

GROWTH AND EXPANSION OF PRIVATE
UNIVERSITIES IN THE DISTRICT OF COLUMBIA

The case of George Washington University

AN ECONOMICS PRIMER

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I. EXECUTIVE SUMMARY

Washington has never had an effective mechanism to deal with university growth. Instead, it has attempted to manage university expansion through a combination of ad hoc zoning decisions and costly litigation. This February, after years of neglect, the DC Board of Zoning Adjustment did finally place some long overdue conditions on the expansion plans of George Washington University (GWU). The University responded by filing two lawsuits and an injunction against the District, asserting that Washington's entire body of campus-plan regulations was unconstitutional and void. This tutorial-style paper aims to contribute to an understanding and public discussion of the economics of university growth and its implications for public policy, with a particular focus on GWU. Among its highlights:

1. GWU's has grown beyond optimum size and its net economic impact on the District is negative. While the cost of hosting the university is born by the District alone, the University's educational benefits flow largely outside the District to other jurisdictions.
2. GWU has a built-in growth bias that knows no limits and recognizes no boundaries. Its continuous expansion shifts costs from the University to the District and harms the surrounding residential communities.
3. The University's rationale for growth does not stand scrutiny and its expansion is in conflict with its professed quest for quality.
4. At considerable opportunity cost, the District has been generous to GWU, but its benevolence has not been recognized.
5. The existing campus-plan review process is seriously flawed. It does not work. Student enrollment is an appropriate, legitimate, and by far the most effective way of regulating university growth.
6. Ultimately, policy makers have to make a judgment as to whether the District is getting its money's worth by continuing to subsidize a private university occupying some 43 acres of the city's choice residential real estate for educating students from throughout the United States and 87 foreign countries.

II. INTRODUCTION

The growth and expansion of private universities in the District, a decades-old process that has been operating steadily and quietly with little discussion, has finally caught the public eye. As university campus plans come under growing public scrutiny, the shortcomings of the review process become increasingly apparent. There is wide dissatisfaction with the campus-plan approval process, and awareness that the issue goes beyond just local university-neighborhood disputes, or Town-Gown skirmishes. The sheer magnitude of university presence in the city makes it clear this is no longer an issue of local zoning, but of land-use planning. One outcome of this recognition has been the recent transfer of campus plan review from the Board of Zoning Adjustment (BZA) to the DC Zoning Commission.

This paper attempts, in readable non-technical terms, to contribute to an understanding and public discussion of the economics and policy implications of university growth and expansion. Obviously, there are legal, administrative and jurisdictional issues governing the relationships between the District and the universities. But these are beyond the scope of this paper, which deals only with the policy considerations themselves.

While the analysis pertains to all Washington's private universities, the paper has a particular focus on George Washington University (GWU), the District's largest. While perhaps not a representative prototype for all the District's universities, GWU is nonetheless a good case study as it distills the issues, bring them into sharp focus, and provides some useful insight into the economics and finance of a private university.

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III. ECONOMICS OF UNIVERSITY GROWTH

1. The University and the Neighborhood.

Any private university located in the heart of a metropolitan urban area ("Urban University") recognizes it has entered into a bargain: accepting the advantages of ease of operation, city amenities, and an edge in recruiting students and faculty, in exchange for the disadvantage of strict limitations on its size and operations, when compared to an open countryside campus. These limitations and restrictions are a fundamental necessity of urban reality, where land is scarce and location crucial, and where density heightens neighborhood effects, competing claims, and transformation of existing and potential land uses.

Consequently, the expansion of universities into their surrounding urban neighborhoods generally falls into one of two very different categories: One welcome, the other resisted. When located near a hopelessly blighted neighborhood, a university expansion is appreciated for the considerable risk it takes in property acquisition and rehabilitation. It is well-received because the results often change the neighborhood for the better. A successful example is The University of Chicago's projects in the Kenwood and Hyde Park communities of Chicago's South Side.

The second category includes universities located in the midst of well-functioning, stable residential neighborhoods -- for example, Northwestern University in Evanston, Illinois. Once the university has reached an optimum size, further expansion is invariably -- and rightfully -- viewed first with concern, and eventually with alarm. Restrictions are soon placed on any further encroachment. In the District, George Washington University clearly falls into this category.

