People and Prosperity in Northeast Pennsylvania

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Good afternoon. It is a pleasure to be with you today. As you just heard, I am new to my position as president of the Federal Reserve Bank of Philadelphia, so I want to thank Howard Grossman for giving me this opportunity to introduce myself and share some thoughts with you.

As most of you know, the Federal Reserve Bank of Philadelphia is one of 12 Reserve Banks across the country which, along with the Board of Governors in Washington, form the Federal Reserve System – the nation's central bank.

The Fed's essential mission is to create a financial environment that fosters maximum economic growth and full employment on a sustained basis. Our primary tool for achieving that goal is monetary policy. We influence short-term interest rates, which influence overall growth of money and credit, and, in turn, overall growth in the demand for goods and services.

As I am sure all of you know, the Fed's monetary policy-making body, the Federal Open Market Committee, or FOMC, met on Tuesday. All of the Reserve Bank presidents attend the FOMC meetings and participate in the discussions on current economic policy and share their views about their regions. The last meeting concluded as every one does, with a vote on current policy. There are 12 votes on the FOMC – the seven Governors and the president of the New York Fed always vote; the remaining four votes rotate among the 11 other Reserve Bank presidents. Philadelphia voted in 1999 and will again in 2002.

But, voting aside, an important part of my job as president of the Philadelphia Fed is to present the economic conditions and aspirations of the Third District in the Fed's monetary policy deliberations. Our District includes the eastern two-thirds of Pennsylvania, as well as southern New Jersey and the state of Delaware.

It is in that spirit that I am particularly happy to be here today and to participate in this dialogue on the issue of labor force growth and development in Northeast Pennsylvania.

Strong, sustained growth in the national economy is essential to the economic prosperity of all of its regions, but particularly of the northeastern United States. Because we are not a high-growth area, the negative effects of downturns tend to arrive here early, and the benefits of expansions take some time to materialize.

Fortunately for our District, the national economy has done remarkably well in recent years. The United States is currently enjoying the longest economic expansion in its history. The expansion began back in the spring of 1991, so it is nearly 10 years old. And it has actually improved with age. Since 1995, growth in the nation's output of goods and services has doubled to better than 4 percent per year, while core consumer price inflation has declined into the range of 2 to 2-1/2 percent per year.

More important for our purposes today, this strong-growth, low-inflation environment has turned the American economy into a real job-generating machine. The unemployment rate has dropped to 4 percent, its lowest level since the 1960s.

At the same time, increases in wages and benefits have outstripped inflation. For the first time in many years, real compensation has been increasing steadily. And good job prospects and rising real wages have been drawing a larger proportion of our population into the labor force. In 1999, a record high 64.3 percent of the working age population was employed.

The fuel for this high-growth, high-employment job machine is a marked acceleration in the growth of labor productivity. Spurred by the desire for greater profits, and constrained from raising prices by global
competition and judicious monetary policy, firms have been looking for ways to increase output without increasing per unit costs. Their number one solution: increase productivity by investing heavily in new computing and telecommunications hardware and software.

Their solution has worked and is still working. From 1990 through 1995, non-farm business productivity grew at 1-1/2 percent per year. From 1995 through 1999, it grew at 2-1/2 percent per year. It has been estimated that two-thirds of that acceleration can be attributed to new investment in high-tech equipment. In the first half of this year, non-farm business productivity grew at over 3-1/2 percent. So, it seems high-tech investment is still making a substantive contribution to strong economic growth.

Many of the benefits of the strong national economy have come to the northeastern United States, including the state of Pennsylvania. Pennsylvania’s unemployment rate has fallen from a peak of 7-1/2 percent in 1992 to just 4 percent today – about the national average. The unemployment rate in northeastern Pennsylvania’s largest metro area, Scranton-Wilkes Barre-Hazleton, has been cut in half, falling from a high of 10 percent in 1992 to 4-3/4 percent now.

Unfortunately, we cannot make too much of these numbers. Much of the decline in the unemployment rate locally has been the result not only of a pickup in employment growth, but also of the relatively slow growth in our labor force. Throughout this expansion, the rate of employment growth in Pennsylvania has been 1.1 percent per year, just half the rate of employment growth in the nation as a whole. The unemployment rate fell here because our labor force grew by just 0.3 percent per year, one-quarter the national growth rate.

