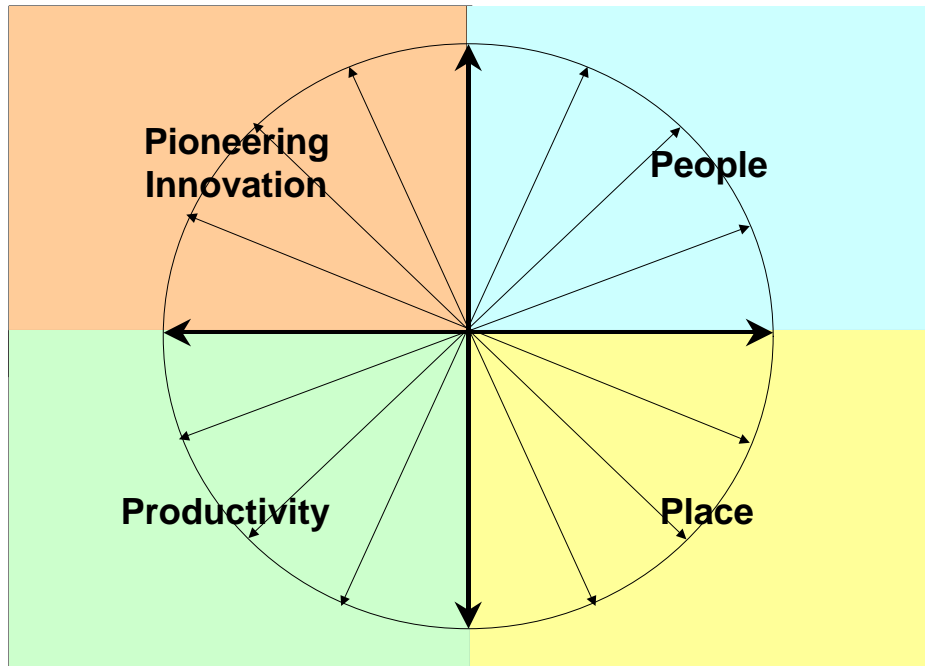


SHAPING OREGON'S ECONOMIC FUTURE



Participants' Guide To The Oregon Business Plan

July 2002

SUMMARY

- *The Opportunity.* The Oregon Business Plan is an opportunity for the business community to shape its vision of what the economy could look like in the next 10 to 20 years and to work with others in our community to make that vision a reality. We invite you to participate in this effort.
- *The Outcomes.* The Oregon Business plan will grow out of a statewide process described in this guidebook. The plan will be presented to the governor-elect, legislators, other public officials, and community leaders at the end of 2002. Its recommendations will provide business community input in 2003 to the legislative session and to the Oregon Progress Board as it develops *Oregon Shines III*. Business teams will be assembled to help implement the plan's recommendations.
- *Goal 1: Quality Jobs.* The Oregon Business Plan embraces the vision of *Oregon Shines II*, in particular its goal of providing more quality jobs for Oregonians
- *Sources of Prosperity.* To achieve this goal, we must pay special attention to the primary sources of Oregon's prosperity – our traded-sector industries. Businesses in these industries sell their goods and services primarily outside the state, creating jobs and bringing in dollars that benefit local communities.
- *Four Ps, the Ingredients for Success.* The ability of Oregon's traded-sector industries to produce economic prosperity and quality jobs for Oregonians calls for creating an economic climate with the right mix of education and workforce capabilities, an attractive quality of life, reasonable business costs, and an innovative, entrepreneurial spirit statewide. We call these ingredients the four Ps – people, place, productivity, and pioneering innovation. They serve as a way to think about Oregon's economic assets and liabilities, and potential strategies for our economic future.
- *A Challenging Mix.* The challenge of the Oregon Business Plan is to sort out the best mix of these key ingredients – and to craft policies and initiatives to move the economy forward.

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1. INVITATION TO PARTICIPATE

Thank you for your interest in the Oregon Business Plan. We invite you to participate in its development. This is an opportunity for the business community to shape its vision of what the economy could look like in the next 10 to 20 years and to work with others in our community to make that vision a reality.

The Oregon Business Plan represents the business community's statewide effort to brief government policy makers on its circumstances, needs, and opportunities. The plan is being developed under the leadership of the Oregon Business Coalition, business leaders concerned about Oregon's future. The aim of the coalition is to develop a plan that generates support among the business community and the wider community. This work builds on previous efforts among business leaders and business associations, as well as government task forces and commissions in which business leaders have participated. This work also benefits from studies, analysis, and planning by state and local economic development agencies. In particular, we thank the Oregon Department of Economic and Community Development and the Oregon Progress Board, for their support of this effort.

The most tangible outcome of this effort will be the Oregon Business Plan document and the organization of business teams to help implement the plan's recommendations, which will be presented to our elected leaders at the end of 2002. The more intangible benefit will be stronger connections among business leaders and between business and community leaders throughout Oregon. The Oregon Business Plan will provide policy recommendations to the new governor and others who take office in 2003, as well as the Oregon Progress Board in 2003 when it updates *Oregon Shines*, the state's strategic plan for prosperity.

The purpose of this guide is to describe the framework and process for developing the plan and to give you resource material and background information that supports your participation.

Please Join Us!

You can get directly involved in three ways:

- *Business leader interviews and industry focus groups.* We invite you to participate in one of the industry-specific focus groups that will be held in regions across the state. If a focus group is not already planned for your industry, we will help you organize one.
- *Regional visits and regional meetings.* We invite you to participate in one of the regional and community meetings planned in several regions across the state to help envision how regional economies can prosper in the decades ahead.
- *Policy teams.* We invite you submit recommendations to business-led teams organized around major policy issues facing Oregon. The teams will review your recommendations for inclusion in the Oregon Business Plan.

For more details on how you can become involved, please visit the Oregon Business Plan website, <http://www.oregonbusinessplan.org>.

Why this Effort, Why Now, and Why Business

There are several compelling arguments for this effort. First, Oregon's current economic downturn reminds us how important it is to periodically update our understanding of the state's dynamic economy, as well as ways that we can prepare for our economic future.

Second, Oregon is in a political transition. Since we are about to elect a new governor and head into a new legislative session, we have an ideal opportunity to re-examine what we are doing and to introduce fresh ideas and proposals.

Third, Oregon's successes in the 1990s were not inclusive enough. Too many of our rural areas and too many of our citizens did not take part in the prosperity that came in the last decade. And even high technology, which eased our dependence on the natural resource economy, has proved to have its own cyclical vulnerability.

Finally, Oregon companies face a new set of challenges. Global competition is fierce. New technology creates opportunities for increased productivity and new products. A growing environmental movement creates opportunities for environmentally friendly businesses as well as challenges to meet more stringent environmental standards. Interstate competition is also intense. In Arizona and Colorado and in regions of states such as California, Texas, and Virginia, leaders are committing significant resources and political energy to enhance their competitive edge, boost their economies, and raise the living standards of their people.

The business community has a unique contribution to make to Oregon's economic strategy. In particular, we can explain the forces and trends shaping our industries and markets, and the kind of economic environment and policies that will enable us to be successful.

Expected Benefits

The Oregon Business Plan effort will:

- Explain how the state economy has changed; what sectors are emerging, the challenges they face, and how they can be sustained in the future.
- Identify specific initiatives to support industry sectors or improve the economic climate in which they operate.
- Unify the business community around a common vision and strategy, build a framework for sustained cooperation, and encourage stronger relationships among businesses, public agencies, and business associations.

