

LESSONS LEARNED:
25 YEARS OF STATE ECONOMIC POLICY



The Massachusetts Institute
for a New Commonwealth

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Dear Friend,

We are proud to present *Lessons Learned: 25 Years of State Economic Policy*. *Lessons Learned* is the third installment in MassINC's continuing effort to focus public debate on the economic concerns of ordinary middle-class and working-class citizens and builds on two previous MassINC studies.

MassINC's first report, *The State of the American Dream in New England* (1996), documented a troubling economic division between middle-class families headed by those with college degrees and those with only a high school degree or less. It presented compelling evidence that while the first group is clearly getting ahead in today's economy, the second group is increasingly falling behind.

Closing the Gap (1997) examined the range of state programs designed to assist low-skilled workers and proposed a fundamental reassessment of the traditional approach to job training. Breaking new ground with the revelation that more than 800,000 Massachusetts adults are functionally illiterate, the report went on to call for a renewed emphasis on community colleges and adult education programs.

Lessons Learned continues the themes of economic opportunity and workforce development established in these two reports, but it also represents a departure from MassINC's past approach. In past studies, we sought the advice of respected academics and other experts in such fields as labor market analysis, education and training, and crime control.

We chose a different tack in preparing *Lessons Learned*. Instead of looking to policy observers, we posed our questions to former policy-makers. We were interested in hearing firsthand what actual decision-makers had to say about the state's role in promoting economic growth. Earlier this year, MassINC began hosting regular meetings of a working group composed of five former cabinet secretaries from the Weld and Dukakis Administrations with experience in state government stretching back nearly twenty-five years. We asked the five cabinet officials two questions:

- Looking back on your experience in public service, what lessons have you learned about the role that state government plays in the Massachusetts economy?
- Looking ahead, what are the keys to the Commonwealth's economic success in the next century?

The answers we received in response to these questions were impressive not only for their candor and thoughtfulness, but for a remarkable degree of consensus about the strengths and limits of state government in promoting economic growth. There was a surprising amount of agreement about which kinds of state policies and programs work, and which don't. *Lessons Learned* represents an attempt to consolidate the wide-ranging advice and recommendations of the five former secretaries into a concise, readable document that today's leaders can draw on in crafting policies and plotting the Commonwealth's future economic course.

Lessons Learned is also drafted as a primer for the average citizen to better understand the many ways that state government influences economic activity. While catchall phrases like "economic development" and "economic growth" are bandied around by bureaucrats, politicians, and policy wonks, we believe the public deserves a more detailed explanation. Citizens have a clear understanding of the state's role in areas like education (local public schools and state colleges and universities), public safety (police and prisons), and transportation (highways, railways, and airports). We believe it's important that the public has as clear an appreciation for the state's efforts to promote economic growth.

Lessons Learned is intended to raise the profile of the state's efforts to promote economic growth at a time when they are too easily neglected. With the lowest unemployment rate in nine years and Help Wanted sections ballooning, it's tempting to simply bask in the warm glow of a blazing economy.

But the rays of economic prosperity have not shined equally on all areas or citizens of the Commonwealth, nor will they shine indefinitely on those now enjoying economic growth.

Moreover, in an increasingly competitive global economy Massachusetts faces pressures from every direction. From this view, the Commonwealth's prospects are not nearly as rosy as commonly believed. There is plenty of sobering evidence: According to *Site Selection Magazine*, a trade journal for corporate facilities planners, Massachusetts boasts less than one percent (118) of the roughly 25,000 new corporate facilities and expansions begun over the past two years. Meanwhile, competitor states like Michigan (2,003), Ohio (2,914), and North Carolina (2,277) continue to post breathtaking annual gains.

Even Greater Boston cannot afford to rest on its laurels. According to one recent report, Boston still ranks 36th out of the nation's fifty largest metropolitan areas as a location for so-called "gazelle" companies — knowledge-based companies poised for explosive growth.

Today's leaders must stay focused on the economic challenges that confront us, proposing new solutions to new problems, while avoiding past mistakes. It's not enough to simply commit ourselves to meeting these challenges. Our commitment — however strong and well-intentioned — must be matched by an understanding of the successes and failures of the past. We ignore the "lessons learned" at our own peril.

We would like to extend our thanks to our friends at BankBoston for providing the funding which made possible this effort. We also appreciate the generous support of the Massachusetts Technology Collaborative. MassINC is proud to have worked with such public-minded organizations.

MassINC would also like to thank Joe Alviani, Frank Keefe, Gloria Larson, Al Raine, and Mark Robinson for their work in developing *Lessons Learned*. We are extremely grateful for the enthusiasm, expertise, and candor they brought to their work with MassINC.

A number of other state economic officials — past and present — and a variety of academic and business leaders also offered guidance and encouragement to MassINC over the past several months in pursuing this project. While the opinions expressed in *Lessons Learned* (as well as any errors) are solely those of the Working Group, MassINC would like to thank these other officials and leaders for their valuable input.

A word of thanks is also owed to Christopher Gabrieli, the former Chairman of MassINC, who first conceived the idea for *Lessons Learned* and played an instrumental role in getting the project underway. Chris's enthusiasm and unfaltering belief in the value of MassINC's mission made him a pleasure to work with, and we appreciate all that he has done to support MassINC on this project and other MassINC ventures during his tenure as Chairman.

Finally, MassINC would like to thank Neil Mello on whose shoulders fell the job of managing the project and producing *Lessons Learned*. Neil's dedication, energy, and wide-ranging familiarity with state fiscal and economic development policies were indispensable. MassINC and the members of the Working Group owe him a debt of gratitude for his efforts.

We believe *Lessons Learned* is a valuable contribution to ongoing public debate over economic policy, and we hope it becomes a provocative and timely resource for policy-makers and concerned citizens alike. We encourage you to share your feedback with us, and we extend our invitation to you to become more involved in the work of MassINC in economic policy and other areas.

Sincerely,



Tripp Jones
Executive Director



Michael B. Gritton
Policy Director

**MassINC wishes to express our gratitude to BankBoston,
The Gabrieli Family Fund, and the Massachusetts
Technology Collaborative for providing the financial
support which made this project possible.**

JOSEPH D. ALVIANI

FRANK T. KEEFE

GLORIA CORDES LARSON

ALDEN S. RAINE

MARK E. ROBINSON



JOSEPH D. ALVIANI served as Secretary of Economic Affairs under Governor Dukakis from 1985 to 1989.

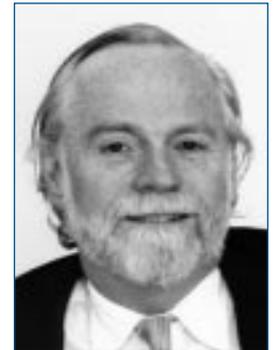
Alviani has a wide range of public sector experience in science, technology, and economic policy, serving as Counsel to the U.S. House of Representatives Subcommittee on Labor, Counsel to the U.S. Conference of Mayors, and Corporation Counsel to the City of Boston. Alviani's private sector experience includes terms as a partner with the Boston law firms of Palmer & Dodge LLP, Goodwin, Procter & Hoar LLP, and Mintz, Levin & Popeo, P.C. where he served as President of ML Strategies.

Alviani is currently the President of the Massachusetts Technology Collaborative (MTC), a quasi-public state agency responsible for promoting the Commonwealth's technology-intensive industries. Among other research programs, the MTC publishes the *Index of the Massachusetts Innovation Economy*, a groundbreaking effort to comprehensively explain the continuing evolution of the state economy through various statistical indicators. He serves on the Boards of the Massachusetts Taxpayers Foundation, the Massachusetts Telecommunications Council, and the New England Economic Project, and co-chairs the Technology Group of the Millennium Commission/Boston 2000. He is a past Fellow at the Center for Business and Government of the John F. Kennedy School of Government and has taught at the American University Law School. Alviani holds degrees from Dartmouth College and Harvard University Law School.

FRANK T. KEEFE served as Secretary of Administration and Finance under Governor Dukakis from 1983 to 1988.

He also served under Governor Dukakis from 1975 to 1979 as the Director of the Office of State Planning and as Chairman of the Governor's Development Cabinet. In these roles, Keefe was responsible for drafting and implementing several state economic strategies including the 1976 *Economic Development Program for Massachusetts* and the 1977 *City and Town Centers: A Program for Growth*. Prior to state service, Keefe was the City Planning Director for the City of Lowell where he was instrumental in engineering the City's economic resurgence.

As past Senior Vice President for JMB/Urban Development Partners from 1989 to 1994, past President of Harrington, Keefe & Schork from 1979 to 1982, and now as President of the Keefe Company, he has played key roles in major commercial and public development projects throughout the Commonwealth. He has also lectured and written on state economic policy in conjunction with many national and international conferences including major conferences sponsored by the White House, the National Governors' Association, the United Nations, the European Economic Community, and the City of Melbourne, Australia. Keefe holds degrees from Fordham College and Oxford University.





GLORIA CORDES LARSON served as Secretary of Economic Affairs under Governor Weld from 1993 to 1996 and as Secretary of Consumer Affairs and Business Regulation from 1991 to 1993.

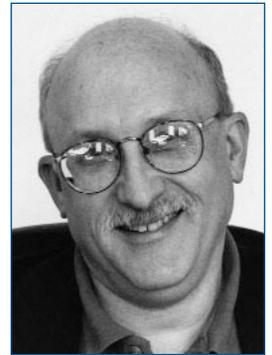
As Secretary of Economic Affairs, Larson was responsible for implementing the 1993 state economic strategy *Choosing to Compete*. Prior to state service, she gained extensive experience in business and regulatory issues at the federal level as a senior official with the Federal Trade Commission (FTC). Larson served as an attorney advisor to FTC Commissioner Patricia P. Bailey from 1981 to 1988, and as the Deputy Director of Consumer Protection at the FTC from 1990 to 1991.

Currently the Co-Chairman of the Government Practices Group at the Boston law firm of Foley, Hoag & Eliot LLP, Larson continues to be widely influential in state economic policy. She was recently appointed by Governor Cellucci as chairman of the newly reconstituted Massachusetts Convention Center Authority and holds seats on the Boards of the MassJobs Council, the Governor's Council on Growth and Technology, the Massachusetts Technology Park Corporation, Associated Industries of Massachusetts, and the Greater Boston Chamber of Commerce where she chairs the Chamber's Leading Industries Committee. She also serves as Acting Chairman of MassINC. Larson holds degrees from Vassar College and the University of Virginia Law School.

ALDEN S. RAINE served as Secretary of Economic Affairs under Governor Dukakis from 1989 to 1991.

