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Montana Economic Development and the U.S. West Research Project

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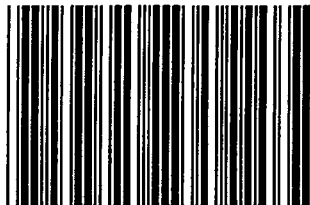
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BAUCUS

Max Baucus
June 18, 1987

MONTANA ECONOMIC DEVELOPMENT AND THE US WEST RESEARCH PROJECT

The Montana Economy

During the 1970's, Montana enjoyed an almost unprecedented prosperity. Rising agricultural exports and energy prices created an economic boom. But the boom has faded. Virtually all of Montana's basic industries are experiencing hard times. We've lost more than 5,000 jobs in forest products, hard-rock mining and smelting, and 2,000 jobs in agriculture. Wheat prices have fallen to their lowest levels since 1979 and we've seen a record number of farm foreclosures. Petroleum output and coal production are much lower than expected.

There's no mystery to why this is happening. The global economy is changing, and that change in turn is having a profound effect on Montana. The worldwide glut of agricultural commodities reduced U.S. exports from \$44 billion in 1980 to \$26 billion in 1986. OPEC has destabilized our energy industry. The shift into the computer age has reduced the need for natural resources.

In the face of these changes, we must not only strengthen our natural resource industries, but also attract new industries that broaden our economic base. MIT Economist David Birch made this point when he addressed my "Economy in Transition" conference in Butte last year. Birch pointed out that the U.S. economy has become increasingly turbulent, with new products and industries continually replacing old. "If you're declining," he said, "it's not because you're losing more jobs." Rather, "it's because you're not replacing your losses."

This does not mean that we should pursue economic development at any cost. Rather, it means that we should pursue a long-term strategy of attracting industries that will provide stable economic growth consistent with Montana's values and environment. Two areas that can provide such growth are tourism and value-added processing.

A third is high-technology. Granted, Montana is not going to become another Silicon Valley overnight. But we do have a greater high-tech potential than we sometimes think. The high transportation costs that impede the development of bulk manufacturing in Montana don't apply to most high-tech industries, which frequently transport their information products by satellite or fiberoptic cable. More than anything else, high-tech companies are looking for a well-educated workforce. And that we have.

Companies like Semitool, Chromatochem, Ribi Immunochem, and Frontier Scientific demonstrate that high-tech companies can thrive in Montana. And last summer, when I invited several companies like Digital and Abbott Labs to visit Montana and learn about the potential for investing here, they were impressed by what they found. In fact, several of the companies are now considering specific ventures in Montana.

The US West Project

US West is one of the seven regional telephone companies established after the court-ordered breakup of AT&T. It provides local telephone service to fourteen states: Nebraska, Iowa, Minnesota, North Dakota, South Dakota, Colorado, Montana, Arizona, Idaho, Utah, Wyoming, New Mexico, Washington and Oregon. US West's Mountain Bell subsidiary currently has 1300 Montana employees and serves 300,000 Montana customers.

Like all of the regional companies, US West concentrates on providing local telephone service. In fact, the AT&T court order prohibits US West and the other regional companies from engaging in manufacturing, and from providing information and interstate long-distance services. However, the Justice Department is assessing whether these restrictions should be relaxed, and as a result US West may be permitted to offer not only conventional telephone service, but also an array of advanced technology-based products and information services.

In order to keep pace with technological change, US West has made a strong commitment to research and development, and plans to increase from 1% to 3% of gross revenues the amount it spends on R&D each year. As part of this commitment, it has also established a research-oriented subsidiary, Advanced Technologies, which plans to construct a major new facility. This \$50-million facility will employ 1000 scientists/technicians and 500 support personnel who'll concentrate on applied research (e.g., artificial intelligence, math modelling, network architecture), information systems management, and the development of new telecommunications products and services.

US West has announced that it will locate the main Advanced Technologies facility somewhere within the fourteen state region, and has invited states to submit applications by July 15.