The Process

The Oregon Business Plan will be developed through three parallel efforts:

- *Business leader interviews and industry focus groups.* These will provide the opportunity for business leaders to offer their perspectives on what products and services Oregon can provide in the future, and on what it will take to support globally competitive firms in Oregon.
- *Regional visits and regional meetings.* These will give business leaders an opportunity to discuss the products and services they now offer, competitive trends and dynamics in their industries, and the kind of state economic climate that will help them succeed in the future. In

particular, these meetings will present an opportunity for business leaders to consider and recommend policy initiatives that will strengthen the Oregon economy.

- *Policy teams.* These teams will develop detailed recommendations on what Oregon needs to do to support competitive industries. This work will be organized in five broad categories: innovation and entrepreneurship, business climate, quality of life, education, and public finance.

All of this work will be synthesized into the Oregon Business Plan, which will be presented to public officials and community leaders at the end of 2002. The plan itself will enter the policy process in two ways: 1) recommendations to the governor-elect and the 2003 Legislature in a December economic summit and smaller meetings, and 2) business community input to *Oregon Shines III* to be developed in 2003 by the Oregon Progress Board.

2002 Timeline

- Spring: business leader interviews
- Summer: industry focus group sessions
- September: regional visits and meetings between business and community leaders
- June–November: Development of Policy Options
- December: Public release of the Oregon Business Plan

Purpose of this Workbook

This workbook provides a roadmap to the Oregon Business Plan, and background on the Oregon economy and economic trends. It offers a starting point for participants in focus groups, regional meetings and policy development teams to spark further ideas and recommendations.

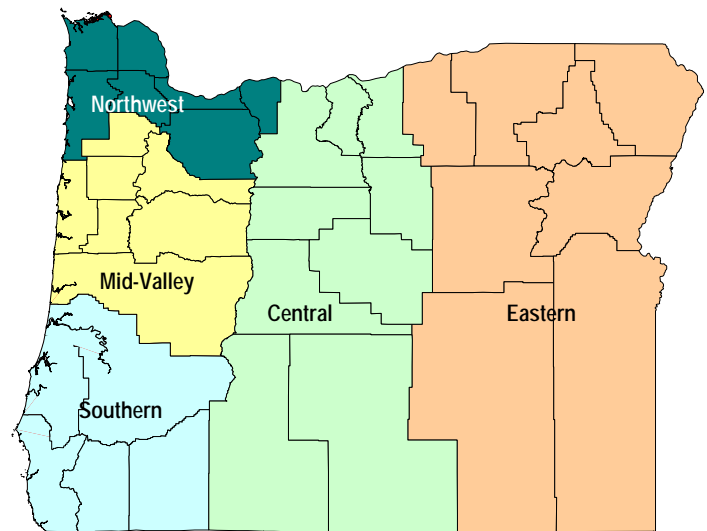


Figure 1. Five regions of Oregon will be considered in the Oregon Business Plan.

Again, we hope you will join us in this process. To do so, please visit us at www.oregonbusinessplan.org, and let us know your area of interest. We will keep you up to date on the process and alert you to opportunities to take part as they unfold. We welcome comments and suggestions, which we will consider as the plan is drafted.

2. A FRAMEWORK FOR ADDRESSING OREGON’S ECONOMIC FUTURE

This section presents the basic framework we are using to organize the plan. We begin with a vision and goals for Oregon. Oregon’s strategic plan, *Oregon Shines II* envisions a vital prosperous Oregon that excels in all spheres of life:

Oregon has diverse businesses providing quality jobs and a talented workforce able to perform those jobs well. It has communities that are safe, caring, and engaging places to live. It has quality public infrastructure and services. It has healthy and sustainable natural surroundings. – Oregon Shines II, January 1997

The Oregon Progress Board has translated this vision into three interrelated goals.

- Economy: Quality jobs for all Oregonians
- Community: Safe caring and engaged communities
- Environment: Healthy and sustainable surroundings

The Oregon Business Plan embraces the Oregon Shines II vision, and will specifically focus on the goal of providing more quality jobs for Oregonians.

While our focus is on jobs, we recognize the interdependence among goals, just as Oregon Shines II does (Figure 1). Indeed, one of the key messages of the Oregon Business Plan is that community health and environmental health are both key ingredients for a healthy economy, just as a healthy economy is critical for strong communities and healthy environments. Figure 3 provides one illustration of this interconnection. “The Circle of Prosperity” shows how economic growth and quality public services reinforce each other. A strong economy not only creates jobs, but also generates revenue to pay for public services. As job growth reduces poverty, demand for poverty-related public services is reduced. In turn, quality public services are critical for economic growth. In particular, schools are essential for educating the workforce needed for companies to compete successfully, and transportation services are vital for movement of goods and services. The quality of communities is critical for retaining and attracting talent.

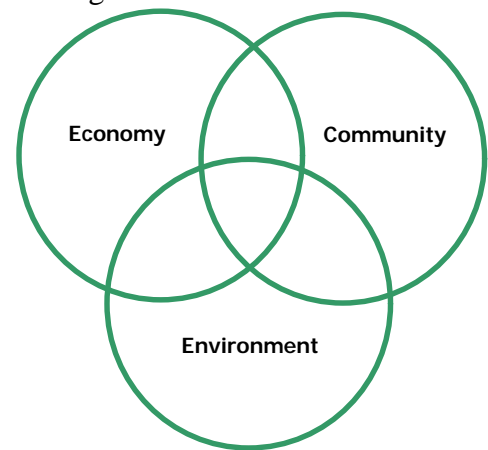


Figure 2. Our goals for prosperity are interdependent.

Traded-Sector Industries

To achieve our job goals, we must pay special attention to the primary sources of Oregon’s prosperity — our traded-sector industries. Businesses in these industries sell their goods and services in competition with firms outside the state. Unlike local businesses (grocery stores, medical clinics, beauty salons, and the like) these businesses bring new income into the state.

As will be described in greater detail in the next sections, Oregon’s economy is rapidly changing. The mix of traded-sector industries, products, and services is markedly different from those of twenty years ago. The production processes in these industries have changed significantly during that time. They involve more technology and require greater knowledge and skills. The competitive environment has shifted dramatically, too, especially as competition and markets have become more global. A critical role for the business plan is to take stock of these changes and to understand what traded-sector industries need to remain vital sources of prosperity and to yield quality jobs in every region of the state.

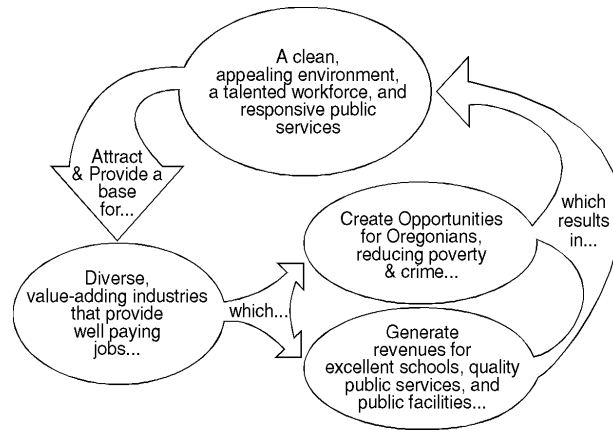


Figure 3. As envisioned in Oregon Shines II, a healthy economy and good public services reinforce one another in a circle of prosperity.

