I am delighted to be here this evening to address such a distinguished and dedicated gathering of community leaders, educators and students. Dr. Ronald Applbaum, President of Kean College of New Jersey and chairman of this dinner, represents a most important audience -- today's students and the leaders of tomorrow. Many of you are a productive, contributing member of society. Our host, the New Jersey Council on Economic Education, targets one narrow but vital aspect of education -- raising the economic literacy of the students and their teachers in the Garden State. We all know the importance of computer literacy, but economic literacy is of equal or even greater importance because it provides a fundamental framework for evaluating critical questions that our children will face as teenagers and adults. The bedrock of our democracy is prudent decision-making by an informed citizenry -- and many of those decisions require an economic evaluation. Under the leadership of the New Jersey Council on Economic Education, students are introduced to the importance of the free enterprise system and the elements that make it work. New Jerseyites are indeed fortunate to have the Council's programs to supplement the day-to-day academic curriculum and introduce basic economic concepts. I commend the Council for its important work, and the leadership and members represented here tonight for their contribution.

New Jersey has grown well beyond the stereotypical bedroom community to New York City. Today the "local" economy is truly the greater metropolitan area -- stretching from Northern New Jersey to lower Connecticut to Montauk Point, Long Island. The many strengths of the metropolitan area as a financial and business center, and as a desirable place to live and work, are of great importance to me and my institution, the Federal Reserve Bank of New York. As you know, the New York Fed plays a special role within the Federal Reserve System in the implementation of monetary and exchange rate policies largely by dint of its unique location in the financial capital of the United States, if not the world. In addition, the New York Fed has a critical, though often underappreciated responsibility for maintaining the nation's payment systems that rely heavily on many components of New York City's infrastructure. The New York Fed employs some 3,500 people at our headquarters in Manhattan and our operations center in East Rutherford, New Jersey and thus has a large stake in the economic and social well-being of the metropolitan area. In that context, my Bank takes very seriously its responsibility to be an active, contributing corporate citizen.

Today, I would like to begin my remarks with some comments about the performance of the national and regional economies. Next, I will discuss with you a major challenge that must be addressed head on by the business community of the greater metropolitan area, in partnership with state and local governments. It is a challenge that this community has begun to meet but more must be done and we need to act sooner rather than later.

Let me start with a few words about the economic picture for the country as a whole. The national economic expansion, already one of the longest of the post-World War II era, is entering its sixth year and shows few, if any, signs of coming to an imminent conclusion. In fact, I am quite encouraged in many ways by the recent performance of most of the key indicators of current and future cyclical conditions. One of the most positive features of the ongoing expansion is the continued good news about inflation. Consumer price inflation, while up slightly during the first three quarters of this year, gives no indication that it will accelerate persistently over the months ahead. In fact, during the third quarter of this year, inflation slowed to just 2.3 percent. But, if the rate of inflation continues to be contained in the coming months, one could say that "the beat goes on." As you may recall, the CPI increased by about 3 percent or less in each of the last five years, a record unequaled since the 1960s.

I think it's fair to say that at least some credit for the nation's favorable inflation performance belongs to the forward-looking policies set by the Federal Open Market Committee. The FOMC's policy of monetary restraint, which began in February 1994, brought about a much needed slowing of aggregate demand, which had started to run well ahead of the economy's productive capacity. That move was not without its critics, coming as it did well before most analysts and economists had forecast an uptick in the rate of inflation. The Fed's pre-emptive strike against the threat of inflation was necessary, however, because monetary policy works with long and uncertain lags. Although most of the effects of monetary policy on output take place within one to two years, its effects on inflation take even longer -- on the order of three years. Thus it was clear to us in 1994, and it's just as clear today, that the failure to contain inflation at its earliest, incipient stages only makes it costlier and more time-consuming to bring it under control later.

