

Governor Jon Huntsman's Utah Foundation Speech
March 26, 2008

Steve Kroes, thank you for your good work with this wonderful organization. Thank you for keeping a focus on the policy issues that really do matter to this state. I think we are going to benefit over the longer term because of your good work and your willingness to probe and drill down on the issues that really matter to this state. Thank you for it and for all who are part of this organization on the board of directors side, on the funding side, it's just an honor to be here with you.

We just returned from Los Angeles where Mary Kaye and I spent the weekend with some of our kids. I was reminded that it costs a lot at Disneyland to be able to keep your young kids satisfied. I was also totally amazed at how many people they can actually fit in this limited space they call Disneyland. I haven't seen anything quite like it since I left a train station in New Delhi, India in terms of just how much they can pack in a single area. I am still paying a price for taking my 8-year-old daughter Gracie on Space Mountain. She didn't think it was a very fun thing to do. But it was actually quite exhilarating for her dad.

I was reminded all the while, as somebody who grew up in the shadow of Disneyland in the Los Angeles area, how it has changed since the days when I grew up there. As a kid I grew up in a place called, Studio City, north Hollywood where I walked to school, Colfax Elementary and later a Lutheran school. And I did a great service to my third grade daughter by walking from my home to my third grade classroom which is just a block away, and it was kind of a tour down memory lane – a walk I had not taken in about 40 years.

I was reminded what growth can do to areas that don't keep their eye on the ball. I would argue maintaining a sense of livability is going to be the most important thing we do in the years ahead. What I wanted to do very briefly is to kind of outline some global issues that I think are going to be pertinent and relevant to our well-being as we go forward, around which we need to organize good thinking and policy development. Then I want to hit on a couple of local issues that I think are equally germane.

First of all, it would be a disservice if I didn't point out Dan Jones who is here, has been a favorite of so many here in this room. I know he's trying to hide back there like nobody pays attention to him, but Dan, we salute you for your great work and the years you have inspired young people to focus on public service. Thank you and Pat who is here with you as well. The thing that rings true with Dan Jones is his admonition over and over through the years that we've got to get people who believe in public service. If we don't get people who believe in public service, we see a diminution in the system generally and that's never a good thing. So maintaining a sense of believability, credibility and public service is always something he's stood for and tried to articulate to each generation. Thank you Dan.

Global Issues

I want to hit on just a couple of the big issues that are going to affect our state in the years to come and how we are positioned for them, because in a sense it is going to determine in large measure what our policy agenda consists of in the years to come. They might make sense to some of you, and they might not, but for me – I think about them all the time because they are either at our front door step or they are soon to be.

Population and Growth

Number one on the global list of big issues affecting us is population and growth¹. I don't know whether you stop often enough to ponder exactly where the world is or where our state is. The current global population is about 6.5 billion people and it's going to increase 22 percent to 7.9 billion by the year 2025, and 42 percent to 9.2 billion people by the year 2050.

Now, Utah by comparison which currently stands about 2.75 million people will increase not 22 percent or not 42 percent like the world over the next few years, but 48 percent to 4 million people by the year 2025. So, from 2.7 million, an increase of 48 percent to 4 million people by 2025 and 122 percent by the year 2050. Now get this – the world is increasing 42% roughly over the same period of time – here in our state 122% increase to 6 million people by the year 2050.

Now, I don't know about you, but I wonder every day, and I know Mayor Corroon does because he does a terrific job with the quality of life question, but how is it that we maintain our quality of life in area that becomes as densely populated as the Wasatch Front will be over this period of time? Moreover, how do we pay for this growth? How do we pay for schools? How do we pay for teachers? How do we pay for the infrastructure that allows for mobility as we go forward? I pause at that rhetorically as a question.

So, population and growth, clearly, are at the forefront of what we all need to be thinking about as it relates to the big issues of our time. It is also interesting to note that 2007 marked the first time in the history of human kind that the world, not just our state, but the world has seen more people living in its urban areas than in the rural areas. There have been mass migrations of people to the urban areas for economic development purposes, for quality of life, for arts, culture, livability, sustainability, you name it. There has been a migration pattern that cannot be denied and it's putting people in urban areas as opposed to rural areas.

Resource Management and Environmental Stewardship

Issue number two: resource management and environmental stewardship. Now these are also huge issues that I suspect some of you think about on a pretty regular basis. Food and water and energy are all going to be major global issues in the next generation ahead of us. The combined effects of population growth and income growth are expected to

double global food demand over the next 25 years alone. And I don't know about you, but the water issues which increasingly are becoming hot with states like Nevada, will become the most contentious of all here in the West.

