THE STATE OF BUSINESS IN HAWAII

A Paper Presented to the Forum on Hawaii's Business Climate Sponsored by the University of Hawaii Campus Board Forum Committee

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INTRODUCTION

Hawaii's business climate has received a significant amount of press coverage and has been the subject of much comment in the last nine months. This includes assertions made during the 1982 gubernatorial campaign, two articles in *Inc*. magazine, an article in *Forbes* magazine, a study by Alexander Grant & Co., and a report on Hawaii's business climate by the State Senate Committee on Consumer Protection and Commerce. The coverage has been largely negative.

Certainly, the State of Hawaii has problems. Everybody else does, too. The challenge is to identify the problems, and then focus attention and effort on the solutions. Unfortunately, much of the press coverage has not been focused on the fundamental problems. This has drawn attention away from the fundamental solutions.

The low ranking and negative tone of the *Inc*. and *Forbes* articles, the Alexander Grant study, and the Senate Committee testimony is perplexing. While we wish that things were better, it is a fact that our economy has created 90,000 new jobs in the last decade, and we have one of the lowest unemployment rates in the nation. While we are now faced with a slowdown in tax revenues, it is a fact that we did a better job balancing our budget, without tax increases, than 41 other states in 1982. While major companies which grew up in Hawaii have expanded overseas, it is a fact that they have also expanded in Hawaii. I would like to suggest that, at the moment, our business image is far worse than our business reality.

Doing business in Hawaii has been difficult since the days of Kamehameha III, more than 150 years ago. While many factors are involved, three are very fundamental to the challenge faced by our forebears and still faced by us. First, we are small in population. This means that we are not a large enough local market for many goods to achieve economies of scale in production. Second, we are geographically isolated from world markets for our exported goods. When we do produce large enough quantities to achieve economies of scale, we must export the products we do not consume locally— and that means paying the cost of long distance shipping. Third, we are small in land mass, and have insufficient natural resources, or haven't sufficiently developed our resources, for economic self-sufficiency. Thus, to maintain our standard of living, we must export specialized goods and services in order to import the manufactured goods we need. We had no choice about the size of our population, our natural resources, or our location. The ingenuity of the kingdom, territory, and state in the last 150 years in overcoming these factors is a proud part of Hawaii's history. It is now our turn. The challenge is to do as well.

We are attempting, of course, to do better. There is a fourth factor, in addition to our population, geographical isolation, and limited resources, which I believe is important. That factor is a value choice rather than a problem. It is our high social ideals. We believe in social services— health, education, welfare— and these social services have their costs. So far, the community has felt that the benefits are worth the costs. Indeed, we have been a trailblazer in implementing new social programs.

Small population, geographical isolation, and limited natural resources may make it difficult to do business in Hawaii, without the government or people of Hawaii being anti-business. High social ideals have a cost, just as any other action or program. But it is hard to argue that social ideals, in and of themselves, are anti-business.

The purpose of this paper is to provide information and stimulate further discussion. First, I will describe State government services which are designed to improve the business climate in Hawaii. These positive, effective services have received little attention to date. Second, I will critique the critics— I will analyze the *Inc.*, *Forbes*, Alexander Grant, and Senate Committee conclusions. Many of them have not been scrutinized publicly before. Third, I will suggest the areas that our community should explore to improve our business climate. This exploration will be a partnership effort. I believe it holds great promise.

GOVERNMENT SERVICES DESIGNED TO IMPROVE THE BUSINESS CLIMATE IN HAWAII

The State of Hawaii is committed to improving the climate for business enterprise in Hawaii, supporting and protecting Hawaii's existing productive enterprises, and diversifying our local economy by developing new "preferred growth" industries such as aquaculture, diversified agriculture, motion picture and television production, high technology manufacturing and services, commercial fisheries, and international trade and commerce. Much of this is done by the department in which I work— the Department of Planning and Economic Development (DPED). Economic development work is also done by the Department of Land and Natural Resources, and the Department of Agriculture. The total amount spent by all State government agencies in 1981-83 on economic development-related activities was $76.5 million. This is proof of a strong commitment to the success of business in our State.

Different government agencies have different roles. Some provide services such as police protection, fire protection, and water. Others are regulatory in nature, controlling pollution, regulating the use of land, or investigating product safety. The role of DPED is to promote business. Our statutory mission is "to stimulate through research and demonstration projects those industrial and economic development efforts which offer the most immediate promise of expanding the economy of the state." We are pro-business.

1. *General Business Services*

The State of Hawaii provides a number of services for local business, including financial assistance, manpower services, and information.

From 1973 to 1982, the State made 190 loans under the Hawaii Capital Loan Program providing critically needed capital to small labor-intensive Hawaii businesses. A total of $20.8 million was provided to these firms during this period. Of this total, $8.2 million in revolving funds was provided by the State, and $12.6 million was leveraged from private and federal sources. Approximately 1,000 new employment opportunities for Hawaii workers were created by the program during this 10-year period, and many additional existing positions were saved.

The State Department of Labor provides assistance to employers through apprenticeship and other job training programs, as well as through comprehensive manpower services for employers in search of qualified workers.

Information services provided by the various State Departments are an incalculable asset to Hawaii businesses. The *State of Hawaii Data Book,* published by DPED, provides a broad range of information which assists businesses in marketing, project planning, and other endeavors. Special studies and information services are provided by DPED and other State agencies. The Department of Agriculture's research publications, for example, help farmers develop improved horticultural techniques, and DPED's econometric model of the State's construction industry forecasts building industry trends to aid in project scheduling and planning.

2. *Aquaculture Development*

The State of Hawaii has assisted the development of the aquaculture industry, which has grown from an experimental technique to a commercial reality.

The State has invested $2.7 million in its Aquaculture Development Program with significant results. Acreage in aquaculture has nearly doubled from 234 acres in 1976 to 456 acres in 1980, and total revenues have grown from $200,000 to $1.7 million over the same period. Marine Culture Enterprises plans to build at $15 million, 100-acre shrimp production facility in Kahuku. This facility would be capable of producing 2.5 million pounds of shrimp tails annually and would create 100 new jobs.

The State has assisted Hawaii's aquaculture industry by developing a shellfish certification program that insures that shellfish produced in Hawaii are safe for consumption. The Department of Agriculture's Aquaculture Loan Program has granted 17 loans providing $703,000 to producers of aquaculture products in Hawaii. Over 40 million larval prawns have been provided to commercial prawn farmers to assist the development of the aquaculture industry. State assistance helped prawn farmers produce more than three-quarters of a million pounds of prawns between 1975 and 1978.

