

# News Release

For Immediate Release

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## **MTF Report: Two Massachusetts Economies; Knowledge Industries Drive Greater Boston**

High-growth, knowledge-based industries have fueled Massachusetts' strong economic performance in the 1990s, according to a major study of the state economy released today by the Massachusetts Taxpayers Foundation.

The report, *Dynamics of Growth: The Two Massachusetts Economies*, further revealed that the state comprises two surprisingly distinct economies. The Greater Boston area is a high-tech, knowledge-based economy, different from the rest of the state and, indeed, from the rest of the country. Massachusetts outside Route 495, on the other hand, has an economic base similar to that of the United States.

In the Boston area, software, money management, private universities, and management consulting (including research laboratories) accounted for most of the growth in the economic base, while in outer Massachusetts growth came principally from traditional durable goods manufacturing and software.

The new report is a follow up to the Foundation's widely heralded 1994 study, *The New Economic Reality: Massachusetts Prospects for Long-Term Growth*. Between 1994 and 1998, Massachusetts experienced the strongest growth of any state in the Northeast, according to the new study. Unlike the 1980s, when the Massachusetts economy was largely dependent on defense and minicomputers, the recent economic growth has been fueled by "many firms in many separate knowledge industries."

"Knowledge-based industries make up a stunning 79 percent of the Greater Boston economic base, compared to 44 percent in the rest of the state and 42 percent in the nation as a whole," the report found. Approximately 25 percent of the Massachusetts work force is employed in the state's economic base -- the core industries that sell goods and services to customers outside the state.

"The study demonstrates that the state's economic landscape has changed markedly in the past five years," said MTF President Michael J. Widmer. "We have a much more diverse economic base and have clearly improved our competitive position. At the same time, there are signs of weakness which we cannot ignore."

"Boston's rapid growth is due to the strong concentration of high-growth industries, not a gain in market share," the report concluded. In fact, Boston's base industries experienced a modest decline compared to those industries in the rest of the country. Base employment in the Boston area grew by 53,300 jobs between 1994 and 1998, compared to 33,900 jobs that would be expected if its mix of industries were similar to the nation's. However, Boston would have added 69,500 jobs if the region had matched national growth in each of Boston's base industries.

The rest of Massachusetts, in contrast, has an economic base quite similar to that of the nation as a whole, and experienced growth in its base employment in the 1994-1998 period that was only slightly behind its potential. Base employment in the region grew by 16,000 jobs, versus the 18,100 jobs that would be expected if each of the region's base industries had grown at the national rate for those industries.

According to the report, wage rates in Massachusetts continue to grow more rapidly than elsewhere in the country, in large measure due to the higher productivity and rising educational levels of Massachusetts workers. The percentage of Massachusetts adults with college degrees is a striking 40 percent higher than the nation while our percent of high school dropouts is lower, and the state's educational advantage has increased considerably in every decade since 1970.

Although the Massachusetts economy is much more strongly positioned than 10 years ago to weather a future recession, the report emphasized that the state's increasing labor shortage is a cause for concern. "The overall low growth in the potential labor force is almost certain to limit the future growth of the Massachusetts economy," the report said. The state's working age population (18 to 64) grew at less than half the national rate between 1994 and 1998, largely due to net out-migration of Massachusetts residents.

"This report sheds new light on the underlying dynamics of our current prosperity," said Chad Gifford, Chairman and CEO of BankBoston, which sponsored the study. "While what we see is encouraging, there are also many challenges that need to be addressed as we move into the 21st century."

In view of the study's findings, the report highlighted several important policy implications:

- C Good public schools and the continued flow of federal research funding are critical ingredients in the mix of factors that support our knowledge-based industries.
- C We need to expand the supply of workers through an emphasis on training and skills development and on immigrants who also bring needed expertise to the labor pool.
- C It is equally important to reduce the high costs of doing business in the state, especially for those key industries that are losing market share to out-of-state competitors.
- C With the state's two very different economies, success will depend both on expanding the knowledge-based industries across the state and on targeting efforts in the older cities.
- C Slower growth of tax revenues will require tighter budgeting, with policy priorities that help sustain the state's economic future.