Endowments and the Elite: A Political Economic Study of the Whitman Endowment

by

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Certificate of Approval

This is to certify that the accompanying thesis by Megumi Gretchen Rierson has been accepted in partial fulfillment of the requirements for graduation with Honors in Politics.

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Thank you to my dad, for teaching me the pros and cons of equities investments.

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Introduction

For much of their history, university endowments have existed to perpetrate intergenerational equity, which is the act of maintaining an institution's current quality of experience for generations to come. In recent history, however, endowments have been interested in a very different kind of equity. Institutions of higher education have increasingly pivoted towards using the equities found in most investment portfolios to position their endowments as arbiters of institutional branding and prestige, rather than financial security or increased access. This paper will track the development of this practice specifically at Whitman College, seeking to answer the question: how does the Whitman endowment work, and whose interests does it serve?

The answer to this question varies. For Peter Harvey (2018), current CFO of Whitman College, the endowment is a mode of sustaining present operations of the college in perpetuity through donations. For John Bogley (2018), Whitman's Vice President of Development, it is a source of financial support that makes a Whitman education possible by filling the gap between the cost of a Whitman education and the cost of tuition. For Janice Abraham (2018), member of the Board of Trustees' Investment Committee, an endowment is a mechanism for transferring wealth from past to future generations of students. I argue, however, that the logic that undergirds these multiple definitions is a tradition of elite reproduction that has been reified in the contemporary age of late capitalist U.S. society.

This paper will explore how these interrelated definitions came to be through an analysis of the historical and contemporary mechanics of the Whitman endowment. I begin with a discussion of basic mechanics of a university endowment as a mode of consistent accumulation before moving on to discuss the historical role this accumulation has played specifically at Whitman. I then discuss how this history developed alongside the formation of late capitalism and the pervasion of financial power in higher education. I seek to argue in this section that the university endowment was a key driver in the financialization of higher education. I conclude by examining how these trends manifest specifically in the management of the Whitman endowment as a purveyor of elite reproduction. Drawing on interviews and scholars of late capitalism, financialization, and higher education, I argue that the Whitman endowment is a mode of sustaining a tradition of elite reproduction, and that this tradition is both rooted in institutional history and reified in contemporary late capitalist society.

Endowments and the Mechanics of Accumulation

A university endowment is a pool of donations that is invested in various financial assets to provide consistent returns for the financial security of the college. A small portion of the overall market value of the endowment is spent every year on an institution's operating costs, and the rest remains invested to continue steady growth. Within the portion of the endowment allocated for annual spending, there is a further breakdown of spending distributed across such areas as instruction, financial aid, academic support, and physical plant operation. A university endowment is meant to continue the mission and quality of experience of an institution in perpetuity, so funds spent from the endowment are put towards improving the current institutional experience and maintaining it for generations to come. At Whitman, the people tasked with accomplishing this by managing the college's assets are Peter Harvey, his staff, an outside consultant that hires money managers to invest the college's funds, and the Board of Trustees. This structure of stakeholders is typical of most institutions. Students, faculty, and non-administrative staff members are not a part of the management process. The Board of Trustees and the CFO of an institution determine the exact allocation of endowment returns on annual operating costs. In addition, the Board of Trustees consults with the CFO and a hired outside money manager to decide which investments are the most financially prudent for the institutions. This process of selecting investments is called asset allocation, as various stakeholders decide which assets (another name for financial instruments) will provide the most prudent risk to return ratio. In the process of asset allocation, stakeholders create an asset portfolio, which is the name of the collection of all assets in which an institution is invested.

Asset allocation is instrumental in providing consistent and robust endowment growth. A diverse portfolio of assets insulates an institution from the financial risks of each asset class. For example, if an institution invests only in bonds and the bond market takes a downturn one year to provide poor returns on bond investments, then that institution's endowment will suffer significantly. However, if that institution invests in stocks, bonds, and private equities, the returns on stocks and private equities will pad the losses incurred by poor bond performance. Asset allocation strategies are attempts to create a relatively stable pool of investments in the world of finance capital, which is notorious for its instability and frequent fluctuations of investment returns. Asset allocation, according to Harvey (2018), determines 80 to 85% of the actual investment returns that comprise the overall value of an endowment.

The current value of the Whitman endowment as of March 2017 is $518,469,000 (Bogley 2018). This value does not mean that Whitman currently has $518,469,000 in its bank account, ready to spend. Rather, this number represents the current market value of all the assets that Whitman holds as a result of investing their money in assets such as domestic and international equities, private equities, real assets, absolute returns, private credit, and fixed income/cash (Harvey 2018). If the college decided to cash in on every investment right now, they would have $518,469,000. Should the college choose to cash in on their investments, they would sell the various financial instruments in which they are invested on different markets. For example, if Whitman decides to cash in on its bond investments, it would take all of the bonds it owns, sell them on a specific bond market, and walk away with the cash. Whitman and other institutions with endowments do not do this because endowment funds are meant to be invested long-term to provide returns far into the foreseeable future. Instead, Whitman keeps the original amount of money donated to the college —the principal—invested in various assets and spends the money earned on those investments—the interest—so that the principal continues to provide returns to the college for years to come.

Because the purpose of a university endowment is to sustain the college in perpetuity, spending practices for endowment returns are relatively austere. Every university with an endowment develops a spending rule for their endowment, which is a percentage of their total endowment that they spend on annual operating costs. Institutions typically spend 3-6% of their endowments every year. Some university endowments also use techniques known as "smoothing techniques," which involve modeling different scenarios for future spending using information from past years' spending, potential rates of inflation, and expectations for future returns on investments (Yale 2016). Many institutions will also use a technique called "trailing averages" to determine their spending rate, which involves calculating the average of endowment returns over a given number of years to determine what level of spending is feasible in the current year. Smoothing techniques and trailing averages are attempts at stability in the inherently unstable world of finance because investment returns can fluctuate greatly from year to year. If an institution has extremely high returns on their endowment one year and spends 10% of their endowment, but then experiences much lower returns the next year, this spending rate would be financially imprudent.

At Whitman, financial officers and hired outside money managers have decided on a 5% annual spending rule on the endowment. This means that Whitman spends 5%

of its total endowment value, including current assets and income generated off of those investments, each year. According to Harvey (2018), this rule is determined by Whitman's desire to keep endowment growth consistent with inflation. Each year, Harvey (2018) wants the endowment to grow by 7%, net of fees paid to money managers. Because long-term inflation rates stand at 2%, this then leaves 5% available to be spent (Harvey Interview). So, if the endowment is worth $100 at the beginning of the fiscal year and grows by 7% to have a market value of $107 by the end of the year, the spending rate will be 5% of $107. If the endowment grows by more than 7%, the surplus is reinvested along with the principal.