2. Campus Plans.

District universities are required to file campus plans with the Board of Zoning Adjustment (now with the Zoning Commission) and obtain its approval. The arguments advanced in support of expansion plans rest mainly on the premise that universities contribute to the District's economy -- the mantra of "economic development," which is our main interest here. Also mentioned are contributions to higher education, knowledge and

scholarship, and to the cultural life of the city and the community.

3. What Constitutes Economic Development?.

Without quibbling about a precise definition of economic development, it usually connotes a synergistic, sustained growth of multiple lines of enterprises out of a seminal investment in business, industry and commerce. At the very least, economic development is an undertaking that leaves the economy (neighborhood, city) better off because the project's long-run benefits exceed its costs -- broadly defined to include *all* costs and benefits (economic and social) affecting the District. To obtain District approval, the university itself must carry the burden of showing that its expansion meets this fundamental and overriding test.

Indeed, Washington's relevant laws and regulations recognize that a university's expansion imposes costs on the community and have specifically provided for neighborhood protection against objectionable impact (see p. 17, #12 below).

4. The Incidence of Costs and Benefits.

Campus plans are characteristically deficient in conveying their full impact on the District; they detail the benefits, but omit the costs altogether. While most of the *benefits* flow to the Washington Metro area and beyond, the *costs* are imposed entirely on the District itself, and specifically on the affected neighborhoods. Indeed, the general disparity between the placement of costs and the distribution of benefits is at the core of the District's economic and political predicament. It is a classic case of what is known in economics as "Diffused Benefits and Concentrated Costs." This being the nation's capital, Washington is likely already a "net benefits exporter" in its balance of trade with the rest of the world. University expansion only further aggravates this imbalance.

The correct unit for the costs/benefits data must always be the community, the District -- not the university, not Metro Washington, not the nation, not the visionary cause of higher education. The applicant ultimately must carry the burden of showing how and why the plan is a net benefit to the *District*. Yet campus plans sidestep this issue altogether.

5. University Optimum Size.

A university's entire existence is not at issue -- it is here to stay -- only its size. Thus, the central issue for public policy is: What is a university's optimum size? In other words, a size beyond which further expansion is deemed harmful to the District's long-run interests and, in principle, ought not be granted. Obviously, this optimum size would be greatly affected by a university's particular location and circumstances. If one is unwilling to accept the notion of optimal size, it would follow that a university ought to continue expanding ad infinitum into the city's limited land with no constraints or regard for consequences.

How does one arrive at the optimum size? Who should determine it? How does one measure it?

6. University to Determine its Own Size?

It is tempting to think that university officials are in the best position to settle these issues, much as General Motors' own management decides what's good for GM. But universities are very different. While GM buys its resources at market prices and pays taxes, university use of the city's scarce resources is tax exempt, highly subsidized, and does not reflect the true opportunity costs of taxpaying forgone alternatives. Whereas the optimum size of a business is determined by the discipline of the capital market -- based on performance in the market place as reflected in profits and share prices -- there are no such constraints on the size of a university.

7. University Growth Bias.

It is a common misconception to view university growth plan as a "project" akin to a voyage or a military campaign, having a particular aim in mind, and coming to an end once the destination has been reached. In contrast, with exceptions noted below, university growth is an unremitting, endless process, a way of life, with "growth" itself as the goal. From its own point of view, there is literally no upper limit to a university's size. A university does not attempt to optimize its size, only to maximize it. Unlike a business, for which growth is often a do-or-die proposition, the growth of a university is highly optional, with most opting not to grow in size, but consolidate quality instead.

The pressures for university expansion need to be properly understood, but they can only be briefly sketched here. University growth bias stems fundamentally from its nonprofit structure and absence of well-defined ownership. In the corporate world, owners (stockholders) hire management, reward/discipline them based on performance, and keep (own) the residual (profits), after all contractual claims (employees, suppliers, bondholders) have been paid. A superior corporate executive can be monitored by company profits and properly compensated with higher pay and incentive stock options. That is the fundamental reason why corporate management wants to maximize company profits, not size. They have the incentive to economize and run things efficiently; they get neither pay nor glory for presiding over a company with huge assets, large payroll and many employees -- only for company profits.

In contrast, a university has no stockholders, but what is termed "stakeholders" -- various constituent groups pulling in different directions, often resulting in larger size. More importantly, the bottom line of a nonprofit is to show no profit. If there is one, it has to be expensed in construction projects, higher executive pay and perks, amenities to employees, more assistants to ease the work load, heavier carpeting, finer architecture, pleasing surroundings, and the like. Finally, there is no way for university executives to share with owners (stockholders) part of the bottom line "residual," because there isn't one. The consequence is what is known in economic jargon as: Expense preference, rent-seeking behavior, and the pursuit of non-pecuniary benefits.

