

Letter from America: Enron, Economists, and the American Academy

*from the Royal Economic Society Newsletter,
April 2005*

THE CORPORATE SCANDALS OF AMERICA in the 1990s continue to unwind in the courts, with the business pages daily presenting the travails of their erstwhile heroes, now villains, whose previous far-sightedness about their enterprises has become, in court, an account of equally incredible myopia and lack of understanding about the rules and practices of corporate accounting and accountability. These scandals have provoked new thinking about corporate governance, as well as new legislation, particularly the Sarbanes-Oxley Act. (Which is itself under attack by lobbyists and some Republican lawmakers, only two years after passage.) Universities were no part of these scandals, and although universities are not profitmaking corporations, at least in theory, there are those, including the editorial page of the Wall Street Journal, that believe that 'greed is not confined to Wall St., and that when it comes to accountability, the business world has much to teach our universities.'

That 'teaching' has been very evident over the last few years, and not everyone is happy. And economists and economics departments are, as usual, in the front line. At the most trivial level, universities (and other non-profit institutions) have moved their internal financial procedures from lax to draconian. Before I left Britain for the US in 1983, the university at which I taught required that all telephone calls made before 1 pm have advance authorization from the Vice-Chancellor's office. Princeton, with an endowment of around eight billion dollars, now requires the Dean of the Faculty's advance authorization for travel by anything other than the cheapest available mode, irrespective of faculty time constraints or convenience. The assumption that professors are criminals certainly prevents administrators being surprised when they turn out to be so, but what used to be an extraordinarily positive relationship, in which administrators saw it as their primary task to advance teaching and research, has been soured as administrators have assumed a police function. And of course there are some genuine problems. One senior professor of economics recently left Yale after double billing some \$150,000 in air fares. Much more prominent are two lawsuits brought against Ivy league universities. The largest of these is against Princeton, and involves its Woodrow Wilson School of Public and International Affairs. As a faculty member at Princeton and the School, I must declare my interest, but I know little more than is available to anyone, and the following account is culled entirely from the press and the web. In 1961, Charles and Marie Robertson made a gift of \$39 million to Princeton, to be used to train graduate students for the public service particularly in international relations. In 2002, the Robertson family brought suit against Princeton, claiming that the university had misused the original and subsequent gifts, and asking for the return of the endowment, now valued at nearly \$600 million. If additional claims for fraud were to be sustained in the courts, Princeton's liability could be in excess of a billion dollars. William Robertson, the son of the donors, claims that Princeton is the 'Enron of the Ivy League' and that the Woodrow Wilson School has the wrong kind of students and the wrong kind of faculty. His brother-in-law, Bob Ernst, writing on a website whose main aim appears to be maligning School faculty member Paul Krugman (who coincidentally was once an Enron board member), writes that 'both Krugman and Princeton's administrators share a problem with the truth.' He goes on to discuss the formula that sets the financial rules under which the School operates and comments 'How like Krugman, that Princeton should mask a simple concept — theft — with a complex, deceptive, name,' and ends by warning that neither Princeton nor Krugman 'should count on being institutions for long.' In the face of such rhetoric, and the fury of (at least one member of) the Robertson family that it should be supporting someone with Krugman's views, one can understand why, in the 1990s, Yale returned a \$20 million gift to support the study of Western Civilization to Texas billionaire Lee Bass in the face of Mr. Bass's demand that he have veto power over the appointments associated with his gift. Yet it is clear that donors have legitimate rights to ensure that their gifts are spent in the spirit of the original intent, and the outcome of the Princeton case is likely to permanently change university governance in the future.

Just as donors have claims on the university, so do those who fund large projects. For the last eight years, Harvard has been fighting a lawsuit brought against it by the Federal government for a sum that is an order of magnitude smaller than that involved at Princeton, with mere hundreds of millions of dollars at stake. The root of the dispute was a \$34 million contract from the US Agency for International Development (USAID) to Harvard's (now defunct) Institute of International Development to advise the Russian government in the mid-1990s. This was hardly a research grant, but then HIID was hardly a research outfit, more a consulting house

that happened to be part of Harvard. USAID subsequently canceled the grant, and charged that Andrei Shleifer, the economist who headed the effort and who, like Krugman, is a past John Bates Clark award winner, had misused USAID funds to bribe Russian lawmakers, and had enriched himself and his wife by trading in Russian securities whose price he was in a position to influence. Both this suit and the Princeton suit remain unresolved, and are proceeding at much the same rate as Jarndyce versus Jarndyce, with lawyers' fees (at least) fully indexed since Dickens.

The Princeton and Harvard cases are perhaps isolated examples of donations and grants gone wrong in an increasing litigious country. But there are important unsettled issues about university governance, about who owns American private universities, why they have charitable status, and to whom they are answerable. At least some universities have access to enormous resources through their endowments (Harvard's and Princeton's are among the largest), through donors, through federal grants, and through technological partnerships with private corporations, including pharmaceutical companies. Some faculty members, including many economists, earn large sums of money outside the university, and others, again including economists, have such good opportunities outside academia, that universities are stretched to keep them at all. So there has been much expansion of payments in kind as well as a race to the bottom in terms of obligations, including the loose monitoring of professional activities, low teaching loads (the standard teaching load in top economics departments in the US is currently one course in each of two semesters, typically without grading, and with at least one of the courses a graduate course with only a handful of students), and an increasing perception, both by faculty members and administrators, that faculty no longer work for the university, but the university for the faculty, who in turn are essentially free to make their own rules and conditions. There are days when all of this seems like a great idea, but much of the sense of an academic community has been lost, quite apart from the threat of finishing up in court in the continuing squabble over who really owns the university.

Note: The information for this letter was gleaned from newspaper reports, as well as (in the case of Bob Ernst and Paul Krugman) from www.luskinreport.com ('The conspiracy to keep you poor and stupid'), and on the Harvard Russian project, from David Warsh's reporting at www.economicprincipals.com.

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