University Revenue Diversification through Philanthropy:
International Perspectives

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Abstract: 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. The immediate result in many countries is increasing institutional austerity manifested by overcrowding, demoralization and outright loss of faculty, deterioration of physical plants, and in some cases artificial limitations on capacity (and thus on higher educational opportunities). To most observers, a major part of the solution must lie in revenue diversification via faculty and institutional entrepreneurship, shifting more cost burden onto parents and students, and philanthropy. However, while philanthropy in theory is a most attractive “solution”—particularly when one considers the fund-raising success of US higher education, including the US public higher educational sector—successful higher educational philanthropy requires wealth, favorable tax policies, institutional support, time, and the all-important culture of giving. This culture requires an acceptance not merely of the inability or unwillingness of governments to shoulder the entire cost burden (which inability or unwillingness can conceivably be overcome politically), but of the very appropriateness of a comprehensive (and desirably less politicized) policy of cost sharing that includes reasonable tuition fees as well as the cultivation of philanthropic obligations. In the end, philanthropy must play an increasing role in higher educational finance in virtually all countries. However, the role of philanthropy in securing the overall financial health of higher education will remain—for most institutions in most countries—only importantly complementary.

My presentation on university revenue diversification through philanthropy does not emerge from any particular expertise as a higher education fundraiser. As president of a US public college for nine years, which was just beginning serious efforts in fund-raising, and later as chancellor of the largest university system in the nation, I have done a bit of fundraising, and attempted to create the kind of administrative support that facilitates additional revenues through philanthropy. However, my contribution to this topic, for whatever this may be, emerges from my work not as the head of a university or a university system but as a scholar of international comparative higher education finance and management—and of the political and ideological climates that are driving—and resisting--revenue diversification throughout the world. It is from this larger and more theoretical perspective, rather than any particular technical expertise, that I wish to

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explore the potential of philanthropy to enhancing university revenue—and thus to enhance the university’s financial viability and its contribution to society.

I begin with four observations. The first is simply to note 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 to 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.

A second observation is that the costs of higher education have been rising, and will continue to rise, everywhere in the world 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 gripping universities throughout almost all 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 that I will not go into at this time, I strongly disagree with this contention. I believe that higher education in most countries, in fact, has throughout the last fifty years, been, if anything, a favored recipient of taxpayer dollars and that the difficulty of substantially increasing taxes in addition to the formidable the queue of important competitors for taxpayer dollars makes it very unlikely that government revenue itself can keep up with the trajectory of increasing higher education costs in most countries.

The third observation is simply to note the effects of this diminishing revenue 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.

The fourth observation is simply a conclusion that follows from the above observations and constitutes the case for cost sharing that I have been laying out in many publications for nearly 20 years. As high a priority as higher education should properly be in all countries, in almost every country there will remain an urgent need for non-governamental revenue. And there are just three primary alternative sources: institutional and faculty entrepreneurship, tuition fees, and to the extent possible (however limited) philanthropy. My own work is principally on the increasing worldwide reliance upon tuition fees. But I do believe that philanthropy can be an important supplement to both tuition fee revenue and taxpayer revenue.

I have written extensively on the need for cost sharing elsewhere, and will not spend further time on it in this presentation. But the heart of the case for revenue diversification emerges quite conclusively 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.

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In the face of this dilemma, philanthropy—gifts from university alumni, “friends,” corporations, or foundations—becomes an enormously attractive alternative. It is attractive mainly, of course, because it is not taxes and it is not tuition fees. However, philanthropy is also costly. It takes money to raise money, particularly at the start. Revenue supplementation from philanthropy is also difficult because it rests on supportive cultures and traditions that are absent in most countries and that are both time-consuming and technically difficult to foster. Philanthropy can in some instances cost money or distort a university’s mission, particularly when the scholarly and teaching programs become altered in order to make the product more attractive to potential donors. In short, philanthropy is not likely to become a significant revenue source for universities in most countries; yet neither can its potential to make a difference be passed by.