He also served under Governor Dukakis from 1983 to 1991 as the Director of the Governor's Office of Economic Development and as Chairman of the Governor's Development Cabinet. In addition, Raine was the Chief Planner for the Office of State Planning from 1976 to 1979. Subsequent to his tenure as Secretary, Raine served until 1993 as Executive Director of the Massachusetts Port Authority, the Chief Executive Officer of Logan International Airport and the Port of Boston.

Raine led the implementation of the 1985 state economic strategy *Targets for Opportunity*, and played key roles in many landmark development projects, including Springfield's Basketball Hall of Fame, Taunton's Myles Standish Industrial Park, the Worcester Biomedical Research Park, the Charlestown Navy Yard, Rows Wharf, the South Boston Seaport District, and other downtown revitalization efforts throughout the Commonwealth. He has extensive experience as a private development consultant, serving as a Senior Associate with Harrington, Keefe, & Schork from 1979 to 1981, as Principal with Raine Associates since 1993, and as Senior Consultant with Frederic R. Harris, Inc. since 1996. He has taught public policy and politics at Clark University, Rutgers University, and the University of Michigan. Raine holds degrees from Harvard College, Boston University, and the University of Michigan.



MARK E. ROBINSON served as Secretary of Administration and Finance under Governor Weld from 1993 to 1994.

In addition to his cabinet post, he served as the Governor's Chief of Staff from 1991 to 1993 and has chaired the Massachusetts Port Authority since 1995. Robinson has played a central role in shaping a wide range of fiscal, transportation, and environmental initiatives over the past several years.

A former federal prosecutor, Robinson has held several senior posts with the United States Department of Justice, serving as Assistant U.S. Attorney in Boston from 1982 to 1986, Special

Counsel to the Assistant Attorney General from 1986 to 1988, and Deputy Assistant Attorney General in 1988. Robinson has practiced civil and criminal litigation at several Boston law firms including Herrick & Smith; Hale & Dorr LLP; and Bingham Dana LLP where he now chairs the firm's Business Regulatory and White Collar Defense Practice Group. He continues to be active in several public policy and public service organizations, serving on the Boards of Directors of MassINC and the New England Chapter of the American Red Cross, and the Board of Overseers of New England Deaconess Hospital. Robinson holds degrees from Duke University and Boston University Law School.

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CONTENTS

- Introduction**1
- Executive Summary**2
- 35 Lessons for Today's Leaders**7
 - Understanding the Role of Government8
 - Developing a Game Plan for the Economy9
 - Creating a Business Environment for Success11
 - Planning for the Long-Run13
 - Turning Disadvantage to Advantage: Distressed Communities ...14
 - Making It Work16
- Looking Ahead: Four Keys to the Commonwealth's Success in the Next Century**18
 - Infrastructure18
 - Economic Inclusion20
 - Technology22
 - Leadership25
- Appendix: Useful Sources**27



The Working Group meets at the office of MassINC. (clockwise from left front: Mark Robinson, Frank Keefe, Michael Gritton, Tripp Jones, Al Raine, Neil Mello, and Gloria Larson)

INTRODUCTION

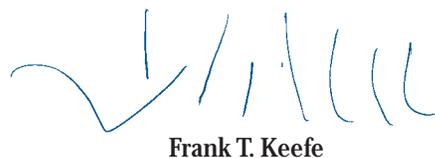
Earlier this year, we began a discussion with MassINC on the role state government plays in the Massachusetts economy. As former economic advisors to Governors Dukakis and Weld, we were asked to reflect on our personal experiences in state government — in some cases stretching back nearly twenty-five years — and relate some of the lessons we had learned regarding state economic policy. We were also asked to look ahead and describe the major economic challenges Massachusetts confronts today. *Lessons Learned* is our attempt to collectively answer those questions.

Having faced very different challenges while in office, and having served leaders with obvious differences in political philosophies and policy priorities, we were surprised by the degree to which we — as policy practitioners — share opinions about the strengths and the limits of state government in shaping the Massachusetts economy. We've attempted in the following pages to describe in a concise, readable report some important areas of consensus.

We hope our effort to find common ground will encourage and assist today's leaders in building on past successes, avoiding past pitfalls, and developing a vision for the future that maximizes the Commonwealth's economic potential in the next century.



Joseph D. Alviani



Frank T. Keefe



Gloria Cordes Larson



Alden S. Raine



Mark E. Robinson

The Massachusetts economy is arguably the most studied state economy in the nation. Home to world-class universities and a large consulting industry, there is no dearth of local expert opinions on what makes the Massachusetts economy tick. Yet for all the scholarly scrutiny, many citizens (and quite a few policy-makers) appear to have only a vague understanding of the forces that continue to transform the state economy.

So what should ordinary citizens and policy-makers understand about the Massachusetts economy? As importantly, what should people know about the abilities and the limits of state government to stimulate that economy? As former state policy-makers, we set out in the pages to follow lessons we've learned regarding the state's conduct of economic policy. It is our hope that these lessons will provide today's policy-makers with a bearing from which to chart the state's future economic course.

The most important lesson to understand — and the least acknowledged among political leaders — is that Massachusetts state government, like all state governments, actually has very limited power to influence the immediate condition of the economy. Despite the propensity of elected officials to take credit or cast blame for the economy's current performance, the reality is that state government is a minor actor in comparison to national business cycles, federal fiscal and monetary policies, and shifts in international financial and trade markets.

It is true that at the local level aggressive state intervention can often stimulate local economic activity in a relatively short period of time. And of course, a careless state government can do a lot to quickly undermine even a thriving state economy. But it is only over the long-run that state government has a broad positive influence on the economy as a whole. State government makes that lasting difference in four ways — all equally important:

- by creating a positive business climate,
- by providing a first-class physical infrastructure,
- by improving skill levels across the population, and
- by pursuing an overarching economic strategy that reflects — among other things — an emphasis on economic inclusion and technological innovation.

The national experience is clear: States that fulfill these responsibilities well — over time — outperform states that do these jobs poorly.

State government fosters a healthy business climate in two ways. The first is by keeping state finances on an even keel and maintaining fiscal stability. Fortunately, there is good reason to believe that the boom and bust cycles that have wreaked havoc with state finances in the past have made an indelible impression on today's leaders and the public. After more than two decades of economic and fiscal turbulence, we have all — in one sense — become fiscal conservatives. Boosting spending or cutting taxes excessively at the height of economic good times inevitably does more harm than good, whipping Massachusetts back into another negative cycle of budget cuts when citizens are most in need and tax increases when taxpayers are least able to afford them. The lesson learned is clear: Economic good times are a clarion call for fiscal caution and a signal to prepare state finances for the storm to come.

Reducing key costs of doing business in Massachusetts is the second element in fostering a healthy business climate. The state has wide discretion to influence many indirect costs such as worker's compensation, unemployment insurance, utility rates, and the overall regulatory burden, that together affect the attractiveness of Massachusetts as a place to do business. The Commonwealth will never be a low-cost state, but reducing key costs to levels comparable with our competitor states gives Massachusetts companies the best chance to grow and create jobs.

Taxes, of course, are a major and direct cost. And here it's important to recognize that economic good times do create opportunities to reduce the state's tax burden in meaningful ways. Being fiscally responsible and reducing taxes are not mutually exclusive. In fact, we believe that Massachusetts should pursue plans to reduce the personal income tax rate from 5.95 percent to 5 percent, both as a matter of fair-

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ness and as a matter of economic competitiveness. The important question is not whether to cut the personal income tax to its historic rate of 5 percent; it is how to cut the rate to that level as quickly as possible without jeopardizing the Commonwealth's fiscal condition. Linking a phased-in rate reduction to various fiscal or economic triggers will help ensure that the state will have sufficient funds to meet its needs in difficult economic times without raising taxes or slashing spending.

It's also important to not lose sight of the primary focus of tax reduction — which must continue to be targeted cuts that improve the prospects for sustained growth in key industries. Reductions in specific taxes that discourage growth — especially taxes that place key industries at a long-term competitive disadvantage with their counterparts in competitor states — are an investment in the state's economic future.

The state's commitments in recent years to expanding its rainy day fund, restraining growth in its outstanding debt, and limiting agency spending are all encouraging signs of fiscal maturity and bode extremely well for the Commonwealth's long-run economic prospects. Continued spending restraint, combined with a flexible income tax rate reduction and targeted cuts that increase the competitiveness of key industries, will keep state finances on a stable track essential to long-run growth.

A second element in the state's long-term economic success is a commitment to public infrastructure. State decisions about how much and where to invest in the range of infrastructure projects — from highways, to commuter rail, to airport facilities, to regional tourism centers, to convention and civic centers — all have an enormous effect on the nature, extent, and location of growth in a region. For example, decisions made decades ago to complete Route 128 and Interstate 495 have resulted in vibrant corridors of growth. The state decision-makers who conceived these projects and pursued them through to completion may have faded from the public's eye, but the measure of their leadership is felt every day as these investments continue to pay huge dividends a generation later.

No infrastructure investments have dominated the state's economic agenda more than the four "Mega" projects now underway — the Central Artery/Tunnel Project, the Logan Modernization Plan, the Boston Convention & Exhibition Center, and the Boston Harbor Cleanup — and with good reason. Without the timely completion of the Central Artery/Tunnel Project, Boston's Seaport District and Southwest Corridor will remain economic backwaters and congestion will continue to put at risk the entire region-

No infrastructure investments have dominated the state's economic agenda more than the four "Mega" projects.

al economy. The state's rapidly growing high-tech services industry depends on the successful completion of the Logan Modernization Plan to serve its clients around the world. And the new Boston Convention & Exhibition Center and Boston Harbor Cleanup represent the best opportunities yet for the state's tourism, travel, and entertainment industries.

Completing the four Mega-projects on time and within budget, without sacrificing one for another, and without jeopardizing the state's fiscal stability, is a test the state cannot afford to fail. And the challenge does not end there. State leaders must also find ways to exploit the new opportunities for growth made possible by the four Mega-projects and pursue the next generation of Mega-investments that will meet the Commonwealth's infrastructure needs in the next century — projects like the Urban Ring Transit System and the completion of High-Speed Boston-New York Rail Service.

Broadly raising education and skill levels across the population is the third element in long-run economic success. Massachusetts is uniquely dependent on a skilled workforce. While many states rely on natural resources or geographic advantages to fuel their economies, the Massachusetts economy is fueled, in large degree, by brainpower. To compete successfully, Massachusetts companies must continually innovate and create new products, and that innovation requires skilled workers who can master new

production technologies and get new products to market quickly.

