Reasons for

Optimism

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Photograph by Frank Leone

Federal Reserve Bank of Boston President Cathy E. Minehan with Marty Meehan, U.S. Representative from the Massachusetts Fifth Congressional District, and David Hartleb, president of Northern Essex Community College, at a July 2006 conference in Haverhill, Massachusetts.

Cathy E. Minehan, *President and CEO of the Federal Reserve Bank of Boston, delivered a longer version of this speech during the July 2006 convening of the Bank's Community Development Advisory Council at Northern Essex Community College in Haverhill, Massachusetts.*

People sometimes wonder why the Federal Reserve is involved in community development. Well, one of the jobs that Congress gave us involves making sure that financial services are accessible on a broad and fair basis. To do that, we use both a stick and a carrot. Our bank examiners assess what banks and bank holding companies are doing in their communities, and if their performance is lagging, the law requires us to seriously scrutinize their requests for expansion, among other things.

Our education and convening capabilities are the carrots. To that end, we have long had a Community Development Advisory Council, or CDAC, made up of heads of development groups throughout the region. The CDAC members are invaluable in informing us about activities in their states and working with us to promulgate best practices.

I will present a 50,000-foot view of economic challenges facing us nationally, regionally, and in Massachusetts and the Merrimack Valley.

At the national level, the U.S. economy is in its fifth year of expansion after what was, viewed in the aggregate, a mild and short recession. People may quarrel with that assessment. Indeed, Massachusetts as a whole was harder hit than the rest of the nation and is taking longer to return to its former level of employment, largely because the industries hit hardest—high-tech in general and telecommunications in particular—were more important here than elsewhere. And while it can be said that the severity of Massachusetts job loss is a reflection of the heights to which employment reached in the late 1990s, the difficult effects of the recession and the slow growth since cannot be denied.

But for the nation as a whole, these five years have been characterized by strong growth, falling unemployment, strong productivity, rising business profits, growing world growth and demand, and low rates of core inflation. I'd like to take some credit for the latter as I believe inflation has been kept in check, in part, by the Federal Open Market Committee, which took the low interest rates needed during the recession back to levels better suited to a thriving economy.

Today rising domestic and global demand is putting pressure on capacity. Add to that a related rise in energy and other commodity prices as well as geopolitical uncertainty, and there is reason for the U.S. central bank to be cautious in addressing its dual goals of price stability and sustainable economic growth.

Over the longer term, the economy faces an even tougher challenge—how to get national savings in line with the needs of an aging society and reduce what the country owes the rest of the world. National savings is composed of the savings of business, government, and people like ourselves. Traditionally, one thinks of households as net savers, businesses as net borrowers, and governments as roughly neutral, adjusting for economic cycles.

But in the last five years, the personal savings rate has dropped steadily to below zero; the federal government has gone from surplus to deficit, and businesses have become big net savers. The nation currently does not save enough, filling the gap by borrowing from abroad, which is reflected in the huge and growing U.S. account deficit. We are currently borrowing nearly 7 percent of gross domestic product—nearly $900 billion dollars.

While households may begin to save more as rising interest rates and moderating house values make borrowing more difficult, the federal government faces a daunting task. Although the deficit as a percentage of GDP is smaller right now, reflecting, in part, outsized business profits and the earnings of high-income taxpayers, Social Security and Medicare will add significantly to the deficit by the end of the next decade. Policymakers must rein in spending, and/or raise revenues—a challenging but vital task.

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The Merrimack Valley has experienced the recent economic cycle more negatively than other areas. On the hopeful side, the region is apparently not losing population like other parts of New England. Between 1990 and 2000, its population grew at twice the pace of Massachusetts, with half of the increase attributable to Latinos, largely from the Dominican Republic and Puerto Rico.