As we prepare to develop the Oregon Business Plan, we will ask business leaders to discuss the current competitive situation in their industries, and, in particular, likely changes in markets, technology, and industry structure that will influence their success – and Oregon's prosperity – in the decade to come.

The ability of Oregon’s traded-sector industries to produce economic prosperity and quality jobs for Oregonians calls for creating an economic climate with the right mix of education and workforce capabilities, an attractive quality of life, reasonable business costs, and an innovative, entrepreneurial spirit statewide. We call this the four Ps – people, place, productivity, and pioneering

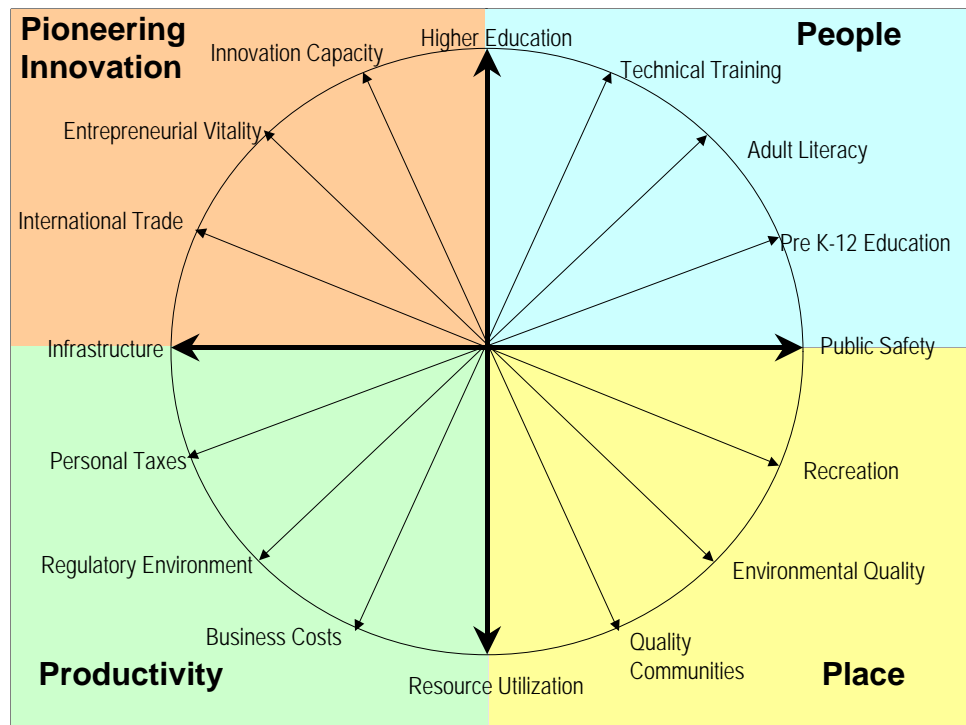


Figure 4. Four Ps – people, place, productivity and pioneering innovation – contribute in the right mix to Oregon’s economic success.

innovation. As charted in Figure 4, the four Ps form four quadrants of a diagnostic circle that enable us to assess the balance in our economic strategy. This is how the four Ps contribute to a healthy economy:

People – Workforce and Education. Great education is a powerful magnet for knowledge-intensive industry because employees value education (making them easier to attract and retain) and because talented graduates fuel the economy. In addition, a quality education system can help segments of the Oregon population and communities throughout the state that have had the greatest difficulty connecting with opportunities in the new economy.

Place – Quality of Life. Oregon is a special place to live, and Oregon's quality of life helps attract and retain talented people who drive our economy. Access to the outdoors and recreation, arts and culture and safe communities are among the many features that can support economic prosperity.

Productivity – Business Costs and Business Climate. The cost and availability of a range of public and private services influences the competitiveness of Oregon businesses in national and international markets. Environmental regulations and natural resource policies designed to sustain quality of life and a healthy economy build a climate for business expansion. Competitive rates for quality health care, energy, and worker compensation encourage investment and expansion, as do tax policies that keep business taxes competitive with other states.

Pioneering Innovation and Entrepreneurship. Much of the recent growth in the Oregon economy has been propelled by knowledge-based industries such as electronics, software, and electronic commerce – and through innovation and new products from all industries. Prosperity will grow out of our work to hone our collective capability to continuously learn and adapt in an ever-changing economic world. Necessary infrastructure for knowledge-based growth includes strong private sector research activities, a good entrepreneurial climate, and the availability of investment capital for new ventures.

As we conduct focus groups and regional meetings, we will use this four Ps diagnostic tool for drawing out views and priorities of participants. The tool can be used in three ways:

1. *To understand the competitive imperatives of the 21st Century.* In industry focus groups and interviews, we will ask private sector leaders to address the essential aspects of competitive success in their industries. How will globalization and changes in markets, technology, competition, and other trends influence their ability to compete in the next decade? What can the public and private sectors do, working together to position Oregon firms to succeed. Building on this information, a diverse group of public, private and community leaders will use our diagnostic circle as one tool in assessing our current policy environment and identifying key elements for inclusion in our strategy.
2. *To measure perceptions and benchmarks of performance:* In industry focus groups and regional visits and meetings, leaders will record their perceptions on each of the key dimensions in each quadrant of the diagnostic circle. Participants will use the four Ps tool

to rate (grades A –F) their perception of Oregon’s performance along each key dimension. Results will be tallied and displayed on a “spider diagram” of the type shown in Figure 5. Concurrently, the Oregon Progress Board will quantitatively assess Oregon’s performance along each of these dimensions, for discussion at regional meetings and inclusion in the final plan. This information will provide us with a realistic assessment of where Oregon stands today.

3. *To identify priorities for improvement.* During the regional meetings, participants will vote on the most important economic conditions needing improvement in Oregon. The results of this process will help participants join with others in their interest areas and move on to discussion.

The Oregon Business Coalition will form policy teams to examine opportunities to improve Oregon’s competitive position in each quadrant of the diagnostic circle. The requirements for business success and priorities for improvement will shape the development of specific actions and policy recommendations. Participants will have the opportunity to volunteer for further work developing these recommendations. The final set of recommendations will be included in the Oregon Business Plan.

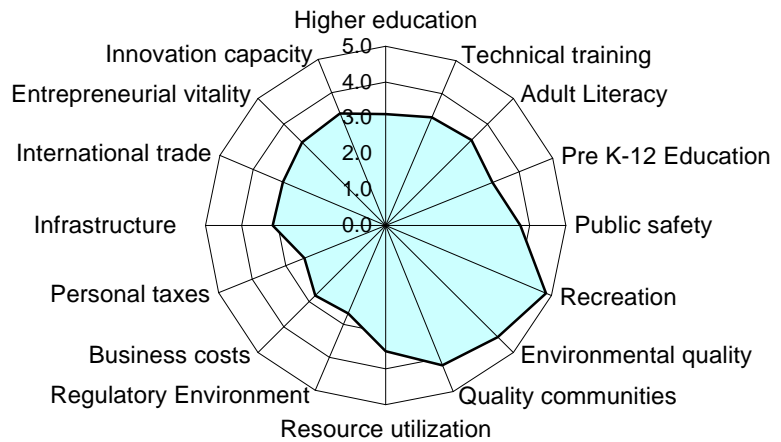


Figure 5. This sample spider diagram illustrates how a group of respondents might perceive how well Oregon is doing, with 5 from the center equaling a grade of A and 0 equaling an F.

