Introducing the Anchor Economy Initiative: “Eds and Meds” and Their Economic Impact

Young, Smart & Local Conference
The University of North Carolina at Greensboro
Greensboro, North Carolina

October 11, 2022

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President and Chief Executive Officer
Federal Reserve Bank of Philadelphia

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Hello, everyone! It’s great to be here with so many impressive leaders from higher education, business, and civic organizations. This is a fantastic program, and I’m sure you all are making valuable connections.

It’s also great to be here in Greensboro. Although I have to say, if I eat any more Carolina barbecue on this trip, they’re going to have to take me out on a stretcher …

I’m here today to talk about the vital role that higher education institutions and hospitals — sometimes called *eds and meds* — play in their communities and local economies. As a Fed president, and before that the leader of a large public university and dean of a business school, I saw firsthand the sizable impact these institutions have.

And speaking of being a Fed president, before I go any further, I need to give you my standard Fed disclaimer: The views I express today are my own and do not necessarily reflect those of anyone else on the Federal Open Market Committee or in the Federal Reserve System.

Anchor Institutions and Their Impact

Now, I would say it’s no coincidence that we are meeting today on a university campus. Even though they’ve made sizable leaps in their use of technology in recent years — especially during the COVID-19 pandemic — higher education institutions and hospitals are physically embedded in their communities.

In fact, that’s one of the reasons we call them *anchor institutions*. In multiple ways, eds and meds are tied to a specific place. Unlike corporate headquarters, manufacturing facilities, or sports teams that can pick up and move — apologies to anybody from Oakland joining us today — higher education institutions and hospitals stay where they are. You quite literally can't take the *Greensboro* out of UNC–Greensboro.

There are also specific attributes that anchor these institutions in their communities. For one, higher education institutions and hospitals tend to be labor intensive, meaning they are often among the largest employers in their regions. In fact, health care is the largest single employment category in the United States, with more than 16 million people working in the field.

Eds and meds also serve as bulwarks against the ups and downs of the business cycle. Enrollment in colleges and universities, for instance, is countercyclical, meaning that when the economy slows, *more* people go to school, boosting anchor institutions. Hospitals are also recession resistant. After all, people require medical care no matter how the local economy is faring. All of this suggests that regions with strong anchor institutions may have more durable economies than those without.

And in recent years, we've also seen anchor institutions take an increasing interest in building up the areas they serve. They are typically critical partners in community development initiatives as part of their missions. We've seen more hospitals and universities invest in neighborhood economic development, boosting local commercial corridors, seeding residential real estate development, and building neighborhood amenities, like parks. I don't know how many of you get to Philadelphia, but the next time you do, make sure to check out University City, near the University of Pennsylvania and Drexel University. That neighborhood is now quite literally unrecognizable from what it was like when I was an undergrad, which, to be fair, *was* back in the Stone Age.

The impact of anchor institutions goes beyond the immediate. This is a key point that I really want to stress. Fundamentally, anchor institutions stimulate growth through innovation, commercialization, new venture formation, and talent attraction. In that sense, they can drive *long-term* economic development and growth.

I see this in Philadelphia all the time. The talent and research coming out of our universities and health-care systems has led to the creation of a booming biotechnology industry. Our real estate developers can't put up wet lab space fast enough, and our labs are hiring new grads straight out of school. Which is to say, anchor institutions are not only often the largest employers *themselves* in regions, they're also the producers of talent that other businesses need.

Risks

When I give speeches on the country's economic outlook, I often speak about *downside risks*. So I would be remiss if I did not mention that there *are* risks to regions with economies that rely heavily on anchor institutions because there are risks to these institutions themselves.

Eds and meds are both being radically disrupted by technology, demographic shifts, and increasing costs. As I alluded to earlier, the COVID-19 pandemic accelerated both telehealth and remote learning. This has certainly created opportunities for health systems and universities to expand their markets, but it also loosened the place-based nature of their services. All of a sudden, these anchors are, frankly, a little less anchored. One stark example of this is Arizona State University, where half of enrolled undergraduates now attend class online. The economic consequences of this for regions are obvious: If students and patients don't have to reside near or travel to anchor institutions for education or health care, students' and patients' dollars won't travel either.