A plan entitled *Aquaculture Development for Hawaii* has been prepared to assist the aquaculture industry plan for future needs.

3. *Agriculture*

With the active support of the State of Hawaii, diversified agricultural revenues have grown from $22 million in 1970 to $91 million in 1980, over 300% growth. Over the same period, sales of Hawaii-grown milk, eggs, and livestock increased 93% from $42.1 million to $81.2 million.

A total of 935 acres of agricultural park land have been developed since 1975. Nearly 190 acres were scheduled for development in 1982 alone. In a few years, the State Agricultural Park system will consist of parks at Pahoa, Panaewa, Lalamilo, Keahole, Waimanalo, Waiahole, and Waianae. Thanks in large part to the Agricultural Park program, sales of the flower and nursery products industry in Hawaii have increased in wholesale value from $8.2 million in 1974 to $29.6 million in 1981.

A total of 3,774 loans have provided over $42 million to local farmers since 1974, including 92 loans providing over $4 million under the innovative New Farmers Program.

The sugar industry's efforts to improve its economic position have been supported by the State of Hawaii through beneficial legislation, loans to independent growers, and the development of alternate energy sources that utilize sugar cane by-products. Contracts with producer associations have been established by the Department of Agriculture to promote and market diversified agricultural products such as papaya, guava, taro, anthuriums, protea, dendrobiums, and coffee.

A total of 45 new farm and ranch homestead lots covering 1,265 acres have been leased to qualified Hawaiian farmers and ranchers. Four vacuum cooling plants have been constructed at Kula, Omaopio, Kamuela, and Kapaa to assist farmers in preparing produce for shipment to markets.

4. *Commercial Fisheries*

The State of Hawaii has supported the development of Hawaii's marine resources. Someday, the ocean will be a source of energy, minerals, and living space, as well as providing the people of Hawaii with food, recreation, and a channel of transportation.

The *Hawaii Fisheries Development Plan* was prepared to guide the future development of commercial fishing in the Islands. The State Department of Land and Natural Resources assists commercial and recreational fishery interests by increasing fish productivity through the establishment of fishery resources management regimes.

Commercial and recreational fishing opportunities in the Islands have been improved through the deployment of 25 fish aggregation devices in local waters. These greatly improved local catches.

Since 1972, 33 large fishing vessel loans totaling $4.8 million, and 44 small fishing vessel loans totaling $1 million have been arranged to revitalize Hawaii’s fishing industry. The State portion of loans granted under the two programs totaled $4.5 million and leveraged an additional $1.3 million in private and federal capital.

Construction of commercial fishing vessel berths and support facilities at Piers 17 and 18 in Honolulu Harbor has been completed.

5. International Trade & Commerce

The State of Hawaii believes that Hawaii’s future and the Nation’s destiny are linked to the development of international trade and commerce in the Pacific Basin.

The development of the Aloha Tower area has begun. The complex will rejuvenate Honolulu’s waterfront and provide a focal point for international business in Hawaii.

Hawaii operates one of the best Foreign Trade Zones in the United States. Hawaii’s Foreign Trade Zone No. 9 received a Presidential Award for excellence in 1979, and handled over 11,272 tons of merchandise valued at $46,187,741 in fiscal year 1981 alone.

The Hawaii International Services Agency (HISA) provides information to overseas investors on opportunities in Hawaii, and represents the State in overseas trade fairs and conferences. The State has successfully encouraged 13 companies to establish regional headquarters in Hawaii over the last two years.

The Pacific Basin Development Council, headquartered in Hawaii, was established to promote economic development in Hawaii, American Samoa, Guam, and the Commonwealth of the Northern Marianas. Governor Ariyoshi was its first President.

6. New Preferred Growth Industries

Certain “preferred growth” industries have been singled out for special attention by the State of Hawaii. These are industries that utilize the unique talents of our local people, have minimal negative effects on Hawaii’s environment, and can take advantage of Hawaii’s location in the center of the Pacific Basin.

In this regard, Hawaii has been successfully promoted as a site for feature films, television shows, and commercials. There were 58 productions here in 1980. Film industry expenditures in Hawaii have grown from $11 million in 1976 to $48 million in 1980, generating over 1,000 new jobs. The DPED Film Office has played an important role in this growth.

Governor Ariyoshi has proposed, and the State Legislature has approved, the establishment of a High Technology Development Corporation to foster the growth of technology-intensive firms in the State of Hawaii. The Development Corporation would identify and prepare sites and could provide financing through the issuance of special purpose revenue bonds. A Pacific International Center for High Technology Research will also be established to support Hawaii’s efforts to become a Pacific center for technology research and development.

DPED has provided $75,000 in high technology promotion funds to support the development of innovative semiconductor devices invented by UH- Manoa faculty members and students in the Electrical Engineering Department’s Physical Electronics Laboratory. The promotional funds have been used to leverage private donations of semiconductor processing equipment from Mainland high technology firms to enhance the Laboratory’s educational and research capabilities.

Three trade missions have been organized to encourage Mainland high technology enterprises to relocate to Hawaii. A new electronics firm was assisted in initiating operations in the Islands.

7. Diversified Manufacturing

The State of Hawaii recognizes the importance of diversified manufacturing to the State’s efforts to expand exports of Made-in-Hawaii products. This reduces overseas imports, thus decreasing Hawaii’s balance of payments deficit.

The State has supported local diversified manufacturing through studies, trade show support, the development of a training program for power machine operators who work in the fashion industry, and support for supermarket and department store promotions. During the current program year, six such promotions were held by the Hawaii Fashion and Products Association in cooperation with DPED. These promotions resulted in additional sales totaling $2.8 million.

In partnership with the private sector, the State of Hawaii has successfully promoted Made-in-Hawaii gift and fashion products and Hawaii food products in many overseas markets. In 1983 alone, the State provided $195,000 to support the promotional and educational activities conducted by the Hawaii Fashion and Products Association, the Made in Hawaii Association, the Hawaii Fashion Guild, and the Hawaii Food Manufacturers Association.

A steamfitting training program in support of the local maritime services industry has been initiated by Honolulu Community College in cooperation with Pearl Harbor Naval Shipyard.

8. Visitor Industry

Tourism remains Hawaii's most important source of income and jobs. The State of Hawaii has taken bold steps to assure that our tourism infrastructure remains attractive to potential visitors, and that the industry will continue to generate enhanced employment opportunities for Hawaii's citizens.

