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**Sixth Annual Business Leaders Breakfast
Charts**

**March 8, 2000
Sheraton Framingham
Framingham, Massachusetts**

**Cathy E. Minehan, President
Federal Reserve Bank of Boston**

Chart 1 – Unemployment Rate

- Period of very strong economic growth: 4-5% over last 5 years
- Expansion longest (9 yrs.) in recorded U.S. economic history; except for 9 mos. in 90/91 recession; economy is expanding for past 17 yrs.
- But time comes when things have to slow down
- One reason is simply running out of people; both a short-run and long-term problem for U.S. and for Massachusetts
- One way to look at this is unemployment rate – now 4.1 percent for the U.S., 2.9 percent for MA

Chart 2 – Discouraged Workers

- The unemployment rate measure excludes “discouraged workers” – people who want a job but don’t think they can find one

- The number of discouraged workers has fallen dramatically—from 550,000 five years ago to less than 300,000 today

Chart 3 – Labor Force

- Unemployment rate is a combination of two things: demographic trends which determine how many people are available to work, and the labor force participation rate which says how many people there are of working age who are actually in the labor force. NE and Mass. have high labor force participation (68.9 for MA vs. 67.6 for US) but demographic growth is slow (5% for MA vs. 9% for US). Thus, relatively slow growth in our labor force caused by demographic factors is the primary reason why unemployment in Mass. is below that of the nation.

Chart 4 – Educational Requirements

- In both Mass. and U.S., dwindling supply of labor is not the only story. Jobs that are being created here and elsewhere increasingly need a particular type of worker—one with high education and skill attainment.
- 57% of new jobs require extensive post-secondary training up to and including a bachelor's degree or higher. These are projections subject to error but recent experience suggest errors on the side of underestimating the demand for highly educated workers. So issue we need to be concerned about is not just the supply of labor, but the supply of highly educated labor. Here Massachusetts has traditionally had an advantage, but there are reasons to think that advantage may be threatened.

Chart 5 – Supply of Educated Adults

- A high fraction of adults in Massachusetts have a bachelor's degree or more—31.8 percent
- But that is short of what is needed (47 percent shown in previous slide)
- And our ranking relative to other states seems to be slipping. We went from #12 in 1970 to #6 in 1980 to #1 in 1990. The latest data have us at #3, behind Colorado and Maryland.
- Let's look at what's happened in the 1990s....

Chart 6 – New Bachelor's Degrees

- Availability of college graduates in work force reflects at least two factors: how many people are educated as a percentage of the population, and how many college graduates come to live in an area after graduation.

Here we see Massachusetts new college graduates as

a fraction of the population. Much higher than U.S. as a whole (6.5 per thousand vs. 4.4 per thousand). But this rate has slipped both for the state and the region, and is much below the early '90s, and even 20 years ago – some of this is demographic, some may be due to high cost of college here.

Chart 7 - Migration of College Graduates

- Here we see net migration into New England as a percent of the adult population. Also, two other regions that are popular with college graduates—South Atlantic and Pacific
- The recession in the early '90s was devastating—New England was the only region to lose college graduates
- We've done better in attracting college graduates in the last several years—but nowhere near as well as we did in the '80s boom.

Chart 8 – Meeting the Challenge

Pursue Opportunities to Reduce Costs

- Housing Costs: Median price \$255,000 Boston
\$136,000 for U.S.
- Change in Costs: '98-99 6.0% U.S., 11.6% MA
- Education: 130-140 percent above U.S. average

Funding/High Standards

- Fiscal 2001 (this fall) last year of public education reform; after that both the level of funding and allocation up for grabs
- When the funding commitment was made seven years ago, the timing of the sunset provisions vis-a-vis the implementation of high standards, high stakes tests not realized
- Just beginning to see the problems passed by high standards – only fair way, but what happens to those

who fail the tests – if nothing else need to be sure
funding is there for safety net of remedial education

- Not the time to back off on funding, have to stay the
course

School-to-Career

- Of the 12 District high schools, 9 have embraced the
school-to-career approach, 5 have made it their primary
strategy for high school restructuring, 2 have
succeeded in involving every student and teacher in
this method of restructuring.
- Relationship to high achievement
- Double win for employers – more skilled workers,
improvement in on-the-job evaluation

State Workforce Training Fund

- Enacted in 1998; unemployment insurance went down
\$120 million; small offset in form of a payroll tax
equaling \$18 million annually

