

Economic Development in Hawaii

Presented to the Filipino Chamber of Commerce

By Kent M. Keith

State of Hawaii Director of Planning and Economic Development

Flamingo Chuckwagon

Honolulu, Hawaii

June 25, 1983

I would like to make some very personal remarks today, to give you an idea of who I am, and how I perceive my role at DPED. I ask your indulgence, therefore, for what will be a rather solemn, opinionated presentation.

First of all, I am a believer. I believe that human beings can make a difference in this world. It is my opinion that very little is accomplished by people who don't believe in something. Cynicism is not a plan of action, and taking potshots does not constitute a program.

Specifically, I believe in the fundamental importance of the economy and economic development to human happiness. To put it in perspective, I often ask a question which is rarely asked anymore, at least in public. That question is: What is the meaning of life? Why are we all here, anyway? For many, the answer begins with religious faith. For most, the answer either begins or continues with love. We really do love each other. We love our parents, our spouses, our children, our relatives, and our friends. We care about them. We care about the community they live in—our community. We care about our personal fulfillment and that of our loved ones. We know that meaningful work is an important part of a meaningful life. It is thus important that we have jobs, and that our loved ones have jobs. It is important that those jobs provide varied opportunities for personal growth. It is important that they make it possible for us to support our loved ones who do not work, and care for those who cannot care for themselves. It is important that our jobs be productive, and our community be productive, or our community will collapse.

The call to economic development is thus a call to high purpose. It is the call to feed and clothe and shelter our people. It is the effort to create a variety of meaningful jobs, and to expand the tax base to support social services. The private sector provides most of our economic growth. As a government activity, economic development is the conscious attempt to cause economic growth through specific

programs, incentives, rules, and investments. It is the effort to provide the people of Hawaii with the benefits of economic growth.

Hawaii's economic environment has always been a challenge. This is because we are small in population, isolated in geography, and limited in resources. These are basic factors which have affected the kingdom, the territory, and now our State in developing a sound economy.

I am not a historian, but I enjoy what little I know of history. I especially enjoy what I know about the reign of Kamehameha III, born Kauikeaouli, who reigned from 1825 to 1854— by far the longest reign of any Hawaiian monarch.

It was not an easy period. In the summer of 1824, the year before Kamehameha III ascended the throne, there was an insurrection and an attack on the fort at Waimea, Kauai. The sandalwood trade, which had developed under the reign of Kamehameha I, drew to a close in 1829. This trade, which had been extremely profitable for the chiefs, depleted the forests, leaving the kingdom with debts which couldn't be paid for many years. In 1831, Liliha prepared a defensive rebellion on Oahu to maintain her position against the chiefs. Fortunately, she was persuaded to surrender without bloodshed.

It was a period of missionary fervor and the clash between the old and new customs and values. It was a period of conflict between religious sects. It was also a period of disputes over the rights of foreigners, disputes which drew foreign warships to Honolulu. In 1843, the kingdom was ceded under pressure to Great Britain, a heartbreaking event for the king. It took five months to recover the kingdom's sovereignty. It was when sovereignty was recovered that King Kamehameha III uttered those words which are now our State motto: "*Ua mau ke ea o ka aina i ka pono*— the life of the land is perpetuated in righteousness.

And yet, for all the problems, it was a progressive, productive period for Hawaii. It has been said that the twenty years between 1820 and 1840 forged the direction Hawaii's business community would take for the next 100 years.

The economy prospered during the reign of Kamehameha III. It was a time of seeking out new industries. As early as 1829, missionaries were growing coffee in Kona on the Big Island. The first sugar plantation of any size was laid out in Manoa Valley in 1825; the first extensive agricultural development began in 1835 at Koloa, Kauai. In 1836 only eight thousand pounds of sugar were exported. Fourteen years later, a total of 750,000 pounds were exported.

Not all new industries survived. Silk was raised from 1836 to 1845 on Kauai, and then disappeared from local production. A small amount of cotton was grown until after the American Civil War. And Kula supplied so many Irish potatoes to the California gold rush market during 1849-50, that Kula was referred to as “Nu Kalifonia.” However, these markets were soon supplied by produce from Washington and Oregon, leaving Kula behind.

During the latter part of King Kamehameha III’s reign, the whaling industry was at its height. Before it declined, the grazing industry took hold. Hawaii became *paniolo* country.

It was at the end of his reign that foreign labor was first brought in to meet the tremendous demand for manpower. While new industries were being established, the native population had declined by fifty percent. Three hundred Chinese laborers were brought to Hawaii in 1851 and 1852 to serve under five-year contracts. This was the beginning of major immigration to meet labor needs.

Today, 125 years after the reign of Kamehameha III, we take much of this for granted— our immigrant population making us culturally rich in our diversity, and our sugar, coffee, and beef. Our economy is much different now— our pillars are federal expenditures, and tourism, with sugar third and pineapple fourth. We are more diversified than in the days of Kamehameha III.