To some extent it is a simple matter of demographics. Our population is older than the national average and so its natural rate of growth is relatively slow. But we are also losing people, including working age people, to other parts of the country. Pennsylvania ranks 47th out of the 50 states in terms of net domestic migration. Furthermore, partly because Pennsylvania does not border on any other country, foreign immigration into the state is relatively small. As a result of all these factors, Pennsylvania’s population increased less than 1 percent between 1990 and 1999.

These factors have had a particularly strong impact on urban places in the northeast part of the Commonwealth. Both Scranton and Williamsport recorded declines in their labor forces during the 1990s.

This notwithstanding, the good news is that the pattern of strong, steady national growth is likely to continue, thus providing an environment conducive to continued economic growth – and perhaps more robust population and employment growth – in Pennsylvania.

The challenge, of course, is to take advantage of this opportunity. To take full advantage of the national expansion, a region must be an attractive place for growing industries and for productive, creative people. You, as this region’s business, labor, community and civic leaders, recognize this challenge and are looking for ways to help meet it.

So, what will it take to give this region a comparative advantage over other regions when it comes to attracting people and businesses?

I do not think there is any single strategy that is guaranteed to succeed. In fact, I would say that the strength of your agenda today is the multifaceted approach it implies. As an old finance professor, I have a special affection for the approach of assembling a diversified portfolio. However, I do think that there are certain elements that must be part of any successful regional development strategy in today’s economy.

A successful strategy must recognize the national, and even international, imperative for businesses to achieve high worker productivity by exploiting the opportunities that new information processing and communications technologies offer. At the same time, a successful growth strategy must recognize and address the particular advantages and disadvantages of a region. These can make a critical difference when businesses and people decide where they will locate. I would like to spend a few minutes talking about each element.

First, consider things from the perspective of today’s national and international marketplace. We know that companies will continue to feel the competitive pressure to increase productivity. The quest for productivity
will continue to lead them to use more and newer technologies ever more effectively. And we know that using these technologies will involve employing a better-educated workforce. So, today, building a solid educational infrastructure is essential just to stay in the game. My sense is that this imperative will only grow stronger over time.

In April of this year, Chairman Greenspan spoke at the National Skills Summit hosted by the US Department of Labor. He talked about how innovation heightens the demand for education and knowledge. I'd like to echo and expand on his thoughts because I think they are relevant here today.

At the turn of the last century, businesses concentrated on using new technologies to economize on the amount of manual labor required in the production process. Work in craft shops shifted to factories, then to assembly lines. Initially, these shifts required little change in skills. But with automated continuous-processing and batch-processing manufacturing came the uses of more complex machinery that demanded greater skill to maintain and operate.

By contrast, by the close of the century, businesses were concentrating on using new technologies to economize on the amount of mental labor required in the production process. Information technology improved our capacity to compute, sort and retrieve information, and acted on the results. Thus, it improved the efficiency with which we handle routine mental tasks.

In some instances, using these new information technologies required little in the way of new skills on the part of the user. For example, the scanner at the grocery counter puts few demands on the store clerk, and word processing software puts relatively few new demands on typists.

As we enter the new millennium, however, making good use of new information processing technologies requires a more skilled and more knowledgeable workforce. And, as time goes on, that required set of skills and the breadth of knowledge will grow.

As a long-time student and practitioner of finance, I can attest to the powerful revolution that new information technologies have worked in the financial services industry. These technologies are now moving through other sectors, changing the ways we produce, store, and distribute goods and services. Yet, e-commerce is still in its infancy. And we have yet to explore the contributions that information technologies can make to health care and the quality of life. Think of the kinds of creativity and conceptual capacity that the developers and users of these computer applications will need for their workforce to deliver their full potential.

Just last week, I had the opportunity to meet the head of a bio-tech firm in the Princeton area. The firm is intimately involved with the project of mapping the human genome. He himself holds a Ph.D. in biology, runs a mid-size research-based business, and is an active member of the local technology council. He has a clear view of the future in which the combination of information processing technology and medical research will completely revolutionize the ways in which diseases are diagnosed and treated within my lifetime.

