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The Human Side of Financial HARD TIMES

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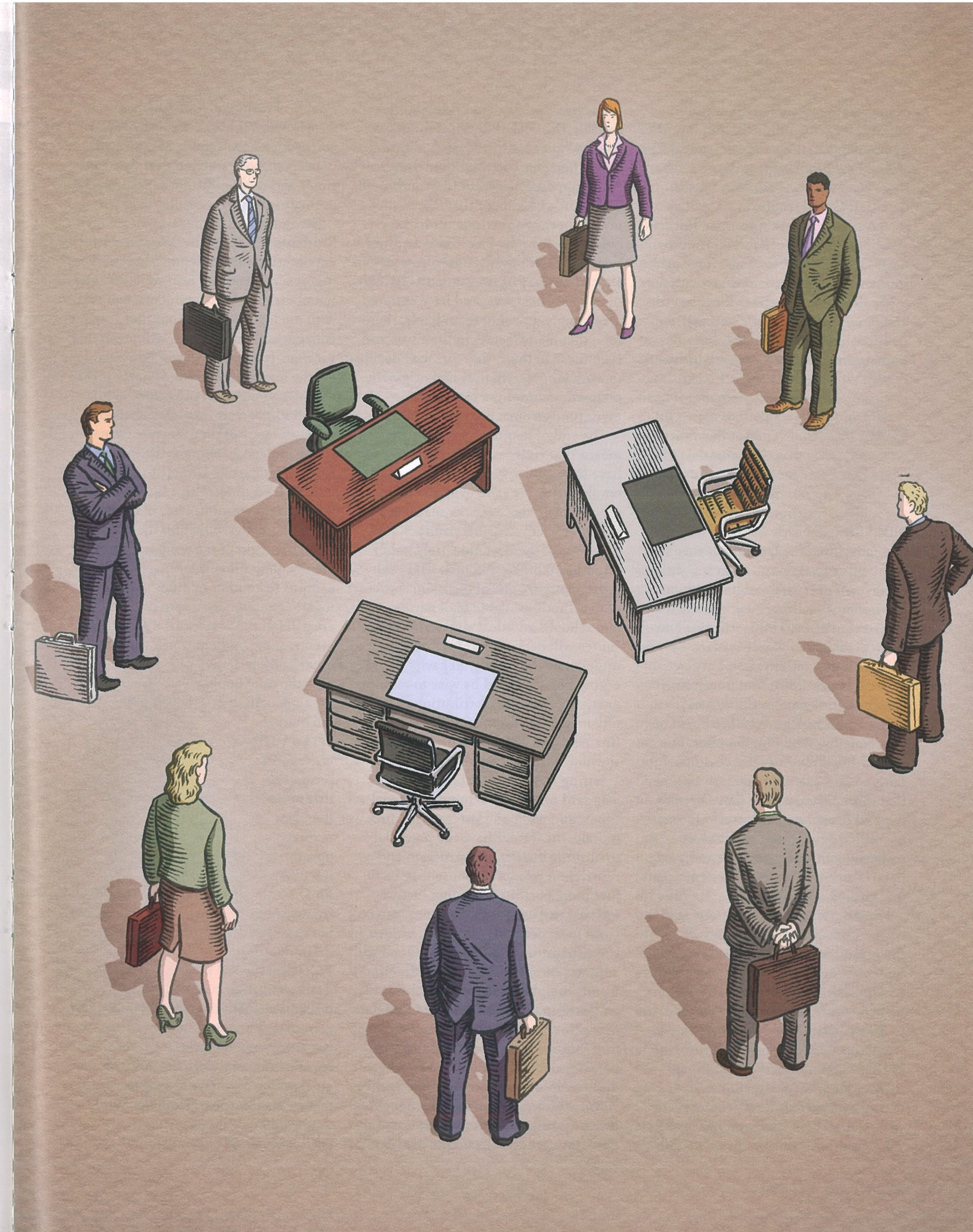
BY DAVID W. BRENEMAN

TAKEAWAYS

1. Senior faculty members delaying retirement, along with an increase in hiring freezes, probably will result in few faculty openings for new Ph.D.s during the economic downturn.
2. Problems in meeting tuition costs will loom ever larger for this fall's entering class.
3. In a time of economic stress, board members will be called upon to exercise increased care and responsibility for the institutions they oversee and serve.

BY NOW, RIVERS OF INK HAVE BEEN SPILLED documenting the financial and economic crisis afflicting the United States and much of the globe. While the causes are still being debated, and attempted cures applied experimentally, no one at this writing can be certain when things will get back to "normal," whatever that elusive concept means. While numerous articles have



CHRISTOPHE VORLET

examined the impact on higher-education finance of credit and liquidity problems, falling endowment values, and reduced state appropriations, what these economic events mean for students, staff, and faculty has not been traced as thoroughly. Administrators and boards of trustees should find it useful to consider how hard times may influence the behavior of those within higher education in the coming months and possibly years. While necessarily speculative, this essay explores the human side of this economic whirlwind.