3. BUILDING AN ECONOMY FOR QUALITY JOBS

This section describes Oregon's economy of the past 30 years and how it sets the stage for the economic future we want to create. Both the economy we've inherited and the one we want to shape must be evaluated in terms of our overriding goal. For some time, Oregon's primary goal has been to create quality jobs, which, in turn, improve the lives of Oregonians. Our progress towards this goal can be gauged mainly by three measures:

- *Per capita income* – rising wages is the most fundamental goal of the strategy.
- *Reduction of poverty* – we aim to include all Oregonians in our economic prosperity.
- *Statewide job stability* – While job growth per se is not a fundamental goal, we do want to maintain levels of employment throughout the state so that Oregonians can continue to live in their own community.

This goal reflects Oregon values. Unlike some places, where unlimited job growth, regardless of wages or consequences to community, is the goal, Oregon is more selective. We want to grow a high-wage economy that supports families and maintains strong communities.

This goal emerges from our experience. For many decades Oregon was a prosperous, middle-class society. During much of the post-war period, Oregon enjoyed rising income and gradual growth through the successes of forest products and other natural resource industries. By the end of the 1970s, Oregon's incomes were well above the national average and good jobs producing those incomes could be found in all corners of the state. We had a strong middle class and relatively little poverty. And those jobs were accessible to those with relatively little formal education.

This world fell apart in the early 1980s and never really recovered. Not only did forest products suffer in the recession, but increased competition from the South and Canada, and the development of low cost substitutes for plywood panels cut into Oregon's markets. In the face of this difficult marketplace, Oregon firms had to improve productivity and cut costs to survive. Wages stagnated and increased mechanization limited job growth. This, plus restrictions on timber supply reduced the contribution that this critical industry could play in providing jobs. While natural resources remain an important part of our economy, they can no longer support our economic goals in and of themselves.

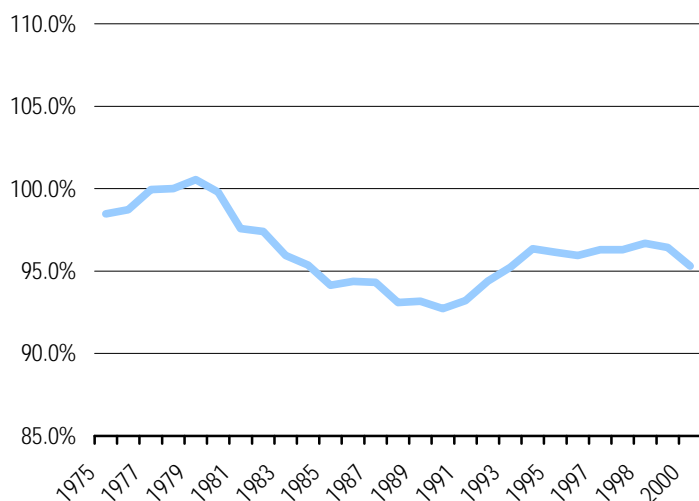


Figure 6. Since the early 1980s, Oregon per capita income has been falling as a percentage of the national average.

Since the early 1990s new industries emerged that supported Oregon's economic goal. Most notably, we have seen the steady and rapid expansion of high technology. We have also watched other sectors make important contributions. This diversification has enabled Oregon to rebound from the lows of the early 1980s in terms of jobs and incomes, especially in the urban areas.

However, we do not yet measure up on the three indicators of quality jobs. While our expansion has been impressive, we still lag the national average on wages and incomes. Unfortunately, a large share of the new jobs have not been available to Oregonians, many of whom lack the skills to do them. As a result our poverty rates have gotten worse and the middle class has been squeezed. Finally – and critically – rural communities have witnessed steep losses in incomes as the traditional natural resource industries have fallen on hard times.

We clearly have more work to do and the current recession should only heighten our resolve to get our economy moving. As we do, we need to understand the sources of strength we have and we need to consider the forces at work that will shape our economic future. As we look at the trends, we will recognize that in some areas Oregon has made a very impressive transition into an advanced, knowledge-based economy over the past two decades. With these trends in mind, we need to imagine the kinds of products and services we will produce here in the future that will expand opportunities for all Oregonians.

How We Reached This Juncture

The past three decades have taken us to the present economy in three stages. The first stage, dominated by natural resources, ended in the late 1970s just after its peak. Resource-based industries flourished, thanks to high prices, and the state enjoyed a spectacular boom. During this boom, there were 82,000 workers in lumber and wood products and there were bumper crops in agriculture. At the time, high tech was showing rapid wage growth.

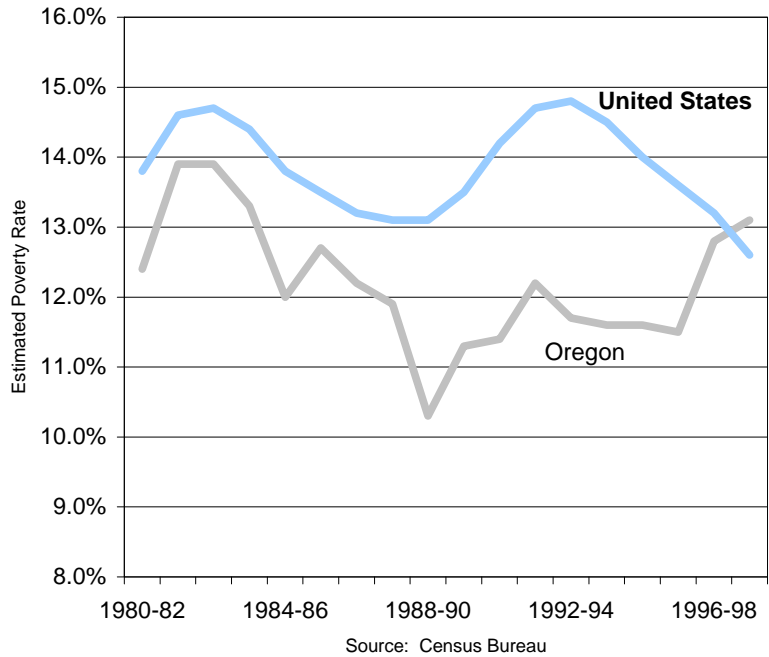


Figure 7. Poverty in Oregon has been rising the past decade.

Oregon's Changing Sources of Prosperity

Oregon once derived most of its prosperity from its natural resource-based industries. Sixty years ago, lumber and wood products accounted for almost two-thirds of manufacturing employment and six out of ten Oregon jobs. As the competitive environment shifted, Oregon adjusted. Today, the industry is still an important source of prosperity for Oregonians. About 20 percent of manufacturing workers and one in thirty Oregonians are employed in this industry. However, Oregon has added 500,000 new jobs since 1982 from new traded sector industries.

Oregon was successful in the competitive environment of those times.

In the second stage, the recession of 1979 through 1982, just about everything that could go wrong did—taking about 10 percent of Oregon economic activity with it. Output in lumber and wood products declined nearly 50 percent and Oregon lost 25,000 jobs in this sector. Agriculture suffered price drops and a decline in exports. High tech companies experienced a down cycle. The competitive environment had shifted dramatically, and permanently.