Under the 1993 Education Reform Law, the state has made an unprecedented bipartisan commitment to improve our public schools, doubling the amount the state spends on K-12 education over the past five years. The lion's share of this \$3.25 billion increase has been directed at poor urban and rural school districts that for the first time have adequate funds to provide their students a quality education. The state's dramatic spending increase must now be matched with sustained pressure on teachers, principals, parents, and students to produce results. For the Education Reform effort to succeed, our schools must demonstrate that they are deserving of the taxpayers' unprecedented investment. Higher standards, student assessments, and accountability are the keys to bringing the necessary pressure to bear on our schools and improving student performance.

We must radically expand enrollment in public higher education — especially community colleges.

The state's effort to broadly raise education and skill levels must extend well beyond students in our K-12 system. Fundamental changes are needed in the state's public higher education system to meet the economy's current demand for high-skilled workers. Every qualified Massachusetts resident, at a nominal cost, should be guaranteed access to two years of public college-level education. To make this possible, we must radically expand enrollment in public higher education — especially community colleges — through tuition reductions and expanded scholarship programs. Getting more students enrolled is a matter of simple economic competitiveness. States like California, Washington, and Illinois enroll two to three times as many students per capita in their community college systems, and Massachusetts cannot afford to fall further behind.

Cost is a major barrier, and despite progress, the state has a long way to go. With current tuition and fees totaling \$2,540, the cost of attending community college in Massachusetts is 73 percent above the nation-

al average — the third highest in the nation. Getting costs down to a nominal level will create a powerful incentive for high school students (who now often delay studies for financial reasons) to enroll immediately in community colleges upon graduation. It will also encourage more incumbent workers to resume part-time studies.

We must also remake the state's public higher education institutions so that they become the state's premier resources for workforce training. While training the state's workforce is not the only reason for having a system of public colleges and universities, it is a vital and increasingly important aspect of their mission. State and community colleges, in particular, must expand their roles as centers of college-level vocational training for incumbent workers. Curriculums must become more flexible so that classroom instruction is more tailored to specific job-skills in demand by local employers. At the same time, local employers must continue to be willing to shoulder most of the cost of this type of training and extend it to more of their workers.

Massachusetts must also do more to address the needs of the state's least skilled workers. A shockingly high percentage of Massachusetts adults — one in five — are functionally illiterate. Thousands of immigrants languish in dead-end jobs or are unemployed because they lack basic English language skills. State leaders must find ways to expand Adult Education and English-as-a-Second-Language programs to ensure that every adult has the basic skills necessary to hold at least an entry-level job in today's economy.

It is not enough, however, for the state to recognize the importance of the three areas outlined thus far — the business environment, infrastructure, and education and training. The state must have an action-plan, a detailed strategy for getting things done in these areas and others. A strategy is not a public relations nicety: It is an essential blueprint for conducting state economic policy.

It is also important to remember that economic strategies employed by other states don't necessarily make sense for Massachusetts. Many states pursue strategies based on their ability to lure companies from elsewhere owing to their advantages in geogra-

phy, climate, natural resources, or a low-cost environment. As a relatively high-cost state with several other competitive disadvantages, Massachusetts is not in a position to compete on those terms.

The only strategy that makes sense for Massachusetts is one that focuses on existing in-state companies and start-up ventures, that addresses the needs of key industry “clusters,” that puts a specific emphasis on fostering growth in exports, that promotes economic inclusion, and that encourages innovation and the development of new technologies.

A state economic strategy is important because it is a way to think comprehensively about how the state can reach out to people and places that don’t enjoy full participation in a thriving economy. Efforts at economic inclusion are important not just as a measure of moral and social responsibility, but as a matter of smart economics. With near zero population growth and an influx of new workers from other states unlikely, Massachusetts must rely on the existing labor pool to fuel its economy. The Commonwealth simply cannot afford the economic cost of allowing anyone or anyplace to fall through the cracks.

While the Commonwealth has many tools at its disposal to try to help spread economic prosperity geographically — from tax incentives, to infrastructure improvements, to community development initiatives, below-market financing and capital formation programs, and other forms of business assistance — the lessons about how best to use these tools are plain.

Foremost among these lessons is that state assistance — whatever its form — can make a difference when it builds on the existing strengths of a community. The barriers to economic growth in a community are often obvious enough, but what often goes unappreciated are the unique strengths of a community that can serve as a foundation for future growth.

Location, quality of life, proximity to transportation, historic architecture, cultural traditions, and an abundant labor force are all examples of strengths that dictate what kinds of opportunities are practical for a community. Communities that foster industries that capitalize on existing strengths succeed because only

these strengths can create the competitive advantages for businesses that lead to sustained growth. Local and state leaders make a mistake when they ignore a community’s existing economic assets, instead attempting to simply duplicate whatever has succeeded elsewhere — forgetting that those successes are often based on very different local circumstances.

On the other hand, none of these forms of state intervention can alter hard economic realities. Basic business assumptions about profitability always determine, in the end, whether or not companies decide to expand or locate in a particular community. State incentives alone will never outweigh these assumptions, nor should they be used to sustain companies that would otherwise be uncompetitive.

It is also clear after several decades of experience that an effective statewide strategy for revitalizing low-growth areas depends on the support of communities themselves. Local leadership is a prerequisite for local success. The leaders of each region and each community must come together to develop their own vision for economic growth and a broad consensus about how to achieve it before the Commonwealth can make its contribution. The state can help by increasing funds for regional and local economic planning and by challenging divided communities to organize, but community leadership will always be an essential ingredient in local revitalization efforts — no matter how earnest the state’s commitment.

A state economic strategy that makes sense for Massachusetts must also make special reference to the state’s technology needs. Technology has long been the life-blood of the Massachusetts economy. No other state spends more of its Gross State Product on R&D, and no other state economy is so closely tied to its premier research centers. For all its importance however, technology — as a subject of political discussion and as an explicit priority of state economic strategy — has not always received the policy emphasis it deserves.

Innovations and new ideas generated by the state’s

Local leadership is a prerequisite for local success.

research centers have fueled spectacular growth in software, telecommunications, biotechnology, and other industries, so ensuring their continued health and vitality in the face of possible federal funding reductions is crucial. With the proposed increases in federal R&D spending contingent on the successful resolution of controversial, unrelated issues (such as a tobacco settlement), the specter of federal cuts remains.

Massachusetts must expand its lobbying campaign to fend off possible federal R&D reductions, with more of the state's influential corporate, academic, and political leaders taking a direct personal role in the effort. The Governor should consider appointing a Technology Advisor to lead the expanded lobbying effort at the state level and raise public awareness. And the Commonwealth should consider committing state funds to a new merit-based system of grants that leverages or fills gaps in federally-supported research to improve the odds of Massachusetts researchers in competing for federal support.

A second technology-related issue that demands attention is the serious, growing deficiencies in the state's telecommunications network. The state's phone, cable, wireless, e-mail, and data transmission/Internet systems are as important to the Massachusetts economy today as was the creation of the interstate highway system nearly fifty years ago. Yet these systems are plagued by inadequate bandwidth and a lack of capacity. To reverse the situation, the state should order a top-to-bottom review of every regulation affecting the delivery of telecommu-

nications services with the goal of developing new regulatory incentives that encourage providers to make the necessary improvements in the telecommunications network. Only when providers have an opportunity to pursue a return on investments will the market respond to network deficiencies.

It's also essential for the state to closely monitor the F.C.C.'s ongoing implementation of the federal Telecommunications Reform Act and be prepared to take an aggressive stance with other like-minded states to promote industry competition and ensure universal service. As importantly, the Department of Telecommunications and Energy must take a firm stand against the "not-in-my-backyard" opposition of some communities to improvements in wireless communication services.

Finally, it is also clear after several decades of experience that the economic policy leadership of state officials and the way that leadership is organized, are critical factors in how well state government does its job.

We believe that the Commonwealth should establish a new position of Economic Growth Czar with broad authority over the major instruments of state economic policy. Having a single official overseeing and coordinating business assistance, business regulation, workforce development, community development, and relevant quasi-public agencies, would declare unambiguously that implementing a comprehensive economic agenda is a central priority of state government.

UNDERSTANDING THE ROLE OF GOVERNMENT

- 1 Private businesses are the engines of job growth and economic opportunity.
- 2 State government has limited power to influence the immediate condition of the economy.
- 3 It's over the long-run that state government can most influence the Commonwealth's economic performance.

DEVELOPING A GAME PLAN FOR THE ECONOMY

- 4 The state must follow a detailed, up-to-date strategy if it is to shape its economic future.
- 5 A successful state economic strategy is structured around three basic organizing principles: Industry Sectors, Regions, and the Business Climate.
- 6 A successful state strategy stays focused on the real engines of job growth: Existing in-state companies and in-state start-ups.
- 7 An export strategy must be an explicit part of the Commonwealth's overall economic strategy.
- 8 A successful state economic strategy builds on the "competitive advantages" of leading industries.

CREATING A BUSINESS ENVIRONMENT FOR SUCCESS

- 9 Fiscal stability is the single most important way state government can foster a healthy business climate.
- 10 Objective, accurate forecasting of tax revenues is essential to fiscal stability.
- 11 Spending discipline is crucial, and just as important in times of surplus as in times of deficit.
- 12 Because of several circumstances unique to Massachusetts, restraining growth in state debt is a special fiscal challenge.
- 13 When times are good, it's critical to prepare state finances for the inevitable economic downturn and revenue losses to come.
- 14 State government can do a lot to influence key costs of doing business in Massachusetts.

PLANNING FOR THE LONG-RUN

- 15 Massachusetts is uniquely dependent on a skilled workforce.
- 16 State investments in education must be considered fundamental investments in the Commonwealth's economic future.
- 17 Regional infrastructure investments present unique opportunities for state government to make a lasting contribution to economic growth.
- 18 State support for local infrastructure can make a vital contribution to local economies.

**TURNING DISADVANTAGE TO ADVANTAGE:
DISTRESSED COMMUNITIES**

- 19 The first step in revitalizing a distressed community is to identify and build on local strengths that can give competitive advantages to companies doing business there.
- 20 The second step in revitalizing a distressed community is to identify and address basic barriers to economic growth that undermine the competitiveness of local businesses.
- 21 Location incentives such as tax-exempt financing and abandoned building tax credits are useful tools to help businesses grow in distressed areas, but they don't alter hard economic realities.
- 22 Locating state facilities in a distressed community often makes private investment more attractive and improves the atmosphere for development.
- 23 To be successful, the state must concentrate its resources on a few strategic targets and coordinate its agencies.
- 24 Local leadership is a prerequisite for local success.
- 25 Local aid policies can sometimes inadvertently undermine local economies.
- 26 Efforts to create a more competitive, inclusive bidding process for state contracts can help inject life into distressed communities.

