MISSION AND MONEY

Mission and Money goes beyond the common focus on elite universities and examines the entire higher education industry, including the rapidly growing for-profit schools. The sector includes research universities, four-year colleges, two-year schools, and non-degree-granting career academies. Many institutions pursue mission-related activities that are often unprofitable and engage in profitable revenue-raising activities to finance them. This book contains a good deal of original research on schools’ revenue sources from tuition, donations, research, patents, endowments, and other activities. It considers lobbying, distance education, and the world market, as well as advertising, branding, and reputation. The pursuit of revenue, although essential to achieve the mission of higher learning, is sometimes in conflict with that mission itself. The tension between mission and money is also highlighted in the chapter on the profitability of intercollegiate athletics. The concluding chapter investigates implications of the analysis for public policy.


Professor Weisbrod is an elected member of the Institute of Medicine of the National Academy of Sciences as well as Fellow of the American Association for the Advancement of Science, and he is a former elected member of the Executive Committee of the American Economic Association. A former Guggenheim Foundation and Ford Foundation Fellow and senior staff member of the U.S. Council of Economic Advisers, he recently completed terms as a member of the National Advisory Research Resources Council of the National Institutes of Health and as Chair of the Social Science Research Council Committee on Philanthropy and the Nonprofit Sector. Professor Weisbrod has received the Lifetime Research Achievement Award of the Association for Research on Nonprofit Organizations and Voluntary Associations and the American Public Health Association’s Carl Taube Award for Outstanding Contributions to the Field of Mental Health Services Research. He is included in biographical listings such as Who’s Who in Economics, Who’s Who in Science, and Who’s Who in the World.

Jeffrey P. Ballou is an economist at Mathematica Policy Research, Inc., in Cambridge, Massachusetts. Prior to joining Mathematica, he held faculty positions at Northeastern and Northwestern Universities. Dr. Ballou’s professional research spans multiple industries, including higher education and health care, areas in which he consults regularly for policymakers and institutional stakeholders. He received his Ph.D. from Northwestern University.

Evelyn D. Asch is Research Coordinator at the Institute for Policy Research at Northwestern University. She has also taught research and writing in the humanities and social sciences at Loyola University Chicago, DePaul University, and Shimer College. Dr. Asch is the author (with Sharon K. Walsh) of three college texts in the Wadsworth Casebook in Argument series: Just War (2004), Civil Disobedience (2005), and Immigration (2005). She received her Ph.D. from the Committee on the History of Culture of the University of Chicago.
Mission and Money

Understanding the University

BURTON A. WEISBROD
Northwestern University

JEFFREY P. BALLOU
Mathematica Policy Research, Inc.

EVELYN D. ASCH
Northwestern University
To my wife, Shirley, whose warmth, creativity, and determination have inspired me.

BAW

To Lana.

JPB

To my husband, John Tingley, and my children, Rachel and Nathaniel, for their love, support, and conversation.

EDA
# Contents

<table>
<thead>
<tr>
<th>Illustrations</th>
<th>page ix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>xiii</td>
</tr>
<tr>
<td>1</td>
<td>An Introduction to the Higher Education Industry</td>
</tr>
<tr>
<td>2</td>
<td>The Higher Education Business and the Business of Higher Education – Now and Then</td>
</tr>
<tr>
<td>3</td>
<td>Is Higher Education Becoming Increasingly Competitive?</td>
</tr>
<tr>
<td>4</td>
<td>The Two-Good Framework: Revenue, Mission, and Why Colleges Do What They Do</td>
</tr>
<tr>
<td>5</td>
<td>Tuition, Price Discrimination, and Financial Aid</td>
</tr>
<tr>
<td>6</td>
<td>The Place of Donations in Funding the Higher Education Industry</td>
</tr>
<tr>
<td>7</td>
<td>Endowments and Their Management: Financing the Mission</td>
</tr>
<tr>
<td>8</td>
<td>Generating Revenue from Research and Patents</td>
</tr>
<tr>
<td>9</td>
<td>Other Ways to Generate Revenue – Wherever It May Be Found: Lobbying, the World Market, and Distance Education</td>
</tr>
<tr>
<td>10</td>
<td>Advertising, Branding, and Reputation</td>
</tr>
<tr>
<td>11</td>
<td>Are Public and Nonprofit Schools “Businesslike”? Cost-Consciousness and the Choice between Higher Cost and Lower Cost Faculty</td>
</tr>
<tr>
<td>12</td>
<td>Not Quite an Ivory Tower: Schools Compete by Collaborating</td>
</tr>
<tr>
<td>13</td>
<td>Intercollegiate Athletics: Money or Mission?</td>
</tr>
</tbody>
</table>
Contents

14 Mission or Money: What Do Colleges and Universities Want from Their Athletic Coaches and Presidents? 251
15 Concluding Remarks: What Are the Public Policy Issues? 278