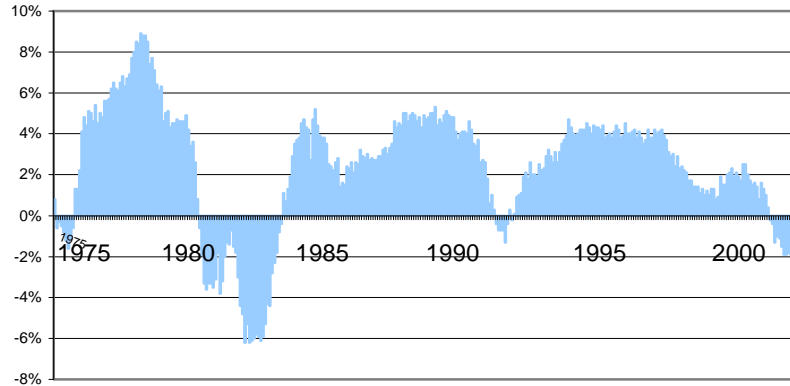


Figure 8. The past three decades Oregon jobs have grown in a cycle of surges interspersed by short periods of decline.

In the third stage, from 1982 through 2000, Oregon bounced back, growing faster than the nation as a whole. This long period of growth was the product of a significant shift in Oregon’s economic structure—with increasingly knowledge-based industries complementing established natural resource-based industries. At the same time, natural resource-based industries were themselves making a significant shift—with many companies moving towards more value-added products and production processes in order to remain competitive.

Our Current Economic Makeup

Many traded sector industries. Oregon now has many sectors driving its economy not just one or two dominant industries. The state’s traded industry sectors are made up of clusters of businesses that sell their goods and services in competition with firms outside the state. These clusters—groups of similar firms, their suppliers and workers—are the key sources of Oregon’s economic prosperity. Traded sector industries are important because they bring new dollars into the state that fuel the multiplier that drives growth in the local economy.

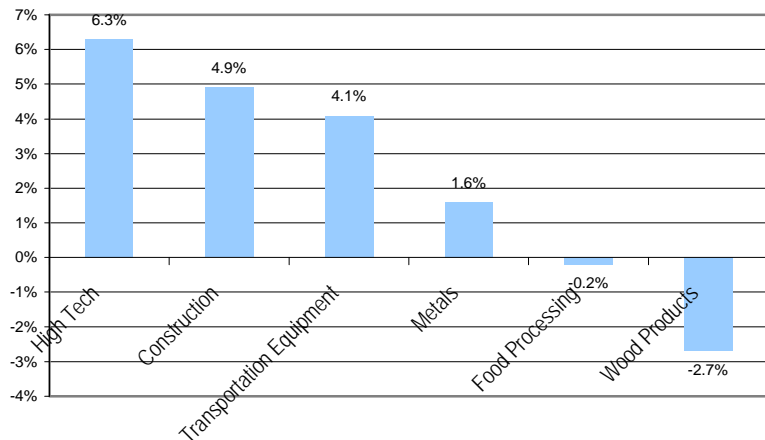


Figure 9. Since 1990, high technology, construction, transportation equipment, and metals have grown Oregon’s job base.

Regional flavors. Oregon is now a set of regional economies, not a single statewide economy. Four factors characterize a regional view of Oregon:

- Different parts of Oregon have distinctive economies reflecting the locational preferences of various industry clusters. Oregon’s five major economic regions have followed very

different paths because of their industrial structure and population characteristics. High technology manufacturing is heavily concentrated in Northwest Oregon, while wood products and high technology manufacturing are key drivers in the mid Willamette Valley. Lumber and wood products remains key to Southern Oregon, and food processing is the largest manufacturing employer in Eastern Oregon.

- Declining pay is the chief economic problem of rural regions. All of the regions outside the Willamette Valley have lower average wage levels today, adjusted for inflation, than in 1976. Northwest Oregon wages are up 20 percent.
- Regional pay differentials closely correlate with variations in educational attainment—rural areas have far fewer highly educated workers as a fraction of their population than does the Portland metropolitan area.
- No region has failed to create jobs. Every region has more jobs than in 1976; growth rates in lagging regions (Eastern Oregon, Coos-Curry-Douglas) have been a third to 40 percent of the state average. Southern and Central Oregon are growing faster than the rest of the state.

Snapshot of Oregon's Principal Traded Sectors

High Technology. This is now Oregon's largest industry, with 70,000 jobs, the largest share of state export revenue, and more than 10 percent of U.S. semiconductor output. Employment has grown 5.6 percent annually the past decade. Average wages are more than \$58,000 annually.

Forest Products. Logging companies, sawmills, plywood plants, and paper mills employ nearly 57,000 Oregonians, but employment has been declining an average of 2.5 percent per year over the past decade. Oregon has lost market share in the nation's wood and paper products markets.

Metals, Machinery, and Transportation Equipment. This industry, which makes everything from aluminum to trucks to aerospace parts, employs about 45,000 and accounts for \$1.5 billion in exports. Oregon metals firms have outperformed their counterparts nationally, and employment has grown 3.7 percent annually since 1988.

Agriculture and Food Products. This sector employs about 90,000 and accounts for about \$1.4 billion in annual exports. Average wages are about \$16,000 annually, due to high levels of part-time work. Oregon's output growth has tracked national averages during the past decade.

A more detailed discussion of regional economic performance is provided at www.oregonbusinessplan.org.

Blurring distinctions. Oregon's industries now defy traditional definitions, and the distinction between high-tech and low-tech business is not as clear as it once was. In every sector, there are substantial, and continuing changes in technology, markets, and competition. Firms that have been most successful in Oregon in every industry have been those that have developed new and more efficient production techniques and better products, ranging from engineered wood trusses to high-yield farm crops to more efficient trucks to faster semiconductors.

With the current economic downturn, Oregon may well be entering the next stage of its economic evolution. The state is under significant economic stress, with the highest unemployment rate (7.5 percent in April 2002) in the nation. The competitive environment is shifting again, creating new requirements for success. The lessons of the past suggest that Oregon can meet the challenge of changing markets, technologies, and competition. In the past,

Oregon has been resilient because enough of its people, firms, industries, and regional economies have embraced rather than resisted change.

New Realities and Trends

To sustain its commitment to the long-term goal of quality jobs for all residents, Oregon must adapt once again to a new competitive environment. Interviews with Oregon business leaders suggest that there is a set of new forces and trends defining this environment. Some of these are unique to Oregon, but most of them are part of global rearrangements that affect everyone.

There are a number of megatrends that are changing the environment in which Oregon competes:

Globalization. This affects everybody and everything, with the growing movement of capital, goods, and services across national borders. Oregon is facing growing competition from lower-cost competitors worldwide. We must be well-connected to global markets and suppliers in order to prosper.

Megatrends We Face

- Globalization affects everyone and everything.
- Competitive advantage is based more on added value and quality than cost and quantity.
- Technology is evolving faster and faster.
- Environmental vigilance will remain high.
- The world of work is changing permanently.
- Income disparities are growing.
- The working population will become much more diverse.

