Meeting of Minds: Lessons from the COVID-19 pandemic
Summary provocations from participants
January 2022

Thoughts from an economist - ***John Geanakoplos***, *James Tobin Professor of Economics at Yale University*

Endowed Universities in the Time of Covid: Crises can be useful for revealing how vulnerable a system is, and also for revealing what its governors really want once their constraints are lifted (so that they can manage the crisis). Covid exposed much about our country's well-endowed Universities.

Covid began as a financial crisis as well as a health crisis. In March of 2020, the VIX volatility-uncertainty index rose to the same 80% level reached at the peak of the 2008 Financial Crisis. Margin calls rippled through the system and the stock market fell 35%. University Presidents, Provosts, and Deans zoomed with each other to share ideas about how to protect their communities from the health hazards, and how also to handle the financial fall out. They moved quickly, often without Faculty consultation.

Simultaneously, perhaps sometimes within several hours of each other, the Presidents and Provosts of Harvard, Yale, Princeton, Stanford, MIT, Chicago, Columbia and others announced a freezing of Faculty salaries, termination of all Faculty hiring for at least one year and possibly two, and a "pause" in Graduate admissions. Faculty departments were asked to cut expenses on the order of 5%, and some Faculty (for example at Harvard) had their pensions suspended and their summer stipends stopped.

Financial crises are recurring. Large and important institutions should therefore be in possession of well-articulated principles to guide responses. As Chair of the Yale FAS Faculty Senate during the onset of Covid, I helped draft such a list for Yale. [See attached document for the principles, which include protecting the vulnerable members of the community]. These principles might apply equally to any University, or any long-lived institution, with a large endowment.

Long established Endowment Spending Rules already provided some of these principles. The Yale Endowment Spending Rule aims to maintain the same quality of excellence over time, including the distant future. With that end in mind, the Rule targets spending 5.25% of the endowment each year. A drop in the endowment, or an "act of God" operating expense, as from the $200 Million Covid expense at Yale, should not require the whole $200Million less spending the next year, but rather a permanent reduction of 5.25% x $200 Million = $10.5 Million in the annual budget, spreading the loss equally over every generation. Very importantly, the Spending Rule includes a refinement to this rule, the 20% Smoothing Rule. Thus a $200 Million drop in endowment leads to only a 20% x 5.25% x $200 Million = $2.1 Million spending reduction in the first year, with further 20% reduction steps, gradually reaching the permanent spending drop of $10.5 Million per year. This prescribed $2.1 Million cut the first year is about 1/100th the size of the actual cut Yale imposed.

The Smoothing Rule embodies three fundamental principles of financial crisis management. First, cuts to the Core Mission of the University are very costly to reverse, and so should be avoided or delayed until absolutely necessary. For example, not hiring for one year and hiring twice as many the next year wastes a year, requires much more effort, and yields lower quality faculty. Second, sudden losses in the endowment are often reversed later, so that it is foolish to make cuts that will later be reversed. Third, deciding what permanent cuts to make requires substantial time to think and to consult, and should never be undertaken too rapidly.

A fourth principle is that institutions with large endowments and access to borrowing have a huge competitive advantage during financial crises, to buy when most others are forced to sell. Many fortunes have been made on this principle, even during the Covid financial crisis.

In accordance with these principles, the Yale Faculty Senate protested that the cuts to the Core teaching and research mission of the university at the beginning of Covid flouted the celebrated Yale spending rule. A Senate faculty petition, signed by over 300 of the 500 tenured FAS professors, politely recommended that, rather than reducing hiring, Yale should hire more than usual to take advantage of the once in 50 years opportunity. We were rebuffed. Perhaps a financially unsophisticated group of administrators was frightened by the uncertainty gripping the world in March 2020, and thus chose a conservative path that ignored generations of financial wisdom.

More disturbing is that within a few months, by July 2020, the stock market and most University endowments recouped all their losses, including the Covid costs of spring 2020, and were already several percentage points higher than they had been at the beginning of the fiscal year July 1st, 2019. Yet the administrations continued their cuts all through the academic year 2020-2021.

Still more disturbing, during the academic year July 2020 to July 2021, the endowments began an unprecedented run, reaching an average return of about 40%. In Yale's case that meant an increase in the endowment of over $11 Billion, even after subtracting all the accumulated Covid costs. Yet, knowing that they were rolling in money, and each one knowing that its competitors were not hiring, these great institutions all continued their academic austerity.

How could these Universities all come to the same unprincipled decision, to "Pause", when their own spending rules and generations of financial wisdom told them not to? The only plausible conclusion, in my opinion, is that under cover of Covid, these administrators did what they really wanted to do; they protected what is truly important to them. "Research and Inspiring Teaching" is no longer their mission for these universities.

Consider that over half the Trustees of these universities are senior financial investors. Presumably in their own firms they did not rush to sell assets and lay off employees in March 2020. No doubt they stayed the course, hewing to sound financial principles. Indeed, if they had run their firms as the universities they oversee did, they would all have been fired. So we cannot simply explain the pause by saying they panicked, because in their own businesses they didn't.

Consider that in the last 5-10 years, every one of these schools has actually changed its Mission Statement, generally without faculty consultation. Research and inspiring teaching is now just one way of achieving the aim of "making the world a better place." Making the world a better place is an ill-defined concept, one that would never stand up to academic scrutiny, yet it, or something like it, is the new official Mission of most of these universities.

Consider that in the last 30 years, the growth in administrators has far outstripped the growth in faculty. Consider that in the last 50 years, the number of adjunct or instructional faculty has grown in these elite universities from virtually nil to half the tenure track faculty.

Consider finally that the faculty have gradually been cut out of more and more decisions. Changes in tenure standards and processes have been proposed by committees chaired by administrators, not professors, as would have always been the case in previous generations. To take one little mentioned but central example, the single most important change in Yale College in the last 30 years is the dramatic transformation of undergraduate admissions. This was done with virtually no faculty input. By contrast, the decision to admit women, and to admit students on the basis of intellectual potential, which was achieved at Yale in the 1960s, was spearheaded by faculty. The point is not that these modern decisions are wrong, but rather that they are being taken by people who are not active researchers and teachers.

The mission has changed, and the governance has changed. Covid has made this too evident to ignore.

Recommended readings:

1. Preserving the Future of Yale's Research and Teaching Mission during Financial Crises, FASS 2019-2020. PDF*
2. The Yale Endowment Spending Rule and the COVID-19 Crisis Report, Geanakoplos, Chair 2019-20 FAS Senate. PDF*