONOMY.

WE PRODUCED 60 PERCENT OF THE WORLD’S GNP.

WE OWNED 26 OF THE WORLD’S TOP 30 CORPORATIONS.

WE HAD A HUGE TRADE SURPLUS.

OUR STANDARD OF LIVING STEADILY ROSE.

BUT THE DAYS OF UNCHALLENGED AMERICAN DOMINANCE ARE OVER. OTHER COUNTRIES ARE CATCHING UP.

INSTEAD OF PRODUCING 60 PERCENT OF THE WORLD’S GNP, THE U.S. NOW PRODUCES 20 PERCENT.
Instead of owning 26 of the thirty top corporations, we now own 15.

And instead of having a trade surplus, we now have a huge trade deficit. For every $1 worth of U.S. goods going out, $2 worth of foreign imports are coming in.

On top of that, every one of our major competitors is increasing its productivity faster than we are. Every one.

These are not just abstract statistics.

They translate into lost sales, lost jobs, and a lower standard of living.

The median income of the average American family has fallen. It's now the same as it was in 1965.

Another important change has been the decline of traditional industries.
We're moving rapidly from the age of the machine to the age of the computer.

Fiberoptics are replacing copper wire.

Biotechnology is revolutionizing agriculture.

Natural resources are becoming less important. Unskilled labor is becoming less important.

Brains, innovation, and risk-taking are becoming more important.

As a result, Montana can no longer rely exclusively on its traditional natural resource industries like mining and forest products.

These industries will remain the backbone of our economy.

But they won't produce the steady stream of new jobs we need to grow and prosper.

For that, we must look elsewhere.
Increasing American Competitiveness

In the face of these changes, we must take several difficult steps.

Some must occur at the national level.

First and foremost, we must reduce the federal budget deficit.

The federal government has been borrowing about $200 billion a year.

This has driven the international value of the dollar sky-high. The overvalued dollar alone gave Australian wheat producers a 40% price advantage over U.S. producers. We were priced out of many foreign markets.

Now the value of the dollar has finally fallen against some currencies.

But just because the dollar has declined, we won't recover our lost markets easily. Other suppliers have stepped in to take our place. And
AGRICULTURAL EXPORTS HAVE DECLINED FROM $41 BILLION A FEW YEARS AGO TO $28 BILLION THIS YEAR.

There's no easy way to reduce the budget deficit. It requires sacrifice all around.

You may have noticed that I was the only member of the state's congressional delegation to support the Gramm-Rudman law requiring Congress to meet specified deficit reduction targets.

I admit that Gramm-Rudman is tough medicine.

But it's working.

Last week the Senate passed legislation that will achieve the deficit reduction target without resorting to across-the-board spending cuts.

It's taken too long, but we're finally bringing the federal budget deficit under control.

INTERNATIONAL TRADE
WE ALSO MUST IMPROVE THE INTERNATIONAL TRADE SYSTEM.

SEVENTY-PERCENT OF ALL AMERICAN COMPANIES FACE FOREIGN COMPETITION.

BUT ALL-TOO-OFTEN, IT'S UNFAIR COMPETITION.

FOR YEARS, AMERICA HAS PLAYED THE PATSY.

WE HAVE FOLLOWED FREE TRADE PRINCIPLES.

BUT OTHER COUNTRIES HAVE TAKEN ADVANTAGE OF THE UNITED STATES, INCLUDING MONTANA INDUSTRIES.

JAPAN BLOCKS OUR BEEF EXPORTS.

CANADA FLOODS OUR MARKET WITH SUBSIDIZED LUMBER.

THE LIST GOES ON AND ON.

A FEW WEEKS AGO I LEARNED ABOUT A MONTANA CEMENT PRODUCER WHO SUBMITTED THE LOW BID ON A
construction project up in Alberta, but he was rejected because he wasn't Canadian.

I intervened in Calgary and Ottawa and turned that one around.

But enough is enough.

American companies can slug it out with anybody, but not with one hand tied behind their backs.

That's where the trade laws come in.

Our trade laws are supposed to ensure that every country plays by the same rules.