Competitive advantage. The nature of competitive advantage for advanced economies is fundamentally and irreversibly changing. Traditional sources of competitive advantage based on cost and quantity are giving way to those based on value-added and quality. Mass production of commodities is being replaced by mass customization of products and services, requiring flexible production processes across all industries and a blending of manufacturing and service to meet customer needs.

While this transition to new sources of competitive advantage is uneven across industries and firms, the overall direction is clear (as the figure below suggests). In the future, the only way advanced economies like that of the United States can compete with developing economies on the basis of cost and quantity is to accept lower wages and living standards. To succeed at a higher level, it will require more than just growing high tech industries, but shifting to new sources of competitive advantage across all industries.

Technological change. The cycle of technological innovation is getting shorter and shorter. While in the past, it took decades for new innovations to be developed, introduced, and widely used (e.g., electricity), it now takes just a few years or even months. From information and communications technologies to biotechnologies, and soon to nano-technology (which involves the manipulation of molecules of matter), it is difficult to predict specific innovations. What we do know is that the speed of change is accelerating, which means that people, firms, and industries must be adept at rapidly assimilating technological innovation or risk falling behind.

Environmental vigilance. The past decades have produced impressive gains in reducing the most obvious sources of pollution, a strong environmental movement nationwide, and dramatically

increased environmental awareness among the general population. In the years ahead, a number of more complex environmental issues loom, from global warming to salmon restoration to toxic cleanup. Population growth, loss of open space to development, a rising interest in organic and environmentally friendly products, among other trends, will keep environmental vigilance high in the years to come.

The changed workplace. Women now participate in the labor force in great numbers, and are breaking down barriers to higher positions. Lifetime allegiance to a single employer has become the exception more than the rule. Education and skills are the prime currency for success rather than loyalty or other factors. Lifelong learning is a requirement, not a choice. The ability to adapt rapidly, work well with a multicultural co-workers and customers, and turn ideas into product or process innovations is expected in the changing world of work.

Rising income disparity. Economic innovations will lead to new opportunities for greater wealth in Oregon and elsewhere. Those with the knowledge and skills to produce these innovations will reap the benefits, while the incomes of those who are not connected to innovation will stagnate or decline. In a sense, people with limited skills and education in the United States are in a global labor market competing with those of comparable abilities and lower standards of living in developing countries. If the education and skills of these people do not rise appreciably, the divide between those who prosper and those who struggle will widen, and political tensions will grow.

Declining incomes have become a way of life in rural Oregon. All the regions outside the Willamette Valley have lower average wage levels today, adjusted for inflation, than they had in 1976. During the same period of time, wages adjusted for inflation rose 20% in Northwest Oregon. Income differences closely mirror differences in educational attainment—as rural areas have far fewer highly educated workers as a percentage of population than does the Portland metropolitan area. With added pressures of the new competitive environment in the years ahead and without successful efforts to raise education and skills levels, income disparities will likely grow between urban and rural Oregon.

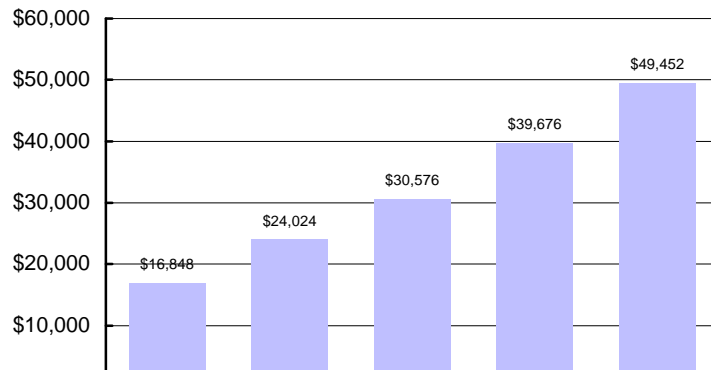


Figure 10. Higher levels of education typically result in higher incomes.

More diverse workers. Nationwide and in Oregon, the prime working-age population will change dramatically in the future, with the retirement of the baby boom generation and the growth of a diverse younger population—with many people of color, new immigrants, and the like. The baby boom generation will be more active and affluent as a whole than previous generations, which will produce demand for new products and services (e.g., health care, recreation) and keep some highly-skilled workers in the labor force (e.g., as part-timers).

However, unless the next generation is sufficiently prepared to drive innovation in firms and industries of the future, Oregon (among other states) will be hard pressed to sustain its economic vitality.

How To Proceed

To achieve our economic goals, we need to focus on preserving and expanding Oregon's sources of prosperity – our traded-sector industries across the state. As we consider options and choices for doing this, we need to keep a broad perspective on the overall fabric of Oregon life. Within the differing views and interests about how to support businesses and quality job creation, there is a temptation to seize on one path to the exclusion or near exclusion of others. Some people feel passionately that the future of Oregon depends on more research and development, high-technology industries, and better higher education. Some believe just as passionately that Oregon must increase the efficiency of doing business in the state by cutting costs of doing business, improving the regulatory climate, and increasing the supply of natural resources for economic activity. Others believe strongly that quality of life, including conservation of environmental and other resources and reduction of waste is key to a prosperous future for Oregon. And, some hold that the key is workforce development and education for moving Oregon forward.

While these views and interests are not inherently in conflict, in practice they can compete for finite resources and the attention of policy makers. However, Oregon's traded-sector industries depend on all of the above. Progress in one area at the expense or neglect of others could undermine the competitiveness of Oregon's traded-sector industries, and compromise their ability to drive the prosperity of the state's economy. For example:

- Focusing exclusively on community livability without consideration of the cost and regulatory climate for business can result in high unemployment and diminished public resources.
- Focusing on business cost reduction with little attention to the overall health and quality of communities can spoil the livability that attracts and retains the talented people who are essential to business prosperity.
- Investing in people without attention to creating economic opportunity where those people live can lead to “brain drain.”
- Creating economic opportunity in places without investing in local residents can largely benefit highly skilled newcomers while hurting long-time residents.

In sum, supporting the vitality of Oregon's traded-sector industries requires creating an economic climate with the right mix of education and workforce development, an attractive quality of life, a competitive business climate, and innovation and entrepreneurship across Oregon. The challenge of the Oregon Business Plan is to sort out the best mix – and to establish priorities for improvement to move the economy forward as rapidly as possible. The next three sections describe how we will gather this information and how you can participate.

4. COMPETITIVE OUTLOOK FOR OREGON INDUSTRIES

To determine how Oregon can best support the success of its current and emerging industries, the Oregon Business Plan process invites business leaders across the state to tell us more about the prospects and competitive needs of their enterprises. Initial interviews with about 30 business leaders from around the state helped shape this initial framework. In addition, we will be drawing on business executive interviews regularly conducted by the OECDD.

Industry focus groups. Over the next few months, the Oregon Business Council will be holding industry focus groups throughout the state. In addition, we will work with business and community leaders in rural regions of Oregon to review the competitive circumstances of their local businesses. In particular, we are examining the economies of three representative communities – Newport (June 22), Prineville (July 25-26) and Burns (August 15-16) – as part of the Community Oregon program.

Regional economy meetings. In preparation for each of our regional meetings, we will work with local business leaders to identify the principal industry clusters that compose the economy of each region. Our list of clusters will also be based, in part, on economic data assembled by the Oregon Employment Department. In addition, we will provide opportunities for businesses not formally listed as a principal industry cluster to present information on their economic situation, and to respond to the questions raised by our industry competitiveness analysis.

