

**Remarks by Cathy E. Minehan, President  
Federal Reserve Bank of Boston  
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- past two years have been difficult for the Greater Boston area
- economy has been stagnant
- employment has slipped. Employment in Massachusetts has fallen 3 percent since early 2001. This compares with a decline of 2 for New England as a whole and less than 1 ½ percent for the nation. At 5.1 percent, the unemployment rate in the Greater Boston area in December was still lower than the national average, but three years earlier the Boston area unemployment rate was just 2.1 percent.
- the larger employment decline in Massachusetts reflects the unusual pattern of this period of economic weakness. Investment spending and particularly investment in high tech equipment fell sharply, whereas consumer spending held up remarkably well. In addition, the weak stock market has adversely affected securities firms, investment banks, and mutual funds.
- In other words, this has been a difficult period for those sectors where Massachusetts, and especially the Boston area, is most strong.
- situation is not terrible. In the recession of the early 90s, employment in Massachusetts fell more than 10 percent and the unemployment rate in Greater Boston rose above 8 percent
- but there is a sense of malaise – recovery keeps being put off another six months
- there is concern that persistent economic weakness may intensify
- state's fiscal situation contributes to the gloom
- but perhaps biggest anxiety is the sense that there is no economic driver
- what will restore vibrancy to the economy?
- this is something of a familiar refrain, however, and I think we may take a little comfort from past history

- I was not here in early 1970s, but I have been told that the end of the Vietnam War and cutbacks in aerospace program fell more heavily on NE than the nation and that the region lagged the national recovery
- concerns about competition from Sunbelt state were intense. Then, too, the state faced a severe fiscal crisis
- the mood was very pessimistic
  
- however, the second half of the 70s saw the rise of mini-computers and other high technology industries. These transformed the Massachusetts and especially the Greater Boston economies. Both in reality and in the public mind. No longer was Massachusetts seen as a mature, perhaps declining economy. Its image became one of dynamism and innovation
  
- The minicomputers seemed to come from nowhere. And in some sense they did. Although DEC was founded in the 50s, it was a relatively small firm until the early 70s. Other prominent firms were started in the late 60s.
  
- But their foundations lay in Greater Boston's research universities, the growing supply of the highly educated workers, the area's sophisticated financial institutions and the pre-existing base of electrical equipment and machinery manufacturers
  
- in part because of high tech, Massachusetts fared comparatively well in the recessions of early 80s. For most of the decade, the state enjoyed a remarkable degree of prosperity. Some of you may recall this time was called "the Massachusetts miracle". And it was something of a miracle, with the state's per capita income rising from about 105 percent of the U.S. average in the late 1970s to more than 120 percent
  
- by the late 80s, however, problems were emerging
  
- minicomputer industry was in decline, unable to cope with the inroad of the personal computer
- defense-oriented manufacturers faced cutbacks with the end of the Cold War
- a boom in real estate masked the problems for a time, but when boom turned to bust, Massachusetts experienced its steepest job loss of the post WW II era

- the recovery was gradual and especially in its early years, the public mood was gloomy. The economists at the Boston Fed were repeatedly asked “What is the next mini computer industry? What will propel growth in the future?”
- The economists did not have a satisfying answer. They would usually say, “It will probably not be one big thing. Most likely a lot of different industries will drive the Massachusetts economy.” And they would cite the Boston area’s great research institutions, its highly educated workforce, its diverse economic base – and its past history of overcoming adversity - as reasons for optimism
- It was an unsatisfactory answer. But then people stopped asking. They still wanted talks about the economy. But they stopped asking “what will drive the economy?” For good times had returned.
- By 1997 the Massachusetts unemployment rate had fallen to 4 percent – a full percentage point below the national rate. And it kept falling, reaching 2.6 percent in the year 2000. In the Greater Boston area, the unemployment rate fell to 2.1 percent.
- And what was responsible for this prosperity? The broad industry divisions that we commonly use to describe growth are not very informative. Manufacturing continued to decline, although slowly. Services, which accounts for over 30 percent of employment, continued to expand. Non-bank financial services also grew. Construction was very robust.
- Looking more closely one can see that software and communications were important sources of growth in Massachusetts. These were recognized as areas of strength in the early 1990s, but their growth surpassed expectations.
- A few large companies emerged from relative obscurity, EMC being the most notable. But they were not as dominant as the minicomputer industry some 20 years earlier. Much of the growth in the 1990s was propelled by the activities of many relatively small, relatively unknown companies

- To a large degree, the Bank economists were right. A lot of industries contributed to Massachusetts' success in the second half of the 1990s. But even they have been surprised that such a vibrant economy would have developed largely through a profusion of smaller firms.
- The economists were also right in stressing that importance of the state's highly educated workforce, great universities and diverse economic base. For the defining characteristic of the Massachusetts economy in the late 1990s was that it was on the leading edge of many new developments.
- The term "new economy" has now fallen into some disrepute; but in many respects, Massachusetts was on the forefront of the new economy. And it was there by virtue of its intellectual capital and capacity for innovation. As the *Boston Indicators Report* points out (on page 12), the Boston area ranks very high according to every index of competitiveness that is based on indicators of innovation or creativity.
- Nevertheless, the Massachusetts economy is in the doldrums today and we look anxiously for the firms and industries that will lead us out
- In the near term, it is difficult to be optimistic. The national economy is growing only modestly; and with strong productivity growth, employment is stagnant. In Massachusetts employment continues to drift down. Most forecasters, including the Boston Fed, expect that the recovery will gain momentum as the year progresses. A diminution of global uncertainties would be a great help in this regard. Massachusetts will follow the national pattern, but most likely with a lag. Thus, we probably will not see much improvement in the Massachusetts employment situation until late in this year or early 2004
- Looking further out, however, I think there are many grounds for optimism about the Massachusetts economy. But my optimism is not grounded in specific industries or specific firms. As I have tried to indicate, past periods of prosperity have often involved firms and activities that simply were not on the radar screen in times of distress. Rather, our prosperity has derived from our knowledge base and our ability to sustain our competitive advantage in this arena, even as other parts of the country have tried to emulate us

- We cannot be complacent. As *Boston Indicators* stresses, the number of young adults declined more sharply during the 1990s in Greater Boston than in the country as a whole. Presumably reflecting this, enrollments in Massachusetts institutions of higher education did not keep pace with growth nationally during this period. And there are other reasons for concern.
  
- But there are also reasons for optimism. I for one am struck by the fact that Massachusetts' educational advantage, by some measures, is greater today than it was in the early 1970s, when the state emerged as a high tech leader. Back in 1970, 13 percent of the Massachusetts population had 4 or more years of college compared to 11 percent nationwide. Today, 33 percent of the Massachusetts population has 4 or more years of college, compared to 24 percent nationwide.
  
- I think that the emergence of the life sciences as important economic cluster is a very positive development. It brings an element of diversification to our computer-oriented technology base. At the same time, there are appear to be intriguing synergies with existing strengths.
  
- The New England Council's Creative Economy Initiative has highlighted the economic significance of creative industries (which include the arts, design, and media, as well as the activities of individual artists.) While their contribution to the region's quality of life and its attraction for skilled workers has long been recognized, thanks to the Council we now recognize that they are a significant economic force in their own right
  
- So I am optimistic about the future of Greater Boston. But I base my confidence in the area's intellectual capital and history of being on the forefront of new developments. Do not ask me to identify the specific firms or industries that will be driving our economy ten years from now