But in fact, the trade laws are riddled with loopholes and haven't been enforced.

One of the most important things Congress can do is close these loopholes and crack down on unfair foreign trade practices.
At the same time, there are some problems that can only be solved through international negotiations.

A perfect example is the oversupply of grain.

We subsize production. So do the other major producers like Canada, Australia, Argentina, and the European Community.

The result is a world awash in grain. In the United States alone, we have enough grain in storage to bake seven loaves of bread for every man, woman, and child on the face of the earth.

No single country, acting alone, can break this gridlock.

We need an international grain summit, so that the major producers can agree on a coordinated program that brings supply back in line with demand.

Improving Montana's Competitiveness
IF WE REDUCE THE BUDGET DEFICIT AND IMPROVE THE INTERNATIONAL TRADE SYSTEM, WE'LL ESTABLISH A SOLID FRAMEWORK FOR THE MONTANA ECONOMY.

BUT THAT WON'T BE ENOUGH.

WE NEED AN INFUSION OF NEW COMPANIES THAT DIVERSIFY OUR ECONOMY AND CREATE ATTRACTIVE, HIGH-PAYING JOBS TO REPLACE THE ONES THAT WILL INEVITABLY BE LOST IN OUR NATURAL RESOURCE INDUSTRIES.

OTHER STATES HAVE SUCCESSFULLY ACHIEVED THIS KIND OF TRANSFORMATION.

EVERYONE KNOWS HOW MASSACHUSETTS TRANSFORMED ITSELF FROM A DYING TEXTILE STATE INTO A BOOMING HIGH-TECH STATE.

BUT, AS DAVID BIRCH EXPLAINED IN BUTTE, A SIMILAR TRANSFORMATION CAN OCCUR IN RURAL STATES.

THE MAIN INGREDIENT IS AN ABILITY TO ANTICIPATE ECONOMIC TRENDS AND FIND NICHEs WHERE WE HAVE AN ADVANTAGE.
Let me suggest three specific areas where that can be done.

The first is processing natural resources.

We're still like some third-world colony, shipping our resources away to be smelted, refined, packed, or milled.

There's no reason why we can't process more of our raw materials right here at home. There's no reason why there should be more mineral processing plants in New England than Montana. And there's no reason why the Northern Hotel couldn't buy real Montana beef that was packed right here at home.

Reviving the Midland packing plant was a step in the right direction.

We should extend the same principle to minerals and to other agricultural products.

The second area is tourism.
Tourism is becoming a tremendous growth industry.

In 1960, there were 17 million Americans over 65. By the year 2000 there will be 35 million. Many of them will be retired, healthy, and affluent. They will comprise a huge base of potential tourists.

Montana is the most beautiful place in the world. But we have to let people know that. We have to tell them about Glacier and Big Sky. Otherwise they and their dollars will go to Alberta or Alaska, which have high-powered promotion operations.

And we must have an efficient transportation system so that tourists can get here without changing planes seven times.

The third area is high-technology.

We are not going to become another Silicon Valley overnight.
But we have a greater high-tech potential than we sometimes think.

One reason is transportation costs. The high cost of shipping to major markets has always prevented Montana from developing a diversified manufacturing base.

But with high-tech, the situation is different.

When you can pack $10,000 worth of laser testing equipment in a box the size of a coffee cup and ship it overnight on Federal Express, transportation costs aren't that important.

When you're selling information that's transmitted via satellite at 183,000 miles a second, transportation costs aren't that important.

What is important is the availability of a highly educated workforce, and that's an area where Montana has a distinct advantage. However you look at it, we have one of the best educational systems in the country.
WE HAVE THE SEVENTH HIGHEST LITERACY RATE IN THE COUNTRY AND ONE OF THE HIGHEST GRADUATION RATES.

TWENTY-FIVE PERCENT OF THE STUDENTS AT MSU ARE IN ENGINEERING.

WESTERN MONTANA COLLEGE HAS ONE MICRO COMPUTER FOR EVERY SEVEN STUDENTS.

BUT WE HAVE TO GET THE WORD OUT.

OUR IMAGE IS OUR GREATEST ASSET.

