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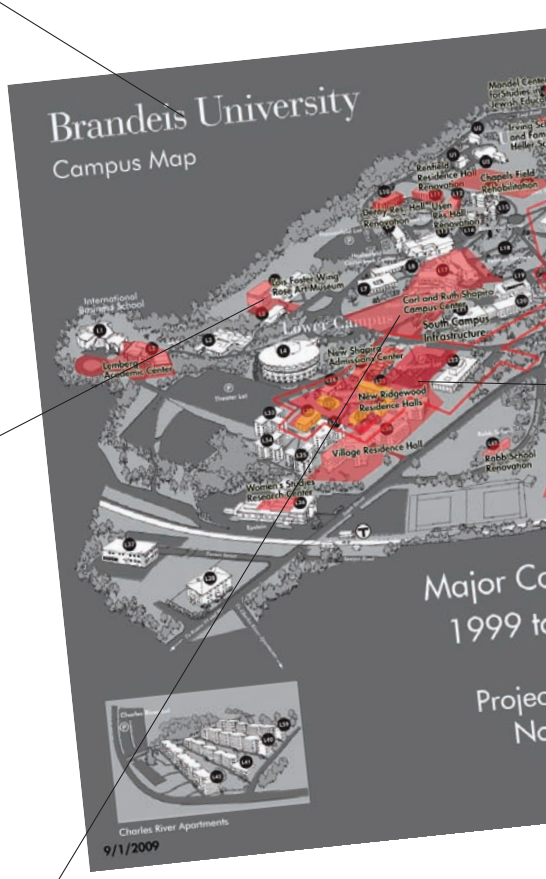
Brandeis University's hard lesson in th

In January, Brandeis University, in Waltham, Massachusetts, announced plans to close its on-campus Rose Art Museum and sell much of the $350 million permanent collection. Brandeis's financial situation was grim: its $85 million reserve fund could be spent by 2011; there were $80 million in projected operating deficits over the next five years; and the sixty-one-year-old institution was $250 million in debt. How could a school with an endowment that had in June 2008 been worth $712 million be forced to liquidate such a prized resource? Over the past decade, Brandeis, like many of its peer institutions, adopted the American corporate principles of fiscal shortsightedness and growth-for-growth's sake that provoked the current economic fiasco. This map of Brandeis's campus-expansion projects since 1999 demonstrates what happens when unbridled capitalism turns the marketplace of ideas into a higher-educational superstore.



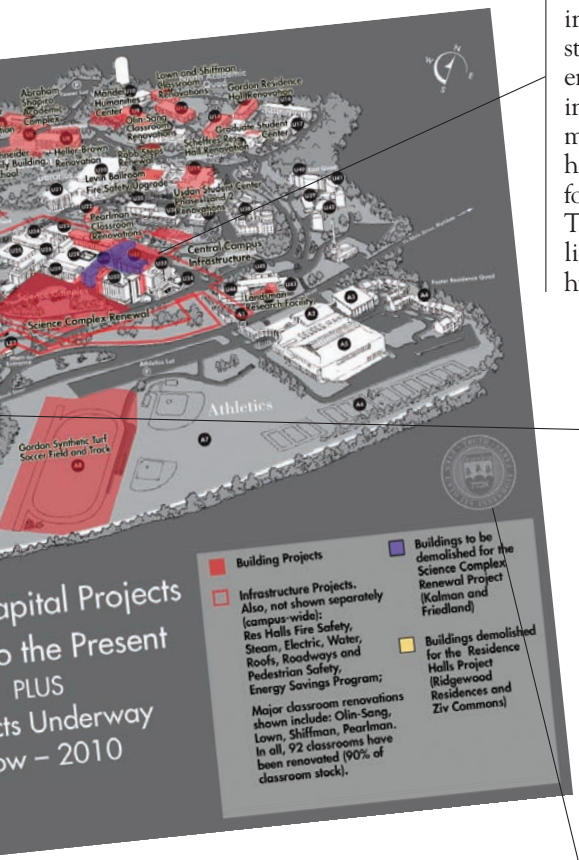
Full-time in-state tuition at UMass Amherst costs $11,000; Brandeis runs $39,000. What that $28,000 surcharge buys—the financial and social return on a degree from an elite private university—cannot be found in a classroom. Thus, for middle-tier institutions, protecting their perceived rank in an ivory-tower pecking order, one in which Brandeis lags the Ivy League but laps most public schools, is crucial. The Rose collection, which by 2009 had grown to 7,000 pieces, including works by Jasper Johns, Roy Lichtenstein, Cindy Sherman, and Richard Serra, helped Brandeis develop a reputable brand. Sticker-shocked consumers could be assured that here was a small university with a world-class art museum. Subtract that glittering object, however, and the true value of this sort of education comes into question. Neither a "bargain value" (public university) nor a "luxury good" (Ivy League), how might Brandeis now justify such a stiff markup?

