WASHINGTON POLICY CENTER

LEGISLATIVE MEMO

HB 1595, relating to a five-year statewide economic development plan

Washington's failed record of economic plans shows the folly of legislation to create an economic development strategy

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Key Findings

1. **The state has created several economic plans in the past and results have been consistently poor.**
2. **In 1969, Washington Congressman Thomas Pelly predicted it was "obvious" that supersonic transport would be the future of aircraft.**
3. **In 1985, Governor Booth Gardner's economic strategy focused on bringing manufacturing to Washington and exporting timber, but did not mention Microsoft which would go public the next year.**
4. **Governor Gregoire's "Green Economy" plan changed direction, saying Washington must phase out manufacturing in favor of the service sector.**
5. **Panels of industry representatives and politically connected groups are likely to focus on maintaining the status quo rather than creating an environment that creates competitors and undermines their political power.**
6. **According to the Tax Foundation, Washington's business tax climate ranks 46th in the nation and no amount of economic planning can overcome a punitive economic environment.**
7. **Rather than attempting to predict the direction of future economic trends, Washington should create a healthy business climate that welcomes innovative new industries.**

Introduction

What will Washington's economy look like in 2030? Legislators hope creating a five-year economic development plan, as outlined in HB 1595, will help craft government regulation to guide job and business growth over the next five years.

This isn't the first time the state has attempted to predict the future direction of the economy. The record of those efforts has been abysmal. The latest example is just weeks old.

Four years ago, the state legislature adopted a low-carbon fuel standard they claimed would create new jobs as biofuel refiners moved to Washington state. At the time we noted that simply because people in Washington were forced to buy a product doesn't mean it would be produced in the state any more than forcing Oregon residents to buy Starbucks coffee would cause the company to move its HQ to Portland.

Now, supporters of the LCFS admit the law didn't bring the biofuel industry to Washington as predicted. Joel Creswell of the Department of Ecology admitted, "Fuel technologies have changed faster than the legislature anticipated" just two years into the implementation of the law.

This is the pattern of economic projections by politicians and government: confidently declare we predict the direction of economic growth, admit the predictions didn't turn out as expected, and then proclaim that with a few modifications their predictions will soon be accurate.

Over the past 40 years, not only were predictions about the future of economic growth consistently wrong, but each new economic plan also contradicted previous plans.

Washington's economic growth has not come as a result of government planning or subsidies.

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Instead, entrepreneurial innovation has been the source of the state's growth. At no point did state economic plans call for creating a hub of software innovation, hosting the headquarters of the world's largest coffee company, or enticing people from New Mexico to come and create the world's largest online retailer.

To the contrary, the economic strategies proposed over the last forty years have consistently pointed in the wrong direction. Another commission with another five-year plan is unlikely to break that pattern of failure.

Creating a five-year statewide economic development plan

Legislators are considering creating a panel of at least sixteen people to assist the state Department of Commerce in developing a five-year statewide economic development plan and offer policy recommendations. According to HB 1595, the proposed strategy must include long-term goals and measurable benchmarks.

Like other such efforts, the priorities and benchmarks are likely to reflect the political priorities of the members of the panel. For example, the bill requires that the advisory committee meet with the state commission on Hispanic affairs, the commission on African American affairs, the commission on Asian Pacific American affairs, the women's commission, and the office of minority and women's business enterprises, among others.

Even the choice of a five-year plan is arbitrary and is based more on the fact that we have five fingers than any objective assessment that it is a reasonable amount of time to plan or for plans to be effective.

The most fundamental problem, however, is that it is extremely difficult to know what industries will drive future economic growth. There is perhaps no better example than Washington state Congressman Thomas Pelly telling the House of Representatives in 1969, that "we are vividly in an era of supersonic transports, with both the Russians and the British-French consortium way ahead of us technologically. Economically, it is obvious that we must compete, but we lose our technological supremacy and our American dollars to the Communists or the British and French." That belief destroyed Seattle's economy, and it has been more than two decades since the last supersonic passenger jet took its last flight. What seemed obvious in 1969 turned out to be catastrophically wrong.

Established economic interests invariably believe they are the future and use government to reinforce their position and resist potential competitors. Rather than forward-looking, a plan developed by existing industries looks to maintain the status quo.

The legislation enshrines this anti-innovation mindset and requires that the panel include representatives of a "port, labor council, research institution, the department's office of tribal relations, the department's small business resiliency network, and industry associations representing key economic sectors including retail, technology, manufacturing, agriculture, and hospitality and tourism."

If Washington is looking to identify the next Microsoft or Amazon, a panel of people from existing industries with input from social justice organizations have few incentives to see beyond their immediate interest of protecting their economic and political power and even fewer incentives to encourage government policies that invite potential new competitors.

That myopia makes it difficult to make accurate economic predictions. Washington's own experience with these kinds of plans provides clear evidence that economic plans are rarely able to project even a few years into the future.

