Endowments and the creation of a two-tier higher education system in America

Charles Bogle
11 February 2008

For some time, US public colleges and universities have responded to cuts in state and federal funding by raising tuition and hiring part-time instead of full-time instructors (presently, approximately one half of the nation's college faculty are working under part-time contracts).

Both actions have made it increasingly difficult for middle- and working-class students to attain a quality higher education. As tuition has risen, many students have been forced to work more hours (sometimes at two to three part-time jobs), take out more loans, or simply forgo higher education altogether. And while many of the part-timers are qualified, excellent instructors, recent research is finding that because they often lack the time and resources to devote themselves fully to each course and student, students suffer if they are taught by part-timers too frequently (*The Blade*, 01/21/08, A3).

But deteriorating economic conditions, with numerous economists declaring the US to be either already in, or rapidly approaching a deep, systemic recession, are depleting state budgets and forcing public colleges and universities to court endowments as a means of insuring a predictable source of income. The consequence of this solution is the creation of a two-tier higher-education system that places working class students at an even greater disadvantage.

The period of 1980-2000, which marked the beginning of the ongoing decline in the profitability of American manufacturing and the ruling financial elite's decision to slash wages and benefits, also saw higher education's share of states' budgets fall from nearly 10 percent to less than 7 percent (JBL Associates). This is a significant decrease, especially when one considers that state spending accounts for fully 30 percent of college and university funding, with tuition covering 20 percent and gifts, grants, and contracts—mostly for research—accounting for 50 percent of the funding.

Increasing federal funding to make up for the decrease in state funding is not even being considered. The enormous federal deficits, the result of the Bush administration's tax cuts for the rich and corporations, coupled with increases in military spending, will make further decreases in federal funding all but certain.

The present crisis, driven by the financial elite's furious and desperate attempt to grab for itself even more of the wealth produced, will result in a greater drain on state revenues. The*New York Times* predicts that at "least 25 states expect to have budget deficits in 2009" (01/26/08). Ohio and Michigan, two states already decimated by job and state revenue losses, are projected to lose $113 million and $151 million, respectively, in 2008 (*The Blade*, 01/26/08, A1).

Because they account for the largest portion of discretionary state spending, colleges and universities will certainly be targeted for further cuts.

Courting endowments, the funds from which are invested, has proven to be one way of at least partially making up for these cuts in state funding. In 2006, for example, education endowments made an average of 10.6 percent on their investments; 2007 saw an average of 16.9 percent (*Detroit Free Press*, 01/20/08, 14A).

But endowments are already creating a two-tier environment in higher education. Large private institutions can curry the favor of wealthy alumni and other well-heeled sources; Harvard and Yale, for example, have endowments of $34.5 billion and $22.5 billion, respectively, and, incredibly, Princeton's endowment equals $2 million for each of its students (Justin Pope, *The Huffington Post*, 01/24/08).

The flagship public institutions are also reporting substantial endowments—e.g., the University of Texas system has $15.6 billion, and The University of Michigan endowment is $7.1 billion—but from there, endowment figures for public institutions decrease precipitously.

This growing disparity in endowments, resulting from the need to search out private sources of funding, has led to a situation in which the well-endowed private colleges and universities are able to pay more for the better professors. Compared to the average public research university, which pays a full professor approximately $106,000 per year, Harvard averages $177,000 per year (Pope, *The Huffington Post,* 01/24/08).

Not only can the richly endowed schools attract better professors, they can also offer larger stipends to attract the better graduate students, placing non-flagship colleges and universities and their students at a distinct disadvantage.

Another problem with relying on endowments for funding is that most of the money is flagged for research development and "predetermined" scholarships and faculty appointments (*Detroit Free Press*, 01/28/08, 11A) instead of financially needy students.

But a reliance on endowment funds presents an even greater problem: if returns on investments fall, as they are presently doing, the college or university will suffer, especially those schools that don't have large research grants or other private sources of funding to fall back on—i.e., public four-year schools and community colleges that serve the middle- and working-class student.

For the month of January, the first month of negative job creation in five years, 18,000 government employees lost their jobs, mostly at state universities and community colleges ("First Job Losses in 4 Years Raise Recession Fears," *New York Times*, 02/02/08).

Michigan offers a clear example of the reaction of state governments to the continuing rise in the cost of college while state revenues continue to diminish. Michigan's Governor Jennifer Granholm's proposed 2008-2009 budget would include more state money for public universities with the stipulation that colleges hold tuition increases to the inflation rate, even if that means dipping into their endowment funds to do so.

However, the basis for determining the amount of funds dispersed to each institution would be their relative success in regard to "federal research grants, graduation rates, graduates with math and science degrees, and success in bringing research projects to commercial markets." ("Granholm to take on cost of college," *Detroit Free Press*, 02/01/08, 1A).

Thus, the state's largest and most well-endowed universities, the University of Michigan, Michigan State University and Wayne State University, would receive the lion's share of the increased state money. And while working class students certainly attend each of these institutions, the majority of Michigan's working class students, those attending the smaller public four-year universities and community colleges, will be at an even greater disadvantage than they are now.

Critics point out that private and larger, research-centered colleges and universities are banking profits from their endowment investment at the same time they continue to raise tuition rates. These institutions answer that, with state funding continuing to decrease, they are being forced to seek out more endowments in order to guarantee "at least one predictable source of revenue" ("Universities save while students pay more," *Detroit Free Press*, 01/20/08, 14A).

These trends underscore the dilemma that the present capitalist crisis has created for higher education. Colleges and universities are now at the mercy of the market, where they are forced to compete with each other for private sources of money, sources that will surely decrease as the crisis intensifies. Only a society based on socialist principles that recognize the right of each individual to a publicly funded education can guarantee that the quality of that education will be the same for each individual.