

**KENTUCKY CHAMBER OF COMMERCE
ANNUAL MEETING/ECONOMIC SUMMIT**

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I appreciate the opportunity to be part of the Chamber's Annual Meeting and Economic Summit. I applaud the Chamber for its vision and for "putting on the table" an issue that is so important to our state's future.

As has been noted, this session is entitled "The Future of Kentucky: Higher Education and Economic Development in the Twenty-first Century." Let me say up front, higher ed has a key role to play

in economic development and U of L is excited to be part of this effort.

Bear with me as I look back over the past several years; for as we look forward, it is often helpful to look back.

Nine years ago, public policy makers in Kentucky enacted the Postsecondary Education Improvement Act of 1997.

The overriding theme of this legislation was that higher education in Kentucky does have a critical role to play in

addressing our state's public agenda of increasing economic opportunity and the quality of life for the people of Kentucky.

Higher education institutions have always focused on teaching, research, and public service. And our colleges and universities have proven that they can be outstanding in each of these areas. But at the same time there are great universities who have failed to advance the economic well being of their communities.

So, it was important for higher education in Kentucky to be given a specific mandate to contribute to our communities' economies and thus the economy of the state. Higher education must play a lead role in this effort and a role that is complementary to our state's economic development efforts and policies.

Let me also digress for one moment as to why this public policy agenda is important.

Data used to support the need for higher ed reform in the late 1990s indicated that if we looked back twenty years earlier – to the late 1970s – Kentucky’s economy did not look too different from economies of other southeastern states. In fact, various measures of economic and social well being indicated that Kentucky stacked up pretty favorably compared to other states.

One specific measure of economic well being – not perfect, but commonly used – is per capita personal income.

In the late 1970s, Kentucky's per capita personal income was around 80% of the national average; not significantly different from that of other states in the southeast, including Georgia, North Carolina, and Tennessee. When the reform began in 1997, it was observed that states such as North Carolina, Georgia, and Tennessee had over 20 years increased their per capita personal

income to closer to 90–92% of the national average; while Kentucky's per capita personal income remained stalled at around 80–83% of the national average.

An analysis was undertaken to identify the factors that contributed to improvements in other states, while Kentucky remained in neutral.

Work done by the late UK economist, Mark Berger, indicated that compared to other states in the southeast, Kentucky's

lag in per capita personal income growth was due primarily to an under-educated population relative to that of other states – particularly under educated at the college level.

(The other factors identified by Mark in his analysis as contributing to the lower per capita personal income in Kentucky were a larger percentage of rural population in our state than the aforementioned states, and a lower male labor force participation rate.)

This tells us that higher education can play an important role in advancing our economies by doing a better job of producing an educated workforce. Tom Layzell tells us the staggering increase in the number of college graduates we must achieve just to get to the national average.

This has been, and will continue to be, a major thrust for higher education, and I want to publicly applaud Tom for focusing the state's higher education system on this issue and the outputs of

the system (numbers of graduates) as opposed to the efforts of the Council in the early days of the reform – increasing the number of participants (input).

These are related, but enrolling more students is not enough; we must also get them through the system.

So, as a matter of state public policy, the focus of higher ed has been and must continue to be to create the educated work force, or what Richard Florida calls the “creative class” that drives economic

growth. This is job one for all of higher education.

Without a better educated workforce, we as a state cannot compete in the new knowledge-based economy – today the most important input into the production process is human capital – brain power. The jobs of yesterday are not the jobs of today and the jobs of today will not be the jobs of tomorrow. A paradigm shift has occurred in our economic system – jobs follow smart people instead of

people following jobs. Higher ed is committed to this goal.

In addition to providing our state with an educated work force and creative class, the University of Louisville and the University of Kentucky were given very specific roles to play in the development of our state.

Again, to the credit of the policy makers who crafted the Postsecondary Improvement Act, there was an important understanding that our

research universities have an important role to play in our economy.

Let's talk about that for just a moment.

First, funded research in and of itself is economic development. The University of Louisville for the year completed June 30, 2006, brought into our state \$177 million from sponsored program activities. These are new dollars that are coming into our state. It has been said that this impact is the equivalent of a major bank such as National City in terms of job activity. Also remember

that each new dollar we bring into our community has a multiplier effect that's been estimated at more than \$2.00.

Second, much of our research focus at the University of Louisville is on translational research, research that makes a difference in people's lives – by the development of new drugs and new health care delivery alternatives; by the development of new manufacturing systems using nano and mems technology, etc.

We call this translational research as going from the “mind to the marketplace,” resulting in business activity since this new knowledge can be commercialized. We currently have 19 start-up companies as a result of research at the University of Louisville. Some of these companies will not survive; but many will be successful, resulting in jobs and other economic activity in our community.

In fact, working through our partners – Jewish Healthcare and Norton

Healthcare – at the Louisville Medical Center Development Corporation (NUCLEUS) – we’ve developed a business plan to recruit or incubate 33 new life science/health companies in our community by 2010.

