

## Harvard's billions

Endowed with riches, university is slow to spread the wealth around

By DANIEL GOLDEN and JOHN YEMMA  
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**C**AMBRIDGE, Mass. — Dr. Paul Prusky attended Harvard Medical School on scholarship. Now he's offering his alma mater at least \$15 million for financial aid awards — an amount that would make any other university swoon. Says Prusky: "I'm trying to do for others what Harvard did for me."

But Harvard is balking at conditions attached to the gift, torn between its traditional zeal to raise money and its reluctance to spend it. And Prusky, who left medicine for money management, is so fed up that he may give the millions to his foundation instead.

With an endowment of nearly \$13 billion — which would rank it in the top quarter of Fortune 500 companies — Harvard is far and away the richest university in America. Last Thursday in Harvard Yard, in a commencement day ritual as cherished as the student-delivered Latin oration, grateful reunion classes offered up eight-figure checks to the university, adding to its lucre.

Such tribute is warranted, administrators say, because Harvard is not as financially secure as it seems.

But critics say Harvard is obsessed with fund-raising and regards its wealth not just as a means to providing the best education for its students but as an end in itself. By stockpiling for the future, they say, Harvard may be shortchanging the present. It spends less than 4 percent of its skyrocketing endowment — and the percentage is steadily dropping. Its frugality translates into large classes, lagging salaries for junior faculty, and inadequate financial aid, particularly for graduate students.

"I have always felt strongly that our spending is quite conservative," says Henry Rosovsky, the former dean of arts and sciences. "We should look at expenditures more as investments than as costs. The better Harvard University is, the easier it is to attract whatever funds it needs."

By nearly every measure, Harvard stands at a pinnacle of power and prestige. It boasts an unmatched 90 libraries, 35 Nobel Prize-winners, 12 museums, 41 varsity teams, and dozens of think tanks that help shape national policy and rebuild faltering economies from Latin America to the Pacific Rim.

Yet the pressure of maintaining excellence carries a cost.

Harvard's growing internationalization and eagerness to function as a shadow State Department abroad can make it look too cozy with repressive regimes; its aggressive and secret land acquisition in Allston and its planned Cambridge expansion have alienated neighbors at home. The university's strict tenure process routinely discards promising faculty. And its students are so driven to achieve that many suffer from undue stress in what should be one of the most enjoyable times of their lives.

Parents, meanwhile, must grapple with higher-than-inflation hikes in tuition and room and board — up 3.5 percent to \$31,132 next year. Despite vowing to remain competitive, Harvard has not matched Princeton's recent well-publicized initiative to ease the burden on the middle class by boosting financial aid.

Internal fund-raising rivalries have hampered President Neil Rudenstine's push to transform a group of entrenched fiefdoms into one university. Harvard's 12 schools — arts and sciences, medicine, law, etc. — compete fiercely for donors such as dropout-turned-tycoon Bill Gates, who left Harvard under pressure in 1975 but gave it \$15 million two years ago.



Students exiting one of the alumni gates at Harvard's main campus in Cambridge.

Nearing the \$2.1 billion goal it set for the biggest fund-raising campaign in the history of higher education, and aided by the stock market's spectacular climb, Harvard has increased its endowment fivefold in 15 years and doubled it in five years. As of last June 30, Harvard led the University of Texas, its nearest competitor, by \$4.6 billion, and Yale by \$5.6 billion.

Moreover, the endowment represents only a portion of Harvard's wealth. Not included is \$1.1 billion in cash and working capital, as well as facilities and land. The facilities, ranging from buildings on campus to a villa in Italy for Renaissance scholars, are worth \$4.1 billion, according to a 1997 Harvard financial report. And Harvard does not estimate the value of 420 acres it owns in Boston and Cambridge.