- Primary focus is on small businesses; can apply for training funds with few restrictions on use; allowable costs include costs for training providers, curriculum development, tuition and supplies and equipment used in training; total dollar amount of grant must be matched but employer wages count
- As of 6/99, only about one-half of 1st year's funding (\$9 million used)
- New program, employers only learning. Has a 3 year sunset so employers should use it or could lost it
- Even with this program, Commonwealth way behind; before 47 per worker spent by state on employer-focused training; if funds entirely used rises to \$5.60
- Still spending less per capita than California, Texas and Rhode Island. MassInc. study says to match Rhode Island per capita spending, Massachusetts would have to spend \$50 million

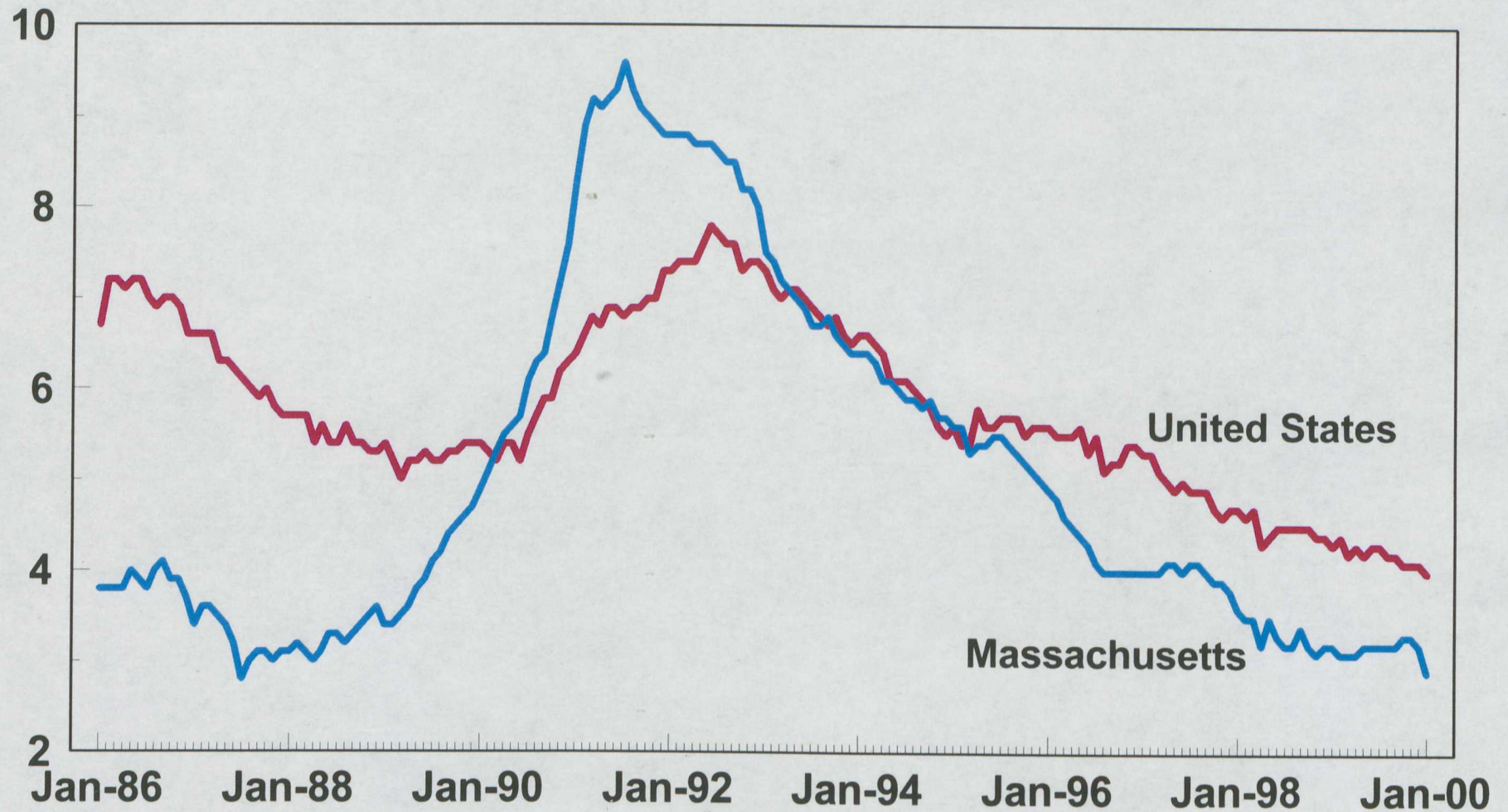
- Real challenge not spending but effectiveness – one of the goals of Workforce Investment Act

