

Speeches

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F. NEWTON HUGHES
INAUGURAL SEMINAR

University of Alberta
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Thank you, Mr. Chairman, Mrs. Hughes, Honorable Ministers, Dean Smith, Distinguished Guests, Ladies and Gentlemen. On behalf of our contingent from Colorado, ~~two of whom~~ ^{ONE MORE} will be arriving later this evening, we are honored to participate in this Inaugural Seminar in honor of Mr. F. Newton Hughes. Indeed, it is a pleasure to be here.

The Governor of Colorado, the Honorable Roy Romer, ^{HE} asked me to personally extend to you an invitation to visit Colorado and discuss our mutual economic objectives with him personally at your convenience. This invitation was extended during a conversation with the Governor at a reception for our congressional delegation in connection with the Annual Meeting of the U.S. Chamber of Commerce in Washington just this past Monday evening.

In the short period of time since his inauguration in January, the Governor has launched an aggressive program to tell the world that Colorado is "open for business". He is dedicated to getting Colorado's economy back on track. Our former governor of 12 years was generally perceived as anti-business and earned his first election by convincing the people of Colorado to deny the winter olympics for Denver even after Denver had been selected by the International Olympic Committee. At this point in the new governor's administration, we, in the business community, are quite optimistic and very supportive.

My role this evening is to address you as a representative of the Colorado Association of Commerce and Industry, our State Chamber of Commerce, rather than as a venture capitalist. For the first time in my memory, the business community, led by our Colorado Association, has

presented to our state legislature and the administration a comprehensive plan for economic development. It is called the "Blueprint for Colorado" and addresses a broad range of issues from education to highways and water to health care.

My message has been titled "Alberta, Canada's Colorado". I would like to suggest that it might be more appropriate if the title were changed to "Colorado, the Alberta of the United States".

It is difficult to discuss economic comparisons without indulging in a great many statistics. I will attempt to hold these to a minimum. First, it is necessary to frame the perspective of our two jurisdictions and their strong similarities. I would like to then review the fundamental components of the two economies followed by a summary of economic indicators and conclude with certain initiatives being undertaken by Colorado in an attempt to get our economy back on track.

Each of our areas, when compared to the balance of states or provinces within our countries, is young. Colorado became a state in 1876, 100 years after the signing of our U.S. Constitution and Colorado, therefore, is referred to as the Centennial state. We are each blessed with high beautiful mountains and fortunately our ancestors had the wisdom to settle on the eastern slope; the dry, pleasant sunny side of the mountains. We both extol the virtues of our climate with terms such as healthy, invigorating, stimulating, and probably end with the comment that we wouldn't choose to live anywhere else in the world. The typical easterner perceives Denver as "that mountain town out west where it's always cold". Of course, Denver is located on the plains some 20 miles east of the mountains. As a matter of fact, Denver is called the Queen City of the Plains.

It is easy to understand why easterners perceive Denver as cold because we typically have a 10 in. snow on the 10th of October and that news is spread across the country. On October 11, however, because of our high altitude and sunshine, our snow disappears and there is not even a trace. That event, however, is not ever newsworthy. I suspect that Edmonton and Calgary suffer from the same erroneous perception.

We're both high country folks. Denver is called the Mile High City because it is exactly 5,280 ft on the capitol steps. Your beautiful mountains rise to heights of over 14,000 ft and at the same time, Colorado also boasts of peaks in excess of 14,000 ft and there are 52 of them. Alberta occupies an area of 250,000 sq mi whereas Colorado is considerably smaller at only 100,000 sq mi. Our areas are about the same distance in an east/westerly direction, but Alberta stretches over 750 mi in a north/south direction, 2-1/2 times that of Colorado. Your population is about three-fourths that of Colorado, which is now over 3.3 million. Sixty percent of Colorado's population is centered around metropolitan Denver with 80% of Colorado's population occupying a strip 50 mi wide and 200 mi from north to south along the east slope of the mountains. Again, 50% of your population is centered around Edmonton and Calgary, a pattern very much like that of Colorado.

