

A Political Culture of Giving and the Philanthropic Support of Public Higher Education in International Perspective

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Abstract Throughout the world, governments are increasingly accepting the premise that tax revenues alone are insufficient to sustain public institutions of higher education in the face of increasing costs and, in most countries, increasing participation and enrollments. Of the alternative revenue sources—parents, students, faculty and staff entrepreneurship, and philanthropy--the potential of philanthropy to close” higher education’s increasing cost-revenue gap has great appeal to politicians, parents, and students alike, partly because it is *not a tuition fee* and *not a tax increase*. Conventional fund-raising wisdom claims that successful higher educational philanthropy requires (among other things) institutional leadership, favorable tax laws and a culture of philanthropy. However, successful fund raising may also require a political, or public policy, culture that supports the appropriateness of both parents and students sharing in the costs of higher education. The continued rejection by many countries (including most of continental Europe and much of Africa) of a reasonable--that is, more than a merely nominal--tuition fee reinforces the belief that the government, through taxes, can and rightfully should support all of the costs of university instruction. This may make it difficult for either the government or the university to claim that universities deserve general philanthropic support.

Higher education throughout the world faces the dilemma of reconciling its clearly increasing importance—to individuals and nations alike—with its steeply rising costs that almost everywhere seem to be outpacing the ability of government to meet with tax revenue alone. In most of the countries that are overwhelmingly dependent on governmental (that is, *taxpayer*) revenue, the result is increasing institutional austerity manifested by overcrowding, deterioration of physical plants, demoralization and outright loss of faculty, and limitations on capacity--and thus on higher educational opportunities. To most observers, a major part of the solution to such austerity must lie in some form or forms of revenue diversification, or the supplementation of governmental revenue. Worldwide, the principal emerging forms of higher educational revenue diversifications have been four: (1) faculty and institutional entrepreneurship, (2) the encouragement of private tuition dependent colleges and universities, (3) shifting more of the cost burden in public higher education institutions onto parents and students, and (4) philanthropy.

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However, as critically important as each of these forms of revenue diversification may be, there are practical and political limitations on each—at least as complete solutions to the financial austerity plaguing most of the world’s public universities and other higher educational institutions. For example, faculty and institutional entrepreneurship is usually lucrative mainly for certain very high demand programs (e.g. management, computer science, law, and language instruction) in certain institutions or certain faculties and may do relatively little for the core institutional budgets of a nation’s principal public universities. New private institutions are frequently of uneven quality, often inaccessible to large numbers of students, and are largely limited to the most popular and the lowest cost programs. Tuition fees, while potentially of great financial significance and a revenue source toward which most higher educational institutions in the world are moving, however painfully, remain politically and ideologically contested, especially in Europe and in countries with politically powerful student unions or socialist governments (or centrist governments operating in countries with constitutions or higher educational framework laws forged in times of socialist governments)¹ Therefore, while each of the above forms of revenue diversification remains important in most countries, philanthropy--against which students will not demonstrate nor politicians rail—seems especially attractive a solution, especially to political leaders. In fact, in the face of the diverging trajectories of higher educational costs and available governmental revenues, philanthropy becomes an enormously attractive political solution precisely because it is *not taxes* and it is *not tuition fees*.²

The international attractiveness of philanthropy as an important part of the solution to the financial austerity plaguing higher education nearly everywhere is particularly beguiling when one looks at the success of philanthropic support of higher education in the United States, especially considering the philanthropic success of *public* universities and colleges in America. Only consider:

- US higher education received some \$23.9 billion [€18.9 billion] in fiscal 2003, including some \$6.6 billion [€4.5 billion] from alumni.³
- Although it is the incredibility wealthy private colleges and universities such as Harvard, Yale, Stanford, Williams, and Wellesley that attract the most attention, nine of the top twenty college and university philanthropic recipients in 2002-3 were actually public universities or public university systems.⁴
- There are in the autumn of 2004 some 24 multi-year capital campaigns with goals in excess of one billion dollars [€16.3 million]. What is even more significant to the potential spread of philanthropic success to other countries, 13 of these 23 ambitious campaigns are *public* universities or systems.⁵
- Among the more than 3,000 universities and colleges in the United States, thirty-nine have endowments in excess of 1 billion dollars [€16.3], and Harvard’s endowment at the end of the summer of 2004 slightly exceeded \$24 billion [€1 billion]. But again, what is more significant to the potential spread of philanthropy through the rest of the world is the fact

that eleven of these multi-billion dollar endowments are held by public universities or university systems.⁶