Whitman's spending practices reveal key elements of a university endowment that distinguish it from other pooled investments. Here, it is useful to explore the existing scholarly literature on endowments. Much of the existing literature on university endowments builds off of Hansmann (1990) and Tobin (1974). Tobin (1974) presents a model for endowment spending in which endowments act as a source of income smoothing for universities. That is, universities should spend a constant—smooth—amount of money from the endowment to fund the future of the college in perpetuity. This is the first key distinguishing feature of an endowment. Conservative spending allows for a broad time horizon for an institution's viability. If an institution spends only its interest and then spends less than it earns, its financial security increases dramatically. Rather than investing with the goal of monetary gain in 5, 10, or even 20 years, endowment managers will invest with the intent of reaping financial rewards perpetually into the future.

In constructing this model, Tobin (1974) argues for a conception of university endowments as arbiters of intergenerational equity as the financial gains of the endowment allow universities to continue their educational projects for future generations. This is the reasoning behind endowments being held in perpetuity. Intergenerational equity is the chief justification that many scholars and university administrators use to defend the practice of maintaining endowments, and it is another key element that distinguishes endowments from other investment pools. Hansmann's (1990) influential piece, *Why do Universities Have Endowments?,* seeks to puncture this justification, suggesting that Tobin's (1974) model of constant spending is inconsistent with the notion of intergenerational equity because of the logic of accumulation that undergirds endowment management. Equity of experience requires a relatively steady income stream to ensure the current funds required for a Whitman education are always available, but the widespread practice of managing rapid endowment growth suggests that accumulation for accumulation's sake also lies at the root of university endowments.

Taken together, the foundational literature on endowments argues that endowments are tools of long-term financial security through accumulation. As institutions accrue more donations, they are able to accumulate more investments that provide more returns in perpetuity. In addition, a well-performing endowment incentivizes donors to give more towards sustaining that performance. Endowment donations come in the form of money checks written to the college as well as donations of financial instruments such as shares of a company (stocks), or bonds. The larger Whitman endowment is made up of smaller constituent endowments that each donor gifts to the college. The minimum donation amount to create an endowment at Whitman hovers around $50,000 (Bogley 2018). Endowments are typically donated with a specific purpose (endowed professorships, financial aid, etc.), but some donors will give to the endowment with no stipulations on how the money is spent, categorizing it as an unrestricted endowment. A robust donor network is integral to a well-performing endowment. The bulk of this network is comprised of alumni who feel compelled to donate to their alma mater, giving institutions incentives to produce graduates with wealthy career trajectories who will give to the institution in large enough sums to reap investment returns. However, universities have also seen an uptick in giving from donors who are not alumni as well as and increase in members of the Board of Trustees who did not attend the institution but come from financially fluent professions such as business consulting and risk management.

Legacies of Limited Access

Before turning to a more robust discussion of how these trends currently manifest at Whitman, it is useful to look back at a few key figures in the history of Whitman College who shaped the mission and finances that inform the college's current operations. Tom Edwards' written account of Whitman college places heavy emphasis on the notion of "tradition" as a driving force in Whitman's institutional success throughout the trials and tribulations of its history, as evidenced by the titles of the two volumes: *Triumph of Tradition* and *Tradition in a Turbulent Age*. From the text, it is evident that this tradition is the tradition of the New England liberal arts college on which Whitman models itself. Stephen Penrose, president of Whitman from 1894 to 1934, exemplified and promoted this tradition throughout his tenure at Whitman. Edwards (2001) identifies Penrose as a key guiding force of the college, spending at least one hundred pages of his history of Whitman on Penrose's presidency. Later president Robert Skotheim (1987) would echo this sentiment when he said in a 1987 speech, "everything before Penrose at Whitman was prehistory" (Skotheim 1987, 9).

For Penrose, the purpose of the liberal arts institution was to cultivate individuals with the specific minds and moral codes that would shape culture and resolve the pressing issues of society (Edwards 2001). He believed strongly, however, that this experience should be limited to a select few. Penrose believed that college was not for everyone. He insisted that higher education, and even high school education, was only for students with ambition and ability.[1] He decried public education for cultivating mediocrity that erodes democracy and insisted that private education was the only way to train morally upright citizens with honesty, truthfulness, and respect for property and law (Edwards 2001). Penrose's commitment to exclusivity is also evidenced in the claims he makes in the final years of his presidency, arguing against a proposal in the 1930s to expand the student body in order to alleviate a swelling debt brought on by mismanaged bonds and the stock market crash of the Great Depression. Penrose sought to maintain the college's prestige through its high admissions standards and by not "allowing it to be democratized" to assure that Whitman remained "a desirable place to go to like Amherst of Williams or Carleton" (Edwards 2001, 97).

To fulfill this desire, Penrose placed heavy emphasis on the cultivation of a larger endowment to bolster institutional prestige. Penrose bemoaned the Trustee's provincialism in investing strategies and pressured them to break into national bond markets rather than directing all of their investments towards local real estate (Edwards 2001). This attitude foreshadowed the dramatic influx of business strategies and financial logic that would later pervade higher education institutions broadly, and Whitman specifically, through increased reliance on endowment returns for institutional security. Penrose recognized that a prudently invested endowment with a diverse range of asset classes was vital to implementing his vision of an elite, exclusive school contributing to society through morally upright, well-educated graduates that uphold democracy and its constitutive institutions. Put more simply, the endowment helps continue "The Whitman tradition."

[1] It is worth noting that notions of who possesses ambition and ability worthy of an elite education are raced, gendered, and classed as a result of implicit assumptions of the ideal subject in a liberal democratic meritocracy such as the U.S.

Another key driver of the tradition of the private liberal arts college is the cultivation of wealthy alumni who choose to invest in the future of the institution. Wealthy alumni are a vital element of the business model of the private liberal arts college because they are the key funders of the college's endowment. Penrose lamented Whitman's lack of an established alumni donor base to call on for donations and envied East Coast institutions that were already steeped in the educational tradition of the liberal arts such that alumni and wealthy local donors could easily be called on for financial contributions (Edwards 2001). Penrose and Whitman more broadly had an incentive to produce graduates who were both financially privileged and invested enough in the Whitman tradition to share their wealth.