MAKING IT WORK

- 27 Having measurable goals and a capacity to monitor progress towards them is crucial.
- 28 Regular dialogue with business and academic leaders who are in touch with the state's economic pulse is a must.
- 29 Public perception of the economy is itself an influence on economic performance.
- 30 A focus on politically appealing projects makes it harder to achieve the core goals of an overall state strategy.
- 31 Cluster-based associations are essential for state government to respond effectively to the needs of key industries.
- 32 Coordination is the key to success.
- 33 Private sector participation is vital to local economic development efforts.
- 34 To be effective, state agencies must be encouraged to adopt an entrepreneurial, risk-taking attitude — and that requires leadership at every level of state government.
- 35 A productive, congenial relationship between the Governor and leaders of the two legislative branches is a tremendous asset in pushing economic reforms forward.

1 *Private businesses are the engines of job growth and economic opportunity.*

The ability of private businesses to compete successfully determines the standard of living of every Massachusetts citizen and affects the quality of life enjoyed by future generations. Therefore, state government's interaction with the private sector has to be grounded in a recognition that the health and competitiveness of private businesses are the foundation for a prosperous society and an effective government.

2 *State government has limited power to influence the immediate condition of the economy.*

Elected officials may take credit or cast blame for the performance of the current economy, but the reality is that the economy's immediate health is influenced mostly by factors beyond the control of state — or even national — governments. The business cycle, technological advances, federal fiscal and monetary policy changes, international trade currents and currency fluctuations, and financial market trends are all powerful influences on the state economy; state government is a minor actor in comparison.

This is not to say that the state has no immediate influence on economic activity. First, a careless state government can do a lot to quickly undermine a healthy economy. Sudden reversals on tax policy, regulatory policy, major infrastructure initiatives, and spending limits can have a dramatic, deadening effect on a growing economy. Second, state government can often be a major actor at the local level over a relatively short period of time. By making strategic

investments in a local economy, the state can help foster local economic activity that would otherwise not have occurred without state intervention.

3 *It's over the long-run that state government can most influence the Commonwealth's economic performance.*

The state can help lay a foundation for long-run economic growth by working to remove barriers to growth in leading industries, by producing a high-skilled workforce, and by helping disenfranchised citizens and communities find economic opportunity. Managing overall spending, restraining key business costs, reducing the regulatory burden, and fostering a positive public economic outlook are other ways the state can contribute to economic growth over time.

And, of course, certain kinds of state decisions, by their nature, have lasting economic consequence. State decisions about how much and where to invest in public infrastructure can have an enormous effect on the nature, extent, and location of growth.

The reality is that the economy's immediate health is influenced mostly by factors beyond the control of state governments.

4 *The state must follow a detailed, up-to-date strategy if it is to shape its economic future.*

An economic strategy is not a public relations nicety: It's an essential blueprint for state action. Not having or following a strategy is a recipe for inaction and stagnation. Massachusetts has been a national leader in developing state-level economic strategies, and remains well ahead of most states in the level of sophistication and the scope of its strategies. However, the increasing complexity and diversity of the state's economy, the increasing sophistication of competitor states, and growing international competitive pressures, make it more difficult and more important to have a thoughtful, regularly updated plan.

It's worth remembering that an economic plan is not just valuable for the vision it articulates, but also for the public discussion it initiates. A lively public debate encourages good policies, and an economic plan is an important touchstone for that debate.

An economic plan is not just valuable for the vision it articulates, but also for the public discussion it initiates.

5 *A successful state economic strategy is structured around three basic organizing principles: Industry Sectors, Regions, and the Business Climate.*

The state's effort to promote economic growth typically falls into one of three categories: a) efforts to foster growth in key industries, b) efforts to boost the economic prospects of respective regions, and c) efforts to improve the overall business climate in which all industries and regions operate.

All these approaches are equally valid ways to organize the state's economic agenda, but a successful state economic strategy must encompass all of them and will have thought through the potential impact of every proposed state action on relevant sectors, regions, and the overall climate.

6 *A successful strategy stays focused on the real engines of job growth: Existing in-state companies and in-state start-ups.*

An "organic" or "indigenous" growth approach that emphasizes in-state start-up opportunities and the expansion of existing Massachusetts businesses is the only strategy for job growth that makes sense for Massachusetts. The public attention paid to out-of-state companies looking to locate to Massachusetts obscures a larger — if often hidden — reality: The Commonwealth's success in creating jobs does not depend on its ability to attract companies and jobs from other states. Existing and start-up Massachusetts companies are responsible for the overwhelming majority of new jobs created each year, so ensuring the health and competitiveness of firms who already call Massachusetts home is the real key to job creation.

With few natural resources, geographic and climate disadvantages, and relatively high business costs,

Massachusetts is often in a weak position to entice outside companies to relocate here. As a result, out-of-state companies rarely decide to relocate existing operations in Massachusetts. While they do sometimes choose to locate new operations in Massachusetts, it's usually for the same reasons that existing in-state companies find Massachusetts an attractive place to do business — a high-skilled workforce, a high quality of life, and a favorable business climate.

Decisions by outside companies to relocate to Massachusetts are always welcome, and Massachusetts has had its share of success stories. But these moves grab headlines and capture the public's attention out of proportion to their actual economic importance.

Existing and start-up Massachusetts companies are responsible for the overwhelming majority of new jobs created each year.

7 *An export strategy must be an explicit part of the Commonwealth's overall economic strategy.*

Export-oriented companies make a large and growing contribution to the Massachusetts economy. More than 400,000 of the state's 3.1 million workers depend on overseas sales for their jobs. Export-related jobs are doubly valuable because they are often among the highest paying. The types of products that Massachusetts exports — everything from precision instruments to software to seafood — tend to be high-value goods, and that high-value is reflected in higher pay for workers employed in export-oriented companies. Moreover, by selling products that were made in

Massachusetts to customers outside the state, exporters help to transfer wealth to Massachusetts from elsewhere.

State government has recognized the increasing importance of exports, and has expanded its efforts to encourage export activity accordingly. Even so, Massachusetts has not kept pace with the efforts of many of its competitors. Technical assistance programs and export marketing initiatives must take on greater priority within the state's overall economic strategy. And while the number of gubernatorial trade missions — which have been a tremendous help in raising public awareness — has grown, Massachusetts would benefit from a greater number of lower-level missions focused exclusively on business-to-business exchanges.

More than 400,000 of the state's 3.1 million workers depend on overseas sales for their jobs.

8 *A successful state economic strategy builds on the "competitive advantages" of leading industries.*

The Massachusetts economy's fate, over the long-run, is wedded to the performance of a handful of industry groups — so-called "clusters." Clusters are not simply aggregations of similar companies in competition with one another. They are webs of suppliers, producers, and related companies that have found ways to take advantage of their proximity to one another. In fact, the proximity of different clusters to one another itself often creates unexpected synergies. Most importantly, clusters are unique because they are areas where Massachusetts has developed competitive advantages over other states.

Clusters are also unique in their combined size within the state economy: Clusters in financial services, telecommunications, software and information technology, health care, education, consulting, and research and development, account for more than one-third of all jobs in Massachusetts.

The state must continually find ways to help its key clusters maximize the value of their competitive advantages.

The Commonwealth's experience over the last twenty-five years drives home a clear lesson: The state must continually find ways to help its key clusters maximize the value of their competitive advantages, and identify and reduce barriers to their growth.

9 *Fiscal stability is the single most important way state government can foster a healthy business climate.*

A clean fiscal bill of health is a demonstration of self-restraint and prudence that reassures the private sector and encourages businesses to pursue expansions without concern for unexpected tax hikes.

Conversely, instability and uncertainty in the public sector also have a profound impact on the psycholog-

Instability and uncertainty in the public sector have a profound impact on the psychological outlook of business decision-makers.

ical outlook of business decision-makers. Uncertainty engenders fear, and fear stifles company expansion and job-creation, discourages start-up ventures, and encourages business decision-makers to consider moving their companies elsewhere.

10 *Objective, accurate forecasting of tax revenues is essential to fiscal stability.*

The cardinal rule of budget balancing — for households and states alike — is: “Don’t spend what you don’t have.” Dependable forecasts set the tone for responsible budgetary management throughout state government. Various reforms over the past twenty years have formalized and improved the state’s ability to accurately predict revenues. The creation of an independent Revenue Advisory Board in 1976, and the establishment in 1991 of an annual public hearing process to review the state’s revenue outlook have been important steps toward professionalizing the forecasting process.

Agreement between the Executive Branch and the Legislature on the tax revenue outlook is as important as accurate forecasts. Since 1991, the Governor, the House, and the Senate have been required by law

to use a unanimous revenue estimate when preparing their respective budget recommendations. Prior to this practice, each budget recommendation was based on different revenue assumptions, unnecessarily complicating negotiations and undermining the integrity of the budget process. No other single reform has had as lasting and positive an impact on the annual budget process.

11 *Spending discipline is crucial, and just as important in times of surplus as in times of deficit.*

In times of decreasing revenues, state government is naturally inclined to restrain spending; however, the state’s long-term fiscal health is often most at risk when the immediate revenue outlook looks most promising. The danger is so-called “program creep.” Agency spending requests are apt to receive less scrutiny, and the introduction of new programs encourages larger “base” funding levels in future years when the state’s ability to support new programs may wane. Spending discipline is crucial at such times to prevent the cycles of boom-bust that have wreaked havoc with state finances in the past.

Spending discipline is impossible without close attention to big-ticket, non-discretionary items prone to expansion. Employee health care costs, pension contributions, M.B.T.A. subsidies, Medicaid costs, collective bargaining requirements, interest payments, and similar items consume a large part of the state budget. Given the potential of these items to quickly outstrip revenue growth, managing them must always be an explicit fiscal priority.

The state’s long-term fiscal health is often most at risk when the immediate revenue outlook looks most promising.

12 *Because of several circumstances unique to Massachusetts, restraining growth in state debt is a special fiscal challenge.*

Massachusetts has historically had one of the highest state debt levels in the nation. High interest payments on state bonds have often crowded out spending on vital state government functions and jeopardized the state's credit worthiness — driving up borrowing costs even further.

Overreliance on General Obligation debt has been a significant factor in the state's high debt costs.

In part, the Commonwealth's high debt load can be attributed to its relatively old and complex infrastructure. But the high debt load is also a reflection of the state's continued struggle to control debt-financed "capital spending." Capital spending on public roads and buildings is almost impossible to stop once initial construction is begun. Moreover, political pressures and legal liabilities often

limit the ability of state budget managers to control expenditures. The lesson of the last twenty-five years is clear: The only way to effectively control the rate of capital spending is to enforce a statewide multi-year plan that limits the discretion of individual agencies and sets strict annual spending limits.

