

## MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 a.m. on January 21, 2004 in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Kathie Sparks, Legislative Research  
Susan Kanarr, Legislative Research  
Helen Pedigo, Revisor of Statutes  
Nikki Kraus, Committee Secretary

Conferees appearing before the committee:

Bill Keeton, Assistant Vice President and Economist, Federal Reserve Bank of Kansas City

Others attending:

See Attached List.

Staff distributed copies of the confirmation papers of Mr. Harry D. Helser and Gerald D. Loper (Attachment 1). Mr. Loper is a new appointment, so the information was provided in case anyone had questions.

Chairperson Brownlee drew the committee's attention to an article: Harden, Blaine. "Urban Warfare: American Cities Compete for Talent, and the Winners Take All" *Washington Post* December 17, 2003. Relating to the discussion of the previous day, the article discusses retention and attraction of educated, talented young people to particular cities. One of the article's main conclusions is that cities with a larger population of college graduates are more likely to retain and attract similar individuals, boosting the economy. In opposition to that point, the article states that, "What is easy—and depression—to see in brain-drain cities is the extraordinary cost of losing talent. The departure...has stalled growth, lowered per-capita income and prevented the formation of a critical mass of risk-takers who can create high-paying jobs." It suggests that the ability of a city to shift its economic base through such means can make or break its future.

Mr. Bill Keeton gave the committee a presentation entitled "Update on the Kansas Economy" which addressed Kansas' past, current, and predicted future economic status in several different categories ranging from employment, unemployment, a consumer expectations index, durable and non-durable goods employment growth, production indices, home sales, and wheat production. (Attachment 2) He stated that the three main factors affecting the economic outlook for Kansas are: when businesses will start investing again, when employment will start growing again, and what will happen to farm incomes. Conclusions to these questions were that although investment had fallen sharply in the recession, it may be coming back, that although the recovery has been jobless, there are hints of a turnaround, that historically low global supply of grain sets the stage for increased grain prices, and that most economists are predicting that the recovery will continue. In summation, he stated that "Like the nation, Kansas is slowly recovering from the recession. For recovery to continue, businesses must start investing and hiring. Most economists think this will happen, allowing necessary recovery to continue."

Senator Kerr asked if Mr. Keeton foresaw anything replacing the high-paying manufacturing jobs that were disappearing and being exported. Mr. Keeton stated that exported jobs such as textile and apparel manufacturing generally do not require a high skill level. Jobs that are tied to customizable products more effectively retain a workforce and require higher skill, thus leading to higher wages.

Senator Wagle commented that job loss will significantly impact income tax projections in Wichita and that would also have implications for the housing market and interest rates.

Mr. Keeton stated that he could not comment on interest rates, but that housing rates have increased because the Federal Reserve eased interest rates to fight inflation. He stated that there was no build up of people waiting to buy because of this, therefore, housing activity will slow and interest rates normalize.

Senator Barone commented that corporate savings through cost cutting do not get passed to the consumer

## CONTINUATION SHEET

MINUTES OF THE SENATE COMMERCE COMMITTEE at 8:30 a.m. on January 21, 2004 in Room 123-S of the Capitol.

through cheaper products.

Mr. Keeton disagreed, explaining that global competition did not allow product manufacturers to raise prices despite the need to cover costs. He stated that when a company feels a need to move abroad, consumers benefit from a lower inflation rate.

Senator Barone asked if there was a negative side to low interest rates regarding older people who may have a fixed income and are economically reliant on interest for income.

Mr. Keeton replied that low interest rates did have a negative effect on savers, however, with a general economic recovery, those rates should again rise. He stated that the negative impact was an adverse side of monetary policy.

Following further discussion, Senator Jordan asked what some of the factors have been for the tenth district having stayed the strongest. Mr. Keeton replied that some areas have simply been more affected by the recession and the events of September 11. States such as Colorado, which is heavily dependent on hi-tech industries, telecommunication, and air travel, have been hit particularly hard.

Mr. Keeton stated that knowledge-based industries are the key to growth, and that this makes sense based on trends he has been seeing.

Chairperson Brownlee asked to what Mr. Keeton had been referring when he referred to structural economic changes to the economy. Mr. Keeton replied that there needed to be more investment in secondary and higher education. Companies are helped by a highly educated workforce, and it makes an area more appealing for businesses looking to move.

The Chair thanked Mr. Keeton for his presentation.

The meeting adjourned at 9:30 a.m. The next meeting will be at 8:30 a.m. on January 22, 2004 in Room 123-S of the Capitol.