Here we see a conflict between the tradition of the private liberal arts college as an elite enclave and the financial realities of maintaining it as such. As Peter Harvey (2018), current CFO of the college, notes in an interview, a Whitman education is an unconventionally expensive business model. This is not a new idea. Even in the 1930s, students complained of rising tuition posing a barrier to qualified students attempting to attend Whitman, to which the administration responded by claiming fees were relatively low in comparison to the actual cost to the college of each student's education (Edwards 2001). This sentiment persists today, as Harvey (2018) notes that the steadily increasing price tuition does not reflect the true cost of a Whitman education. Whitman would need to bring in 32% more in revenue if it did not have an endowment.[2] Penrose recognized that the model of the New England liberal arts education he sought to offer was an expensive one, and he struggled to reconcile this

[2] The current base Whitman tuition, net of housing and ASWC fees, is $49,390. The current estimated total cost of attendance for 2017-2018 is $63,704. If base tuition were 32% higher, it would be about $65,195.

with the financial reality of a private residential college transplanted in a rural community lacking the tradition of this educational model and the donor base to support it.

The precedent set by Penrose's vision for Whitman continues in the presidencies of two other figures Edwards identifies as guiding forces of the college: Chester Maxey and Robert Skotheim. Maxey signed on as the college's president in 1948 to guide the college through its postwar turbulence and alleviate its financial woes. Following Maxey's directives of relatively austere investment practices and avoiding financing college operations through debt, the Board of Trustees serving during Maxey's tenure invested the endowment in stocks, bonds, mortgages, and real estate, gradually diversifying the asset classes contained in the endowment portfolio (Edwards 2001). College endowments saw significant growth in the 1950s, and Whitman was no exception. In 1952, Maxey boasted that the endowment had reached $2.4 million, claiming the value of the college was 12,737% greater than its value in 1895 (Edwards 2001).

Maxey's reliance on endowment earnings as an indicator of the college's value continues the precedent Penrose set in centralizing of the Whitman endowment as a marker of institutional integrity and prestige. Maxey follows Penrose in his fear of increasing enrollments, refusing to admit more students to alleviate financial austerity out of fear of lowering the college's standards (Edwards 2001). Maxey made these claims in 1951, at a time Edwards also notes as being particularly fruitful for the college's endowment, underscoring the degree to which a burgeoning endowment and the exclusivity of the private liberal arts college go hand in hand. Though Maxey and

Penrose's desire for lower admissions did not ultimately come to fruition in the college's present-day admissions, the underlying sentiment that a liberal arts education exists for some and not others certainly did.

Skotheim, president from 1975-1988, presided over Whitman during a time when public support for private colleges was waning. In 1987, only 20% of the college-age population was attending private institutions nationwide, compared to the near 50% of the 1920s and 1930s when Penrose was president. Skotheim (1987) builds on Penrose and Maxey's vision of Whitman as a traditionally exclusive enclave for the preparation of the elite when he expresses concern that declines in attendance and state support would "endanger traditional, undergraduate, liberal education." However, Skotheim (1987) also foreshadows the anxiety of branding in the age of the financialized university when he claims, "institutional ingenuity and marketing expertise have given relatively less prestigious colleges new leases on life. The most prestigious are coveted as luxury products in an affluent society" (Skotheim 1987, 17-18). As I will demonstrate later, endowment growth is central to building this image of luxury product specifically at Whitman.

Taken together, the legacies left by each of these key figures and their relationships to Whitman's endowment set the stage for the concurrent history of the changing nature of higher education towards a model of corporate logic and financial technocracy. A robust endowment is key in maintaining the Whitman tradition of financial exclusivity and elite reproduction. This tradition developed in the context of the broader history of the liberal arts college which Breneman (1994) and Kerr (1994) discuss at length. They speak of private liberal arts colleges as institutions as arbiters of “pure” intellectual pursuits that invite critical thinking, thoughtful reflection, meaningful engagement with the world, and the collective advancement of humanity, echoing Penrose’s specific vision for Whitman. Breneman (1994) argues that the 1960s and 1970s represented a kind of Golden Age for liberal arts institutions as enrollment was steady, tuition was relatively low in comparison to average household income, and the return on a college degree was relatively high. The 1970s saw the implementation of an extensive framework of federal student loans and institutional grants that reflected a shifting national interest in expanded access to higher education. The 1980s onward have been characterized by institutional desires for market niches and financial sustainability through aggressive branding and fundraising campaigns.

Breneman’s (1994) repeated use of the word “pure” reveals a commitment to a kind of exceptionalism with regards to the private liberal arts college, an assumption that there is a muddied pool of educational experiences against which the liberal arts college stands apart as the undiluted bastion of academic endeavors that imbues society with unmatched meaning. It is not a coincidence that this bastion is also one of the most financially exclusive among other institutions, and in recent years the endowment has played a key role in prioritizing institutional exclusivity over amorphous notions of contributions to the public good.

Scholars of liberal arts colleges reference a distorted kind of public good in their lauding of these elite institutions. Many of the tax benefits private liberal arts institutions receive as a result of their non-profit status rest on their contribution to “the public good.” The idea is that society as a whole benefits from Whitman graduates who are critical thinkers and active participants in our society. However, a hallmark of the education that produces those critical thinkers and active participants is that it is available for a select few. This becomes a way of privatizing a public good, and presents a bit of a paradox in that the very thing that makes the good public—the high-quality education from which everyone benefits—is necessarily private. Notions of exclusivity and elitism are part of the internal logic of the private liberal arts college, but they are expensive values to hold. As the private element of this purportedly public good began to shape the actions of liberal arts colleges, endowments became critical to maintaining these business models.

The Late Capitalist Endowment

The notions of exclusivity and elitism that endowments uphold are exacerbated by the development of late capitalism in the U.S. I will now discuss the university endowment in the context of the wealth stratification and financial bloat that has characterized this historical development since the 1970s. To do this, I will begin with a broader discussion of financialization in the U.S. followed by a more granular analysis of financialization in the realm of higher education.

The Rise of Finance

Institutional reliance on endowments arose alongside a concurrent orientation of the U.S. economy towards financial operations for economic survival. Scholars of heterodox economics term this trend "financialization." Heterodox economics as a field is comprised of a heterogeneous group of scholars analyzing economic phenomena from perspectives divergent from classical economics. The term financialization connotes the increasing presence of financial operations in the U.S. economy and a correlated increase in previously non-financial firms engaging in financial activity. Scholars track the U.S. economy's transition away from creating wealth in the physical sphere of production in favor of wealth in the form of ever more complex financial instruments far removed from the realm of physical production. These scholars seek to critique the ways in which financial capital has generated massive wealth inequalities through a bloated, volatile financial marketplace that rewards investors' high-risk, high-reward transactions at the expense of those who lack the resources to access it.