The endowment also does not account for the numerous treasures in the university's museums and libraries — from glass flowers to a Gutenberg Bible, from Lewis and Clark's birds to Emily Dickinson's manuscripts. Harvard is prohibited from selling some of these artifacts. In any case, according to Jack Meyer, president of Harvard Management, the Boston-based subsidiary that invests the endowment, Harvard does not place a value on them because "the number would be too high."

Harvard bans reporters from its development office on the third and fourth floors of University Place in Cambridge. But sources say that the cubicles there contain a different sort of treasure: A two-inch-high printout, updated weekly, listing prospective donors with a coded rating based on giving capacity.

These ratings are far more than guesswork. Harvard has long boasted the most sophisticated fund-raising operation in higher education. In 1919, embarking on a \$15.25 million campaign, it became the first university to hire professional fund-raisers.

"When I cease to be president of Harvard College, I shall join one of the mendicant orders, so as to have less begging to do," then president A. Lawrence Lowell once lamented.

Last year, Harvard spent \$35 million on

fund-raising — and raised \$427 million. The development office has 250 employees, aided by 4,000 alumni volunteers.

Identifying prospects is the first step. Some alumni draw Harvard's attention by reporting high incomes on the five-year reunion surveys, or boasting of lavish lifestyles in their class reports. Other alumni are "rated" by classmates.

"If I see a proxy statement or a prospectus involving a Harvard graduate, I send it to the development office," says Ernest Monrad, an alumnus and Boston money manager who has endowed two Harvard chairs. "If a fellow just got a \$5 million bonus and he says he can't afford a \$10,000 gift, you can say, 'Come on!'"

Harvard's researchers double-check the ratings, using public and commercial databases on everything from real estate holdings to yacht ownership. The office's fourth-floor library holds 10,000 volumes, including Harvard class reports dating back to 1880. Social registers dating to 1960 are stored at another location.

Most donors are alumni, but fund-raising researchers also look for prospects with any Harvard connection. Katherine Loker, who endowed the new freshman dining commons and recently gave \$17 million to renovate the libraries, is the widow of an alumnus.

Harvard produces three times as many chief executives of leading businesses as any other university. Through these contacts, Harvard solicits corporations. In return for their gifts, the companies often expect an edge in recruiting students and gaining access to research.

According to a 1995 Harvard report, its largest corporate donors — and major prospects for the current campaign — include Dupont (\$15 million from 1978-94), IBM (\$8.5 million), Exxon Corp. (\$7.5 million) and Merck & Co. (\$4.14 million).

Given abundant data, Harvard fund-raisers — both alumni volunteers and professionals who handle all gifts above \$250,000

See HARVARD'S BILLIONS  
Page 4, col. 1, this section

# HARVARD'S BILLIONS: THE UNTOLD STORY

Continued from Page D 1

— know how hard to squeeze the "pale, frail, white males," as one insider describes typical donors.

"A guy sits there and has palpitations," says Thomas Reardon, vice president for alumni affairs and development. "He's saying, 'Give me a break, I've got to pay 12 tuitions.'"

The university expects to raise about two-thirds of the current campaign's \$2.1 billion target in chunks of \$1 million or more. Gifts of at least \$10 million are expected to account for the remaining \$760 million. Rudenstine personally negotiates with major benefactors over dinner at the president's house on Elmwood Avenue in Cambridge, or jets off to see them.

Harvard steps up pressure on alumni during reunion years. One alumnus, who requested anonymity, pledged a substantial gift in advance of his 25th reunion. But during the festivities, he enjoyed seeing old friends and haunts so much that he decided to double his donation.

Just then, he was approached by a classmate who had volunteered as a fund-raiser. "I'm increasing my gift," the donor told him, and named the amount.

The fund-raiser then reached into his pocket for a slip of paper. Written on it were the donor's name and the exact amount he had just offered to give. "I'm glad I didn't have to ask you for it," the fund-raiser said.

## Half of graduates say 'no'

Why do people keep giving so much money to a university that is already the country's richest?

Not everyone does. Some alumni prefer to support needier charities. Only half of Harvard College graduates donate each year, a participation rate lower than Princeton's and Dartmouth's.

