

CAN HIGHER EDUCATION FOSTER ECONOMIC GROWTH?  
FEDERAL RESERVE BANK OF CHICAGO

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**Welcoming Remarks**

Good morning. I'm Michael Moskow, president and CEO of the Federal Reserve Bank of Chicago. On behalf of the Chicago Fed and our cosponsor, the Midwestern Higher Education Compact, I would like to welcome you to today's conference, "Can Higher Education Foster Economic Growth?" This is the second conference that the bank has sponsored on understanding the trends affecting higher education and the economic impact of colleges and universities on the economy.

At last year's conference we heard a great deal about the need for higher education institutions to take a more active role in the economy. As a sector of the economy, higher education already represents a major employer, producer of human capital, and R&D center. However, some suggest that this role should be expanded, with higher education directly influencing the development of key industries and specific local economic opportunities. At the outset, I have to profess that I am no fan of industrial policy, and there are aspects of this university engagement model that strike me as having an industrial policy flavor. The ability to predict where the next big industry will emerge is a highly uncertain science. Given this, a key question for me is the ability and efficacy of higher education taking on this economic development mission.

Still, slower-growth regions tend to look to their long-lived assets as a source of renewal. This provides the Midwest with some measure of optimism since it's home to many of the world's foremost colleges and universities. So several speakers at last year's conference asserted that the region's higher education institutions represent some of the primary assets that the Midwest has available to provide highly skilled human capital, transfer technology, and create new industries. Such assets are relatively fixed and their success is frequently related to the vitality of the local and regional economy. While other economic actors have an increasingly global perspective and less direct interest in the local economy, higher education is being asked to fill new roles regionally.

But should the region's universities play a direct role in the economic development of the region? The key question for today's conference is how we should think about higher education and its role in economic development. Should higher education have an explicit role in regional economic development, or does this dilute the other, more central missions of colleges and universities?

The economic challenge is being picked up in the U.K. without, seemingly to date, an undue burden on its other missions. In Great Britain, higher education has been challenged to develop a third mission, or "third stream," that provides colleges and universities with an explicit economic development role. After teaching and research, "application" is becoming a defined mission for British colleges and universities. Application may seem a rather pedestrian mission for institutions that are often described as "ivory towers," where being removed from the day-to-day demands of society is often viewed as a virtue. In this British context, however, the term "application" takes on a richer meaning and is integrated into the more familiar teaching and research missions. In describing this new mission, the late Ernest Boyer, former president of the Carnegie Foundation, wrote that the discovery and application of knowledge are interrelated. "New intellectual understandings can arise out of the very act of application—whether in medical diagnosis, serving clients in psychotherapy, shaping public policy, creating an architectural design, or working with the public schools."

Rooted in this third stream is a basic belief that universities need to take an active role in knowledge transfer and knowledge exchange. By embracing the application of knowledge to economic growth and social issues, the university is able to take a leading role in fostering growth and helping economies transition to knowledge-based industries. Still, it will take many years to evaluate the costs and benefits of such an initiative.

Meanwhile, even if we do accept the propriety of this mission, the question still remains about what the best approaches are for doing this. To date, there has been little rigorous evaluation of the effectiveness of the mission or the viability and replicability of its varied approaches. And so there is a need to go from anecdotal stories about university successes in local and regional economies to specific models that describe how each level of the higher education system, from community colleges to flagship universities, can contribute to economic growth. In short, we need to develop a specific strategy for describing an appropriate "third stream" for U.S. higher education.

One goal of today's conference is to identify not just isolated case studies of success but replicable models with clearly designated strategies that better define an emerging role for higher education institutions. This is not without irony, because American universities pioneered engagement and extension through the land-grant system, which began in 1862. America's land-grant colleges and universities played a crucial role in providing applied research to improve agricultural productivity and engineering and mechanical arts knowledge. The question then becomes: What is the modern land-grant mission of higher education? Does it need to be redefined or expanded?

Given this history, why is the interaction between U.S. industry and higher education seemingly so limited today? A survey of industry leaders in the U.S. and the U.K. found that the overwhelming number of industry respondents in the U.S. felt that the primary benefit of higher education to their business was in providing skilled workers. Unlike British respondents, they did not look to universities to provide them with strategies or specific knowledge that would make them more competitive in their industry. U.S. firms look internally and to their competitors to develop industry-specific innovation. Based on my own personal business experience, the private firms that I have worked

with often relied on consultants rather than academics when it came to answering business strategy questions, such as whether to enter a new market. Even when universities are directly partnering with a firm, it is often due to the relationship with a specific faculty member rather than because of a stated university policy of economic engagement. However, some corporations have pared their own research efforts and appear more interested in establishing closer ties with higher education institutions. This is particularly true for health care and pharmaceutical firms.

The survey found that British businesses were far more likely to see universities as strategic partners in their business growth and product development and that British firms had more trust in their relationships with universities. This suggests some more questions about these relationships in the U.S.:

- Are there barriers here that limit business-university engagement? For example, intellectual property rights are often seen as a contentious issue between private firms and universities.
- Is there an inherent tension between higher education, whose mission is to disseminate knowledge broadly, and industry, with its goal of capturing proprietary knowledge to gain competitive advantage?
- Will the needs of business firms be better served by private-sector consultants than by universities trying to provide consultant-like services?

Industry requires interdisciplinary approaches to solving its toughest problems, and yet most higher education institutions retain the traditional single-discipline academic departmental structure.

I look forward to hearing your thoughts on these subjects. Again, thank you for attending today's program. We will be producing a summary of the conference that will appear in the bank's Chicago Fed Letter publication as well as posting all of today's presentations on the conference website.