Surpluses and Scholarship

A decade after the financial crisis overturned Harvard’s academic ambitions, the University has righted its financial ship, and then some: a $298 million surplus in the fiscal year ended last June 30, anchored by some $1.1 billion distributed from the endowment—fully 33 percent of revenues (see “The Black and the Red,” page 22). That outcome represents considerable work. For example, the endowment was valued at $41.0 billion at the end of fiscal 2019, up from the severely depressed $26.1 billion in June 2009—a recovery abetted by retained earnings; The Harvard Campaign; and Corporation decisions to put academic operations on a diet by restraining distributions from the endowment. (The distributions have nonetheless totaled roughly $16 billion in the past decade, despite inconsistent investment performance.) Turning to outlays: employees began to bear higher costs for health insurance; central controls limited pay increases and hiring; and financial administrators whittled down debt and refinanced some high-cost borrowings, effecting large savings. And so on.

Thus Harvard—in the news a decade ago for its $11-billion loss in endowment value, and $3 billion of additional losses—is now a paragon of fiscal probity. It has recorded surpluses for six consecutive years: a cumulative $759 million. In one sense, that is simply prudent. The endowment has not grown much, if at all, in inflation-adjusted terms since its pre-crash value, but supports a costlier operation. The new and spiffed-up buildings dotting campus increase fixed costs—and much current research depends on renovations, expensive equipment, and lots of computational support. The present economic expansion will some day reverse; that could drive demand for financial aid and trim spending on executive education (a recently robust cash cow). Even with strong congressional support for research, gigantic federal deficits threaten funding. Whether reliving the doomsday experience a decade ago or looking warily forward, those who exercise fiduciary responsibility for Harvard have had good cases for caution.

But virtue is not cost-free. Politically, strong though their arguments may be against the new federal levy on endowment earnings (an estimated $50 million for Harvard in fiscal 2019), the University and its peers with surpluses have a tougher argument as they ask Congress (see those trillion-dollar deficits) for both tax relief and more spending on student aid and research. Anyone who cares about higher education won’t large surely had to wince when reminded by “It’s Sink-or-Swim for Black Colleges” (The New York Times, October 22) that these institutions, which have produced 80 percent of the nation’s black judges and half of its black doctors and teachers, “are on the brink of collapse”—two days before the University reported its latest surplus.

And academically—most important, given Harvard’s mission—this community needs to consider the balance between storing acorns for the future and investing in discovery and education now.

To take one crude indicator, in the fall of 2009, the Faculty of Arts and Sciences (FAS) had 722 “ladder” faculty members (tenured and junior professors). This past fall—after a decade of startling advances in data analysis, neuroscience and every branch of biology, historical and social science inquiry into diverse societies and newly accessible archives with digital research tools—it reported 724 members. The composition has changed (hiring has tilted toward engineering and applied sciences), but this is not strong evidence of keeping up with the growth in knowledge and the opportunities to acquire more. Nor—despite the intellectual prowess of the many new faculty members who have succeeded retirees and others—does this admittedly crude metric suggest much greater capacity to address today’s urgent challenges of inequality, technological change, etc.

Which brings us to the specter of climate change. Whatever doubts may be harbored in some circles, most people in the University think global warming is inexorably under way, prompting the need for breakthrough research and enormous efforts to protect Earth’s habitats. For most of the past decade, much of the debate on campus has focused on the near-at-hand question of whether the University should divest any investments in fossil-fuel producers held by the endowment. The recent intensification of faculty, student, and alumni divestment advocates’ efforts is described at page 19.

The Corporation and the past and present presidents have opposed divestment, and still do. They have rightly emphasized that this institution has the intellectual resources—in science, business, design, education, engineering, government, law, public health, divinity, economics, philosophy, and elsewhere—to make matchless contributions toward combating global warming. These might be discoveries in energy and battery technology; innovations in law, incentives, enterprises, and civic institutions to accelerate the adoption of needed changes, and ease the transition of those whose lives are or will be disrupted; or campaigns to change public understanding, opinion, and behavior. In his first remarks as president-elect in February 2018, Lawrence S. Bacow highlighted the breadth of Harvard’s expertise across all its schools as a singular strength—and the opportunity to enhance its impact by combining forces to address global problems.

This surely is one. At the November FAS meeting, Bacow emphasized focusing “not on points of disagreement but on points of agreement”: that climate change demands action. “Whatever people may believe about divestment,” he continued, “we all need to agree that as a faculty, we need to confront this issue through our teaching and scholarship.” Divestment advocates, meanwhile, described it as only a first step—before reinvesting endowment assets in sustainable technologies, and stepping up scholarship and teaching.

There’s plenty of common ground. What’s lacking, so far, is the commitment to bring schools and professors together; to shape a program that draws on Harvard’s strengths to address unmet challenges; and to secure the resources needed to proceed.

Is this the right way to use some of Harvard’s surplus? Not necessarily: its scholars may be better positioned to address poverty and inequality; the challenges of digital-era privacy and misinformation; or strains on democratic governance. Might it be a sound way to proceed? Given the risks of runaway climate change and the University’s intellectual riches, possibly so. A coherent, visible program on climate change is certainly consistent with the institution’s mission.

Moreover, it would demonstrate the real (but deferred) promise of One Harvard—and give some hope of moving beyond the deadlocked debate over divestment. A decade hence, if the campus remains mired in that confrontation, while the world has grown hotter and more endangered, those retained surpluses will look pound-foolish indeed.

~John S. Rosenberg, Editor