Though there exists a multitude of perspectives on the precise definition of financialization,[3] for the purposes of this paper, I will define financialization using a perspective enumerated by Kripner (2011): the increasing orientation of non-financial entities towards financial activities and the political implications of such an orientation. I choose this perspective over others because my research centers on Whitman's engagement with financial operations as a non-profit institution.

Financialization is a feature of contemporary late capitalist development. Piketty (2013) argues that capitalism automatically generates wealth inequalities by focusing on the dynamics and social processes that shape capital accumulation and the unequal distribution of wealth. Piketty (2013) embarks on an extensive history of capitalist inequality and places the question of distribution at the center of his historical sojourn. Piketty (2013) argues that political forces have always shaped the history of wealth distribution. He argues that inequality among developed countries decreased in the 1910s through 1950s as a result of war-based shocks and taxations but that this inequality steadily increased in the 1980s, where many scholars note as a time of rapid acceleration of the finance sector. Wealth inequality, in Piketty's view, is a structural component of capitalism and will continue to exist unless the political forces that shape it are amended. Reading Piketty in tandem with scholars of financialization generates a working definition of late capitalism as the present socioeconomic order that relies on finance capital and severe wealth stratification both for its sustenance and for its momentum.

The Financialized University and its Discontents

[3] See Kripner (2011), Fine (2013), Michell and Toporowski (2013), and Lapavistas (2013).

Higher education was influenced by and implicated in these forces of wealth inequality and financialization in the 1980s. During this time, institutions of higher education experienced dramatic returns on endowment investments as they developed an increasing reliance on these returns for institutional prestige and operating costs. Newfield (2011) places the university endowment within a historical narrative of the changing nature of higher education in purpose and practice. In the 1980s, institutions of higher education facing a more competitive higher education market started focusing more of their resources on branding, financial security, and strategic planning initiatives that mirrored those taking place in the business sector. A large part of this branding included the conflation of endowment size with institutional prestige and overall quality. The more financially secure an institution seemed to be, the more it presented itself as an institution of higher quality. Newfield (2011) argues that adopting a pervasive grammar of finance resulted in exploding endowment growth in the 1990s, with returns averaging in the double digits (11% in FY 1999). This growth, however, came with profound asymmetry. Endowments worth more than $1 billion grew at 29.2% in FY 2000, while endowments worth less than $100 million experienced less than a third of that growth.

Scholars such as Eaton (2017) connect exploding endowment growth to shifts in asset allocation that reflected a desire for capital accumulation rather than a dreamy ideal of intergenerational equity. The financialization of higher education buttressed these shifts as institutions began hiring more outside consultants to manage their endowment funds who were focused entirely on maximizing financial returns. To achieve this goal, university endowments were increasingly invested in riskier asset classes that had the potential to produce higher returns, but brought with them higher risks. This high-risk, high-reward attitude is characteristic of the financialization that pervaded U.S. society at large in the 1980s and manifests in large-scale crises like the 2008 financial crisis as well as smaller scale fluctuations that characterize the day-to-day workings of Wall Street.

Here, Newfield's (2011) analysis is useful as he describes the ways in which the language of U.S. economic interests in financial planning and risk management pervaded the operations of higher education with a pernicious and unquestioned totality. This is evidenced in a sharp uptick in administrative staff, redirection of institutional resources toward brand building, and an increasing reliance on endowment growth. For Newfield (2011), the best way to tell the story of the pervasion of financial interests in higher education is through the endowment. This growth was unevenly distributed, as institutions with large endowments grew faster than those with smaller endowments because they had the knowledge and resources to do so.

Meyer and Zhou (2017) argue that the private university endowment is the primary driver of this financial largesse, as well as the oligarchic tendencies that characterize the current winner-take-all higher education market. Their argument does not target the mechanics of endowments so much as the practice of accumulating and maintaining endowments as a manifestation of the wealth stratification characteristic of late capitalism. For both university endowments and the logic of late capitalism, accumulation is the name of the game. In the context of the societal wealth stratification that defines late capitalism, accumulation has its own distinct value. Accumulating wealth not for the sake of production or redistribution, but simply for the sake of accumulating, confers power and prestige on the owner of that wealth and incentivizes them to continue endlessly accumulating. Likewise with endowments, accumulating a larger endowment allows institutions like Whitman to market themselves as wealthy, prestigious institutions that prospective students should choose over other liberal arts colleges. This allows colleges to distinguish themselves from their competitors in a world of Common Applications and prolific institutional rankings lists. The process of accumulation for prestige gives an institution market power, which is the power to attract more students/customers and increase the price of a good above the level typically determined by competition.

Meyer and Zhou (2017) argue that the market power of institutions in the higher education market not only segments the market, but also imbues elite institutions with oligarchic control. As the richest schools keep getting richer and outpace the growth of less wealthy ones, their power and influence over the market increases correlatively. Schools like Harvard and Yale with multi-billion dollar endowments attract tens of thousands of applicants and reject the vast majority of them, allowing them to maintain low acceptance rates and further bolster their institutional prestige.[4] Eaton (2017) writes, "even amid increasing endowment wealth, elite colleges still appear to follow the incentive to keep undergraduate enrollments flat from college ranking formulas that reward schools for admitting fewer applicants." As discussed earlier in this paper, these schools and the financial strategies they utilized are precisely what Penrose and his successors aimed to implement at Whitman. As an institution's endowment grows, more students are drawn to that institution, but instead

[4] See such rankings lists as Forbes (2018) and U.S News (2018) and click on individual school profiles for acceptance rate information.

of admitting more students and using growing endowment returns to cover the costs, admissions rates stay flat to decrease the institution's acceptance rate.

The growth of university endowments as financiers of university operations and arbiters of institutional prestige is inextricably linked to the formation of contemporary financialized late capitalism in U.S. society. As more non-financial firms turned towards the language of financial operations to define their success, institutions of higher education followed suit by investing their resources in activities that would bolster their brand and prestige. This was achieved mainly through growing endowments, which quickly became correlated with prestige and educational quality. This correlation allowed wealthier institutions more fluent in financial language to rapidly corner the higher education market and create a game of constant catch-up for other institutions striving towards this elite ideal. I will now turn to an examination of Whitman's contemporary place in this story of endowments and late capitalist accumulation.

