

## **Annual Meeting of The Boston Industrial Development Financing Authority**

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I am very pleased to join you in celebrating 30 years of impressive accomplishments on the part of the Boston Industrial Development Finance Agency. As Mayor Menino and Mark Maloney have indicated, the Agency will be playing a significant role in the City's future development.

If anything, the recent economic slowdown has increased the importance of BIDFA's activities. Employment in Massachusetts in January fell nearly 2 percent from a year ago, and the state's fiscal situation has deteriorated even more sharply. The state faces difficult economic choices, and Boston and other municipalities will share in the pain.

However, both state and city have been through worse times in the past. In particular, times were far more difficult 30 years ago when BIDFA was founded. My remarks today will reflect on how circumstances have changed and the ways in which shifting attitudes and willingness to work together have created the vibrant city that is Boston.

When BIDFA was founded to help small businesses get access to market funding, Massachusetts was just recovering from one recession — and not long from entering another. The 1970-71 recession was more severe and more prolonged in the state than the nation, and the state's recovery was anemic. Unemployment rates in the state were above the national average through the early 1970s and topped 12 percent in the 1975 recession. Massachusetts was more dependent on defense spending than many states and suffered disproportionately as the Vietnam War wound down. The closing of the Charlestown Navy Yard dealt the city a particular blow. At the same time, traditional industries came under increasing competition from overseas producers, as well as the South.

In Boston, statewide difficulties were compounded by competition from the suburbs for both jobs and people. Boston's population had fallen from 800,000 in 1950 to 640,000 in 1970. It lost another 80,000 during the decade of the '70s. Its manufacturing sector contracted. And while the opening of the Prudential Center in 1965 is seen by some as the start of the City's comeback, the skyline of the early 1970s was still flat compared to many other large cities.

Additionally, a high degree of discord characterized economic and social relations in both state and city. Historic tensions between English and Irish and between labor and business had a strong influence on many government officials. I am told many displayed considerable suspicion towards business. The state was in the forefront of environmental and consumer regulation in the 1960s and embraced the war on poverty enthusiastically. State and local services expanded rapidly. Taxes increased. In 1968 Massachusetts ranked 20<sup>th</sup> among states in its state and local tax burden. In 1973 it ranked 6<sup>th</sup>, earning the nickname Taxachusetts and reinforcing a reputation for a bad business climate.

In Boston, there were additional sources of tension. Urban renewal and land clearing for highway construction had displaced many low- and moderate-income families. Concerns over housing shortages, discrimination in lending, and block busting were widespread. There were also rivalries between city and state leadership. It was not an auspicious time for BIDFA to be launched, but it was a very important time.

To some degree, things got worse before they got better. The economic downturn of the mid-'70s created a severe fiscal crisis in which a default on state debt was a real possibility. In Boston, economic tensions were intensified by social

conflicts. Efforts to address racial segregation in education, resulting in the imposition of court-ordered busing, divided the city.

Nevertheless, progress began to be made on several fronts. The performance of the state economy in the second half of the 1970s was stronger than almost anyone expected. High technology industries, especially computers, emerged as an important economic driver. Of particular benefit to Boston, the services sector grew strongly, especially health care, financial, business and various professional services.

The decade also saw a pickup in building in the city. New office towers appeared, the Boston Fed building among them. We began planning our office tower in the 1960s. At the time, the area was very run down, and South Station was distinguished more by its pigeons and its many homeless than by its lively food court. Building on this site was a bold act by then Boston Fed president Frank Morris. I believe that it was done, in large part, as a statement of commitment to the city. It has proven to be both visionary and catalytic.

Attitudes were also changing. The severity of the 1975 recession was a chastening experience. Political leaders became more sensitive to business concerns. Governor Dukakis named members of a new generation of high tech business leaders to a task force on capital formation. Although out-spoken and sometimes impatient with government, they were fresh faces and they promised new jobs if the state could get its act together. In 1978, based on the task force's recommendations, the state established several institutions designed to finance capital formation and direct funds to lagging areas and activities. As important as the institutions themselves was the precedent for public-private cooperation.

An example of such cooperation in another arena was the creation in 1979 of the Private Industry Council, chaired by Bill Edgerly, then head of State Street Bank. The PIC subsequently played a lead role in the establishment of the Boston Compact and in driving education reform in the City of Boston, and it continues to play that role today.

I should also mention the passage of Proposition 2 ½ in 1980 as an event that shaped both the economics and the culture of the state. Prop 2 ½ caused severe hardship for many high tax cities and towns, and especially for Boston; but it started the demise of Taxachusetts. The restrictions imposed by Prop 2 ½ led not only to a reduction in local property taxes, but also to a substantial increase in state aid to communities, a curtailment in state as well as local spending, and a reduction in state and local taxes overall.

The past two decades have been remarkable years for both state and city. The state experienced an economic boom through much of the 1980s, driven first by high tech and financial services, and later by construction. Boston's skyline was transformed with the addition of many new office buildings and hotels. Employment increased in many finance and services industries. And the City's population increased — modestly, but the first gain after three decades of sharp decline.

