those fields drew 58 percent of male 2008 graduates who were starting work right away (as opposed to attending graduate school, for instance). Mount thinks this figure is distorted upward by selection bias, and notes that an OCS tally found that only slightly more than one-fifth of 2008 graduates found their first job (of *any* type) through on-campus recruiting. Whatever the numbers, joining the finance sector "is not necessarily choosing the dark path," Kidd and others note—plenty of investment bankers give generously of their money or time, and a public-service job does not automatically make one a good person.

More troubling is the idea that students may rush headlong into a job because they feel it is what they are somehow expected to do—or because it's what they see all their friends doing. "It's hard *not* to" consider finance and consulting, says Philip Parham '09. "When you see the amount of money made in that field, it becomes very attractive." (Current trends in the financial sector may attenuate this appeal.) Parham and Dhaval Chadha '08 are the founders of the Career Diversity Awareness Group, a student group that arranged an "alternative" career fair last February to highlight opportunities in fields including government, the arts, media, and education.

Parham had summer internships at both OCS and the Center for Public Interest Careers at Harvard (CPIC; www.cpic.fas.harvard.edu), an office of the College that also receives funding from the Faculty of Arts and Sciences, from individuals, and from foundations. Founded in 2001, CPIC matches students with public-service jobs and internships and serves as a clearinghouse for undergraduates interested in those paths. During his internships, Parham—who hopes to work for an educational nonprofit next year—helped recruit companies from fields besides finance and consulting to appear at the annual OCS career forum held late in September. The forum's roster ultimately included nearly even numbers of companies in banking and consulting (79) and other fields (70); Parham notes slyly that in configuring the career forum's set-up, he assigned berths so that students had to walk past tables of nonprofits and public-sector employers to get to the financial-sector booths.

Parham doesn't fault his friends who choose finance. He does, however, ask them to explain the reason for their choice—and he doesn't take "making money" for an answer. "I keep telling people, money is a means to an end," he says. "So what is the end that you're trying to achieve?"

In the Black

"Our ability to access endowment wealth has enabled us to move forward" on priorities such as the new science complex in Allston, renovation of the Fogg Art Museum, and financial aid for lower- and middle-income families. So said acting chief financial officer Daniel S. Shore, reviewing fiscal year 2008 (ended last June 30), as detailed in the *Harvard University Financial Report*, released in October (available on line at http://vpf-web.harvard.edu/annualfinancial). His assessment neatly summarized Harvard's fiscal position, aims, and challenges.

Fueled above all by distributions from the endowment (valued at $36.9 billion at fiscal year-end; see "Endowment Edges Up in a Down Year," page 60), revenue rose 8.4 percent to $3.48 billion and expenses increased 9.3 percent to $3.46 billion—rates of growth faster than in the prior fiscal year. The University achieved a modest operating surplus even as it pursued significant programmatic and physical expansion. But given recent chaos in the financial markets, rising reliance on income from the endowment to fund operations raises questions about future budgets—particularly, Shore said, "in an environment where the ability to get sponsored-research funding from the federal government continues to be challenging."

A few line items in the report merit examination. Federal sponsored funding rose about 4 percent, to $535 million, with National Institutes of Health funding up less than 2 percent. That was better than the worrisome *decline* in fiscal year 2007, but did not keep pace with either the inflation in research costs nor the larger population of scientists seeking funds. Shore said the slight improvement likely reflected no trend: "Up 2 percent in nominal terms is nothing to jump up and down about."

Among Harvard's expenses—up a brisk $294 million—compensation costs, the largest single category, rose 7 percent, reflecting an 8 percent increase in salaries and wages (driven, Shore said, by both pay increases and workforce expansion), and a 6 percent growth in benefits (relatively favorable compared to recent experience). The allocation of expenses between the University and the Broad Institute (a genomics-research joint venture with MIT, which will become a free-standing nonprofit organization in the next year or two), and between Harvard and an affiliated hospital, increased expenses more than $40 million in fiscal year 2008 compared to the prior year; that ought to be seen as a short-term, largely nonrecurring swing, according to Sharon D. DeMaranville, director of financial reporting. Travel expenses rose 18 percent, in line with a recent trend, as the University continues to "expand our footprint internationally," Shore said.