The Commonwealth's continued overreliance on General Obligation debt has also been a significant factor in the state's high debt costs. While Massachusetts continued to finance much of its infrastructure over the past twenty-five years with General Obligation bonds supported by general tax revenues, other states found creative ways to support needed capital projects by issuing revenue-bonds and other "dedicated-source" debt that shift the burden from taxpayers to the actual users and beneficiaries of infrastructure improvements.

13 *When times are good, it's critical to prepare state finances for the inevitable economic downturn and the revenue losses to come.*

The recurring boom-bust experiences of the last twenty-five years and the resulting fiscal woes ought to drive home the central lesson that a thriving economy presents an opportunity to set aside funds to stabilize state finances during a future downturn.

The creation of a rainy day fund in 1986 was one of the most prudent fiscal reforms enacted during the past twenty-five years. And while debate continues about whether the current size of the fund is sufficient, the state's unprecedented commitment to increasing the balance of the fund over the past several years is an impressive sign of the Commonwealth's fiscal maturity.

Creation of a rainy day fund in 1986 was one of the most prudent fiscal reforms enacted during the past twenty-five years.

14 *State government can do a lot to influence key costs of doing business in Massachusetts.*

State government has wide discretion to influence many costs that together affect the competitiveness of Massachusetts businesses. Massachusetts will never be a low-cost state, but reducing key costs to levels comparable with our competitor states gives Massachusetts companies the best chance to grow and expand.

The lesson of the last twenty-five years is clear: Managing the overall tax and regulatory burden, the cost of workers compensation, unemployment insurance, health insurance, water and sewer services, and energy must be basic components of any statewide economic strategy.

15 *Massachusetts is uniquely dependent on a skilled workforce.*

While many states rely on natural resources or geographic advantages to fuel their economies, the Massachusetts economy is fueled, in large degree, by brainpower. To compete successfully Massachusetts companies must continually innovate and create new products, and that innovation requires skilled workers who can master new production technologies and get new products to market quickly.

While many states rely on natural resources or geographic advantages to fuel their economies, the Massachusetts economy is fueled, in large degree, by brainpower.

The state's dependence on a skilled workforce is reflected in the comparatively high educational attainment of its population. Since the mid-eighties Massachusetts has consistently outranked all of its competitor states in the percentage of the population with a bachelor's degree or higher.

At the same time, Massachusetts has often struggled to meet the needs of its companies for skilled workers. Every economic expansion in the Commonwealth over the past twenty years has been accompanied by an acute shortage of skilled labor. Even in bad times skilled workers have often been able to demand more, and that suggests an ever increasing demand of the Massachusetts economy for a high-quality workforce.

16 *State investments in education must be considered fundamental investments in the Commonwealth's economic future.*

The conventional way to think about early-childhood education initiatives, K-12 Education Reform, public higher education and financial aid, and adult education is to emphasize their moral, social, and educational value.

But state investments in these areas are much more than good education policy: They are sound econom-

ic policy. They are fundamental economic investments that have long-run economic payoffs.

17 *Regional infrastructure investments present unique opportunities for state government to make a lasting contribution to economic growth.*

State decisions about how much and where to invest in major public infrastructure projects — especially in transportation improvements — have lasting economic consequence. Decisions made more than twenty years ago to expand Route 128 and Interstate 495 have resulted in vibrant corridors of growth. And today, no two transportation investments will reshape patterns of growth for future generations more than the modernization of Logan Airport and the completion of the Central Artery Project.

In fact, the Commonwealth's ability to influence growth through regional infrastructure decisions has perhaps never been more pronounced. The continued shift in federal transportation policy away from micro-management and toward greater state and local discretion means that Massachusetts has considerably more control over its economic future than it has had in the past.

18 *State support for local infrastructure can make a vital contribution to local economies.*

State investments in sewer, utility, and road improvements in downtown areas, neighborhoods, industrial zones, and underdeveloped rural areas can have dramatic effects on local economies — and a cumulative effect on the overall economy. The Commonwealth's Public Works Economic Development (P.W.E.D.) program, the Community Development Action Grant (C.D.A.G.) program, and the "Chapter 90" local road construction program are all examples of targeted state investments that often make tremendous contributions to local economies.

State support for small-scale infrastructure improvements — especially those outside the Route 128 and Interstate 495 beltways — similarly inject life into local economies. State investments in regional airports, seaports, and tourism centers have a significant impact on regional and local development.

19 *The first step in revitalizing a distressed community is to identify and build on local strengths that can give competitive advantages to companies doing business there.*

Almost every community has unique strengths that can serve as a foundation for economic growth.

Location, quality of life, proximity to transportation, historic architecture, cultural traditions, and an abundant labor force are all examples of strengths that often go unappreciated.

These strengths dictate what kinds of growth opportunities are practical for a community. Communities that foster industries that capitalize on existing strengths will succeed because only these existing strengths can create the competitive advantages that lead to long-run growth.

The experience of the last twenty-five years is clear: Local and state leaders make a mistake when they ignore a community's existing economic assets, instead attempting to simply duplicate whatever has succeeded elsewhere — forgetting that those successes are often based on very different local circumstances.

20 *The second step in revitalizing a distressed community is to identify and address basic barriers to economic growth that undermine the competitiveness of local businesses.*

Poor transportation access, an antiquated telecommunication network, deteriorating buildings, and a lack of public amenities are often serious impediments to growth in distressed communities. In addition, lack of access to higher education facilities and child care services create major obstacles to employment and undermine the ability of local employers to find quality employees.

Until these barriers are remediated, businesses in these communities will face serious competitive disadvantages, and the prospects for local job growth will be slim.

21 *Location incentives such as tax-increment financing and abandoned building tax credits are useful tools to help businesses grow in distressed areas, but they don't alter hard economic realities.*

Private businesses will decide to locate in or leave distressed communities based on basic business assumptions about profitability. Incentives alone will never outweigh these assumptions, nor should they be used to sustain companies that would otherwise be uncompetitive. They are most likely to lead to sustained job growth when they are used to leverage a community's existing strengths.

22 *Locating state facilities in a distressed community often makes private investment more attractive and improves the atmosphere for development.*

The presence of a state facility can have myriad effects on a local economy. As a reliable tenant or property owner, the state can help stabilize real estate values. State employees are likely to frequent nearby businesses. And the state's commitment often encourages private developers and businesses to reassess the prospects of an area.

State decisions on where to locate government facilities can have the most influence on local economic activity when targeted in a way that builds on local strengths. No state action can alter economic realities — just because you build it doesn't mean they will come. But when the state's decision builds on local strengths, the decision can lead to sustained development and job growth.

The state must also tailor the type of facility to local needs. For example, the state's efforts to open satellite community college campuses in older commercial districts makes great sense on many levels: Campuses encourage nearby residents to seek education and training. Campuses improve the area's physical appearance, stabilizing real estate values. And campuses bring activity and life to areas on weekends and after the workday ends — when it's most needed.

Almost every community has unique strengths that can serve as a foundation for economic growth.

23 *To be successful, the state must concentrate its resources on a few strategic targets and coordinate its agencies.*

The state's broad array of assistance programs makes the greatest difference when a single business, project, or area is targeted for help simultaneously by many agencies. Multiple agencies acting in concert can produce impressive results.

While state leaders are obliged to address the needs of all communities and are often swayed by political imperatives, experience has shown that staying focused on the most pressing strategic targets is important. The alternative — simply scattering state resources around — is likely to have limited impact on any community.

24 *Local leadership is a prerequisite for local success.*

Strong local leadership has made a crucial difference in dozens of communities across the state over the past twenty-five years. In the absence of strong, unified support from the local business, academic, and/or political community, state government is extremely limited in its ability to reshape local economies. There's just no substitute for a sustained, wide, and deep consensus around a community's economic priorities.

The need for local leadership applies doubly at a regional level. The global economy increasingly divides

itself along regional lines, with conventional political boundaries having less and less economic relevance. Other areas of the country have clearly gotten this message and have retooled their approaches to economic development as a result.

Yet the Commonwealth's tradition of strong home rule and relatively small political subdivisions has repeatedly undermined regional economic initiatives. A clear lesson of the past twenty-five years is that

cities and towns must look beyond their borders and work together toward regional development strategies, understanding that jobs lost or created in one jurisdiction have ripple effects that transcend municipal borders.

25 *Local aid policies can sometimes inadvertently undermine local economies.*

Just as federal highway aid policies have subsidized "suburban sprawl" and undermined the economic foundations of cities, state-level local aid policies have had similar unforeseen consequences.

For example state housing assistance programs have sometimes unknowingly hurt existing neighborhoods by discouraging preservation of existing housing stock in favor of new construction. Similarly, the state's school building assistance program had in the past encouraged cities and town to abandon older schools in favor of new suburban campuses, often sapping the vitality of existing neighborhoods in the process.

26 *Efforts to create a more competitive, inclusive bidding process for state contracts can help inject life into distressed communities.*

Distressed communities are often home to many minority and women-owned businesses that could benefit from a more open and inclusive state procurement process.

Aggressive oversight of agency procurement departments is the only way to ensure that requests-for-proposal are drafted to allow as many qualified minority and women vendors as possible to participate in the bidding process. Administrative incentives and penalties for individual agencies could also help to encourage a more inclusive process.

Cities and towns must look beyond their borders and work together toward regional development strategies.

“If you can’t measure it, you can’t manage it.”

27 *Having measurable goals and a capacity to monitor progress towards them is crucial.*

Political leaders are often reluctant to commit to specific benchmarks and timetables. Even so, it’s important that a statewide economic strategy establish well-defined, concrete goals. Only then can progress be measured and corrective actions be taken to reach those goals.

Moreover, high-level administration officials must have access to quality information on current economic trends. This requires a strong staff capacity at the highest levels of state government to collect and analyze economic data. The mantra of business management — “If you can’t measure it, you can’t manage it” — applies equally to implementing an economic strategy.

28 *Regular dialogue with business and academic leaders who are in touch with the state’s economic pulse is a must.*

With so many of the nation’s top economic thinkers, business consultants, and corporate leaders living and working in Massachusetts, it is simply irresponsible for state government to ignore their potential contribution.

Efforts to create standing organizations of outside policy advisors have been instrumental in guiding state economic policy in the past. Organizations like the Governor’s Council on Growth and Technology have been influential because they have provided opportunities for candid, direct dialogue between senior administration officials and business leaders — without the formality, strict appointment process, and restrictions of a statutorily-created advisory board or independent non-government organization.

29 *Public perception of the economy is itself an influence on economic performance.*

The psychological outlook of consumers, business leaders, and lenders is a major factor in whether the state economy grows or contracts. Individual decisions about whether to buy a house, whether to hire more employees, or whether to approve a loan, cumulatively have profound consequences for the state economy.