That's why university officials generally love size; they love a big operation, growth and expansion, more programs and large payroll -- the bigger the better: Pay is higher, perks larger. Non-pecuniary compensation, such as higher visibility, social standing in the community, media impact and political influence -- are ways of getting at the "residual" when cash and stock options are not a choice.

Only at distinguished universities and top liberal arts colleges, can one observe a balanced distribution of power between the Board of Trustees and the administration, on the one hand, and faculty governance on the other hand. These institutions can better resist these entrepreneurial growth pressures because their output has better quality controls: The university's reputation for excellence dictates self-imposed constraints for maintaining high standards of research,

scholarship, and quality educational programs. They aim at an optimum, not maximum.

8. Growth Constraints Must Come from Outside.

For other universities, however, constraints on growth and expansion are never going to originate from within, but must come from without, from the regulatory bodies set up for that purpose. Once optimum size has been reached, university expansion is neither an imperative, nor a right; it is a privilege. Universities do not have to grow, they simply choose to. Zoning boards and planning commissions across the nation evince no hostility to higher education -- and need not feel guilty -- when they impose strict limits on the expansion of urban universities. They are just doing their job.

9. The Need to Formulate Policy.

Sooner or later, at the highest legislative and policy echelons, this city will be forced to decide what it intends to do, if anything, about the continuous expansion of private universities in the District. Recent zoning hearings and court filings provide ample evidence that this trend is likely to continue unabated, if not to accelerate. The District has Zoning Regulations and a Comprehensive Plan, but no mechanism to deal effectively with such growth. In its absence, the long run is being shaped by fits and starts through a combination of ad hoc zoning decisions and costly litigation, while university expansion continues unabated. As time goes by, universities accumulate more political and economic clout and the District is increasingly put at a disadvantage at curbing their further expansion. One university (GWU) alone has been allowed to become already the largest private employer in the District -- a dominance not boding well for economic and political balance. Moreover, by combining resources to form The Consortium of Universities of the Washington Metropolitan Area, District universities have been able to speak in one voice as a unified group, take concerted action, and lobby further to advance their interests.

It has been said that unpaid community volunteers were no match for the universities' economic and political resources, their full-time professional management, outside legal counsel and publicity machine. The day may soon arrive when the District itself will be no match for them.

10. Some Public Policy Considerations.

The one paramount, overriding criterion is: Considering all advantages and disadvantages, does a university campus plan leave the District better off on balance? Is the net impact positive or negative? Consider the case of GWU as an illustrative example.

a. Negative Economic Impact.

(i) Benefits: GWU's expenditure on goods and services has been cited as evidence of its economic benefit ("Economic Development"). However, this spending can count as a benefit if, and only if, it flows *primarily* to businesses and employees residing in the District. This most definitively is not the case as an overwhelming share of its expenditure on goods and services flows outside the District (primarily to Maryland and Virginia).

Although precise figures are lacking, according to GWU's own commissioned study (for 1998), only 31% of its employees were DC residents, and over 52% of the latter were students. Of GWU's \$267 million payroll, less than 21.5% was paid to DC residents. According to its recent lawsuit, the University's income tax withholdings for the District were only 13% of total withholdings. A *Washington Post* estimate of August, 2000 cites 19.5% as the DC's portion of GWU's spending on goods and services. Thus, about 80%-87% of GWU's "economic development" flows out of the District to other jurisdictions. The benefits are widely diffused.

Even if these benefits were to be concentrated fully in the District, the economic development generated by the University's expenditures is very different in nature and quality from that resulting from, say, Boeing selecting Washington (instead of Chicago) as the site of its headquarters. Economic development is not an event, but a growing, self-sustaining process of proliferation of new economic activity sparked by the initial investment; it results in attracting additional taxpaying permanent residents who want to live in the city. This sharply contrasts with GWU which largely supports the retail trade of hotels, restaurants, entertainment and gift shops serving students, short-term visitors and tourists, of which this city has already an abundance. What this town needs is more taxpaying permanent residents. But the University's expansion has soaked up scarce residential land that could otherwise be available for them.

