



**Roger W. Ferguson, Jr.**  
**Plenary Session Address**  
**American Council on Education 91<sup>st</sup> Annual Meeting**  
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### **Intellectual Capital in America**

In the current economic environment, many of you have had to contend with budget gaps and hiring freezes. You've suspended pay raises and infrastructure projects.

Your endowment managers have struggled to support ongoing operations while preserving future purchasing power. That is not easy even when markets are strong.

The economy is also affecting the outlook among students.

UCLA's national survey of American freshmen, released last month, found that more students view financial aid as "very important" or "essential" in selecting a college.<sup>1</sup>

And more say they'll need a job this year to help pay their expenses.

Both figures – 43% and 49%, respectively – are record highs.

I should point out that the UCLA survey was fielded during the early fall – when the full extent of the financial crisis was not generally known.

Next year's figures will be even more telling.

The challenges we face today are daunting. But let us take a step back. The challenges we face as a society also highlight the need for a renewed investment in intellectual capital.

They highlight the need for a renewed commitment to higher education in the U.S. and around the world.

Why is that, you ask?

Well, educators and economists have long understood the connections between intellectual capital, economic growth, and individual well-being.

We know that our future depends on an educated workforce.

Our new Secretary of Education, Arne Duncan, knows this as well. We are grateful that he could be with us today, and fortunate to have his support.

Secretary Duncan said last week, “The best thing we can do is educate our way to a better economy.”

I fully endorse this.

As we contemplate the future of intellectual capital in America, we must be realistic about the tasks before us. But we have reason to hope.

Efforts are underway to improve accessibility, evaluate progress and expand the scope of higher education. I’ll speak briefly about each of these points.

### **Access and Affordability**

Any investment in intellectual capital must address the immediate issues of accessibility and funding.

And we are seeing some encouraging signs.

The Bill and Melinda Gates Foundation recently announced plans to double the number of low-income adults who earn postsecondary degrees or credentials by age 26.<sup>ii</sup>

Similarly, the Lumina Foundation has stated its commitment to increase the percentage of Americans with degrees and credentials from 39 percent to 60 percent by the year 2025.<sup>iii</sup>

The federal government’s stimulus program could provide tens of billions of dollars to education. This would include subsidies to banks in the student loan program and additional funds for Pell Grants and for so-called “shovel ready” projects.

These and other efforts are welcome and needed. But more transformative change is needed too.

### **Assessment**

The second element of an investment in intellectual capital must address the issue of assessment, which might lead to the needed transformative change.

The long-running and sometimes difficult debate on assessment will not recede.

In fact, it is likely that as higher education attracts more attention and funding, we will see renewed calls for benchmarking and accountability.

We know that a one-size-fits-all approach is not effective. Assessing learning outcomes is a complex and intricate process, and requires a sophisticated methodology best designed by those who are most knowledgeable.

A few initiatives are now underway.

One example is the National Institute for Learning Outcomes Assessment, recently announced by Stan Ikenberry and George Kuh.<sup>iv</sup>

Their intent is to facilitate the sharing and adoption of best practices in the assessment of college learning outcomes.

And of course there are other approaches.

What's most important is that the leaders of higher education stay at the forefront of this issue.

You have an opportunity to effect positive change.

It makes sense to create methodologies that are helpful to you, systems that enable you to manage resources and operate with greater efficiency.

You are an important actor in the entire move toward assessment – making assessment both realistic and effective.

### **A Broader Definition of Higher Education**

The third element of an investment in intellectual capital requires an expanded view of higher education itself.

A number of recent developments evidence new ways of engaging students, enhancing affordability and improving the model.

This past fall, M.I.T.'s Physics Department permanently established the TEAL program, which it first introduced nine years ago.<sup>v</sup>

TEAL (Technology Enhanced Active Learning) replaces large lectures with smaller, more interactive classes.

M.I.T. officials credit the program with boosting attendance and cutting the failure rate by more than 50 percent.

In New Hampshire, Pennsylvania, and a number of other states, we see a movement toward “low-cost, no-frills” institutions that offer accelerated, year-round programs.<sup>vi vii</sup>

The City University of New York (CUNY) recently released a blueprint for the community college of the future.<sup>viii</sup>

There are proposals to improve K-12 education, so that students arrive at college better prepared.

And of course we have only begun to tap the potential of distance learning – much less determine its rightful place in the model.

The Open University, in the UK, records two million downloads a week from its site on iTunes U.

This is not surprising – Open University is largely a distance-learning institution.

But it is interesting to note that 87 percent of those two million download requests are from outside the UK.<sup>ix</sup>

So the model is already changing – sometimes in ways we have not anticipated.

The expansion of the higher education system in China is a case in point.

Ambitious goals set by China’s leaders – enrolling 15% of the population in higher education programs by 2005, and 20% by 2010 – were achieved ahead of schedule.<sup>x</sup>

However, it now seems that many of China’s new graduates are having difficulty finding employment in a still predominantly blue-collar economy.<sup>xi</sup>

While issues of access, assessment and approach are important, we should also take a longer view – tap into what Winston Churchill called “the good things of the infinite”<sup>xii</sup> – to define higher education even more broadly.

