

This is quite an audience. I am only sorry for one thing. After choosing what to say today, I was hoping very much the Governor would be here to listen. I hope, perhaps, he will walk in before I get to the good part.

I had the privilege, during the course of my twelve years in office, of spending many occasions with representatives of Washington State University and the University of Washington and other fine institutions of this state. But I suspect I will never forget two which occurred very early in my term.

The first football game my wife and I attended after I was elected was played between the University of Washington and Washington State University. We were invited to sit in the President's box between the distinguished Regents and Presidents of both Universities, and although I am a Husky, I felt that it was important that I be neutral. My wife and I had talked it over, and we had decided that rather than sit there silent, we would cheer for everything good that happened on both sides. I think the Regents of both institutions recognized very quickly the discomfort which that caused, and to make it a little easier at subsequent games, the next time we got together they presented me with a very special tie which I wore at each game after that, and which I wish I had remembered to put on this morning. It had the Washington State Crimson and Grey flamboyantly on one side and the University of Washington purple and gold on the other side--a true politician's tie--loyalty to an institution.

The other incident happened that first fall, when we opened a new stretch of highway just outside of Spokane. We had representatives of both Washington State and the University of Washington there just before a football game, and as part of the ceremonies they were going to have the yell for the new governor. They had the cheerleaders from the University of Washington and from Washington State out there, and they started out with an Evans spell-out. First the cheerleader for Washington State said, "Give me an "E", and there

was a loud "E"; and then the cheerleader from the University of Washington said, "Give me an "P". Well, as you might guess--the whole thing dissolved. Of course, Washington State University may be isolated, but in terms of literary quality they carried the day.

I have a suspicion that we are not very good readers of history, nor do we remember very well even the recent past. I watched and listened with great interest during the course of the last few years. The then current administration in 1978 and 1979 was declaring that these indeed were the best of times. And, of course now, some two or two and a half years later, many are saying these are the worst of times. As Dickens said in his opening to A Tale of Two Cities, "It was the age of wisdom and it was the age of foolishness. It was the epic of belief. It was the epic of incredulity. It was the spring of hope. It was the winter of despair. We had everything before us. We had nothing before us. We all were going direct to heaven. We were all going direct the other way." I'm not sure we realize that probably two and a half or three years ago they weren't the best of times. Neither do I believe that today these are the worst of times. In fact there are some striking similarities between this state today and this state just a decade ago. I want to share with you a few of those similarities with a note that there are some obvious differences.

The period 1969-73 and 73 compared with 79-80 and 81. The total work force in that two year period a decade ago dropped by 33,000 people. During the last two years it dropped by 29,000 people. Unemployment rose from 5.71 to 10.13 on an annual average in that period a decade ago. In recent years it rose from 6.83 to 9.23. Ten years ago, women represented 39% of our work force; today they represent 42%, which is a striking addition. One of the remarkable occurrences during that decade was the overwhelming number of new citizens--the war babies of yesterday and the women who now chose to work--who have entered the work force and have for the most part been absorbed.

The differences, of course, are those of inflation (higher now than it was then)-interest rates (substantially higher than they were then), a national economic weakness now, compared with more regional weaknesses then, a change consciousness in our national institutions-perhaps the most striking and ominous change of all. We, all of us, seem to have less confidence in those traditional institutions which have served us so well over our nation's history--whether they be institutions of government, business, labor, the church, or education. We seem to be experiencing substantial lowering of citizen confidence and an increase of citizen despair. One thing we don't have now that we had a decade ago is the confrontation, the disruption, the campus and urban unrest which plagued the decision makers of 1969, '70, and '71.

Well, where are we now? The population in the last decade has risen in the state of Washington by 700,000. The percentage of that population, however, between the ages of 0 and 18 is down 5%, and there is hardly an increase at all in the total population under 18. The percentage of the population is between 19 to 65--the work force years--was up 4%, and most of that 700,000 increase falls in those years. Those 65 and older are up from 9 to 13%, a small increase that will get larger in future years. Per capita income in 1970 was \$3993 in this state. We were \$70 over the United States average. In 1980, the per capita income was \$18,393 or \$905 over the national average. We are strikingly better, compared with our sister states today than we were a decade ago--and we ought to remember it. In terms of state and local taxes (the share of our income we pay in taxes for state and local government), in 1970 they were about \$115 per \$3000 of income--\$.32 under the national average. Today, it has dropped to \$108 and that is \$7 under the national average. Our state and local taxes have dropped more strikingly in the past decade than those of any other state in the nation.

Today, however, I am afraid we are a nation of doubters beset by communication overload, bombarded by personalized computer mail, frightened by the future, led too often by those who act by first checking the hotline for the daily body count or by listening to the slick pollster who happens to be the current favorite. Many think far more of the next election, rather than the next generation; and business managers are measured by performance on the bottom line this year, this quarter, this month, instead of by a longer-range view of the enterprise, the employees, and the society within which they operate.

But there are some unusual and striking new opportunities right now. The President's message in January of this year declared a "new Federalism," and that indeed is an opportunity not to be dropped. We have had a decade or more of effort by people in this country to achieve a rebalancing of our federal system. The first approach was revenue sharing, almost a decade ago. But that carried with it no real reduction in regulation, the influence or the management direction which was still dictated increasingly by Washington, DC, not Washington State. The new Federalism then, recently proposed by President Reagan, is the greatest opportunity to restructure government given to us in a generation. For the first time since the new deal, there is an opportunity to restore to state and local government a larger and more responsible share of our domestic affairs. It will still be desirable to have certain national goals set, of course, and the protection of such fundamental elements as civil rights established consistently at the national level. BUT, if state and local governments are to succeed in their share of this new partnership, they must recognize that one cannot have the privilege of new powers without assuming responsibility.