While such a record of success makes philanthropy seem like a wonderful money machine that the rest of the world must forthwith pursue, there are also limitations on these endowments and on the annual philanthropic contributions, even in the United States. For example, the great endowments and the high-yield annual giving are mainly concentrated in elite institutions, both public and private. These institutions are marked (among other ways) by very large numbers of very wealthy alumni, whom the institutions have been assiduously courting since their graduations. But for most institutions of higher education—especially US public colleges and “second tier” universities, whose alumni are for the most part not greatly wealthy and have not been so assiduously courted—philanthropy, while still nominally important, is a struggle. Furthermore, even in those public and private institutions fortunate to have great success in philanthropy, both the annual endowment returns and the annual philanthropic giving tend usually to be small *relative to the total budgets*. (These philanthropic revenues may, of course, be quite significant on the *margins* of growth; but their percentages of total operating budgets, even for successful philanthropic institutions, remain quite small.) Both endowments and the annual giving are frequently restricted—and frequently not to operations that the institution would be vigorously pursuing in the absence of these restricted contributions. Philanthropy can in some instances divert money from other pressing educational needs or even distort a university’s mission, when the scholarly and teaching programs become altered in order to make the product more attractive to potential donors. Finally, philanthropy is also costly. It takes money to raise money, particularly at the start. In short, philanthropy is not without some “downsides,” nor is it likely to become a truly *significant* revenue source for most universities in most countries. At the same time, neither can its potential to make a difference be passed by.

In the international context, while philanthropy, at least in theory, seems to be a most attractive solution to public university austerity--particularly considering the aforementioned fund raising success of the public higher educational sector in the United States--successful higher educational philanthropy *US Style* requires a number of things not found in abundance outside of the United States. These include, for example: large numbers of extremely wealthy alumni or “friends;” favorable tax policies; institutional support (both in resources and in the time and attention of the president, rector, or vice chancellor); and the all-important culture of giving. Of great importance to universities in most other countries is the *political culture* supportive of giving *to* public higher education.

In the end, philanthropy must play an increasing role in the financing of higher education in virtually all countries. However, the role of philanthropy in securing the overall financial health of higher education will remain limited for most institutions in most countries. This article is an elaboration of this message from the perspective not of a fund-raising professional, but of a scholar of international comparative higher education finance and an observer of the political and ideological climates that are driving—as well as resisting--revenue diversification throughout the world.

This perspective begins with four observations. The first is simply a noting of the increasing importance of higher education to individuals and nations alike. Higher

education matters to our economies and to the kinds of democratic civil societies toward which we all strive. Furthermore, higher education is important to individuals, both for their economic productivity as measured in incomes but also for their more general well being, including enhanced status, increased life options, and simply the satisfaction of a richer life through broadened knowledge and understanding. This means that the participation in, and extent of, higher and other forms of postsecondary education will increase in almost all countries.

A second observation is that the costs of higher education have been rising and will continue to rise everywhere in the world, driven in no small measure by the increasing participation noted above, but driven as well by increasing per-student costs and thus experienced even in countries such as Japan, Russia, and much of Western Europe that face likely demographic declines in their higher educational enrollments. The critical point of this observation is that these costs will continue to rise at rates that are substantially beyond the capacity of governments and taxpayers to meet. There are some who will question this observation, claiming that the austerity griping universities throughout most of the world is simply a matter of political choice: decisions to invest taxpayer resources in ways other than in the support of higher education. For reasons I have written about elsewhere, I strongly disagree with this contention.⁷ Higher education in most countries throughout the last fifty years has been, if anything, a favored recipient of taxpayer dollars. But taxes are becoming increasingly difficult to collect, and the public alternative of borrowing or printing money is also becoming more difficult.⁸ In the end, the combination of this increasing difficulty of substantially increasing revenue from governmental coffers plus the formidable queue of important competitors for whatever taxpayer dollars may be available make it very unlikely that government revenue itself can keep up with the sharply rising trajectory of higher education costs in most countries.⁹

The third observation notes the effects of this diminishing revenue and resulting austerity on the universities and on their abilities to expand, to provide quality teaching, and to produce the kinds of research and scholarship that an increasingly technological and problem-ridden world requires. In short, higher educational austerity and the cost-revenue squeeze that is to blame is a serious worldwide problem that will only worsen if comprehensive solutions are not found.

The fourth observation is simply a conclusion that follows from the above observations and constitutes the case for revenue diversification: that is, the need for non-governmental / non-taxpayer forms of revenue. The virtual imperative for revenue diversification has been extensively documented by the *International Comparative Higher Education Finance and Accessibility Project*, which I have been directing at the State University of New York at Buffalo since 1999.¹⁰ The heart of the case for revenue diversification, as mentioned at the beginning of this article, emerges from the divergence between available governmental revenue, on the one hand, and rising costs (both per-student, and total national, or societal) on the other. Thus, as high a priority as higher education may be, there will remain in almost every country an urgent need for non-governmental revenue. And as mentioned in the opening paragraph, there are just three primary alternative sources: (1) institutional and faculty entrepreneurship, (2) tuition fees, and (3) philanthropy. The focus of the University at Buffalo Project has been mainly on

cost-sharing, which refers to the shift of higher educational cost burden to parents and students. But philanthropy-- to the extent possible, and however much it may be limited for many countries and many institutions--can be an important supplement to both tuition fee revenue and taxpayer revenue.