What about providing clean and affordable power to the fastest growing part of the United States, which is right here in the West? It presupposes that all of us are going to be able to step out of our local points of view, our world views, and be able to see things from more of a regional standpoint – engaging in real regional solutions as it relates to resource management and environmental stewardship.

Technical Innovation and Diffusion

Number three: technical innovation and diffusion. Let's just consider for a moment the technologies that are going to fuel who we are as a state, and as people as we go forward in areas like personalized medicine. I see some of my friends from the University of Utah here who know very well that the end of the human genome project has opened up endless possibilities for us now to look forward to an era of personalized medicine where all of us can go in and in a very personalized and specific way, figure out how to handle our healthcare needs.

Personalized medicine, computation, biotechnology, genomics, nanotechnology, and environmental and energy solutions are all going to be a focus of the new economy. Now the good news is I believe Utah is uniquely positioned to take advantage of these emerging technology changes. In fact, USTAR, the Utah Science Technology and Research undertaking is something that more and more will have to be a focus of who we are as a state if we are in fact going to capture some of these very unique and historic economic opportunities.

The Development and Dissemination of Information and Knowledge

Number four: the development and dissemination of information and knowledge will continue to transform who we are in the next generation. I call it, and so do a whole lot others including Thomas Freidman, the flattening of the world. The best entrepreneurs in the world are no longer constrained by borders or geographic isolation. In today's world, everyone must be able to not only compete locally, but have a global world view as well.

Now, this presents some very unique opportunities for the traditionally rural West where geographic isolation is no longer a barrier to business. So attracting brain power, and keeping our brain power here, will be critically important in this new flattened world, because we can raise and educate, and keep our kids here in our state, as opposed to see them fleeing elsewhere. We will now be able to take advantage of a world in which you can compete, sell, distribute products any where you choose to live. And because of that, quality of life will be ever important as people make decisions about where they want to locate their future.

The Continuation of Basic Economic Integration

Fifth: the continuation of basic economic integration. Continued global economic integration will increase as we plow through the next generation. Cross-border movement of goods and services will be essential in maintaining our connected global economy. Utah is already benefiting from this trend with Utah's international exports increasing 15 percent just in this last year alone, from about \$6.8 billion to \$7.8 billion.

It is therefore no surprise that we have chosen to link up with four important countries of the world as we take advantage of this growing economic integration. Mexico, by virtue of people flow and geographic location. Canada, by virtue natural resources, biotechnology, and information technology. China, because China is China. India, because India is India. And we are going to have to figure out how best to integrate better economically, culturally, and educationally with all of these countries.

The Challenge of Governance

Sixth and finally is the challenge of governance over the years to come. The prize will go to those who can manage their way into this complicated and dynamic future with their eye on the big picture. And that's where I get back to the Utah Foundation. How important is it that we have people who are helping us to maintain a focus on the big picture. It is easy in politics to get pulled away to the daily, into the mundane and the ephemeral, but the winners will be those who can maintain a sense of the big picture out there and innovate, grow, develop, and adapt to the big issues of our time, and some of those I have mentioned to you.

National Uncertainty

Now let me just go from the global to the national. In a confusing environment, nobody quite knows how to make sense of it. The stock market last week was up 400, then down 200, and then up 100. Just today as I was leaving the office, it was down 120 points. There is more head spinning to this economic situation we find ourselves in than anything I experienced in Disneyland over the weekend.

The Federal Reserve had an extraordinary meeting on a Sunday. Overnight rates dropped by 75 basis points, now down to 2.25 percent. The discount rate, of the direct federal lending rate is down to 2.5 percent. The stock market is reeling, the collapse of Bear Sterns - we're left on the doorstep of possibly a recession. How did all of this happen and what are we to make of it?

I think it started back in 1998, although we have some economic historians here who are probably able to pinpoint exactly what the contributing factors are and where. And I think it started largely when the real estate market became a bargain back in the late 1990's. Wall Street all of a sudden made it easier to get loans, and the mortgage business went from local, where it traditionally had been, to global for lending possibilities.

New financial instruments were created and we were off to a new era of growth. And like with so many forms of innovation, it was soon too much of a good thing. The sub prime mortgages, as we are learning much more about these days, were there for those stretching to buy a house. Not a bad idea – conceptually. They came with a higher interest rate, even if they were disguised by lower initial rates.

