Bankers in the Ivory Tower by Charlie Eaton

The financialization of higher education and the fight against war

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Charlie Eaton: Bankers in the Ivory Tower: The Troubling Rise of Financiers in US Higher Education, *The University of Chicago Press, 2022.*

Since last October, millions of people across the world have protested against Israel's ongoing genocide of the Palestinians in Gaza, an historic crime enabled and supported by the United States and its imperialist allies in Europe. In the US, the protests have drawn in significant layers of youth, most notably at the universities.

On campuses, the ruling class, terrified that this movement could spread beyond the universities, responded to these protests with a campaign aimed at eliminating free speech and completely subordinating academia to the interests of US imperialism. Billionaire-led "donor revolts" have spearheaded this campaign. While the protests have been ongoing, they have failed to either effectively oppose this attack on democratic rights or stop the Gaza genocide. As the new semester begins and the genocide enters its 10th month, fundamental questions therefore have to be asked about the way forward for the protests.

In this context, sociologist Charlie Eaton's book, *Bankers in the Ivory Tower: The Troubling Rise of Financiers in US Higher Education* (2022), is a valuable work. It traces the financialization of higher education from the 1980s through the 2010s. The empirical data it provides, showing the transformation of universities—ostensibly institutions of higher learning—into massive financial entities, demonstrates the futility of any appeals to the university administrations to "change their minds" and "divest" from companies involved in the genocide, and the need for a new, class-based strategy in the fight against imperialist war.

Social counterrevolution and the financialization of higher education

The book begins by tracing the political and economic changes in the late 1970s and 1980s that significantly expanded the financialization of the economy and led to the concentration of extreme wealth within the financial sector, specifically private equity firms and hedge funds.

In the immediate post-World War II period, a series of reforms led to a substantial expansion of access to higher education. These included the 1945 GI Bill, which included grants for veterans to attend college, and the 1965 Higher Education Act, which created a number of grants and scholarships for lower-income students, including what would become the federal Pell Grant. During this same period, state governments also expanded funding. As a result, from 1964 to 1975, college enrollment doubled from 5 million to almost 11 million.

As the *World Socialist Web Site* has explained about this period (see "The American student loan racket"), these reforms were not out of the goodness of liberalism's heart but necessary concessions in the face of revolutionary struggles by the working class internationally and the threat of socialism.

But the period of reform was short-lived and US lawmakers "slammed the brakes" on public funding for higher education. Eaton explains that the mid-1970s marked the apogee of federal funding on higher education, with per student spending dropping 28 percentage points between a peak of $7,114 in 1976 to $5,129 in 1994 (using 2016 constant dollars).

Eaton fails to explain, however, that the collapse of support for higher education was not merely a change in policy. With the end of the post-war boom, the rising balance of trade deficits, and the ending of the Bretton Woods system, the bourgeoisie in the US and internationally faced mounting economic and political crisis. But the betrayals carried out by the Stalinist, Social Democratic, Pabloite and trade union leadership against the revolutionary struggles of the working class between 1968 and 1975, including in France, Chile and Britain, led to major defeats of the working class which helped to stabilize the bourgeoisie and enabled it to launch a social counterrevolution. Its target was not only public education, but every political, economic and democratic right of the working class.

A central part of these attacks were financial deregulation and tax cuts for the ultra-wealthy, which stole large amounts of social wealth from the working class and transferred them to the financial oligarchy.

Deregulation enabled the merger and consolidation of banks to create what Eaton calls consolidated financial service corporations, dominated by the Big Four—Bank of America, Citigroup, JPMorgan Chase, and Wells Fargo—which now offered such services as commercial and investment banking, insurance and even private equity and hedge fund activity. For higher education, these organizations would go on to play significant roles in promoting the expansion of student loans, in underwriting municipal bonds for campus capital expansion projects, and university endowment management. Even after being barred from direct financing of federal student loans in 2010, these organizations still contract with the Department of Education to collect payment on the loans, with just four corporations exercising a 92 percent monopoly in this market.

