

# How to Crush the Ivy League Cartel

Recent controversies over affirmative action and speech at top universities are beside the point. Harvard and Yale have power because they operate like a cartel. And they should be treated like one.

MATT STOLLER

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*Welcome to BIG, a newsletter on the politics of monopoly power. If you'd like to sign up to receive issues over email, you can do so [here](#).*

Today's piece is written by Sahaj Sharda, author of a book called [The College Cartel](#). There's been a lot of controversy recently over fights between donors of elite universities and university administrators, with the President of the University of Pennsylvania resigning after controversial Congressional testimony, as well as press on other senior executives at Ivy League schools. But by and large, the political and economic root behind this fury has remained unexamined. Sharda will describe why the Ivy League is so powerful, as a sort of prestige cartel, and why that's bad for our democratic society. And he will unveil some tangible policy solutions that will reduce the power of these schools.

I'm particularly excited about this piece because it moves us slightly away from the private corporate sector. The modern anti-monopoly movement tends to focus on companies, since antitrust and legal levers in the 20th century moved us in that narrow direction. But a distrust of concentrated power is much broader in the American historical framework, incorporating everything from Henry George's land reform to anger at postal monopolies to fear of British commercial power in the early 19th

century. Indeed, one of the foundational legal rulings in American corporate law was an 1819 Supreme Court decision mediating a conflict between New York state and the Ivy League school, Dartmouth College, over its corporate charter. Because yes, these schools are some of the oldest corporations in America.

So it is only natural to use our anti-monopoly lens to look at the current controversies involving the Ivy League's power, and how they are intertwined with Wall Street.

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The mainstream media is partic  
reasons for that, including the fact that the graduates of those very schools are [disproportionately represented](#) in our nation's most gilded papers. But perhaps the biggest mistake the mainstream media makes is to ignore problems of market structure altogether when framing stories about the Ivy League. (As long time reader of BIG are no doubt aware, this is a problem with mainstream coverage across industries.)

The power structures within the Ivy League are also misunderstood. Indeed, many casual observers are confused why the current geopolitical conflict in the Middle East has been so disruptive to the governing apparatuses at the Ivies. Why did *this issue* precipitate a knife fight between the bureaucrats on campus and the donors outside them? Why have the donors, like Wall Street titan Bill Ackman, declared war on the Presidents? And how are the power structures governing the Ivy League related to the other problems emanating out from our elite campuses?

The fundamentally misunderstood truth about the Ivy League is that most of the problems that emanate from elite campuses are merely downstream of an overarching mission to accrue monopoly profits and an intra-institutional attempt to capture the market. The Ivy League is, as BIG has [written years ago](#), organized as a cartel. And like all ag cartels, it's degrading. This is why it's high time the power of the Ivy League be crushed. And not in the sense of mandating speech codes, but taking on the market power at the core of the story.

As I argue in my book [The College Cartel](#), the Ivy League and other elite universities organized to produce an artificial scarcity of seats. This is the fundamental basis of these institutions' power. Just as an [example](#), in 1978, Harvard admitted 2200 students, while in 2023, it admitted just 1,942. So the number of seats has shrunk,

despite the American population growing by 50% in that time. Lowering output despite high demand is classic behavior of an entity with market power.

The greater the mismatch between the applicants clamoring to get in and the seats available at the top schools, the more these universities increase their prestige as [luxury brands](#). There are some obvious benefits here, such as extracting more from would-be students, poorly represented taxpayers, and oligarchic donors. The more monopoly rents that elite colleges can generate, the more that can be captured by the rapidly growing bureaucratic class of administrators on campus whose fundamental need is entirely unclear. On the flip side, the more resources that collect in endowments, the more enticing relationships with these institutions become for hedge fund and private equity firms seeking access to large quantities of capital and the prestige needed to raise even more capital from private markets. This combination lock: (1) increasing seat scarcity and market power, (2) a growing bureaucratic class, and (3) the increasing involvement of billionaire donors, is at the core of so many issues that end up on the cover of the Wall Street Journal or The New York Times.

But the less obvious consequences of this obsession with prestige are perhaps more pernicious. It's not widely appreciated just how important universities were to validating important financial trends, such as private equity. Yale's former endowment chief, David Swensen, was a [legend in private equity](#), because he made it an investment sector for public pension funds. Once Yale put its money to work, who was the Kentucky Teachers' Retirement System to question it? And indeed, Swensen, before he passed away, [argued](#) that private equity is a "superior form of capitalism."