Montana's Opportunity

Some Montanans may be skeptical about the prospects for attracting major new industries like Advanced Technologies to Montana. We remember the legacy of companies like Anaconda. We've been barraged with optimistic descriptions of mega-projects like the "Superconducting Supercollider". We know that the tight state budget leaves little room for the expensive campaigns it takes to prepare a competitive proposal. Putting all this together, it's tempting to dismiss Advanced Technologies as an unrealistic diversion.

That would be a mistake.

Advanced Technologies is precisely the kind of new company Montana needs. It's not a fly-by-night operation. It will provide stable, high-paying jobs that build on the research capabilities of our university system and on our emerging high-tech industries.

What's more, US West is approaching the site selection process responsibly. I've met with the company CEO, Jack MacAllister, and have spoken at length with each of the members of its site selection screening committee

(Howard Doerr, Dave Sletta and Win Wade), other US West officials, Mountain Bell officers and directors, and others involved in the decision-making process.

Based upon these discussions, I want to share some thoughts relevant to our proposal and our marketing efforts. I will offer my comments under seven separate subheadings dealing with subjects which have repeatedly arisen as being important to the process.

Economic Incentives

Because the effort to attract industry so frequently is considered to hinge most heavily on the tax and other economic incentives offered by the competing states and communities, I'll address this first.

I'm pleased to say that, based upon what US West's various representatives have said to me, I believe Montana is competitive in this area. Thanks in major part to SB 64 which passed the State Legislature just this year, Advanced Technologies' equipment apparently will be taxed by the State at the very reasonable rate of three percent. Further, local options available under HB 709 -- which I understand Bozeman views favorably -- can further reduce this to 1-1/2 percent and perhaps lower. Under this same legislation, the State Corporate Income Tax can also be waived for five years. Further, Bill Tietz has told me that MSU is prepared to offer the land required at the Advanced Technology park to accommodate the facilities.

While it's true that other states and communities may offer more than this, I am not inclined to the view that we must engage in a "bidding war" with them. Jack MacAllister indicated he is generally satisfied with the incentives Montana offers, and in fact is concerned that states which offer too much will reduce their revenue base to the point where they cannot provide the high level of support for higher education upon which US West insists.

Higher Education

It would be difficult to over-emphasize the importance US West places on this factor, in the sense both of state support for its university system in general, and of the quality of the post-graduate technological program of the specific university which US West wants nearby.

We might well wish for a stronger record to present in this area. But we can make a good case. Historically, Montana has provided strong support for higher education, and recent difficulties are almost entirely a result of the State Government's recent budgetary problems -- and unfortunately probably have been overstated. My feeling is that US West would respond favorably to a presentation indicating the State political leadership is prepared to provide bipartisan support to carefully targeted expansion of higher education funding (to include investment in MSU's post-graduate programs in electrical engineering, computer science and physics) if US West selects Bozeman.

State Regulatory Environment

US West's chief regulatory concern, of course, is telecommunications regulation. Among the 14 states Montana can compete favorably or at least evenly with all but Nebraska on the subject of telecommunications regulation. Nebraska is essentially fully deregulated. Montana cannot and should not try to hurriedly match that. I have been informed that our 1985 regulatory reform legislation basically "looks good" to US West. However, there are some questions about what US West considers its slow implementation which are beginning to raise some doubts as to what it really portends. I encourage Mountain Bell and others who had a significant role in this legislation to examine the situation and recommend whatever is appropriate either to clarify the situation for US West or to decide upon further State action as necessary to effect the original intent of the Legislature.

Montana's Business Climate

We all know our state's reputation, and it's clear that US West has heard of it. Here is a summary of what I told MacAllister. I hope you agree with the position.

Montana's reputation as a poor place to do business is mostly history, and in any event does not apply today to the kind of business US West's Advanced Technology project represents. The State is eager to encourage exactly that kind of development as is evident from the recent legislation referred to above. If US West selects Bozeman, it will find the state, the community, and the university all responsible and cooperative partners helping to ensure the success of the venture.

