

The welcome warming of East-West relations has had, and will continue to have, its adverse consequences, especially in New England. After peaking at 6.5 percent of GDP in 1986, defense spending has been gradually winding down. Barring any unforeseen developments, that trend is sure to accelerate over at least the next four years.

The cause for concern regionally is that New England is more dependent on defense spending than other parts of the U.S. As a share of gross state product (GSP), New England is 26 percent more defense-dependent than the rest of the U.S., and when measured by the value of contracts awarded to the private sector, the region is more than twice as dependent. Based on either measure, Massachusetts, Connecticut and Maine have the strongest links to the Pentagon.

While every category of defense spending will come under pressure in the years ahead, spending on the operations and maintenance of military facilities and hardware procurement are likely to take more than proportionate cuts. Hence, the states of Maine, Rhode Island and Connecticut are expected to take greater hits, while Massachusetts may benefit from its exceptionally high emphasis on research activities.

Despite these uncertainties, New England possesses attributes which do augur well for the years ahead. Many of the excesses which fettered growth during the past are now in abeyance: housing is more affordable, inflation is subdued, and financial institutions are nearly recovered from their foray into real estate lending and investment.

Above all, its highly educated workforce and extensive educational infrastructure are distinct advantages in an increasingly global economy. New England is already well positioned in many emerging industries which hold promise for the future.

### *Massachusetts*

Massachusetts' economy accounts for roughly 46 percent of New England's economic activity. Dominant industries include machinery manufacture, computers, defense-related research and production, financial services, health care products and service, software, and higher education. The state's population is older than the nation's and it has tended, over the years, to grow more slowly. In recent years, it has actually declined.

Perhaps more than any other state in the nation, Massachusetts' fortunes have been driven by the successes and failures of its advanced technology industries. While the minicomputer industry was an important engine of growth in the past, many emerging industries are likely to step into the breach during the 1990's.