(ii) Costs: In contrast, it is the District alone that bears the entire cost due to GWU's presence, with particular impact on the adjacent communities (Foggy Bottom/West end). The costs are highly concentrated. They include:

- (a) The cost of providing municipal public services (police, fire, traffic, street work, lights, utilities, etc.).
- (b) The cost of GWU-owned, tax-exempt properties for University use removed from the District's tax base and the resulting loss of income and sales tax revenue generated by the economic activity displaced by GWU's real estate acquisitions.
- (c) The costs imposed on the neighborhood and on the District at large by changing the character of a stable residential community now beset by congestion, nuisance, rowdiness and other facets of student life, and their impact on property values, population shifts, and on the need to preserve a healthy mix of institutional versus residential housing in a city already dominated by the former.
- (d) The opportunity costs of foreclosing -- possibly forever -- alternative private development (residential and commercial) of land occupied by a permanent monolithic institution.

Irrespective of the precise figures, the very nature of diffused benefits and concentrated costs and their relative order of magnitudes are sufficient to conclude that the GWU's net economic impact on the District is decidedly negative.

One must fully appreciate the nature and magnitude of the District's fiscal loss of revenue due to GWU's expansion. It is a considerable sum of money in the budget of a struggling city besieged by numerous problems -- including a deteriorating infrastructure -- when it is already shackled with \$64 billion worth of tax-exempt properties costing it \$1.3 billion a year in property tax revenue. GWU has been reducing the city's tax base in two ways:

- (a) Purchasing large numbers of properties and converting them for university use, thereby costing the city the loss of property taxes, corporate taxes, food & beverage taxes and

hotel taxes, as well as income taxes (DC's largest tax revenue category) from DC residents GWU has displaced.

- (b) Through its deliberate policy of not housing its growing number of students within campus boundaries, GWU has been able to convert for its own use a very significant volume of housing by forcing its students on the neighborhood's limited stock of townhouses, apartment buildings, condominiums and co-ops -- turning them into virtual university dormitories and causing an exodus of taxpaying permanent residents. This has decimated large chunks of a prized residential community -- the lifeline of any healthy city.

Although no precise numbers are available, a December 1998 ANC-2A document (updated 4-12-00) prepared in connection with the DC Comprehensive Plan cites yearly figures of \$50 to \$60 million as a conservative estimate of District tax revenue loss due to GWU. The tax revenue collected -- directly and indirectly -- from all university operations was only a small fraction of the tax loss to the District. Thus, the University's net fiscal impact on the District is also decidedly negative.

Therefore, from the District's viewpoint of strict economics, GWU is a net cost, not a net benefit. Ultimately, policy makers have to make a judgment as to whether the District is getting its money's worth in subsidizing a private university occupying some 43 acres of the city's choice residential real estate for the "education of 16,000 students from throughout the United States and 87 foreign countries?" (figures from GWU's lawsuits, see Appendix below, reference on p. 20, #2).

b. Education as a Benefit.

The District may wish to take a hard look at what precisely is the university intellectual contribution to the production and dissemination of knowledge, and to research and scholarship. Here, national reputation and ranking play a pertinent role.

It must be acknowledged that many urban universities are not among the distinguished centers of research, scholarship and education. Most of what they do is teach, launch appealing educational programs, grant degrees and diplomas, and -- capitalizing on their advantageous urban location -- draw students. Most of what they offer is readily available elsewhere in the country at hundreds of other similar colleges and universities. Should any one of them close down, it would hardly

leave a mark on higher education. Whether GWU falls into this category is a question that hasn't been studied.

However, it would be hard to argue that GWU has done for Washington what Harvard and MIT have done for Boston, or Northwestern for Evanston. Anyone looking at its spectacular growth, whether measured by square footage, dollars or enrollment, cannot escape the conclusion that this city has been receptive, indeed quite generous, to the GWU. There is little doubt that University's growth fortunes and high student appeal would have been very different had it been located, say, in Peoria, Illinois, instead of in a peaceful and stable neighborhood of an exciting city, at the heart of the nation's capital, with a Metro station right in the middle of campus. While the University's contribution to Washington's economy has been widely publicized, the city's benevolence -- at considerable opportunity cost -- and its pivotal impact on the University's economic well-being have not been similarly recognized or acknowledged.

c. Contribution to Culture and Community Life.

