The Human Side of Financial HARD TIMES
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BY DAVID W. BRENEMAN

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
examine the impact on higher-education finance of credit and liquidity problems, the Grinnell test, and reduced state appropriations, what these economic events mean for stu-
dents, 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 higher education in the coming months and possibly years. While necessar-
ily speculative, this essay explores the human side of this economic whirlwind.

be current downturn has the potential to be more severe and longer lasting than the recess-
sions of the 1970s, ‘80s, ‘90s, and early 2000s. Indeed, one seems that the federal govern-
ment’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 freeze-
ing 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 wrench-
ing 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 Morale. Numerous stud-
ies have documented the aging of the professoriate, as faculty members hired during the expansion years of the 1960s and 1970s move toward retire-
ment. (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 TIAA-CREF’s 2008 value of the CREF Stock fund, year-to-date, had declined 44 percent, the Global Equity funds were down 47 percent, the Growing Bond fund down off 44 percent, and the Equity Index fund 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 30% of their funds in stocks, and have suffered accordingly. It would seem likely, there-
fore, 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 retire-
ment 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) fac-
ulty. 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 fac-
ulty members and to consider the likely financial and educational impacts of a slowdown in their retirements.

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It is unlikely that the response to nega-
tive labor markets will be so severe as to cripple universities, but enrollments in doctoral programs will bear watching. 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 assistant-
ships or other stipends during their formal graduate study, 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, sug-

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Undergraduates. As the country tries to keep the gates of college open to all qualified students, regardless of family income, affordability problems will loom even larger for the entering class this fall. Cuts in state appropria-
tions will mean another round of sharp tuition increases in the public sector, and the likelihood of increased pressure on private institutions to follow suit. Meanwhile, many parents will find that falling asset prices have depleted their 401k savings, and rising unemployment will put family budgets under heavy pressure and reduce the ability of students who are already enrolled, remaining in college will become an increasing challenge, as pressures on family income force some students to drop out or shift part-time enrollment. Private colleges will face a need for increased tuition discounting to fill places in their classes, at just the time that increased competition on net tuition revenues is growing. Not a pretty picture for access, retention, and completion, the hallmarks of educa-
tional 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, 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 other-
wise would be expected to enroll also might be denied places. Some public universities will limit enrollments con-
stant and use the growing demands for admission to increase the academic quality of their student bodies, raising 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 combi-
nation of reduced student purchasing power and positive constraints on the supply of spots in public institutions because of funding shortfalls may mean that a substantial share of high school graduates this year may find not 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 Americans, 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 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.

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Most economists expect the current economic downturn to be one of the most severe since World War II. It is certainly big enough to have changed dramatically the operation of the nation’s financial institutions and to have had significant effects on the behavior of consumers, businesses, and governments. It would be remarkable if it did not have a substantial impact on the operations of colleges and universities as well.

Takeaways

1. An immediate problem is how to handle the increased student demand for financial aid, given a diminishing pool of institutional resources.
2. Helping people enroll who are having trouble finding jobs during the recession not only reduces the excess supply of labor, it also represents a great opportunity for investment in human capital.
3. The federal government should help both states and institutions find adequate resources for financial aid, but it also must help address serious capacity issues at broadly accessible public and private institutions.

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