

Remarks by Cathy E. Minehan  
at  
The UMass Boston College of Management  
Annual Corporate Luncheon  
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It is a pleasure to be with you today. I would like to thank Sherry Penney and Eric Hayden for inviting me to address this distinguished group of corporate leaders. I want to commend each of you for taking the time to show your interest in UMass Boston, which is one of the most important institutions in this City in terms of opening up opportunities for our local residents. In many ways, the challenges that the faculty and students at UMass Boston face every day characterize the challenges that we face as a community. The University's dedication to being a driving force for economic growth and serving as an economic resource for the citizens, industry and regions of the Commonwealth is one that the Federal Reserve System applauds and shares.

Today, I would like to spend a few minutes on economic policy and how I see things going here in Massachusetts, then I would like to talk about the role of the corporate community in building an ongoing, sustainable pattern of economic growth.

As you all are aware, the Massachusetts economy is clearly in a recovery mode following a very difficult recession. After losing over ten percent of our jobs, we have rebounded by creating 155,000 net new jobs since the bottom of the recession two years ago. A variety of other indicators also signal respectable growth -- expanded help-wanted sections in newspapers, overtime work in the manufacturing sector, rising business incorporations, higher consumer spending, more housing activity, increasing per capita income. And I'm pleased to note that while the economy is growing, local inflation has been kept under control. Real income growth has recently been stronger

than that for the nation as a whole. While that clearly is good news, it's not without its downsides. Yesterday, the New York Times ran a front page story that addressed the phenomenon of job growth that we see in this recovery, both nationally and locally here in Massachusetts. Our job growth has been in services, and in jobs that are at the high end of services -- software, consultants, technology specialists, etc. People with above-average skills and education have seen wage growth and job opportunities during this recovery; workers in manufacturing, defense and more generally those at the low end in terms of education and skills have seen wage stagnation, or real decline, and a diminution of prospects. The issue is how to ensure the fruits of our very real economic recovery are more widely enjoyed.

During this recovery, monetary policy, the economic policy tool of the Fed, has been pretty effective in doing what it is designed to do. The formulation of economic policy in the United States also takes place in the fiscal policy arena, however. Fiscal policy, the determination of tax and government spending levels, has played a major role during earlier business cycles in the post-war period.

For example, coming out of the 1982 recession, Federal government spending grew 8 percent during the first two years of recovery; during this recovery Federal government spending actually declined by 9 percent. Why is this? Well, in this recession, fiscal policy was frozen by the massive federal deficit and shrinking defense spending. The fiscal engines of government stood silently on the sidelines until the economy finally turned around.

Meanwhile, most of the action shifted to the monetary policy arena. The question is, what exactly can monetary policy accomplish in terms of building long term sustainable economic growth that benefits everyone? The simple answer is, not much, beyond maintaining relative price stability.

In the short term, monetary policy can stimulate or contract spending and economic growth by affecting the price of money. Monetary policy can affect the timing of business cycles to some degree. In the longer term, relative price stability creates an environment conducive to economic growth, but monetary policy cannot produce real economic events like generating new technologies, or building new manufacturing facilities, or providing skills to workers. Business vitality and public sector responsiveness are the ultimate determinants of economic development.

Given that reality, we need to ask ourselves what are we doing to promote the creation of real economic growth in the Boston area? What are we doing to put in place the building blocks that are necessary for businesses to create new jobs? What are we doing to assure a labor force that is competitive with other labor markets? And, what are we doing to assist low-income and minority communities in obtaining the credit that could enable them to share in economic prosperity?

The answers to these questions don't lie in increased Federal government spending, even if we could afford it and still make the necessary reductions in the deficit. The answers do lie, I think, in you and me, and the banks and corporations we represent working together to leverage the money that is available to address local problems. We are facing some very difficult structural changes in our regional economy as we continue to shift away from the traditional New England reliance on large manufacturing facilities that provide hundreds or thousands of high paying, high benefit jobs to employees with lower education levels. We are facing some very difficult issues about the availability of credit to inner city businesses and to minority residents. And, we are confronting an educational system which badly needs new ideas and resources to meet the increasingly complex needs of our schoolchildren.

The future of our local economy depends on the solution to these real world problems. The financial markets will continue to play their important role in the allocation of capital nationally and around the world, but without the underpinnings of healthy economic activity at the local level, our long term economic prospects are in question.