To distinguish the rhetoric of service to the community from the service itself, the District might wish to assess the quantity, quality, and extent of GWU's commitment and its involvement in contributing to the cultural life of this city, over and above recreational programs that universities normally provide their students. University service to, and relationship with, its immediate community are also of particular interest. It is pertinent to examine community service and outreach programs which some universities offer, but GWU avoids. A case in point: non-degree, non-certificate programs of continuing education. Although not generally considered among the great money-makers for universities, they nonetheless represent a genuine service to the community as they cater to the city's adult residents -- not to outsiders -- and make a substantial contribution to the city's life.

An assessment of GWU's contribution to culture and community life means examining the quantity and quality of its offerings, as well as their incidence. Some of these contributions (culture and service) have a local component, but the bulk of them (knowledge and education) are widely diffused and serve the nation (and the world) at large, but are of no direct benefit to the District itself.

IV. THE UNIVERSITY POSITION

"We can't bring in more students or professors unless we have buildings. If we don't grow, we will fall and die."
(Stephen Joel Trachtenberg, President GWU, in The Northwest Current April 25, 2001).

1. Perpetual Growth.

The University is acknowledging that its expansion is an endemic, ongoing process with no end in sight, and with no particular aim in mind. But do-or-die -- the growth imperative invoked in defense of its quest for continued expansion -- is a novel argument, by no means an established doctrine in the annals of university development. Most universities do not subscribe to it. GWU has never explained why and how simply staying at its present, rather large, size could harm students, the cause of higher education, or the District -- let alone inevitably lead to its own demise.

2. Financial Exigency.

With reference to the above mentioned quote, for what purpose or objective does GWU want to "bring in more students and more professors"? Presumably, the answer is: "so it can grow," or "so it can buy more real estate and build more buildings," or "because the District can't stop it." During its campus plan hearings, the University justified the quest for growth not by specific programmatic needs, educational philosophy, or institutional mission, but bluntly as fiscal expediency: By professing a small endowment and claiming that it must, therefore, increase student enrollment to generate money. This rationale is revealing; it raises a number of questions:

- (i) Does the University, in fact, have a small endowment?
- (ii) For what specific objectives does it want now a large endowment?
- (iii) As one of the nation's oldest universities, why doesn't it rely more heavily on fund raising from foundations and alumni, as other universities do?
- (iv) Why has it constantly relied, and continues to rely, instead, on increased enrollment?

(v) Is the university, in fact, facing a fiscal problem?

3. Internal Finances.

This is not to imply that the District ought to be running this private university. Ordinarily, it isn't the District's business to concern itself with a university's internal finances. However, for its own financial reasons, GWU is now asking the District to allow and approve the University's expansion, which, in turn, affects the District. Thus, university finances becomes a matter of keen interest to the District. This issue, however, was not even raised during the campus plan hearings.

4. The District's Stake.

The District cannot be indifferent to GWU's financing choice: Fund-raising imposes costs on the *University*, while enrollment-raising imposes the costs on the *District* and the neighboring community. Even if one accepts the University's position that it, indeed, faces fiscal problems, is it sound public policy to allow it to solve them by exporting its own problems to the District?

5. Quality Education.

While considering itself as "one of the nation's leading universities," GWU recognized that at least 50 other universities ranked ahead of it (by U.S News & World Report). Accordingly, the University's campus plan declared that its number-one goal was to elevate its rank from second-tier to a first-tier university.

It is pertinent to point out that *enrollment-raising* as an easy substitute for *fund-raising* clearly contradicts this goal. The road to first-tier status is one of *raising admission standards* and *lowering enrollment*, not the other way around. If GWU is indeed serious about its stated goal of attaining first-tier status (not necessarily limited to U.S. News & World Report's popular ranking), it must know that it would need to change significantly its priorities and redirect its resources, since the conventional wisdom is to invest in research & development, library and laboratory facilities -- not in real estate, and to raise admission standards, reduce student enrollment and class size -- not increase them. In short, growth in stature rather than in size, quality rather than quantity, consolidation rather

than sprawl. This stands in stark contrast to the perpetual expansion policy the university has been pursuing until now.

6. The BZA Decision.

As the BZA hearings' record shows, over the past fifteen years GWU has been relentlessly pursuing a systematic, acquisitive and expansionist real estate drive, both inside and outside its prescribed campus boundaries, in violation of the stipulations and commitments of prior planning documents, and in conflict with zoning regulations and the DC Comprehensive Plan. Unable to stop the University's real estate acquisitions and absent any other compliance/enforcement mechanism, the BZA earlier this year finally approved GWU's campus plan subject to conditions linking its student enrollment to on-campus student housing. The University's response to this attempt to regulate its expansion was the filing of two lawsuits and an injunction against the District.