Major donors express a variety of motives. Some want to thank the university where they chose careers, met spouses, or received financial aid. Still others believe that, as Harvard goes, so goes America.

"There's an enormous ripple effect," Monrad says. "You're dealing with the young, you're dealing with the future. You can give to a homeless shelter, but those people are not the future."

To get, Harvard often has to give. In return for a \$20 million pledge from Chelsea-born entrepreneur Warren Alpert in 1993, Harvard Medical School not only named a building after Alpert and hung his portrait in the lobby, it agreed to shine a light on the painting 24 hours a day.

Other donors' names are attached to professorships, scholarships, even the athletics staff; head football coach Tim Murphy is the Thomas Stephenson Family Coach for Harvard Football. And if children of donors are denied admission, university officials will help in finding another college.

Major donors are often nominated by the Harvard Alumni Association for election to the 30-member board of overseers. Or they sit on visiting committees that monitor Harvard's departments and report to the overseers. (The overseers are less powerful than the other governing board, the seven-member corporation.)

Some donors tailor their gifts to Harvard's needs, but others take a hard line. One insisted on endowing an arts and sciences professorship in law and psychiatry, even though those subjects are usually taught by the law and medical schools. The chair stayed vacant for five years until it was taken by an English professor, who fulfills the terms of the gift by applying legal and psychiatric analysis to literature.

Harvard seeks as much latitude over gifts as possible without alienating donors. In one major bequest from the estate of a childless California couple, Harvard interpreted the terms of their will very broadly. In return, it yielded to their trustee an unusual say over spending.

Edward Lefler, a direct-mail pioneer who died in 1994 from Alzheimer's disease, and his wife, who died before him, left \$7 million for a "home or other facility" for "treatment and care" of Alzheimer's and similar diseases. Their will suggested four Alzheimer's organizations as potential recipients.

But Harvard courted the Leflers' accountant and trustee, Daniel Bernstein. It offered to spend the money

on an "intellectual center" that would sponsor research not just on Alzheimer's, but on all aspects of brain cell degeneration.

Bernstein signed on, after extracting one key concession. Despite a university policy that donors "ordinarily" cannot "in any way" direct the use of their funds, he now sits on a three-member committee overseeing the expenditures.

## How much is 'enough'?

If Harvard is zealous about raising money, it is equally cautious about spending it.

Even though the university has nearly completed its fund-raising drive, and its investments have earned an annual rate of 18.9 percent over the past five years, relatively little of that windfall is being applied to urgent academic problems.

Many Harvard officials — especially Rudenstine — worry about having enough money in the future to continue to attract top-flight faculty, build modern labs and dorms, and make sure that every applicant it accepts can afford to attend.

"You dare not spend too much because you have to get through the rough years," Rudenstine said in his modest, colonial-style office. "You need that cushion."

Every fall, the Harvard Corporation establishes the endowment's budget contribution for the next academic year. Although those contributions have increased an average of 9 percent per year over the past decade, they have not kept pace with the endowment's skyrocketing growth.

This year, Harvard will spend 3.72 percent of its endowment — down from nearly 5 percent in 1993, and less than the national average of 4.2 percent among private colleges. At the other extreme, Stanford spends up to 6 percent.

In a boom era, Harvard has contin-

uation, balances its own budget, and has a separate endowment. If a school borrows from the central administration, which acts as sort of a university bank, it has to pay interest. Little has changed since 1970, when a university report described Harvard as "financially... a confederation of semi-independent baronies." Tubs even compete for faculty.

Both the John F. Kennedy School of Government and the Faculty of Arts and Sciences — comprising Harvard College and graduate programs in those fields — recently tried to hire the same Princeton economist.

To paraphrase George Orwell, all tubs are equal, but some are more equal than others. The business school boasts a \$728 million endowment, but earns so much from publications and executive programs that it barely dips into its nest egg. But the Divinity School, with Harvard's lowest tuition and few wealthy alumni, depends on the annual payout from its \$250 million endowment for 40 percent of its operating budget.

