Anchor Reliance in Regions

Research and Practice 2024 Anchor Economy
Conference
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Good morning, everyone, and welcome once again to Day 2 of this inaugural Anchor Economy Conference.

My thanks to Deborah Diamond for that introduction — and more on her later! My thanks, as well, to the Healthcare Anchor Network for cosponsoring this conference with the Philadelphia Fed.

I also thank my friend and former colleague among higher education leaders, Johns Hopkins University President Ron Daniels, for joining me onstage for this morning's discussion.

And, of course, my thanks to each and every one of you with us today for bringing your ideas, your questions, and your spirit of partnership to these proceedings.

Before I go any further, I do need to stop for just a few seconds of official business — the official Fed disclaimer! The views I express this morning are mine alone and do not necessarily represent those of anyone else in the Federal Reserve System or my colleagues on the Federal Open Market Committee.

I am eager to get to our conversation, so allow me to keep my remarks relatively brief. There will be plenty of time for us to get more granular.

One month ago, I spoke before a gathering of regional college and university administrators. I noted how we at the Philadelphia Fed take great pride in our research acumen — but we take even more pride in the partnerships that take that research to the next level. We are not conducting research just to engage in academic discourse or draw visitors to our website. We also take our research directly into our communities, engaging with organizations and stakeholders working on their own plans for expanding local and regional economic opportunities.

The Philadelphia Fed's Anchor Economy Initiative is a remarkable example of this concept of research in action.

What Deborah Diamond and her team have undertaken can only be described as groundbreaking. Never before has the national and regional economic impact of eds and meds anchor institutions been so fully captured. This is research that truly matters to the economic futures of hundreds of communities.

As you may know, prior to coming to the Philadelphia Fed, I served as president of the University of Delaware. I knew through my first-hand experiences that the university had an outsized economic and social impact that reached far beyond its Newark campus. Yet, I never knew just *how* large that impact was in terms of concrete metrics, and how much of an additive effect the university had to the impact of all the other anchors located throughout the greater Philadelphia statistical region.

Well, now I know. And even nearly 10 years removed from the president's office, I am in awe of not only just how big that impact is but how important the entire anchor economy is to the region's overall economic health and vitality.

Moreover, I know I'm not alone in this sentiment.

This is the real function of the Anchor Economy Initiative. It is *not* about research for the sake of research.

It *is* about spurring the imagination of leaders throughout the anchor economy to envision how their impacts can be multiplied by working with other anchor institutions in their own backyards.

It *is* about spurring engagement to collaboratively tackle long-standing economic and social issues in the communities we all serve.

At the center of this effort lays the Anchor Economy Dashboard, where all these data live, and the bullseye is the dashboard's Anchor Reliance Index, which boils down numerous economic metrics into one score. It tells us how dependent a given region is on anchor institutions relative to the U.S. as a whole. In other words, the dashboard is a wealth of data, and the Anchor Reliance Index puts that data into perspective and allows us to easily compare one region to another.

And this brings me to the heart of my remarks today.

When created, the dashboard and reliance index gave us a snapshot of the nation's anchor economy as of 2019, the most recent year unaffected by the COVID-19 pandemic. But we recently expanded the underlying data to now provide a direct comparison and contrast to 2004, the furthest back we could go and still maintain consistency with input data. This gives us the ability to now look at the 2019 data with fresh eyes and in greater perspective.

And diving into the deeper data, we can draw several conclusions, but two, in particular, stand out.

First, the data show that the economic impacts of, and reliance upon, eds and meds are unique to statistical regions. We may certainly find many similarities among and between regions. But anchor *reliance* and anchor *impact* remain independent.

And this leads us to the second major conclusion — any movement either up or down along the Anchor Reliance Index must be taken within the greater context of broader regional economic trends.

Allow me to speak to a few examples.

In some postindustrial cities, we saw some dramatic increases in Anchor Reliance Index scores between 2004 and 2019. Over that 15-year span, these region's eds and meds took on a greater burden and share of their local economies. However, this may not be the positive development we wish to presume it is.

In these cases, this growth came in the context of slowdowns, or even shutdowns, in other sectors. In other words, while these eds and meds grew in terms of jobs and total GDP — a good thing — it was at a greater rate than the rest of the region's economy — a potentially not-so-good thing. This could mean that an increasing reliance on anchor institutions may actually signal an unsustainable *over*-reliance.

And likewise, a decreasing reliance score could signal two things. One, a slowdown in the anchor economy and its related sectors — think of a local college or university facing a falloff in enrollments with subsequent layoffs and budget tightening, or the closure of a regional medical center, or the movement of a set of services away from a center to another located elsewhere. Both outcomes would have direct and indirect impacts on regional economic activity through the loss of jobs and incomes.

But, two, a decreasing Reliance Index score could also signal an increase in sectors of the regional economy that are distinct from eds and meds. This is what we are seeing in some growing metro areas in the Southwest and Mountain West, for example.

Then there is the scenario in which both Philadelphia and Baltimore find ourselves. And this, I hope, can help seed my conversation with President Daniels, which we're going to get to very soon, I promise!

Between 2004 and 2019, both Baltimore and Philadelphia saw an almost parallel increase in their respective Anchor Reliance Index scores — Philadelphia increased from 1.31 to 1.39, while Baltimore rose from 1.28 to 1.35.

But what drove this? In both cities' metro regions, anchor economy–based GDP rose significantly: 41 percent in the Philly metro and 49 percent growth in Baltimore, outpacing the growth of other sectors, thereby increasing anchor reliance.

In both regions, the share of employment impacted by anchors — both direct and indirect — rose. In Philadelphia the increase was by 2 percentage points to 13 percent and in Baltimore by one point, from 11 percent to 12 percent.

Five of Philadelphia's top 10 employers fit into the eds and meds space, while in Baltimore it is 8 of the top 10.

So, certainly, the anchor economy in both regions, and its impact, grew at a greater proportion than other sectors. But, in both of these scenarios, this increased reliance may not inherently be a bad thing.

Both Philadelphia and Baltimore can broadly be considered "college towns." But instead of just one campus, there are multiple institutions within each. These institutions are helping to seed the broader innovation economy, with direct pipelines of talent and funding into the growing life-science and innovation sectors, to name just two. Further, many of the higher education anchors also operate legacy health care anchors where cutting-edge research is being undertaken and commercialized and where health equity is being advanced.

For both Philadelphia and Baltimore, a growing eds and med reliance appears to be helping to offset, or even replace, the economic losses from the decline in the manufacturing sector.

As I have said, these are just a few examples. And if you haven't been taking notes over the past several minutes, that's fine, as I have recently published an essay covering these thoughts on the Philadelphia Fed website. This is also the topic of a research brief I coauthored with Deborah Diamond and our colleagues Theresa Dunne and Sisi Zhang.

I hope that you will be interested in reading either or both.

At their cores, the Anchor Economy Dashboard and this subsequent research are powerful tools to compare regions.

But even more, they are powerful tools that stakeholders in each region can have at their disposal to put challenges in perspective and show a path for collaboration that can strengthen long-term economic prospects. As I wrote for our website, “The power of data is the power to make positive change.”

And I certainly hope you will look at the data for your region, take it back to share with your stakeholders — both within your institution and within your broader community — to build that better economic future.

That all said, I don’t want to keep us away from our feature presentation any longer. Thank you all for being here and for allowing me these moments to speak with you, but now it’s time for me to step back, sit down, and bring President Daniels into our conversation.