Our taste in sports differ somewhat. Denver and Colorado are obsessed with football and our Denver Broncos went as far as the Super Bowl this past season. Since Denver does not have a professional hockey team, most of us know very little about the Edmonton Oilers and their remarkable record.

We each have an identity problem. The typical person on the street in New York City doesn't know whether Denver is a city or a state. Their view of Denver is depicted in a famous painting where the viewer of the painting would be positioned somewhere on the east shore of Manhattan Island looking west. In this painting there is clearly visible the outline of the Empire State Building, Macy's Department Store, the street names are visible from 5th, 4th, 2nd, etc. with the next visible element, the Hudson River, followed a narrow horizon perspective of Chicago, the Mississippi River, the Rocky Mountains, California, and the Pacific Ocean.

To determine just how the average Denverite views Alberta, I did a very exhaustive survey while having lunch alone a week ago Tuesday. At this moderately nice restaurant, I was reviewing the economic characteristics of Alberta from information provided by Mr. Mather. This was a health food type restaurant and my waitress was a nice looking young college-age

girl with a very pleasant personality. As she was leaving the check, I asked if she would help me with this survey. I said, "If I asked you where is Alberta, could you tell me?" Her head dropped, she looked flustered and then she said, "I think it's a city in Canada." Just then, another waitress walked by and my waitress stopped her. "Joan," she said, "where is Alberta?" Joan quickly replied, "It's a state in Canada." I immediately followed up with a really tough question to both of them, "Where is Edmonton?" Just then, a sharp looking bus boy of about the same age joined the conversation and, after an animated discussion between the three of them, came up with the statement, "Alberta is a province and Edmonton is a city in Canada somewhere in the middle, between Toronto and Vancouver."

It was somewhat more comforting to learn that each of them had heard of Banff, Lake Louise and the Calgary Stampede. When the bus boy then proclaimed that Calgary is the site of the next winter olympics, my faith in the next generation was somewhat restored.

The major issue this evening is our immediate and pressing concern for improving our economies. Colorado's unemployment has now zoomed from 6.8% in 1986 to 8.6% at this time. It is higher than our national average and is at least a point higher than our economic projections as little as a year ago. I was surprised to learn that Alberta's unemployment rate was 9.8% in 1985 and reduced to 8.7% in 1986. Again, we are not too different except our rate has increased while yours has improved.

As a further confirmation of our state's problems, Colorado's bankruptcy rate in 1985 was twice that of the rate in any one of the previous five years. Bankruptcies are an indicator and represent only a fraction of the problem since most companies find a way to close their doors before filing bankruptcy without leaving significant debts.

Colorado's economy, to a large extent, depends upon small business. A study was recently completed to more accurately assess the small business community and its contribution to job creation.

Demonstrating the volatility of our economy, it was found that in a four-year period, 1981 through 1985, 280,000 jobs were gained due to openings of small businesses. At the same time, 250,000 jobs were lost as companies went out of business. In addition, 126,000 jobs were gained due to business expansions, but 82,000 jobs were lost as a result of business contractions. As businesses moved into Colorado, 26,000 jobs were gained but then 21,000 jobs were lost as firms moved out of Colorado.

During this period, Colorado added 80,000 net new jobs and of those, three-fourths were added by companies with less than 20 employees. Half of the jobs in Colorado are in firms with less than 100 employees. While these small firms added over 80,000 net new jobs, businesses with over 500 employees actually lost 2,700 jobs.

It would be interesting to see a similar study in Alberta, and I suspect the results would not be significantly different.

To get to an assessment of our respective economies, we need to look at the major components. The statistics for Alberta shows a gross domestic product of \$62 billion. I was frustrated to learn, after much searching, that Colorado has no comparable number. Apparently we can't separate "supplier produced components" to get a true "value added" total in all sectors of our economy.

From this ~~frustrating~~ exercise, I have learned to appreciate the statement of our former president, Harry Truman, in his dealings with economists. He said "I hope someday to find a 'one-handed economist'". Apparently, everytime he asked an economist for an opinion, the response was, "Well, sir, on the one hand, we must consider the following critical factors; while, on the other hand" I have found it extremely difficult to rationalize numbers from one economic survey to another.