## The 'tub' system

The tub system has served Harvard well. It encourages grassroots initiative, efficiency, and accountability. But it also strengthens individual deans at the expense of the president, hindering Rudenstine's ability to reallocate resources. Like a weak baseball commissioner, he is forced to beg powerful barons to share their wealth for the good of the game.

Although the central administration has nearly \$1 billion in university-wide funds, most of the money consists of restricted gifts. According to Elizabeth C. Huidekoper, vice president for finance, Rudenstine only controls \$4 million in discretionary funds.

"The deans of the smaller tubs are lining up at his door," Huidekoper says. "You can imagine how much demand there is."

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ued to economize. For example, 12 positions funded by the current campaign this year were the first new slots authorized for the arts and sciences faculty in the last six years. Jeremy Knowles, dean of arts and sciences, acknowledges that Harvard has a higher student-to-faculty ratio than other elite private universities.

This frugality makes many people around Harvard wonder: How large an endowment is enough?

## Hold the line on tuition?

Some educators urge Harvard to send a signal by holding the line on tuition. Rudenstine counters that next year's 3.5 percent increase is necessary because only the richest one-fourth of Harvard students pays full freight, and their tuition subsidizes financial aid for the rest.

"The higher the total endowment gets, the better the central fund-raisers look," says Hale Champion, Harvard's former financial vice president. "Harvard has allowed those financial aspirations to hold that payout down. If I were a dean at Harvard now, I'd stand on the rooftop and shout about that."

Rudenstine acknowledged that financial aid for graduate students is in "terrible shape," and faculty salaries should be increased. On the other hand, he said, Harvard needs reserves as a hedge against inflation or a stock market crash. As recently as 1991, when Rudenstine took over, the endowment earned only 1.1 percent on its investments and Harvard ran a \$42 million deficit in its operating budget. Even today, Harvard ranks only fifth nationwide in the ratio of endowment dollars to students.

Rudenstine also argued that Harvard cannot easily remedy its weaknesses because restricted gifts dominate its endowment. The university's flexibility is also hampered by its administrative structure, known to Harvard managers since 1817 as "every tub on its own bottom."

Every Harvard school sets its own tu-

Liberalized from tub constraints, major donors thought big. Rita and Gustave Hauser, who had previously given a building to the law school, their alma mater, now underwrote a university-wide center for the study of nonprofit institutions.

Many split their gifts. John L. Loeb, the late New York investment banker, divided his \$70.5 million donation in 1995 between Harvard College, the schools of design and public health, the Loeb drama center, and Memorial Church in Harvard Yard. "There's a tremendous amount of cross-fertilization," Rudenstine says.

But as the effort wore on, the altruism waned. Reverting to form, the tubs put their own needs first, and the central office capitulated. Harvard hosted a fund-raising weekend for the environment program that reaped \$2 million, but similar weekends for the other four interfaculty initiatives were quashed. As a result, Harvard has only garnered \$34 million of its \$75 million goal for the university-wide programs.

Similarly, the development office terminated an experimental program that raised money for small schools from non-alumni. Reardon says that the "Partners Program" was bringing in fewer dollars than had been hoped, but the schools say it made a difference. "It was very important to us," says Ronald Theimann, divinity school dean. "We miss it."

Much of the resistance came from Harvard's largest school, arts and sciences, which was worried about meeting its \$965 million goal and saw its alumni giving \$130 million to other schools. As of April 1, it had raised \$821 million, or 85 percent of its goal.

Under campaign policy, only one school can contact each prospect. Since each school has dibs on its own graduates, the central administration is supposed to mediate tugs of war for alumni with two Harvard degrees, and for non-alumni.

## Wooing Bill Gates

But the small tubs complained that arts and sciences was given preferential treatment. And these tensions came to a head over the biggest prospect of all, Bill Gates.

