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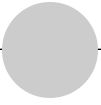
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# **How the Financial Crisis and Great Recession Affected Higher Education**



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**A National Bureau  
of Economic Research  
Conference Report**



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# **How the Financial Crisis and Great Recession Affected Higher Education**

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Edited by

**Jeffrey R. Brown and Caroline M. Hoxby**

**The University of Chicago Press**

Chicago and London

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8. Unless otherwise determined by the Board or exempted by the terms of paragraphs 6 and 7, a copy of this resolution shall be printed in each NBER publication as described in paragraph 2 above.

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## Preface

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In the several years leading up to the financial crisis, there were moments when the finances of American postsecondary institutions seemed almost *too* good. The well-endowed institutions enjoyed high rates of return on their investments. The earnings allowed them to renovate their campuses, pursue costly scientific projects (like the human genome project), and offer increasingly generous financial aid. One of the editors of this volume (Hoxby) even recalls university leaders openly worrying about whether the large endowment returns could be spent as quickly as institutions were constrained to spend them.

Of course, everything was not rosy. Less well-endowed institutions worried about the widening gap between their resources and those of the richest institutions. Some colleges and universities that appeared to be doing well financially had actually committed themselves to a great deal of debt to finance building projects. Families often drew down their home equity to finance their children's college education—a procedure that would cause grave difficulties if house prices were to fall. Funding from the National Institutes of Health was in decline, causing much worry among universities that had invested heavily in medical research centers.

Nevertheless, the sky was sufficiently bright that the financial crisis and recession came as a shock to American higher education. The shock brought to the surface many economic, especially financial, issues in higher education. We believe that the surfacing of these issues created a unique opportunity to bring together economists who study finance and economists who study higher education. James Poterba, president of the NBER, was especially prescient in seeing the chances for great collaborations and intellectual arbitrage. We are especially glad to report that not only did this volume bring

together economists who might otherwise speak infrequently but it brought economists and practitioners together.

After putting our ideas together, we approached the Spencer Foundation for support and obtained not only funding crucial to the project but also the astute advice of its president, Michael McPherson. We are immensely grateful for the Spencer Foundation being not just a funder but a true intellectual partner in this and many other research “enterprises” in the economics of education.

The NBER is fortunate in having very strong researchers both in finance and in higher education, so we had no difficulty turning our vision for the volume into a reality. Many conversations lay behind the chapters, with the most formative occurring at an authors’ preconference held early in 2012. Several months later, we enlarged the discussion at a second conference that included higher education leaders and endowment managers. We describe the highly productive conversations that occurred there in the introduction to this volume. The second conference created relationships between university leaders and NBER researchers that have only grown since. We believe that these relationships will both accelerate and “ground” the NBER’s studies of higher education for years to come.

We are grateful to all those who participated in the second conference. More than anything, they brought refreshing doses of reality and constructive criticism with them. We are immensely grateful for their insights, and we can personally vouch that they improved our own contributions to this book. We gratefully acknowledge the discussants: Lawrence Bacow, president emeritus of Tufts University; Nancy Cantor, chancellor of Rutgers University-Newark; John Etchemendy, provost of Stanford University; Scott Evans, senior advisor, TIAA-CREF; John Griswold, executive director of the Commonfund Institute; Stanley Ikenberry, former president of the University of Illinois, and professor and senior scientist at the Center for the Study of Higher Education at Pennsylvania State University; Mike Knetter, president and chief executive officer of the University of Wisconsin Foundation; Jane Mendillo, president and chief executive officer of Harvard Management Company; Morton Schapiro, president of Northwestern University; and Scott Wise, president and chief investment officer of Covariance Capital Management. For their lively insights that improved one or more chapters, we also thank Seth Alexander (MIT), Linda Bell (Haverford), Charles Clotfelter (Duke), Ronald Ehrenberg (Cornell), Alan Garber (Harvard), Susan Hockfield (MIT), Chris Kaiser (MIT), Kirk Kolenbrander (MIT), Tim Nguyen (University of Connecticut), Morton Schapiro (Northwestern), Michael Smith (Harvard), Luis Viceira (Harvard), and Burton Weisbrod (Northwestern).

We gratefully recognize the NBER working group in higher education which was, for many years, splendidly led by Charles Clotfelter before becoming part of the NBER’s Economics of Education Program in 2009.

The discussions and research collaborations among the members of this group transformed the economics of higher education from something of a sleepy backwater to a booming area of research that employs vast administrative data sets and frontier methods. Finally, we, the editors, thank our stars every day for the great NBER leadership, publications staff, conference staff, and other staff who make the NBER an incredibly productive place to start and scientifically advance any discussion.