The State has contributed $15 million to County efforts to improve public facilities in the Waikiki area.

The $4.5 million public/private sector "Hawaii '82" tourism promotion program was implemented by the Administration to strengthen Hawaii's most vital industry.

The Hawaii Visitors Bureau (HVB), supported in part by State funds, engages in promotional activities to increase tourism in Hawaii. The HVB acts as a liaison between visitors and government and private industry. The State has contributed $5.5 million to HVB activities over the last two years. The use of State funds is monitored by DPED's Office of Tourism.

Department store promotions conducted by various industry associations in cooperation with DPED provide exposure for Hawaii's music, dance, history, and culture to shoppers throughout the Nation, stimulating the local visitor industry.

9. Education and Vocational Training

Among "services to business" listed in various publications which compare the business climate in the states, educational services are rarely listed. Nonetheless, public education in Hawaii consumes 40.3% of State general fund revenues and provides business with workers trained in basic language, math, and science.

Moreover, a number of programs, administered by the Department of Education and the University of Hawaii, offer direct vocational education to Hawaii students, relieving employers of much of the cost of worker training. Over 9,000 Hawaii students graduate annually from vocational educational courses which prepare them for careers in such diverse fields as ornamental horticulture, finance and bookkeeping, health care, computer operation and programming, electronic equipment maintenance and repair, aviation maintenance, commercial art, construction trades, cosmetology, and food services.

As the above discussion shows, there are many State services which support business in Hawaii. In light of all these activities, it is obvious that Hawaii is not anti-business. And yet, that is what two articles and one report have concluded in the last nine months. Why?

A CRITIQUE OF THE CRITICS

1. Forbes Magazine

The Forbes magazine article, entitled "East of Eden," was written by Michael Cieply and published in the January 31, 1983 issue. It is a difficult article to analyze, since so much of it is a matter of tone— nuance, innuendo, negative implications. The glass is always half empty, not half full. A few statements in the article are worthy of comment. For example:

> The 'paradise state' is a veritable purgatory for business, with a stagnant agricultural economy and a powerful political and labor union bureaucracy that has smothered attempts at industrial development.

The first assertion here, apparently, is that agriculture is stagnant. To a great extent, the *Forbes* article is about the hard times faced by sugar and pineapple. Those are real problems, and deserving of attention. The fact that sugar and pineapple are experiencing difficulty, however, is hardly due to the State government or an anti-business attitude. It is due to international economics, U.S. trade policy, and the subsidies which foreign countries are giving their own crops. Also, there are some encouraging facts as well. Diversified agriculture in the State grew from $22 million in 1970 to $91 million in 1980.

The second point, apparently, is that "a powerful political and labor union bureaucracy" have "smothered attempts at industrial development." The record shows, however, that our Gross State Product rose from $4.5 billion in 1970 to $7 billion in 1980 in constant 1972 dollars. It grew from $4.2 billion to $11.4 billion in current dollars during the same period. Certainly, the economy has not been smothered. Perhaps the author is referring to manufacturing, which is only a portion of our economy. But that is hard to believe, also. Hawaii's general excise tax base for manufacturing— excluding sugar processing, pineapple canning, and petroleum refining— grew from $285 million in 1971 to $631 million in 1981.

Cieply's evidence of "smothered attempts at industrial development" seems to be that Castle and Cooke has been unsuccessful in getting permission to rezone a specific piece of land at Mililani from agriculture to urban in order to use it for manufacturing. No statewide pattern is shown. Cieply's next assertion is that our unions are politically active. He says that the ILWU wants to keep jobs for its members. This is understandable, and certainly not unique to Hawaii's unions.

The final proof, however, seems to be that "the more far-sighted of the old Hawaii firms— think of Amfac, Dillingham, Castle & Cooke— have for years placed their new investments outside Hawaii." Considering the small size of the local market, it is natural that a company specializing in certain kinds of business would grow up in Hawaii and eventually expand overseas, in order to keep growing. That does not mean Hawaii is anti-business. It just means that we are small.

Even so, it is important to note that the revenues of Hawaii's top companies from *Hawaii* operations have increased significantly over the years. While expanding abroad, these companies have also expanded in Hawaii. In an article by Russ Lynch, published in the *Honolulu Star-Bulletin* on March 31, 1983, it was reported that from 1967 to 1982, the Hawaii revenues of Amfac grew from $146 million to $460 million; Castle & Cooke from $87 million to $252 million; PRI from \$9.4 million to \$885 million; Alexander & Baldwin from \$204 million to \$376 million; and C. Brewer from \$63 million to \$195 million. Dillingham data was not available. These figures do not indicate that the companies are "fleeing" Hawaii. Opportunities may be great elsewhere, but there are also opportunities within the State.

That was the position of Robert J. Pfeiffer, the Chairman, President and Chief Executive Officer of Alexander & Baldwin, in a speech he presented on March 16, 1983, to the American Marketing Association Awards Luncheon in Honolulu. Mr. Pfeiffer found the *Forbes* article perplexing. "In several interviews with the writer, no A&B executive discussed the business climate of Hawaii. All we talked about was A&B's future in Hawaii— and perhaps elsewhere— about which we are reasonably bullish." He made it clear that "A&B is *not* fleeing Hawaii. We are strengthening our existing businesses here, and we are looking for acquisitions in Hawaii *first*, and elsewhere, *second*."

According to Cieply, however, the companies are fleeing. The author says that the reason is that "Hawaii's political leaders, led by Governor George Ariyoshi, could compete with the Soviet Union's bureaucrats in their rigid regulation of every facet of the Islands' economic life." As a one-time student of political science, I know that this comparison with the Soviet Union is too far afield to be meaningful. But what is Cieply's evidence? First, he notes the Hawaii State Plan; second, he refers to a "morass of implementing boards and commissions."

The interesting thing about the Hawaii State Plan is the high level of attention and support it gives to business and economic development. Social and economic mobility rate as top values in the Plan. There are three State goals described in the Hawaii State Plan. The first one is "a strong, viable economy, characterized by stability, diversity, and growth, that enables the fulfillment of the needs and expectations of Hawaii's present and future generations." The third goal is physical, social, and economic well-being for individuals and families. The list of objectives and policies stated in the Plan which support economic development is quite long. The list consists of 51 policies, including some supporting the economy generally, plus policies on agriculture, tourism, federal expenditures, and potential growth activities. The example used by Cieply is the manufacture of circuit boards. He cites the current section of the Plan, while failing to note that that section *supports* that new industry. It is not clear what the problem is supposed to be here.