We will hold regional meetings in Medford, Eugene and Portland in September and October. Our tentative list of principal industry clusters to be addressed in each region is as follows:

Medford (Jackson, Josephine Counties)

- wood products
- food processing
- metals
- high tech
- tourism

Eugene (Lane, Linn, Benton Counties)

- wood products
- metals/transportation equipment
- high tech:
- tourism

Portland (Clackamas, Multnomah, Washington, Yamhill, Columbia Counties)

- high tech
- software
- creative services
- metals/transportation equipment
- tourism
- professional services

Community Oregon Visits

- **Newport** - June 22
- **Prineville** – July 25,26
- **Burns** – August 15,16

The Community Oregon visits will allow business leaders from across the state to better understand the economies of rural Oregon. The visits also provide an opportunity to build relationships that will help Oregon to solve state and local challenges.

- nursery
- biosciences
- sporting goods/apparel
- food processing, specialty foods
- cybersecurity
- energy supply and services
- wood products

In some cases, we will draw on work already completed in local or regional planning efforts. For example, the work of the Portland Development Commission will be incorporated into this effort, as will the work of the West-side Economic Alliance and the Clackamas County Economic Development Forum.

If your industry is not listed above, we invite you conduct your own research using the same questions and format (listed below), and we will try to support your involvement. Your conclusions and recommendations can be submitted to the Oregon Business Plan via our website at <http://www.oregonbusinessplan.com>.

Industry Questions

1. What is your business and your industry?

2. Performance

As you reflect on the last ten years, how has your industry performed? Has it been a good decade or a bad one? What are the key indicators of success or failure? What are the driving forces in the industry?

3. Framework for Industry Assessment

Markets

Who are the customers for your product? What are the principal market segments? How is the market changing? Where are the principal markets for your product (by region, by industry)?

Competitors /Industry Structure

Who are your competitors? What are Oregon firms' competitive advantages: price, quality, customer service or some other factor? What are competitors advantages? Where are your major competitors located? What advantages/disadvantages do they face in competing with you and other Oregon businesses? How is the structure of this industry changing (for example, consolidation, new strategic alignments, new entrants)?

Suppliers

How important are relationships with suppliers, especially of machinery & equipment? What other supply chain issues do you face? What important services do you purchase from other firms? How readily available is capital for expansion in your industry? What about transportation services and infrastructure?

Inputs (Labor, Energy, Raw Materials)

What are the critical inputs you need to produce your product? Are these available locally? Is Oregon relatively advantageous as a place to obtain these inputs? How good is the local workforce? Is it a competitive advantage or disadvantage?

Technology

How has evolving technology changed your industry? Has technology come from within the industry or outside it? Is change driven by incumbents or new entrants?

Local Business Climate (taxes and other business costs)

How do local policies influence location/expansion/production? How do regulations affect the growth of the industry?

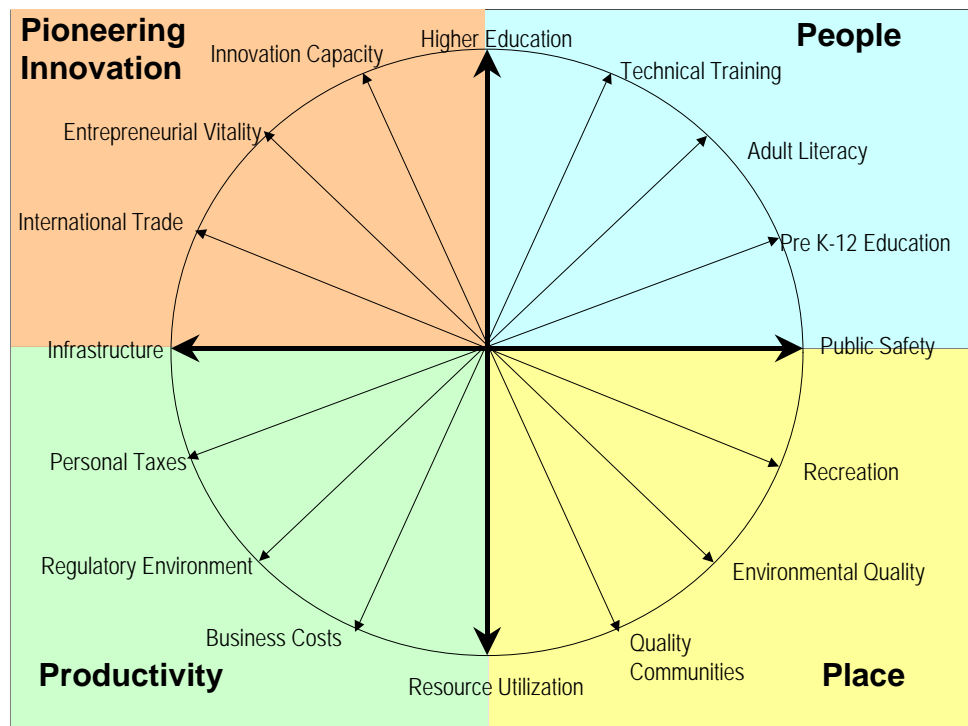
4. Future Outlook

How much will your industry grow in the next decade? What factors will be most influential in affecting the growth of the industry in the decade ahead? What can public policy makers (local, state, and federal) do to help your business succeed?

5. Rating Oregon's Assets and Liabilities

Please grade Oregon relative to the other 50 states and other nations in terms of the items shown in the adjacent chart (grading scale: A through F).

Identify highest priority for improvement for Oregon to support growth of your company and industry.



Results

We envision three products from the industry focus groups and business interviews. First, we anticipate a clearer understanding of the opportunities for growth and expansion in Oregon, organized by sectors. Second, we expect to learn of very specific opportunities to enhance industry growth through new or strengthened connections. Finally, we expect to learn how business leaders regard Oregon's current climate for business growth – and the broad priorities

for improvement. This will help us to provide recommendations for a policy agenda for Oregon, a topic we turn to in the next section.

5. OPPORTUNITIES TO ENHANCE OREGON'S ECONOMIC FUTURE

We anticipate that industry focus groups and interviews will identify a rich set of opportunities in the diagnostic circle to enhance Oregon's economy. The Oregon Business Coalition will enlist policy teams to flesh out specific recommendations for consideration by policy makers. For each category in the diagnostic circle, we will address two questions.

1. How are we doing? Based on industry interviews plus an analysis of comparative data provided by the Oregon Progress Board, we will provide our best assessment on how Oregon stacks up today.
2. What are the priorities for improvement? These priorities will use our best assessment of what will make a difference for advancing Oregon's economy.

This analysis will provide the backdrop to specific recommendations. Here is an initial list of initiatives that we can pursue to enhance Oregon's economic future, organized by the four quadrants of the diagnostic circle. We also list initial partners in each area, organizations we currently are aware of that are undertaking policy work. We will add topics as they emerge in the process. If you would like to be directly involved or offer comments please visit our website at www.oregonbusinessplan.org.

People – Workforce and Education

- K-12 improvement
- higher education redesign

We will be coordinating with the Joint Board of Education and Higher Education, the Higher Education Strategic Planning Task Force and the Quality Education Commission on these issues.

