

not as a matter of discouragement, but simply to signal to the University's many friends, supporters, alumni, faculty, students and staff that the University, and its schools and units, will need to further adjust to the environment, change, and embrace new ways of extending Harvard's excellence in the future."

A detailed report appears at harvardmag.com/budget-17. ~JOHN S. ROSENBERG

Taxing Matters

THE FEDERAL TAX LEGISLATION being considered in Congress as of press time—drafted by Republicans without consulting Democrats, and advanced without benefit of hearings—contains a lot of surprises for higher education. At least one version of the bills proposed:

- ending deductions for interest on student loans (which would affect the overwhelming majority of students who do not attend well-endowed institutions with need-blind admissions that can extend aid for students' full financial need);
- eliminating a tax-code provision many institutions rely on to aid graduate students

(making those students liable for cash taxes on imputed income; Harvard hasn't yet been able to determine if the precise language would affect its graduate students); and

- ending the tax-exempt status of bonds routinely issued by universities, and other nonprofit institutions, to fund buildings and construction projects (effectively raising their costs).

Whatever their collective implications, if enacted, for U.S. higher education and the skills of future citizens, a separate provision—to impose a 1.4 percent excise tax on the endowment income of several dozen private colleges and universities—has prompted the greatest concern at Harvard. It represents the first time a proposal to tax endowments has advanced this far; if enacted, it would set a precedent for taxing endowments more heavily.

It is no surprise that the tax-bill authors would seek any possible, politically palatable sources to offset the multi-trillion-dollar losses of revenue accompanying their proposed tax cuts (they seek to contain the net 10-year cost to \$1.5 trillion). Nor is their interest in tapping endowment wealth news: Senator Charles Grassley (Iowa) has

long sought to mandate a minimum annual distribution, and Representative Tom Reed (New York) has more recently sought to mandate that 25 percent of endowment income be spent on financial aid. That the current proposal would target private institutions more or less follows: that's where the money is; and recent polls indicate wide disaffection toward higher education among Republican-leaning voters. Of note, *The Chronicle of Higher Education's* most recent tally of selective colleges whose students incur the least federal loan debt to pay for their educations overlaps almost exactly with the list of those highly endowed institutions.

In Harvard's fiscal year ended June 30, 2017, funds distributed from the endowment to support the academic enterprise totaled \$1.8 billion, or 36 percent of revenue. Were the excise tax in effect, the University's bill that year would have been about \$40 million (see the calculations at harvardmag.com/endowment-tax-17): slightly less than 1 percent of revenue. Because the Corporation aims, over time, to distribute about 5 percent of the endowment's value each year to support the University's operations, that tax payment has the same effect as wiping out nearly \$1

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billion of endowment value.

But the fiscal 2017 figure is based on a year of mediocre investment results; Harvard Management Company's 8.1 percent return, net of expenses, yielded investment gains of \$2.7 billion to \$3.0 billion (depending on how the assets are counted). Had the University matched peer institutions' returns (MIT, 14.3 percent; Stanford, 13.1 percent; Princeton, 12.5 percent; Yale, 11.3 percent), the new levy would have been \$60 million to \$70 million. This is real money—and the sums should grow if endowments grow, as they are intended to. (And of course there is a downside: Yale's David Swensen, the leading light among university endowment managers, has recently talked about lowering expectations for future returns to 5 percent or so; Harvard is typical in projecting long-term returns of 8 percent. If downbeat predictions come to pass, endowment-dependent universities will be severely squeezed, and a new excise tax would exacerbate the resulting trauma.)

The Faculty of Arts and Sciences—which doles out the undergraduate aid that members of Congress talk about, to the tune of \$180 million in fiscal 2017 (*much* of that from endowed sources) relied on endowment distributions for 52 percent of its revenue that year. Harvard Medical School, the source of so much high-impact research, derived only 28 percent of its fiscal 2017 revenue from the endowment—but its mission has been constrained by continuing, and rising, operating deficits (reaching \$44 million, or 7 percent of revenue, that year). No doubt, it would love to shore up its finances and secure its academic work with substantially more endowment income. Note to billionaires: this is a naming opportunity—but fundraisers must now add to their pitch, "Please disregard pending tax measures."

Reponding to the proposed tax, President Drew Faust said:

Harvard's endowment is what fuels our excellence, affordability for students of modest means, our commitment to discovery, and our impact in the world. This measure would disadvantage universities in the charitable sector, and—in targeting universities—weaken the nation's strongest contributors to medical cures, economic innovation, job creation, scholarship, and access

to higher education for students of all economic backgrounds who will shape our future.

Philosophically, the proposed excise tax on private institutions' endowments appears at odds with conservative principles. Republicans have, traditionally, sought to restrain *public* spending (and many states with Republican governors and legislatures have cut back public universities' budgets considerably during the past decade), and to encourage the private sector. In this instance, obviously, the search for revenue leads to proposed taxation of *private*, or at least non-profit, institutions. Writing in *The Washington Post*, columnist George F. Will lamented:

Time was, conservatism's central argument for limiting government was to defend these institutions from being starved of resources and functions by government. Abandonment of this argument is apparent in the vandalism that Republicans are mounting against universities' endowments. This raid against little platoons of in-

dependent excellence would be unsurprising were it proposed by progressives....Coming from Republicans, it is acutely discouraging.

A *Realpolitik* assessment came from *New York Times* columnist David Brooks, who observed, "This is the beginning of the full-bore Republican assault on the private universities, which are seen as the power centers of blue America—rich, money-hoarding institutions that widen inequality and house radical left-wing ideologies."

If Brooks is correct, the tax proposal, whether enacted now or postponed for a future day, has two likely consequences:

- fuller employment, at least for universities' public-affairs staffers in Washington, D.C.; and
- a *strong* incentive for higher-education institutions to rely more heavily on undergraduate tuition and fees, their best remaining source of unrestricted funds—presumably the exact opposite of the effect sought by politicians who see endowments as a way to lower college costs.

~J.S.R

"Cheaper, Faster, Better"

EVEN AS biomedical science is poised to deliver therapies and cures for countless diseases, "There has never been a greater disconnect between the remarkable opportunities" to achieve those goals "and the paucity of resources," declared George Daley, dean of Harvard Medical School (HMS), in a November interview. Approaching his first decadal anniversary, he discussed his

priorities for the school, focusing on the economic challenges facing medicine, from developing affordable treatments for patients to ensuring broad access to medical education—despite annual costs nearing \$90,000 per student. In meeting these challenges, he envisions a "transformation of the academic medical center into a vehicle that is more effective at delivering treatments." Realizing that vision entails reorganizing the teaching and research enterprise, revitalizing HMS's campus, and expanding the ranks of scholarship-supported physician-scientists in its M.D.-Ph.D. program.

"Harvard Medical School has always been at the cutting edge of fundamental discovery research," said Daley, who has himself made major contributions to the understanding of blood cancers and the use of stem-cell therapies (see harvardmag.com/specialized-stemcells-08). At the same time, "The pharmaceutical industry has been remarkably effective at delivering drugs: small molecules, antibodies, gene vectors, and now, at the vanguard, engineered cells. But the latest immunotherapy for cancer, the CAR T cell [personalized Chimeric Antigen Receptor therapy that stimulates a pa-

George Q. Daley, dean of Harvard Medical School