As for the "morass of implementing boards and commissions," the whole permit process is of great concern to us. It has been studied in detail by DPED's Coastal Zone Management Program, and is the subject of a Task Force appointed by Governor Ariyoshi. The simplification of the permit process is a high priority for government action.

Cieply moves on to assert that "the State aims to retain agriculture—and agricultural jobs—by force." There is no evidence provided as to what that means. What force? Perhaps he means land-use controls. In any event, he seems to have no sympathy for a very serious problem. Hawaii has prospered in the past with its sugar and pineapple industries. These industries occupy over 257,000 acres of land in the State, and directly employ 14,200 people, or 4.1% of the civilian work force. An additional 7,800 jobs in other sectors of Hawaii's economy are generated by the employment and output of these industries. Thus, a total of 22,000 jobs statewide, or 6.4% of the civilian work force, depend upon the continued health of the sugar and pineapple industries. The sudden decline or abandonment of these industries would leave the State with a lot of unemployment and idle land. The transition to new crops or land uses takes time. No one, in government or industry, has yet identified a single crop which could successfully replace either sugar or pineapple. Trying to hang on to sugar and pineapple thus makes sense, while the search goes on for alternatives.

Cieply notes that business is bad for some hotel and condominium owners. He recognizes that the industry overbuilt itself. The overbuilding, of course, was the result of a series of private, independent decisions by businessmen. The number of hotel units in Hawaii increased from 35,349 in 1971 to 57,239 in 1981. This showed confidence in the business climate. Cieply states that "tourism went flat in 1980, holding for three years at about 4 million visitors." Actually, tourism in 1982 showed an 8% increase over 1981, which isn't "flat." Cieply is right, when he says that the visitor mix has shifted to the "beer-and-burger crowd," which spends less money. But this is likely to be a temporary phenomenon relating to the airline price wars.

Cieply sees the glass as half empty, not half full. He states that "Hawaii's unemployment rate now stands at 7.7%, high by the State's traditional standards." Yes, it is high by our traditional standards. It is also lower by several percentage points than the national average. Some statistics now place Hawaii's unemployment rate as the lowest in the Nation. Cieply manages to see our unemployment rate as a criticism, when in fact it is a compliment.

Cieply notes that “State planners continue to focus on elusive schemes like tropical flower farms and freshwater prawn ranches.” These industries, though small, have in fact grown nicely. The cut-flower and nursery products industry has grown from $8.2 million in 1974, to $29.6 million in 1981. The value of aquaculture production has risen from $200,000 in 1976, to $1.7 million in 1980. This is only a beginning, but it is not elusive. It is promising.

Cieply’s final bit of advice is that our Islands, “beneath their veneer of beauty, are no land of plenty. They were made productive only through the efforts of those often-scorned Calvinist missionaries of yore whose families founded the Big Five.” While the contributions of the missionaries were considerable, I know of no history of Hawaii that indicates that it was their efforts, and only their efforts, which made our land productive. Hundreds of thousands of hardworking people of many faiths and ethnic backgrounds made our land productive. Cieply’s comment merely indicates that, as far as his preferences are concerned, he arrived in the Islands approximately 150 years too late.

The problem with the *Forbes* article, in summary, is that it is not useful. The assertions and innuendos don’t match the facts, or refer to only some of the facts. After reading the article, one doesn’t know what to do to improve the business climate in Hawaii. Once a full range of facts is considered, the exciting journalistic phrases begin to dissolve, and we are left with no insight at all into our situation. We have learned more about the attitudes of Michael Cieply than about our own situation.

2. Inc. magazine

For the past two years, *Inc.* magazine has rated the 50 states on their climate for small businesses. The accounting firm of Alexander Grant & Co. has computed a yearly “business climate” rating for the 48 contiguous states, entitled *General Manufacturing Business Climates*.

These studies, using numbers and charts and weighted calculations, have an air of scientific method and sophisticated truth. To many people, this makes them far more persuasive than the *Forbes* article, which was journalistic and impressionistic.

Much has been made of the fact that these reports contained negative conclusions about Hawaii’s business climate. Yet, there has been little analysis of the evidence that was presented in the reports and how the conclusions were reached. It is DPED's conclusion that these reports are of very limited value to either firms who are making locational decisions, or to states attempting to identify fundamental deterrents to economic development. This is not to say that Hawaii (like all other states) does not have weak points as well as strong points for particular kinds of economic activity. However, we simply cannot conclude that these reports contribute to a clarification of those points or their root cause.

Inc. magazine is a publication about, and a champion for, small business. Unfortunately the classification "small business" covers a lot of ground. A business is generally considered small if it has less than 100 employees. In Hawaii, more than half of all private sector employment is in companies with 100 or less employees, and these companies constitute almost 98% of all firms. Small business is clearly important to the State, but it is such a diverse category that each industry presents quite different hazards and challenges to small business.

In 1981, *Inc.* magazine compiled a series of 15 indicators that it felt showed the climate of the State for small businesses. The series was refined and revised somewhat and reissued in 1982 with 14 indicators. In 1981, combined scores in the categories resulted in letter grades A through F for the states. Hawaii received an F. In 1982, the states simply received a combined ranking with Hawaii being awarded 39^{th} place. Because the reports were poorly documented, we cannot evaluate either the soundness of the data, or the methods used to weight and combine the scores.

The *Inc.* study's factors in 1981 centered on indicators of relative tax burden, availability of financing, labor costs, and availability of programs within the State designed to support small business. The study appeared to be relatively unbiased from state to state and reasonably candid about the limitations of the findings. We do not question the sincerity of *Inc.* magazine's motives in the study.

However, we see two major problems that we believe call this and similar studies into question. First, the study expressly measures factors that the editors think correlate with a high degree of business success for small business, but does not look at the degree of success small business is *actually having* in each state. Secondly, on a more technical level, we think that many of the "negative" indicators measured in the study (as will be shown in the case of the Alexander Grant study) can be just as consistent with business success as with failure.

It may help to put the *Inc.* magazine and similar studies into perspective by clarifying the most important determinants of the degree of success in business.

Given reasonably adequate management skill, probably the most important determinant of business success is the rate of growth in demand for a business's products or services.

Almost all businesses will be less successful in a recession than in an expansion period. Further, from state to state, business is best where for any number of reasons a state is experiencing a higher than average rate of growth. Hawaii experienced such growth during the 1960s and early 1970s, and (the recession aside) is probably still experiencing long-run economic growth at a rate in excess of the Nation as a whole. With a growing market it is possible for a small firm to enter and expend to a profitable level rapidly. Where there is little or no growth in the market, existing firms often end up fighting fiercely for the existing business. There is little hope for the average new small business in such an environment.