Place – Quality of Life

- salmon/water quality
- forest practices
- land use policy
- recreation assets

We will be coordinating with the Oregon Watershed Enhancement Board, the Coalition for Watershed Health, and the Oregon Forest Industries Council, the Oregon Farm Bureau and the Westside Economic Alliance on these issues.

Productivity – Competitive Cost Climate

- highway and bridge financing
- air access
- channel deepening and water cargo access
- regulation and permit streamlining
- energy
- telecommunications infrastructure

- health care costs
- tax policy

We will be coordinating with the Oregon Economic and Community Development Department, the Port of Portland, the Public Utilities Commission, the Oregon Hospitals Association, the Oregon Department of Transportation and the Oregon Department of Aeronautics on these topics.

Pioneering Innovation and Entrepreneurship

- capital access
- technology transfer
- incubation of new industries
- international opportunities

We will be coordinating with the Council on Knowledge and the Economy, the International Trade Commission, the Portland Development Commission for recommendations in these areas and Associated Oregon Industries Technology and Education Policy Council on these topics.

Format for Policy Opportunities

As we put together recommendations, we encourage participants to offer recommendations using the following format:

The Objective

What we are trying to accomplish with the initiative.

Why It's Important

Why it matters in meeting Oregon's economic goals.

What We've Done So Far

A brief recap of the history of Oregon's efforts to address this particular issue.

Results of These Efforts

What outcomes have occurred.

The Unfinished Agenda

What aspects of the issue remain unresolved.

Breakthrough Opportunities

What things can be done in the near term that would make a significant difference in addressing the overall issue.

We encourage our partners to adopt this format so all recommendations in the Oregon Business Plan follow a consistent structure. As recommendations emerge, we will post them on our web site, invite comments on them, and help coordinate policy agendas.

6. CRITICAL PUBLIC FINANCE ISSUES

As we address pressing policy issues in education, infrastructure, and other public services critical to Oregon's economic future, we need to come to grips with our unreliable public finance system. Recent special sessions of the Legislature, called to balance the state budget, provide a painful reminder about the strong interdependence between Oregon's economy and public services. The recession pulled down income tax receipts, leaving the state without enough projected revenue to provide services through the end of the biennium.

Although forecasts are uncertain, the state is likely again to face large budget shortfalls in the 2003-05 biennium. Given the importance of education and other services to Oregon's economy, and given the impact that taxes can have on economic growth, the Oregon Business Plan should offer recommendations on the state budget and public finance.

To frame the analysis, the Business Plan will use as a starting point the Oregon Business Council's document, *A Vision for Public Finance* (available at www.orbusinesscouncil.org). This report describes the interconnections between public finance and budget policy and the economy. The framework is summarized in the circle of prosperity diagram shown in Figure 11, which illustrates that a strong economy and quality public services are interdependent.

The public sector needs a healthy economy, which creates jobs, boosts tax receipts, reduces poverty, and shrinks demand for poverty-related services. The private sector needs high-quality public services in the form of good schools, and other public amenities to attract and retain the talent business needs to be competitive. And it needs transportation and other infrastructure to produce and move products and services. With a properly designed public finance system, public services and the economy can support each other.

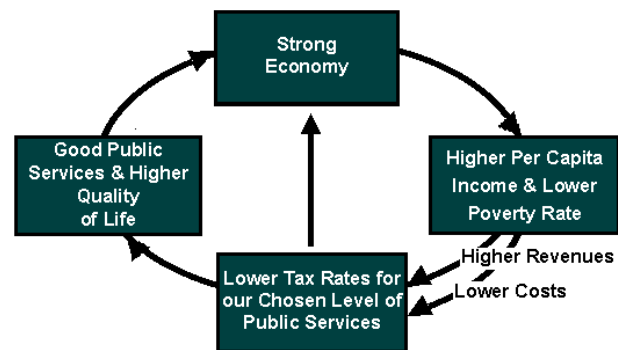


Figure 11. A business community perspective on public finance and the economy in Oregon's Circle of Prosperity.

In the current environment, we anticipate that the Oregon Business Plan will address the following three questions. A special committee will be established to examine them, coordinating with legislative committees and others interested in these issues.

Can Oregon pay for the services it needs with revenues anticipated under the current tax system? Over the past decade, Oregon has reduced property tax rates substantially. Some argue that new sources of revenue are required to pay for the level of services Oregon needs. Others argue that economic growth plus disciplined budgeting should enable Oregon to provide the services we need. Still others argue that there is sufficient revenue in a normal year, but that we do not have sufficient resources during economic downturns such as the one we currently face.

To answer this question we need a long-term forecast of revenues and expenditures for the next five biennia, along with an assessment of the condition of all investment funds and obligations. We provide an illustration of what a long-term budget might look like in Budgeting for Now and the Future (available at www.orbusinesscouncil.org). Among the fund balances we need to carefully review is PERS, which appears to be badly out of balance, suggesting large future liabilities for the state. This analysis is important because we need to determine whether there is a gap between anticipated revenues and desired expenditures, and whether that gap is temporary (created by the current recession) or permanent (driven by the need for services greater than the capacity of the current tax system).

Along with a baseline forecast, we need to examine alternatives. For example, we need to consider the outlook under different forecasts of economic growth, and assess expenditure choices. Regarding expenditures, we need to carefully consider dollars necessary for education, which comprises over 60 percent of the budget. The tools provided by the Quality Education Model by the Quality Education Commission should be particularly useful in determining the appropriate level of school funding now and in the future. A long-term budget imagines alternatives and provides a roadmap for making the preferred future happen. It provides the context for reviewing opportunities for service efficiencies and for timing expenditures. It also helps determine what changes in tax levels, if any, may be desirable.

The Senate Committee on a Long-Term Budget is performing this kind of analysis. As we prepare the Oregon Business Plan, we would like to work with the committee.

If we have a budget shortfall, how can we redesign systems to improve quality at lower expense? In business, revenue shortfalls often spark improvements that might be neglected in ordinary times. So it should be for the public sector. The Governor and Legislature should develop a short list of opportunities for possible implementation soon. The focus should be on big-ticket areas that can save dollars and improve service short and long-term, such as:

- Revamp PERS to limit future liabilities while providing a fair retirement program for public employees.
- Apply the tools created for the Quality Education Model to selectively review the K-12 budget and to identify opportunities for savings and to set priorities.
- Employ the new funding model for post-secondary education to make adjustments to budgets. Consider accelerating decentralization of responsibility and authority to the campus level to reduce overhead and enable more flexible responses to shortfalls.

The performance budgeting initiative requested by the recent legislature and being implemented by the Department of Administrative Services with the assistance of the Oregon Progress Board provides a good framework for assessing opportunities for improving public sector efficiency.

What tax changes, if any, are necessary to pay for essential services, spark economic growth, and add to revenue stability? Additional revenues may ultimately be needed to fill the 2003-05 budget deficit and possibly to meet long-term needs. It is also possible that adjustments to the tax system may be desirable to encourage economic growth or provide greater balance and stability. These issues need to be explored as part of the business plan.

Out of this work, we anticipate two types of recommendations. First the Oregon Business Plan may recommend changes in tax or expenditure levels in light of the findings. Second, it may recommend changes to budgeting processes to enable the public to make better choices on tax and expenditure matters. The team working on this issue as part of the business plan will coordinate with others working on public finance policy, including the Legislature and interest groups examining alternatives.

