Welcoming Remarks

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The Forum for the 21st Century: Shaping Boston's Future
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Good morning, and welcome to the Federal Reserve Bank of Boston. We're pleased to host this timely forum on shaping Boston's future. I share your excitement over the city's prospects as we move into the 21st century. Boston's civic leaders, both public and private, have accomplished a lot in recent years -- but of course, many tough challenges remain. As a prelude to the discussion by our panelists and commentators, I'd like to briefly share my perspective on the current economy, and some thoughts on what I consider to be one of the key challenges for Boston going forward.

The economic trends are undoubtedly positive. The remarkable combination of solid growth, low unemployment, quiescent inflation, and a declining federal budget deficit provide a solid basis for economic progress in Boston, New England and the nation as a whole. As for the view ahead, domestic fundamentals continue to look positive. Job growth and personal income are strong, most businesses are in good shape and, until we see the fallout

from Asia, likely to stay that way. That's not to say there aren't concerns--the tightness of labor markets and the growing inability to find qualified workers portends an upward tick in wages and overall prices that one sees now only in certain services. We have been fortunate that falling commodity prices, slack in major foreign economies, global competition, and domestic productivity gains have allowed our economy to function with record low rates of inflation. However, nothing is forever and we must continue and heighten our vigilence as we look forward.

Nonetheless, for now the picture is certainly rosy. In evaluating the current situation in Boston, it helps to recall the characteristics of the 1980s boom. Then, as now, Boston and New England enjoyed a buoyant economy as reflected in its low unemployment rate. But the two periods are also fundamentally different. While the region during the '80s grew overheated and unbalanced, our current prosperity stands on a firmer footing, for several reasons.

First, our labor force has grown, as improved

conditions induced more people to return to work, and attracted workers to the area. Second, and a likely contributor to these improvements, is the widespread perception that the Commonwealth has become more hospitable to business and therefore to job growth. Corporate income tax have moderated over the past decade, workers' compensation and unemployment insurance rates are down, electricity deregulation is being implemented, and, overall, the old perceptions of Massachusetts and Boston as places to do business have faded. Boston remains a high-cost area in which to do business, but the picture is improving.

Another fundamental difference lies in the broad-based nature of the current recovery. In the past, New England tended to be more dependent on particular large industries than on a broad, diversified base. Today, however, the recovery in Boston and Massachusetts is being led by a diverse set of institutions, from colleges to mutual funds, hospitals, biotech laboratories, and engineering and

management consultants.

Construction employment growth has also been strong, but the speculative excesses and overbuilding that contributed to the severity of the last recession in Boston have not resurfaced -- at least, so far. Though, I must admit that when I'm in a worrying mode, I do worry about the potential for excesses here, especially in hotel and office construction.

Overall, it seems to me that the current expansion continues to be more balanced and sustainable than were the '80s. Looking forward, our forecasts expect that job growth in Boston will be led by services, and especially business services such as software programming. The average jobs in this and other growing sectors pay significantly more than the average overall for the Commonwealth, and often require a higher level of technical and interpersonal skills. Which brings me to one of the central challenges facing us today and over the next generation -- the challenge of improving public education.

We in Boston have long celebrated the essential role that higher education plays in economic life. But in the new economy, we have come to understand that first-rate college graduates are not enough to ensure the city's prosperity. Accelerated technology, changes in organization, and relentless competition have put a premium on a broader range of skills for *all* workers, not just professional staff. Hence the importance of high-quality public schools.

The business leaders who signed the Boston Compact in 1982 understood the importance of a high-quality public school system. Those businesses have stayed the course, and with the leadership of Tom Menino and Tom Payzant, finally see reform underway.

Under the Compact, a key aspect of educational reform in Boston, the School-to-Career program is beginning to be seen as a way to restructure aspects of the City's high schools. School-to-Career extends the classroom into hundreds of work sites, effectively lengthens the school day, and builds useful relationships between students and

work supervisors, and supervisors and teachers. Best of all, it can make a real difference in the way students approach school and their levels of performance, and we now have ways to measure this.

At the state level, education reform is underway to raise academic standards, then measure and reward progress toward them. Challenging new statewide tests, starting this spring, will raise the stakes by setting a benchmark that communities can use to improve their schools. Boston has joined 14 other urban and suburban districts to form the Massachusetts Coalition for Higher Standards. In doing so, Boston is at the vanguard of planning for the more rigorous standards, by sharing best practices and educating parents and the public.

These efforts are not easy or inexpensive. But we are making progress, and we have to keep at it. We have a great stake in making sure that local and state money is well spent on public education, because improving the schools is not just good business: It is also a means by

which we can raise the standard of living for all of Boston's citizens.

So again, welcome, and let's get to the heart of the forum.