The attractiveness of philanthropy is particularly beguiling when one looks at the success of philanthropic support of higher education in the United States—and especially when one considers the philanthropic success of public universities and colleges in America. Only consider:

- US higher education receives some $23.9 billion [€18.9] in fiscal 2003, including some 6.6 billion from alumni.
- Although it is the incredibly wealthy universities such as Harvard, Yale, Stanford, and others (including many elite baccalaureate colleges) that attract the most attention (particularly Harvard, whose endowment by the end of the 2004 summer, had slightly exceeded 22 billion dollars) nine of the top twenty university recipients were actually public universities or public university systems.
- There are in 2004 21 multi-year capital campaigns with goals in excess of one billion dollars [€816.3 million]. What is even more significant to the potential spread of philanthropic success to other countries, 13 of these 21 audaciously campaigns are public universities or systems.
- Among the more than 3,000 universities and colleges in the United States, thirty-nine have endowments in excess of 1 billion dollars [€816.3]. Again, what is more significant to the potential spread of philanthropy through the rest of the world is that eleven of these endowments are held by public universities or university systems.

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 context of the record of success in the United States. For example, the great endowments and the high-yield annual giving are heavily concentrated in elite institutions, both public and private. For most institutions of higher education, philanthropy 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 to be very small relative to the total budgets. (These sources are, of course, significant on the margins of growth; but the percentages of total recurrent budgets, even for successful philanthropic institutions remain quite small.) Additionally, 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. Finally, successful philanthropy is costly to begin with and cannot be “ramped up,” or increased, quickly.

Successful higher education philanthropy takes four essential factors, or features. The first, of course, is wealth. And probably (and unfortunately for the larger social good), the more unevenly this wealth is distributed the easier is the philanthropy, at least the very large gifts.

Second, and a major feature of the US successful philanthropy, is favorable 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 provides, in effect, a substantial governmental contribution—almost a match—to philanthropic giving. The rationale, at least in the US, 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: a continuous programmatic cultivation of alumni and friends, solid record keeping and research, the involvement of leadership, and especially important in US higher education philanthropy, reliance on volunteers. Successful fundraising always takes a supportive staff and a talented director. But even more effective, and always necessary, is volunteer support—of a prominent member of a governing board, for example, or of a prominent alumnus or alumna who has given substantially and whose credibility is thus magnified when asking his or her 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 simply 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 to higher education. But they require certain beliefs or understandings, quite apart from, or beyond,
merely philanthropic generosity or a civic high value placed upon higher education. A philanthropic culture supportive of 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 places the entire burden on the average citizen.

Second, philanthropic culture supportive of higher education also takes a general understanding that governmental expenditures have opportunity costs, including tax relief, 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 are beliefs that are only beginning to emerge in countries long under Marxist or Communist economic domination.

Third, philanthropy is, I would submit, intimately tied to the acceptance of the appropriateness of cost sharing, including the appropriateness of some tuition fees. Particularly in Europe, which is the last worldly bastion of free higher education, the belief persists that higher education ought to be “free”—that is, supported by the general taxpayer, in spite of the disproportionate beneficiaries from the sons and daughters of the middle and upper middle classes, and in spite of the fact that students receive an enormous personal benefits, including higher lifetime earnings, greater prestige, more options, and other benefits. But it is difficult to imagine a culture of general philanthropic support of universities thriving in the face of the belief that this university is properly financed entirely by taxpayer revenues.

In summary, then, I will close with the following seven points.

1. Philanthropic support of higher education 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.
3. Universities and other institutions of higher education need to cultivate alumni and friends—rather than simply relying on the occasional philanthropic windfall of an enormously wealthy donor or a generous foundation.
4. Universities 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 may 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 institutions and lead institutions, and allow much of the consequent widening of financial fortunes—while at the same time committing themselves to maintain some reasonable parity among the institutions and faculties that are unerringly unequal with philanthropic potential.

With these constraints, caveats, and limitations, the fact remains that revenue supplementation is a vital necessity for higher education in the 21st century, and a major and increasingly important part of the revenue supplementation should be philanthropic giving.