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Maine Development Foundation Annual Meeting

by Cathy E. Minehan, President & Chief Executive Officer
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Thank you Henry. I want to thank The Maine Development Foundation for inviting me to join you this afternoon and share some of what we have learned about strategies for developing the work force for the next decade. I am a firm believer in the need for partnerships between business, academia and government to achieve the important objective of community development. The make up of today's audience is an ideal illustration of just this sort of effort.

By almost any measure, these have been unusually good economic times for our nation. In 1999, U.S. economic growth averaged more than 4 percent for the third consecutive year, and growth actually sped up at the end of the year and into this one. The U.S. economy has been growing steadily since mid-1991-by now the longest expansion in recorded U.S. economic history.

Growth since first quarter has been strong as well and while consumer and interest sensitive spending is slower now, prospects for the rest of the year seem solid. The federal deficit has been erased for the first time in several decades, and the vast majority of states have healthy surpluses as well. The nation's unemployment rate is at a 30-year low and the pool of people wanting work but unable to find it is smaller now than ever. Increased rates of productivity growth and competitiveness are more than ever the watchword of U.S. industry as businesses innovatively use technology instead of hard-to-find workers. Most importantly, real personal incomes for those workers continue to increase. Those at the bottom of the income distribution seem to be making gains, after years of stagnation, and this is truly good news.

Even the recent run-up in energy prices, so troubling for us here in New England, has not as yet pushed hard on the underlying core rate of inflation, though risks here are certainly on the upside. Indeed, the other major dark cloud on the horizon-the nation's growing external deficit-is itself a reflection of both the strength of our economy versus that of the rest of the world, and the attractiveness of our markets as a place for the world to invest. It is true that this deficit, reflecting as it does the lack of sufficient domestic savings and investment, has the potential to destabilize the current rosy picture, but that process, if it occurred to any great degree, likely would take some time to play out. So for now, and for some time, with careful policy choices, prospects seem favorable.

Maine and the rest of New England have participated in this strong economy. In fact, in terms of the rate of job creation during the past couple of years, Maine has outpaced not only the other five New England states but also the national average. And, in 1999, Maine-along with Massachusetts-- was among the top four states in the U.S. in income growth per capita. This rapid employment and income growth in Maine might be surprising to some, but I have seen over the last several years the dynamism of this state. Clearly, both the state of the national economy, and the hard work of Mainers themselves have brought new possibilities to many Maine communities.

What can we learn by reflecting on the success of the U.S. economy in recent years? What, if anything, is the tie-in to today's theme of education? And how best can Maine position itself to take advantage of future challenges and opportunities?

Let me start with some perspectives on the national economy. Past economic expansions have come to an end for a variety of reasons. Sometimes it has been the result of an unfortunate shock-such as the oil embargo of the mid-1970s or, more recently, the Persian Gulf War, which temporarily put a damper on consumer confidence and spending. In

other cases, the problem stemmed from too rapid a pace of economic growth in the face of resource constraints. Not very long ago, in fact, conventional economic wisdom--based on historical experience--held that the U.S. economy could not sustain growth in excess of 2.5 percent with unemployment rates below 5.5 percent without experiencing a substantial upturn in inflation. But, for the past several years, we have managed to grow faster than this conventional "speed limit"--without significant price pressures to the benefit of many of our citizens.

Why have the last few years been different? One could point to an absence of truly damaging shocks, perhaps also to some helpful public policies. Today, I want to highlight the critical role of productivity improvements. By productivity, I am referring to the output produced per hour worked. Throughout the 1980s, and even during the early years of this expansion, the growth in productivity averaged about 1-1/2 percent per year. But beginning in 1996, productivity growth just about doubled. And, astonishingly, in the most recent quarter, the pace exceeded 5 percent.

This acceleration of productivity growth has enabled the U.S. economy to achieve the longest period of expansion ever recorded. Higher rates of productivity growth have allowed the economy to continue to grow rapidly despite an ever more limited supply of available labor. Higher rates of productivity growth also have helped firms absorb some of the cost pressures associated with low unemployment rates.

