

Size Matters: Wealth Accumulation as a New Mission in Higher Education

Author : Ezra Mitchell

Date : April 5, 2010

Peter Conti-Brown, *Scarcity Amidst Wealth: The Law, Finance, and Culture of Elite University Endowments in Financial Crisis*. Available at [SSRN](#).

The question of why universities seem to hoard their endowments had become a Senate-level issue prior to the Panic of 2008, and now that normalcy slowly is returning the issue promises to become a live one again. Simply put, in the years preceding the panic, tax-exempt institutions of higher education appeared to be growing enormous endowments while spending only a tiny proportion of them on their current needs. The issue became more sharply illustrated as, in the face of significant endowment losses during the crisis, elite universities with the highest endowments chose to cut budgets, lay-off employees, freeze hiring and salaries, close libraries, and cancel capital projects, among other measures, rather than maintain their then-current levels of spending, at the same time remaining in possession of endowments that still counted in the billions. Conti-Brown asks why, and gives a deeply thoughtful and creative explanation for the endowment puzzle. His answer: endowment building — the accumulation of wealth for its own sake — has taken its place as one of the missions of the institutions, alongside their pedagogical and scholarly pursuits.

As one might imagine, universities are highly secretive about their endowments, and Conti-Brown has done a good job of obtaining such information as he could, focusing on the universities with the five highest endowments: Harvard, Yale, Princeton, Stanford, and MIT. Important among this is that despite the average 30% drop in endowments at these schools (an assumption Conti-Brown makes based on the data he has), endowments remained at the same levels they had attained in 2005 and 2006. Thus the budget cuts seem all the more puzzling and the plot thickens.

The main portion of the article consists of Conti-Brown thoughtfully and systematically debunking the principal theories which have been put forth to justify the accumulation of large endowments (he more modestly puts it that these explanations are incomplete). These include the argument that universities spent unsustainable amounts of money during prosperity and thus had to make significant adjustments when the values of their endowments fell, that legal restrictions on endowment spending prohibited these universities from making up the shortfall out of endowments, and that new styles of endowment investment resulted in the substantial illiquidity of endowment funds, making their use prohibitively expensive or impossible when the crisis hit. The more plausible explanation, as he shows, is that size matters to universities or, as he delicately puts it, “universities’ endowments are like a cowboy’s belt buckle: the bigger the buckle, the more impressive the cowboy.” Elite universities, in this age of rankings, use the size of their endowments as a signal of their superiority to other universities. Seen as such, maintaining the size of an endowment becomes a critical part of the university’s mission.

Conti-Brown’s analysis is careful, and his understanding of the cultural imperative that has driven economic decisionmaking is both persuasive and original. The writing is lively and engaging, and provides an important challenge to universities’ self-justifications for their actions at the same time that it questions the justification of the substantial tax breaks that allow those endowments to grow. If further proof were needed that the issue is alive and important, consider the following:

On February 1 of this year, The New York Times reported that the interim president of Williams College (full disclosure, this commentator’s alma mater) announced that Williams was eliminating its recently enacted program of providing loan-free financial aid to needy students due to a \$500 million drop in endowment (which still remained at a rather healthy level of \$1.4 billion for a college of approximately 2,000 students). The president was quoted as saying: “Williams is in a strong financial situation by virtually any comparison — except with the Williams of three years ago.” The decision to end a financial aid program that has widely been lauded in order to save \$2 million over four years instead of spending more from the endowment, together with the president’s explicit comparison of (recent) past and present endowment size rather than attention to the current size of the endowment in relationship to Williams’ financial needs, may be all the proof the Conti-Brown needs to be assured that he is on the right track.

This is a piece well worth reading, and is rich and deep in a way that raises even more questions about the issue that I hope will be addressed by future scholars who will be indebted to Conti-Brown for his excellent work.

Cite as: Ezra Mitchell, *Size Matters: Wealth Accumulation as a New Mission in Higher Education*, JOTWELL (April 5, 2010) (reviewing Peter Conti-Brown, *Scarcity Amidst Wealth: The Law, Finance, and Culture of Elite University Endowments in Financial Crisis*. Available at [SSRN](#).), <http://corp.jotwell.com/size-matters-wealth-accumulation-as-a-new-mission-in-higher-education/>.