Although actions by the FOMC play a major role in containing inflation and weakening inflationary expectations, monetary policy, in and of itself, cannot serve as the wellspring of real long-term economic growth. It does not lead directly to the incorporation of new businesses, the renovation of more malls or the expansion of computer service organizations. Real growth over time results from increases in the quality, productivity and supply of both labor and capital, and from innovations in the way these factors of production are used. What monetary policy can do is raise or lower the rate of money supply and credit growth, and help to move interest rates to levels consistent with the goal of economic growth with price stability. In the process, the Fed's actions and pronouncements can influence the expectations and confidence of consumers and businesses and, thereby, what they do in the various economic and financial market places. Only by the Fed muting both inflation and inflationary expectations can households, businesses and governments make the decisions and take the steps that create jobs, profits and the steady rise in output from which everyone in our society benefits. Thus, monetary policy can best help to foster economic growth by ensuring the continuation of a stable price environment.

Over the last five years, economic growth has come more grudgingly to our region, the states of New Jersey and New York, than it has to the nation as a whole. The 1990-1991 recession was unevenly diffused in its effects and hit our region earlier, and hung around longer, than was the case in most of the rest of the country. Although the region has regained some of the employment lost in the previous cycle, the recovery here has not been nearly as vigorous as the national recovery and subsequent expansion. In New Jersey, a succession of large-scale restructurings in the chemical, pharmaceutical, and communication sectors, several mergers in the financial sector, and the bursting of the bubble in real estate values all have contributed to the region's plodding advance. The resulting loss of thousands of jobs has been a major impediment to a vigorous overall recovery in employment.

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 some significant job losses at several large companies. 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 cost-effective 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, due mainly 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,
New Jersey's economy is likely to continue its gradual recovery through next year. 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 close to 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. Business and consumer services are expected to be the driving forces for the private sector. The restructuring will continue, but at a slower pace and with less of a drag on overall job growth.

It is true that there are many challenges ahead for New Jersey's 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.

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. And, because per capita income in New Jersey remains among the highest for all states -- second only to Connecticut, New Jersey is indeed a very wealthy state. The income ladder, and not coincidentally, households with above-average levels of education.

One risk too frequently given only glancing attention by members of the business community is the threat to the social fabric caused by disparities in the distribution of this wealth and income. Over the last twenty years or so, growth and prosperity have not been shared widely enough, and the less educated and poorer segments of society have lost ground. One cannot be sanguine about this widening gap. Over the long term, I am convinced, strong economic growth can be sustained only if the benefits of the economic pie -- more and better jobs, higher incomes, improved housing and a higher standard of living -- are shared by all parts of society, rich and poor, skilled and less skilled. This is true everywhere in the world, but no place more so than in our own region.

What could many of us in this room do to help narrow the disparity in income and wealth without sacrificing the well-being of the institutions we represent? Admittedly, this is an enormous and complicated challenge.

I believe that the business community and civic leaders can most directly promote economic well-being by taking active, participatory roles in the education and training of our region's youth and workers. It would be easy to stand before you and preach the gospel of education, and tell you what you already know -- that such a pursuit is important and right. Who could ever disagree? Instead, my message today is that our focused attention on education and training is needed urgently and indispensable now. The business community must take an active role in the development of our region's human capital or risk facing a serious, and permanent, mismatch between the skills we need to run our businesses and those possessed by the pool of available workers. Our school systems are doing what they can and should have our total support, but they can no longer do enough by themselves.

While the need to match the skills of workers to the list of available jobs may sound like an evergreen issue, it has new dimensions in the 1990s that, in my opinion, expand our current challenge to unprecedented proportions. 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 work force and the educational establishments. Students nowadays require an array of skills far beyond the three R's that shaped most of us here today. Telecommunications, computers, the information superhighway, and even television have made obsolete the standard curricula that prepared education for decades, and they have changed the mix of knowledge, skills, and experiences students and workers must develop in order to function well today.

In addition, the service-based economy, which, like its manufacturing counterpart has grown very capital intensive, also requires keyboard, reasoning, customer service, and communication skills more complex and advanced than those of previous generations. These challenges arise with great suddenness, at a time when school budgets have been stretched as never before. The failure of the business community to help schools now will mean that our businesses won't be able to hire the kinds of workers they need to benefit fully from the business opportunities opening up to us. It also will mean that income and wealth disparities among groups will widen still further and the social fabric of the region and, indeed, the nation will become badly frayed.

