

Opinion

# Rich Colleges Can Afford to Spend More

They're acting like they exist to protect their endowments, instead of the other way around.

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Ben Denzer

In 1981, when I was a senior at the University of Michigan, I interviewed the school's new president, Harold Shapiro. An economist by training, Dr. Shapiro emphasized the importance of increasing the university's endowment, which then totaled \$115 million. That number would nearly triple during his eight-year tenure.

Over the past decades, the endowments of America's richest universities have exploded in value. At the end of the last fiscal year, Harvard's endowment was [\\$41 billion](#), Princeton's was \$26 billion and Michigan's was not far behind, at \$12.4 billion.

It can be difficult to grasp what such numbers mean. Here is one way to think about it. Princeton has about 8,200 students. Ordinarily, the school spends around 5 percent of its total endowment each year. This means Princeton's endowment generates about \$158,000 per student in annual revenue.

As the financial effects of the Covid-19 pandemic on higher education begin to be felt, many people are wondering why America's richest universities can't spend more of the vast sums of wealth they have accumulated to protect their educational missions, and the people who work and study at these schools.

Last month, Princeton's president, [Christopher Eisgruber](#), argued that his institution's ability to do so was limited: "People sometimes mistakenly regard endowments as though they were savings accounts or 'rainy day funds' that can be 'tapped' or 'dipped into' during hard times." This year, he said, Princeton would shell out more than 6 percent, but that this rate "is not sustainable."

Administrators at other elite universities have made similar arguments.

It is true that universities do not have unlimited discretion regarding how to use their endowments: Much of the money is subject to legal restrictions of various kinds. But claims that it would harm wealthy institutions to draw from their endowments at a significantly higher rate to help ameliorate the financial effects of the pandemic have little basis in reality.

Since 1981, Harvard's and Princeton's endowments have grown at an average annual rate of 8.75 and 9.2 percent, respectively, while Michigan's has increased by 13 percent. Those growth rates reflect both large average annual returns on capital investment and extremely successful fund-raising efforts.

Could these three universities really not spend, say, 8 percent this year in the face of a crisis of historic proportions? If they did, it would generate \$2.4 billion in supplementary revenue, which they could use to avoid furloughs and layoffs of their most economically vulnerable workers, including contingent faculty, staff members and independent contractors who perform crucial yet typically low-paid labor.

Ultimately, the fact that this is even a debate raises basic questions about the financialization of American higher education. The Princeton community might well get the impression from President Eisgruber's remarks that the institution's most important function was to protect its endowment, rather than vice versa.

For a generation now, while many institutions of higher education have struggled to pay their bills, America's richest universities — like so many of our richest institutions and individuals — have been obsessed with hoarding their ever-more staggering fortunes. This obsession brings to mind a prediction John Maynard Keynes made [90 years ago](#) about a post-scarcity future:

"The love of money as a possession — as distinguished from the love of money as a means to the enjoyments and realities of life — will be recognized for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease. All kinds of social customs and economic practices, affecting the distribution of wealth and of economic rewards and penalties, which we now maintain at all costs, however distasteful and unjust they may be in themselves, because they are tremendously useful in promoting the accumulation of capital, we shall then be free, at last, to discard."

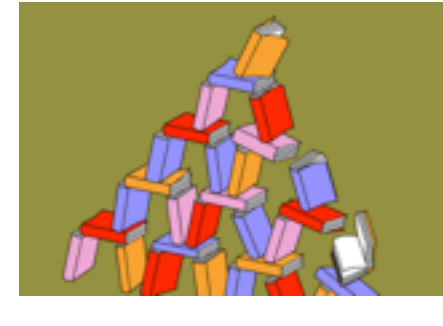
Clearly Keynes was an optimist. Still, in the time of Covid-19, we should encourage our elite institutions to embrace that particular love with a little less fervor.

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