



Dismantling Harvard's cyclotron building (left) has proven a monumental task. Every piece of material that leaves the building—900 tons of concrete and 700 tons of steel—must be checked at least twice for radiation. Even visitors get a full body sweep. The cyclotron device is encased in a 750-ton yoke of concrete and steel with a 20-ton steel door. A saw adapted specially for the purpose will take months to cut the yoke into 40-ton sections that can be safely trucked away. Nearby Palfrey House (below) made its move on Game day.



Hall, on the north side of Cambridge Street, began in November. December saw the rubble hauled away. Still ahead is the demolition of the former University Information Services building on the opposite curb, and the relocation of a neighboring wood-frame building on Prescott Street. The project will proceed with or without a tunnel to link the buildings beneath the public street. Construction of the tunnel has been a bone of contention between Harvard and its area neighbors ever since the idea of a second building and tunnel was suggested; project architects proposed them as a solution to neighbors' requests to save the open green space behind Coolidge Hall.

The next 10 years will see the focus of

construction activity shift to the North Precinct, lying between Oxford Street and the Harvard Divinity School, where the decommissioning of Harvard's cyclotron is well under way, and the adjacent Palfrey House has made the first of two moves across the site to make way for construction of an underground garage. The historic, wood-framed structure will eventually take its place on Hammond Street, the northern edge of Harvard's campus.

Tighter Times

HARVARD IS NOT IMMUNE to the vicissitudes of the economy. During the fiscal year ended June 30, 2002, the University's operations produced a financial surplus of \$70.4 million. That is a comfortable cushion, particularly when compared to Dartmouth and Stanford, which are slashing budgets, freezing hiring, and deferring construction, and Duke, which is talking about such steps even as it concludes a \$2-

billion capital campaign. But despite a very large increase in funds released from the endowment for spending, expenses rose nearly twice as fast as revenues, so Harvard's surplus was nearly \$100 million less than that recorded in the prior fiscal year. The underlying causes, and the current fiscal context for Harvard's plans, are discussed in the annual *Financial Report to the Board of Overseers of Harvard College*, published in December.

In the most recent fiscal year, revenue

rose \$129 million (5.8 percent), to \$2.36 billion. Endowment income distributed for operations increased \$134 million (22 percent), to \$749 million—32 percent of total revenue. Support for sponsored research, the next-largest revenue line, also grew, rising 3 percent, to \$518.8 million, led by the continuing surge in federal grants for biomedical science.

Student income, the funds provided by tuition and fees, increased less than 1 percent, to \$509.5 million. That result reflects modestly higher tuition, offset by the 13 percent increase in scholarships; and an actual decline in revenue from continuing and executive-education programs, particularly at the schools of business and government—attributable to the weak economy and reduced travel after 9/11. Gifts for current use decreased by \$28 million, to \$132.2 million. That 17 percent decline (echoed by an even sharper decline

in capital gifts for the endowment) no doubt reflects the economy and investment market, as well as the unusually high volume of large gifts received in fiscal year 2001.

But as total revenue increased more slowly than in the recent past (revenue rose 10.2 percent in fiscal year 2001), Harvard's expenses grew more rapidly. Following 8.5 percent growth in fiscal year 2001, expenses rose 10.8 percent, to \$2.29 billion, in the succeeding 12 months (see chart below).

Higher expenses reflect both Harvard's academic commitments and external factors. Compensation costs—half of total expenses—rose 11 percent, to \$1.13 billion. Within that total, salaries and wages rose 10 percent, reflecting pay increases; faculty appointments and growth in administrative, technical, and research staff—driven by academic plans and rising sponsored-research funding; and the phasing in of higher compensation for lower-paid service workers following the recommendations of the committee on employment and contracting policies. Benefits costs escalated more sharply, rising 17 percent to \$202 million. Higher healthcare costs and changes in pension plans both contributed.

The costs of University facilities ("space and occupancy" in the financial statements) also rose notably, as Harvard invested to accommodate its expanding staff and spent on future needs. Recent acquisitions—the Harvard Institutes of Medicine building, Watertown Arsenal, property in Allston—plus added rental space to accommodate the medical and law schools, and new facilities coming on line—Bauer Center, Hawes Hall—combined to increase such costs 19 percent, to \$205.3 million.