Capital spending declined

Endowment Spending Primer

Income distributed for operations	$1.2 billion	3.5%
Administrative assessment (strategic infrastructure fund)	$168 million	0.5%
Net decapitalizations	$258 million	0.8%
Aggregate payout/rate	$1.6 billion	4.8%

For these calculations, the fiscal year 2008 endowment distribution is based on its year-end 2007 value ($34.9 billion), *less* certain items (pledge balances, interests in trusts held by others), for a sum of $34.3 billion.

fractionally, to $591.1 million, reflecting completion of work on graduate-student-housing projects, large new lab buildings, and other Faculty of Arts and Sciences (FAS) projects. But, Shore said, "We certainly expect to see more," given academic aspirations and work already under way: the Allston science complex, Harvard Law School's office and classroom building (see March-April, page 54), and the Fogg renovation—three projects expected to cost perhaps $1.7 billion in all—and such planned work as the renovation of the undergraduate Houses.

Harvard continues to fund such capital programs with debt: bonds and notes payable totaled $4.1 billion on June 30, up from $3.8 billion on June 30, 2007 (during which fiscal year debt outstanding rose by more than $900 million). In the normal course of events, Shore said, Harvard's net borrowings will continue to rise, in keeping with the capital plan.

Endowment income distributed for operations rose nearly $158 million, or 15 percent, to just above $1.2 billion (see table). The administrative assessment that allows the University to contribute to the "strategic infrastructure fund" (Allston development expenses) rose $28 million, or nearly 20 percent, to $168.4 million. And unspecified "decapitalizations" for one-time or time-limited purposes totaled $258.2 million; in fiscal year 2007, a $100-million decapitalization in support of FAS construction was identified.

The fiscal year 2008 "distribution rate" established by the Corporation for all eligible funds amounted to 4.1 percent of the endowment's year-end 2007 value, down from 4.3 percent. (Endowment investment returns were an extraordinary 23 percent in fiscal year 2007; such gains lower the distribution *rate* even when the *dollars* distributed for operations rise significantly, as occurred this past year.) Summing all endowment funds tapped—$1.6 billion, including the decapitalizations of principal—the "aggregate payout rate" came to 4.8 percent, up from 4.6 percent in 2007. Those figures all slightly trail the Corporation's goal of a 5.0 to 5.5 percent aggregate payout rate—the level commonly bruited about in congressional discussions of appropriate spending from tax-exempt private university endowments. (See "Endowments—Under a Tax?" July-August, page 65; the most recent hearing on the issue took place in the U.S. Senate on September 8; see Brevia, page 71.)

But spending less in fiscal year 2008 than the longer-term goal for endowment use may be prudent. A sustained, sharp decline in the value of financial and other assets could trim the size of the endowment itself, even as demands upon it grow. And there are other concerns. As in recent years, the "Annual Report of the Harvard Management Company," within the University *Report*, mentions that "as HMC deepens and widens its relationships with external managers, efforts are being made to counteract the existing market tendency towards a lower level of information transparency." The HMC report discloses that HMC's private-equity portfolio consisted of 210 separate funds managed by 80 different external firms.

In fact, Shore and DeMaranville noted, HMC kept its books open longer this year than last to work with external money-management firms on the asset values they reported. Being confident that those

Financial Crises, Faculty Views

Amid the crises besetting U.S. financial institutions, faculty panels convened on September 23 at Harvard Business School (HBS) and two days later in Sanders Theatre to address the roots of the problem and potential solutions. Among the salient points:

- **Leverage, liquidity, transparency.** HBS dean Jay Light talked about the need for fundamental reform of both regulatory oversight and the operating standards for commercial and investment banks—and their use of new kinds of investment instruments.
- **Moral hazard.** McLean professor of business administration David Moss, author of *When All Else Fails: Government as the Ultimate Risk Manager*, emphasized the importance of balancing any federally financed rescue plan with offsetting measures to discourage inappropriate, even dangerous, risk-taking in the future.
- **Real losses.** McArthur University Professor Robert Merton noted that, beyond immediate problems of liquidity and scarce credit, the underlying deflation of house prices had caused a permanent loss of perhaps $4 *trillion* of actual wealth to date.
- **Middle-class stress.** Professor of management practice Robert Kaplan—a Goldman Sachs alumnus who served as interim head of Harvard Management Company (HMC) in late 2007 and the first half of 2008—looked beyond the immediate crisis to focus on the "severely weakened middle class in the United States" as the core economic problem.
- **Reduced global status.** Cabot professor of public policy Kenneth Rogoff, former chief economist of the International Monetary Fund, said the financial sector as a whole was "bloated" and had to shrink. Given the "*spectacular* deficits" being run by the U.S. economy, he warned, Americans could not fund the repair of their own financial system, painting policymakers into a corner: "We borrowed too much, we screwed up, so we're going to fix it by borrowing more."

