harvard.edu/gazette/2009/05.28/mendillo.html). Over time, there may be measurable changes in the "policy portfolio," HMC's model for allocating investments among asset classes.

But it would be surprising to see HMC abandon the strategies that proved successful in the past. For one thing, as Mendillo told the *Gazette*, "I expect we'll see some interesting opportunities across the board, for example in real assets—real estate and natural resources—where we are uniquely positioned, given our experienced and pioneering teams," whose professional ranks have in fact been bolstered by recent hirings. For another, the prices of such assets have declined, as have borrowing costs, making the potential returns on new investments much more attractive than at this time last year. The huge California Public Employees' Retirement System has indicated that it would increase its use of private-equity and hedge funds, commodities, real estate, and other assets, for just these reasons.

In the very near term, legacy investments in real estate, some commodities, and private equity may hold returns on the endowment below HMC's long-term goal of 8.25 percent annual gains. And therein is the continuing challenge to the University's budgets.

Reducing endowment distributions by 8 percent this year and a similar amount next year necessarily means cutting spending much *less*, and much *less rapidly*, than the value of the investments themselves sank last fiscal year. Arithmetically, that pushes the *rate* of distribution up—to a forecast level above 6 percent this year. If endowment returns are lower than that, its value would decline further during the year in nominal terms (absent any gifts received), and even further accounting for inflation.

So far, Harvard officials have not detailed their long-term assumptions about endowment returns, distributions, and values. But Stanford offers a useful analogy. In a presentation to his academic council in late April, President John Hennessy forecast that if spending were not reduced, assuming 3 percent inflation (below historical experience) and 8 percent investment returns for the next five years and 10 percent after that, it would take more than 30 years for the Cardinal's endowment to recover to its mid 2008 peak; substantial endowment gifts might cut the recovery period in half. Those trends underlay Stanford's decision to cut endowment spending (30 percent of revenues) more sharply than Harvard plans to do—10 percent this year and a further 15 percent next—in the hope of beginning to increase the payout again three or four years hence.

It is reasonable to assume that under similar economic and investment conditions, given Harvard's finances—and the pressure to reduce the payout rate toward a more normal range of 5 percent or so—the beginning of any recovery in endowment distributions here lies at least that far in the future.

The recession may be abating, and the financial-market chaos that punctuated it diminishing in effect. But the University's adjustments have only begun. Income from the endowment remains a critical source of revenue. HMC's experts have to balance new assessments of risk and demands for liquidity against promising investment opportunities—all while watching an uncertain economic environment. And Harvard's academic leaders face a protracted effort to reduce continuing costs, to find new sources of revenue for immediate needs, and, somehow, to invest in the most compelling

Last Chapter

Parker, Flemming, and Duncan ran a sophisticated bookstore in the heart of the Square.

The display room of Harvard University Press (HUP)—a fixture in the Holyoke Center arcade since 1966—and before that, on Dunster Street since 1948—closed on June 17. The proximate cause was the decision by two of the three employees, manager Jeff S. Flemming '73 and Marygail Parker, to accept the University's early-retirement program; their third colleague, Barry Duncan, was among the Press staffers laid off. The staffing transition came at a time when book sales have declined (in common with retail sales generally)—putting pressure on the Press, which operated the display room more as a customer service and a publicity venue than as a money-making venture. (Longer term, of course, book sales have also increasingly migrated to electronic outlets; Amazon is HUP's largest customer.)

The books themselves remain readily available, and HUP's list can be browsed comprehensively at its website, www.hup.harvard.edu. What is lost, however, is the overwhelming visual impression of the whole Loeb Classical Library in its green (Greek) and red (Latin) cases and dust jackets, and the nearby bright blue of the newcomer, the I Tatti Renaissance Library. It becomes more difficult to assemble, at a glance, the depth of the works published in Slavic studies, or in higher education, or music, or landscape architecture. This was a sturdy place—brick floors, concrete ceiling, solid shelves—in which to encounter Igor Stravinsky and Eudora Welty, among all the scholarly volumes. Above all, as showed by the store's sign—a stack of books disordered by rummaging, rather than positioned neatly but unopened—it was a place about serious reading and publishing: a very good thing for a university-press bookstore embedded in the center of Harvard's campus.

Visit harvardmag.com/extras to see photos from HUP display room history.

Photographs by Jim Harrison