The War's Effect on the University's Income

(From a talk to the Alumni Fund Agents)

By Professor Irving Fisher, '88

THE war has upset political and economic conditions and the greatest economic result has been in the purchasing power of money, and you have to deal with one of its consequences. We know how to measure the purchasing power of money as we did not know before this generation by means of what is known as the index number of prices. Business men are undoubtedly familiar with the index systems of Dun and Bradstreet used to show what the price level is and what the purchasing power of the dollar may be. But this was originally an academic invention and has only gradually come into general use. By means of this we can now go back and see how unstable the dollar and the other units of money have been. Since 1872 there has been no stability in money. Between 1779 and 1809, thirty years, prices doubled. Between 1809 and 1849, forty years, prices went back to where they were before; they were cut in two; between 1849 and 1873, prices went up, with some oscillations, about 50%; between 1873 and 1896 prices went down about 25%; between 1896 and 1914, the first year of the war, prices went up about 50% in this country and 35% in England; between the beginning of the war and the present time prices have doubled in this country and trebled in Western Europe.

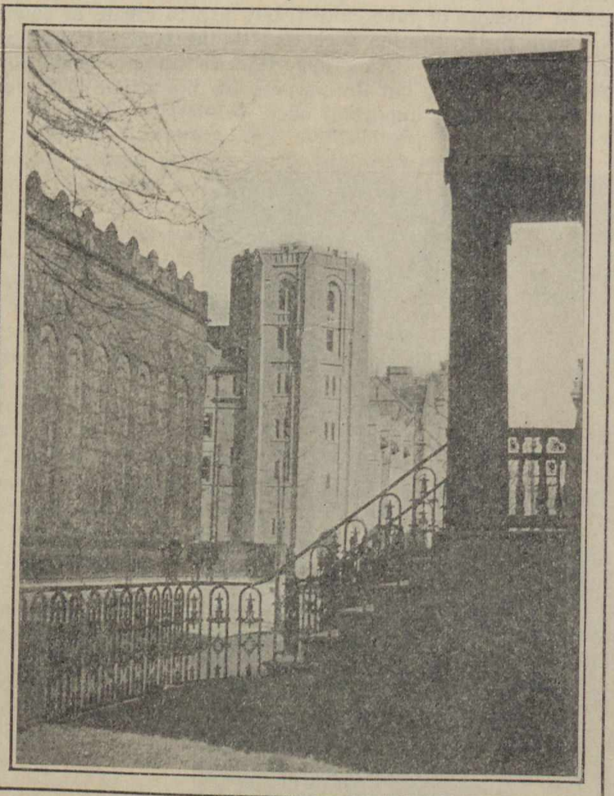
The upheaval of prices has been like that of a volcano around the war centers, the greatest being in Russia, the war center, and the least further away from the war. This has caused all kinds of changes and one of those changes is in Yale University. In the Civil War we paid for the war by running the printing press; in the Revolutionary War the same way; in the Colonial War the same way. The present war was paid for in the same way by Russia—running the press twenty-four hours a day every day in the year for several years; the Bolsheviki have inflated the currency to an enormous degree.

Well, we regard ourselves as having outgrown this; we simply chase the devil around the stump a little bit. In Germany the second war loan was paid for by the deposit of the first war bonds as security in the banks. This amounted, obviously, to an indirect method of showing the equivalent of greenbacks by the Government. In this country we did somewhat the same thing only we employed a more subtle form by the use of bank deposits. The first time a certain gentleman who spoke with me asked the people to subscribe all they could. He said it did not mean a sacrifice on their part—all they had to do was to go to the bank and draw the money to loan to the Government. That was the nearest approach to perpetual motion I know of. When you pay by perpetual motion without making a sacrifice—try to make something out of nothing—you cause inflation and somebody has to pay the bill.

There has been an enormous change of distribution of the ownership of wealth. If Yale University had its funds invested in common stocks it would not have been necessary to suffer the enormous depreciation it did suffer. As a matter of fact, in such times as these we take risks in the purchasing power of the monetary unit. Under these circumstances there is always a gamble in this purchasing power and a loss or a gain as the case may be, and at this time it has been a substantial loss. The University has about twenty-five millions invested in bonds. When the returns are all in—all the expenses tabulated, the result will be that the purchasing power of these twenty-five millions will be about one-half of what it was before the war. Things are now only slowly adjusting themselves. Salaries don't go up with the rapidity of other things; but the actual effect of the war's depreciation has been practically to rob Yale University of the equivalent of twelve million dollars.

It is to make up part of this loss that we are called upon. It is a pretty serious situation when endowed institutions lose one-half of their funds, and it is especially serious when that institution is an educational one. It means a tremendous loss of economic power as compared with state institutions and with commercial agencies, and it means something much more vital than a mere loss of power and prestige to Yale. It is a great blow to education. One of the important results of this transfer is the tremendous deterioration in education and in the quality of work performed by those in public schools.

The school teacher, the college professor and the Government clerk are going in the next generation to be of a far inferior grade than they have been in many generations. Certainly that will be the case unless the evil is sufficiently realized and recognized so as to stimulate men like you to come to the rescue. If this chart had been carried back to 1896 when the dollar had its maximum purchasing power you would find the degrees greater. If you look at this problem in its true light and see that it represents the effects of a great economic upheaval transferring the ownership of wealth, you will see the logic by which an endowed institution like Yale has the right to claim of the profiteers, who have received profits that really belong to Yale and have profited in their increase to the extent that the bondholders and endowed institutions have lost. It is merely social justice that they should be solicited to pay back to Yale what they have, without malice aforethought, taken from her.



SCROLL AND KEY HALL AND ST. ANTHONY, LOOKING DOWN WALL STREET PAST THE PORCH OF THE NEW OFFICES OF PROVOST WALKER AND CHAIRMAN CORWIN OF THE JOINT ADMISSIONS COMMITTEE