Gates could only spare 10 minutes. So his hosts hustled him upstairs in Memorial Hall, where a scale model of the campus lay on a table.

Harvard College Dean Harry Lewis did the honors. With a flourish, he removed the Aiken Computation Laboratory from the model and substituted a proposed building to be funded by Gates and a fellow Microsoft executive.

The Harvard contingent around the table that May afternoon in 1996 relished the moment. Two presidents, several deans, and an overseer had wooed — and fought over — the Microsoft mogul for a decade. Now they were close to landing a major gift, and they had no doubts they would get it from the dropout who had been virtually chased out of Harvard two decades earlier.

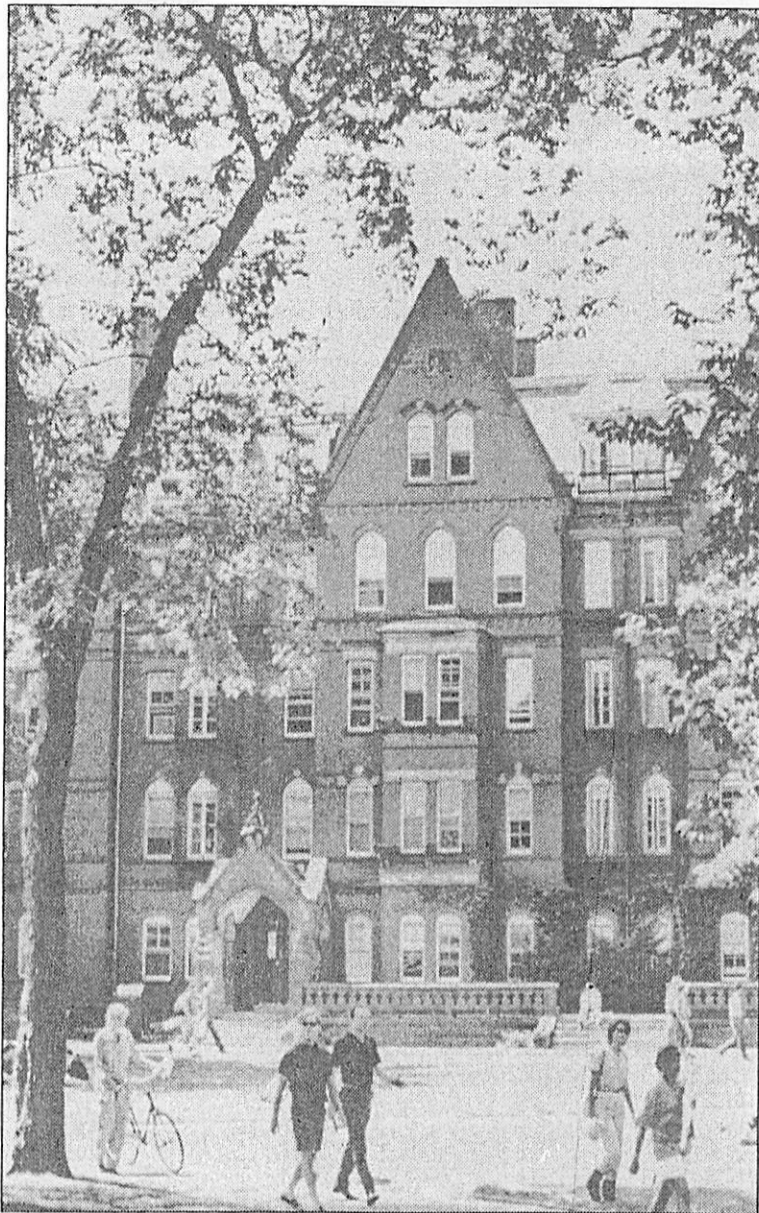
Gates has said that he withdrew from Harvard to pursue his career. However, according to interviews, he left after a dispute over alleged rules violations at the Aiken Lab, including using its computers for private business.

