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Remarks by

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It is always a great personal pleasure to be in Boston and to be among so many friends and former colleagues and associates.

I am here today at the invitation of Senator Kerry and Governor Weld to share with all of you some personal observations about the difficult problems facing New England. I come as a deeply concerned New Englander myself. Although I am a New Englander by adoption rather than birth, I go back a long way with this wonderful part of the world. My first visit was in 1936, before most of you were born, on a vacation trip by car with my family. I came to college here in 1946. I traveled all over New England as a representative of the Chemical Bank from 1956 to 1964, during another period when the economy of this region was sorely challenged and structural changes were being engineered which contributed to the boom of the 1980's. And, the happiest ten years of my life were those spent at the Shawmut Bank from 1978 to 1988 before I moved on to the Land of Oz, down on the Potomac.

New England is now in an economic downturn which has been well publicized, thoroughly analyzed, and discussed to the point of boredom. The conjunction in time of general economic contraction, commercial real estate collapse, consumer confidence evaporation, commercial bank malaise, and general Mid-East anxiety have made an otherwise easily manageable business cycle phenomenon into what seems like the end of the world. The media have, perhaps unwittingly, contributed to this blue funk by over-publicizing the negatives and headlining the imminent demise of banks, small businesses, state and local governments, and the economy of the entire region.

SHAME! SHAME! SHAME!

I would argue that the fundamentals of the New England economy are sound and that New England will join the national economy in the beginning of recovery as we move through 1991. Barring an extended military stalemate in the Middle East, the end of a short war should see a dramatic return of consumer confidence. Lower interest rates as a result of demonstrated monetary policy combined with a stronger demand for goods will energize the economy. My personal projection, on the basis of those assumptions, is a national return to positive growth in real GNP no later than the third quarter.

The recovery of the New England economy may be somewhat slower than for the United States as a whole, because the lending and speculative excesses here were somewhat greater than those which preceded problems elsewhere in the country.

In my opinion the most serious problem, and the one most difficult to deal with, is psychological. We are faced with a partial paralysis of the New England economy caused by a loss of confidence which has become endemic among bankers, businessmen, government officials, and consumers. I believe this dangerous attitude is inhibiting consumer spending, bank lending, business investment, and government innovation.

If this paralysis is allowed to continue, and perhaps grow more severe, it could sabotage early recovery and limit participation of New England in the opportunities of the 1990's. The opportunities of the 1990's are many in my view and they are well suited to the special characteristics of New England.

Electronic, biological, medical, environmental, and defense technology will be key elements in the economy of the 1990's. New England is uniquely suited to profit by those developments. It is a center of education, research, technical manufacture, and environmental activism.

It is symbolic (and John Kerry may have had something to do with the choice) that we meet today in the World Trade Center. New England has the highest percentage of its private sector employment related to manufactured exports of any region in the United States, and dollar depreciation over the past 18 months has improved the price competitiveness of U.S. goods in world markets. New England should have a real advantage as the expected further improvement in our trade balance develops in the years ahead.

Higher education and health care are industries in which New England has a preeminent position with a concentration of colleges, universities, medical schools, teaching hospitals, and research facilities unmatched anywhere. While the numbers of 18-year-old potential first-year college students will decline for a time, the general excellence of higher education in New England will tend to attract better students and keep classrooms full and faculties fully occupied. Health care is a boom industry. Indeed, we <u>must</u> find better ways to contain the growth of costs related to health care without in any way dampening technological progress or discouraging initiative as has happened so often in countries which have turned to socialized medicine. In the meantime, employment will continue to grow in health services delivery. The related growth in <u>research</u> at the magnificent teaching hospitals, particularly here in Boston, is attested to by the expanded facilities at leading institutions such as New England Medical Center, MGH, Brigham and Women's, and the Children's Hospital where we have just completed the doubling of our research laboratories. The likelihood is for continued employment growth and research grants over both the short- and long-term periods.

Defense cutbacks, or the prospect of cutbacks, unnerved many who saw defense production as an important binding fiber in the fabric of the New England economy. But, current developments in the Middle East have underscored the importance of military preparedness even in tranquil times. More important for New England, much of the sophisticated technology which has been the key to events there so far is a New England product. Patriot missiles designed and manufactured by Raytheon are an excellent example. And even with defense spending being pared as part of a budgetary discipline, Raytheon recently got a $500 million contract and Bath Iron Works a contract to build two destroyers. Moreover, New England defense contractors are diversified companies, far from being solely dependent on defense spending. Again, Raytheon, General Electric, and United Technologies are good examples.

