Preparing Massachusetts for the New Economy

Remarks by

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I am greatly honored to address such a distinguished group, and to add my voice to those of Chancellor Penney, Governor Weld, Mayor Menino, and Bishop Murphy. The size and stature of this gathering reflects the respect we all have for Cardinal Law and his organization of the Challenge to Leadership.

I would like to talk today about the economy that faces us as we move into a new century. We must work to ensure that the jobs being created in this new environment can, in fact, be filled by the available workers. But aspects of this new economy won't make that an easy challenge. Education is one key area of concern, but education is not just the problem of the school system, public or private. Educating our young, creating workers and citizens for the future, and assuring that a well-trained work force exists that can fill the emerging knowledge-intensive jobs of the new economy is everyone's responsibility. Without that work force, the basic fabric of our society will be threatened.

Business leaders in Massachusetts and Boston have worked together to address these issues, but I suggest that we need a rededication. Thus, in the spirit of this gathering, the last part of my comments will define a few challenges to business people.

As we assess the task before us, we must acknowledge that the macroeconomy is in very good shape. We've had several years of solid real economic growth, low rates of unemployment, and low rates of inflation. One has to go back to the 1960's to see unemployment at just over 5 percent, and inflation under 3 percent for such an extended period. Some people complain about slow economic growth, but at a bit better than 2 percent, we're right on track with nearly all estimates of productive capacity.

Here in Massachusetts, we've also seen very low unemployment; steady job growth, declining office vacancy rates with talk of new construction being planned; and a flurry of new businesses being formed. The question is not whether we're experiencing the rising tide of economic growth so welcome after the travails of the early 90's--we are. The question is whether that tide will lift all our boats or just those of a privileged few.

Today's solid economic performance is based on a very different economic structure than thirty years ago. Bear in mind that the late 1960s was when many of us here developed our views on how to prepare for the working world. Thirty years ago, manufacturers accounted for over 30 percent of all jobs in Massachusetts. Today, that share is less than 15 percent. And even those jobs are not the plant floor occupations of old. Massachusetts manufacturing workers are much more likely to be involved in research and development and much less likely to be involved in production work than they were even 15 years ago, much less 30.

The nature of services industries also has changed. To a degree that was not foreseeable then, we have prominent service firms involved in managing our daily lives--our information flows, our health care, and our financial portfolios. These are complex jobs, not the "McJobs" so often referred to when service employment is discussed. Finally, we are now much more subject to international influences, with exports accounting for over 11 percent of the U.S. economy, more than twice the share of the late 1960s.

Not surprisingly, the structure of the work place has changed as well. Typically, the ultimate product today involves an ongoing flow of knowledge-based services that challenges the provider to stay on top of rapidly changing technologies. So we have seen a fundamental shift from jobs based primarily on loyalty and predictability, to jobs that rely on a flexible application of skills and a rigorous bottom-line orientation. With this orientation, the relationship between employer and employee can change abruptly and irreversibly on very short notice.

Some would say these changes, taken together, are a bad thing. Unfamiliar technologies and work place relationships, and competition from foreign sources, are threatening. It has been suggested that we should either roll back the clock to simpler times, or wall ourselves off from the impact of these changes.

But moving in these directions would be unwise, if not dangerous. American industry protected from technological change or global competition would not be kinder or gentler. Technological change underlies the very process of economic growth. Similarly, trade is a two-way street, allowing the United States to export our products and thereby provide many of the so-called "good" jobs everyone is seeking. And if we choose to prevent foreign goods from our market, prices of goods sheltered from competition would rise, eating into our disposable income and reducing standards of living for most people.

This new economy is not easy for anyone. It's especially difficult for those without the necessary education or skills. There was a time, even as late as the 1970s, when the employee with a high school diploma earned nearly as much as his neighbor with a college degree. This parity has since disappeared, as the earnings of the high-school graduate have steadily declined. Today's college graduate earns over two-thirds more than his high-school educated neighbor.

An important source of this widening income gap is the growing economic value of education. Technology has been shifting in ways that reduce the need for manual labor. In virtually every sector of the economy, companies that choose to remain competitive have switched to technologies that call for more educated workers. Job stability among the well-educated remains greater than among the less-educated. And when layoffs occur, the well-educated are more likely to land on their feet.

The people adversely affected in the new economy tend to live in lower-income towns and neighborhoods. Test scores, high school graduation rates, and college acceptance rates are all strongly correlated with family income. And the process of higher-income

Americans flocking to live ever closer together has aggravated both the income and the spatial gap between rich and poor.

We owe it to ourselves to ease the impact of the new realities on those less fortunate. Widening income disparities are not just an affront to our notions of fairness--they also destabilize our society, to say nothing of the potential waste of human talent. The real opportunity to move up the economic ladder is what reconciles Americans to disparities of wealth. If upward mobility now depends on access to education, then we must ensure that quality education is available to all.

It is clear that our education system has difficulty producing the workers our businesses need. An owner of a small local manufacturing company recently told me of her problems recruiting supervisory personnel. Today's high school education is not enough for these positions, she said. Yet there is no specialized, post-high school curriculum to teach the appropriate skills. She ends up hiring college graduates, competing with a lot of other firms to attract them.

A similar story plays out throughout our local economy. This is why some business leaders in Massachusetts have been demanding higher-order academic skills for all students, and especially for the large percentage of current graduates who don't go on to some form of higher education. And three years ago, business leaders and the Legislature collaborated to get statewide education reform up and running.