The market power produced by an artificial scarcity of seats on elite college campuses is at the root of everything else, and if we ever want to fix our broken higher education system, we have to deeply understand how it works. Ivy League schools have always had prestige, that was the point of their creation. But in the neoliberal era, this prestige has been expanded and monetized in new ways. The key to understanding how this

machine works is to dissect the relationship between the elite colleges and its upstream provider of ranking prestige the *US News and World Report*.

*US News'* ranking criteria incentivizes each school to embrace a culture of reactivity elite colleges want to maintain the relative prestige that attracts students to their schools to begin with, they have to unilaterally optimize to maintain their *US News* ranking. In practice, this means stagnation in enrollment growth. After all, the *US News* publishes a ranking that [weights](#) financial-resources-per-student at eight percent, student-faculty-ratio at three percent, standardized tests at five percent, and college ranking each other at twenty percent. This *US News* ranking criteria has a very simple logic. Maximize spending and resources. Minimize the number of students on campus.

Fundamentally, this means not growing enrollments, even as more and more qualified students apply from all over the world. Indeed, as economists Blair and Smetters [quantified](#) in 2021, if elite colleges simply maintained student quality since 1990 the total enrollments would have doubled or tripled. Instead, Harvard, Princeton, Yale, and Stanford only increased enrollment by seven percent between 1990 and 2015. As Blair and Smetters conclude in their model, the only way this can be explained is by factoring in a concern for prestige. To restate this conclusion in my own words, elite colleges are prioritizing scarcity in admissions to boost or maintain their *US News* ranking. Crucially, this scarcity has massive cultural implications. It shows up in [admissions scandals like Varsity Blues](#). It shows up in the tense legal battles through which ethnic blocs fight for slices of the pie at elite universities. Scarcity is why legacy preferences lead to such unfair advantages.

To clarify, there's always been some confusion about whether elite colleges are victims of the *US News'* criteria or whether elite colleges are the architects of the scarcity it produces. In other words, is this cartel structure accidental, or was it deliberately constructed this way? Jointly produced scarcity, remember, is the source of their great economic power. It's why wealthy donors gift millions of dollars to the development

office to help the admission of their sons or daughters. It's why tuition prices can be hiked much faster than the pace of inflation every year. It's why endowments can balloon into tens of billions of dollars per elite institution. Indeed, elite colleges certainly have a strong economic incentive to push *US News* to help them coordinate scarcity. But, in practice, do they? Recent [investigative reporting](#) from *The Washington Post*, published in just the last week, increasingly supports the inference that elite colleges do push the *US News* to structure the criteria to serve elite colleges' interests.

As *The Washington Post* vividly confirmed, elite universities have been communicating with *US News* to push for changes to the ranking for quite a while, at least at the law school level. For instance, "In 2019, a group of concerned law deans met with Morse and other U.S. News officials in Washington to discuss various concerns about the metrics, several deans said. Those discussions led to the formation of an advisory board, which held periodic private meetings with the publication, according to members." Importantly, this "advisory board" was kept secret. "In a statement to *The Post*, Goluboff [dean of the University of Virginia's law school] said the deans and U.S. News 'wanted to create the conditions for productive dialogue. We thought such conditions would be more likely if our activities were not public.'"

To contextualize this story, readers may be aware that many elite law schools pulled out of participating in the *US News*' law school rankings in 2022, in what was termed by the media as a rankings boycott. Yet, what readers may not know is that many of the law schools pulled out because they felt that the *US News* wasn't doing a good enough job at disincentivizing net-price competition between the law schools, even after all the discussions with the secret advisory board.

As Harvard Law explained in [a statement](#): "Over several years now, a number of schools – including Harvard Law School – have brought to the attention of U.S. News either directly or through the U.S. News Law Deans Advisory Board, the concerns that have motivated us to end our participation in the U.S. News process. In particular, we have raised concerns about aspects of the U.S. News ranking methodology (also

highlighted by our colleagues at Yale) that work against law schools' commitments enhancing the socioeconomic diversity of our classes; to allocating financial aid to students based on need."

