MEASURING THE ECONOMIC IMPACT OF INSTITUTIONS OF HIGHER EDUCATION

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Frequently institutions of higher education commission formal studies to measure their short-term economic impact on the surrounding regions. The purpose of this paper is to identify and discuss several of the methodological considerations which arise in the design and use of economic impact studies, as well as to present new evidence regarding the effectiveness of alternative survey methods for collecting the personal expenditure data frequently used in such studies. The survey results suggest that mail surveys may yield more accurate responses regarding important personal financial information than more costly telephone interviews. This paper also offers some guidance in the design of economic impact studies and points out some of the increasing pressures to integrate studies of short-term economic impacts with analysis of higher education's impact on long-term regional economic development.

The basic objective of an economic impact study is relatively straightforward—to measure the increase in a region's economic activity attributable to the presence of the college or university. In the past, most economic impact studies have defined this economic activity to include both the direct expenditures in the region by faculty, staff, students, visitors, and the university and the indirect effect of these expenditures on regional income when an appropriate spending multiplier is applied. The geographic area(s) of economic impact is defined in a manner consistent with the service area of the institution.

A discussion of the objectives and methodologies of economic impact studies for higher education is timely for a number of reasons. First, over the last fifteen years, there has been a substantial increase in the number of and demand for...
such studies. This increase was spurred, at least in part, by the publication of Caffrey and Isaacs's "how to" manual for economic impact studies in 1971 (Caffrey and Isaacs, 1971). Unfortunately, succeeding studies have, at times, followed the Caffrey and Isaacs outline with insufficient consideration of whether the definitions and assumptions underlying the impact analysis are satisfied. Also, the recent popularity of these studies has paralleled the turbulent history of postsecondary education finance during this period, as administrators have found that economic impact studies offer a persuasive tool for mustering political support for threatened higher education budgets.

A second reason for the timeliness of this topic is that the economic impact of higher education is gradually taking on a much broader meaning than that envisioned by Caffrey and Isaacs in traditional economic impact studies. State legislatures have a growing appreciation and expectation for the role of higher education in promoting economic development. In many cases, states are charging their university and community college systems to design and implement programs targeted specifically at economic development. It is also likely that these same institutions will be asked to demonstrate the effectiveness of their efforts. As this occurs, measuring the economic impact of higher education will assume a much broader, more significant set of objectives and will require a more complex and sophisticated methodology.

The following section summarizes the traditional economic impact literature with emphasis on the Caffrey and Isaacs framework. This section also offers an example of the emerging literature documenting the long-term impact of higher education on economic development. The third section raises methodological issues related to recent applications of traditional postsecondary economic-impact studies and reports the results of an experiment testing the effectiveness of two alternative survey techniques in gathering personal financial data for such studies. The fourth section suggests directions for future research and sketches an analytical framework for impact studies addressing regional economic development. The final section offers some conclusions.

THE LITERATURE

Although colleges and universities have been performing and publishing economic impact studies for some time, a methodological benchmark was established in the United States when the American Council on Education (ACE) published its "how to" manual for impact studies (Caffrey and Isaacs, 1971). This manual attempted to lay out a economically sound methodology that could be applied by a variety of institutions, and it had a major effect on the studies that followed.

Prior to the publication of this manual, economic impact studies of