Successful higher education philanthropy, *US style*, requires at least four essential factors. The first, of course, is wealth. Although unfortunate for the larger social good, the more unevenly this wealth is distributed the more lucrative is the philanthropy, at least the very large gifts that tend to make up the major part of the success of most higher educational philanthropic endeavors. (This dependence of most capital campaigns on a small number of very significant donors appears to be even more true in Europe.¹¹)

Second, and a major feature of the US successful philanthropy, is favorable tax treatment of charitable giving. The income tax deductibility of philanthropic contributions, the full deductibility of appreciated capital gains, and other features of the US tax code as it affects philanthropy provide, in effect, a substantial governmental contribution--almost a *match*--to philanthropic giving. The rationale, at least in the United States, is that most philanthropy goes to socially worthwhile causes, some of which take the place of what would otherwise have to be supported by the government, or the general taxpayer, such that the philanthropic *match* may actually be a more cost-effective way (i.e., more cost-effective than taxation) of channeling private wealth into such worthwhile ends, including religion, education, culture, and social welfare agencies.

The third supportive feature of successful philanthropy is institutional support at the university level. This must include a continuous cultivation of alumni and friends, solid record keeping and research, the involvement of leadership, including the heads of institutions, the deans of schools or faculties, and especially important in US higher education philanthropy, reliance on volunteers. Successful fundraising always takes a supportive staff and a talented director. But equally important is the support of *volunteers*: prominent members of a governing board, for example, or prominent alumni or non-alumni *friends* who have given substantially and whose credibility is thus magnified when asking their classmates, friends, or colleagues for similar philanthropic support.

Finally, successful higher education philanthropy takes a culture of philanthropy. This means a culture:

- of *giving* and of *volunteering*;
- of giving to the *institution* for *general operating support*, rather than always only to restricted gifts;
- of *giving* to *higher education*—in addition to giving to religious or cultural organizations or to other worthy causes;
- of *giving* not *simply* to *private non-profit* higher educational organizations, but increasingly to *public* colleges and universities;
- of giving *generously* and of giving at least some of the time *jointly* and *anonymously*: that is, giving in such a way that one's gift is combined with the gifts of many others in meeting an overall annual or capital campaign

goal, rather than giving always in such a way as to be singled out—for example, as in the donation of a named building or monument.

These features describe the US philanthropic culture as it pertains especially to private higher education that is so very dependent on generous philanthropy. A philanthropic culture supportive of public higher education also requires certain political beliefs, or public policy assumptions, that are quite apart from, or beyond, *mere* philanthropic generosity or a civic high value placed upon higher education. A philanthropic culture supportive of public higher education requires the understanding that “government revenue” actually comes from the general taxpayer—who is essentially the same as the general consumer or the general citizen—and that leaving the financial support of higher education entirely to government not only places the entire burden on the average citizen, but still, under most circumstances, leaves higher education underfunded.

A political culture supportive of public higher educational philanthropy also takes a general understanding that governmental expenditures (including tax deductibility or other tax advantages to contributions) have *opportunity costs* and that governmental revenue for higher education, while eminently important and laudable, has an opportunity cost of foregoing governmental expenditures for e.g. elementary and secondary education, economic infrastructure, social welfare, public health or other equally worthy causes. This understanding, like the understanding that governmental revenue actually comes from taxpayers, may be second nature to the market-oriented, largely capitalist world. However, these understandings are only beginning to emerge in countries that have long been under Marxist or Communist economic traditions and assumptions.

In this way, a political culture supportive of public higher educational philanthropy, I would submit, is intimately tied to the acceptance of the imperative for revenue diversification, or governmental revenue supplementation, *including the appropriateness of some tuition fees*. Particularly in Europe, which is the last worldly bastion of free or nearly free higher education, the belief persists that higher education ought to be supported entirely or overwhelmingly by the general taxpayer. This belief, while eroding, continues in spite of the following three facts: (1) that the beneficiaries of this “free” higher education are disproportionately the sons and daughters of the middle and upper middle classes; (2) that students receive enormous personal benefits, including higher lifetime earnings, greater prestige, more options, and other benefits; and (3) that there is not, in most countries, enough tax revenue to meet the needs of higher education.

This recitation is not being made for the purpose of defending a policy of cost sharing (which case has been made elsewhere by myself and others and referenced above). Rather, the point is that a culture of general philanthropic support of public universities is unlikely to thrive in the face of the belief that this university is properly financed entirely by taxpayer revenues. Hostettler, for example, notes the strong German philanthropic tradition [to causes other than universities] but writes that “...German donors are not likely to give money to cover the regular operating costs of universities because normal operations are supported through tax funds.”¹²

This international comparative perspective on the philanthropic support of public higher education closes with the following seven summary points.