My own research on productivity booms examined not only human capital, but an even more fundamental, underlying factor – we found that the willingness of society to transform itself is an important element of productivity and growth.<sup>xiii</sup>

As Graham Spanier said, the greatest challenges we face are issues of character, conscience, citizenship and social responsibility among our students.

A truly outstanding education develops not only intellectual capacity but critical thinking and creativity. It instills a deep sense of moral codes and ethical behaviors. It defies constraint.

You heard Father Hesburgh speak about the alumni who still draw strength from their university experience 30 years after the fact.

What if they could rely on more than memory?

What if formal education did not end after just a few shining years in early adulthood?

One of the pioneers in the study of human capital, Gary Becker, has referred to the “complementary elements between learning and work and between learning and time.”<sup>xiv</sup>

Imagine if individuals could return to a university setting every five to 10 years for some period of advanced study.

Imagine if that could be considered a job requirement rather than a personal luxury.

Hans d’Orville, of UNESCO, has said that “one of higher education’s key functions should be to update knowledge, on a lifelong basis, in fields subject to constant changes.”<sup>xv</sup>

Many fields fall into that category today.

The recognition that knowledge is fleeting is the beginning of deeper understanding.

With the academy’s guidance, businesses and governments can support the idea of lifelong learning as a means of creating intellectual capital and driving economic growth and, most importantly, building and rebuilding civil societies.

## **In Closing**

In his inauguration speech, President Obama said: “we will transform our schools and colleges and universities to meet the demands of a new age.”

The demands of that new age are indeed upon us – as educators, as investors in intellectual capital, and – most basically, but perhaps most importantly – as citizens.

New thinking is required on issues of access and affordability, assessment, and the ultimate role of higher education.

But I believe that the momentum is in our favor.

It is slightly ironic – but highly encouraging – that a book called *Outliers* is number one on *The New York Times* bestseller list.

Clearly, a central point of Malcolm Gladwell’s argument – that the key to better world is “a society that provides opportunities for all”<sup>xvi</sup> – has struck a chord in the popular consciousness.

It is not exactly sunny – indeed, quite overcast – in our economy. Yet there is a sense of change. This is a moment to see clearly our priorities – what matters most, what matters less.

We have this moment, thanks to the American Council on Education, an opportunity to acquire “collective foresight,” to pursue transformative change.

This may in the end prove to be our rallying point, a moment where we see with great clarity what we can and must achieve for our institutions and our society.

As you contemplate that future, let me simply assure you that we at TIAA-CREF stand ready to help.

While it is true that TIAA-CREF exists solely to meet the financial needs of your institutions and employees, more broadly, we seek to advance the interests of the nonprofit community.

Whatever role higher education plays in the U.S. and world economy, whatever role your institutions play, I can assure you that TIAA-CREF will continue to grow in a way that is consistent with our mission, maintains our long-term perspective, and builds on our financial strength.

Which is to say... in a way that best serves you, and those you serve.

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<sup>i</sup> Gordon, Larry. “College Freshmen Facing Growing Financial Worries.” *The Los Angeles Times*. January 22, 2009.

<sup>ii</sup> Postsecondary Success. December 9, 2008. [www.gatesfoundation.org](http://www.gatesfoundation.org).

<sup>iii</sup> Memo to the Presidential Transition Team. December 15, 2008. [www.luminafoundation.org](http://www.luminafoundation.org).

<sup>iv</sup> “Assessing Assessment.” *Inside Higher Education*. January 23, 2009.

<sup>v</sup> Rimer, Sara. “At M.I.T., Large Lectures Are Going the Way of the Blackboard.” *The New York Times*. January 13, 2009.

<sup>vi</sup> Snyder, Susan. “A Four-Year College, Strictly Educational.” *The Philadelphia Inquirer*. January 22, 2009.

<sup>vii</sup> Jan, Tracy. “Some Colleges Offering Education without the Extras.” *The International Herald Tribune*. February 5, 2009.

<sup>viii</sup> Santora, Mark. “CUNY Plans New Approach to Community College.” *The New York Times*. January 26, 2009.

<sup>ix</sup> Swain, Harriet. “University Challenge: Dawn of the Cyberstudent.” *The Guardian*. January 23, 2009.

<sup>x</sup> Mohrman, Kathryn. “The Emerging Global Model with Chinese Characteristics.” *Journal of Higher Education Policy* 21 (2008): 83-97.

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<sup>xi</sup> Huang, Carol. “China’s Surge of College Graduates Finds White-Collar Work Elusive.” *The Christian Science Monitor*. February 4, 2009.

<sup>xii</sup> Churchill, Winston. “The Pen: Liberator of Man and of Nations.” Authors’ Club, London. February 17, 1908.

<sup>xiii</sup> Ferguson, Jr., Roger W., and William L. Wascher. “Distinguished Lecture on Economics in Government: Lessons from Past Productivity Booms.” *The Journal of Economic Perspectives* 18.2 (2004): 3-28.

<sup>xiv</sup> Becker, Gary S. *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*. Chicago: University of Chicago Press, 1993.

<sup>xv</sup> d’Orville, Hans. “The Main Thrusts of UNESCO’s Activities in Higher Education.” Paper presented at the UNESCO International Conference, Tokyo, Japan, August 29-30, 2007.

<sup>xvi</sup> Gladwell, Malcolm. *Outliers: The Story of Success*. New York: Little, Brown and Company, 2008.

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