That encounter drove home several points. First, in order to fully exploit the potential offered by new technology, we need people who have deep technical backgrounds. We don't all need Ph.D.s, but all firms need an educated workforce. Second, these people must also have the creativity and vision to see new possibilities and new ways of doing things. Third, they must be able to move from concept to reality, working effectively with others to develop a business plan and set a course of action.

How do we develop and retain these kinds of people? I think part of the answer is to expand and enrich our entire educational infrastructure.

Our District is home to some great colleges and universities. Princeton, Penn, Penn State, and Lehigh are among the nation's top fifty universities according to US News & World Report. And there are many other excellent institutions, both public and private, located in our area – some represented here today. All of these institutions represent a strategic advantage on which to build when it comes to developing talent capable of engaging in basic research, developing new high-tech products and services, and formulating workable business plans for bringing products to market.
But there is more. Sweeping innovations in the application of information technology will challenge us to provide mechanisms for members of the workforce at all levels to adapt to significant change on a continuous basis. Many other institutions have important roles to play if the region is to succeed in this dimension.

A high school or college diploma is no longer the guarantee of a lifetime career. It is an early milestone in a lifetime of learning. People will have to learn and apply a wide range of skills over their working lives. So we need a flexible education system that integrates work and training. To a large extent, these capabilities are being developed today by community colleges and corporate universities, and through greater use of distance learning.

In addition, the pressure to enlarge the pool of skilled workers requires that we strengthen training and educational programs for those with lesser skills. This is where partnerships with public agencies, including welfare-to-work and school-to-work programs, can be of particular value.

In short, developing a complete educational infrastructure is essential for competing successfully against other regions for economic growth in today's economy—and tomorrow's.

A second essential element is providing what I would call a complete community infrastructure to attract and retain the talent developed here and elsewhere.

To compete successfully for economic growth, a region must offer its residents the amenities of life. Communities must offer good schools, clean and safe streets, convenient shopping, and ample opportunities for leisure and recreation, if they are to attract talented and creative people.

Of course, this is nothing new, but it is particularly important in today's economy. Innovations in information processing and telecommunications technologies give firms more freedom than ever to locate substantial portions of their operations wherever the workers are. Workers, in turn, want to be where the quality of life is good and the style of life suits them. Workers go where the amenities are. So, there is an important comparative advantage in being the kind of place where talented and productive people will want to live and work.

Clearly, the changes occurring in our environment make both education and amenities key elements in creating an economically vibrant region. But other factors weigh in these decisions as well. When businesses choose a location, they also consider other factors, such as taxes, access to capital, and geographic location. Before closing, I want to emphasize that quite a few of them are working in our community's favor.

First, tax reform and deregulation of the energy sector have helped level the playing field for Pennsylvania. The burden of state business taxes and workman's compensation costs have been lessened, and electricity deregulation has gone more smoothly here than in many other states.

Second, the financial capital to begin new enterprises is available in our District. A national survey of venture capital firms by PricewaterhouseCoopers includes 38 such organizations operating in the District. These local venture capital firms raise lots of investment dollars. The challenge for people in the area is to tap these resources, and show the necessary entrepreneurial spirit to warrant consideration. Capital is mobile, and venture capital firms invest their funds in the economic hotspots, wherever they may be. At present, those funds are more likely to go to “Austin or Boston” than to stay in our area. But the proximity of these venture capital firms is an opportunity to be exploited, and I challenge you to do so.

Third and finally, even in the world of e-commerce and virtual reality, geography counts. While the population of the immediate area is not growing rapidly, we are just hours by highway from New York, Philadelphia, and the whole Northeast Corridor. From a business's point of view, the states along the Northeast Corridor represent 60 million potential customers — nearly one in four Americans — and the businesses that support them. Moreover, land for expansion is still available at relatively low prices here.

In short, there are some significant advantages that Northeast Pennsylvania brings to the table, when it comes to getting its share of the economic growth and development that our nation is experiencing.
Let me conclude by saying the national economy is essentially strong and will continue to be strong. Certainly, we at the Federal Reserve are committed to doing all we can to sustain maximum growth and full employment. I applaud you in your work of bringing the full benefits of the national expansion to the communities of Northeast Pennsylvania. Thank you once again for inviting me to be part of the discussion today, and I look forward to sharing ideas and perspectives with you in the future.