In its pending lawsuits, the University claims the above-mentioned conditions are an unconstitutional taking of property without due compensation; a denial of equal protection for being treated differently than other landlords; a violation of its academic freedom; a violation of its right to expand and house its students outside campus boundaries, and of its right to conduct its operations in accordance with its educational mission. It argues that its ability to function will be severely and irreparably impaired, and is claiming damages in the millions of dollars through lost tuition and the increased need to borrow funds. In essence, the university claims that its growth and expansion is not a privilege, but a right. The courts will ultimately have to weigh the University's rights and interests, against the rights and interests of the District and its residents.

Overall, the University's rationale for eternal growth has been somewhat contradictory and hard to follow. GWU has justified its continuing expansion drive because: (a) it simply must grow (do-or-die), (b) it needs the money enrollment growth brings (hardship), (c) its growth drains money (real estate acquisitions), (d) it is good for the District (economic development), and -- if you like none of the above -- (e) because it has a right to do it anyway (Constitution).

7. Expansion as Leveraged Growth.

The central policy issue here is a university's optimum size -- optimal for the District, not necessarily for the university.

The record of the BZA campus plan hearings provide ample evidence that GWU had some time ago surpassed its optimum size and that its continuous expansion has damaged the adjoining historic neighborhoods and continues to pose a threat to the small stock of residential housing this city is so eagerly trying to preserve and revitalize.

The University's success in obtaining District approval for successive campus expansions has been coupled with its deliberate policy not to house its growing number of students within campus boundaries, but to force them on the neighborhood. This has been an ingenious and powerful use of the principle of leverage (operational and financial).

The number of students plays a dual role in GWU's economics: (1) as the primary source of revenue, and (2) as the base, fulcrum, for leveraging the physical campus (real estate, buildings). The campus then serves as the base, a fulcrum, for the further leveraging of more students, who in turn, are the fulcrum for more campus, and so on. This infinite cycle of perpetual expansion must soon come to an end -- as it does for most universities -- when students are housed within campus boundaries. But when they are housed outside campus (with city's acquiescence) -- this can go on forever until, theoretically, the university takes over the entire city. If students are to campus as a motor is to a car, imagine the magic of inventing an automobile that need not carry its own motor, which can be detached and conveniently left with the neighbors to operate and maintain while you drive away..

8. Campus Boundaries: The Tail that Wags the Dog.

GWU first creates facts on the ground *beyond its boundaries*, then lets the zoning authorities try to catch up with it. When the latter find themselves either unable or unwilling to do so, the BZA finally expands the campus boundaries in order to gain ex post jurisdiction. Ironically, the University objects (see GWU's lawsuits). The paradox of the existing system is that the BZA cannot gain full control over campus expansion beyond its existing boundaries without *expanding* these very boundaries, which in itself means failure to control. Absurdly, the BZA can

have full control over campus expansion only if and when campus boundaries are enlarged so as to encompass the entire District. And the University would still object! Nothing can better illustrate the pathological character of the exiting campus-plan review process. The system simply does not work.

9. Regulating University Growth.

If the city ultimately decides to get serious about regulating university growth, what might be the policy parameters?

It is rather inefficient, and ultimately futile, to regulate incrementally, in piecemeal fashion, the conduct of an institution by focusing on its *behavior* (community service, student rowdiness, traffic congestion, and the like). The most effective approach is to regulate its *structure* (student enrollment, campus boundaries, square footage, etc.), monitor compliance, and enforce it by a system of rewards and punishments. Structure drives behavior. It is self-defeating to leave the structure largely unregulated and focus on behavior, much less expect good behavior when the structure provides no incentive for it. The antitrust folks learned this simple truth long ago.

Failure to do so dooms the regulatory authorities to continually deal with consequent *behavior*, rather than address *structure*. They will forever continue to hear about university "endeavors" and "commitments" to change student conduct and ameliorate the adverse impact on the community. They would be substituting the rhetoric of *effort* for the efficacy of *results*. Regulating behavior puts the onus on the *District*, while regulating structure put the onus on the *University*.

The foregoing is no more than an application of the well-established economic principle of "Rules versus Authorities," which posits that in carrying out public policy, it is far preferable to have a stable set of established rules, rather than delegate to regulatory bodies the interpretation of vague objectives and empower their authorities with considerable discretion and judgment.