Let me turn, then, to the question of whether there is courage enough here in this state for us to deserve that new partnership promised by a new

federalism. In doing so, I would like to remind some of our current fiscal status. Initiative 62, which you all remember--and I suspect most of this audience voted for it,--was a measure to limit spending as a percentage of personal income in this state. It says, among other things, that it is necessary to limit the growth of state government while assuring adequate funding of essential services, including basic education as defined by the legislature. And it is therefore the intent of this chapter to establish a limit which will assure that the growth rate of state tax revenue does not exceed the growth rate of personal income. A laudable objective. We have succeeded far beyond anyone's hopes or expectations. The current spending limit which would represent a consistent share of personal income for this biennium would be \$7.55 billion in the state's general fund. Our actual spending currently, unless we have another budget before the end of the biennium, which we are likely to have, is \$6.43 billion. That gap of \$924 million represents a reduction of that much in the share of income going to taxes.

The President and the Congress last year passed a striking reduction in federal income taxes. The total tax reductions in 1982 and 1983 to citizens of this state from that package totalled \$1.7 billion. In this two year period, the total of reductions at the state level and reductions at the federal level represent \$3.6 billion to citizens of this state--while the legislature is now in session and can't bring itself to a responsible solution to a gap of some \$200-300 million--one tenth of the tax savings which people have already been promised and which have already been implemented.

What in the world is wrong with us as citizens? Will we destroy our own future because we have no will to meet current needs? Are we going to sell the rest of this century out short? Or cheap? I would hope not.

Let me then turn to the distortions which I think exist in our current system--distortions which make it difficult for all of those in leadership to find the right, the reasoned, and the balanced answer. A recent issue of the Civic Review of the National Municipal League had some very interesting tables in it, the most striking of which was that the state of Washington today depends for a larger share of its revenue on the sales tax than any other state in the nation. The state of Oregon depends for a larger share of its revenue on the state income tax than any other state in the union. Two states, part of a region, many similarities--certainly in our people and our personality--both at opposite ends of the national spectrum, both in serious economic difficulties, both finding it difficult to solve them with their crippled, narrow, and inadequate tax structures.

I have been accused of loving an income tax. That's not true. It's just simply that I believe a balance would be of benefit to this state, just as I believe a balance would be of benefit to our neighbors to the south. If I had been governor of Oregon for that same twelve-year period, I suspect that I would just as strongly have advocated a sales tax in that state to reduce dependence on the income tax.

I could not conclude my remarks without indulging in a little "I told you so". Ten years ago, HB 42 was placed before the voter. It would have proposed a 3.5 % personal and corporate single rate income tax. The result if that had been adopted: full basic school support would have been achieved ten years earlier than it was; a 1% property tax would have been achieved ten years earlier than it was; the B&O tax would have been cut in half, and that hasn't been done; the sales tax would have been off food ten years earlier than it was, the state sales tax would have been reduced to 3.5%; we would very likely at this point have a triple A bond rating for this state; there would have been no November session of the legislature; and the net additional revenue available this year--fiscal 1982--would have been \$730 million. We could meet the current budget shortfall, balance our budget,

and have almost enough left over to totally eliminate the remaining property tax on all personal residences in the state of Washington.

Well, maybe an income tax isn't a good idea, but something better than what we have today is critical, if we are to have any chance of meeting the current problems which face us--the difficult ones for business, for higher education and for government.

What are the resources of Washington? The geography: Maybe in the future it will be a plus, but in the past we have been away from national markets, and it has been difficult for us to compete with those who are closer to the markets they serve. We have not been blessed, at least not yet, with large discoveries of gas, oil, and the natural resources which now bless the OPEC states of our countries. We are hardly a state of the sun-belt. What then makes us special?

Two things seem to jump out: low cost power and an educated and productive work force. We are now in danger of losing that advantage of low cost power. Are we as a state going to parallel the Washington Public Power Supply System management by failing to produce and keep the other great resource we have--an effective and competitive work force through education? We all want economic recovery, but who's going to train the scientists, who's going to provide the aeronautical engineers, electronic technicians, the doctors, the teachers, those who will be responsible for an economic recovery? Where's the center of knowledge, of culture, of history, of research going to be? Are we going to so cheat ourselves that we will give no opportunity to a Dr. Van Doren or Dr. Vogel with the enormous benefits accruing out of those contributions to higher education?

I suggest that a high quality education is the best guarantor to this state of a prosperous future. It is the best RGD investment a state can make. Therefore, the successful challenges to us, I think, are for business to

attempt to develop a partnership with labor, to try to moderate the antagonisms and confrontation which seem to plague this country and its traditional relationships. Recognize that as part of a community each business does have a social conscience and may carry that out. And make sure that in the obsession for today's bottom line we don't trade off an important future investment. Higher education simply must be responsive to new and changing needs, and not be so set in its ways or in its Ivory Tower that it cannot recognize those changing needs and requirements of a new society.

And government: If both revenue and responsibility is reduced at the federal level, as I suggest it may well be, our challenge is to assume the responsibility we feel is desirable or necessary and then provide the revenue to support it. To do so will help recapture a long lost share of initiative and strengthen our state and our local community. To do less will be proof that we don't have the courage or the willingness to respond to our President's challenge. Through our own initiative and through the partnership of higher education, government, business and labor, we can, I am confident, build a better, stronger, higher quality future once again suggesting that it's the best of times. It is time to simply quit wringing our hands and time now to roll up our sleeves.