Alongside the banking behemoths, wealthy financiers created private equity and hedge funds on the basis of new and high-risk investment strategies made possible by deregulation, which enabled them to rake in magnificent profits. While there are differences between private equity and hedge funds, for the purpose of the book, Eaton groups them together on the basis of their high-risk strategies, their reliance on elite social ties for start-up capital and insider knowledge, and their transformative role in higher education over the last 30 years, particularly in the realm of endowment management and their takeover of private, for-profit colleges.

The growth of wealth among this layer in particular has been astronomical. In a few short decades, by 2004, fund managers made up 32 percent of people with incomes in the .001 percent (greater than $31 million) and 82 percent of those with income in the .0001 percent (greater than $100 million annually).

The growing influence of financiers within higher education has eroded the democratic gains of a previous era. Eaton notes, "Financiers won increasing sway as colleges turned toward financial markets for resources. The increasing power of financiers accordingly eroded newfound popular and democratic influence over who can gain a degree and who will pay for it."

The draconian budget cuts last year at West Virginia University (WVU) illustrate this anti-democratic assault against public education. The Board of Governors includes Robert L. Reynolds, president and CEO of Putnam Investments (which oversees $142 billion), Charles Capito Jr., former finance executive with Wells Fargo, and representatives of the healthcare, communications and energy corporations. It was these forces that decided to eliminate 169 full-time faculty positions along with nine academic majors and the entire World Languages, Literature and Linguistics department, while also raising student tuition by 2.62 percent in one of the most impoverished states in the country.

Eaton details how, over the last 40 years, bankers and financiers have become integrated into virtually every facet of high education and even the daily lives of students. Their roles include the "commercial bankers who lend to students, hedge fund managers who oversee endowment investments, private equity partners who buy and manage for-profit colleges, and investment bankers who sell university bonds." These roles play out somewhat differently within three distinct levels of higher education, as Eaton presents it: the Top (elite private schools); the Middle (public and less selective private universities); and the Bottom (predatory for-profit schools).

The Top

Eaton describes how, at the Top, elite universities have been virtually transformed into financial corporations. In the 1980s, managers of newly formed hedge funds and private equity firms, often graduates of Ivy League schools, relied on their elite connections and alumni networks to raise early capital investments. Prior to changes in pension fund regulations, private university endowments were the largest institutional investors for these new firms. In return, these layers have donated ever greater sums to their elite *alma maters*.

Eaton cites the early example of Yale University, which in 1985 appointed David Swenson, Yale economics PhD and Wall Street financier with Lehman Brothers and Salomon Brothers, to lead its endowment. Fellow Yale alumnus and Wall Street billionaire Tom Steyer began "courting" Yale after learning of Swenson's appointment, and in 1988, Yale invested $300 million in Steyer's new hedge fund Farallon Capital, providing a third of its total investment capital.

Another example is Harvard and the Baupost Group hedge fund. Harvard Business School (HBS) alum and billionaire Baupost CEO Seth Klarman served as honorary chair to HBS during its $1 billion fundraising campaign in 2014. Scott Nathan, another managing director with Baupost, was a member of the Harvard Corporation Committee on Finance and guided its endowment management. By 2017, Harvard had given Baupost $1.96 billion in endowment assets to manage.

These investments resulted in enormous financial surpluses for the most elite universities, whose endowments have grown by approximately 500 percent or more in the last 40 years but which have kept undergraduate enrollment virtually stagnant, creating a vast divergence in resources and per-student spending between the elite private schools and the rest of the higher education system.

According to a 2023 report in *U.S. News*, Harvard's endowment in 2023 was an estimated $50.8 billion and Yale's an estimated $41.3 billion, whereas the average endowment size of the 379 ranked national universities that submitted data to *U.S. News* was $1.6 billion. By comparison, Harvard's endowment is larger than the GDP of 120 countries.