Appendix 295
References 309
Index 333
Illustrations

FIGURES

5.1. Number of Public and Private Four-Year Colleges and Universities by Level of Tuition and Fees, 2003  
5.2. Average Net Tuition as a Percentage of List Tuition by Ownership, 1992 and 2003  
5.3. Additional Points on the Combined SAT Score Needed to Secure the Discount Associated with a $1,000 Decrease in Income  
6.1. Private Donations as a Percentage of Total Expenditures, Selected School Types, 1969–2004  
7.1. Distribution of Endowment Assets at Nonprofit Schools, 2006  
7.2. Average 3-Year and 10-Year Returns on the Median College and University Endowment, 2007  
8.1. All U.S. College and University R&D Expenditures from All Sources, 1954–2006  
8.2. University Technology Transfer Office Start Dates, 1925–2005  
9.2. Average Total Price for Accredited Online Programs by Ownership, 2006–2007  
10.1. Number of Articles by Category, Private Nonprofit Universities, 1954–2004  
10.2. Number of Articles by Category, Public Universities, 1954–2004  
11.1. Percentage of All Faculty in Tenured or Tenure-Track Positions at Four-Year Degree-Granting Schools, 1993–2006
Illustrations


TABLES

2.1. Sources of Revenue at Colleges and Universities by Ownership, 2006 30
5.1. Tuition and Net Price for First-Year Undergraduates, 2003 81
5.2. What Does a Four-Year College Degree Really Cost? Five Illustrations 85
6.1. Top 20 University Recipients of Private Donations, 2004 105
7.1. The 10 Largest and Smallest Four-Year-or-Above Nonprofit School Endowments, 2007 133
7.2. The Link between Endowment Size and Tuition: Percentage of Revenue Derived from Tuition at Private Institutions with the Largest and Smallest Endowments, 2006 140
7.3. Percentages of Expenditures Derived from Estimated Endowment Payouts and Tuition at a Random Sample of 30 Research-Extensive Universities in 2004 141
7.4. Largest and Smallest “Rainy Day” Funds: Number of Years a 10% Cut in Revenue Could Be Financed from Endowment, 2006 143
8.2. U.S. Universities Receiving the Most Patent License Income, 2003 156
11.1. Ratio of Total Full-Time Tenure-Track to Non-Tenure-Track Faculty at All Degree-Granting Schools, 1993–2006 202
13.1. Average per School Athletic Profitability of Men’s and Women’s Sports, NCAA Division I and Division III Schools, 2005 224
14.1. Maximum Performance-Based Bonuses to Football Coaches at Selected Division IA Schools, 2006 255

APPENDIX TABLES

A2.1. Enrollment in U.S. Colleges and Universities, Fall 2006 295
A2.2. Colleges and Universities in the United States, 2006–2007 296
A2.3. U.S. Publicly Traded For-Profit Postsecondary and Higher Education Companies, 2006 297
### Illustrations

<table>
<thead>
<tr>
<th>Illustration</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2.4</td>
<td>Sources of Revenue at Four-Year Colleges and Universities by Ownership, Selected Years, 1985–2006</td>
<td>298</td>
</tr>
<tr>
<td>A2.5</td>
<td>Sources of Revenue at Two-Year Colleges and Universities by Ownership, Selected Years, 1985–2006</td>
<td>300</td>
</tr>
<tr>
<td>A5.1</td>
<td>Universities and Liberal Arts Colleges: Listed Tuitions and Grants by Ranking, 2004</td>
<td>302</td>
</tr>
<tr>
<td>A5.2</td>
<td>Impact of Student Ability and Family Income on the Level of Institutional Grants, 2003, OLS Estimates</td>
<td>303</td>
</tr>
<tr>
<td>A6.1</td>
<td>OLS Regression Estimates (Dependent Variable: Donations to the School, by Donor Source, 2004)</td>
<td>304</td>
</tr>
<tr>
<td>A6.2</td>
<td>OLS Regression Estimates (Dependent Variable: Donations to the School by Donor Source and Purpose, 2004)</td>
<td>305</td>
</tr>
<tr>
<td>A14.1</td>
<td>Random Samples of Public and Nonprofit Doctoral/Research-Extensive Universities and Liberal Arts Colleges</td>
<td>306</td>
</tr>
</tbody>
</table>
Preface

What is vital about colleges and universities? For parents, higher education is vital to their children's lifetime careers, on one hand, but is a major financial drain on family resources, on the other. For public policymakers, higher education is many things – a fundamental element of their constituents' demands for economic opportunity, a crucial element of the struggle for equality of access to learning and prosperity, a magnet for attracting business and industry, and a source of national, state, and local pride. But it is also a costly social service – and increasingly so. For faculty, academic administrators, and trustees, higher education is their vocation but also a business that seems increasingly driven by money alone. For researchers, higher education is an industry having much in common with other industries, consisting of thousands of competitors, each attempting to establish its own brand-name reputation, each attempting to attract contributions from public and private sources. However, it is also quite different from most other industries. Many millions have had direct experience with higher education but know little about it as an industry. Our goal is to reach all these audiences both within and outside of higher education.

