

Sustaining Higher Learning: Endowment Building and Financing Higher Education

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Every viable academic institution requires substantial income to operate. During periods of economic stress institutions ask tough questions that demand clear distinctions between institutional needs and wants. In particular, educational administrators may (re)assess the amount and type of income sources and expenditures for the purpose of increasing income and reducing institutional inefficiencies. The recent climate of economic turbulence underscores the need for assessment. In particular, endowment building emerges as a significant force that academic institutions grapple with in light of economic concerns. Why and how to build endowments are questions asked by both public and private universities. A brief look at both the current economic climate and an earlier period of financial challenge during the 1920s and 1930s provides insight into the significance of an endowment as a potentially important income source for colleges and universities. The discussion that follows primarily focuses on The Ohio State University (OSU), since OSU might be considered a quintessential public university, facing challenges comparable to other colleges and universities.

Sources and Types of Income

Maintaining a stream of income secures the lifeblood of the college or university. State universities, like OSU, may draw on a variety of income sources to stay in the black. These income sources may stem from students (e.g., tuition), government, hospitals, athletics, or endowment income. The search for new income may draw in donations from alumni, parents, students, corporations, foundations, non-associated donors, and

other fundraising entities (Ehrenberg and Smith 2003). Financing higher education can be simple or complex, largely depending on the context. Who makes the financial decisions, and how the income and expenses are respectively derived and laid out, may dramatically impact a college or university. Policies and programs that adequately address competing interests between collective and individual forces create economically vibrant climates. A tuition driven institution may see other income as less important. Nonetheless, the varied financial building blocks of colleges and universities should not be underestimated. Reliance on particular sources of income, such as endowments, may serve a significant function in building or weakening an academic institution.

Rising Need for Endowments

Over the past two years, questions on the significance of endowments have buzzed through colleges and universities across the nation. Molly Corbett Broad, President of the American Council on Education, claimed that today endowments are essential, but that people frequently misunderstand sources of revenue for higher education (Broad 2008). Many universities, including Harvard and Stanford, have had hiring freezes and even layoffs. Some point the finger of blame at endowments, claiming they are unreliable (Blumenstyk 2009).

While an institution's large endowment may provide some financial security, the income from an endowment may fall dramatically resulting from difficult economic times. In one year (from 2008 to 2009) the endowment value of OSU dropped 20 percent from US\$2.1 billion to US\$1.7 billion (National Association of College and University Business Officers [NACUBO] 2000).¹ In that same year other public and

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private universities suffered similarly. For example, Harvard University's mammoth sized US\$36.6 billion endowment dropped approximately 30 percent to US\$25.6 billion. While Harvard likely possessed a large enough endowment to support a leaner version of itself for the next 20 years (Thompson 2009), the question remains: how much effort should a state school, such as OSU, place on endowment building? Would this drop in endowment value be reason enough for an institution like OSU to steer away from an endowment-building focus and develop stronger funding ties from the state? The OSU 2009-2010 budget shows appropriations from the state of Ohio contributing just below 13 percent of OSU's total income.² Some might question the role of the word, "state" in OSU's name, but there are other obvious benefits that come with the sanction of the state of Ohio. Nonetheless, whether to focus on the fundraising component of endowment building remains an important question.

In assessing whether to expend resources into developing an endowment, certain factors should be taken into consideration. Endowments are built in three ways: through contributions (gifts and bequests), investment returns, and invested surpluses from an institution's operating budget. While one might think that how an endowment is invested is important to the development of an endowment, securing gifts is just as significant in the long-term building of an endowment (Lapovsky 2007).

Unfortunately, endowments require substantial principal in order to generate any significant income. A US\$50,000 investment at OSU, for example, provides an entry level restricted fund that on a conservative endowment investment of 5 percent would yield US\$2,500 per year. Approximately US\$1,500 of that yield (or 3 percent) would be spent, while the remaining US\$1,000 would be reinvested to allow the endowment to grow and keep up with inflation. While private research universities may relish large, prestigious endowments during prosperous economic periods, they may suffer when an economy turns for the worse. Endowment income can help an institution endure a trying economic storm, but if an institution has relied too heavily on endowments to support its operating expenses, it can lead to sudden financial strain. Though large institutional endowments often provide a college or university increased prestige, it also may have the ef-

fect of deterring donors from giving due to a perception of minimal need. Private research universities, however, may possess significant resources to quicken endowment building. These resources may include funding from robust alumni, community, ecclesiastic, foundation, or corporate, networks that provide a vital component of institutional income. One particularly source of income is the baby boomer generation. Baby boomers are expected to retire in the near future (probably not *en masse*), and may leave great wealth to colleges and universities. How, when, and if the baby boomer generation will leave large benefactions remains to be seen.

