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Professor Scrooge
 Peter Brimelow, [Forbes Magazine](#), 10.19.98

KEEPING UNTIL IT HURTS? In 1968 a famous Ford Foundation report recommended that colleges put more of their money into stocks. (Long-run average annual inflation-adjusted return, counting capital gains and dividends: about 6.8%.) They did, and although the timing appeared terrible -- stocks went into a long bear market that lasted until 1982 -- the advice eventually paid off. Partly as a result, endowments have reached towering levels (see chart).

But the Ford Foundation also recommended that colleges spend 5% of their endowment each year. And that, says New York lawyer and former Columbia University trustee Edward N. Costikyan in his recent study for the Washington, D.C.-based American Council of Trustees & Alumni, has just not happened. Spending has actually been declining, to around 3%, at many major institutions.

Funny thing.

Meanwhile, college tuition costs have gone through one of the most extraordinary inflations in history, far outstripping increases in the general price level since the late 1980s (FORBES, July 6). And, of course, hat-passing continues relentlessly.

Even funnier.

At least Costikyan thinks it's funny. He laughs out loud at the difficulties trustees have in finding what their university's administrators are doing. (These figures are even more unobtainable to outsiders, although Costikyan has made some tentative estimates.)

Trustees regularly assure him, Costikyan says, that they are spending around 5% of their endowments. But it invariably turns out they are not.

Not everyone finds it so amusing. Yale law professor Henry Hansmann, an expert on the law and economics of nonprofit institutions, was recently quoted deriding the argument that

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universities need to maintain their endowments against hard times rather than fritter it away on educating students now. His pointed comment: "A stranger from Mars who looks at private universities would probably say they are institutions whose business is to manage large pools of investment assets and that they run educational institutions on the side . . . to act as buffers for the investment pools."

Costikyan warns that endowment-hoarding colleges run the risk of congressional intervention. Private foundations, he points out, are required to disburse a fixed proportion of their assets each year -- or face taxation.

Helpfully, Costikyan has a suggestion for university administrators looking for ways to spend the money: Reduce tuition. He cites estimates that colleges like Harvard could conceivably abolish tuition altogether.

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