We set out to understand this complex industry: how schools compete, how they finance themselves, and what social role each type of college and university plays. In the course of the research we learned a great deal. If we can convey to others some of what we learned we will have succeeded. We begin with a brief account of the origins and growth of American higher education to provide a context for the substantial new research findings that follow. Everyone knows that tuition is rising rapidly and presenting a mounting barrier for student access, but few people are aware of the massive and massively complex money-generating infrastructure of today's colleges and universities. Colleges and universities must deal with such issues as balancing financial aid packages to attract the desired mix of students while
not losing sight of the need to attract paying students, the creation of large and sophisticated fundraising “development” offices, the research collaborations with pharmaceutical and biotech businesses, the multi-million-dollar payments to Wall Street executives who manage multi-billion-dollar endowment portfolios, the investments in luxurious facilities at big-time football stadiums, and the aggressive competition for successful football and men’s basketball coaches whose contracts seem indistinguishable from what would be expected from those in the professional National Basketball Association and the National Football League.

All this places much of higher education as big business, though less so at low-key liberal arts colleges and public community colleges. Tuition is both a price that students and parents pay for access to higher education and a major source of revenue to schools. Donations are both a source of revenue permitting the school to pursue its mission and a threat to subvert the mission to attract more contributions. The true profitability of intercollegiate athletics, as one type of activity among many others, is, we show, far more complex than National Collegiate Athletic Association (NCAA) data convey. College graduates may have attended a school for years but still be unaware that their alma mater hires lobbyists to influence governmental legislation and regulation, just like private firms. Graduates may also not recognize that their schools, although committed to the creation and dissemination of knowledge, are devoting mounting resources to develop patents that restrict the use of the knowledge. Businesses pursue patenting as part of their profit-making goal. More and more universities are in the research patenting business, often licensing the patents to for-profit pharmaceutical and other firms. How, we ask and answer, does patenting in the higher education industry differ from the commercially oriented counterparts outside higher education?

Because the higher education industry is so vital to so many, we address many audiences. One is the wide readership of those, including college graduates themselves, who want to better understand the schools they attended and who are being solicited for contributions, and citizens who wonder why schools are raising tuition, forming joint ventures with corporations, lobbying Congress, and fighting over patent rights. We show how perspectives from economics can help to explain why colleges and universities engage in such impressive and wide-ranging activities that go far beyond “education.” Although higher education is our focus, and the United States the application, much of what we find applies to other industries, such as hospitals, day-care, and the arts, that include many public and nonprofit organizations, and to higher education in other industrialized countries.
We also see the following chapters as addressing issues relevant to other audiences: the research community, college and university administrators, and public policymakers who are increasingly struggling to finance higher education and to make it accessible to “all,” increasingly including part-time students whose shifting job-market opportunities require them to return to higher education as adults. We provide both a broad perspective on the higher education industry and its components and focused analyses of many challenges faced by this very traditional industry that is increasingly responding to quite nontraditional forces of change. It is our hope that a better understanding of the higher education industry will enable policymakers to do their job better, but our principal goal is to characterize and analyze rather than make specific public policy recommendations, although we do make some.

We were fortunate to have our enthusiasm for our work shared by The Spencer Foundation, which provided the encouragement and financial support that made this study possible. We benefited from many other sources of help. We had the skill and insight of excellent graduate research assistants: Burcay Erus, Ron Laschever, Martha Martinez-Licetti, Sanem Ozturk, John Parman, Maxim Sinitsyn, Carolyn Tang, and Marissa Witkowski. Our undergraduate research assistants were invaluable; we thank Shuyang Bai, Janelle Bracken, Connie Chiang, Sarah Cooper, Sachin Garg, Grace Noboa Hidalgo, Erin Huffington, Angela Kaul, Lindsay Larsen, David Moyer, Timothy Quinn, Elisabeth Rehder, and Elizabeth Weber.

In the course of our research, we profited from discussions with many university officials and faculty. At Northwestern, we thank Alan Cubbage, Patsy Myers Emery, Thomas Gibbons, Steven Green, William Hayward, Kate Igoe, Craig LaMay, Indrani Mukharji, Eugene Sunshine, and Ira Uslander. Jeffrey Kosiba and Marjorie Wiseman at Northeastern University assisted us, as did Mark Applebaum, Richard Carson, Alan Paau, and Janet Whitfield at the University of California, San Diego. In addition, we learned from others who gave generously of their time and knowledge: Nancy Broff at the Career College Association, Rachelle Brooks of the College Sports Project, Frank A. Casagrande of the Hay Group, Dan Dutcher at the NCAA, Jerome Fons of Moody's Investors Service, Michael McPherson of The Spencer Foundation, and Robert M. Moore and Donna Van De Water of Lipman Hearne. We thank all.