

An economic splash

*Hawaii makes some changes to
ride the wave of change.*

BY ELAINE STUART



A cadre of Hawaii legislators teamed up with the governor to take advantage of the New Economy. Clockwise from left: Rep. Sylvia Luke, Sens. David Ige and Les Ihara, Reps. David Morigara and Ed Case, and Sen. Carol Fukunaga.

The New Economy is seen as the wave of the future as states scramble to catch up with high-tech pioneers California, Massachusetts and Texas.

Hawaii hopes to make a splash with a legislative package passed this year to join the worldwide economic transformation being spurred by advances in technology. The package includes a broad range of initiatives, such as tax incentives for high-tech businesses, venture capital for startups and improvements in the state's public education and university systems.

Hawaii's legislation gets kudos from Rob Atkinson, director of a national project that in 1999 ranked each of the 50-states' standings in the New Economy. The study by the Progressive Policy Institute, a Washington, D.C.-based think tank, assessed states for 17 indicators of New Economy activity, such as jobs requiring at least a two-year degree, firms that export, foreign investment and workforce education.

Atkinson said Hawaii's legislation is "one of the most comprehensive efforts a state has made in coming to grips with the New Economy and what it means for economic development."



The PPI report's placement of Hawaii in the middle of the pack caught the eye of a group of Hawaii legislators working to improve the state's economic future. One of them, Rep. Ed Case, said that although the 1999 Legislature had started the ball rolling with tax incentives for high-technology firms, the PPI report "helped us to organize our thoughts about where we needed to go."

Case, together with Sen. Les Ihara, Sen. David Ige, Sen. Carol Fukunaga, Rep. David Morihara and Rep. Sylvia Luke, devised the New Economy legislation. Gov. Ben Cayetano supported the legislators, lead-

ing them on a fact-finding trip to California's Silicon Valley.

To get everyone on board, the group invited PPI's Randolph Court to present the organization's New Economy study to Hawaii legislators, administration officials, university officials and others this past January.

"We used the planning of the event to connect everyone," said Ihara, Senate majority leader, who added that e-mail enabled the group to send out invitations quickly.

The legislators took ideas for their proposals from laws that had been enacted in Ireland, New Jersey and California. "This is an effort to pull together the best that is offered elsewhere and put it in one package," Case said.

While Hawaii long had relied on foreign investment, tourism and agriculture, many in government and business realized the state needed to go in a different direction.

"Our challenge was to recognize the

capabilities information technology made possible, to decide what our strengths were and put together a package that went after our ... weaknesses," Case said.

Ige, a senator who also is an engineer, provided technical expertise to the legislative effort. He said the legislation created a tax structure that supports intellectual property by waiving all state and local taxes on income generated by patents, copyrights, trade secrets and royalties from performing-arts products, digital arts, music, film and television.

"We are encouraging the people who create to create in Hawaii," Ige said.

Hawaii also hopes to lure more venture capital with incentives such as a tax exemption for stock options and programs to make venture capital available, the legislators said. And the state gives profitable companies a tax break for buying qualified high-tech startups' net operating losses. The benefit is that the startup improves its cash flow to help the company stay in business.

Established firms are encouraged to use technology through a 10 percent tax credit to conduct research to develop a licensed high-tech process.

"We were able to offer these tax holidays where other states could not because they could not afford it," Ihara said.

The legislators are working with the Department of Taxation to identify and assist high-tech firms that qualify for the new tax breaks.

Besides offering tax incentives, the 2000 legislation also makes broad improvements in Hawaii's education system. It requires accountability and standards-based reforms for schools and supports efforts to increase the use of technology, Ige said.

One major concern of legislators was how to take advantage of technol-

ogy to eliminate the handicap of Hawaii's distance from markets. Rather than being an obstacle, they found, Hawaii's location could be a benefit.

Being in the middle of the Pacific Ocean is useful for businesses that need to communicate in real time both with Asia and the mainland, Case said.

The curvature of the earth limits satellite telecommunications between the U.S. mainland and Asia. "Hawaii is probably the only place where on the same day you

can conduct business in New York and Tokyo," he said.

Ige and Case said that high business costs and labor shortages in high-tech centers on the mainland also may make Hawaii attractive to those looking for a different way of life.

Two months after the legislation took effect June 30, more than a dozen high-tech businesses were starting up, relocating or retooling for the New Economy in Hawaii, they said.

"Most of them are intellectual-property related and can export by hitting send on a computer," Case said. "Patents, copyrights and trade secrets — intellectual property — don't require physical proximity to markets, so people can work anywhere."

The legislators think Hawaii is on the brink of catching the New Economy wave. Case said, "Word of this is spreading. We are getting increasing interest." ★

"We are encouraging the people who create to create in Hawaii."

Sen. David Ige

Resources

For more on Hawaii's program, visit: <http://www.newhawaii.org/nep.htm>

For more on the Progressive Policy Institute, visit: <http://ppionline.org>.