But the search for new products can never cease. That is what I like about the reign of Kamehameha III— the innovation, the willingness to try new products and new services and new ideas. The sandalwood trade died out; the whaling industry died out— major economic calamities. But new industries were found. That has always been the challenge. It is the challenge today, and will be the challenge in the future.

What is our economic strategy? Individual companies have their strategies; the State government has the Hawaii State Plan. The State Plan urges the development of new industries such as apparel and textile manufacturing, aquaculture, diversified agriculture, and energy and marine-related industries. Diversified agriculture, including livestock, grew from \$60 million to \$190 million from 1970 to 1980. Ocean thermal energy conversion, fisheries, and manganese nodule processing could mean \$1 billion in expanded economic output for the State by the year 2000.

The State Plan urges us to enhance Hawaii's role as a center for international trade, finance, services, technology, education, culture, and the arts. It says that we should accelerate research and development of new energy-related industries based on wind, solar, ocean, and underground resources and solid waste. We now pay more than \$1 billion per year for imported oil— money which would stay in the State if we generated our own natural, renewable energy.

The State Plan calls upon us to pursue more favorable marketing arrangements at the regional and local levels for Hawaii's export products. We are to encourage the formulation of marketing cooperatives to assist small-scale producers, manufacturers, and distributors.

In general, we might say that there are two "macro" strategies. First— import substitution. Let's grow it here, manufacture it here, raise it here rather than importing it. We presently import 60 percent of our fish, and 60 percent of our beef. If we catch our own fish and raise our own livestock, we make the money, we hire our people, they pay taxes to our government, the money multiplies in our economy— we all gain. But we have a problem; some things which we can do here, are more expensive to do here, unless we can develop economies of scale from larger production— which may mean exports.

And that is the second "macro" strategy, the export of products. Because of our geographical isolation, these should be specialized, high-value products, which can still be profitable after paying the freight. This has been true for sugar and pineapple, and tourism, which is considered an export. It is also true of Hawaiian garments, candies, woods, liqueurs, and other local products which are exotic in appearance and taste.

And that leads me to another strategy, which cuts across the other two, and that's the "small business" strategy. Two thirds of all Americans and two thirds of America's payrolls are in businesses with 250 people or less.

Small businesses are certainly important in Hawaii. We have approximately 21,000 business establishments in the State, and of these, nearly 11,000 consist of establishments with between one and four persons. Only 45 companies have 500 or more people.

More important, most of the new jobs being created nationwide are being created in small businesses. Hawaii's economy has been providing about 9,000 to

10,000 new jobs— net— per year for a decade. To keep this up, we will have to pay great attention to small businesses.

In looking to the future, we must be careful to pursue diversification. No one big thing will save us. If it did, we would have to be nervously looking for another big thing to save us if the first one went down. No— we want a hundred, a thousand different economic activities, each with its own niche, each successful, each stabilizing the economy. We also want many different industries in order to provide many different kinds of jobs— different skills and skill levels, to provide meaningful work for our people.

This brings me to the role of the Department of Planning and Economic Development— DPED. Our department is a “mission” agency. Our “mission” is set forth by statute as follows:

Section 201-2. General objective, functions, and duties of the department. It shall be the objective of the department of planning and economic development to make broad policy determinations with respect to economic development in the State and 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. The department shall endeavor to gain an understanding of those functions and activities of other governmental agencies and of private agencies which relate to the field of economic development. It shall, at all times, encourage initiative and creative thinking in harmony with the objectives of the department.

The key phrase, to me, 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.” To narrow it even further, our focus is on “expanding the economy of the State.”

I believe our department’s role is to be a partner of the business community. We are to be a partner in promoting business, stimulating economic growth by targeting new industries, reducing business risks, providing information, and so on. There are 15 government departments in the State administration, and we are the one assigned to be your friend and supporter— and we are, and we will be. We are not a regulatory agency, we are not a judge and jury— we are advocates for economic development. Nothing that we are supposed to do can be done well unless we have an effective partnership with the business community.

There are many good ideas in our community which our department can work on, in partnership with the business community. Let me suggest three for your consideration. First, permit procedures. The permit process is complicated, and delays are often due to ministerial requirements, rather than substantive analysis of each application on its merits. The Governor has appointed a Permit Simplification Task Force, and this is an area in which I want to spend quite a bit of my time.

Second, small business. The national literature indicates that it is small business that produces the most new jobs, and I want to look at ways in which our department might assist this development.

Third, economic development boards. I am excited by the formation of the Maui Economic Development Board, and would like to pursue the possibility of other such groups, which could be independent of the government. An economic development board could be a partner with DPED. We are a public agency, using taxpayer's money, and are therefore generic in our work, and are subject to "sunshine" laws. An economic development board could work as a friend and advocate of particular companies and projects, in a complementary fashion. Of course, there are other areas in which we might work, and I am open to suggestions. I think we have a major opportunity to move forward in the economic development area, and if we move together, I believe we'll be able to make a major contribution to the happiness of the people of Hawaii.

Thank you.