Washington's poor history with economic planning

After his election in 1985, Governor Booth Gardner announced the creation of Team Washington, an economic development strategy that would guide his approach to reducing the state's very high unemployment rate, which was 9.5 percent at the time.

The governor argued that promoting economic growth was critical to the state's health because, "nearly everything we do in the public sector … depends on the health and prosperity of the private economy, which is the ultimate source of virtually all state revenue." He announced that he would "set up the Washington State Economic Development Board, whose members will advise the Governor as we finally start developing a long-term economic development strategy for the state."

The makeup of Governor Gardner's board is remarkably similar to that created in HB 1595. Just like HB 1595, the board included one representative of each of the four legislative caucuses and twelve members from "various economic sectors."

Gardner's economic strategy was built on three areas. First, he wanted to bring more manufacturing to Washington state. He specifically offered to "provide a three-year deferral of sales taxes on construction and equipment for out-of-state manufacturing companies, which locate anywhere in the state." Second, he wanted to increase tourism to the state. Finally, he wanted to increase international trade. For example, he created the Center for International Trade in Forest Products at the University of Washington.

Over the next several years these areas of focus missed the mark.

Rather than expanding manufacturing, Washington's economy quickly turned to the services and tech sector. Just one year after Governor Gardner released his vision for state economic development, Microsoft went public. Less than a decade later, Amazon was founded. Those two companies, perhaps more than any other, continue to define Washington's economic direction thirty years later, and yet, neither were in state plans not long before they took off.

Additionally, contrary to the hope that Washington's timber industry would benefit from international trade, within a decade, the timber wars shut down vast areas of forest and decimated much of the timber industry in the state.

A similar pattern occurred 24 years later when Governor Chris Gregoire released her plan for "Washington State's Green Economy." That plan is notable because it contradicts both the Gardner plan and warns against many of the very economic strategies the state is following today.

For example, Gregoire's plan notes that, while Gov. Gardner's plan hoped to bring more manufacturing to the state, the new economic plan would "require Washington to continue its transition from an industrial economy to a more efficient, greener and sustainable economic model."

Rather than focusing on particular industries, the plan warned legislators to "be technology neutral." It said the state should "not mandate particular fuel types or certain environmental technologies." Instead, it said the state should "[d]esign broad initiatives that focus on specific outcomes (carbon reductions, water quality or energy-efficiency standards)" and "Let the market pick the winners." It sought to "[b]uild in flexibility and room for industries and institutions to make adjustments based on market conditions and new discoveries."

Over much of the next 15 years, the state did exactly the opposite – mandating biofuels and electric vehicles, and heavily subsidizing hydrogen fuel. Rather than letting the market pick the winners, Washington politicians have favored particular technologies, like wind and solar energy generation, dairy methane digesters, and others.

Governor Gregoire's strategy does include a telling line about the conflict between economic reality and political agendas. The report noted that Washington state's electricity rates are low, in large part to the availability of hydro power. The report characterized those low costs as a problem. The authors noted, "While low electricity prices are good for Washington's economy, it has the unfortunate side effect of dampening early adoption of efficiency measures that have significant upfront costs. Consumers and businesses find little reason to make expensive investments in building systems or new appliances, for example." As long as electricity prices were low, it would be difficult to force people to change their behavior as politicians wanted. When given a choice between economic growth and the political agenda, politics was inevitably the priority.

Ultimately, the state's green economy strategy has been a failure. According to the Biden Administration, Washington ranks 31st in the nation in the creation of "clean energy" jobs. Fittingly, the states that have seen the largest gains in clean energy jobs during the last few years are those that focus on a healthy business environment rather than focusing on a few, politically chosen industries. They created a welcoming business climate for innovators of all kinds to flourish. The states that have seen the biggest growth in clean energy are not states with large subsidies for "green" industries, but states like Georgia, Tennessee and the Carolinas.

The failure of economic planning

Governors Gardner, Gregoire and Inslee each came in with an idea of the economic sectors they wanted to emphasize. In each case, the actual direction of economic development either fell short of predictions or occurred in sectors not identified by planners.

In January 2020 – just over five years ago – nobody was predicting the economic upheaval that would occur over the following two years. In 2021, the legislature passed the low-carbon fuel standard, promising it would help build Washington's biofuel industry. They now admit that is not going to happen.

And yet, politicians and bureaucracies continue to believe that economic planning, guided by panels of politicians and industry leaders, is necessary for economic growth.

Even if the state could accurately predict the future direction of economic growth, as we noted in WPC's Report Card for Washington's Future, the business tax climate has worsened dramatically over the past decade, going from 6th best in the nation to 5th worst. No amount of clairvoyance is going to overcome such a hostile investment environment.

Rather than spending time and taxpayer money on yet another planning document, Washington should follow the lead of states that have seen the best rates of economic and job growth and improve the state's overall business climate by reducing taxes and regulation and encouraging the innovation that created the last wave of economic growth in the state.

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