Not present was Mohamed El-Erian, who left his position as HMC president late in 2007 to return to PIMCO, the huge fixed-income investment-management firm. But the book he completed during his brief HMC tenure and published this spring—*When Markets Collide: Investment Strategies for the Age of Global Economic Change*—serves as a useful guide to contemporary financial terminology and the sorts of diversified strategies the endowment's managers employ (and individuals might emulate) as they navigate perilous markets.

For detailed accounts of the panel presentations and access to a recorded webcast of the September 25 discussion, visit harvardmag.com/extras and consult the two-part "Financial Crisis, Faculty Perspectives" postings of September 26.

often-illiquid investments are properly valued, in volatile markets, will matter even more in fiscal year 2009 and beyond, because the University's reporting came under Financial Accounting Standards No. 157, *Fair Value Measurements*, as of July 1, and so will henceforth have to satisfy itself, and its auditors, that asset measurements do indeed reflect fair value.

As the Corporation determines, in late fall or early winter, the level of endowment spending and the budget for fiscal year 2010, Shore said, "It's hard to have any crystal-ball conversation not shadowed by the environment." From his perspective, University operations are proceeding well. The financial-aid initiatives, for example, increased the pool of undergraduate and other applicants, as intended. With peer institutions, Harvard continues to "try to influence the conversation in Washington" about sponsored-research funding. As of early autumn, possible leading indicators of financial weakness—fundraising, donors' fulfillment of pledges, executive-education enrollments—remained intact. "You always want to be prepared," Shore said, "but don't want to be in a mode of 'The sky is falling.'"

Over time, he said, financial strength provided by the endowment has enabled Harvard to support and attract faculty members at times when the economy constrains the academy generally. Harvard's mechanism for funding interdisciplinary science, and housing it in new Allston facilities, is encouraging intellectual progress: "We have a lot of deans now who are eager to recognize and work with the synergies that exist among these schools." Realizing the deans' "big, big aspirations" for intellectual advances will require a careful balance of fundraising, debt financing, and effective use of existing resources, Shore said—now overlaid with a pointed recognition: "Given that endowment income is such a big part of our operations, if returns get choppy, it's something we're going to have to manage to."

Coming Out at Harvard

In 1920, a tribunal set up by University administrators interrogated students suspected of being gay. This inquisition led to eight expulsions and one suicide: Eugene R. Cummings ended his life just days before he was to receive his degree from the School of Dental Medicine. (Author William Wright provides context in his 2005 book, *Harvard's Secret Court*.)

Rhonda Wittels

Since that time, "things have changed at Harvard—a *lot*," says Rhonda Wittels '79, the new president of the Harvard Gay and Lesbian Caucus (HGLC; www.hglc.org), which celebrated its twenty-fifth anniversary during four days in late September. Added Wittels, a software developer who lives in Watertown: "We want our older alums to know that, and to know that they're welcome to come back."

The event's very logistics underscore Wittels's statement: "From the Closet to a Place at the Table" took place on campus with Harvard Alumni Association (HAA) sponsorship and speeches by administrators, including President Drew Faust. The official program billed the weekend as "Harvard's biggest coming out party ever" and the event drew more than 500 attendees, from the class of 1941 through current students. Dozens of graduates, students, and faculty and staff members spoke publicly about issues of sexual orientation in the curriculum, student life, and wider society. (Congressman Barney Frank '61, J.D. '77, who chairs the House Financial Services Committee, was scheduled to give the keynote speech, but had to stay in Washington to work on the financial bailout package.)

Much has changed even since the 1970s and '80s. In her talk, vice president for alumni affairs and development Tamara Elliott Rogers '74 recalled meeting with a group of gay students when, as an undergraduate, she was a peer counselor with Room 13 (a group that still exists). Rogers said she was surprised by "the profound sense of loneliness and isolation" the students expressed. Their Harvard differed starkly from her own; the discussion was, Rogers recalled, "a rather shattering experience." (For another personal perspective, see "Gay Like Me," January-February 1998, page 50, by Andrew Tobias '68, M.B.A. '72.)

Faust, a historian of the Civil War who directed the women's-studies program at

Photograph by Stu Rosner