Every one of our organizations -- business, academics, government or social services -- 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. The investment will be meaningful, and it doesn't have to be very expensive. Whether we run large enterprises with thousands of employees, or small establishments with but a few, we have to use our doors as entrances to the world of work rather than barriers. Educators tell us that individuals learn best by doing, by participating actively in tasks, and by experiencing those tasks in new environments. We can do something about that.

Many of us can do something about it by increasing the number and variety of internships we offer, and by expanding the work-study and school-to-career programs we offer so that learning comes from doing, and not just by sitting in classrooms. At the New York Fed, we have committed substantial effort to the development and implementation of a wide range of participatory instructional programs geared mainly toward easing students' transition from school to career and toward developing a better understanding of business, economics and finance. In addition, we have a strong commitment to the training of educators throughout the Second Federal Reserve District in a variety of subject areas in which we have expertise. In the last two years, the Bank has hosted meetings and seminars for teachers of economics, finance, law, social studies, political science, consumer economics, government, and education; we also hosted or arranged conferences for administrators, department chairpersons, principals and assistant principals, while working to help shape the secondary schools' social studies curriculum. For the educators, the collaboration has provided needed additional resources, ideas, and training; for the Bank, the time and resources devoted to these efforts help us to fulfill our community responsibility while raising the readiness for work of thousands of students in the region from whom we, and perhaps you, will draw to meet future human resource needs.

Let me give you an idea of some of the more successful of my Bank's programs. We have an Econ Explorers Club that teaches elementary and middle school students how to gather, chart, and analyze data. Another program brings high school teachers to the Bank for four days in order to gain a better understanding of how policy is made and implemented. Throughout their stay, they do as I might in the days prior to an FOMC meeting -- they get the same kinds of briefings, read the same kinds of reports, meet with the same staff members as I do.

One of our most recent and exciting ventures is a competition among high school students that has earned national recognition, though it's only in its second year. One team of five students from each participating school has 20 minutes to present an analysis of current economic conditions, a forecast, and a monetary policy prescription before a panel of judges consisting of senior-level New York Fed staff; the judges then have 10 minutes to pepper the teams with questions, and believe me, the judges pull no punches. This year, 40 high schools from the metropolitan area took part with four schools from the Buffalo area. Let me add that the winning team came from Matawan, New Jersey and they delivered a rigorous multimedia analysis with sophisticated presentation skills that would make any professional group proud.

In addition to these innovative programs, we also engage in a host of more traditional activities with the schools in our district. These include Join-a-School partnership, summer internships, a mentoring program and several career days. We also provide intellectual support to Classroom, Inc., a non-profit organization that has created outstanding computer-based simulations of enterprises in various industries.
All of these collaborations have the benefit of improving the preparation of teachers and the performance of students. They also involve staff of the Federal Reserve at all levels, encouraging volunteerism and civic pride, while providing concrete opportunities to participate actively in the achievement of a major objective of our institution. While the specifics of the New York Fed's programs focus on what we do, there is no doubt that everyone in this room has the potential to engage in similar projects in your areas of specialization. It's good business to do so, and it responds to a major civic imperative.

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. Over the months and years ahead, I will continue to advocate a monetary policy that promotes price stability, without which long-term economic growth will not be possible. Such a policy stance would be favorable, not just for the nation but for our region as well. Our region, with its many interest rate-sensitive industries, has prospered when decision-makers in the public and private sectors have confidence that the Federal Reserve was committed to a rigorous set of policies that promoted price stability, in a growth-oriented environment. Price stability also promotes innovation and confidence, both of which lead to jobs, and it paves the way for the entrepreneurship that gives hope for the future to the people who live here.

The New York Fed also must respond to the social needs of our community. In that context, my 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. We firmly believe that our efforts to improve educational opportunities contribute to that mission, though we remain very aware of the challenges that lie ahead to narrow the gap in income and wealth among groups.

I encourage you to join with me and many others in committing our organizations and ourselves more fully to the task of meeting this challenge head on.

Thank you very much.