Remarks by
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I am delighted to be here today to address such a distinguished gathering of business and community leaders. It is always a pleasure and a learning experience for me to meet with people outside our main office in lower Manhattan. But we are not strangers to New Jersey. In fact, as some of you may know, we have our main processing facility in East Rutherford. At our operation center there, we handle more than $1 billion in cash and over 3 million checks every day for banks throughout the New York-New Jersey region. Many of our staff of 600 are active within their communities throughout the State, personifying the Bank's commitment to being a valued corporate citizen. It is a commitment we all take very seriously.

In addition, I recently had the pleasure of getting to know some of the up-and-coming new generation of Jerseyites. A team of what I can only call super-achievers from Matawan Regional High School won the New York Fed's 1996 high school competition for a mock briefing of Fed policy makers. They went on to place second in the national competition in Washington D.C., although we are certain that an unbiased judge would have found them second to none. These teenagers mastered complex economic concepts and presented them to the Bank's senior management in a compelling and sophisticated format. All of us were impressed and I can only applaud the students from Matawan and the parents, teachers and school administrators who gave them the opportunity and the tools to succeed.

This afternoon, I would like to begin my remarks with some comments about the performance of the national economy, and then turn to the regional economy and that of New Jersey. I would also like my time with you this afternoon to be a conversation. I encourage your observations and comments, as well as any questions.

Turning first to the national economy, I must say that I am very pleased with the cyclical performance of the U.S. economy. We are now in the sixth year of continuous expansion. The underlying fundamentals of the economy -- represented by consumer, business, and financial company balance sheets -- remain vastly improved compared with those of the late 1980s. The inflation story has also been good. Over the first half of 1996, core consumer price inflation actually went down from around 3 percent to around 2 3/4 percent, a very positive picture for any period, but particularly welcome now, at this stage of a lengthy economic expansion. The unemployment rate is around 5 percent, which most economists would agree is close to full employment. The manufacturers and retailers among you in the audience, know that spot shortages of skilled labor have been cropping up for months and this is a factor we watch carefully.

Growth of wages has begun to increase somewhat recently, but in this era of global competition there remains some question as to whether that necessarily is a harbinger of a faster pace of price inflation. Heightened foreign competition may lead domestic producers to reduce profit margins rather than pass along price increases. Indeed, recent experience suggests that it is difficult to identify with any precision the so-called "natural rate" of unemployment associated with intensified inflationary pressures. There is no easily-seen red light that clearly spells danger for the economy, or even an unambiguous yellow warning light. I disagree, though, with those who feel that the current good behavior of prices means we can ignore signs of intensified use of labor and capital resources. While high rates of resource utilization may not immediately result in inflation, most economists believe that it will lead to accelerating price increases in time. Thus, the Fed must remain vigilant with regard to incipient signs of inflation. It is clear that the failure to contain price inflation at its earliest stages only makes it more difficult and costly to bring it under control later.

Despite the good news of our six year expansion, there is growing frustration with the fact that the economy is not providing a large number of our citizens with a more rapidly rising standard of living. We are at a point in our history where the economy's long-run potential growth rate is substantially lower than it was in the 1960s, or even the 1970s. In part, this is the result of our labor force growing rather slowly due to demographic trends. But more important, the gains in labor productivity continue to be disappointing. Over this business cycle, productivity growth has averaged only a little above 1 percent; we have not observed in the economic data, at least not yet, any productivity miracle from the significant investments in computers.

Higher rates of overall economic growth are neither necessary nor sufficient to increase the well-being of the mass of the population -- that depends on how the economic pie is sliced. While recent academic research suggests that the longer an expansion continues, the greater the opportunity for disadvantaged groups to join the labor force in productive employment, President Kennedy may have overstated the benefits of faster growth in his well-turned phrase "a rising tide lifts all boats." But there is little question that a sturdy and sustainable rate of growth will help to ease the task of dealing with crucial problems that face our nation, such as providing for the retirement of the baby boomer generation and raising the living standards of the poorest persons among us.

I don't think that we should just wait for some high technology miracle to generate higher growth. It may come some day, but we cannot count on it. We must do more to raise the overall level of savings in our economy so that we can finance more investment in physical and human capital, as well as public infrastructure, the things that history has proven will raise overall living standards. Our investment in human capital -- the education of our young, the disadvantaged and the workers with obsolete skills -- is an investment with a payoff in increased productivity and growth.

In the New York-New Jersey region we cover, the economic recovery has come more grudgingly than it has to the nation as a whole. The 1990-91 recession hit the region harder and lasted longer than was the case in most of the rest of the country. There is no doubt that, throughout the region, the continued downsizing in manufacturing and the bursting of the bubble in real estate values contributed to the plodding advance. Nevertheless, New Jersey certainly has been the regional leader. Since the recession's trough, New Jersey has recouped about two-thirds of its job loss. The net additions to employment are all the more remarkable because they have developed despite corporate restructuring at some of the nation's largest utilities, banks, and pharmaceutical manufacturers which are located in New Jersey.

Job growth has been particularly good in management, computer and financial services, and restaurants -- sufficient to more than offset the losses at AT&T, and at other utilities and manufacturers. New Jersey's financial sector continues to flourish because business costs remain favorable compared with those in New York City, attracting some who have found it desirable to relocate here. Service employment is growing rapidly, reflecting the demand for all types of business, amusement, and recreational services. Employment in wholesale trade and at malls and fast-food outlets is rising. Even construction employment is picking up, mainly due to the work on the facilities at Newark airport and the rise in new home construction. The growth in jobs and income has been felt in the resale housing market, where prices have firmed and are now rising moderately in many areas in the state.