Given these inconsistencies, however, the components of our two economies break down somewhat as follows:

THE MOST USEFUL STATISTICS IN MAKING
ECONOMIC COMPARISONS IS - LABOR INCOME

TOTAL LABOR INCOME (millions)
1985

<u>Economic Area</u>	<u>Alberta</u> (1)	% <u>Colorado</u> (2)	<u>Colorado</u> (3)	Adjusted for <u>Population</u> (4)
Services: (Financial, Insurance Real Estate, Government)	4,960	(63.0%)	7,858	83%
Mining	* 2,010	(115.0%)	1,755	160%
Manufacturing	⊗ 1,670	(31.0%)	5,495	43%
Construction	⊗ 1,220	(42.0%)	2,894	58%
Transportation, Communications, and Public Utilities	2,190	(74.0%)	2,977	100%
Financial	1,180	(46.0%)	2,563	63%
Public Administration	⊗ 1,480	(24.0%)	6,211	33%
- AIR FORCE ACADEMY + LOWRY - NORAD - DEN FEO CNTR - CARSON				
Retail	2,196	(59.0%)	3,744	80%
Wholesale	⊗ -0-	-----	<u>2,233</u>	-----
TOTAL	16,906	(47.3%)	35,730	65%

1 Converted to U.S. dollars

2 Alberta as a % of Colorado

3 U.S. Dollars (actual)

4 Alberta as a % of Colorado, adjusted for relative populations.
Alberta's population is approximately 73% of Colorado (1985)

Mining shows the most dramatic difference. Even though the breakdown within mining relative to oil and gas, coal and metals mining as almost identical to Colorado, Alberta enjoys a natural resource base much higher than Colorado. On the other hand, Colorado's manufacturing output is over twice that of Alberta and construction, less than twice that of Alberta. The last significant item is agriculture. Although only 3.5% of Alberta's economy depends upon agriculture, it is still about 1-1/2 times more than Colorado. *LABOR INCOME FIGURES WERE NOT AVAILABLE. FOR: AGRI. THIS COMPARISON IS MADE ON GROSS OUTPUT.*

Finally, let's compare certain economic indicators. First, the labor force in each of our areas represents about 52% of the total population.

Alberta has had a net out-migration of people. However this is more than compensated for by the natural population growth. Historically, Colorado has had a significant in-migration of people until last year when people leaving the state essentially equaled those coming in. However, as with Alberta, the Colorado birthrate exceeded our death rate to give us a net positive increase in population, however small.

Relative to the budgets of the province of Alberta versus the state of Colorado, I note Alberta's revenues in 1984 were \$9.8 billion resulting in a \$600 million surplus. I understand the surplus has subsequently changed to a \$2.5 billion deficit with some improvement in 1986. The state of Colorado has a constitutional requirement that precludes them from going into debt. Colorado's revenue for 1987 is at approximately \$2.1 billion, not including property taxes and local sales taxes. About \$130 million of state services are being cut ^{THIS YEAR} to reallocate funds to stimulate the economy. This is a painful exercise.

In summary, except for the significantly higher level of resource extraction in Alberta, our economies are surprisingly similar. We have both suffered from the mining and the agricultural economies. Because of the great dependency of Alberta and Colorado on those income sources, it may be an understatement to suggest that we are both experiencing a recession.

Although Colorado's problem may not be comparable, we are undertaking major changes in several areas. First, we have a new governor and although he is a Democrat, he's also an experienced businessman and a conservative. His influence on restoring the state's economy, following his first 100 days in office, is considered very positive. Our legislature is an overwhelming Republican leadership and, fiscally, very conservative.

SECOND.

The business community, represented by the Colorado Association of Commerce and Industry has taken a proactive role in recommending a comprehensive economic development program. We have brought sufficient copies to be distributed later. In reviewing the major recommendations in our Blueprint, you will note that many of these investments go to support Colorado's infrastructure, such as highways, beltways, our water diversion system, renewed emphasis on higher education, a new airport and a new convention center.