The Whitman Endowment

The university endowment is a web of financial investments that give a university power and prestige. Endowments began as a method of maintaining a higher education institution's financial stability through accruing donations in the form of long-term financial investments in which a principal amount is invested in perpetuity and the college spends a portion of the returns on that principal. In practice, endowments produce power in the form of financial security within the college and in the form of market power as institutions with large endowments appear more prestigious and garner increased publicity. The problem is that only wealthy institutions have the wealthy donor base and the resources to invest in a manner that yields high returns, causing endowment growth to reflect much of the existing wealth stratification in the U.S. more broadly. Those who understand and operate endowments are typically a small body of administrators and trustees who remain intentionally closed-off from the body of the university. Endowment managers for wealthy schools like Yale and Harvard have become celebrities within the world of higher education as endowments become indicators of university prestige in an increasingly competitive higher education marketplace, giving universities little incentive to downsize.

Penrose, Maxey, and Skotheim aimed to mirror the strategies of these elite, name-brand schools with large endowments in their steering of Whitman College. It seems as though their ideals have been steadily achieved as Whitman's endowment has steadily grown to over $500 million with a ratio of about $345,000 per student. Although Whitman's endowment stood at around $30 million in 1980, it followed the trend of dramatic endowment growth in the 1980s and 1990s. Between 1980 and 1990, six out of ten years experienced double digit growth of the endowment ranging anywhere from 11-32%. From 1990 to 2000, the endowment tripled in size from $100 million to $313 million (Bogley 2018). This consistent growth follows the trend set by wealthier institutions like those that Penrose coveted in his quest to make Whitman an institution of national prestige. Because the size of the college's endowment has historically been coupled with the reputation of the broader institution, this growth was integral to the financialization of Whitman College and the logic of elite reproduction that underpins it.

As I have discussed previously, austere spending rules are essential to maintaining this consistent growth. Whitman chooses to spend 5% of the endowment each year, and this number is calculated on a 12 quarter trailing average. This means that Harvey and his staff calculate the average of endowment returns for the past 12 quarters (3 years) to decide the spending rule. In the 2017 fiscal year, 5% of the endowment totaled $24.3 million. 35% of that money was allocated for financial aid, 17% for instruction (endowed professorships, faculty salaries), 8% for academic support (library books and journals), 2% for the physical plant, and 4% for "other uses" (Harvey 2018). 34% of the endowment is unrestricted.[5] This figure represents the returns on invested funds that do not come with any stipulations on how the money is supposed to be spent. Harvey (2018) claims that a large portion of these funds goes towards financial aid.

Harvey (2018) defines university endowments as "gifts to the college that are meant to support programs and services in perpetuity by spending the income off the gifts to help those programs and services." Harvey (2018) and other financial officers

[5] See appendix A.

of the college stress the phrase "in perpetuity" as key to understanding endowments. Endowments create a legacy by maintaining the present Whitman experience and tradition for future generations of students. Investments are made for the purpose of long term planning and the sustained financial security of the college.

Janice Abraham (2018), current member of the Board of Trustees Investment Committee and predecessor to Peter Harvey, also stresses the long range planning that occurs in endowment management. Using the endowment to fund the college in perpetuity requires that funds be invested in a diverse range of asset classes that provide steady returns over a long period of time. Harvey (2018) and the trustees use a model called Efficient Frontiers to model a multitude of different asset allocation strategies and their corresponding returns to decide on the strategy that will yield the highest returns for the lowest risk. Abraham (2018) also notes that the time horizon of "in perpetuity" shields endowments from the volatility of the stock market. When I spoke to Abraham (2018) in February, the Dow Jones Industrial Average had just taken a dramatic 1000-point crash fueled by speculative investment bubbles. Abraham (2018), however, remained relatively unconcerned because she and other investment professionals on the committee take the long view of investment markets, looking to history to know that ups and downs are temporary and characteristic of market operations. Abraham (2018) suggests that Whitman is not looking to cash out on its endowment investments right away, but rather aims to let them sit in various funds to continue accumulating over many years when the temporary downturns to which they are subject eventually correct themselves. In effect, what goes down must come up.

These fluctuations certainly affect Whitman's relatively risky investment portfolio. The current Whitman asset allocation strategy as of 2017 had 55.7% in domestic and international equities, 16.9% in private equities, 8.2% in absolute return, 6.8% in real assets, 6.2% in private credit, and 5.7% in fixed income/cash assets (Harvey 2018).[6] Of note are the equities, private credit, and fixed income classes. Domestic and international equities are shares of companies intended to provide steady accumulation for investors, demonstrating an institutional priority of a steady cash flow. Private equities are shares of companies not listed on regulated public exchanges, and although these investments are generally recognized as high-risk because the companies are smaller, they provide some of the highest returns of any asset class. Private credit is also a high-risk asset class and includes complex financial instruments that trade private debt. Fixed income/cash assets include investments like bonds, and they were the asset class of choice when Penrose and Maxey were president because of their low risk and steady return (Edwards 2001).[7] The fact that this asset class comprises the smallest portion of the current portfolio is also an indicator of an institutional desire for more rapid accumulation, but this was not possible simply with prudent investing. The appetite for accumulation that persists today requires a well-endowed base of donors who give to the perpetuation of the Whitman tradition.

Abraham (2018) argues that endowments "take our wealth, our gifts, our generosity and gives it to the college." The "our" to which Abraham (2018) refers is the network of well-funded alumni and donors who contribute to the endowment to secure the future of the college. Endowment growth is not possible without a well-

[6] See appendix B.
[7] I make these claims with the help of my father, whom I consider an expert on asset allocation and risk : return ratios of various asset classes. You will find him cited in the bibliography under Rierson (2018).

funded donor base from which the college can solicit donations. Abraham (2018) credits significant increases in gifts to the college for the recent swelling of Whitman's endowment. Indeed, gifts to the endowment have increased markedly just in the last 20 years, hovering around $6-$8 million from 1995-1998 and growing to $12 million in 1999 and $14 million in 2000. Whitman has sustained giving above $10 million for the past 20 years with the exception of 2007, peaking at $18 million in 2012 and 2015 (Bogley 2018). As giving increased, so did the size of the endowment.