For those uninitiated in elite college doublespeak, these institutions don't like to compete on net-price. If a law student can get a better aid package at another school that increases the competitive pressure for all peer law schools to up their financial offers, reducing net-price. By pushing the *US News* to incentivize allocating price-discounts only on the basis of "need," as defined by the university, the elite law schools were trying to structure a price-fixing cartel. When the *US News* didn't choose to accommodate this request, the law schools responded with a boycott. As Yale Law Dean Heather Gerken stated to *The Washington Post*: "We left U.S. News because it had destroyed needs-based financial aid and focused law schools on the wrong priorities." Those "wrong priorities" were presumably net-price competition.

If elite law schools have attempted to structure a price-fixing cartel through *US News*, why should any of us believe that their undergraduate arms haven't been structuring a seat scarcity cartel through the *US News* this entire time? Moreover, elite universities have a history of collusion, as evidenced from the DOJ's antitrust suit against the Ivy League in the 1990s and more recent [class-action litigation from 2022](#). This may be why calls are already mounting to investigate the collusive relationship between *US News* and the elite universities, [as evidenced by this letter to the Federal Trade Commission by Senator JD Vance](#).





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JD Vance: "Harvard, Penn, Yale are little more than hedge funds with universities attached. Why is it that we allow these massive hedge funds pretending to be universities to enjoy lower tax rates than most of our citizens?"



The important point here is that collusively produced or not, seat scarcity on the part of the elite universities has allowed them to accrue massive market power which has translated into massive monopoly rents. But there are no shareholders at these universities. No dividends or share buybacks can get these rents out of the university coffers. Instead, the rents are increasingly captured by a growing bureaucracy of administrators. From 2003 to 2021, the number of administrators on Yale's campus grew by 44.7 percent, even as enrollments were largely flat. As the Yale Daily News [explains](#), "Over the last two decades, the number of managerial and professional staff that Yale employs has risen three times faster than the undergraduate student body according to University [financial reports](#)." By some accounts there are now more administrators than students at Yale, and the other Ivy League schools aren't far behind.



A growing bureaucratic class that can only exist because of monopoly rents also needs narratives to justify its existence. As a result, the discourse around “dangerous ideas” has picked up dramatically on elite campuses around the country. Students who never needed to be coddled before, are increasingly surrounded by a bureaucratic class of censors that needs something to do. All of the campus wars over who can say what largely comes down to this basic fact. Indeed as the Yale Daily News [asserted](#) in 2021 “According to eight members of the Yale faculty, this administration size imposes unnecessary costs, interferes with students’ lives and faculty’s teaching, spreads the burden of leadership and adds excessive regulation.”

The other place these monopoly rents show up are the endowments. The boards of trustees of elite universities have increasingly been composed of hedge fund titans and private equity barons. As Charlie Eaton quantifies, private equity and hedge fund representation on elite university boards has “increased from 3 percent in 1989...to 15 percent since 2013.” And at least one reason for this growing representation is that massive pools of capital attract financial oligarchs like a flame attracts moths. Indeed as Eaton [revealed](#) in *The Washington Post*, “Harvard, Brown, Columbia, Cornell, Penn, Princeton, and Yale all disclosed in 2013 that they also had investments involving at least one board trustee.” Importantly, having a university endowment as an anchor for private equity or hedge fund serves as a signal to the rest of the capital market. The prestige associated with those universities helps financiers more easily raise the rest of the fund from other entities. (That’s how, as I wrote earlier, Yale’s David Swenson [helped legitimize](#) the entire private equity industry in the 1980s.)

All of this brings us back to the controversy of the moment, which is the campus fight between billionaire donors like [Bill Ackman](#) and [Marc Rowan](#) and the bureaucratic administrators at the elite universities. The two main beneficiaries of the college cartel’s monopoly rents are going at each other over stances around campus speech. At present, it seems as if the donor class is having some success in flexing its relative control over the Ivy League institutions. But make no mistake, divided though these two classes might be on this ideological issue, on the economic issue they are united.

They want to keep operating a cartel of capital and prestige. If we want to restore a culture of merit, affordability, and access to elite universities, it is this corrupt economic union that we must break.

Importantly, there are ways to do so beyond just the antitrust case on tuition and scholarships. The FTC and DOJ should take a closer look at the communications and relationships between private equity and hedge fund donors, and the elite colleges they give to. They should look into potential conflicts of interest like rumored sweetheart deals for university endowments and the potential preferencing of those university trustees' investment vehicles. And that's not all the federal government should be investigating.