New Jersey's economy is likely to continue its gradual recovery. Despite the potential for some moderation in U.S. economic growth in 1997, economists at the New York Fed believe that the State's job growth will accelerate modestly to 1.1 percent in 1997 from 0.9 percent in 1996. Stated differently, we expect roughly 40,000 new jobs will be added next year in New Jersey. The acceleration in job growth is largely the result of continued strength in the region's key private sectors and a slackening of the recent rapid pace of decline in manufacturing and utilities. The restructurings will continue, but at a slower pace and with less of a drag on overall job growth.

Business and consumer services are expected to be the driving forces for private sector job growth next year. Jobs in health and social services also will contribute, although consolidation and cost cutting trends in hospitals will moderate the rapid pace of recent years. These gains will be tempered by mergers and acquisitions within the banking sector, but any job loss at banks next year is likely to fall short of those in 1996 -- which saw one of the largest mergers ever, with the union of Chase and Chemical. New Jersey is also a high cost state and further consolidations within manufacturing -- particularly at pharmaceutical companies -- cannot be ruled out, but our economists believe that these sectoral rates of job loss are likely to moderate.

Let me add that job growth is only one measure of economic well being. Personal income also is growing at a reasonable clip in New Jersey -- about on par with that of the nation. But, because New Jersey's population is growing very slowly, per capita income in New Jersey remains among the highest for all states -- second only to Connecticut. New Jersey continues to be a wealthy state. These healthy gains in per capita income bode well for retail sales and retail trade employment.

It is true that there are many challenges ahead for New Jersey and its cities and counties: the shifting of budget responsibilities from the federal government to states and the rapid pace of technological change are just two. But such changes are not one-sided problems. Technological advancements may reduce manufacturing employment in New Jersey, but they also make it possible to attract financial services such as back office operations to Hudson County and trading operations to Princeton. In addition, technological change sets a framework for the development of new industries and new occupations that may well lead the State's economy forward in the years ahead.

We should also remember that strength and the opportunity for change frequently come from adversity, and the resilience of our citizens cannot be underestimated. Despite mergers, corporate restructurings and acquisitions, many of which have involved firms in and around Morristown, the unemployment rate actually has declined slightly over the past twelve-months, to 6 percent as of August, and the local economy has added over 4,900 jobs. This fall, AT&T Labs, the newly formed research arm of AT&T, will establish its headquarters in Florham Park. Megabox stores, such as Home Depot and CompUSA, have opened here and boosted retail employment. Infrastructure programs continue to address the need for, and maintenance of, community facilities, such as the Performing Arts Center in Newark, the MetroMall, and the improvement projects in and around Newark Airport. The convenient and upgraded facilities at Newark Airport have not gone unnoticed by the business and international traveler. Today, the number of flights from Newark stands at an all-time high. For those of you unfamiliar with MetroMall, that project is the transformation of an abandoned 166 acre landfill site to a productive, super-regional mall. When complete in early 1998, the outlet center is expected to generate 5,000 full and part-time jobs.

This mature region of New Jersey is far from staid. Northern New Jersey remains a national leader in pharmaceutical manufacturing, and the merger of Sandoz AG and Ciba-Geigy will create the second largest pharmaceutical company in the world. Similarly, the reorganization of AT&T is expected to transform a giant public utility into a giant modern multi-media conglomerate. The region is rich in corporate headquarters, households at the top of the income ladder, and not coincidentally, households with above-average levels of education at the college and post-graduate levels.

The rich resources of this region bode well for its vitality and future, even as the region continues to experience rapid change. New Jersey is fortunate to have several local universities of national repute that engage in collaborative arrangements with the private and public sectors. Last year, the New York Fed and the New York Academy of Sciences co-sponsored a conference on technology and economic development in the region. Speaker after speaker underscored the special roles that universities and other centers of higher learning play in our society -- creating knowledge through research, training the next generation of scientists and workers, and engaging in partnerships to link research innovation to product development.

The communities in northern New Jersey have been doing especially well in these areas. As a case in point, the enthusiastic participation of your high schools to our monetary policy competition suggests that you, as parents, are working to maintain strong school systems and inquiring, hardworking students. In addition to Matawan Regional High School, we had teams from Franklin Lakes, Ramapo, Ridgewood, Somerville, Waldwick and Newark, to name just a few of the entrants. But more remains to be done to cement the symbiotic relationship between institutions of learning and exploration, and the businesses that adapt their research, employ their graduates and provide the basis for long-term economic well-being.

I believe that the business community and civic leaders in particular can most directly promote economic well-being by taking active, participatory roles in the education and training of our region's youth and workers. The same forces that continue to reshape the region's economy -- industrial restructuring, global competition and rapid, persistent technological change -- are the ones that have put enormous strains on much of our workforce and educational establishments. Without greater direct linkages to businesses in our communities -- in both capital and human resources -- students and the schools they attend will lack some of the tools they need to achieve their potential.

Every one of our organizations can and must do more to bolster the readiness for work of all who are entering, and others who have been, in the region's labor force. At the New York Fed, we have committed substantial effort to the development and implementation of a wide range of participatory programs geared mainly toward easing students' transition from school to career and toward developing a better understanding of business, economics, and finance.

For most of the public, the reputation of the Federal Reserve will continue to be measured mainly by our success in promoting economic growth with price stability, rather than by our interactions with educators and students. But we, as you, must also respond to the social needs of our community. In that context, the bank will continue to work both independently and with community leaders to help make the Second Federal Reserve District a better place to live and work. Thank you.