Alberta appears to have a more than adequate supply of water for both consumer consumption and ^{ALSO} to generate hydroelectric power. Unlike Alberta, Colorado is divided geographically in half by the mountains running north and south through the center of the state. Unfortunately, ~~they~~ ^{THESE MOUNTAINS} also divide water giving a disproportionate amount to the western slope running west into the Colorado River Basin serving several states now covered under a famous document called The Colorado River Compact. There is great animosity developed on ^{the} western slope when water is diverted under rights of public domain to serve the burgeoning population of the east's slope. Unless Denver provides expensive water storage and water diversion in the next few years, our front range growth will be seriously inhibited.

For lack of sufficient capital investment over the past few years, Colorado is behind in its infrastructure support. Our conservative legislature has focused on the Colorado economy to the point where we now recognize the need ^{TO CATCH UP ON} for major capital improvements.

Denver has the fifth busiest airport in the world, Stapleton International. Denver is the center of the United States, in fact, it is approximately 400 miles due west of the exact geographic center of the U.S. Denver has become a hub for air traffic. Sixty percent of all passengers arriving and leaving Denver never leave the terminal. A new \$3 billion facility is to be completed in 1992, and when combined with a new convention center, will be a major economic boost for Colorado.

We have not supported our research universities and, therefore, they are not world class research institutions. Part of the "Blueprint for Colorado" proposal supports further development of the Colorado Advanced Technology Institute which has proven to be an effective mechanism for integrating each of the four research universities into participation in four centers of excellence. The mission of the Colorado Advanced Technology Institute is to act as a catalyst between our major industries and university research to leverage available funds to stimulate new technology development targeted to commercial products.

Colorado has been surprisingly successful in securing a large number of small business innovation research grants, a five-year old program of the federal government creating a set-aside^{FOR SMALL BUSINESS} by each of the ten major government agencies, specifically to commercialize new technology. Colorado currently ranks 7th as a state in the amount of awards granted under this program.

Just last week, Colorado formally launched its effort to secure the location of the proposed supercollector supercollider project, a 52-mile long linear accelerator which would represent the largest single project in the interest of pure research in the history of man. It is a \$4 billion effort and Colorado has an excellent chance to secure the project. Such a project would be a bonanza for Colorado in terms of projecting our high-tech community into a world class scientific community. When taking the pulse of congress earlier this week, I am not ^{AT ALL} hopeful that an "intangible" project of this type will go anywhere.

FUNDING MAY BE YEARS AWAY.

One of the brighter spots in our economy is the fact that Colorado has become a high-tech center which has now reached a level of maturity and growth where technology begets technology. Much of this is fueled by venture capital which you will hear about tomorrow.

It is my view that venture capital in the United States is our secret economic weapon. The industry has grown from as little as \$100 million under management in 1974 to a figure something over \$20 billion under management at the end of 1986. For different reasons countries such as Japan and Western Europe cannot take advantage of the process. In Japan, the individual is taught loyalty and diligence and goes to work generally for one company for life. There is, however, a real effort going on in Japan to try to duplicate the process, but I believe it will take at least two generations. In west Europe countries such as Switzerland, the disgrace of the potential loss, leaving debts, besmirches the family image and, therefore, the risks to the family reputation are so great as to inhibit the incentive to start risk ventures.

We are a ^{INSTITUTIONAL} center for venture capital in Denver. Our legislature will be considering a state seed capital pool to address the needs of the very small product-oriented company. In helping to draft this legislation, my concern is that the efforts will be measured by a politician's yardstick - usually his or her term of office of two years. Any fund will look bad for the first four years, at least. This is a long term investment process and generally referred to as "patient money".

Finally, when one constructs a balance sheet of the assets versus the liabilities of Alberta, even in comparison with Colorado, it is my sense that the province of Alberta will continue to play an ever increasing role in the economy of Canada. It is difficult to envision a circumstance involving a stable government, energetic people, a highly educated work force and a life style that is better anywhere else on this earth than you have right here in Alberta. In spite of the current economic problems, the competitive potential of this province, by whatever yardstick, looks to me to be very exciting.

Thank you.