That businesses tend to do well in a brisk market is good news. The bad news for business is that with success comes competition. Everyone wants a piece of the success in a boom state— landlords, suppliers, workers, and competing businesses. So there is a tendency for the economic success enjoyed in a state to eventually drive up prices for land, labor, and materials while also generating more competition for the dollars the market is willing to pay.

As a consequence of a high growth rate, new plant and equipment and expanded public facilities must be built faster than the national average. Thus, public and private sector debt issues and debt service will tend to be higher in faster growing states. High rates of growth in income and profits will also tend to increase tax revenues at all levels of government, and these tax revenues will be needed to properly coordinate and facilitate the higher rate of economic growth.

Finally, in a climate of economic growth, it is often the larger, better-financed firms that enjoy the highest profit because it takes larger, better-financed firms to compete with them. Generally, small businesses are in activities where it is relatively easy to enter the business. But this ease of entry simply increases competition no matter how fast the local economy is growing. When the economy temporarily slows or contracts, small businesses are generally in the most vulnerable position. Many states such as Hawaii realize the squeeze on small businesses during these times. They do as much as they can to ease the problems, but cannot repeal the basic laws of the free marketplace discussed above, which are the most significant determinants of small business viability.

Thus, our first major problem with the *Inc*. magazine study is that it has missed the point in terms of describing the business climate in the states. They have failed to present the *opportunities* for small business in the states, along with the factors that they feel are detriments to small business. As the 1982 *Inc*. study pointed out by quoting one businessman, "If you can sell 10 times as many widgets in New York as you can in Mississippi or Alabama, you don't mind paying those high taxes," and, of course, the same can be said of all other business costs— if you can make 10 times the profit in one state over another, wouldn't you be willing to pay somewhat higher costs?

Our second major problem with the study centers on the observation that the factors used to rate the states are mostly proxy factors. In other words, they are not directly applicable to the costs or problems of any one type of small business, but are meant to "indicate" that certain costs or conditions may be better or worse in one state than in another.

For instance, in the 1982 study an inference is made about the amount of capital resources available to small business. This is represented by bank loans as a percent of assets, commercial and industrial loans per capita, small business investment company loans per capita and the number (but not the dollar amount) of state financial programs for small business. The relationship between these rather limited and arbitrarily concocted statistics and the actual financing of small business borders on pure speculation.

Why did not *Inc*. magazine survey small business in states to find out *directly* how available financing really is? Similarly, the availability and cost of labor is represented by the overall average wage, the percent of union membership, percent of high school graduates and value added per worker. The problem is that each of these could be "indicating" things quite apart from the cost and availability of labor. In Hawaii, for instance, the lower-than-average weekly wage may be due primarily to a larger percentage of part-time, double job holders. Hawaii has a higher proportion of union membership than the national average, but it is concentrated in agriculture (sugar and pineapple), construction and government, not in activities generally favored by small business such as retailing and services. Hawaii has a lower percentage of high school graduates, but also has a higher percentage of adult immigrants and in-migrants. Thus, the lower percentage is not due to generally less educational opportunity in the State. Finally, Hawaii has a slightly higher value added, primarily because it is a service-oriented economy in which labor is a higher proportion of the inputs into the product than in states where the final product is a manufactured item requiring relatively more raw materials and capital costs.

Obviously, we are disagreeing with some factors that make Hawaii look good as well as with the less favorable factors. The point simply is that the *Inc*. magazine indicators are faulty regardless of who they favor, because they are not directly measuring factors that are actually affecting particular kinds of small businesses. On the contrary, they are in many cases measuring factors that may correlate with a successful business climate such as tax revenues generated per $1,000 of personal income, union membership and wage rates.

We therefore conclude that the *Inc*. magazine study has a number of fundamental flaws that make it almost impossible to interpret how well small business is really doing, and why. Fundamentally, it is free market competition that is the toughest factor facing small businesses, not government policies, unions, or taxes. A better understanding of how market forces are apt to affect small businesses and better counseling on meeting the challenge in the market, is what *Inc.* magazine and the states should strive to give small businesses.

3. Alexander Grant Study

While *Inc.* was concerned about small business, the Alexander Grant rating singled out the manufacturing sector. Hawaii was rated in an internal memorandum based on their 1981 study. We believe that the Alexander Grant Company's annual study, entitled *General Manufacturing Business Climates*, is a sincere effort on the part of that firm's researchers to provide useful information to companies and to states. We sympathize with the difficulty they had in locating legitimately comparable data for all states. We also appreciate their frequent and candid cautions about the limitations of the study's results. However, we think that, despite the researcher's diligent work, the study simply does not accomplish its purpose.

In 1981, this study scored the 48 contiguous states with respect to 22 factors that the authors felt reflected the manufacturing business climates in each of those states. Scores on individual factors were combined to produce an overall ranking of the "manufacturing business climate" of the states. Hawaii and Alaska were not ranked with the other 48 states in the published study because the authors said the comparisons would be "misleading." Nevertheless, the authors did rank Hawaii and Alaska by the same criteria in an internal memorandum resulting in an overall

49th-out-of-50 ranking for Hawaii. No such ranking for Hawaii has as yet been released based on data compiled for the 1982 report.

First, it is important to note that manufacturing is a broad industrial category that covers processes ranging from the production of transport equipment for international markets, to a family bakery producing bread for a local neighborhood. Hawaii is a service-oriented economy. While it may be unsuited for certain large-scale heavy industries, we believe there are excellent opportunities for certain kinds of manufacturing processes.

In order to focus on what we think is the major shortcoming of the Alexander Grant study, we will overlook a number of less serious difficulties. For instance, we will not quarrel with the study's use of the term "business climate," although the study itself notes that the term "does not lend itself to exact definition or evaluation." We will not quarrel with the fact that the study does not explain how the overall or specific ratings can be used by a particular firm to make locational decisions. We will not quarrel with the fact that the study presents an overall ranking of the states, despite numerous qualifications that for any given manufacturing process only *some* of the 22 factors will be important. Finally, we will not even quarrel with the Hawaii ranking, since the authors themselves specifically stated that it would be "misleading" and "inappropriate" to rank Hawaii and Alaska with the contiguous 48 states because their "locations and core economic sectors" are too different from Mainland states.