Workforce Investment Act

- 1998 Federal legislation – a rare bipartisan accomplishment
- Encourages consolidation and coordination among work-force related programs; one stop service; accountability; customer choice and competition
- Largely organized around displaced or unemployed worker
- Gives states flexibility; can do a little or a lot, but lots of questions have to be answered
- In Massachusetts, regional employment boards very much involved
- Issue: not much funding from Federal sources; not much state political will so far

Unemployment Rate

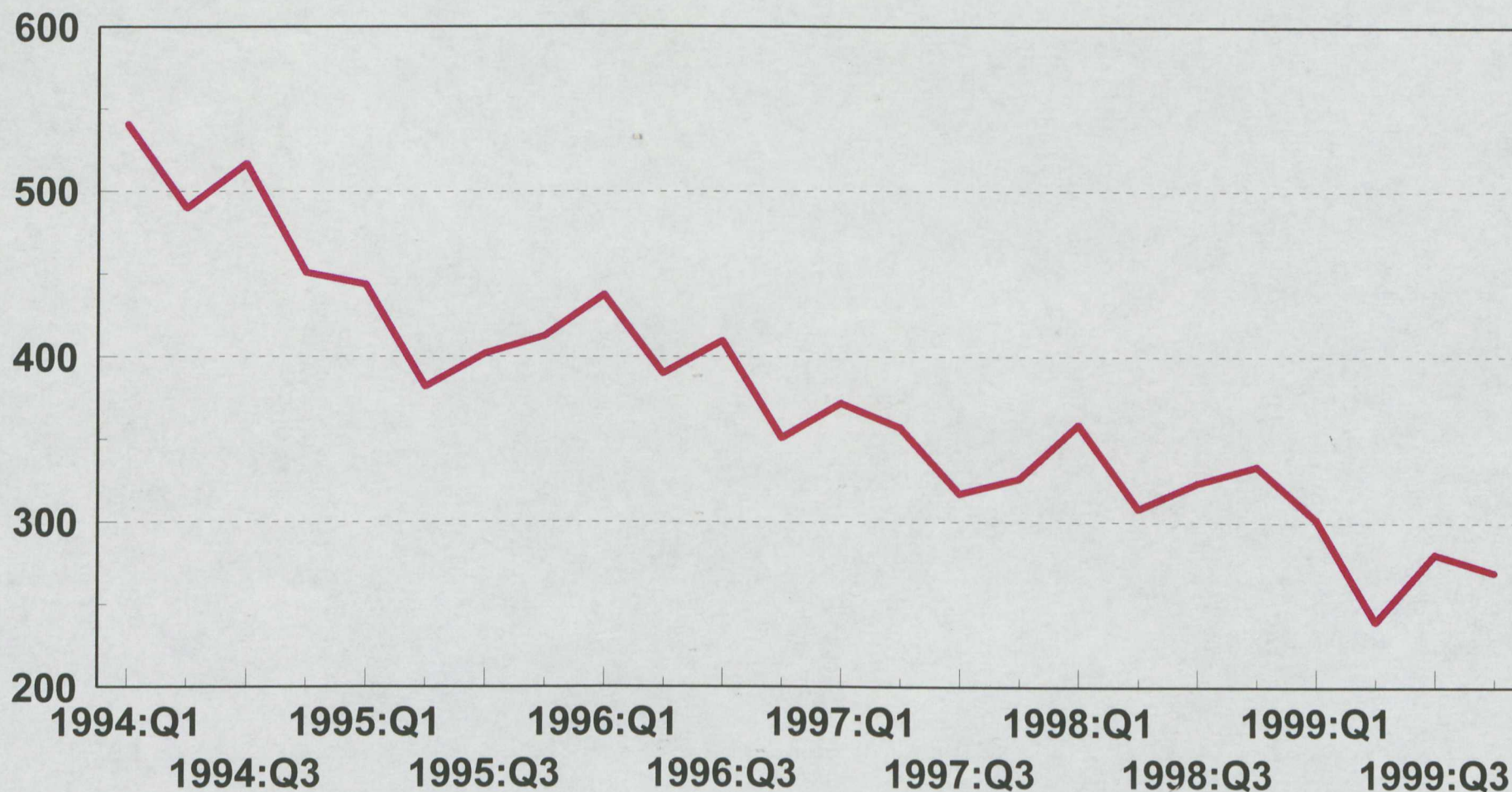
Percent