The entire elite college market must be restructured. President Trump, for his many flaws, moved us in the right direction with a tax on endowments above \$500,000 per student. After all, if an elite university wants to avoid paying the tax, all they have to do is admit more students to eliminate themselves from qualifying. The issue with the Trump endowment tax was not in scheme but in magnitude. The levy was far too low. The tax should be moved from 1.4 percent to something approaching the regular corporate tax rate, should universities persist in seat scarcity. The tax should also be progressive, to force the richest schools to have some sort of public accountability to the society that supports them.

Another solution might be to disallow the elite colleges from privately communicating with *US News* or any other college ranking for that matter. This could be implemented through legislation or in the remedies phase of an antitrust lawsuit. Lastly, more money from the federal government should go into public universities instead of the Ivy League. From tax-breaks to [Pell grants](#) to other kinds of direct and indirect subsidies, the elite colleges don't need them. They have plenty of money. It's public universities which show a commitment to more affordable access who could really use the boost. If we make these changes, we can fix a fundamentally broken and degraded market. At the very least, we should try.

Thanks for reading. Send me tips on weird monopolies, stories I've missed, or comments by clicking on the title of this newsletter. And if you liked this issue of BIG you can sign up [here](#) for more issues of BIG, a newsletter on how to restore fair commerce, innovation and democracy. If you really liked it, read my book, [Goliath: 100-Year War Between Monopoly Power and Democracy](#).

cheers,

Matt Stoller

P.S. If you are interested in a job working on market structure and monopolies, email me your resume. I know of job openings in a bunch of different areas at multiple levels. If you have expertise in a specific sector, like utilities or health care, and think you can make a difference in educating policymakers, contact me. If you are just starting out as a graduate and are interested in learning about this area, let me know. If you've been a journalist and got laid off because Google drank your publishers' milkshake, and if you care about anti-monopoly thinking, get in touch. Operations, communications, press, whatever you do, if you want to work in this area, let me know.

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Simon Dec 14, 2023

♥ Liked by Matt Stoller

Taxing endowments above a certain per-student scale is an amazing idea. It seems eminently rationalizable: the non-profit status of these institutions derives from their educational purpose.

If I ran a small animal shelter with an endowment of \$20M, and spending on staff to match, some feels off.

Another possibility is to limit federal aid to students who attend over-endowed universities; the government should not be paying for a service that the non-profit is well-equipped to provide.

Another possibility is to consider endowments when covering "overhead" on research grants. Current overhead is around 50% -- for every \$1 the researcher gets, another 50¢ goes to central administration. But this could be reduced when endowments reached a certain level.

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Linda Weide Dec 14, 2023 *Edited*

This is why my daughter is in University in Germany. After having been in private schools in the US through high school, it is good for her to be in a place where no one gets "A" grades all the time. In fact, because I have a lot of European friends in the US, who also attended grad school in the US elite institutions like Harvard, they say that they experience the grade inflation. American students coming to Germany are told not to expect all A grades because that does not happen. On Thanksgiving, my daughter had an exam, she told me that the whole class, most of whom are not Americans, said they would be thankful if they passed the test. In fact only one other student is from the US, and another German student who went to an elite American high school. There is a sorting system but really about academic merit. When her classmates were applying to colleges in the US, except for those who also applied in Germany, my daughter was freaked out by her advisor. Her advisor was aiming for Ivies, because that is where she had gone. She told her that her grades were not enough, she should start a club and also a charity. She demoralized her. So, I asked whether she was planning

going in the US or Germany, and she said Germany but she might want to consider the US. So, I had my daughter attend a session on financing. She heard that Ivies don't give merit scholarships, and I had told her we would not pay for an Ivy League school because we think they are a racket. My daughter got that and went back to her original plan of going in Germany. So, then, when she found out about not having any clubs, I said, do you know how much Germany cares about clubs? Zero. In fact, she did not even have to write any personally revealing essays. She just submitted her grade 11 and other paperwork. Then, she had to take an entrance exam in all of the places that invited her to take the entrance exam. She is exposed to a diverse group of people in her University in the capital city. You know that Ronald Reagan supported the change from government largely funding higher education, to students funding it, and that is not a model that invests in the future of the country. Right now, it would be wise to develop immigration policies that invite people whose educations have been paid

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