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BEFORE THE NEW ENGLAND GOVERNORS CONFERENCE
Portsmouth, NH
June 9, 1995

The New England economy has come a long way in the last few years. While some clouds are on the horizon, the local imbalances and disadvantages in the region's economic prospects have diminished considerably from the late 1980s.

As all of you are probably painfully aware, it was early 1989 when the New England states began the most severe economic downturn to hit the region in the post-World War II era. After losing a much greater fraction of jobs than any other U.S. region, New England hit bottom at the end of 1991, and has been gaining jobs fairly steadily for over three years. While the regional recovery has fallen short of the national pace of job growth, the rate of growth of population and labor force are typically slower in New England than in the nation as a whole. As a result, the region's slower-than-national job gains have been substantial enough to bring unemployment down in line with the nation. Setting aside a measure of month-to-month volatility, New England's jobless rate has been tracking the national rate quite closely

for over a year.

A variety of other indicators also indicate the progress the region has made. For example, given the depth of the real estate bust that followed the 1980s boom, and the key role that crash played in impairing the region's banking system and deepening the general downturn, the real estate recovery we've seen and the current health of banks in the region are very reassuring. Commercial vacancy rates have come down and the housing market remains active; housing prices have picked up at the upper end. Indexes of consumer and business confidence in the region have risen markedly from their recession depths.

Looking forward, the near term clouds on the horizon relate to the national economy. Most macro forecasters have been expecting (and indeed recent data indicate) that the national economy will grow more slowly this year than last. This is a good thing, since last year's growth rate was unsustainable without a significant increase in inflation. The Federal Reserve acted to raise interest rates to slow the economy, and what we're seeing now is more or less what we expected, and even hoped would happen. The question now is how slow will things get, or as the media are fond of saying--will this be a

soft landing, a hard landing, or a crash? The consensus forecast is for output to grow a bit below potential for 1995, perhaps around 2 percent in real terms, and for unemployment to stay about where it is (5.7 percent in May) or rise slightly. That seems a reasonable expectation, though there may be more of a downside risk to this forecast than earlier existed. However, this sense of risk is more a cloud of uncertainty over the near term, rather than a thunderhead portending a clearly negative outlook. With this in mind, the New England Economic Project, a regional forecasting group, expects New England to continue growing--again, somewhat more slowly than the nation. Thus, we can expect continued employment growth in the New England states, but at a slower pace. Over the longer run we still expect New England as a whole to reach its pre-recession job levels by 1998, with some states exceeding that by several years.

Longer term, the region's prospects have improved because the imbalances of the late 1980s have begun to diminish. Certainly, weakness in the banking system is not the hindrance to economic growth that it was during the 1989-91 period; the credit crunch is now over - many banks are eagerly courting borrowers. Another drag that's beginning to lessen is the region's cost disadvantage that developed

during the boom. For most of the 1980s and even through the recession, the cost of living rose faster here than nationally and such business costs as manufacturing wages also outpaced national trends. In the last year or two, however, this situation has begun to move the other way, with costs rising more slowly here. While we're very far from our relative cost position of a decade ago, the movements are in the direction of reducing the disadvantage.

The economic progress the region has experienced over the last few years returns us to a more normal relationship with the national economy. Compared with the nation, however, New England faces some clear structural minuses, notably ongoing defense cutbacks which affect the New England economy disproportionately, restructuring in the region's computer firms, and consolidation and funding issues in the health care area. Furthermore, no one industry or sector can be counted on to propel the region's economy reliably into the 21st century, or if one can, it's not clearly visible yet.

In this context, any steps New England's leaders can take to improve the region's competitive position have considerable positive potential. I would like to take the next few minutes to argue that a key element in the region's future competitive advantage or disadvantage

vis-a-vis the rest of the nation and world could be the degree of cooperation we can develop among the states within the region. Now I know the focus of this conference is cooperation between New England states and the Eastern Canadian provinces, but I think if the New England states can find better ways to work together, that experience will be useful in working with the Canadian provinces.

The New England states have banded together in the past when their collective economic interests have been threatened. The region faces such a common threat today. Powerful economic forces are driving manufacturers to other locales. Technological and political changes have enhanced firms' geographic mobility and heightened economic competition within the United States and throughout the world. New England has lost competitive standing vis a vis areas with lower business costs, superior strategic location, or milder climate.

In many cases, the New England states may have been slow to mobilize collectively in response to this threat. Indeed, the region's states have reacted in part by intensifying competition with each other. New England consists of small states whose boundaries are the product of history rather than geographic or economic rationality. Our six states cover an area that comprises less than two percent of the

total area of the United States. As a result, the policies and economic activities of one state often have significant repercussions for its neighbors. Under such conditions, it may make sense to coordinate our policies in ways that maximize our regional synergy and minimize counterproductive intraregional conflict.