When I started traveling in New England, referred to as "The Cold Country" by my colleagues at Chemical, the traditional regional manufacturing businesses were under heavy pressure. Many, like textile machinery, were being driven out by foreign competition; others, like textiles and shoes, were moving to parts of the country where the tax and wage cost climate enabled them to make products at prices which could meet competition from foreign manufacturers. There was genuine concern in some quarters that the region was in permanent decline.

At the same time, the electronics industry as we know it today was being born right here in Eastern Massachusetts. The quantum leaps in the physical sciences, many of which had their roots in World War II, made the area around MIT, Harvard, Tufts, and Boston University ideal for the germination of new applications and new companies to develop and market them. DEC, Wang, Prime, Data General, and a myriad of others were to become the great growth industry of the 1960's, 1970's, and 1980's. Recently, product development problems and market timing have plagued the industry, including Big Blue, but there are now signs that those problems may be behind. Growth in the future may be less explosive and more sedate, but the outlook remains favorable.

Similarly, biotechnology and genetic engineering are flourishing in the shadow of these same great universities. They will probably never be employers of the same large numbers of people but they are nonetheless a positive and growing element of vitality in the economy.

You may well ask: "If all of these relatively rosy evaluations are accurate, what is wrong?"

Well, New England is like a high performance car on a cold, damp morning with a rundown battery. It doesn't want to start. The engine is ready to go, but the spark to get ignition is lacking. Any of you who have lived in New England very long will say we need a jump start. I think that jump start has to come from government, because the other elements -- consumers, business, the banks -- are out of gas.

These are the times for bipartisan cooperation to find the best public policy solutions to problems which threaten the fabric of the regional economy. We cannot afford to shun workable solutions simply because they are politically unpopular. It is my belief that the electorate will rally behind bold initiatives to restore the region to prosperity. We insult the electorate when we assume that they are unable to see beyond negative short-term implications of public policy to a brighter economically more balanced future.

We should not let the propensity for political compromise to compound the deep economic problems of New England. This is the time for bold action to restimulate the economy, and if that sounds like Keynesian economics I make no apology. I believe that when free market forces are in stalemate, then it is the duty of government to break the log jam and restore the flow of commerce.

There are many approaches which might be tried and some have already been discussed this morning. I have some modest suggestions which may well offend or anger almost everyone in the room. I also have some gratuitous advice for my former colleagues in the banks which will make them think I have taken leave of my senses. So be it. Here goes.

My premise is that it is thoroughly appropriate for government, in a time of economic stress, to act in a fashion which will stimulate economic activity and increase private sector employment.

-- First, export sales growth is a real tangible and significant opportunity for New England. We have products the world wants, particularly Europe. But we are often at a price disadvantage in competition with producers in other countries with lower production costs or weaker currencies.

In recent months the dollar has depreciated significantly against the mark and the yen as well as sterling. This has made U.S. goods cheaper in international markets, but we still run a significant trade deficit. How can we give New England export manufacturers an additional advantage in pricing their products against competitors in the world market?

Senator John Kerry has long been an advocate of stimulus for this segment of the economy and has contributed significantly to simplifying export licensing procedure and championing the role of export trading companies. He has an instinctive appreciation of what is good for Massachusetts and New England.

My proposal is that the New England states exempt from taxation for five years the profits New England firms earn from their export sales. The additional margin available to New England companies would give them pricing flexibility that could materially enhance their competitiveness. The relatively small direct revenue losses would tend to be offset by greater business activity, increased employment, and even new business formation in the region to take advantage of this material tax incentive. An enhancement to this program might be the creation of "trade enterprise zones" in which manufacturing facilities engaged in making products for export would also be exempt from property taxes and other local levies.

An approach of this kind, while targeted at a specific business sector, is really an investment in the vitality of the whole economy since increased business investment results in higher employment, more retail sales, greater housing demand and ultimately a broader tax base over all.

In the late 1950's and early 1960's, when New England was struggling with another kind of general economic slump, new businesses were attracted to the region by locally created and financed speculative industrial parks and tax incentives. Those tactics ultimately worked in the long-term best interest of the communities which sponsored them even at significant short-term cost. Burlington, Vermont successfully attracted major manufacturers in the late 1950's by this kind of a program and it was the beginning of the economic rebirth of that city.