1. Philanthropic support of higher education in most countries of the world will be limited, uneven, and slow to develop.
2. At the same time, given the great and increasing divergence of higher educational costs from the likely trajectory of governmental revenues, some philanthropic support for higher education is increasingly necessary, feasible and capable of making a difference in most countries.
3. Universities and other institutions of higher education outside the United States need to improve their cultivation of alumni and friends—rather than to rely so heavily on the occasional philanthropic windfall of a few enormously wealthy donors or generous foundations.
4. Universities throughout the world need to be—and need also to be widely *perceived* to be—cost-effective and accountable if they are to present credible claims both for more tax revenue, for tuition fees from parents and students, and also for philanthropic contributions.
5. Governments need to pursue revenue supplementation at all levels, including moderate tuition fees, in addition to hoping for increasing philanthropic support to bring some taxpayer relief to some state owned universities and colleges.
6. Governments must push for increasing revenue supplementation without in fact using the revenue supplementation to *supplant* governmental revenue. In short, the revenue supplementation including tuition fees and philanthropy must be, and be widely perceived to be, *in addition to* the bedrock of public and governmental support.
7. Governments must expect that philanthropic support will be unevenly distributed among their public institutions of higher education and must therefore be willing to tolerate the consequent widening of financial fortunes among their diverse institutions. At the same time, Governments may have to maintain some reasonable parity among the institutions and faculties that are unerringly unequal with philanthropic potential.

With these constraints, caveats, and limitations, revenue supplementation will remain a vital necessity for higher education in the 21st century. A major and increasingly important part of the revenue supplementation worldwide should be philanthropic giving.

References

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² A notable example of the political attractiveness of philanthropy is the British Government's report, *Increasing Voluntary Giving to Higher Education*, which was

delivered almost at the same time (summer 2004) that the Labor Government, under great pressure from its own left, was in the process of abandoning Europe's first and thus far the only significant tuition fee (£1075, or \$2050 in 2004-5) to be paid up front and thus to be expected of parents (albeit means-tested). See Department of Education and Skills Website at <http://www.dfes.gov.uk/>. For comment on the UK posture on cost-sharing from a US Perspective, see Johnstone, D. Bruce, "Fear and Loathing of Tuition Fees: an American Perspective on Higher education Funding in the UK," *Perspectives*, [forthcoming 2005.]

³ June, Audrey Williams (2004) "Giving to Colleges in 2003 Remained at Previous Year's Level, Survey Finds," *Chronicle of Higher Education*, March 11, 2004.

⁴ Council for Aid to Education (2004) as reported in The Chronicle of Higher Education Almanac "Top fund-Raisers 2002-3" August 23, 2004 on line <<http://chronicle.com/>>.

⁵ Bartlett, Kellie (2004) "Updates on Billion Dollar Campaigns at 23 Universities," *The Chronicle of Higher Education*, October 6, 2004.

⁶ The Chronicle of Higher Education, Facts and Figures (2004) "717 College and University Endowments, 2002-03," *The Chronicle of Higher Education* on line August 2004 <<http://chronicle.com/>>

⁷ Johnstone, D. Bruce (2002) "Challenges of Financial Austerity: Imperatives and Limitations of Revenue Diversification in Higher Education," *The Welsh Journal of Education [Special International Issue]* Vol. 11, Number 1, pp. 18-36; Johnstone, D. Bruce (2003) "Cost-Sharing in Higher Education: Tuition, Financial Assistance, and Accessibility" *Czech Sociological Review*, Vol. 39, No. 3, pp. 351-374; Johnstone, D. Bruce (2004) "The Economics and Politics of Cost Sharing in Higher Education: Comparative Perspectives," *Economics of Education Review*. 20:4, pp.403-410.

⁸ Globalization, facilitates the *escape* of wealthy individuals and some corporations to lower tax jurisdiction; the dependence of all economies on international capital markets also limits the alternative of governmental deficits.

⁹ The only exception seems to be Norway, miraculously blessed with a small population, a productive economy, an efficient tax system--and vast amounts of North Sea Oil!

¹⁰ See the Project Website (as of October 2004) at <<http://www.gse.buffalo.edu/org/IntHigherEdFinance/>>

¹¹ Kelly, John (2004) "Global Expansion: Campaigns are Crossing Borders and Making Inroads in Europe" Council for Advancement and Support of Education, *Currents Magazine Website* March 2004 <<http://www.case.org/Currents>>.

¹² Hochstettler, Thomas John, "Aspiring to Steeples of Excellence at German Universities," *The Chronicle Review (Chronicle of Higher Education)*, July30, 2004.