Per-student spending at the most elite universities soared from under $10,000 in the late 1970s to over $80,000 in 2012. The benefit of this vast wealth expansion has been entirely stratified along class lines, with the top 38 private colleges enrolling more students from the top 1 percent of the nation's income spectrum than from the bottom 60 percent combined. These students, in turn, go on to positions within the financial institutions and the state. Eaton notes that in recent years, an average of 70 percent of Harvard graduates apply for work in the top investment and consulting firms.

During this period, financiers became increasingly represented on university boards especially at the elite schools. At the top private universities, the share of board seats given to financiers grew from 17 percent in 1989 to a high of 33 percent in 2014, where it has plateaued.

According to Harvard's website, four of 13 seats (30 percent) on the Harvard Corporation, the university's governing board, are taken by Wall Street representatives: Timothy Barakett, founder and CEO of former hedge fund Atticus Capital; Kenneth Chenault of venture capital firm General Catalyst; Paul Finnegan of private equity firm Madison Dearborn Partners; Karen Gordon Mills of investment firm MMP Group, Inc.

While concentrated in the elite private schools, the upper echelon of public universities have replicated this process to a considerable degree. For instance, the University of Michigan (UM), has an endowment of nearly $18 billion, the 9th highest in the US in 2023, according to *U.S. News*.

The Bottom

Eaton's analysis of the "bottom" level of higher education—the private, for-profit colleges, notoriously predatory and low-quality—showcases the parasitical criminality that has burdened, if not ruined, millions of young lives. He shows how, through their takeover of these colleges, the financial elites have expropriated billions of dollars from the most vulnerable layer of the working class, leaving millions in debt with worthless degrees.

Seeing an opportunity following the expansion of student loans in the 1990s, private equity and hedge funds bought up dozens of for-profit colleges and, seeking to maximize profit, expanded their marketing and recruitment efforts to lure in mainly low-income students. On top of the billions in student loans going to for-profits, at the height of their enrollment boom, over 25 percent of federal Pell Grant awards were pocketed by these schools, more than $10 billion annually.

These investor-owned colleges produced far worse outcomes for students compared to non-profit, public and other privately owned colleges across almost all measures including higher levels of debt, lower graduation rates, and lower income earnings after college.

Eaton includes personal accounts from young people who were lured into these schools on the basis of lies and false promises about curriculum and training opportunities. Much like military recruiters, for-profit college recruiters insinuate themselves into the personal lives of prospective students, calling them every day, learning about their interests, pretending to befriend them. These investor-owned colleges try to hide their for-profit status, with one going so far as to name itself American Public University.

Typical of such stories, none of the former students interviewed by Eaton graduated and all were left with crippling amounts of debt which they have no prospect of paying off.

The predatory practices of these colleges is entirely conscious. As the vice president of the imploded Corinthian Colleges explained to Eaton, the parent company would operate multiple school "brands" offering the same degree, "So, if you had one school that got into regulatory trouble, as long as you had a brand that was just local, that contagion wouldn't spread to the other brands."

One insider with the investor-owned Florida and Midwest Career Colleges said, "[When] presenting annual results to investors, I told Managing Partner of PE firm [sic] that I wanted to address all the compliance and regulatory achievements. He laughed and said, 'They don't care about that. All they want to know is how much money you made them.'"

The Middle

Between the extremes of wealth concentration at the top and unfettered exploitation at the bottom, Eaton uses the University of California (UC) system to show that even public universities have become intimately bound with Wall Street**.** Eaton's case study of California illustrates the central role played by the Democratic Party in this process.

The increasing funding cuts at the federal and state level for education compelled public universities to seek alternative revenue sources, a situation that Wall Street was ready to exploit. Following the bipartisan changes to student loan regulations, public universities turned to increasing tuition revenue paid for by loans to offset revenue decline.