Together, Harvard's fiscal year 2002 revenues and expenses yielded the \$70.4 million surplus, down from \$164.9 million in the prior year. The unrestricted surplus all but vanished, coming in at \$1.3 million, while the restricted surplus was \$69.2 million, compared to \$113 million in fiscal

year 2001. The latter funds, reflecting endowment distributions that will be used for future projects and programs, in effect accumulate as a reserve within each faculty. The Faculty of Arts and Sciences (FAS), for example, maintained \$94.8 million of such unexpended income as of June 30, 2002. In fact, each faculty had more funds "on account" in this sense than a year earlier—the expected result of large endowment distributions for current and future use.

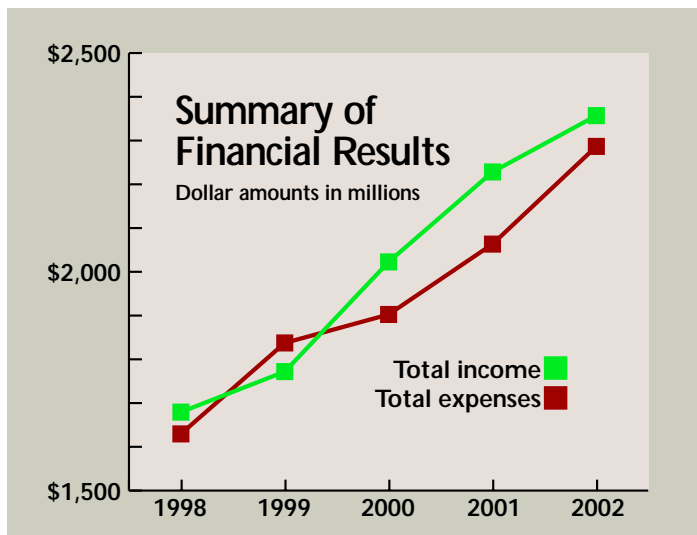
Putting the results in context in an introductory letter—a new feature with this year's *Financial Report*—President Lawrence H. Summers wrote, "Despite the extraordinary circumstances of the past year, I can certify that Harvard University remains in sound financial health."

Emphasizing the importance of being "responsible stewards of the resources at our disposal," he made note of efforts to

Close readers of the report will note other innovations this year. First, new accounting standards require that gross assets and liabilities associated with investment strategies—and not just the net difference between the two—appear on the University's financial statement; that has the apparent result of inflating Harvard's assets and liabilities by nearly \$20 billion each—a difference washed out when the individual items are totaled. Of greater interest may be the new narrative on "risk management" included in the report on Harvard Management Company's operations—an account of market, credit, liquidity, and operational risk assumed in running the University's investment portfolio. "In light of the current accounting environment," said Victoria M. Johnson, director of finance and accounting, "there's a desire to give complete disclosure and information to the users of our financial statements." Accordingly, it seemed particularly valuable to create this new section.

Within the small print, readers can make out other interesting tidbits. One is an apparent surge in degree students enrolled at Harvard, to more than 19,500 from a recent average of 18,600. Some of this growth reflects differences in the business school's academic calendar, but some is real, particularly in the Graduate School of Arts and Sciences. The report reveals that Harvard took advantage of low interest rates to refinance some of its long-term debt, and has continued to take on new debt (\$1.84 billion was outstanding last June 30) to finance construction and property acquisitions. And a supplemental endowment distribution assessed on the schools to pay for Allston costs (see "Addressing Allston," July-August 2001, page 66) kicked in, with initial funding of \$85.2 million in fiscal year 2002.

GIVEN THE IMMEDIATE SITUATION, said Ann E. Berman, acting vice president for finance, Harvard's schools are "very conscious of the need to moderate expense growth tremendously." The outcome in



"look anew at some of Harvard's financial procedures." He also observed that Provost Steven E. Hyman has created a new process to engage each faculty in "strengthening their budgeting and academic planning processes." Finally, Summers alluded to use of "an outside management consulting firm" to review administrative functions "to ensure we are maximizing the resources available to support our mission." (McKinsey & Company has reviewed human resources, financial management and budgeting, development, and procurement and reported on possible operating and strategic improvements in each area.)

fiscal year 2002, she said, reflects that "growth in spending often lags growth in revenue because of the thought process and consensus-building that goes into what we should be doing." That is, the resources provided by the higher endowment distributions and research grants of recent years naturally produced surpluses, which then are deployed into new faculty

appointments, expanded facilities, and so on—a very gradual process Berman knows first-hand from her former perch as the fiscal director for FAS.