Aside from prolonging the current economic expansion, productivity is important in a long-term context. It is as close as we can reasonably come to an unqualified economic benefit. It has the potential to make everyone better off. Productivity increases the size of the economic pie. As a result, productivity growth is the most important long-term determinant of the country's standard of living. If the economy's output can increase, using the same amount of effort, everyone can benefit.

And, like the magic of compound interest, small differences in productivity growth can yield large cumulative results over time. After twenty years, the difference between the 1.4 percent annual rate of productivity growth in the 1980s, and the 2.6 percent rate of the last half of the 1990s, will produce a 35 percent higher level of real national income. Put another way, this higher rate of growth--if sustained--means that the nation's standard of living would double in approximately half the time.

Can our good fortune continue? Clearly that is a major question. There is no doubt that some portion of current productivity growth is simply the result of the current phase of the business cycle--demand is strong and, in the short run, resources simply have to work harder to create the desired supply of goods and services. This so-called "cyclical" productivity growth slows as demand slows, bringing with it no long-lasting change. In contrast, change in the underlying capacity of the economy--that is, structural productivity growth--is the result of evolving improvements in the efficiency of underlying economic processes. The key to this type of long-lasting productivity growth lies in investment in the means of production, in technological change and in education of the workforce.

A central engine behind our current economic boom is the novel efficiencies that have resulted from what is called the Information Revolution. In just a few short years, the growth of computers and the Internet have changed much about the way that business is done. Earlier methods of data gathering and communication have been replaced by transactions that occur in "internet time". Of course, computers first started to be used by businesses as long ago as the 1950s. But many have argued that new information technologies have only recently reached a mass critical enough to allow them to have a substantial impact on the economy.

They draw an analogy with electrification. Although the incandescent light bulb was invented by Edison in 1879, at the turn of the century only 3 percent of all residences had electric lighting. It took another twenty years or so to reach 50 percent. Though it would ultimately have a marked effect on our economy, the economic benefits of electrification did not show up until fairly late. By the same token, as this argument goes, the use of computers has only recently become so widespread so as to have a pronounced effect on our economy. Along these lines, one recent study credits computers for close to two-thirds of the economy's recent pickup in productivity.

Investments in technology are important, albeit uncertain with respect to the timing of their impact. Just as important over the long term are investments in human capital. At least one study attributes a good share of the increase in productivity over the past half century to improvements in the quality of human capital. Increasing educational attainment is a major component in this increased quality. Education, innovation, creativity, even sheer effort: all of

these are tied to the quality of the workforce. This quality must continue to improve, if continued improvements in productivity are to be seen.

There are, of course, tradeoffs. As productivity increases, some people will be left behind. The classic example is the farmers who were compelled to find other occupations as a direct result of the increased productivity of modern farming methods. Closer to our direct experience perhaps is the mechanization of manufacturing. Although manufacturing's share of U.S. output has not changed much in recent decades, production of that output requires a shrinking share of the workforce. Though increasing productivity is a good thing on the whole, it can produce sharp disruptions in living styles and setbacks for some.

With economic change, displaced workers are a fact of life. There may well be jobs for them, but will they have the skills to fill these new positions? Two factors are important: first, the quality of the initial education experience, and second, the need for continual training and retraining. Increasingly, a good education must prepare a worker not just with the skills needed for a first job, but for a lifetime of continuing change. Beyond that, industries must focus resources on training and retraining incumbent workers. Particularly now, with levels of unemployment at a 30-year low, and a dearth of available labor in technical areas, the interest of business and labor coincide, with investments in training an increasing necessity from a business as well as worker perspective.

With this broad reflection on the sources of national prosperity as a backdrop, let me now turn specifically to Maine. It strikes me that, in various respects, Maine already has built up critical strengths in technology and human resources that make for a more productive state economy. Let me name but a few.

- The modernization of Maine's telephone system, which started back in the 1980s, has resulted, I am told, in one of the best telecommunications systems in the entire nation, and one that has real payoffs in today's information-oriented economy.
- Maine has been a pioneer in distance learning and, more recently, has made a strong commitment to linking public schools to the Internet.
- The high school dropout rate is low, resulting in an above-average rate of high school completion and providing an attractive labor pool for many employers.

