

Those colleges that depend upon endowment have tended to move into common stock to protect against the inflation. Of course, one result is that they tend to get lower returns on their investments, especially when they move into growth stocks. There are certain disadvantages in moving into growth stocks for colleges because they tend, therefore, to favor later generations when presumably higher incomes will be available rather than the present generation which is having difficulties of its own. The objective of purchasing growth stocks is of course to obtain higher returns on investments in the long run. Unless bonds yield, say, 2 percent more than stocks to offset inflationary trends and, say, 3 percent additional reflecting growth, the case for bonds is weak indeed. Yet the colleges have been slow to move into common stock. For example, in 1926 institutions of higher learning had about 9 percent of their funds in common stock; by 1933, partly to take advantage of bargains that could be had in common stock, the amount had risen to almost 13 percent. Even by 1947, according to one study, only 30 percent was in common stock and the most recent figure suggests 50 to 60 percent in common stock. It should be noted that the major part of the increase in investments in common stock has been not the result of going out to purchase more common stock but the continued rise in their value.¹⁴

This tendency to protect against inflation is, of course, also evident in the holdings of stock by other institutions. For example, the Fund for the Republic report shows that according to a stock exchange estimate, institutional holdings of stock in 1949 were \$76 billion and in 1957, \$196 billion, or an increase of 12.4 percent of the total outstanding to 15.3 percent. The largest relative increases were by investment companies, open-end, with an increase of 379 percent, and non-insured pension funds from \$0.5 to \$5.7 billion, or 1,140 percent. This can, however, be only a rough estimate for the figure given for college and university endowments of \$2.4 billion in 1957 seems excessive on all counts. Financial intermediaries, that is commercial banks, mutual savings, private life insurance companies, etc., do not seem to have increased their holdings in recent years. In 1939 they held \$22.2 billion and in 1957, \$20.5 billion.¹⁵

What is striking is the large proportion of net purchases of common stock by institutions. Apparently in 1954 they purchased \$1,520 million net as against \$120 million by foreigners and \$460 million by domestic individuals. In other words, they purchased about 3½ times as much as domestic individuals though their total holdings in 1949-57 was 12 to 15 percent.¹⁶ These figures do point to an increased tendency for institutions, so far as they are not restricted by legal provisions, to protect themselves against inflation by purchasing equities.

¹⁴ See especially J. H. Cain, "What Is Happening to College and University Investment and Income?" American Council on Education Study, June 1941, p. 30; J. I. Kirkpatrick, "A Study of University Endowment Funds," 1947, p. 41; The Boston Fund, "A Study of the College and University Endowment Fund," June 30, 1956; Vance, Sanders & Co., "Brevits," vol. X, No. 21; Barron's, June 17, 1957; also my forthcoming book on "The Economics of Higher Education."

¹⁵ R. Tilove, "Pension Funds and Economic Freedom," a report to the Fund for the Republic, pp. 38 and 40.

¹⁶ Ibid., p. 43.