The sub prime mortgage business was then bundled and sold to different groups of investors and leveraged beyond the hilt. And because housing prices nationwide had never fallen before, who should worry, right? This was exacerbated by two fundamental things I believe. Number one: home buyers were putting far too little equity down on their new homes during this period. Number two: the Federal Reserve making it all possible by sharply reducing interest rates to prevent a double dip recession after the technology burst of the year 2000.

This toxic combination, the sheer number of bad investments coupled with their potential to mushroom beyond anything we've seen, has shocked Wall Street into a deep state of conservatism. So firms are now hoarding cash instead of lending it until at least they understand how deep the housing crisis will be, and how exposed they are as individual firms. Therefore, some investors and institutions face the so called 'double-whammy effect; the effect of lenders demanding their money back and in some cases shutting the door to new loans. Or some might call it the 'Bear Sterns Effect'".

These bubbles lead to bursts, and bursts lead to panic, and panic can lead to deep economic downturns. This is the environment nationally, and to a certain extent, we must not let the negativity in our own state become a self fulfilling prophecy.

Utah's Fundamentals

Our state is resilient and it is strong. Are we being impacted by wind shears? Of course we are. We are cruising along at 30,000 feet and experiencing those wind shears and being buffeted because of them.

But when you look at our fundamentals, they are solid and they are strong. Our demographics are the kind of demographics that any state would want. We are young, we are well-educated, we are productive, and we have a high migration pattern into our state. This last year we saw a total population increase of 85,000.

We have the third highest population growth rate of any state in the nation right now. We have the youngest population in the nation with the median age of 28 years of age. Utah has the third highest life expectancy in the nation and the 11th lowest poverty rate in America

From a management stand-point, we have seen three consecutive years of record surpluses in state revenue, 2006, 2007 and this year - which is a good thing. We've gone from \$1.2 to \$1.7 billion, and this last year to about \$775 million in surplus dollars.

We have the largest rainy day fund in history. Utah also maintains a AAA bond rating which says something because so many states today just aren't able to maintain that AAA bond rating which allows our state a preferred cost of capital when we go out and decide we need more money to bond against, or to take out for something like the I-15 southbound through Utah County project that we will soon see done.

Utah is the best managed state in the nation according to Governing Magazine, which is a tribute to our legislature, and to people in the executive branch. To all of them I offer my greatest congratulations on years of sane and fiscally prudent management.

Job growth remains solid, roughly three times the national average. We have the second highest job-growth in the nation today, behind those oil rich states of Wyoming and Texas. Unemployment is about 3 percent, which is about the fifth lowest in the country. We are up somewhat from our low point of 2.7 percent. Personal income remains probably one of our high points as part of our economy these days – just under 10 percent when you look at personal income growth.

Home appreciation we have seen month-over-month for the last year. We're averaging now as a state, in terms of average housing price, about \$220,000 which is bumping right up against the national average. What you find in our state that probably isn't the same in Nevada, or in Maricopa County in Arizona, or even Colorado is that there isn't a lot of artificiality built into our housing sector, and therefore not a very big bubble to burst.

All categories in travel and tourism have experienced gains over the last three or four years. Our ski industry is in its fourth consecutive year of record breaking numbers when you look at the visits.

Our Future Goal

Now what is our goal as we move into the future? I believe that given all of the externalities which we've already cited that are the big challenges that we will face as a state, but also big opportunities, our goal must be to have the premier economy in the United States. Not only to maintain the strength that we have developed but also to build upon those basic building blocks.

Our state is heralded by a lot of those who are doing important evaluations, everything from the Kauffman foundation, to ABC News to Forbes to CNBC, all lauding the state for job creation and a preferred destination for business. All of that is good it will play to our strength as we go forward.

But we must focus, during this period of uncertainty, on our fundamentals. Now what do I mean by that? I believe that as we go forward, our fundamentals are going to consist of three things.

1. Workforce Development

We have heard loud and clear from many in the business community that we need more in the way of technical training. As businesses develop and as they expand in our state, we need more mechanics, more welders, more machine tool operators, and more of the people who actually make businesses flourish.

I don't know that we have done an adequate job in terms of maximizing our use of applied technology centers. But what we're going to do this summer is to take a step back and evaluate our ATC's and look at how we can better maximize the capacities at these institutions so that we can have a workforce that is better suited, better trained to accommodate the expanding and growing nature of our state.

