

# Follow Up Open Letter from HUCTW on the Economy



December 22, 2008

In the two weeks since we last wrote, the economic situation has not changed significantly. The world economy is still in turmoil, and Harvard is facing a serious financial challenge. HUCTW members and leaders are listening and learning every day, analyzing the complex and rapidly changing environment, and engaging with University administrators to press our views about possibilities and priorities. In this letter, we will offer an updated interpretation of Harvard's financial challenges and some urgent suggestions about the smartest and fairest solutions.

## **Harvard units are beginning to develop budgets for next year.**

By now, we have all heard that the value of the Harvard endowment has declined by at least 22% (and probably a good bit more) since July. The losses will lead to lower-than-expected endowment payouts for operations next year. While much of the recent campus discussion has focused on the endowment, investment losses are only a part of the University's financial challenge. In addition, other sources of revenue will be constrained: tuition income will fall as students require more aid, and charitable gifts will be harder to come by. More important, Harvard has taken on new and expensive commitments: higher levels of financial aid for low- and middle-income undergraduates, and aggressive expansion of science research activities.

The separate University schools and departments are all trying to put these challenging pieces together, as they begin preparing budgets for next year. FAS and the Medical School (where most of the new science infrastructure is located) have asked leaders of departments and centers to go through the exercise of figuring out how they would cut 10 to 15% from their budgets. Most other units are working on budget exercises with smaller reductions.

## **There are many ways to reduce costs.**

Clearly, Harvard needs to make an adjustment. Given the uncertainty of the revenue situation, it will not be possible for the University to continue growing and spending as it has in recent years. There are many ways to reduce costs and increase revenues. Statements from University officials and media accounts have only mentioned some of the possibilities for digging out of the financial hole. Discussions within HUCTW and with management colleagues have yielded the following list of important ideas for closing the gap:

- Increase the percentage endowment payout for operations to unusual (but still prudent) levels
- Redirect money in the Strategic Initiatives Fund (the SIF, previously earmarked for groundwork on the new Allston campus) to support expensive new commitments, such as higher financial aid levels and debt service on new science buildings
- Initiate creative campaigns for broad participation in energy conservation and employee wellness
- Cut deeply into budgets for travel, catering and consulting—activities that are not critical to Harvard’s mission as an institution of higher learning
- Make more efficient use of space and facilities by exiting leased commercial spaces and moving operations into empty Harvard-owned buildings
- Look for ways to increase revenue from money-makers like the Extension and Summer Schools
- Operate at a deficit, to a limited degree and for the short term
- Study the possibilities for selling or leasing non-essential, off-campus real estate holdings, such as Allston parcels that are not part of the planned new campus

Thoughtful and energetic application of these ideas and others still being generated would solve most or all of the expected budget shortfall for next year and future years.

**Cuts in staffing and compensation should be the last resort.**

Harvard staff members are hands-on providers of education, research and student services. Working in partnership with faculty and students, HUCTW members and our exempt staff co-workers play a vital role in the University’s greatness as a premier center of learning and discovery. Cuts in staffing are cuts in education and research, which will affect the quality of Harvard endeavors and will be felt by students, teachers and researchers. To be clear, our Union’s view is that no staffing cuts should be considered until all of the less harmful ideas listed above have been applied.

Pay cuts, in the form of compensation freezes, are also potentially harmful. We support the strong commitments, announced recently by Harvard and FAS leaders, to maintain current levels of financial aid for undergraduates. University officials have pointed out that it is especially important in tough economic times to ensure that no student’s family endures undue hardship in paying for a Harvard College education. In precisely the same spirit, our community should make every conceivable effort to avoid losses of jobs or pay among the staff.

**When times are tough and cuts are being weighed, we need more transparency.**

In the past month, many HUCTW members have shown their willingness to engage thoughtfully and to participate constructively in the quest for the right solutions. We will continue to listen, think and offer ideas as the budget process for next year unfolds in more detail.

However, if we are to have a truly engaging and participatory discussion about hard choices, Harvard officials will need to share more information than they have to date. A

number of senior leaders have asked community members to join in efforts to look for savings. But our members and friends can not really participate if important pieces of the Harvard finance puzzle are not in plain view. Leaders at the University and school levels should inform us fully and frankly about plans for the endowment payout, use of the Strategic Initiatives Fund, and willingness to operate at a deficit. If we can know exactly what all of the possibilities and problems are, HUCTW members are ready and willing to help make good decisions on how to get through bad times.

The first few months of 2009 will be a difficult period, due to the uncertainty of the financial situation. We need to ensure that there is regular, open sharing of information between Union members and University administrators, and broad participation in developing and choosing solutions.

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