A downside to these developments was sharply rising housing costs. Another negative was that manufacturing employment continued to decline, even more sharply than in prior decades. But there was a new element to the problem. The story was not simply the old tale of ailing manufacturing firms that could not compete or of companies eager to move to the suburbs. Rather, viable firms were being pushed out because their land was more valuable for commercial and residential development than for industrial use.

The decade of the 80's ended with a recession. The decline was much more severe in Massachusetts than in the nation, as the state's booming construction and real estate industries collapsed. Many banks failed. Once again, the state faced a fiscal crisis. Massachusetts increased taxes and cut spending, including local aid, aggressively.

In the city, the anxieties over the fading economy were compounded by rising tensions over allegations of discrimination in mortgage lending and predatory lending (or second mortgage scams as they were called then.) However, in addressing both the faltering economy and allegations of discrimination, public and private sectors showed an ability to work together forged in the hard times of the '70s. The banking industry exhibited a welcome openness to improving its lending performance in low-income and minority communities. Several institutions composed of bank and community representatives were formed to address the credit needs of these communities; outreach was substantially expanded.

Prosperity returned almost stealthily. Job growth in the first part of the 1990s was modest; but with sluggish population growth, the Massachusetts unemployment rate fell below the national average at mid-decade. When the pace of growth in the nation picked up, people in Massachusetts realized, almost to their surprise, that Massachusetts was sharing in the expansion — an expansion that became progressively more vigorous as the decade wore on. It was an expansion that again favored many activities important to Boston — securities, professional and business services. The city experienced a second decade of population growth.

The recent slowdown in the national and state economies poses challenges. The falloff in state revenues has been abrupt and will require difficult actions. The state's income tax collections were buoyed by bonuses, stock options and capital gains, and these have suffered in the current downturn. But, the situation is very different from that in the late 1980s and early 1990s. And it is far, far different from that of the early 1970s when BIDFA was created.

Massachusetts in the early 1970s was viewed as a mature, possibly declining, economy, and Boston's circumstances were even worse. Today, both state and city have track records of success. They prospered in the national expansions of the 80s and 90s. They also demonstrated considerable resiliency in recovering from economic downturns.

Today is also distinguished from 30 years ago by a history of effective collaboration between public and private sectors and greater collegiality between city and state. Community representatives are now welcomed as important players in the policy development process and as partners with business and public officials. Business has become a leader in education reform, and in providing jobs to those coming off welfare.

These collaborations of public and private sectors have led to successful initiatives in workforce development, and to improvements in the public schools. Indeed, graduates of Boston public schools now are more likely than their peers nationwide to go on to post-secondary education—and that includes students from the suburbs as well as other inner-city areas. And more and more of them are doing well not just relatively but absolutely as measured against the standards of MCAS. Achieving success here is a major challenge, but the private/public partnerships borne out of the travails of the '70s have been and will continue to be critical to meeting that challenge.

Indeed, some of the most challenging problems facing the city today are a function of its success. It is good that people want to live in the city, but that is contributing to the high cost of housing. It is good that the city is an attractive location for office buildings and hotels, but its appeal for those uses threatens to squeeze out smaller industrial and commercial activities — making the city a less diverse and a less vibrant place. It is also good that the city's growing firms seek employees even now in a downturn, but the skill levels needed are in short supply.

Thus as BIDFA, and the city more generally through the BRA's Boston Back Streets program, contemplates its investment strategy for the years to come, I would like to urge that workforce training be part of the equation. As chair of the Boston Private Industry Council, I have had the opportunity to work with city officials to develop employment and training strategies that meet employer and community needs simultaneously. Now as in recent years, these efforts are defined by the scarcity of qualified applicants for many available positions.

This suggests an opportunity in the short term. As BIDFA makes its investments, an effort should be made to identify the specific jobs that will be created or sustained. Boston residents who need these jobs and could qualify, given the right preparation and training, should be identified. Ways should be developed to allow employers receiving support from BIDFA to upgrade the skills of their employees, allowing them to become more productive.

The PIC and the Mayor's Office of Jobs and Community Services have developed new models of employer engagement in workforce training that could be coupled with BIDFA's investment strategies and decisions. By linking these initiatives, we can maximize the effectiveness of the limited public monies available. I am confident that we can make the right matches between job seeker and employer through Boston's career centers if we make workforce preparation part of the planning process.

In conclusion, I would like to thank you again for the opportunity to participate in the 30<sup>th</sup> anniversary of BIFA and to reflect upon how far the city has come over this period. The city continues to face difficult challenges, but many of these are an outgrowth of the city's success in establishing itself as an attractive place in which to live and work, a desirable

location to visit, and, for many activities, a wonderful place in which to do business. The spirit of public-private sector cooperation that now exists has created an environment in Boston which the political, business, labor and community leaders of 30 years ago could only envy.

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