You each could probably point to further examples. Yet, despite these demonstrated strengths, it also strikes me that Maine has opportunities for improving its human resource potential. As the Maine Development Foundation report indicates, Maine ranks low in terms of the fraction of the population with a bachelor's degree. The fraction of Maine residents with a BA remained roughly 19 percent during the 1990s while the fraction for the New England region increased from about 25 percent to almost 30 percent. Furthermore, the report highlights a survey showing that Maine adults are not increasing their participation in lifelong learning, thereby limiting their development of new skills. And while I alluded earlier to Maine's very high recent rate of personal income growth, the fact is that the average income in Maine remains more than 12 percent below the national average and 27 percent below the New England average.

It is well beyond my expertise, and the time available for this talk, to lay out a policy agenda to address these issues. Instead, I would encourage you to discuss the options at today's conference and in the coming months. For example, beyond the well-publicized efforts on linking public schools to the Internet, what is known about the quality of elementary and secondary education in this state and how this compares with emerging needs of employers? Another set of questions revolves around why not even more high school students from Maine pursue a college education, despite the enhanced earnings opportunities that result from having a university degree. Is the primary barrier a lack of adequate preparation? The high cost? A lack of information?

Other parts of the country, including Massachusetts, have embarked on a concerted effort to design curricula to meet high standards and to evaluate educational attainment in a more systematic manner. The aim is to improve elementary and secondary education and, ultimately to increase students' receptivity to learning later in life-whether in training programs or in a college and university setting.

Another area in which I have been personally involved is school-to-career. In Boston, nearly half the school system's high schools have been restructured around small units focused on career paths - such as health care or finance. For the

students in these pathways, classroom work is linked with workplace realities as students both study and work part time. Over the last several years, this has produced students who do better than their peers, who come to school, stay in school, and go on to two- and four- year post high school education at astonishing rates. These students see the real world, and what skills are necessary to make it in the every more competitive U.S. economy.

By now, I'm sure you recognize that I am a firm believer in the role of education and training in raising living standards. Some of you may have lingering doubts, however, about whether even a general strategy that works nationwide or in southern New England can work here in Maine. The downside risk is that you make the investments in education, but this just means that more of your young people move away to where the "good jobs" are. They leave the state. Or they forsake the already struggling sections of the state for the more prosperous sections, resulting in an even wider disparity between the so-called "two Maines".

This is a real risk. And this is why investment in education is only one part of a successful economic growth strategy. To benefit Maine, education policies must be combined with a simultaneous economic development effort aimed at attracting and fostering new businesses that rely on a high quality, well-educated work force.

Given Maine's success in creating jobs in recent years, it's clear that a lot of the important groundwork has been laid. Ongoing improvements in telecommunications and transportation connect different parts of the state with each other and with the outside world. In addition, the state's scenic beauty and the civic-mindedness of its residents are real drawing cards for attracting new businesses. The missing link in improving the average quality of new jobs is providing more educated and trainable workers that businesses increasingly need. In this regard, businesses demand demonstrable measures of success: What are your students learning in school? What skills do they have? What improvements has your state made?

I envision that this conference will be the starting point for very useful discussions about the future of Maine. I hope you do not get stymied in a debate on what should be first on the agenda: improving the quality of the workforce or attracting high quality jobs. In truth, for Maine, the whole thing should work as a virtuous cycle-the availability of higher quality workers leading to the creation of more high-paying jobs, and the availability of high quality jobs inducing more youngsters to pursue the education and training needed to fill these positions.

In closing, I often say that central bankers are paid to worry about the economy. I confess that is how I occupy much of my time-identifying economic risks and participating in charting what I believe is an appropriate stance for monetary policy given those risks. Our nation's economy has seen a remarkable run over the last several years; so much so that it is necessary to keep reminding oneself that when things are about as good as they can get, they only have one way to go. We as policymakers must be cautious, even vigilant, and forward-looking, but if we are, there is considerable cause, I think, for optimism.

I am pleased to see so many people engaged in improving Maine's economy, and making those long-run improvements that will keep the state going through cyclical ups and downs. I wish you all the best in the very important work you have before you.

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