BUT IT IS ALSO OUR GREATEST LIABILITY, BECAUSE COMPANIES JUST DON'T EXPECT TO FIND THE FOUNDATION FOR AN AGRESSIVE HIGH-TECH INDUSTRY IN MONTANA. THEY STILL THINK OF MONTANA AS AN ECONOMIC BACKWATER.

LAST MONTH, I INVITED SEVERAL MAJOR HIGH-TECH COMPANIES TO BIG SKY TO LEARN ABOUT THE POTENTIAL FOR INVESTMENT IN MONTANA.
THEY WERE IMPRESSED WITH OUR EDUCATIONAL SYSTEM, PARTICULARLY THE RESEARCH BEING DONE AT MSU.

THEY WERE IMPRESSED WITH SOME OF THE EXITING HIGH-TECH COMPANIES ALREADY OPERATING IN THE STATE, LIKE [fill].

SEVERAL OF THE NATIONAL COMPANIES THAT VISITED BIG SKY ARE FOLLOWING UP BY INVESTIGATING SPECIFIC VENTURES IN MONTANA.

WE HAVE TO DO MUCH MORE OF THIS, WORKING THROUGH THE COMMERCE DEPARTMENT, THE MONTANA AMBASSADORS PROGRAM, THE MONTANA TECHNOLOGY ALLIANCE, AND OTHER APPROPRIATE ORGANIZATIONS.

BUT WE ALSO MUST ADDRESS SEVERAL GLARING SHORTCOMINGS.

THE MOST IMPORTANT IS THE LACK OF VENTURE CAPITAL, WHICH IS THE LIFE-BLOOD OF HIGH-TECH DEVELOPMENT.

WE'RE FAR FROM MAJOR FINANCIAL MARKETS.
AND THERE IS ONLY ONE VENTURE CAPITAL COMPANY IN MONTANA, CAPITALIZED AT LESS THAN $1 MILLION.

UNLESS WE ADDRESS THIS CAPITAL SHORTAGE, OUR HIGH-TECH POTENTIAL WILL REMAIN ESSENTIALLY UNTAPPED.

THAT'S WHERE YOU COME IN.

MONTANA'S BANKING COMMUNITY HAS PLENTY OF PROBLEMS OF ITS OWN. BUT IN THIS AREA AND MANY OTHERS, WE NEED AGGRESSIVE LEADERSHIP. FIRST INTERSTATE AND OTHER FINANCIAL INSTITUTIONS CAN MAKE A MAJOR CONTRIBUTION TO MONTANA'S ECONOMY BY MAKING A COMMITMENT TO FINANCE THE DEVELOPMENT OF NEW COMPANIES IN MONTANA.

CONCLUSION

THESE ARE SOME OF THE SPECIFIC CHANGES WE MUST MAKE.

BUT THE MOST IMPORTANT CHANGE WE CAN MAKE IS TO CHANGE OUR WAY OF THINKING.
In the past, Montana was exploited by the mining companies and the railroads. In those days, there was no middle ground. You were either for Anaconda or against it.

Anaconda is long gone. But the old pattern of polarized thinking still haunts us.

We transform every economic issue into a political battleground.

You're either for the unions or for big business.

You're either for BN or against it.

You're either for the environment or for economic development.

We are spending so much time worrying about what's fair to each group within Montana that we've ignored the more important question: what's fair to Montana?
In the end, most Montanans agree about what we want. We want economic development so that our children have solid jobs here at home. But we want to achieve economic development in a way that's consistent with Montana's special character and environment.

Now it's up to us, as leaders, to put politics aside and find the middle ground.

In this respect, Build Montana was a historic breakthrough. We achieved a consensus in favor of well-planned development.

Now we need to build on Build Montana, and take economic development several steps further.

Government can't do it alone.

Labor can't do it alone.

The business community can't do it alone.

The financial community can't do it alone.
We have to do it together.

One of my favorite Charley Russell paintings is one called "partners."

That's how we must approach this challenge: as partners: Democrats and Republicans, government and business, labor and management, financiers and entrepreneurs.

This is a great challenge.

But, after all, meeting challenges is what Montana is all about.

Thank you.