While there are some donors who give to the college who are not alumni, most are former students. Convincing former Whitman students to donate is a primary responsibility for John Bogley, VP of Development at the college. During my interview with Bogley, he mentioned at multiple junctures that I, as a graduating senior, should consider donating to the college to ensure my Whitman experience is the same Whitman experience that students can enjoy for generations to come.

Proponents of university endowments cite intergenerational equity as their central justification. However, the term equity is misleading here. In liberal enclaves like Whitman, the word carries with it connotations of accessibility and empowerment of historically disadvantaged groups. This is not the case with the Whitman endowment. The equity referenced here is equity between past, present, and future generations of the elite segments of society that Stephen Penrose longed to fill the halls of Whitman. This kind of equity ensures that individuals wealthy enough to attend Whitman are given the same quality of education as their wealthy predecessors.[8] Yale's endowment managers refer to this same concept as "intergenerational neutrality" (Yale

[8] Although financial aid seeks to expand access beyond this class, these efforts have not done much for the overall economic diversity of the college, with 66% of Whitman students coming from the top 20% of family incomes and 2% coming from the bottom 20% in 2013 (New York Times 2017).

2016). However, as Eaton (2017) argues, university endowments have recently strayed from this rhetorically effective justification in the concrete practice of endowment management, choosing to invest in asset classes that guarantee high returns and financial largesse rather than anything remotely resembling equity.

Bogley (2014) affirmed the weight that endowments hold in securing the financial viability of the college. As Whitman's endowment surpassed the half-a-billion mark, Bogley wrote that the "growth of our endowment is the most reliable way to permanently strengthen our financial base and build a brighter future for the College" (Bogley 2014). He also notes that despite the impressive size of the endowment, the endowment to student ratio remained "middle of the pack among the colleges with which we compare ourselves and compete for students and faculty" (Bogley 2014). These sentiments are certainly signs of the times.

Endowments and Elite Reproduction: An Elegy

Endowments contribute to elite reproduction in several ways. In this section, I will outline the ways that Whitman perpetuates its tradition of elitism and financial exclusivity first through overall endowment spending before moving on to discuss a series of tax exemptions that contribute to the college's practice of accumulation.

Spending Rules

First, through the spending of endowment returns, Whitman finances the current operations of the college by spending 5% of the returns on the endowment on annual operating costs. These operating costs maintain the quality of the Whitman experience for students who currently attend. As Penrose notes, this experience is necessarily an elite one reserved for the wealthy minority of society able to pay tens of thousands of dollars each year in tuition. While the endowment does fund the college's financial aid budget, the fact remains that the majority of Whitman students come from the highest brackets of family income in the U.S. (New York Times 2017).

In addition, it is difficult to make the argument that a top priority of the endowment is financial aid when fractions of fractions of the total endowment value are actually spent on it. The Whitman endowment broadly finances the accepted notion of an elite education allowed only to those who can pay for it. At a more granular level, the notion of spending only 5% of the endowment every year and leaving the rest invested privileges accumulation over distribution. Spending less than one earns is a basic tenet of saving money, but saving 95% begins to resemble hoarding. In fact, many scholars critical of endowments levy this exact criticism towards institutions that keep the vast majority of their endowments invested and constantly accumulating and then use the accumulated number as a marker of prestige.

Whither the Non-Profit?

The second way in which Whitman finances elite reproduction is through a series of tax breaks that Whitman receives through operating its endowment. Returns on university endowments are tax-exempt because universities receive tax-exempt status from the IRS as a result of operating as a non-profit institution. This means that Whitman can invest funds and accumulate profits on its endowment without paying an income tax, operating like a corporation in its financial operations without the redistribution in the form of taxes to which corporations are subject. According to Harvey, this legal status exists because "society has said they value education so much they give us tax exempt status " (Harvey 2018). This relates to my earlier discussion of the paradoxically private nature of the public good that liberal arts institutions offer, because a non-profit status allows Whitman to lobby for an amorphous "public good" while privatizing this good in practice. This allows Whitman to hoard more money, most of which goes towards accumulating for the sake of accumulating.

This tax-exempt status does not just affect Whitman as an institution, it also benefits donors who can write off donations to Whitman as tax deductions. This also stems from Whitman's status as a non-profit institution, because gifts to non-profit endowments count as charitable giving. This tax deduction incentivizes wealthy donors to give to the college and acts as a selling point for Whitman when attempting to court larger donations. While gifts to the college come in myriad forms and sizes, not all gifts go to the endowment, and endowment gifts are relatively large. The minimum gift to create an endowment is $50,000, revealing the degree to which endowment giving is limited to an elite segment of donors (Bogley 2018).

In addition to a limited circle of donors, the circle of people managing the endowment is also relatively closed off. Newfield (2011) writes that the growth of institutional reliance on endowments ushered in an influx of administrative staff for the purpose of sustaining endowments and bolstering institutional marketing, and Whitman is no exception to this trend. Abraham, who chairs the Investment Committee of the Board of Trustees, is the CEO of a risk management firm and states that the majority of the members of the Investment Committee come from similar backgrounds with extensive experience in finance. Access to the decision-making process of where the endowment is invested and how returns are spent is limited to these investment professionals because the mechanics of these decisions are highly technical and best left to experts (Abraham 2018). Even the phrases “asset allocation” or “private equities” are enough to make most eyes glaze over. Many of my peers at Whitman can barely describe what the Whitman endowment is, let alone how it works. It seems strange, then, that all of the individuals I interviewed placed emphasis on how returns on the endowment are used for the benefit of current and future students, faculty, and staff. While it is true that a small portion of endowment returns are spent on current operating costs for the benefit of students, it is also true that the vast majority of endowment funds are kept under the purview of a small group of professionals who allocate those funds with minimal input from the purported beneficiaries of those funds. The Whitman endowment is already a mode of financing elite education for a select few, but even within that elite few there exists another tier of exclusivity in the governing bodies tasked with allocating these finances.[9]

This tier of endowment experts utilizes a language of financial operations that remains dizzyingly opaque to the majority of those who are supposed to benefit from it. Newfield (2011) writes that finance language appeared on campuses without any debate or interpretive framework with which to make sense of it. Many stakeholders in the university were left without tools to engage in a conversation about the direction that institutions were taking with the onset of corporate practices such as strategic planning and asset allocation. Not only is the technical language of investing inaccessible to those without adequate education and resources, the physical spaces where these decisions are made are also closed off to students, faculty, and non-administrative staff. The Board of Trustees, in consultation with Peter Harvey and his staff, make final decisions on where endowment funds are invested and how returns are allocated in closed-door meetings. Meeting minutes are placed on a 30-year hold, preventing students, faculty, and staff from accessing information on the current operations of the endowment.