This is important since one of the economic development strategies adopted by our community – and reinforced by the University through our research priorities – is the need to create a strong healthcare/life science cluster (along with a strong logistics and

distribution cluster) to help offset the loss of manufacturing jobs that we have experienced and will continue to experience in the future.

In addition, our translational research has practical quality-of-life implications. By focusing on the life sciences/health, we are helping build a healthier, more productive community and state.

For instance, the University of Louisville James Graham Brown Cancer Center has 15 drugs in clinical trials – these new

drugs allow for the best cancer care here in Kentucky. So we can “turn the buses around” and overcome the view that quality care is only possible in New York and Texas.

The recent announcement of a 100-percent effective cervical cancer vaccine (developed by three researchers, two of whom are at the Brown Cancer Center) has economic promise, but also offers hope that we can protect women from this deadly disease.

Similar advancements in the fields of artificial hearts and in spinal cord regeneration and stem cell research offer the potential for economic benefit as well as ensuring the best in health care for our citizens and a chance for us to better manage health care costs.

A third role higher education is playing and must continue to do is grow our economy – what I call the “Brown-Forman” factor. We all know of Brown-Forman – a Fortune 500 company – a local company competing in

international markets. To be successful in these markets, Brown-Forman must recruit and retain the very best talent. In many cases, this talent is available here, but sometimes Brown-Forman must recruit outstanding talent to Kentucky from other communities such as Boston and Seattle. We must ask ourselves "what is it that allows our community to attract people here from these other major metropolitan areas." What is it about our quality of life that will allow us to compete?

Certainly, our cost of living is a plus. Traffic in most cases is less onerous here – but beyond that it is important for universities such as U of L to support the development of a social, cultural and artistic infrastructure that enriches the quality of life of our communities, and hence, makes our communities and our state a place where people want to live, work, and raise their families, etc.

Finally, we recognize that there are specific economic development projects where our universities play a lead role.

It was significant to our board of trustees to hear from John Hindman of UPS shortly after the recent UPS announcement of another billion dollars in capital expenditure within our state along with the addition of 5,000 new jobs.

John asked for the opportunity to meet with our board of trustees to indicate that when UPS in the early 1980s first made the decision to locate in Louisville, the existence of the University of Louisville was a nonfactor in their discussion. Yet

the role of higher education was critical to UPS's expansion decision of several years ago and then earlier this summer.

Through the specific efforts of the University of Louisville and Jefferson Community and Technical College we were able to create Metropolitan College to address the workforce needs of UPS. Because of Metropolitan College and our other strong partnership in the area of logistics and distribution research, Louisville was selected for UPS's most recent announcement.

Another example is the recent decision made by the Veterans Administration to build a new hospital in our community. No Veterans Hospital has been built in the United States in the last 13 years. Five new VA hospitals have now been selected for construction – Louisville being one of those sites (along with Las Vegas, Denver, Orlando, and Pittsburgh). This project will have an economic impact of over \$400 million.

Secretary of Veterans Affairs Jim Nicholson stated that one of the overriding factors in the selection of Louisville for the new hospital was the research and clinical partnerships between the University and Veterans Administration. Another very strong statement of the role higher education plays in economic development.

So as we look forward, we only see the commitment of higher ed to each of these important economic development efforts as growing. Again, we are

committed – first, to providing the educated workforce; second, to growing our research; third to strengthening our social, artistic and cultural programs within the community that improve quality of life; and finally to developing collaborations and partnerships that result in specific economic development opportunities.

There are challenges, for us going forward:

Funding is always a challenge – both federally and at state level.

Second among our challenges is the fact that we are behind as a state. Some states caught on sooner than Kentucky and have for many years articulated the role of higher education in promoting economic growth and opportunity within their state. In fact several years ago Ross Devol of the Milkin Institute pointed out that 29 of the 30 fastest growing regions of the country were home to a leading research institution.

We are behind other states and they are not standing still but investing at a rapid pace.

And our competition is not just other states – it is international. We absolutely live in a flat world of competition from across the oceans.

We cannot be content to make progress; we must develop strategies that allow us to leap-frog, making up for lost time.

Finally, we also face the significant challenge of realizing that higher education as an economic development strategy is different than many other economic development strategies.

Higher education is an investment, not a consumption. Investments take time to reap the benefits that grow our economies. The critical balance we must find is how to make these investments in difficult resource allocation environments while maintaining real

accountability measures that ensure that progress is being made.

At the University of Louisville we are excited about our role in building the economy of our community and hence our state in the future.

I grew up not far from here. I remember when General Electric came to Louisville bringing, at its peak, perhaps 25,000 good paying jobs. During my college summers I worked at Brown & Williamson making cigarettes. I

remember the days of International Harvester, etc.

Many of those jobs are gone but new economic clusters are developing, such as in health care/life sciences and the logistics & distribution cluster, and other business services. We can and will drive the development of these clusters

We are confident that as a community and state we will be successful in achieving a dynamic diversified growth

economy, not just for Louisville but for all of Kentucky.