A similar collaboration among business, government, and school officials occurred under the Boston Compact, signed in 1982 and reaffirmed most recently in 1994.

Now, education is not my field of expertise. But based on my insight as an employer, I see three promising aspects of the many education initiatives now underway.

First, standards and accountability. School systems are struggling to answer the related questions of: What do students need to learn? What are they actually learning? And how can we demonstrate that progress?

Frank Levy of MIT, one of our panelists, and his collaborator Dick Murnane of Harvard, have identified what they call the "new basic skills" now demanded by high-performance businesses in Massachusetts and elsewhere. They are hard skills, notably the ability to read, write, and use math to solve problems, as well as proficiency with computers. They also encompass soft skills, including the ability to work in groups, and to make effective oral and written presentations-- skills many schools do not teach.

Higher standards, which respond to the new skills demanded by the work place, and accountability of schools to ensure that the standards are met, seem to me to be essential to any reform of the education system. But getting used to them is not likely to be easy. Here in Boston the use of a new norm-referenced test this year was eye opening to all of us with a vested interest in our public schools. It's hard to look at test scores that say so few of our students, and future employees, are performing well in the key tests of reading and math. But the recognition of the extent of this problem is the first step to its solution--and that solution can only be found in adherence to high standards and accountability.

A second promising element of reform is giving students more choice in where they attend school. Public schools in Massachusetts have always had competition from private and parochial schools. But now competition has increased within the public framework with charter and pilot schools.

The third feature I would highlight is the involvement of the private sector in such initiatives as school-to-work partnerships. Middle class kids have parents to act as "job developers." Many kids in inner-city neighborhoods have no one to make that connection with employers. Organized access can make a large difference in these students' lives.

The education value of school-connected jobs is clearly demonstrated in the words of Lashunda Bailey, of Cambridge's Rindge School of Technical Arts. When asked why her annual days absent fell from thirty-six a year to three when she joined the school-to-work effort, she said:

"You know how we teenagers think we know everything. Well, going to school doesn't change that. But when you are on a real job, with adults, you find out there is a lot you need to know. And when you get back to school you come to realize that a lot of it you can learn in school."

Standards and accountability, choice, school/work connections--are these enough to do the job? Perhaps, but they certainly won't be if we don't have everyone--the teachers, the parents, the unions, the administrators, the city government, institutions of higher learning and, yes, the business community--working together to make the necessary change. Let me focus my remaining comments on challenges for business leaders.

The first challenge I direct here to the leaders of the Boston business community. I have a sense that some of you may feel a bit discouraged--so much effort over such a long time with no visible progress in the local school system. But I must tell you that when the Search Committee interviewed candidates for the Boston Superintendent position, it was widely recognized that we are poised here in Boston to make major forward progress with our schools. The mayor, the School Committee, the unions, the parents, all are working together, and, under Tom Payzant's leadership, we're finally making some inroads into standard setting, accountability, and broad-based reform. Now is not the time to be disheartened; now is the time to rededicate ourselves to those school partnerships we've always had, and to the emerging new school-to-career effort.

I would be remiss if I did not also mention the Annenberg Grant of $10 million recently awarded to the Boston public schools. It has to be matched by new private money and I encourage you to help Bill Boyan of John Hancock as he raises these funds.

The second challenge involves choice. We business people naturally react positively to the idea of competition, which offers new opportunities to children and spurs experimentation. And innovative pilot schools have shown significant success. At the Fenway Middle College High School in Charlestown, for example, students come from families of modest means, yet SAT scores are higher, and more students graduate, than in Boston's schools as a whole.

Competition can play an important role. But it is not the ultimate solution. The notion of full-fledged competition, so alluring in theory, skirts some big issues. Were market forces truly unleashed in education, there would be the same dislocation that occurs in the business world. So what then happens to the children and families left behind in the failing, lower-income school districts?

Success cannot be measured only by the portion of students educated in a non-standard setting. Instead, we should place greater emphasis on sharing the results of various experimental programs with the school systems at large. We should encourage school districts to give individual schools more autonomy to innovate, as long as we keep holding them to higher standards.

My final challenge concerns expanding opportunities for students and workers beyond the high school. Improving K through 12 education is vital. It will help to ensure that Massachusetts high-school graduates are prepared for the world of work. It will enable more of them to be accepted into higher education. And it will free up our colleges and universities to build on students' knowledge rather than serving a remedial function. But K through 12 reform is only a piece of the larger challenge posed by the new economy. Roughly $700 million in Federal, state, and local resources was spent in Massachusetts last year on training programs, community colleges, proprietary schools, and other non-four-year-college education and training after high school. Is this expenditure held to rigorous standards of accountability.

The millions of Americans already in the work place, moreover, can expect ongoing demands to upgrade their skills. Yet how many of these employees have reasonable opportunities to pursue training or higher education?

As we work on these various fronts, I see a fundamental need to redefine what we mean by leadership. From the Federal Reserve building downtown, one can see tangible evidence of public and private endeavors on behalf of economic development. We overlook the Central Artery project, the transportation center at South Station, the new federal courthouse, groundbreakings for hotels and office towers. One day we might overlook even the much-discussed convention center.

But I believe there should be other definitions of leadership as well. Leaders in Boston and the Commonwealth will be those building an education system to produce students who not only score respectably on tests, but also can quickly become the kinds of employees we need. It might be a good thing to build a convention center, but it's critical to seize the opportunity we now have to make the necessary transformation of public education. If it cannot be done here, where can this transformation succeed?