"There was a flap, no question about it," says his father, William Gates Sr., who now runs his son's charitable foundation. "My son felt a little put upon by the Harvard administration's attitude."

Gates lived in Currier House at Radcliffe, but the Aiken Lab was his true Harvard home, where he often worked through the night. His troubles began when a lab administrator discovered that Gates was using the Aiken computer to write computer code for a New Mexico company. Because the federal government was funding the computer time, the administrator felt that Gates was misusing not just a Harvard facility but also public funds.

Moreover, Gates was sharing his computer access with a high school friend: Paul Allen, the future co-founder of Microsoft.

After taking over, Rudenstine promoted more cooperation, including five inter-faculty initiatives on such topics as the environment, the mind, the brain, and behavior. Environment quickly became one of Harvard's most popular majors.



The scene at Harvard Yard: The university is rich, ambitious, cautious.

Gates' student file is protected by privacy rules, but university officials, friends, and family say he was not expelled. According to sources and a 1993 unauthorized biography by Stephen Manes and Paul Andrews, Gates avoided expulsion by agreeing to put the code in the public domain. He was, however, reprimanded.

Gates' parents were devastated. His mother was "very, very apprehensive" about his future, says his father. Those worries had eased by the late 1980s, when Gates had made his fortune and Harvard began courting the computer wunderkind. Gates' father recalls that then-president Derek Bok made the first overture — a dinner in Seattle with Gates and other Harvard-affiliated Microsoft executives. The hopes of Harvard fundraisers rose in 1991 when Gates' dorm mate, Steven Ballmer, a 1977 alumnus and executive vice president at Microsoft, was elected to the board of overseers.

The pursuit quickened. After Gates' mother, Mary Maxwell Gates, died in June 1994, Rudenstine sent him a sympathy note. According to sources, Gates responded that his mother's greatest disappointment was that he had not graduated from Harvard.

Gates seemed ripe for a proposal. But from which tub? Since he had attended Harvard College, arts and sciences staked its claim to him. But as a dropout, Gates was technically up for grabs. In late 1994, sources say, the Kennedy School invited Gates to a conference.

Because most of its alumni enter public-service careers, the Kennedy School must poach to survive. Of the \$136 million it has raised in the current campaign, its graduates contributed only 5 percent, while other Harvard alumni accounted for 36 percent. (The rest came from non-Harvard donors.)

Although Gates declined the invitation, it alarmed arts and sciences fundraisers. At their behest, the central office said that henceforth, small schools would need its approval be-

fore considering any prospects who were not their own alumni.

With the Kennedy School rebuked, the courtship of Gates took a high-tech turn in April 1996, over a videophone linking the business school and Microsoft. Lewis, Reardon, and Rudenstine made their pitch to Gates and his father. Lewis, a former computer science professor who had spotted Gates' potential two decades earlier, emphasized that Harvard could ill afford to fall behind in a field so crucial to its future. Gates bargained, pointing out that Stanford had named a building after him for \$6 million, considerably less than Harvard was asking.

After Gates committed \$15 million and Ballmer \$10 million, Harvard wasted no time. The Maxwell-Dworkin laboratory, memorializing their mothers' maiden names, will open next summer.

But while Harvard moved quickly to stay abreast in computer technology, and satisfy Gates' need for veneration, it has dragged its feet on Paul Prusky's less glamorous offer to relieve six-figure debts for medical students.

Last week, Prusky was scheduled to meet with two members of the Harvard corporation to discuss the condition attached to his \$15 million-plus gift. His proposal was for Harvard to spend two-thirds of earnings generated by the money. If the gift grows 15 percent a year, the medical school would give students 10 percent.

But that would exceed Harvard's 4 percent rate of endowment spending, and the university is loathe to make an exception. How the Prusky negotiations play out will be closely watched as a case study of Harvard's priorities and educational values.

Says Treasurer D. Ronald Daniel: "It's an unfinished story. We're flexible, but not unreasonably so."

The writers are with *The Boston Globe*.