Like the University of Michigan, the UC system is an elite public university with an endowment of $23.4 billion as of June 2023. Eaton shows that the UC system is above all an example of how the deepening cuts to public education in recent decades enabled Wall Street financiers to "come to the rescue" and bring public institutions under their direction.

In 2002, California Democratic Governor Gray Davis appointed the late private equity billionaire Richard Blum (husband of Democratic Senator Dianne Feinstein) to the UC Board of Regents. Amid unprecedented state budget cuts over the course of 2003 to 2011, totaling over $2 billion dollars, almost half the state's funding for UC, Blum brought a team of Wall Street "reformers" to oversee the restructuring of the university in "accordance with the logic of finance." Under Blum's leadership, the UC system addressed its budget concerns through a combination of "steady increases in tuition, expanded bond borrowing, and UC spending cuts."

These measures predictably made education less accessible. Between 2007 and 2016, UC effectively froze new in-state enrollments, pushing thousands of qualified applicants into lower-funded and lower-status state schools and community colleges. And tuition hikes drove an increase in student debt among all but the wealthiest layer of students.

What lessons are to be drawn?

There are two important weaknesses to Eaton's book which workers and students must consider in the struggle against war and the growing attacks against their democratic and social rights.

First is his failure to address the fact that the financialization of higher education has been accompanied by the subordination of academia to the war machine. This is manifest in both gigantic university endowment investments in military-intelligence contractors and the direct financing of significant sections of academia by the military via research grants and partnerships.

For example, at the University of Michigan, in 2023 the Department of Defense supported $77 million in research, 431 active projects, and 885 academic positions. Meanwhile, hundreds of millions of dollars of UM's investment portfolios link to military contractors, weapons and drone manufacturers and cybersecurity corporations, all with direct implications for the Gaza genocide. With the endowment run as a for-profit business in pursuit of the greatest investment returns, the Board of Regents predictably voted to reject students' demands that the university divest from these companies.

Second, Eaton draws misguided, reformist conclusions, arguing that the Democratic Party can be pressured and that the financial oligarchy can be "bargained with" in "service of the common good." But this conclusion is refuted by the very empirical data he presents. Thus, his case study of the University of California shows that, no less than the Republicans, the Democrats are responsible for the subordination of higher education to Wall Street. Over the past months, the Democratic Party has spearheaded the police-state crackdown against anti-genocide protests in states like New York, Michigan and California.

Far from being "bargained with," the sharpening of the social and political tensions produce evermore authoritarian measures from the bourgeoisie as it attempts to enforce its policies of war and social austerity. As the Austrian Marxist Rudolf Hilferding wrote in his classic study of finance capital, which Lenin referenced in his *Imperialism: the Highest Stage of Capitalism*, "Finance capital does not want liberty, it wants domination."

The transformation of elite universities into giant hedge funds underscores that the demand directed to university administrations to "divest" from the genocide is entirely impotent: It is as toothless as appeals to "Genocide Joe" and the Democratic Party to change their minds about mass slaughter. Moreover, the demand entirely covers up the essential class questions in the fight against war and the financialization of higher education: namely, who directs the affairs of society—the capitalist class or the working class?

The protests against the Gaza genocide are at a crossroads. To the extent that they remain oriented toward pressuring, and therefore politically subordinated to, the Democratic Party, they will be misdirected by middle class politics and collapse, sowing confusion and demoralization.

The data provided by Eaton, as limited as his conclusions are, is a powerful illustration of the fact that the fight against imperialist war and the attack on democratic rights on campuses can only be waged as part of a struggle to end the subordination of higher education to the profit interests of the ruling class. None of these struggles can be waged without a turn to the social force in society that can actually take on the financial oligarchy. The international working class, whose labor power produces all the wealth and resources that the ruling class expropriates for profit, is this social force.

Harnessing the power of this social force requires the building of a revolutionary leadership in the working class, opposed to both capitalist parties, and based on a socialist program, that aims to abolish the capitalist profit system—the root cause of war, dictatorship and inequality.