Indirect Tax Arbitrage

An additional way in which Whitman finances a tradition of elite reproduction is through a tax maneuver that Eaton (2017) terms "indirect tax arbitrage." Indirect tax arbitrage occurs when a university issues debt in the form of bonds to finance capital projects. The bonds issued carry interest, which means that in addition to the payments

[9] While I am grateful for the time that key endowment managers spent in interviews with me, and while I recognize it may not be their intention to nefariously plot the withholding of financial information from other stakeholders, it is clear that the concepts and language needed to understand how the Whitman endowment works are inaccessible to most of us who are supposed to reap its benefits.

made to fulfill the original debt, Whitman pays a fee the investor that holds the debt. Because Whitman is a non-profit, investors do not pay taxes on these interest payments, creating an incentive for investors to engage in these debt-financed projects. Eaton (2017) argues that this strategy has become increasingly popular at wealthy institutions with large endowments because issuing this debt means that institutions do not have to pull from their endowments to fund the construction of facilities that make them more competitive. In addition, when courting donations, wealthy schools can direct more of their fundraising efforts towards endowment growth rather than covering the immediate costs of current projects. This allows institutions to accrue donations that accumulate and grow rather than donations that are spent immediately. This practice is called indirect arbitrage because bond borrowing indirectly funds endowment investments. Direct tax arbitrage, borrowing bonds to directly fund investments, is illegal because it would allow universities to borrow at unlimited levels and subsequently provide private investors with untaxed income on that unlimited borrowing (Eaton 2017).

At Whitman, a concrete example of this practice is in the funding of the construction of the new residence hall and renovations to Jewett, Lyman, Reid, and Prentiss. According to Harvey (2018), the total cost for the construction and renovation is around $45 million. $17 million of which is financed through debt. Whitman issues its debt through the Washington Higher Education Facilities Authority, an entity chaired by Washington governor Jay Inslee to use tax exempt bonds to "enable Washington's nonprofit, independent colleges and universities to build, improve, and equip higher education facilities in a manner that will minimize capital costs"

(WHEFA 2018). Debt issued through WHEFA is guaranteed with Whitman's assets and revenues, meaning if Whitman were to default on its debts, they would forfeit specified revenue streams and assets to fulfill it. Harvey (2018) states that making the debt tax-exempt for investors who own the debt also lowers the interest rate that Whitman has to pay.

The benefits of Whitman engaging in indirect tax arbitrage are two-fold. First, the tax-exempt interest on the debt that Whitman issues indirectly bolsters endowment returns and fundraising efforts. Second, by completing such capital projects as building an entirely new dormitory and renovating existing ones, Whitman is better able to market its education as an elite, luxury product. This follows a trend termed "the amenities arms race" by many scholars of higher education, in which elite institutions compete with one another by adding amenities like climbing walls and state-of-the-art gyms to attract more students (Newlon 2014). Completing a capital project like a new dormitory, while continuing to grow its endowment, makes Whitman more competitive with other liberal arts schools in attracting the elite students who can pay for the Whitman experience.

The individuals I interviewed and other administrative officers of the college consistently cite financial aid as the key benefit of Whitman's endowment. Abraham (2018) claims that scholarships are one of the top financial priorities of the Board of Trustees, Harvey (2018) notes that the largest percentage of endowment returns goes towards financial aid, and Bogley (2018) affirms that scholarships are "an evergreen issue. There will never be enough money to provide the amount of financial aid we want to provide." These sentiments, combined with the focus on intergenerational equity as a primary justification for endowments, create an aspirational narrative of expanding access as the primary goal of Whitman's endowment. This narrative is disingenuous. While it is true that financial aid comprises the largest percentage of endowment spending (around 35%), financial aid is not the chief purpose of the endowment. In reality, financial aid expenditures make up 35% of 5% of the endowment, because Whitman spends only 5% of its endowment each year on current operating costs. To say that financial aid is a primary goal of the endowment papers over the fact that financial aid comprises a fraction of a fraction of the total endowment value. The remainder of the 5% reserved for spending goes towards maintaining the exclusivity characteristic of a Whitman experience, and the remaining 95% of the endowment remains invested in various assets, continuously accumulating wealth and institutional repute.

Conclusion

The purposes and uses of the Whitman endowment are manifold. Throughout the course of this paper, I have attempted to outline the ways in which the Whitman endowment actively finances the reproduction of an elite class by maintaining the current exclusivity of the Whitman experience that produces a robust wealthy donor base to continue its growth. In addition to financing generations of elite graduates, the endowment also serves as an institutional branding mechanism, allowing Whitman to participate as a competitor in a financialized higher education market where, when it comes to endowments, bigger is always better. These contemporary uses of the Whitman endowment arose out of an institutionally specific historical desire for the exclusivity and exceptionalism of elite New England colleges. However, they also arose out of the contemporaneous histories of late capitalist development and the pervasion of financial logic into the far corners of American society. To conclude this essay, I would like to take some time to address potential counterarguments to the claims I have made.

I could imagine any one of the individuals I interviewed or their colleagues pushing back on several of my argumentative thrusts. The first is the idea that Whitman as an institution perpetuates traditions of elite exclusivity and wealth stratification that are baked into the history of the college and the U.S. as a whole. I anticipate that those who disagree with this primary tenet of my analysis would argue something similar to Harvey when he claims that society values education enough to give Whitman various tax breaks through its nonprofit status. Whitman, in this line of thinking, contributes to society in the form of uniquely skilled, productive, adaptable graduates who go on to address the world's most pressing issues and advance society as a whole. In order to produce these graduates, Whitman must provide a resource-intensive education to students who not only qualify for the rigor of such an education but also possess the funds to attain that education. Scholars of higher education who support this argument often characterize higher education's contributions to society as contributions to an amorphous notion of a "public good," the idea being that the public benefits from graduates possessing the skills only a private liberal arts institution can offer. Losing liberal arts institutions and the skilled innovators they produce would be a detriment to society.

But wealth stratification is also detrimental to society, and the system of a elite education that is premised on exclusivity and requires wealthy alumni for donations to sustain itself certainly contributes to that system. It is true that Whitman graduates often go on to create measurable impact in their respective communities. However, at the same time, it is inescapably true that those graduates come from a tradition of financial exclusivity that also impacts the broader global community. The financial barriers to this system are directly evidenced when Harvey (2018) argues that without the Whitman endowment, an already expensive education would cost about 32% more than the current tuition of $60,000 per year.