New immigrants bring vibrancy to civic life and culture, and are a needed source of labor supply. But immigration brings concerns as well. Some people believe immigrants displace native workers, but that is difficult to prove. Others say immigrants represent a new source of both supply and demand—filling jobs that are not wanted by native workers (or jobs that did not exist prior to the supply

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of lower-cost workers) and buying goods and housing. I find the latter train of thought more persuasive, though it is not hard to understand the fears that have made immigration a hot topic.

Indeed, immigration is challenging to the immigrants themselves. Here in the Merrimack Valley, housing costs are high, as they are statewide. And the influx of new immigrants has worked to create an unusually bifurcated immigrant workforce, with highly educated technical and professional people at one end and, at the other, linguistically challenged, less educated residents.

Highly educated workers are likely to find jobs, but workers at the other end of the spectrum face more challenges. Immigrants, particularly Hispanic immigrants, are the fastest growing part of the Merrimack Valley population. Indeed, Lawrence is a predominantly Hispanic city, with a Latino population that grew 47 percent from 1990 to 2000, while the non-Latino population fell almost 30 percent. But for all the vitality of these newcomers, there are issues.

Nearly 42 percent of Lawrence residents of age 25 and above do not have high school diplomas, and a rather significant share have less than a ninth grade education. In Lawrence, better than 20 percent have poor English skills, according to the 2000 census, and roughly the same share identified themselves as "linguistically isolated"—that is, part of a household in which everyone over age 14 has poor English skills. It's hard for immigrants to participate in economic growth here without a good match to an available job.

The Merrimack Valley has a supply of workers, but what is the demand?The Lower Merrimack Valley Workforce Investment Board has analyzed labor supply and demand as part of its annual workforce development plan. The four established industries it has identified as critical are health care, construction, communication, and manufacturing. And there are three emerging industries: food products; medical instruments and supplies; and trucking and warehousing. The study highlighted the nature of the jobs involved in each industry and the human resource issues needing attention. What I found interesting was the emphasis on a high-technology and/or professional quotient in the jobs being created—making a good match for some, but not others.

So this takes me to my final point.

Many of the challenges the Merrimack Valley faces are unique to its population and to the industries that wax and wane here. But at the heart of things, the Merrimack Valley faces the same challenge New England and the nation face—how to train and educate the current population for the jobs being created. The mismatch at the lower end may be more significant here—certainly the unemployment rate in Lawrence would suggest that—but the basic issues are the same. In an ever more technologically sophisticated and globally competitive world, the need to train workers, students, and new entrants to the labor force for the highly skilled jobs being created is critical.

Indeed, as I travel the region and listen to my colleagues from the rest of the country, I am struck by the fact that although job growth has been called disappointing, many employers bemoan their inability to find the skilled labor they need. Here I should acknowledge that the Merrimack Valley is tackling the issue—with the new transportation center in Lawrence, for example, and the efforts of both Northern Essex College and Middlesex Community College to develop workforce training. But this will be a continuing challenge.

Let me end on a note of optimism. Although there is much hand-wringing in Massachusetts over slow growth in jobs and population, I believe the discussion is overly alarmist. Certainly Massachusetts has been through a difficult economic period. But it wasn't long ago that we were enjoying an economic boom. Incomes were growing rapidly, labor was scarce, and office space impossible to find. The fundamental underpinnings of that prosperity—our world-renowned research institutions, highly educated workforce, and entrepreneurial culture are all still here. The state has a history of reinventing itself, and the Merrimack Valley has illustrated that process in the past.

But one cannot simply count on history to repeat itself. So I am encouraged at how well business and public leaders are working together to address the challenges—in extending health insurance to the uninsured, for example, or in bringing Bristol Myers-Squibb to Devens. And I am encouraged by my work with John Hamill of Sovereign Bank and Paul Grogan of The Boston Foundation on the John LaWare Leadership Forum, which discusses the challenges facing Greater Boston and the state, and focuses on coordinating and channeling the energy being directed at those challenges. Civic leadership is vital to economic growth, and such leadership is alive and well in Massachusetts, in Boston, and certainly here in the Merrimack Valley.