State government can help foster a positive outlook — especially among business leaders. By listening to the needs of the business community and being responsive to those needs, state leaders encourage business decision-makers to think favorably about Massachusetts as a place to do business.

With public perception of the economy shaped in large part by the media, educating and engaging the

Individual decisions about whether to buy a house, whether to hire more employees, or whether to approve a loan, cumulatively have profound consequences for the state economy.

press on economic matters also becomes an important responsibility of state leaders. The intense media coverage that accompanies job losses at high-profile Massachusetts companies often paints an inaccurate portrait of the state’s economic health and undermines public confidence in the economy out of proportion to the size of layoffs.

30 *A focus on politically appealing projects makes it harder to achieve the core goals of an overall state strategy.*

Political leaders will always be tempted to pursue politically attractive projects — often without enough attention to a project’s actual worthiness. However, implementing an overall state strategy requires that state agencies be committed in a

focused way on the strategy's core goals. To the extent that politically appealing projects divert agency staff and resources, these projects often undermine the state's ability to carry through with an overall state strategy.

31 *Cluster-based associations are essential for state government to respond effectively to the needs of key industries.*

It is much easier for state government to understand and respond to the needs of key “clusters” when their member companies speak with one voice. Industry associations are particularly important for

Industry associations are particularly important for small start-up companies that may not have the time or resources to explain their needs.

small start-up companies that may not have the time or resources to explain their needs. And regionally-focused cluster-based associations have taken on increasing importance.

State efforts to encourage association-building in software, telecommunications, high-technology, medical device manufacturing, and other industries have been an important element in their success.

32 *Coordination is the key to success.*

Achieving the broad goals of an economic strategy is impossible without effective coordination among multiple cabinet secretaries, their agencies, and numerous quasi-public entities.

The Commonwealth's constitutional division of responsibilities for economic development, community development, finance, transportation, and environment, among several cabinet officers makes it especially difficult to implement an overarching economic plan. Moreover the size, number, and independence of state business assistance agencies, com-

munity development agencies, and state quasi-public agencies is a recipe for turf disputes and inaction.

33 *Private sector participation is vital to local economic development efforts.*

Government investments in local economic development projects are most successful when they leverage private sector job-creation and financial commitments. State and local leaders must pursue private participation as a condition of public support, and whenever possible, state and local monies should follow private funding commitments.

34 *To be effective, state agencies must be encouraged to adopt an entrepreneurial, risk-taking attitude — and that requires leadership at every level of state government.*

State agencies — like all public bureaucracies — are often risk-averse. Too often a fear of failure and an unwillingness to take reasonable risks saps agency effectiveness.

For example, a host of state agencies have been created to fill gaps in capital markets where the level of risk has discouraged private lenders from making loans. Yet many of these agencies have, at times, become risk-averse themselves and have shied away from making aggressive lending decisions that could meet genuine market needs. In every case, energetic leadership that encouraged reasonable risk-taking and a “can-do” attitude made the difference in restoring agency effectiveness.

35 *A productive, congenial relationship between the Governor and leaders of the two legislative branches is a tremendous asset in pushing economic reforms forward.*

Political and partisan motives will always influence policy-making, but strong personal relationships between key leaders often create opportunities for quiet compromise and progress.

The willingness of the Governor, Senate President, and House Speaker to meet regularly to discuss economic policy has made the difference between success and failure on many critical economic reforms.

LOOKING AHEAD:

FOUR KEYS TO THE COMMONWEALTH'S SUCCESS IN THE NEXT CENTURY

*The Commonwealth's success in the next century — the performance of the state economy and the quality of life enjoyed by its citizens — depends on the state's ability to meet critical challenges in four areas: **Infrastructure, Economic Inclusion, Technology, and Leadership.***

INFRASTRUCTURE

Today's investments in the Commonwealth's physical and human infrastructure are the foundation for tomorrow's economic growth and opportunity. A first-class transportation network that allows Massachusetts companies to get their products to market efficiently and allows their employees to commute easily is a decisive competitive advantage. Moreover, the state's third largest industry — tourism and entertainment — depends on a quality transportation infrastructure and a variety of other public infrastructure investments from regional tourism centers, to civic and convention centers, to art museums and other cultural attractions. As importantly, state investments in education and training — the state's human infrastructure — are essential if we are to meet the economy's growing demand for a skilled workforce.

While Massachusetts continues to pursue a slate of major physical and human infrastructure initiatives — from the Central Artery to Education Reform — there is still much work to be done. We believe there are four principal physical and human infrastructure challenges facing the Commonwealth today:

SUCCESSFULLY COMPLETE THE MEGA-PROJECTS.

For many years four "Mega" infrastructure projects — all now underway — have dominated the economic development agenda of the entire Greater Boston area:

- The Central Artery-Tunnel Project,
- The Logan Modernization Plan,
- The Boston Harbor Cleanup, and
- The new Boston Convention & Exhibition Center.

Completing these projects on time and within budget, without sacrificing one for another, and without jeopardizing the state's fiscal stability, will be a test that the Commonwealth cannot afford to fail. Boston's Seaport District and Southwest Corridor will remain economic backwaters without the timely completion of the Central Artery. The state's rapidly growing high-tech services industry depends on quick access to Logan Airport to serve clients around the world. And a new convention center and the cleanup of Boston Harbor represent the best opportunities yet for Boston's tourism, travel, and entertainment industries.

As three of these projects approach peak construction, the importance of the state's commitment has perhaps never been greater. The Commonwealth must not jeopardize them by shirking its financial commitments in the face of likely reductions in federal aid or slumping state revenues. Pressures to back off or cannibalize aspects of these projects for financial reasons must be resisted.

EXPLOIT THE OPPORTUNITIES MADE POSSIBLE BY THE MEGA-PROJECTS.

Now is the time to cast an eye to the future and develop a new vision for economic growth that exploits the opportunities made possible by the four Mega-projects. Developing that vision requires serious answers to difficult questions, among them:

- How can we use a cleaned-up Boston Harbor, the Harbor Islands Recreation Area, and an emerging water transportation system to create a world-class waterfront tourism destination?
- How can we best capture the intended synergy between a more accessible and efficient Logan Airport on the one hand, and Greater Boston's pivotal industries — finance, medicine, education, software, consulting, and research and development — on the other?
- With the completion of the Third Harbor Tunnel, a new convention center, a transitway, and an airport transit connector, how can we fulfill the sweeping

vision of the Seaport District and South Station area as a regional economic engine?

- Does the port of Boston have a viable future as a high-value container port? Can obstacles to the needed rail improvements and dredging be overcome? And, how should the port best accommodate the fishing, cargo, and tourism industries which all depend on quality access to the waterfront?
- Will the whole of inner-city Boston — from the Southwest Corridor to Crosstown, to Dudley Square, to Blue Hill Avenue — be able to use improved access to the highway and airport to participate in the anticipated wave of growth that will follow in the wake of the Mega-projects?
- How do we meet the infrastructure needs of other regions and maximize their economic potential so that Greater Boston's prosperity and the prosperity of other areas complement each other?

IDENTIFY INFRASTRUCTURE PRIORITIES FOR THE POST-MEGA FUTURE.

State leaders should also be identifying now the next generation of investments comparable in size and scope to the Mega-projects that will address the Commonwealth's long-range infrastructure needs. While a number of ideas crowd the drawing boards of state planners, we believe two proposed projects stand out from the rest:

- ***High-Speed Boston-New York Rail Service.*** The current proposal to inaugurate high-speed passenger rail service between Boston and New York beginning in the year 2000 has the potential to fundamentally redefine the economic relationship — not only between two cities — but between Massachusetts and the entire Northeast economy. By shaving an hour and a half off the current four and a half hour trip, rail transportation will become a significantly less expensive alternative to commercial airlines, giving Massachusetts companies affordable, reliable access to new customers and suppliers outside Massachusetts, and relieving demand on Logan airport. The move to high-speed rail will also open the door to new synergies between Massachusetts and other Northeast states in key industry clusters such as financial services, tourism, and telecommunications. While this year's

federal budget is likely to include funding that will allow reconstruction of the rail lines to continue, future federal appropriations are far from certain — indeed, tenuous. Now is the time for state leaders to lobby Congress and make their voices heard on this vital project.

- ***The Urban Ring Transit System.*** The proposal to create a 14-mile transit loop around downtown Boston stretching from Logan Airport through Chelsea, Everett, Somerville, Cambridge, Brookline, Roxbury, and the South Boston Seaport District represents the best hope yet for linking the entire Boston area in a comprehensive public transporta-

The Urban Ring Transit System represents the best hope yet for linking the entire Boston area in a comprehensive public transportation network.

tion network. The Urban Ring has the potential to dramatically cut cross-town travel times, reduce traffic congestion downtown, and open dozens of neighborhoods to new opportunities for economic growth. While the precise route, technology or combination of technologies (conventional buses, electric buses, or light rail), and funding needs are open to debate, what's not in question is the tremendous potential value the Urban Ring represents to the entire regional economy.

MAKE RADICAL CHANGES IN PUBLIC HIGHER EDUCATION TO MEET THE ECONOMY'S GROWING DEMAND FOR HIGH-SKILLED WORKERS.

Every economic expansion of the past twenty-five years has been accompanied by an acute shortage of skilled workers, and the current expansion is no different. While job growth in Massachusetts is booming along at the national rate, the Massachusetts population is growing less than half as quickly as elsewhere in the country. The result is that thousands of job openings at cutting-edge Massachusetts companies are chronically vacant because the few applicants that do apply often lack the technical expertise needed to fill them. The shortage of trained workers is undermining the state's competitiveness in software, telecommunications, financial services, and health care — by preventing growing companies

from adopting new technologies, developing new products, and bringing goods to market ahead of their competitors.

With the problem only getting worse, the state must make two fundamental changes in the way it educates and trains the workforce.

- ***We should guarantee every qualified Massachusetts resident, at a nominal cost, access to two years of public college-level education.*** To do this, we must radically expand enrollment in public higher education — especially community colleges — through tuition reductions and expanded scholarship programs. Getting more students enrolled in our community colleges is a matter of simple economic competitiveness. States like California, Washington, and Illinois enroll two to three times as many students per capita in their community college systems, and Massachusetts cannot afford to fall further behind. Cost is a major barrier, and despite progress, the state has a long way to go. As a percentage of personal income, Massachusetts state support for all of higher education ranks 49th in the nation, with one result that the cost of attending community college (\$2,540 including tuition and fees) is 73 percent above the national average — the third highest in the country. Getting costs down to a nominal level will create a powerful incentive for high school students (who now often delay studies for financial reasons) to enroll immediately in community colleges upon graduation. It will also encourage more incumbent workers to resume part-time studies. Our future depends on our ability to create a seamless transition from public primary to public secondary education and from the workplace to the community college environment.
- ***We must remake the state's public higher education institutions so that they become the state's premier resources for workforce training.*** While training the state's workforce is not the only reason for having a system of public colleges and universities, it is a vital and increasingly important aspect of their mission. State and community colleges especially must expand their roles as centers of college-level vocational training for incumbent workers. Their curriculums must become more flexible so that classroom instruction

is more tailored to specific job skills in demand by area companies. At the same time, local employers must continue to be willing to shoulder most of the cost of this type of training and to extend it to more of their workers. The state can help by creating incentives so that companies — especially small firms — have an interest in contributing to the education of their employees.