Our primary difficulty with the Alexander Grant study is that there is no demonstrated relationship between the 22 factors that the study chose to measure and manufacturing success. Only two of the factors are directly related to costs that manufacturing businesses will incur in a given state. The other 20 factors are proxy indicators, not factors that can be traced directly to the costs or opportunities of a manufacturing business. In the 1981 study, the authors admitted that they have been criticized because there is little correlation between the results of the study and manufacturing jobs won or lost.

Since the conclusions of the study rest on the value and interpretation of each individual factor, we must address the appropriateness of each factor individually. The following briefly describes each factor, whether an increase in that factor is positive or negative for the business climate, and what the authors felt that the factor represented.

A1: State and local taxes per $1,000 of personal income— negative. (Indicates the level of taxation.) This actually represents the structure of the tax system and level of public services that a state and its citizens deem appropriate, not the state's attitude toward business. It is a faulty measure for some states like Hawaii that have general sales taxes to which nonresidents (mainly tourists) contribute, but whose total personal income statistics reflect only residents' income. In Hawaii, there are 4 million tourists per year who pay taxes, but these tax payments are often overlooked in published studies. Next, the Alexander Grant study argues that higher tax revenues are bad for the "climate." Yet, an argument could be made that proportionately higher taxes (and consequently, expenditures) enhance manufacturing attractiveness by providing a better educated work force (education takes the largest share of local taxes) and a better maintained infrastructure, including transportation and public services. How the relationship between tax revenue and personal income negatively affects manufacturing business success is far from clear.

A2: Percent change in taxes over three years per $1,000 of personal income— negative. (Indicates the trend of taxation and the attitude of taxing authorities.) The claim that this represents the attitude of taxing authorities is questionable. Tax rates could actually be lowered and end up being a higher percentage of personal income if personal income happened to decline by a greater percentage due to a recession. Inflation and income tax "bracket creep" can result in increases in taxes over a short period of time that exceed increases in personal income. At other times, personal income may grow faster than taxes. The ranking of each state can be expected to show wide swings for this factor over a business cycle depending upon how recessions and inflation affect particular areas. The only true indication of the attitude of taxing authorities would be changes in tax rates over time and how the tax burden is distributed. We find no clear implication in this factor for manufacturing success.

A3: Ratio of growth in expenditures to revenue for state and local governments— negative. (Indicates ability to match expenditures to revenues and the attitude of legislatures in balancing their budgets.) This ratio would also vary over the business cycle. Revenues will tend to increase faster than expenditures in upturns and less during downturns because expenditures generally follow revenues with a lag. It is difficult to interpret a state's ranking in this category over such short periods of time as three years, and the relationship of this ratio to manufacturing success and the attitude of legislatures towards balanced budgets is questionable.

A4: Per capita state and local debt— negative. (Indicates level of expenditures by state and local governments that do not result in benefits to business.) We see no direct relationship between this measure and manufacturing business success. It is also possible that the study's compilation of this factor included Federal pass-through funds which would compromise the validity of the measure in any case.

B1: Average unemployment compensation benefits paid per covered worker per year— negative. (Indicator of present withdrawals and possibility of future tax increases to replenish fund.) Again, this is a cyclical measure and reflects the level of unemployment in the state, not the rate of taxation of business or the long-run prospects for a successful manufacturing business.

B2: Net worth of unemployment compensation fund per covered worker— positive. (Indicates potential need for tax increases to increase fund.) The negative or positive value of the state's unemployment compensation fund obviously has relevance to costs that a business may incur in a given state to improve the balance of the fund. But it is a very cyclical factor that can change due to the economic conditions prevailing in the state, so that current rankings may be meaningless for predicting future rankings. Also, if the fund is positive, the level per worker may vary from state to state on the basis of its unemployment experience. Some states may not need large funds while others may. Further, there is again no automatic relationship between this indicator and manufacturing success.

B3: Maximum weekly temporary total disability payment— negative. (Indicates maximum benefit employer may have to pay.) This factor will differ from state to state based in part on the relative costs of living rather than the desire of a particular state to pay a high benefit in real terms. Further, the costs to business depend on how many workers are receiving the payments, not on how high the benefits are. This is another ambiguous factor.

B4: Workers compensation insurance rates— negative. (Indicates the cost of workers compensation insurance to firms.) This certainly bears directly on cost factors of a manufacturing business. However, the study admits that these figures are not necessarily comparable from state to state, which compromises the value and accuracy of the rankings. If this problem can be cleared up, this would be a legitimate factor for consideration.

C1: Annual average hourly manufacturing wage— negative. (Indicates the relative cost of labor from state to state.) *C2: Three-year percentage change in the* *average hourly manufacturing wage*— negative. (Indicates wage trends and future costs of labor.) These two factors, C1 and C2, are apparently based on average wages paid, not the actual average wage rate scales. This means that a state's ranking could vary for such reasons as overtime pay and may change over the three-year period based on the wage levels of the firms doing the bulk of the manufacturing business at any given time. It is also important to note that high wages may also reflect a better trained, more productive work force which may be to the advantage of many prospective new firms rather than being a negative factor. Again, the value of the factor is unclear.

C3: Union membership per 100 non-agricultural workers— negative. (Indicates influence of unions in the state.) *C4: Two year change in unionization*— negative. (Indicates the trend of unionism in the state.) This is another case in which a good argument can be made that the more positive the factor the *better* are the chances of success for the firm. Regardless of the level of unionization at large firms, most manufacturing firms that need skilled labor will have to deal with a union. It is almost inevitable that as a firm grows, its skilled workers will eventually seek the protection and benefits of unionization. As for the state rankings, these may change considerably if construction is a major activity in particular states. Swings in construction employment due to recessions and boom periods can change the percentage of union workers actually employed, which is the basis of the factor. Finally, the argument used in regard to the previous two factors is also valid here. Though labor costs under union contracts will invariably be higher than for non-union labor, it may well be that the additional productivity of union workers more than compensates for the higher wages. Further, other cost factors may be so substantially lower in a particular area than elsewhere, that the higher wages are more than compensated for by lower costs in other categories such as transportation or energy.

D1: Vocational education enrollment as a percent of the population— positive. (Indicates the future ability of a state to provide skilled workers.) *D2: High school educated adults as a percentage of adults 25 years and over*— positive. (Indicates the level of a trainable work force in a state.) While these *may* have a bearing on the cost of assembling a skilled, productive work force, there is no indication of the importance of the difference between the states on these factors. In 1981, all but four of the states had rates of vocational education that ranged between 0.5% to 2.0% of the adult population. That is a rather narrow range in which to say there is any significant differences between the states. The spread of high school graduate percentages is wider among the states, but not so much that it would clearly affect relative manufacturing prospects among the states.