Source: U.S. Bureau of Labor Statistics

Number of Discouraged Workers in the United States

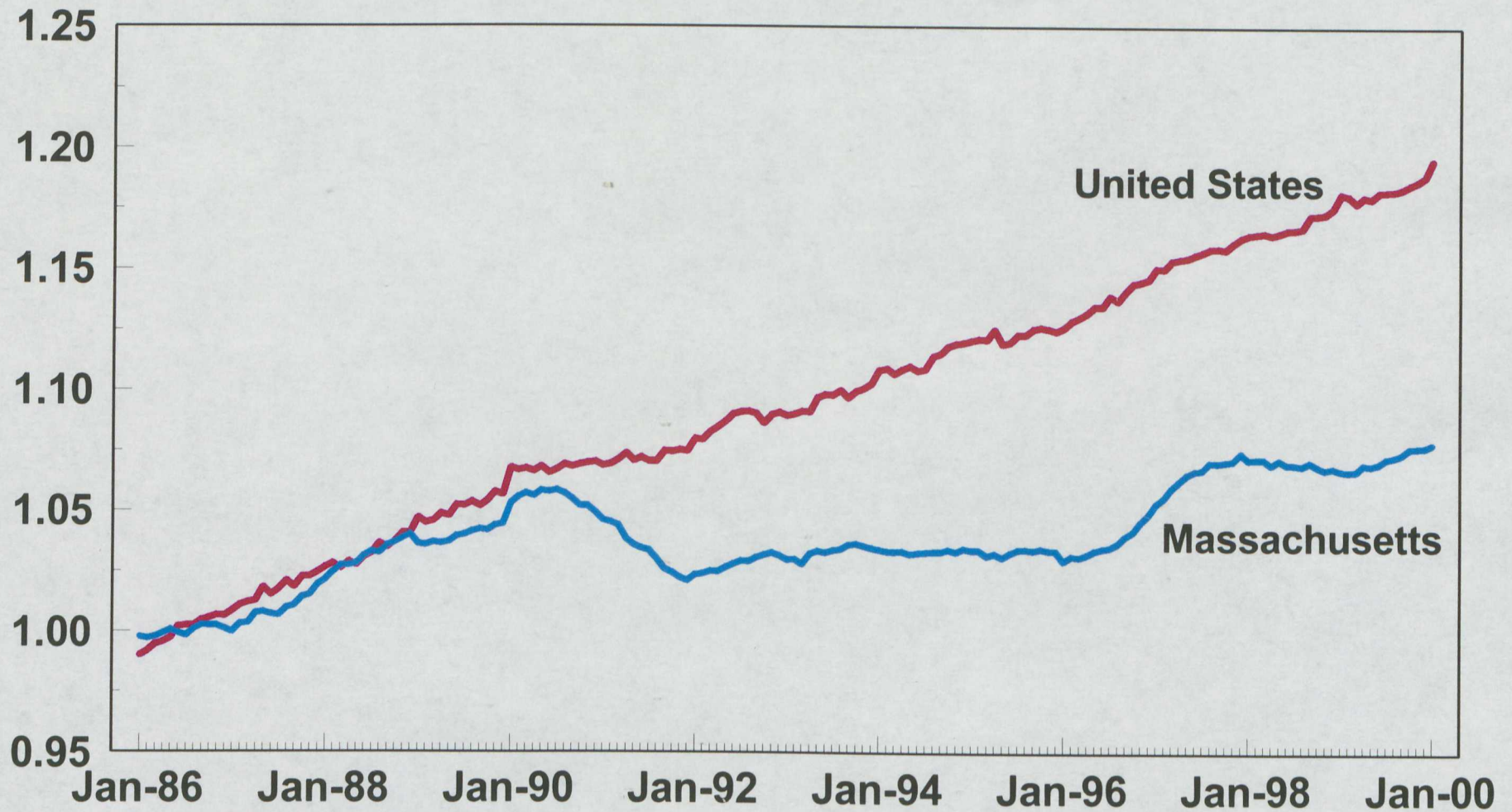
Thousands



Source: U.S. Bureau of Labor Statistics

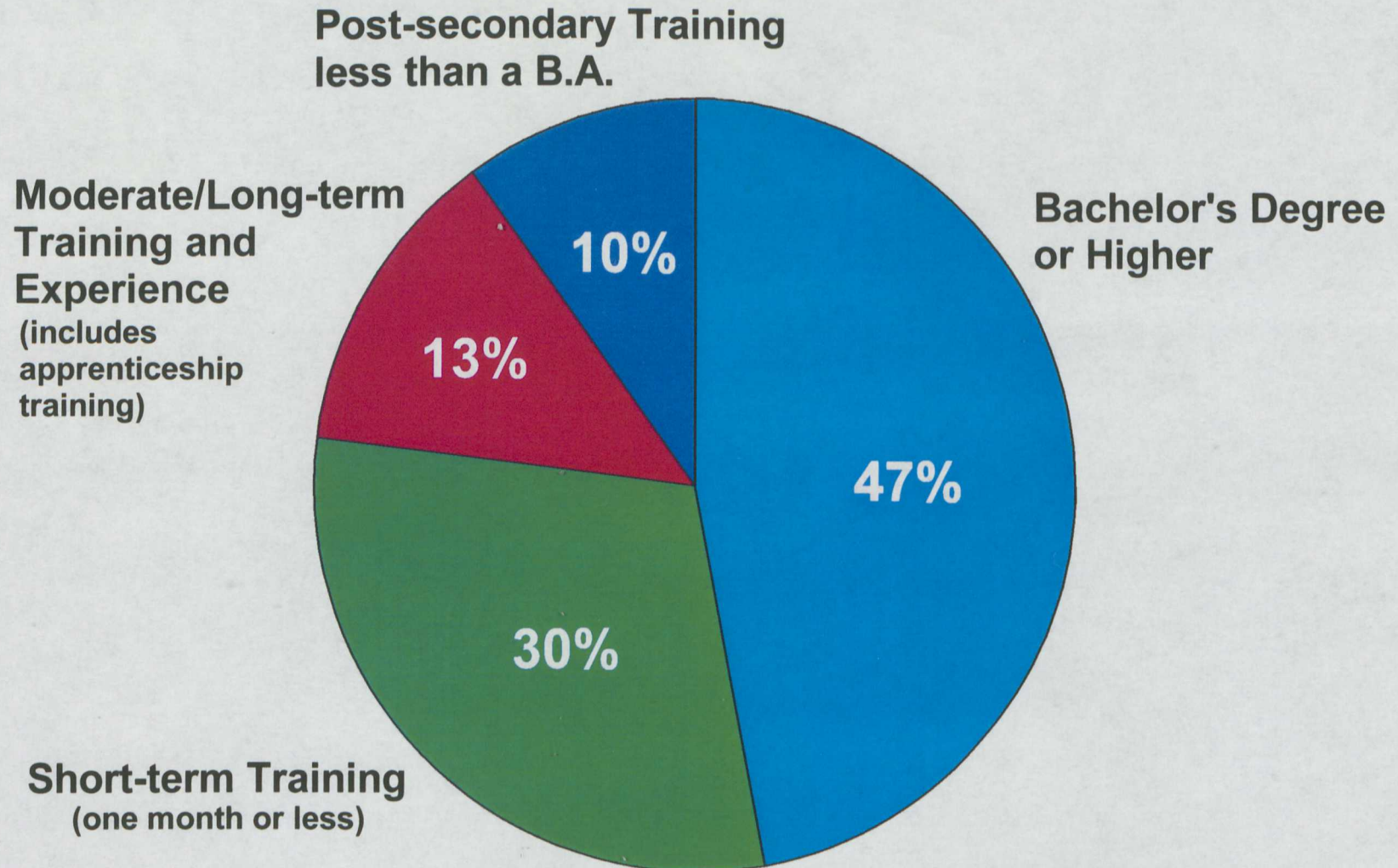
Labor Force

Index, 1986=1



Source: U.S. Bureau of Labor Statistics