ECONOMIC INCLUSION

State efforts to reach out to people and places that don't enjoy full participation in a thriving economy are not just morally and socially responsible, they are smart economic policy. With near zero population growth and an influx of new workers from other states unlikely, Massachusetts must draw primarily on its existing labor pool to meet the economy's growing need for more workers. That means making sure every potential worker has the opportunity and the job skills to participate fully in the economy. As a state, we simply can't afford the economic cost of allowing anyone or anyplace to fall through the cracks.

We believe a successful strategy for ensuring that the fruits of economic prosperity are available to all Massachusetts citizens has three components: Achieving a world-class standard in our public schools, making sure that every adult has the basic skills necessary to hold a job, and revitalizing geographic areas that are being left behind by today's economy.

MAKE MASSACHUSETTS PUBLIC SCHOOLS THE BEST IN THE WORLD.

There is no reason to set anything less than a world-class standard for Massachusetts public schools. Not only does the unique Massachusetts vision of public education — from the time of Horace Mann to the present — argue for a world-class standard, but the reality of global competition demands it. The real measure of success should not be merely to keep up with the educational achievements of our economic competitors in other states and around the world. Our goal must be to surpass them.

What's at stake is not only the Commonwealth's future as a high-technology economy, but the state's future as a true commonwealth, a place where all cit-

By one estimate, 45 percent of Massachusetts 10th graders cannot communicate clearly or think critically.

izens share in economic prosperity. If the failure of our schools to achieve a world-class standard persists, the gap between workers who benefit from today's economic growth and those that don't will continue to widen. To be sure, the challenge of turning around a broken public education system is daunting. Each year our public schools produce thousands of "graduates" unable to meet even the most basic requirements of employers. By one estimate, 45 percent of Massachusetts 10th graders cannot communicate clearly or think critically.

While it's not a novel observation, higher standards and greater accountability really are the keys to turning around the state's chronically underperforming K-12 public education system. The state's unprecedented \$13 billion investment in local public schools over the past five years must be matched by a powerful pressure on school administrators, teachers, and students to deliver results. A sense of urgency is the most important element. Under the existing law, students who fail three attempts to pass a competency test will be denied a high school diploma beginning in 2003. While that deadline may be five years away, it's vital that the possibility of failure in 2003 be made to weigh heavily right now on the teachers and administrators who are preparing those students. With the first round of student tests looming, and dismal results expected, it is more important than ever for the state's political and business leaders to reaffirm their commitment to the high standards and testing schedule already established.

Creating a world-class public school system also requires our schools to have quality physical infrastructure, and an increasingly important element in that physical infrastructure is information technology. Here the Commonwealth can help in a variety of ways — by creating incentives for school systems to develop innovative, thoughtful uses for new technologies and by organizing bulk purchases for com-

puter equipment and internet services to stretch taxpayer dollars further. At the same time, it's important for local schools to find ways to link computer training to professional development of teachers and incorporate student computer use into existing curriculums rather than as isolated instruction.

Computers in the classroom are not a panacea for our educational ills, but wise local decisions about their use, coupled with state support can make a major difference in the quality of education.

MAKE SURE ALL MASSACHUSETTS ADULTS HAVE THE BASIC SKILLS THEY NEED TO PARTICIPATE IN THE ECONOMY.

We must ensure that every citizen has the basic educational skills necessary to participate in today's economy and make a decent income. Incomes are stagnating or falling for thousands because many citizens lack even the basic skills required for entry-level jobs. In fact, a shockingly high number of Massachusetts citizens — by the Department of Education's estimate, 877,000 — are functionally illiterate.

And the state's efforts to improve the math, literacy, and English skills of these adults are falling far short of what's needed. With only 23,000 adults enrolled in basic education and English as a Second Language classes, the state is serving only 3 percent of the estimated population of illiterate adults.

To tackle this problem we must expand enrollment and financial assistance for adult basic education and English-as-a-Second-Language classes. These two programs are fundamental ladders of opportunity for the state's most under-skilled adults. Yet 15,000 adults remain on waiting lists for adult basic education classes, and in some cities immigrants must wait as long as two years for seats in English-as-a-Second-Language classes. Even as state funding has expanded, a flood of applicants has continued to outstrip the number of new class seats offered. Increasing state support for these two programs will make a world of difference for thousands who would otherwise be left behind by today's economy.

A shockingly high number of Massachusetts citizens — 877,000 — are functionally illiterate.

RENEW THE STATE'S COMMITMENT TO REVITALIZING AREAS BEING LEFT BEHIND BY TODAY'S ECONOMY.

Despite the Commonwealth's roaring economy and low overall unemployment levels, large pockets of the state continue to wrestle with feeble economic growth, low income levels, and high unemployment. The struggles of inner-city neighborhoods in Boston and elsewhere have been a constant of the past twenty-five years, and have become a glaring

reminder that economic opportunity is not equally shared.

But the problem is not confined to urban neighborhoods.

Economically troubled areas include older regional cities like New Bedford, Fall River, Taunton, and Brockton; or Lowell, Lawrence, Haverhill, and Newburyport; or Springfield, Holyoke, and Chicopee. There are whole regions like the Berkshires, the Blackstone Valley, or Northern

Worcester County — where both the principal cities and surrounding rural areas are lagging behind.

Confronting the persistent disparities between high-growth areas surrounding Boston and areas of low-growth remains one of the most difficult challenges facing the Commonwealth.

As seemingly intractable as the problems of low-growth areas appear to be, it is a mistake to cast these areas in a negative light. The starting point for raising the economic prospects of low-growth areas is to recognize them as places of potential opportunity for their residents rather than places of neglect. The goal must be to ferret out existing sources of opportunity and bring public and private resources to bear that build and expand those opportunities. Thinking about the Commonwealth's low-growth areas in this way is the only foundation for successful action.

Over the past twenty-five years, the Commonwealth has developed several innovative statewide plans. *Targets for Opportunity* (1985) and *Choosing to Compete* (1993) are both examples of statewide strategies aimed at helping individual regions and communities realize their economic potential in a comprehensive way. The remarkable turnaround of

downtown Lowell and the recent surge in public and private investment in Chelsea have shown that the state can make a meaningful contribution to local revitalization. What's most needed now is an updated statewide strategy and a redoubled effort to inject life into communities that are lagging behind.

To be sure, developing a statewide strategy is impossible without the support of communities themselves. The leaders of each region and each community in the Commonwealth must come together to develop their own vision for economic growth and a broad consensus about how to achieve it. Only then can the Commonwealth make its contribution. At the same time, the state can help by increasing funds available for regional and local economic planning and by challenging divided communities to organize themselves and work toward consensus.

While the Commonwealth has many tools at its disposal to assist struggling communities, the experience of the past two decades is clear: The spectrum of efforts to promote local economic growth — tax incentives, infrastructure improvements, community development initiatives, below-market financing programs, and other forms of business and community assistance — can all make a difference when they build on the existing strengths of a community. The second element to success is to identify needs and bring the state's resources to bear holistically. Access to education and training, access to child care services, successful welfare-to-work transitioning, and other human infrastructure needs must be complemented by improved highway access, expanded public transit, sewer and utility upgrades, and improvements in the local telecommunications network and other physical assets.

At the same time, the limits of state intervention have become clear over the past twenty-five years: State efforts that aren't coordinated, that don't build on the existing strengths of a community, that ignore basic obstacles to growth, and that disregard hard economic realities, are doomed to failure.

TECHNOLOGY

Technology is the life-blood of the Massachusetts economy. With historically high business costs and obvious disadvantages in climate and geography that

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make it difficult to compete on cost, Massachusetts companies have come to rely instead on technology to boost worker productivity and produce high-quality, high-value products. And in a global economy, with competitive pressures in every direction, having a technological edge is the key to staying in business. For this reason, we think technology must take on much greater importance both as a subject of political discussion and as an explicit priority of state government. While the technology challenges facing Massachusetts are many, two stand out: the need to preserve research and development activity, and the need to improve the quality of the state's telecommunications network.

DEFEND AND PROMOTE THE COMMONWEALTH'S VITAL R&D BASE.

Innovations and new ideas generated by Massachusetts research laboratories and universities have always been a critical element in the state's economic success. Indeed, the spectacular growth of the Massachusetts economy over the past several years has largely been fueled by advances in software, telecommunications, and biotechnology born in Massachusetts research labs and universities.

The growing demand for innovative technologies has made the state's research labs and universities increasingly important economic assets. No other state spends more of its Gross State Product on research and development, or has such close ties to its premier research universities. Today more than one thousand M.I.T.-related companies are headquartered in Massachusetts, with their employees totaling almost five percent of the state's workforce.

This year, with an anticipated federal budget surplus, both Congressional leaders and the White House have proposed significant increases in federally-supported research. Nevertheless, the proposed increases are conditioned on the successful resolution of controversial, unrelated issues (such as a tobacco settlement). Should federal decision-makers fail to reach agreement on these issues, the 1997 Balanced Budget Agreement will continue to mandate major cuts in many research programs over time. These potential cuts are a direct threat to major Massachusetts employers — from universities like Harvard and M.I.T. to hospitals like the UMass Medical Center and Massachusetts General Hospital. Worse however, is

No other state spends more of its Gross State Product on research and development.

the threat cuts pose to the steady stream of start-up companies that depend on ideas and technological innovations born in Massachusetts research centers.

At the same time, with a diverse economy and wide range of research activity — from defense to oceanography to health research — Massachusetts is better positioned than many states. While Massachusetts is particularly vulnerable to cuts in defense, non-health-related science research, and teaching hospital support, the Commonwealth is well positioned to take advantage of proposed increases in N.I.H. funding for biomedical research.

The course of action is clear: Massachusetts must expand its lobbying campaign to fend off proposed cuts in vulnerable areas and maximize new funding opportunities. More of the state's influential corporate, academic, and political leaders must take a direct personal role in the effort to preserve the state's share of federal funding.