D3: Manhours lost in strikes over two years as a percent of all non-agricultural manhours— negative. (Indicates stability of the work force.) The value and interpretations of this factor are very questionable. The lowest ranked state showed only 0.3% of total hours lost to strikes compared to a median of about 0.1%. Not only do strikes tend to correlate with swings in economic activity, but at these low rates they do not appear to be a very important factor. It is doubtful that any difference between the states on this measure could, with any acceptable level of statistical significance, be linked directly to higher long-run manufacturing costs, let alone to long-run manufacturing success.

D4: Value added by labor per dollar of manufacturing payroll— positive. (Indicates the productivity of manufacturing employees.) Labor productivity is a function not only of labor skill but of the quantity and quality of capital equipment available. Thus, part of what this factor measures is not related to the state's labor force, but to individual companies' investment in capital. It is, however, interesting to note that generally, the higher the level of unionization in factor C3, the higher the level of productivity indicated in D4. Yet, unionism was considered and scored as a negative characteristic while productivity was of course scored as a positive quality.

D5: Average hours worked per week— positive. (Indicates the stability, dependability and consistency of employees and the state's ability to mobilize its human resources.) Lower hours worked per week may well reflect the availability of many part-time jobs rather than an under-utilized labor force. In 1981, the range of hours worked was from 37.1 hours per week in the lowest ranking state to 43.2 hours in the highest ranking state.

Interestingly, the highest ranking state in hours worked, Idaho, ranked 41 in productivity in 1981. Do they work longer in Idaho to compensate for their lack of productivity? Possibly, but more likely they are a less capital intensive state with relatively fewer second and third shifts, and with more overtime work for the basic shift. The factor is of questionable value as a measure of prospective manufacturing success.

E1: Energy costs; fuel and electricity per BTU for manufacturing— negative. (Indicates the cost of energy for manufacturers.) This is the second of only two justifiable cost indicators we have found among the 22 factors. It is a direct cost factor that manufacturers will have to pay. However, it is only one of many cost factors that need to be taken account of before the entire cost structure of a state and its implications for manufacturing success can be determined.

E2: Percentage of state expenditures going to environmental control— negative. (Indicates the importance placed on environmental control by state government.) In 1982, the highest spending state (the worst ranked) spent only about 2.5% on environmental control. Thirty-one states spent less than .5%. The lowest spending state allocated a little more than .1% of its budget to the environment. For most of the states, it is difficult to say if there is any meaningful difference in the percent share of environmental expenditures. Further, as with most of these factors, the relationship between the share of the state's budget going to the environment and relative manufacturing costs is rather speculative.

E3: Population density— positive. (Indicates the compactness of general markets.) *E4: Absolute population change*— positive. (Indicates the growth or decline in size of general markets.) These factors are an attempt to represent the concentration and growth of the "general markets" for manufacturing. However, this presumes that the manufactured product is for local consumption. This is not a very relevant factor for firms that manufacture for export. Even for locally oriented production, densities can be misleading. For example, in 1981, Rhode Island ranked second highest in density while Washington State ranked 27th. Yet, according to the 1980 census, there are 33% more people in the Seattle, Washington SMSA than in the entire state of Rhode Island.

Population change is definitely a factor to be considered in plans for a new facility if the firm is going to sell primarily to the state's market. However, without comparing the absolute growth to a growth rate factor, it is unclear as to whether there may be room for new firms in the market. Just because a particular state is big and has large absolute changes in population each year does not mean that it is growing at a rate that would leave room for new firms. Assuming that the market is being served by enough firms so that each one is making a normal profit, a one or two percent increase per year in population may be easily accommodated by existing firms with little or no increase in plant capacity. However, high population growth rates, regardless of absolute size, suggest rapid growth and expansion of facilities. Under these circumstances, there may be room for a new firm to make an initial capital investment and gain an adequate market share within a short period of time. Thus, as with most of the factors presented, the measure chosen for population growth cannot in itself be automatically deemed good or bad for potential firms. Ranking states on this scale just compounds the ambiguity.

4. *The State Senate Committee Report*

After the *Forbes* article appeared, the State Senate Committee on Consumer Protection and Commerce held a hearing on Hawaii's business climate. The Chairman of the Committee is Senator Steve Cobb. The Committee report, labelled Misc. Com. No. 6 and dated March 8, 1983, is well written, thoughtful, provocative, and balanced in tone. Most of all, it is useful. It not only describes problems, but also suggests solutions. It is 15 pages that are well worth reading.

The report recognizes the commitment of Governor Ariyoshi to support business, and it summarizes the testimony of Hideto Kono, then Director of Planning and Economic Development, on State efforts in support of business. It describes areas where Hawaii's businessmen feel frustration and are discouraged about costs. Those areas are the rising cost of worker's compensation insurance, the granting of unemployment benefits to striking employees, tax burdens and the lack of tax incentives, and delays in the government bureaucratic process. The report was offered for the consideration of the Senate, and is a good document for discussions within the community at large.

TOWARD A BETTER BUSINESS CLIMATE

We have seen that DPED and other government agencies are supportive of business. We have seen that the articles in *Forbes* and *Inc.* and the Alexander Grant & Co. study provide us with little insight. We know that it is difficult to do business in Hawaii, because we are small in size, limited in natural resources, and geographically isolated. Also, our community seeks to fulfill its social ideals, and these have costs. Accepting these fundamental facts, we can do a lot if we do it as partners.

As a result of the recent press coverage and discussion in the community, now is a good time to improve our business climate. Many good suggestions have been put forward. In his State-of-the-State Address, given on January 24, 1983, Governor Ariyoshi said:

> Does the state of Hawaii regulate business to the extent that businesses here find it hard to compete in the national or world economy because of that regulation?
>
> Are we somehow penalizing people in the private sector?

Are we doing everything we can to help Hawaii develop new industries to provide economic growth in the future?

If there are disincentives to doing business here, can we reduce them or find some incentives to offset them?

The reassessment we must make deals with our attitude toward business in Hawaii. I have my own answers to those questions, but it is part of my job to ask others to think about those questions as well, and to share with the people of our state some of the thoughts and ideas that come from that consideration.

To help that consideration take place, I will be forming two groups of people from business, labor, and the private sector.