10. Size as the Sole Focus.

What drives structure? One variable -- size. Once an optimal size has been determined, that is all public policy needs to focus on. Needless to say, univeristy's optimum size would vary depending on its location. To wit, GWU's optimum size for a

campus in Anacostia or North Capitol would be very different from the one in Foggy Bottom/West End.

What is the appropriate measure of a university's size? Enrollment? Acres of land? Total square footage of real estate properties owned in and out of campus boundaries? The number, frequency, and severity of residents' complaints? This is not the place to discuss all this, but merely to point out that GWU's measure of size is crucial to the solution.

11. Measurement of Size - Enrollment.

The measurement of size is a complicated problem of economics and statistics. To simplify matters, the answer depends on the purpose at hand and, plainly stated, it means: "size is as size does." Since a university's size and its impact on the community are driven by the number of students, it follows that *enrollment* is a legitimate and appropriate measure of university size. The number of students -- in totals, not ratios -- is ultimately the *only* effective policy parameter for regulating the growth and expansion of the District's private universities.

12. The Legal Framework.

Recent experience shows that enrollment is, indeed, a very good measure of a university's size and an effective instrument in controlling its expansion. For decades now, GWU has been accustomed to BZA's "approval with conditions" of its campus plans, and has adapted well to getting around them when it wished to expand. These weak and un-enforced (behavioral) conditions -- motivated more by a desire to placate an irate community than to constrain the university -- proved to be totally ineffective, as GWU's uncontrolled expansion clearly proves. All this has suddenly changed with the BZA's recent ruling, which for the first time linked the university's *behavior* to its *structure*, i.e., student enrollment. The university was finally faced with real prospects of having to change its conduct. Therein lies the significance of the BZA ruling and the university lawsuits; they attest to the effectiveness of enrollment as a measure of control.

DC Zoning Regulations and the DC Comprehensive Plan both recognize the necessity for controlling university expansion and mandate that campus plans can be approved only if the plan "is not likely to become objectionable to neighboring property because of noise, traffic, number of students, or other objectionable conditions" (11 DCMR 210.2, emphasis supplied).

The underlined phrases seems to provide proper grounds for the natural requirement that universities file an "economic impact statement" as part of their campus plans. One major flaw of the campus-plan review process is that, oddly, they were never required to do so. Most importantly, the language of the law makes a specific reference to the "number of students." Thus, the law requires effective control and provides the instrument to do so; what remains is the will to implement it.

V. CONCLUSIONS

There was a time when any real estate acquisition in the District by anyone, for any purpose, was hopefully deemed "economic development" and held to be grounds for generous concessions. But times have changed. Many hope that a new era has finally dawned on the city. There are signs that Washington is increasingly asserting itself against projects which offer no net long-run benefits while foreclosing other economic opportunities (e.g. tech hotels).

The growth and expansion of private universities is not simply a narrow issue of local zoning, but of District land-use planning. The manner in which the District ultimately decides to deal with it is a referendum on the future of Washington as a viable city. Will Washington claim its rightful place among the nation's top livable cities, or continue to be known primarily as a city of institutions, museums and monuments for tourists, visitors and students? At stake is whether untaxed private institutions shall be allowed, chiefly for their own benefit, to continue to expand without limit into scarce land to accommodate visitors and short-term residents, or whether the city would be better served by laying down the groundwork for a healthy core of commerce and a tax-paying base of permanent residents. The outcome, however, is nothing short of a litmus test of who actually runs this city -- its elected officials, or powerful institutions acting in their own self-interest.

VI. READINGS

1. Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Cost and Ownership Structure," Journal of Financial Economics, 1976, vol. 3, pp. 305-360.
2. Armen Alchian and Reuben A. Kessel, "Competition, Monopoly and the Pursuit of Money," Aspects of Labor Economics, Princeton University Press, Princeton, N.J., 1962, pp.157-183.
3. Sol S. Shalit, and U. Sankar, "The Measurement of Firm Size," The Review of Economics and Statistics, LIX, No. 3, pp. 290-298, Harvard University, August 1977.
4. Sol S. Shalit, "The Mathematics of Financial Leverage," Financial Management Journal, IV, No. 1, pp. 57-66, Financial Management Association, State University of New York at Albany, Spring 1975
5. Henry C. Simons, "Rules versus Authorities in Monetary Policy," Economic Policy for a Free Society, Chicago & London; The University of Chicago Press, 1949, Sixth printing, 1969; pp. 160-183.