That is the perspective that I am trying to incorporate in the ongoing role of the Federal Reserve Bank of Boston. We will continue to be ever vigilant over the region's banking system, and we will continue to closely monitor the regional and national economy as we formulate monetary policy recommendations. But at the same time we will expand our role as facilitator and catalyst for economic initiatives that address other fundamental components of our economy.

One of the components that is necessary to our longer run prosperity is a skilled labor pool. In my visits around the region, I have made a point of asking business people about their experience in finding skilled workers. Many of them told me that there is a shortage of workers to fill their needs, despite the fact that New England as a whole, and Massachusetts specifically, has one of the most educated workforces in the U.S. What I heard underscored my long-held conviction that quality public education is essential to economic progress. Moreover, I have come to believe that the organization of educational opportunity for those of working age is a joint responsibility, of the public schools, the community colleges, and the private sector.

Boston's understanding of this joint responsibility is evident in the area of public-private partnerships linking school and work. With very strong bi-partisan support, Congress approved the School-To-Work Opportunities Act last spring. The act is based, substantially, on the pioneer model program, called Project Protech, that was developed by Boston's hospitals and banks, working in close collaboration with the public schools through the

Boston Private Industry Council. The model requires not only substantial change in the way young people experience their first job but also substantial change in the organization of the school day and the curriculum. The idea is to integrate hands-on learning in a work environment with academic material, along the lines of the age-old apprenticeship tradition. And for many involved in Project Protech, this integration has gone beyond the public high school and involved community colleges as a surprisingly large proportion of the pilot participants have gone on to higher education. This is impressive given the fact that most were destined to be high school drop-outs before the Project began.

The State of Massachusetts is taking the challenge of School-To-Work very seriously. Under the leadership of Governor Weld and Lieutenant Governor Cellucci, the State is committed to providing half of our juniors and seniors the option of combining school and work by the year 2000. And the State has won a stiff national competition to be designated one of five "leading edge" States by the Departments of Education and Labor. That designation brings with it \$27 million to help us get started.

The City of Boston, through the Boston Private Industry Council, under the leadership first of Dr. Jerry Grossman and now of Moose Mansfeld, and the Boston Public Schools, has won \$1.2 million for this school year, to expand the Pro-Tech program from 220 to 400 young people this fall. This funding will also lay the groundwork for expanding the effort to include new industries such as environmental services and telecommunications and as many as 3,000 juniors and seniors, half of the total, by the year 2000. I will be serving on a coordinating committee with Dr. Richard Gaintner and Superintendent Lois Harrison-Jones. We have the responsibility for overseeing this grant and for setting goals and measuring the results of the expanded School-To-Work effort.

We all know that the traditional model of the urban high school is not working nearly well enough. Now there exists a consensus about how to fix it. Boston could be the first American city to accomplish these changes throughout a school system.

Our success thus far and our opportunities for the future in the School-To-Work arena are largely due to the leadership Boston's business and government leaders have brought to economic development issues. This dedication of leaders to ensuring the City's long term economic prosperity is also evident in the recently-filed "Empowerment Zone" proposal, put together under the leadership of the Mayor and Marisa Lago. As many of you know, the competition to be named an "Empowerment Zone," or an "Enterprise Community," and receive special Federal subsidies to meet social service needs, was initiated by HUD earlier this year. Many communities across the country have responded with applications, but I'm hopeful ours in the Northeast will be deemed among the best. The impressive documentation assembled by Marisa and her staff for Boston's proposal, called "Boston Works," shows just how wide the gap is between prosperous Boston and those of our citizens for whom the American dream remains a distant hope. Even more impressive is the breadth of participation in the proposal. Government, human service, and education officials worked with private sector leaders from the financial community, hospitals, and most importantly, with leaders from neighborhoods stretching from Chinatown to Eggleston Square and Grove Hall.

I am especially encouraged by the proposals put forward by the City's seven largest banks to promote capital access for businesses in the Empowerment Zone. As part of this application, they have signed a letter of commitment to provide:

- o \$35 million in "flexible debt capital" over five years;
- o over \$600,000 for technical assistance through the proposed Boston center for business development and education in Dudley Square.

