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.