Now that distributions from the endowment will rise only a percent or two for the foreseeable future, Berman said, "We'd like to be able to live within our means without going through a period of

painful cutbacks" like those being endured at other research universities. "The community's quite aware of the general economic climate."

The provost's new budget process figures significantly in helping Harvard to adapt to more straitened circumstances without "pain," Berman said. The process, she explained, in effect asks each

Peak Professorships

The ranks of University Professors—Harvard's supreme academic appointment—have changed significantly with the elevation of two faculty members to the position, and the announcement that a third will return to Cambridge to take up the chair he relinquished in 1998. University Professors are recognized for their wide-ranging and pioneering scholarship, often crossing disciplinary boundaries, and are encouraged to

pursue their work by engaging with fellow faculty members and students across Harvard's schools. As a measure of their distinction, there are but 21 University Professorships in all (three of them currently vacant).

Dale W. Jorgenson, Ph.D. '59, formerly Abbe professor of economics, is the first Morris University Professor, occupying a chair named for Samuel W. Morris '40. Jorgenson—who in 1971 won the American Economic Association's John Bates Clark Medal as the profession's most distinguished young economist—is widely known for bridging theory and practice. For example, he has ex-

amined determinants of investment spending and has done leading work on the role of technology in economic growth, the subject of his most recent book, *Economic Growth in the Information Age*. (His research on global warming and the development of China was reported in "The Great Global Experiment," November-December 2002, page 34.) Besides chairing the department of economics in the Faculty of Arts and Sciences (FAS) from 1994 to 1997, Jorgenson has directed the Kennedy School of Government's Program on Technology and Economic Policy since 1984. The new professorship was funded by Morris's daughter, Barbara Morris Caspersen, and her husband, Finn M.W. Caspersen, LL.B. '66, a leading benefactor of the Law School.

Christoph Wolff, formerly Mason professor of music and past dean of the Graduate School of Arts and Sciences, is now Adams University Professor. He succeeds art historian John K. Shearman, an expert on the Italian Renaissance. A scholar of seventeenth- and eighteenth-century music, Wolff is particularly known for his recent definitive biography of Johann Sebastian Bach, and for helping to discover the musical estate of Carl Philipp Emanuel Bach in Ukrainian archives (see "Bach in the USSR," November-December 1999, page 21). Wolff has chaired the music department and served as curator of the music library. He referred to his graduate-school deanship, from 1992 to 2000, as an eye-opening experience, and said that while he intended to remain firmly grounded in music, "I feel encouraged to explore the possibility of cross-discipline activity in a more determined way."

Finally, Nobel laureate Amartya Sen, who left Harvard in 1998 to become master of Trinity College, Cambridge University, announced that he would step down and return to the American Cambridge in January 2004, resuming his research and teaching in economics and philosophy as Lamont University Professor. Sen is considered the world's leading scholar of welfare economics, and a powerful moral force who has addressed issues of poverty, famine, and class and gender inequality. In addition to his FAS affiliations, he has worked in Harvard's Center for Population and Development Studies, with which he has maintained adjunct and visiting appointments since relocating to England. Sen was a Commencement speaker

in 2000, with poet and fellow Nobel laureate Seamus Heaney. Sen's new collection of essays, *Rationality and Freedom*, has just been published by Harvard University Press.



Dale W. Jorgenson

RICK FRIEDMAN



Christoph Wolff

STEPHANIE MITCHELL/HARVARD NEWS OFFICE



Amartya Sen

STEPHANIE MITCHELL/HARVARD NEWS OFFICE

school, “Does your use of resources match your mission and your aspirations, and does it match the University’s aspirations?”

Satisfying those aspirations will be challenging. New facilities have to be staffed, lit, heated, and maintained, and more are coming on line. Construction is now under way on the FAS Center for Government and International Studies (see page 57) and on a huge underground parking garage, atop which extensive new laboratories are envisioned in a North Precinct extension of the science facilities.

The medical school’s new research building, the largest capital project in Harvard history, is nearing completion. The University’s information technology staff recently moved into new quarters. Apart from those tangible investments and their associated operating costs, more conservative assumptions about future investment returns and likely inflation in medical costs imply higher continuing expenses for pension and healthcare benefits, according to finance and accounting director Johnson.