A Pivotal Period in Endowment Building

The period of 1920-1940 was critical for endowment building at OSU and the University of Michigan (UM).³ During this period colleges and universities experienced boom and disaster that impacted these institutions and the broader educational culture. This was a time of innovation in fundraising, a key moment in acquiring and investing private donations. It was also a time when many individuals raised political and ethical questions about the nature of private donations, many of which are still asked today.

OSU was ahead of UM in terms of raising endowment from 1895 to 1920, but due to political, economic, and cultural failures on the part of OSU, a gap arose and widened between the schools with regard to the solicitation of private funds and in endowment building. It appears that programs to build the endowment were slow in formation, since there were many critics who feared offending the state which provided essential revenue streams. UM was therefore able to succeed where it had earlier fallen short in comparison to OSU. By the early 1940s, the difference between UM and OSU was nearly insurmountable. It appears that OSU's reticence to engage in endowment building significantly detracted from the school's ability to compete for endowment size. OSU delayed, apparently failing to recognize the value of endowment building. Today's figures put UM's endowment at more than three-and-a-half times that of OSU.

Though major philanthropists were still giving heavily through the Great Depression, state funding was not so reliable. OSU state subsidy dropped 40 percent to

US\$6 million dollars. This decrease was also, in part, attributed to the poor relationship between OSU President Rightmire (Pres. 1925-1952) and Ohio Governor Martin L. Davey (Gov. 1935-1939). However, a positive stroke for the university was hidden in this financial setback. With decreased state funding, administrators looked to other sources of income, notably gifts from alumni and other friends of the University. Other public institutions in Ohio already had significant endowments. In 1935-1936, OSU's endowment value was US\$1,158,318 compared to the University of Cincinnati's value of US\$9,146,438, both publicly controlled universities (Office of Education 1938, pp. 276-277). It was time for OSU to take its place as a financially successful institution that not only drew on state funds, but on interest from endowments as well.

There are many questions that emerge when comparing OSU and UM. Why did OSU abstain from securing funding from private sources? What were the debates on whether to accept private monies for endowment? Why did UM, also a public institution, excel in acquiring income for new endowments? How did these institutions view income from state sources as opposed to private revenue streams?

It might be argued that higher education is sometimes not a rational actor. Decisions based on qualitative vantage points may not make sense from a financial perspective. For example, why do faculty hire so many graduate students as opposed to adjuncts, especially since many graduate students will never end up in faculty positions? While faculty cannot with exactness assess the needs of the future academic job market, they realize that, in the long-term, hiring graduate students may be a better choice. One factor may be the expectation of the graduate to bestow wealth and prestige to his or her alma mater.

The challenges faced by OSU and UM remain relevant today. Institutions need to be innovative in fundraising policies in order to face a faltering economy and prevalent social transformations. Issues of public and private fundraising, including endowment building, are vital to any discussion of educational reform or reinvention. Endowment building and securing private donations are important to higher education today. Endowment funds, though sometimes overly-restrictive, can maintain intergenerational equity in higher educa-

tion. A study on endowment building not only serves as a reference point for current issues in financing higher education, but identifies issues important for today's changing educational climate.

Notes

1. On 30 June 2009, OSU's endowment was valued at US\$1.716 billion. A statistical summary of OSU's endowment is available online at <http://www.osu.edu/osutoday/StatisticalSummary2009.pdf>.
2. OSU's 2009-2010 budget included a total income of US\$4.45 billion, including total state appropriations of US\$577 million. Available online at: <http://www.osu.edu/osutoday/stuinfo.php>.
3. I am currently analyzing published and unpublished primary sources detailing endowment building at OSU and UM.
4. UM's endowment boasted US\$6 billion compared to OSU's US\$1.7 billion in 2009. Sometime between 1915 and 1920, UM technically surpassed OSU in the amount of total university endowment; OSU had been in the lead since 1895. For endowment values in 1915 and 1920, see U.S. Commissioner of Education (1917, v. 2, pp. 239, 253-319) and U.S. Bureau of Education (1925, pp. 384-425).

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