Educational Requirements of Expected New Jobs in MA, 1996-2006



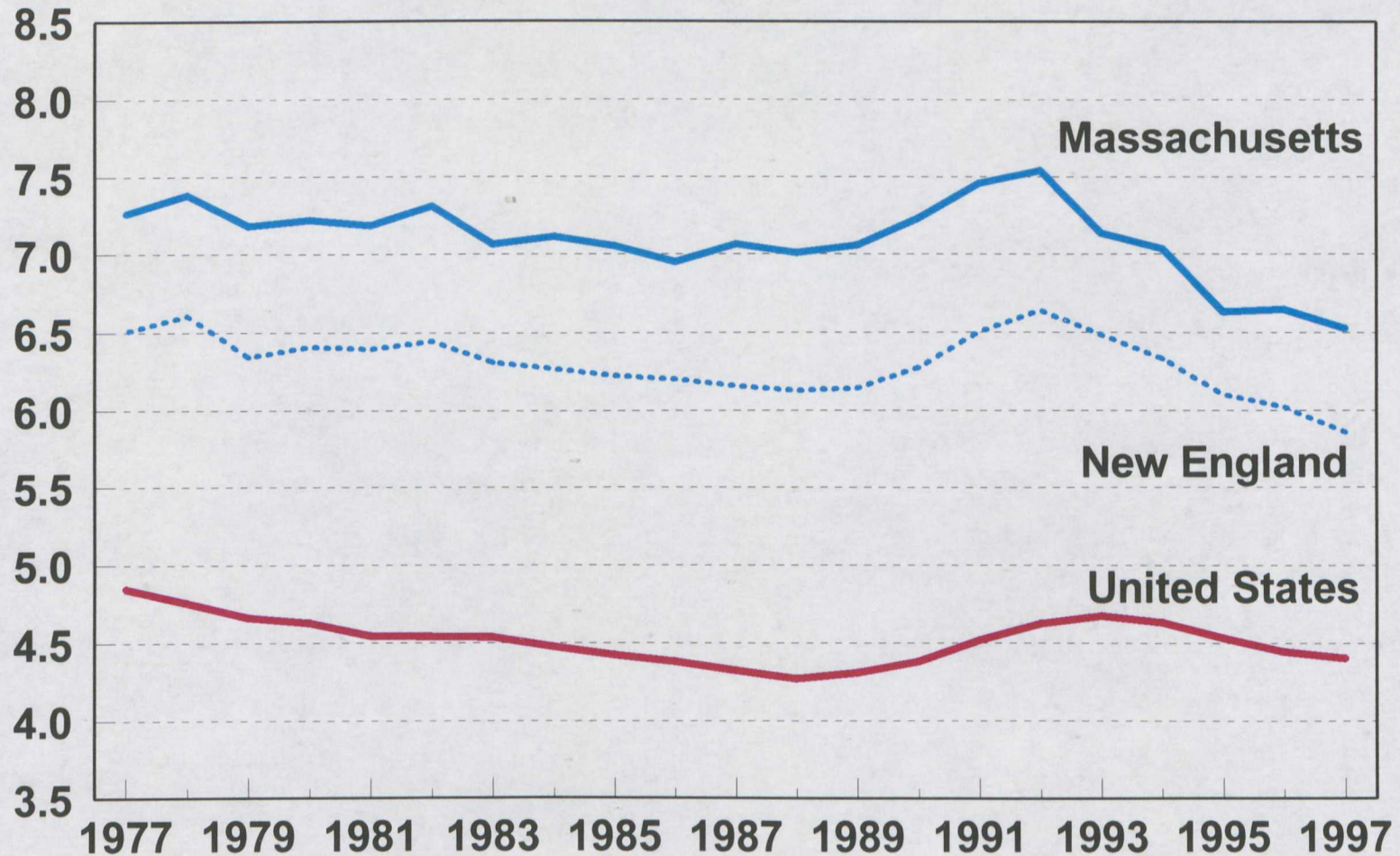
Source: MA Division of Employment and Training

Percent of Adults 25 Years and Over with a Bachelor's or Higher Degree

	1970	1980	1990	1998
United States	10.7	16.2	20.3	24.5
Massachusetts	12.5 (#12)	20.0 (#6)	27.2 (#1)	31.8 (#3)