- o a \$1.4 Million initial equity pool to be administered by the Minority Enterprise Investment Corporation (M.E.I.C.). The Federal Reserve Bank is very proud to have played a constructive role back in 1989 and 1990, working with several Boston area banks, in establishing the M.E.I.C., which is a multi-bank Community Development Corporation, or "CDC" where banks pool funds for lending to small businesses to encourage job creation. (I'll speak a bit more about community development corporations -- or CDCs -- in a few moments.)

In May of this year, we hosted a meeting at the Fed for teams from each of the twelve Massachusetts communities applying for designation as either Empowerment Zones or Enterprise Communities. Among other things, we learned that the competition for Empowerment Zone designation is fierce. But regardless of the outcome, the process itself has been extremely valuable, not only in Boston but for the other communities whose plans I've reviewed as well. Problems that everyone knew were there have been faced and practical steps for progress have been agreed upon, across an extraordinarily broad spectrum of interest groups. It would be my hope, and I'm sure yours, that we will be able to build on these alliances, collaborations and plans in the coming years, regardless of the outcome of the Empowerment Zone competition.

The commitment of banks to provide capital is key, not only to the success of the empowerment zone, but indeed to any economic development plan. As businesspeople, you are acutely aware that access to capital is absolutely essential for economic growth. Nowhere is this more true than in low- and moderate income communities. We all know that the wider community has a very large stake in the development of inner-city and poor rural areas. Ensuring that financing is available for that development will pay dividends not only to those businesspeople and the banks that fund them, but also to all of us in the State and region.

In 1977 Congress passed the Community Reinvestment Act, legislation designed to assure that banks would "help meet the credit needs" of communities in which they do business. That legislation required that Federal examining agencies take bank performance in this area into consideration when deciding on bank applications for mergers, acquisitions and other approvals.

The Community Reinvestment Act (CRA) has engendered some heat. Disputes between banks and community representatives in the application process have been front page news, as have multi-million dollar bank commitments to expand credit opportunities.

A year ago the administration launched an effort to improve the CRA regulatory process, to shift the focus for banks from the process of compliance to results. A revised set of "proposed" regulations have just been made available for public comment. We hope that they will help focus bank and community attention on access to lending, bank services and investing in community economic development efforts.

To some observers the regulatory requirement for safety and soundness in all bank investments is in conflict with the requirement that banks help meet the credit needs of low-income communities. We believe otherwise.

We are pleased that a growing number of banks agree with us and view community investment as a strategic opportunity, a market to be served. When done with care, expertise and strategic planning, they view community investment as a good, sound business. We would insist that even when public subsidies are involved, as with low-income housing or SBA loans, the basic deal must work in purely economic terms to go forward. Give away lending is a mistake for all. Banks have developed in-house expertise and they've also become adept at collaborating with knowledgeable intermediaries, such as Community Development Corporations, to assure that deals make economic sense.

Just a word on CDC's, of which the MEIC that I spoke of before is an example. CDCs and their partners in local and state government and the financial industry are carrying out some of the most effective economic development efforts in our poorest neighborhoods and communities. They are local organizations (.e.g., Codman Square CDC, Dorchester Bay EDC, East Boston CDC, and the Somerville CDC) which work to improve communities by creating affordable housing and jobs, and by responding to human service needs that are important to local residents. They are governed by neighborhood Boards of Directors who hire professional staff. CDCs build and rehabilitate many types of housing. In fact, Massachusetts CDCs have created over 10,000 units in the past 20 years. In addition, CDCs create and maintain jobs by providing training and financial support to businesses, by revitalizing commercial districts, and renovating deteriorated buildings.

The Massachusetts Association of CDCs estimates that CDCs in Massachusetts have created 5,800 jobs, developed more than 1 million square feet of commercial space, and have brought over \$30 million dollars of financial support to business around the Commonwealth. Community based organizations are further testimony to the incubator-nature of Massachusetts - we gave birth to public education, to many financial innovations, to lots of high tech businesses, and now to new methods of community investment finance.

In the final analysis, it is the strength of the private-public sector partnerships that are so obviously the critical element in CDCs, in CRA more generally, in the School-To-Work proposal, and in the Empowerment Zone planning that will make the difference as far as economic growth is concerned here in Boston. And their counterparts in all the states in New England are equally important. We at the Boston Reserve Bank are committed to supporting these partnerships in any way we can, for we too believe it is part of our mission to make our region a better place in which to live, to work, and to prosper.