Another counterargument I could foresee is that while the prestige and market power that endowments confer are certainly added benefits to Whitman, ultimately the endowment exists for students. Current students benefit from the $24.3 million spent this fiscal year on current operating expenses to maintain the quality of their experience, and future students benefit from the promise that the remaining hundreds of dollars hold: the continual 5% of expenditures that will be spent on maintaining this quality for generations to come. Because of the logic of growth endogenous to endowment operations, this quality will not just stay constant, but rather continue to grow and improve. This line of argumentation underpins the common practice in the grammar of endowments of referring to an endowment/student ratio. This ratio is determined by dividing the overall endowment value by the number of students attending an institution. According to Bogley (2018), the current Whitman endowment/student ratio is around $350,000 per student. Many university rankings lists use this ratio in their profiles of institutions as a signifier of educational quality.[10] When I asked Bogley (2018) what exactly this ratio connotes, he stated that it represents the amount of money an institution can spend on each student. "Can" is the key word in that definition, because in reality, $350,000 is not being spent on every student every year. That ratio takes into account the total endowment value and applies it to every current student, but in practice only 5% of that total value is actually spent on students. A more temporally accurate ratio would be to divide the annual endowment spending by the number of students in a given year, which would hover around $16,000/student in the 2017 fiscal year.

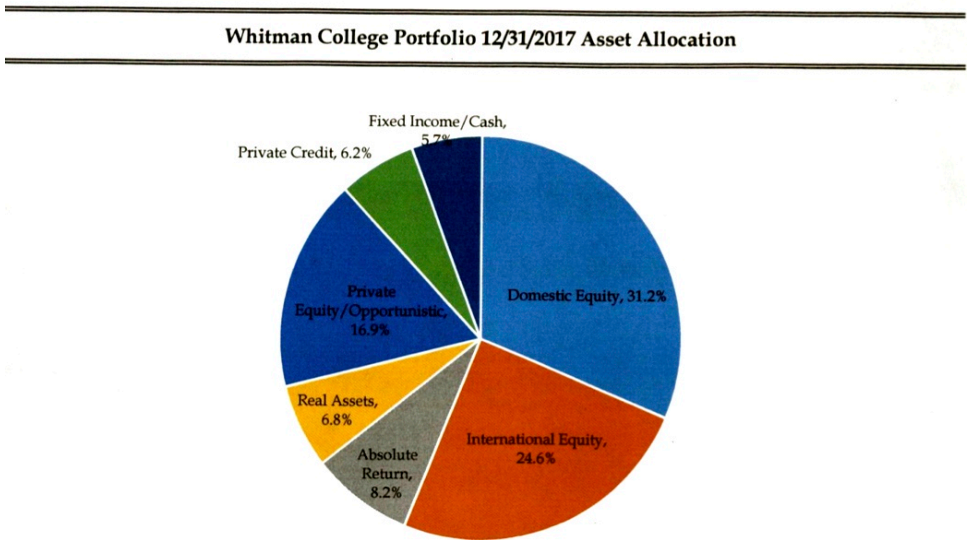
If 95% of the endowment per student ratio is not actually spent on current students, it seems disingenuous to claim that the endowment/student ratio is an accurate representation of actual endowment spending and that endowment funds exist primarily for students. The fact that the network of decision-makers for the endowment is limited to Trustees and financial officers who must be fluent in the technical language of investing reveals the degree to which the endowment also serves interests

[10] See CNBC (2011), New York Times (2014)

in institutional branding and technocratic financial largesse. This limited circle also means that other institutional stakeholders including students, faculty, and non-administrative staff do not have a say in setting the priorities of the college as articulated through endowment management.

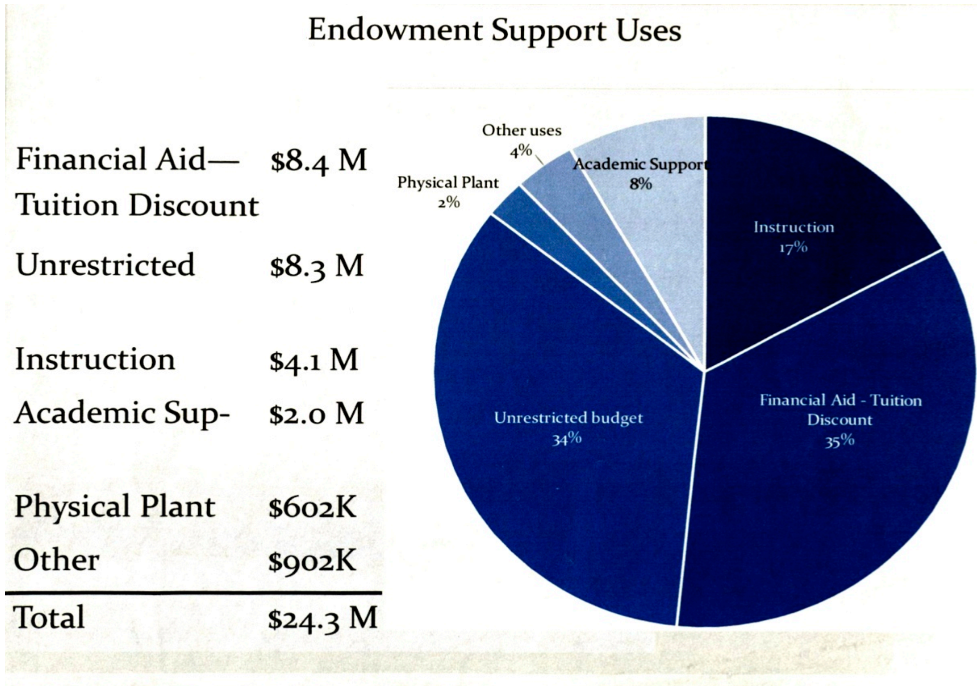
The arguments and criticisms I offer are not meant to dismiss the practice of maintaining the Whitman endowment outright. Rather, I aim to show how the history of the Whitman endowment and its myriad purposes and justifications are deeply embedded in elitism that is characteristic of histories of both liberal arts institutions and contemporary late capitalism in the U.S. Understanding and grappling with these histories is key to understanding how and why the university endowment plays such an integral role in the tradition of Whitman and higher education as a whole.

Appendix A



(Harvey 2018)

Appendix B



(Harvey 2018)

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