Nevertheless, President Summers

looked ahead with optimism in his opening letter, outlining priorities in undergraduate education; scientific research and teaching; graduate-student financial aid (the report mentions a recent study of financial challenges facing students and alumni, and promises a “pilot program to help incoming students in 2004 and beyond” through scholarships, debt relief, and a loan program); and developing Allston. Pursuing these opportunities, he acknowledged, will require both “the commitment of substantial new resources” and “prudent fiscal management.”

College Studies

THE UNDERGRADUATE curriculum review now taking shape promises to range widely. Faculty of Arts and Sciences (FAS) dean William C. Kirby launched a broad rethinking of the Harvard College course of study in an October 7 letter. Benedict H. Gross, the new dean of undergraduate education (see “Curriculum Czar,” November–December 2002, page 54), then formally began discussion in two symposiums that suggested the scope of the review and its potential stakes. The first focused on the Core curriculum—the principal fruit of Harvard’s last comprehensive look at undergraduate academics. The second brought senior leaders from Brown, Columbia, and Yale to campus to explore their very different courses of study. At the faculty meeting held between the symposiums, many professors advocated a sweeping curricular review, and advanced specific ideas—early evidence of the faculty engagement that will be needed to effect change.

In his letter, sent out before the first faculty meeting of the academic year, Kirby wrote that Harvard undertakes this self-examination “from a position of strength”—that the College “remains a vibrant academic institution” (see www.fas.harvard.edu/home/administration/~kirby/colleagues_100702.html). That said, he wrote: “we should not shy away from the simplest—and hardest—questions.” He outlined a back-to-basics line of queries, including what it means to be educated in the early twenty-first century; what the enduring aims of liberal educa-

tion are; and how students can best acquire both a core of common knowledge and disciplinary depth. And he raised such cross-cutting issues as how students can choose elective studies; how to promote direct learning from faculty members; how to integrate study beyond campus; and how other Harvard faculties might share in undergraduate education.

Having thus begun “a year for thought, discussion, and reflection, not for legislation,” Kirby invited faculty members, students, and alumni to comment on the questions that should be addressed in the curriculum review and on the best structure to prompt broad participation.

The two symposiums, held on the evenings of November 6 and 14 in Harvard Yard, provided the first forums for formal consultation. (Webcasts can be viewed at <http://athome.harvard.edu/programs/curriculum/curriculum1.html>.)

At the first session, Jorge I. Dom nguez recalled the genesis of the Core during the 1970s, when he was a junior faculty member. (Now he is Dillon professor of international affairs and Harvard College Professor and directs the Weatherhead Center for International Affairs.) Rather than fruitlessly (they realized) pursue a prescribed program, professors decided to ask each other, “What about *your* field should *my* student know?” The answer—“How do you think in your field?”—became the Core’s principle of introducing students to “the major approaches to knowledge in areas that the faculty considers indispensable to undergraduate education” (see www.courses.fas.harvard.edu/~core/.)

Among the Core’s virtues, Dom nguez

said, is the fact that it is shaped by students and professors *outside* departments, on behalf of non-concentrators—an otherwise neglected constituency. He also noted the imperative of “rescuing” senior faculty members from “ignoring undergraduates” by involving professors in a Core program or its successor. But today, he worried, the Core underemphasizes natural science; offers too few courses; lags in covering burgeoning fields such as biology and economics; may be hemmed in by no longer relevant subdivisions; and depends too much on large classes.

James Engell, Gurney professor of English literature and professor of comparative literature, lamented that the Core’s focus on *methods* of knowing shortchanged *content*. In particular, he highlighted holes in humanities education: because the Core prescribes no common intellectual experience, undergraduates can satisfy its requirements without ever studying a major author from modern literature, nor any of the classics of Eastern or Western civilization, nor the principal religious or philosophical traditions. Students can equally elude exposure to the significant periods of history, and reading competency in any non-English language. Echoing Dom nguez’s concern for non-concentrators, Engell noted that there is no incentive for students to take departmental courses outside their concentrations. (In 1997 he lobbied successfully to have some departmental courses count for Core credit.)

Substantive concerns aside, Ford professor of the social sciences David Pilbeam, himself a former dean of undergraduate education, described a sharp decline