-- My second proposal may raise some partisan hackles but try to consider it objectively. I urge you to revisit the underlying concept of the highly controversial proposal of the early 1980's to deal with the decaying infrastructure in Massachusetts. Governor Dukakis called it at the time "Mass-Bank". The concept was to create a separate agency with a dedicated revenue stream and the sole mission of rebuilding the highways, bridges, and tunnels which were deteriorating rapidly. With the general exception of the turnpike, that deterioration has continued into the new decade.

We should consider establishment of a regional authority supported and financed by a 5 or 10 cent per gallon gasoline tax in all six states. Such an authority could issue revenue bonds serviced by the gasoline taxes and other revenues possibly derived from tolls, parking fees, and other infrastructure-related services. The program would be self-financed through users. It would not only improve the quality of life for New England residents and increase the safety factors, but it would tend to improve New England travel for tourists. Improved highway transportation would also make New England more attractive to business investment, particularly manufacturing investment. In the process, jobs are created and otherwise idle construction capacity is utilized. Furthermore, undertaking a program of this type through a <u>regional</u> authority assures a coordinated approach which will tend to make the individual projects complement each other. In addition, a regional authority based on revenue bonds will probably fare better in the capital markets than would individual state authorities or even the states themselves.

I believe that attacking the infrastructure problem with a user-financed regional authority could be both a short- and long-term shot in the arm for New England and a morale builder as well.

-- My third recommendation is directed at the bankers. I have deliberated long and earnestly over this one. I want very much to be taken seriously in what I am about to say. I <u>don't</u> want to sound like I am preaching self-righteously to a congregation of sinners. In fact, where borrowers don't repay loans you can argue that the bankers are more sinned against than sinning.

In any case, I believe that, more than government, more than consumers, more than businessmen, bankers have in their power the ability to turn this regional recession into a regional recovery. Thirty years ago banks and venture capital entrepreneurs like American Research and Development and General Doriot created the regional electronics industry.

Raytheon as it exists today might not be there if Dick Hill and the First National Bank of Boston hadn't held together a group of bank lenders in New York and Chicago at a time when the company was having some serious problems.

Sanders Associates in Nashua, New Hampshire might never have seen the light of day if the New England Trust Company and a wonderful banker by the name of Eliot Hedge hadn't had the courage to finance Sanders' receivables when they were building sonobuoys and wiring harnesses on the third floor of an old Textron mill in Nashua.

And DEC got its seed money from General Doriot and a loan from Shawmut at a time when the very concept it was pursuing was essentially unproven.

Ladies and gentlemen, that was gutsy lending. Not all the loans and investments were as successful as the ones I have cited. But without the entrepreneurs who conceived those companies and the bankers who nourished them, where would the economy of New England have been in the 1970's and 1980's?

In this uncertain world, made more uncertain by war and economic slack, some bankers at the top have lost their nerve and ordered a retreat from their basic business -- lending money. Other bankers, the more junior members of the team, are getting confusing signals about their bank's willingness to lend and, insecure in their jobs if they make a mistake, they avoid loan opportunities rather than seek them out.

If we hope to bring New England out of this recession and this slough of despair in which it finds itself, the banks must meet the legitimate credit needs of the regional economy. Maybe the very thought of a commercial real estate loan makes bankers' stomachs heave, but I would argue that, even in this environment, sound real estate loans <u>can</u> be made if we revert to basic lending principles which recognize the importance of equity in deals, capital strength in borrowers, realistic cash flow projections to service the debt, and a properly conservative appraisal of the market projections.

Especially in times like these, small businesses may need more bank credit to help them deal with slower receivables and unforeseen inventory build-ups. These are legitimate working capital requirements, and small businesses, unlike larger firms, may not have access to credit sources other than banks. It is a proper role for banks to help their customers work through these times and in most cases it can be done without compromising sound lending standards if the banker knows the borrower and his business well.

Consumers are probably less likely to be clamoring for credit during a recession since they tend to slow spending and borrowing when they are uncertain. But lending practices which discourage or deny credit to qualified consumers only aggravate the general situation and prolong the downturn.

If banks refuse to lend, they abandon one of their fundamental roles in the economy -- that is as the intermediator between those with excess funds and those who need funds.

I urge bankers here in New England to examine their current lending policies and practices and search out ways to reassume a leadership role in reviving this faltering economy. Bankers can play a decisive part in recovery just as they did in the 1950's and 1960's.

This conference is an exciting initiative in the best traditions of Yankee culture. A Yankee culture that says: "There is a job to be done; let's do it."

Governor Weld, Senator Kerry, Senator Tsongas, Mayor Flynn, President Syron, thank you for giving me an opportunity to participate.