The Governor should also appoint an official Technology Advisor. A Technology Advisor would provide the leadership and energy necessary to expand the state's lobbying campaign for federal funds. The Technology Advisor would also help raise public awareness of the importance of technology generally, and research and development specifically. Moreover, a Technology Advisor could provide the kind of strategic guidance that state government needs in order to maximize its own use of technology in critical areas from criminal justice to education. A well-respected corporate or academic leader with a broad understanding of the technology-related challenges facing the Commonwealth and an ability to articulate them would be an ideal candidate.

Committing new state funds to leverage or complement federal awards is another way to send a powerful message to federal officials about the state's commitment to preserve its R&D base. Through its system of public universities and colleges, and through its tax-exempt lending programs, the Commonwealth

already indirectly sustains a wide range of research activity throughout the state. However, unlike many other states, Massachusetts — with few exceptions — does not generally attempt to match federal awards to its laboratories and universities. As a result, Massachusetts

researchers are often at a disadvantage in competing for federal funds. In addition, Massachusetts researchers often struggle to meet expenses — particularly costs related to physical capital — not generally covered by federal grants. While the nature and size of state support are open to debate, a merit-based system of awards that leverages or fills gaps in federally-supported research could make an important long-term contribution to economic growth.

TAKE BOLD STATE ACTION TO ADDRESS SERIOUS, GROWING DEFICIENCIES IN THE STATE’S TELECOMMUNICATIONS NETWORK.

The state’s telecommunications network is as important to the Massachusetts economy today as was the creation of the interstate highway system nearly fifty years ago. Yet, entire areas of the Commonwealth continue to rely on antiquated or insufficient phone, cable, wireless, e-mail, and data transmission/Internet systems. These antiquated systems are locking whole communities out of the competition for high-tech companies. Even in areas with relatively new telecommunications networks, inadequate bandwidth and a lack of capacity are stifling economic growth. The high-tech service companies fueling today’s economic expansion depend on two things to compete successfully: a rapid flow of information and ideas, and electronic access to employees and customers around the globe. Both of these are made possible by a high-quality telecommunications network. Without a high-quality network, there is simply no rationale for these companies to locate in a community. Conversely, regions with a reputation for a high-quality network will gain a unique competitive advantage and become magnets for new companies. Bold action is needed to reverse the situation, and the state should start by ordering a top-to-bottom review of every regulation affecting the delivery of telecommunications services. The goal of the review must be to fundamentally rethink the way all telecommunications services are currently regulated

Antiquated telecommunications systems are locking whole communities out of the competition for high-tech companies.

and develop innovative new incentives that encourage providers to make needed investments in the state’s telecommunications network. While the state has corrected past barriers that have discouraged telecommunications investments, state regulators must do much more to create opportunities for competition and profitability, understanding that only when providers have an opportunity to pursue a return on investments will the market respond to network deficiencies.

It is also essential for the state to closely monitor the E.C.C.’s ongoing implementation of the federal Telecommunications Reform Act and be prepared to take an aggressive stance with other like-minded states to promote competition and ensure universal quality service. The state’s interest extends not only to basic telephone services, but to the data transmission needs of the burgeoning software and multimedia industries. Massachusetts has a lot at stake in the federal implementation of the Telecommunications Reform Act, and not just as it applies to existing companies in the Route 128 corridor: Creating an attractive environment for emerging telecommunications-reliant companies in software and multimedia is becoming an increasingly important element in the economic growth strategies of the state’s rural areas and older cities alike. Similar ongoing scrutiny of the rule-making process is needed to successfully implement the Commonwealth’s new electric utility deregulation law, lest agencies slowly slip back into old bureaucratic ways and use their rule-making discretion to undermine the competitive environment envisioned under the new law.

Finally, state oversight agencies — principally the Department of Telecommunications and Energy — must take a firm stand against the “not-in-my-backyard” (“NIMBY”) response of some communities on behalf of the collective interest of all users of the Commonwealth’s telecommunications network. The Massachusetts tradition of strong home-rule and local autonomy should not be allowed to jeopardize the

development of one of the state's most important economic assets.

LEADERSHIP

We believe the true test of state leadership in years to come will be the ability of state leaders to meet two critical challenges: (1) preserving the state's stellar fiscal condition and avoiding temptations to repeat past fiscal mistakes, and (2) ensuring that economic growth remains the number one goal of state government and keeping the whole of state government organized around that goal.

AVOID THE TEMPTATION TO REPEAT PAST FISCAL MISTAKES.

State leadership in economic policy begins with a commitment to avoid the temptation to repeat the fiscal mistakes of the past. Today's decision-makers should draw sharp lessons from the recurring cycles of spending and tax-cutting followed by recession that have wreaked havoc with state finances in the past. Historically, enthusiasm for new spending and tax cuts is strongest at the peak of the business cycle while the fiscal impact of spending largesse and tax cuts often hits at the bottom. These cycles have actually magnified the severity of past recessions by forcing

tax hikes when Massachusetts companies and individual taxpayers are least able to afford them.

In fact, a roaring economy ought to be a clarion call

A roaring economy ought to be a clarion call for preparing state finances for the storm to come.

for preparing state finances for the storm to come. With a thriving economy and a clean fiscal bill of health, now is precisely the time for the Legislature and Governor to consider a range of statutory safeguards that limit future spending and help ensure the state will have sufficient funds available during the difficult economic times that — sooner or later — are sure to come, including:

- wider use of sound budgeting practices like “zero-based” and “performance based” budgeting to force state agencies to justify increases in appropriations;

- further restructuring, streamlining, and privatizing government functions to cut costs and ease the burden on the state operating budget while improving the quality and delivery of state services;
- restricting the availability of the Commonwealth's rainy day fund to only specific emergency conditions;
- putting more teeth in existing statutory caps on outstanding debt and debt service to increase pressure on agencies to control capital spending; and
- expanding the use of revenue-based financing for capital improvements to reduce the Commonwealth's overreliance on General Obligation debt.

At the same time, it's important not to exaggerate the threat to the state's fiscal health and recognize that current economic good times do create an important opportunity to reduce the state's tax burden in meaningful ways. With strong new fiscal reforms in place and a significant positive structural balance, it's clear that Massachusetts can afford to forgo some tax revenues and deliver broad-based tax relief.

It's our belief that Massachusetts should pursue plans to reduce the personal income tax rate from 5.95 percent to 5 percent, both as a matter of fairness and as a matter of economic competitiveness. While it's true that the combined burden of state and local taxes, measured as a percentage of personal income, approaches the national average, there is little doubt that the burden of personal income taxes in Massachusetts — twice the national average on a per capita basis — has affected the state's attractiveness as a place to live and work.

The central question of the current tax debate should not be whether or not to proceed with an income tax reduction to 5 percent. The question ought to be how to get to a 5 percent rate as quickly as possible without jeopardizing the Commonwealth's fiscal condition. Tax experts and economists disagree about how best to link an income tax reduction to the state's fiscal condition, but we agree that they should be linked. Various eco-

The burden of personal income taxes in Massachusetts — *twice the national average on a per capita basis* — has affected the state's attractiveness as a place to live and work.

conomic “triggers” have been proposed to drive reductions down to the 5 percent goal. Tax reductions might even be linked to specific spending reduction goals or revenue changes. Whatever the approach, the goal must be to preserve the Commonwealth’s healthy balance sheet.

While addressing the long-standing disparity in the income tax burden in Massachusetts is an important objective, it’s also important not to lose sight of the primary focus of tax reduction — which must continue to be targeted cuts that improve the prospects for sustained growth in key industries. Reductions in specific taxes that discourage growth — especially taxes that place key industries at a long-term competitive disadvantage with their counterparts in competitor states — are an investment in the state’s economic future. From this view, all tax cuts are not created equal. For example, “single sales” cuts that limit a company’s tax liability to only those sales made to in-state customers (thereby increasing the attractiveness of exports) can confer valuable competitive advantages and make long-run contributions to economic growth.

ORGANIZE STATE GOVERNMENT TO PROMOTE ECONOMIC GROWTH.

With the economy booming, the Commonwealth needs more than ever to have a powerful, coordinated arm of government that can aggressively market Massachusetts as a place to do business, coordinate business assistance programs, help key industries stake out a niche in an increasingly competitive global marketplace, and implement regional and community-based strategies for growth. To help ensure that economic growth remains the number one priority of state government, the Governor and Legislature should consider creating an Economic Growth Czar with broad authority over economic issues.

Past Secretaries of Economic Affairs were hampered in their ability to provide leadership across the spectrum of economic issues by the simple fact that their statutory purview did not include business regula-

tion, community development, or the full set of quasi-public agencies involved in economic policy. A Growth Czar with broad authority over the Departments of Economic Development, Consumer Affairs and Business Regulation, Housing and Community Development, and Labor and Workforce Development would address the past limitations of the cabinet position by putting all the major instruments of economic policy under one roof.

The Growth Czar should also have greater authority to coordinate the activities of relevant quasi-public agencies within the framework of an overall state economic strategy. The ex officio quasi-public board seats held by the directors of the four existing Departments should logically be reassigned to the Czar. In addition, the Czar should be given authority to approve an annual “action plan” prepared by each agency on whose board the Czar sits. These changes will build on the recent successful merger of two key quasi-public agencies — the Massachusetts Government LandBank and the Massachusetts Industrial Finance Agency — and go a long way in further strengthening the state’s hand in shaping and coordinating the agenda of its quasi-public agencies.

Organizing state government to promote economic growth has a second dimension: Coordinating the work of the cabinet secretaries and department heads responsible for transportation policy, environmental policy, and economic policy. In this regard, it’s especially important for the Governor to have a strong staff capacity so that cross-cutting issues are debated and resolved and so that transportation and environmental policies reflect the priorities of the state’s overall economic strategy. In the past this need was met by creating a Director of State Planning, Development Cabinet, or special policy advisor within the Governor’s Office. Whatever approach a particular Governor chooses, the goal must be to ensure that a strong capacity exists to mold the work of respective secretariats and departments into a coherent policy agenda.

The following list of publications — while far from comprehensive — is recommended to those interested in exploring further the issues raised in *Lessons Learned*. The Massachusetts economy is one of the most closely studied state economies in the nation, with a number of national and local organizations having made valuable contributions to our understanding of the state economy over the years. In addition, the Commonwealth itself publishes a variety of useful documents — from agency reports, to statewide plans, to employment and economic data collections. Because it's often helpful to compare the Commonwealth's efforts to promote economic growth with the efforts of other states, materials related to several states are also included below. Note that many reports issued by Massachusetts state agencies are also available through the State House Library (617-727-2590), the official depository for such documents. Certain reports are also available through the State House Book Store (617-727-2834), a division of the Office of the Secretary of State.

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