If we are to counter our image in this area, we must all sincerely and convincingly impart that general message. And in my estimation that should not be hard to do, for US West is determined to be a model of the good corporate citizen wherever it locates.

Air Transportation Linkages

Real and perceived transportation difficulties have squelched many a potential business venture in Montana. And clearly the quality of transportation is a factor in this case. But, as indicated earlier, the telecommunications industry has less concern about our "out of the way" location than do most others. US West tells me it is most concerned about air transportation service between the site for its Advanced Technology project and three major cities where they have major operations of their own and/or major subsidiaries -- Seattle, Denver and Omaha.

In this area our best argument is that although the service between Bozeman and these cities may not be competitive now, that fact is irrelevant. By locating 1500 travelling families in that area, US West will itself create a demand for specific routes that the airlines will quickly and gladly move to satisfy. I have met with Delta/Western's Senior Vice President in charge of routing decisions, and I am confident that is the case. Meetings with other airlines are planned.

Attracting Top Telecommunications Scientists

It is important to remember that for US West this project represents a significant and perhaps risky venture. Going on their own in R&D and simultaneously committing three percent of gross revenues to that activity represents a sizeable gamble. Jack MacAllister told me he is particularly concerned that whatever community they choose must offer such appeal that the nation's top telecommunications scientists will want to move there.

Montana is a beautiful state and Bozeman a particularly attractive community. We believe -- and fairly so I think -- that the quality of life is as high here as any place in the country. We all know we need to do a better job of getting that message to those we wish to hear it.

The state, MSU, and the community must work together on a marketing effort to sell that story to US West, its current Advanced Technology operations staff, and to the telecommunications industry in general.

MacAllister has a daughter who graduated from MSU, and one of the other members of the three-person US West site selection committee, Dave Sletta, is himself an MSU graduate and has a daughter who is a freshman there and a son who graduated last Saturday. Clearly, we've a base to build upon.

Appeal to US West's Economic Development Interests

US West says in its request for proposals that it is seeking a site that will help it be a significant factor in the economic development of the state. I am convinced this is a sincere desire not only of the corporation in general, but of Jack MacAllister in particular. Jack has taken the lead in working with the Western Regional Governors Conference to form a non-profit Western Regional Strategy Center to promote appropriate economic development in the western states.

I believe on this basis Montana could be shown to be a particularly appealing location. Given the comparatively small size of our overall economy, and given the nice match-up of the kind of development Montana wants to encourage and the nature of the Advanced Technology venture, it should be in Montana's and US West's interests to work together very closely and cooperatively. So long as their operations point us in the direction we are eager to go, we should be quite open to their assistance in formulating the plans that will take us there together. From the day they commit to locate in Bozeman, we should make it clear we will regard them as a significant partner in the development process. The posture of MSU in this regard may be particularly important.

Pulling Together

Although it is difficult to quantify, I am also convinced that Montana has some small factor working in its favor in this process because US West considers itself a "Western company" with a pioneer attitude. Montana embodies this attitude in a special way that other states in the region cannot match. (One of the photographs US West uses as a corporate symbol, is the Harley Hettick photograph of two Montana buffaloes butting heads.) We need to do all we can in our marketing efforts to make certain that US West recognizes that they have a natural home in Montana.

But the most important factor in whether we can get this or any other US West project is probably our own ability to make a unified commitment to compete. I see no reason why the Advanced Technology project should ignite a division between Democrats and Republicans, developers and environmentalists, business and education, or labor and management. Rather, it should create a fresh opportunity for us all to work together to benefit all Montanans.

Governor Schwinden has established a task force to develop the project proposal. But we can't ask the Governor and the task force to do it alone; we must all pitch in, whether it's public officials establishing an appropriate tax and regulatory framework, business leaders describing their own positive experiences in Montana, educators developing necessary technical programs, scientists and engineers describing the attractiveness of the Montana quality of life, or airlines improving their schedules. Over the coming weeks and months, there will be many opportunities for us all to help attract US West to Montana. I encourage you to pitch in, and I assure you I am ready to work with you. Together, I believe we can send a convincing message to US West that it should "come home to Montana".