2. Education

We've come a long way over the last three or four years. Teacher compensation has been an issue that I'll never be completely satisfied with because I don't ever think we are going to be able to pay our teachers what they're worth. But we've seen a 19 percent increase over the last three years alone in teacher compensation, which is something I think this state can be very, very proud of. Early childhood development, or K-3 programs, has gotten a real boom when you look at extended day kindergarten.

We must continue to work on bolstering not only literacy, but numeracy as well. Our K-16 education; our world view that doesn't stop at grade 12 but goes right on through higher education and I don't think any of us should rest until we give all of our kids a shot at higher education. Some of them are going to be interested in research universities, others interested in community colleges and some beyond that in technical education. We need to figure out somehow, somehow of giving all of our kids a shot at higher education.

And finally, under the education banner, bolstering a program that I think is off and running in some very interesting directions. We need to bolster our USTAR concept, the Utah Science, Technology, and Research undertaking, which today is getting a very good start on our research college campuses. What we need to do now is figure out how we can take the ethos – the thinking and the culture of USTAR - and apply it backwards, integrate it into our public schools so that there is more of a USTAR world focus in our high schools, which is to say a focus on math and science and also the languages of today's world as opposed to the Cold War world. There is so much we can gain from the USTAR concept.

3. Health System Reform

Third and finally, having heard from the Chamber of Commerce, having heard from the United Way, and having heard from so many others involved in the healthcare debate, along with a good number of you here, we must do something about health system reform. It is eating small businesses alive in terms of the overall cost. I got a letter that I read this morning from a small business in our state with a plea.

“Please Governor, do something. Do something about the costs of healthcare.”

This year it’s going to cost them 23 percent on their bottom line, which is an all time high for them.

Health care costs today are economically unsustainable. We’ve got to do something about it as a state. We can do something that is more accessible, more affordable, and more portable, realizing full well that our work force is going to be very different from last generations’ work force. They will on average will hold down three, four or five jobs during the course of their career. Having something that is truly portable beyond just affordable will be extremely important.

Beyond that, we are all going to take a good look at insurance reform. How do we get to a point where we have insurance policies that are affordable even for the young, immortal population which is probably half of our uninsured in this state, 18-35 years of age. Those are the people who think they are going to live forever and even if they wanted to have an insurance policy, there isn’t necessarily anything they can afford out there.

We need tax credits with insurance reform, where we can actually afford tax policies or purchase health care policies rather, on a pre-tax basis as opposed to an after-tax basis – something that businesses are able to do.

Third, a healthy dose of transparency which allows so many of our consumers today to have something that heretofore they’ve never had, and that is additional information about what it is they are stepping into in the very arcane world of health care. What is it that they have to choose from? What are their costs going to be that they will ultimately have the ability to choose from that gets to the heart and soul of health care costs?

Finally let me say it’s about time we probably consider a second or maybe even a third research park where innovation can flourish. I’ve heard numerous stories about that great year, 1968 when there was all the talk in the state about Utah’s first research park. It came into fruition in 1972 when Governor Cal Rampton officially launched it. Today it is home to 42 companies and 4,700 employees turning over about \$550 million in annual productivity.

Seventeen companies have been launched from technologies that were developed at this research park just in the last year alone. To say nothing of the work of Mario Cappecchi and what he has done, the Brain institute, Myriad Genetics, making enormous gains in trying to conquer different types of cancer. We can do so much more with the type of innovation that research parks bring to us.

Now, in Northern Utah, just outside of our state’s largest employer, Hill Air force Base, a new development is emerging. It will be a different kind of development. It’s called Falcon Hill Aerospace Research Park. As we anticipate our future, one where aerospace and aviation will be a very important part of our economic cluster, let us not forget that

the old bolts and the old steel and old ways of manufacturing aircraft are very much going to give way to carbon fiber, to plastics and other unique possibilities. It is research parks like this one that will soon be launched up north, that we will find the spirit of innovation that will take our state around the next lap of development and economic productivity.

Finally, let me just thank you all here for keeping the dialogue, Steve, alive and well. Thank you for forcing those who are running for office to think big, forcing them to stay focused on the agendas that really do matter. We salute you; we salute all those who are involved in the great undertaking of the Utah Foundation and wish you the very best as you move into this election year. I know we as candidates are going to look forward to your research and keeping that debate alive and well.

Thank you all so very much for allowing me to be here.

ⁱ These global issues are derived from the Center for Strategic and International Studies – Global Strategy Institute, Seven Revolutions initiative.