The current downturn has the potential to be more severe and longer lasting than the recessions of the 1970s, '80s, '90s, and early 2000s. Indeed, one senses that the federal government's financial rescue team is fighting to stave off not just another recession, but rather something analogous to the Depression of the 1930s. (Notice how often the name of John Maynard Keynes comes up now, after years of neglect.) Current levels of fear and uncertainty have been reflected in the virtual freezing of credit markets, the life-blood of the economy. While higher education has ridden through past recessions fairly well, it seems prudent to assume that this episode will be more wrenching and disruptive than previous ones. As a consequence, the behavioral responses of those who work and study in our institutions may shift in new and unexpected directions.

Faculty Members. Numerous studies have documented the aging of the professoriate, as faculty members hired during the expansion years of the 1960s and 1970s move toward retirement. (See, for example, the essays in Robert Clark and Jennifer Ma's *Recruitment, Retention and Retirement in Higher Education*, Edward Elgar, 2005.) Many faculty members have defined-contribution retirement plans with TIAA-CREF, and as of November 24, 2008, the value of the CREF Stock fund, year-to-date, had declined 44 percent, the Global Equities fund was down 47 percent, the Growth fund was off 44 percent, and the Equity Index had dropped 42 percent (www.tiaa-cref.org). While one hopes that few faculty members close to retirement had the bulk of their funds invested in equities, even those with more conservative asset allocations may have as much as half of their funds in stocks, and have suffered accordingly. It would seem likely, therefore, that many faculty in their 60s and even those in their early 70s may decide to work longer than they had originally planned, in order not to draw retirement funds from a depleted asset base.

The end of mandatory retirement means that colleges and universities have little choice but to continue to employ an aging (and expensive) faculty. Many of these faculty members are still effective teachers and scholars, but some of them would surely rather be comfortably retired instead. Faculty retirements are one of the main sources of new funds available to departments and schools, and thus a major revenue source will decline in response to understandable faculty behavior. Governing boards would be wise to request analyses of the age distribution of faculty members and to consider the likely financial and educational impacts of a slowdown in their retirements.

Hiring freezes and salary freezes are standard responses to tough financial times, and while the latter may reduce morale, the former have the potential to hurt the quality of instruction and research. A related response may be to hire more part-time, adjunct instructors, a trend well documented in previous recessions. On the other hand, some institutions might push to reduce adjuncts by ensuring that full-time faculty members are teaching full loads and covering the core courses in each discipline. Termination of instructors without tenure, whether full or part time, is also an option, however disagreeable and difficult to do. Such shifts in allocations of funds among teaching and research personnel could have uncertain effects on the overall quality of faculty members' work. A wise board would ask the dean or provost to assess the impact of personnel policies that are adopted to fit hard times and to keep the board informed as they are implemented.

Graduate and Professional Students. Pity the new doctoral recipient entering the academic labor market this year. The tendency of senior faculty members to delay retirements, coupled with the hiring freezes common at many colleges and universities, will mean that precious few openings will be available for the tens of thousands of new Ph.D.s completing doctoral programs. While not all Ph.D. recipients seek academic work, in many of the arts and science fields, college teaching is the logical career destination. Unable to find such jobs, at least those with a multi-year, tenure-track commitment, many new Ph.D. graduates will enter the hazy and insecure world of the temporary adjunct faculty, perhaps commuting from one campus to another in order to patch together enough money to live on. Others will opt for postdoctoral appointments, some of them worthwhile, others simply a way to pass the time hoping for a break in the job market.

The 1970s is the most recent era that mirrors the labor market now facing new Ph.D.s (remember the infamous Ph.D. driving a taxi cab?), but it seems virtually certain that many of the new doctoral graduates this year and perhaps in 2010 and beyond may have to find their way to non-academic employment. While that would not be a disaster, for bright, well-educated people are bound to find something challenging and remunerative to do, it will cast a damper on the doctoral aspirations of those who might otherwise follow in their tracks to graduate school. Not only might that lead to potential shortages of faculty members down the road, but doctoral students also play vital roles in the economy of research universities, serving as teaching and research assistants. It is unlikely that the response to negative labor markets will be so severe as to cripple universities, but enrollments in doctoral programs will bear watching.

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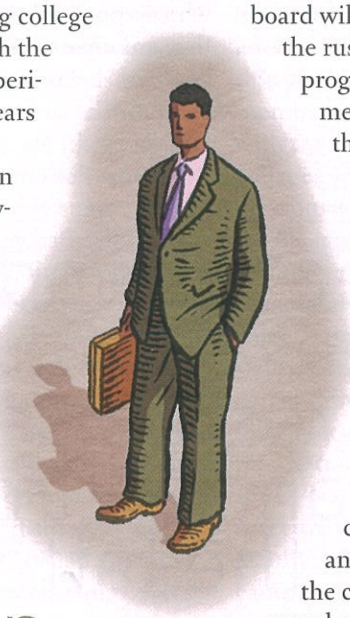
Professional students, such as those graduating this year with MBA and law degrees, may experience an equally rocky labor market, since investment banks have closed, the financial services sector is contracting, and corporations are reducing employment. Unlike many Ph.D. recipients, who receive assistantships or other stipends during their doctoral programs, graduates of professional schools are likely to emerge with substantial debt, sometimes in the high five-figure to low six-figure range. Debt levels this high may have made sense in the world of 2005–06, but they will prove highly burdensome to graduates who do not land the high-paying jobs they anticipated. Default rates on these students' loans could easily jump, suggesting that professional schools would be wise to increase loan counseling to those soon to graduate. Boards should monitor this situation and review carefully the anticipated debt levels of students in their various professional-degree programs.