Source: U.S. Bureau of the Census

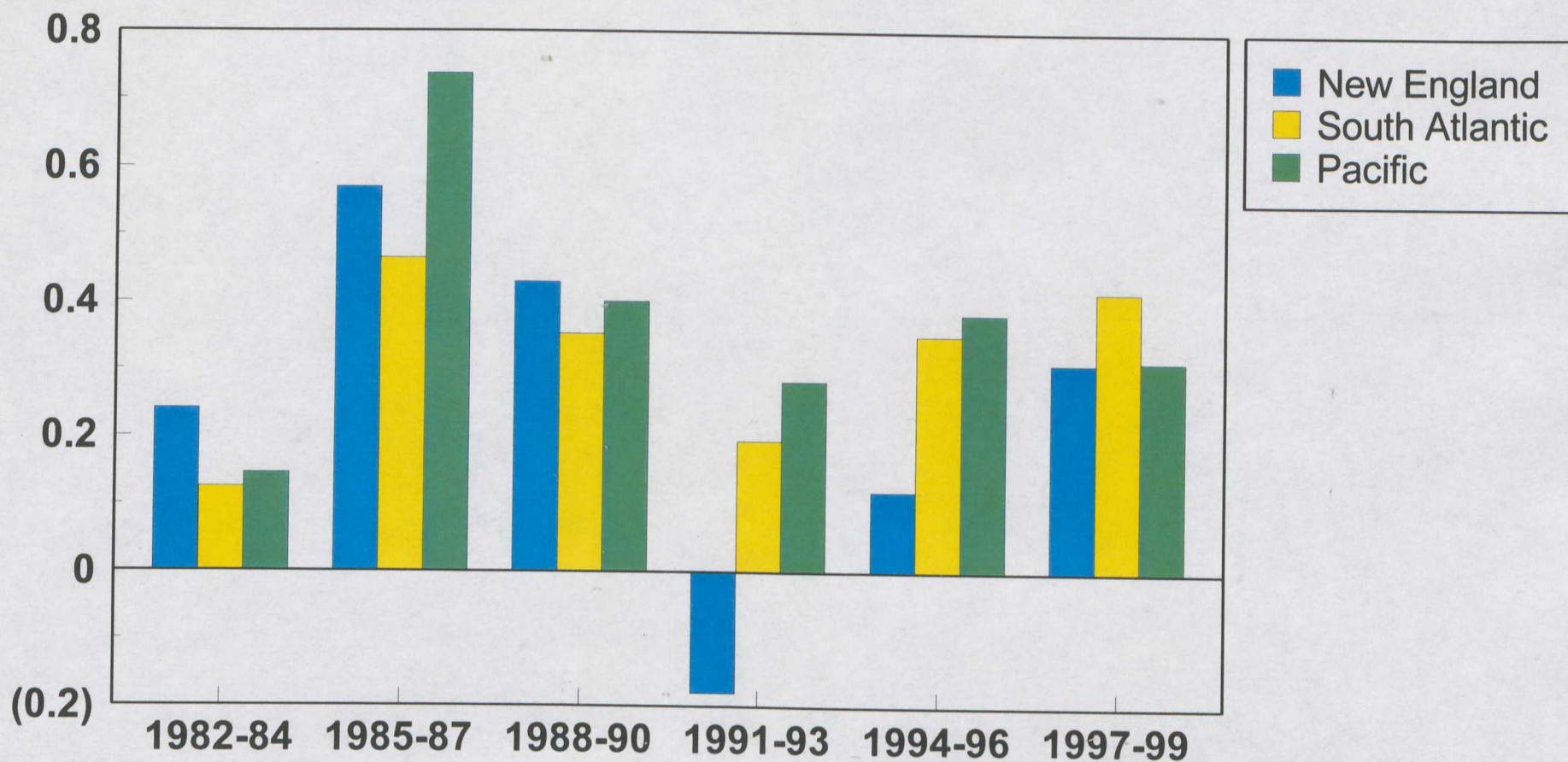
Bachelor's Degrees Conferred per Thousand Population 25 Years and Over, 1977 to 1997



Source: Integrated Postsecondary Education Data System, Current Population Survey, and U.S. Bureau of the Census

Net Migration into New England and Other Regions By Persons with a Bachelor's Degree (Percent of Persons 25 Years and Over)

Annual Averages



Source: Current Population Survey

Meeting the Challenge of Improving Employee Skills: Attracting Talent and Making the Most of What We Have

- **Pursue opportunities to reduce costs and enhance the quality of life**
- **Stay on course with public school reform**
- **Enhance incumbent worker training options**