The proximate cause of the crisis at Brandeis was a steep decline in gifts from alumni and other donors brought on by the recession. Brandeis's financial stability, like that of most private American universities, depends on these donations. They have come to be viewed as an effectively unlimited resource, one that provides an implicit guarantee of existence. As with "too big to fail" banks, the schools behave as if a benefactor will meet any shortfall. The Brandeis campus center is one of many buildings named in honor of Carl and Ruth Shapiro, whose family and foundation have given Brandeis $70 million since the university's founding in 1948. The Shapiros might have been expected to help overcome Brandeis's operating deficit, but their foundation reportedly lost $145 million to Bernard Madoff's Ponzi scheme; it will not be making any new gifts this year.

CADEMICS

e real economy, *by Christopher R. Beha*

A drop in alumni giving was not the fundamental problem at Brandeis, however. Following the lead of universities with multi-billion-dollar endowments, such as Harvard and Yale, Brandeis shifted funds from low-risk, low-yield investments into "alternative investments" like hedge funds and private equity. For a time this strategy yielded double-digit returns; but when the market "corrected," endowments built up over many decades lost a quarter of their value in just a few months. For Brandeis that loss amounted to roughly $200 million. Meanwhile, like so many American institutions (and households), Brandeis had been living beyond its means, paying on credit for a seemingly endless string of expansion and renovation projects. The construction of this new science complex, budgeted at $154 million, was largely financed with bond issuances that added over a hundred million dollars to Brandeis's debt.



Such capital projects have become an essential element in the marketing ritual of college admissions. These fancy add-ons are needed to justify the astonishing tuition hyperinflation of the past twenty-five years, during which colleges have raised prices by 440 percent: four times the rate of inflation, twice the increase in health-care costs, more even than the real estate run-up that caused the housing collapse. During that time, colleges benefited from a large pool of qualified applicants, due in part to the demographic "baby-boom echo," which crested this year. Brandeis needs bigger classes—more students mean more revenue—but it will have to fill them with fewer applicants. A higher acceptance rate will of course require a reduction in standards, further diluting the value of the university's brand. The ability to pay full tuition will also become a criterion for judging applicants; Brandeis's "need blind" admissions office has already increased acceptances of international, transfer, and wait-listed students, none of whom are included in the need-blind policy.

This spring, Brandeis suspended payments to all faculty retirement accounts and enacted a 6 percent staff cut. The school then argued that these austerity measures and the tentative recovery of the markets had averted the most dire outcomes of the financial crisis. There were even suggestions that the Rose collection could be saved, and a committee formed to reconsider its fate expressed the hope that the university had "stepped back from the precipice." Yet the problems exposed by the downturn remain: over half of Brandeis's endowment funds are still in alternative investments; capital construction projects continue apace; and the deficit spending shows no sign of abating. If Brandeis keeps using money it doesn't have to buy things it doesn't need, it may soon be the university itself that needs to be rescued. ■

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