Demographics are another downside risk, though with disparate impacts for universities and hospitals. With falling birth rates, fewer 18-year-olds are heading to college — and even fewer will enroll in the future, especially if immigrant rates remain depressed, as they are now. This demographic shift is most apparent in the Northeast and Midwest, which also happen to have higher concentrations of colleges and universities. That raises real questions about the viability of many of these institutions in the future — and the impact on communities.

On the other hand, an aging population will require more health care, boosting hospitals. Even here, however, the picture is mixed, as many hospitals have closed, or soon will, in rural regions with declining populations.

Meanwhile, the ever-rising cost of education and health care means that more people may be priced out of accessing eds and meds altogether, which is both a humanitarian concern and an economic one.

Introducing the Anchor Economy Dashboard

At this point, I think it's obvious why the Fed is interested in anchor institutions: They are often the largest employers in regions, they're the producers of talent that other businesses need, and they lay the foundation for durable economic growth. That's why, at the Philadelphia Fed, we've developed what we call the **Anchor Economy Dashboard**, a new tool that quantifies the impact that higher education institutions and hospitals have on more than 500 regions across the country.

For each of these regions, the dashboard calculates the total number of jobs — direct, indirect, or induced — supported by local eds and meds institutions. Direct jobs comprise those employed directly by anchor institutions, such as doctors, nurses, and college professors. Indirect jobs are those in fields that directly support anchor institutions, like IT contractors supporting a hospital. And induced jobs are those that are supported by the economic activity that anchor economies generate. The folks working at those restaurants near campus on Tate Street have induced jobs.

One thing that makes the Anchor Economy Dashboard so neat is that it also calculates a *reliance index* for each region. The reliance index provides a summary measure of how dependent a regional economy is on anchor institutions. It adjusts economic impact by the size of the regional economy and incorporates measures of impact in employment, income, and gross value added. A reliance index of 1 means a region's reliance on anchor institutions is at the national average — below that means it's less reliant, and above that means it's more reliant.

On a national scale, the dashboard clearly shows what I've been talking about: The economic impact of anchor institutions is massive, with 9 percent of total U.S. employment, 6.3 percent of total U.S. income, and 8.1 percent of total U.S. gross value added from higher education institutions and hospitals. That translates to about 18 million jobs, $1.1 trillion in income, and $1.7 trillion in goods and services in gross value added to the economy.

And now, let's do something cool and look at the data for a few of the 524 metro areas in the dashboard.

Let's begin with where we are — Greensboro.

As we can see, in the Greensboro–High Point area, around 41,000 jobs, $2.3 billion in income, and $3.3 billion in gross value added are produced by eds and meds. That equates to about 8.4 percent of the region's employment, 6.6 percent of its income, and 7.8 percent of its gross value added. All of this amounts to a reliance index of 0.98 percent — almost exactly average for the country.

Now, as you'll see, an amazing feature of the dashboard is that it allows you to compare regions head to head. So let's take a look at how Greensboro stacks up with two of its competitor regions: Greenville, South Carolina, and Chattanooga, Tennessee. Thank you for not booing at their mention.

As you can see, Greenville has slightly higher figures for employment, income, and gross value added than Greensboro. But its reliance index is basically on par with Greensboro, at exactly average. Chattanooga has significantly lower total figures and a lower reliance index.

Next, let's take a look at the Durham–Chapel Hill area, just down I-40 from here. As we can see, those are some big numbers. More than 100,000 jobs, $7 billion in income, and more than $10 billion in gross value added comes from local anchor institutions. That amounts to nearly a quarter of the area's jobs and more than a fifth of its income and gross value added. And the area's reliance index is truly eyepopping at 2.86, nearly three times the national average.

Last, because I'm a bit biased, let's take a peek at Philadelphia.

As you can see, the gross totals are large, owing to the region's huge population. But the reliance index is above average, too, indicating that the Philadelphia area is more reliant than most of the country on eds and meds.

OK, honestly, I could use this tool all day. And I suspect many of you could as well — so please go to philadelphiafed.org to delve into the dashboard.

Conclusion

I'm really proud of our dashboard and excited for all the work to come. I'd also like to commend Deborah Diamond, director of the Anchor Economy Initiative, for her stellar work. These data really serve as a foundation for forthcoming research and discussion that will advance crucial conversations about challenges and opportunities of anchor-based economies. In fact, we are going to have one of those conversations now.

So, thanks again for having me. It's an honor and a delight to be here with all of you.