The first group will be asked to identify various alternatives for the development of our state's economy over the near and more distant future. They will be asked to put together a realistic list of activities that we can pursue to help Hawaii to meet the economic challenges we will face in the future.

The second group that I will be putting together will be asked to deal with a related, but somewhat more complex issue. I will ask this group to address the question of: "Are we an anti-business state, as some have contended? If so, what do we do to change that?" They will need to look at many different areas such as labor laws and the possibility of streamlining or centralizing our permit systems; tax laws and government rules and regulations. They will be asked, if it seems necessary, to offer suggestions for legislation or changes in the policies of government and private enterprise.

One thing I want to assure you about— and I think many people already know it— I am heartily in favor of a healthy, vibrant business community. As the head of a branch of the public sector of this state, I have never forgotten that the money for public change and development is generated by the private sector— the business sector— and comes to the state in the form of taxes on private enterprise. I understand that, and I think my record proves it.

But I also believe that government and business and labor, though they are usually portrayed as antagonistic, actually have a lot in common.

Government and business and labor, for example, are searching for 'the best Hawaii"— for only in the best Hawaii can they be at their best.

When these groups begin their work in the near future, there will be no shortage of ideas to consider. In his speech to the Kiwanis Club of Honolulu three weeks later on February 15, 1983, Henry B. Clark, Chairman of the Board of Castle & Cooke, suggested eight ways of improving the State's business climate. These are:

(1) We should create a quasi-government economic development authority which would actively promote Hawaii as a desirable location for business investment. Such a body could be modeled after similar successful organizations both on the Mainland and overseas. It could be to business what the Hawaii Visitors Bureau is to tourism.

(2) We should establish a single liaison office to provide advice and assistance to prospective employers. A "one-stop" approach would make it easier and more attractive to invest in our community.

(3) A commission should be empowered to issue special purpose revenue bonds for businesses that are willing to make substantial investments in the Islands. Requiring legislative authorization for such bonds is a slow and cumbersome process in light of more flexible arrangements in other states.

(4) An Office of Small Business Affairs should be established to coordinate the many services currently available to small businessmen and provide guidance and support.

(5) We should ensure that we have in place the land and infrastructure necessary to attract new investors. Offers of future land use changes or construction are no incentive at all.

(6) We should develop training programs with the Department of Education and the University System, which provide practical experience in the types of industries we seek to attract. A skilled work force is absolutely essential in any effort to attract new business.

(7) Positive tax incentives must be created to attract new investments in Hawaii. We must also review the existing tax structure in order to

> minimize some of the disincentives that currently exist. If we are to compete with the many other states and countries that are aggressively pursuing new business by offering generous financial concessions, we need to have tax incentives of our own.
>
> (8) We should review current unemployment compensation and workmen's compensation laws in light of their impacts on business investment. If they are found to be excessive in contrast to other states, we might want to consider modifications that will bring these laws more into line with the rest of the nation.

Mr. Clark concluded:

> If we are going to improve things, it is going to require that business and government forge an alliance. Neither side can be successful in changing the situation without the full backing and support of the other…
>
> The problems affecting Hawaii's business climate are not insurmountable. What is required in meeting these challenges is all of us coming together and focusing our positive energies on the problems. I am willing to do whatever I can to assist the Governor and fellow business leaders toward this end. I hope that each of you will consider doing the same.

Mr. Clark's suggestions for a liaison office and an office of small business affairs are similar to a suggestion made in the Senate Committee Report. The Committee said:

> The variety of subjects… suggests that one element is seriously lacking in the current government-business relationship: effective communication. The witnesses at the hearing attended because of their concern and commitment to the essentiality of trade and industry in the functioning of the modern state. Few, if any, want to leave the place in which they have already invested time and much effort, but they are convinced that somehow the business environment must be improved, and they responded to the Committee's invitation and communicated that conviction.
>
> The same kind of opportunity for communication is urgently needed between business and government on a continuing basis. One can visualize an easily-reached state office, adequately staffed and equipped, serving as the reception point for any kind of question, comment, suggestion, gripe,

recommendation or inquiry relating to the conduct of business in the state of Hawaii. Its operating procedure would include as a minimum the following:

A. Immediate acknowledgment of the communication and its transmission to the right official to get a prompt, informed response.
B. Timely follow-up of each communication to make certain that the response is prepared and delivered.
C. Periodic publication of summaries of the communications received expanding on those of common interest.

These ideas can form the agenda for discussion. They can be examined, and priorities can be set.

The need for partnership was stressed by Henry A. Walker, Jr., Chairman of the Board of Amfac, Inc., in remarks delivered to the Hawaii Hotel Association on February 23, 1983. He noted that decades ago, the relationship between business and government was "adversarial and often acrimonious.” It was “them and us.” But times have changed, and the relationship has improved, Walker said:

> We are *all* passengers aboard this small boat we call Hawaii: business, labor, and government.
>
> …This salient fact has been coming home to us. The *Forbes* article, to whatever degree it was right or wrong, reminds us that we must all pull together. It wasn’t right, nor was it all wrong. Improvements can be made in our business climate. It can in any business climate.
>
> …Our own attitudes are changing, the attitudes of business and government.
>
> Why is this change occurring? Is it simply our innate goodness shining through? Are we all better than those who preceded us? Of course not. We are probably no better or worse than people like us have ever been. There are two reasons, I think, that stand out. The bitterness of earlier generations is dying out— fading with the passage of time. At the same time, the bland assumption of businessmen of past generations that they had a divine right to manage all aspects of life in Hawaii is long gone.
>
> Secondly, in the last few years, belatedly, maybe, but at long last has come a mutual dawning comprehension that we— public and private sectors— really need each other. Of course, it’s not universal. Old grudges die hard.

> There are those in business who retain a strong antigovernment bias. And there still are certainly those who view any business or business person with mistrust. But the bias is much less. It's no longer them and us. It's almost we.
>
> We are coming to realize that we cannot enjoy the luxury of partisan prejudices if we are to keep the boat afloat.

Walker urged greater communication. That was also the final recommendation of the Senate Committee Report. It said:

> The key to solution of the business climate problem may lie in the comment of the businessman-witness, who in eleven years had never had a visit from a government official other than the fire inspector. Does anyone in government really care? The fact is that many in government *do* care. What is needed, and soon, is regeneration of the spirit of conciliation and consideration which once traditionally graced relationships in Hawaii.

The time is ripe. Government and business leaders have stated their readiness for a new partnership. An agenda for discussion has been suggested. There is reason to believe that much can be accomplished.