The New England states have already achieved a significant degree of fruitful cooperation, especially in the areas of environmental protection, higher education, the sharing of electricity, and the promotion of tourism. I also know there has been work with the Canadian provinces here as well, as reflected in the resolutions on energy and environment. The region also has many fine voluntary organizations that have furthered the cause of regional cooperation, including, of course, the New England Governors Conference, as well as such groups as the New England Council, the Caucus of New England State Legislatures, the New England Congressional Caucus, and many others. And I know the things we've worked together on have been successful--drops in costs of unemployment insurance comes to mind.

While these efforts are steps in the right direction, we could take regional cooperation to a significantly higher level. Consider the

following possibilities:

1. Trade The New England states should have a joint presence at the world's major trade shows, expand joint trade missions, and even establish permanent joint overseas trade and investment offices.

Together, the six states could gain a much broader exposure than with each state's acting individually. The success of Discover New England, an international marketing consortium begun in mid-1992 to promote Tourism in New England, has demonstrated the potential payoffs of such collective efforts. Last year, international tourist arrivals rose 8 percent in New England, compared with 3 percent for the nation as a whole.

New England could also benefit collectively by developing coordinated policy positions on recently proposed international trade agreements likely to affect the region as a whole. An example is the Trans-Atlantic trade initiative, proposed by Prime Minister Chretien in late 1994 and discussed by Secretary of State Christopher earlier this month. This initiative could be especially beneficial to the New England states, given our traditional trade and investment ties with Europe.

2. Medical Costs Our world-class medical centers are the nuclei

of vibrant, innovative, health service clusters located throughout the region. Thus, we all have a common interest in maintaining an adequate level of federal funding for basic medical research. In addition, with proposed changes in Medicare likely to transform the way this country funds medical education, we have a common interest in devising equitable means of allocating the cost of training the nation's future doctors.

All state governments have a need to contain health care costs. Costs in the southern New England states rank among the highest in the nation. To this end, the region's states might develop new ways of sharing facilities and strengthening their bargaining clout. For example, Governor Dean has noted that northern New England lacks adequate access to medical specialists. Can we further develop real-time communication links between rural clinics and the major hospitals in more densely populated areas?

Managed care networks for Medicaid recipients and others might benefit from using specialized facilities across state lines. Perhaps state governments could bargain jointly to obtain lower insurance rates for regional pools of small businesses or for managed care for certain types of patients, such as those needing substance abuse treatment or

mental health care.

3. Energy. The electric utility industry is on the verge of a thorough restructuring. At present, it appears that the rules and regulations under which this restructuring takes place will be developed on a state-by-state basis. Companies that do business in several states are very concerned about the resulting additional costs of complying with so many different sets of rules. The New England states may be able to gain a competitive edge by developing a consistent approach.

4. Siting decisions. New England could benefit from a region-wide plan for siting large public facilities such as recycling plants, waste disposal plants, and correctional institutions. Significant cost savings may be achieved by avoidance of unnecessary duplication of facilities, strategic siting, and the realization of regional economies of scale.

5. Transportation. In this area, there are many potential possibilities for fruitful regionwide cooperation. For example, Logan Airport is a regional resource. While it is close to capacity, many smaller airports throughout the region are underutilized. Perhaps our aviation resources can be more efficiently utilized on a coordinated

basis. Another important emerging regional transportation issue is the development and use of ports. Are there synergies to be gained by coordination and cooperation in lieu of unbridled competition for ships and cargos? What about possible cooperation in developing a regionwide ship repair industry, putting to use underutilized docking facilities?

6. Telecommunications. The Massachusetts Telecommunications Council is in the process of bringing on-line a network connecting schools and businesses throughout the state. Why not a New England network instead of 6 separate state networks? Would we not all be better off sharing and integrating our cybernetic space, and developing a uniform approach to regulating it, rather than compartmentalizing it?

7. Tax policy and enforcement. Tax competition is among the New England States is intensifying. In the long run, it can lead to a lose-lose situation in which state and local revenues are depleted but no gain in employment or investment is achieved. Would it be possible to declare a moratorium on narrowly focused tax breaks designed to attract employers from neighboring New England states? Short of that, perhaps the New England states could coordinate their policies

concerning the definition and apportionment of taxable corporate income, thereby simplifying the tasks of tax enforcement and tax compliance alike. Such coordination would be especially helpful in the area of bank taxation, where unlimited interstate branching raises the potential for significant inequities and distortions in the absence of a coordinated regionwide approach.

These are just a few suggestions for potential regional economic cooperation in New England. We have much to gain by recognizing and pursuing our common economic interests at the regional, national, and international levels. In the words of a friend of mine, Pat McGovern, a former Massachusetts State Senator and Chairman of the State Senate Ways and Means Committee:

"I fear that we [New Englanders] have forgotten our commonality. We have allowed ourselves to be mired in a family fight, not realizing that the threat is not from within, but from without....We need a new spirit of commitment and cooperation. We must remember our history to fight for our future."

Thank you.