Undergraduates. As the country tries to keep the gates of college open to all qualified students, regardless of family income, affordability problems will loom ever larger for the entering class this fall. Cuts in state appropriations will mean another round of sharp tuition increases in the public sector, and falling endowments will put similar pressure on private institutions to follow suit. Meanwhile, many parents will find that falling asset prices have depleted their 529 savings plans, and rising unemployment will put family budgets under heavy pressure and reduce the ability to pay for college. For students already enrolled, remaining in college will become an increasing challenge, as pressures on family income force some students to drop out or shift to part-time enrollment. Private colleges will face a need for increased tuition discounting to fill places in their classes, at just the time that institutions' dependence on net tuition revenues is growing. Not a pretty picture for access, retention, and completion, the hallmarks of educational opportunity.

Affordability concerns will push students away from private colleges and toward public universities and community colleges, but capacity constraints in the public sector may mean that all eligible students cannot be accommodated. For example, late last year the California community colleges announced (threatened?) that they would have to deny places to over 250,000 students if budget cuts suggested by state government were implemented, and the California State University system announced that as many as 10,000 students who otherwise would be expected to enroll also might be denied places. Some public universities will hold enrollments constant and use the growing demands for admission to increase the academic quality of their student bodies, rationing access by raising grade-point and SAT requirements. To the extent that states are unable to fund enrollment growth, institutions will be motivated not to expand admissions. The combination of reduced student purchasing power and possible constraints on the supply of seats in public institutions because of funding shortfalls may mean that a substantial share of high-school graduates this year and in 2010 may not find places to enroll. Governing boards face a difficult balancing act in maintaining student access and opportunity while not allowing educational quality to suffer.

For those students lucky enough to have made it through to graduation, employment opportunities for the graduates of the class of 2009 will be bleak, and a prolonged recession could mean the same labor-market impact for the class of 2010. Again, the most comparable period in recent history would be the 1970s, when the glut of baby-boom graduates hit a shrinking labor market as growth and productivity in the economy slowed markedly after 1973. That era saw the publication of books with titles such as *The Case Against College* and *The Over-Educated American*, when it appeared that the private investment of time and money in a college degree had not paid off financially.

The perceived value of college degrees returned only when, later in the decade, the bottom dropped out of the labor market for high-school graduates as high-paying jobs in manufacturing evaporated. The result was that the wage gap between high school and college graduates increased, making college once again seem worth the expenditure. If we experience two successive years of poor employment results for graduates in 2009 and 2010, however, that may cause some of the young to rethink their plans for college, a decision almost certainly not in the long-run interests of either the students or the country. Governing boards would be wise to enhance the resources put into career counseling and placement help during this time of weak labor-market prospects for new graduates.



A thoughtful board will want to make sure that, in the rush to shore up the academic programs and the faculty, staff members are not forgotten and their needs overlooked.

Staff Members. The heart and soul of most universities, the staff members who keep the institution running will experience limited (or no) pay increases and worry about layoffs during this time of turmoil. Colleges and universities are generally stable and secure places of employment, and they have built a fund of goodwill on that basis. A thoughtful board will want to make sure that, in the rush to shore up the academic programs and the faculty, staff members are not forgotten and their needs overlooked.

Governing Boards. It may seem odd to include board members in this review, but in a time of economic stress, board members will be called upon to exercise increased care and responsibility for the institutions they oversee and serve.

Some board members will be uncomfortable having to discuss and ratify hard decisions, and some will shy away from the conflicting demands of faculty members who want raises, students who need more financial aid, and the needs of a physical plant that requires extensive and expensive maintenance. Boards simply have to be better informed about the issues and options confronting the college than they are during easier times. An institution served by a weak and ill-informed board will almost certainly emerge from the next few years in poor condition, while those guided by strong, effective boards will increase in relative strength and standing. The challenges—and the opportunities—of this time of uncertainty and stress lie before us. ■

AUTHOR: David W. Breneman is University Professor and director of the Batten School of Leadership and Public Policy at the University of Virginia. An economist specializing in higher-education economics, he also serves as a trustee of Sweet Briar College.

T'SHIP LINKS: John H. Biggs, "Facing Up to Post-Retirement Medical Costs." September/October 2008. Michael S. McPherson and Morton Owen Schapiro, "Sticker Price is the Sticking Point." November/December 2001.