VII. APPENDIX

Point - Counterpoint

Following are some arguments (condensed and paraphrased) made in defense of university expansion in the District, followed by the counter-arguments. Emphasis is on the underlying economic reasoning.

1. University as Rescuer.

The university did not help destroy the neighborhood; it rescued it from decline. The neighborhood was not thriving.

GWU has often defended its expansion by presenting itself as a rescuer of Foggy Bottom/West End, pointing out the latter's humble real estate origins. The argument is erroneous as real estate markets invariably experience periods of boom and decline, followed by change and recovery. But they do so only when real estate ownership is widely diffused, thus enabling properties to circulate and exchange among competing uses. This opportunity for the marketplace to do its work is entirely foreclosed, however, if ownership of large and contiguous parcels is accumulated and concentrated in one monolithic entity, a permanent institution like a university; it would then be occupied in perpetuity. This is the fundamental rationale for having a campus plan to begin with, and why such a plan must include well-defined boundaries. It is precisely the reason why zoning regulations rightly treat universities differently from other potential users -- because they are permanent and monolithic.

2. University as Victim of Discrimination.

"There is no rational basis for the BZA's Decision to impose greater restrictions on the University's ability to use its property than are imposed on other persons who own or use land in areas zoned for residential or special purpose uses." (GWU's lawsuit 4-26-01, U.S. District Court; IV. Denial of Equal Protection, p. 29).

"The District regulatory scheme, adopted by the Zoning Commission pursuant to D.C. Code #5-424, applies different, more exacting standards for approval of land use by universities based in the District of Columbia than are

applied to land use by other similarly situated landowners. Including commercial users, private developers of high density residential property, and even colleges and universities based in other jurisdictions but operating in the District of Columbia." (GWU's lawsuits, *ibid.* p.30).

As explained in (1) above, the economic and real estate implications of a permanent monolithic institution are very different from those of other land users, requiring as they do a legitimate government interest in the service of public policy.

3. University Fund Raising.

The university must increase enrollment to raise money for its operations and relying on fund raising is not a substitute as most grant money is restricted and earmarked for specific purposes.

Under the circumstances, it is difficult to understand a university's reluctance to accept foundation and corporate funding just because it is restricted to specific programmatic and research goals (what's wrong with that?), and does not allow much leeway in pursuing, say, real estate acquisitions.

4. Sharing the Cost of Municipal Services.

The university pays for many of the campus municipal services (light, landscaping, police) out of its own budget.

These expenditures should properly be viewed as customizing municipal services for a university's own needs. They do not lighten the burden on the District any more than when people install a water filtering system in their kitchen faucet.

5. Killing the Goose that Laid the Golden Egg?

Tough new campus plan review policies could prove disastrous because universities would be forced to leave the city if new regulations raise considerably their cost of operating in the District.

The goose is the universities and the golden egg is the District's economy, at least according to the DC Consortium of Universities, which claims that universities have remained loyal while other industries (banking, insurance) have left; "but

their devotion to the District cannot continue should the cost grow substantially." (Northwest Current, 11-22-00.)

Are we in any danger that a university will pack up and go elsewhere? Hardly! They can, and will, absorb the higher cost of compliance, should it come to pass. Unlike banking and insurance, whose resources are mobile, universities -- just like electric utilities -- are here to stay, no matter what. Having acquired local concessions over a long period of time, their fixed resources are immobile and attached to their locale; the value of their franchise is close to zero anywhere else. Economists call it a case of "inelastic supply."

6. Insignificant Opposition.

"Despite GWU's sensitivity to the concerns of the local community, there remained a small group of neighborhood activists who clearly, and unjustifiably, object to GW." (GWU's lawsuit, *ibid.* p.30).

The BZA hearings' record attested that far from being small and isolated, the opposition was pervasive, substantial and consequential. GWU's campus-plan controversy was not about a handful of leaflet-waving gadflies resisting the forces of change and progress, but of an irate community let down by a system that was designed to protect it. It is tempting, but risky, to belittle community grievances as just one more local zoning dispute. Since the immediate neighborhood is the first to absorb the impact, its opposition often augurs future ramifications of larger scale and consequence. Its grievances can serve as an early warning system, not unlike the proverbial canary in the mine shaft.

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