

Economics of the past teach us about the present

BY CHRIS MEINZER

Since the start of my tenure at ATS in 1999, North America has gone through the excessive growth and subsequent bursting of technology startups at the end of the 1990s and early 2000s (DotCom Bubble), the difficulties arising from breakdown of the financial system and housing market in the late 2000s (Great Recession), and now broad impact of the health crisis of 2020 (Great Pandemic). I, in no way, mean to diminish the realities of these moments with brief summaries of complex circumstances, and I don't claim to be an economic expert but I do care about what the past can teach us about the present.



An historical perspective

I chose three economic indicators to analyze—change in stock market value, change in gross domestic product (GDP), and rise in unemployment. In general, the change in stock market value theoretically measures the outlook for future corporate earnings and growth, so a broad move up or down signals how future earnings are deemed impacted by current perceptions. GDP measures how the broad economy is performing via worker output and production growth, and

a decline of two quarters signals a “recession.” Unemployment ultimately measures people who are out of work but it also signals lost wages needed to fuel economic growth, as nearly 70% of the US economy is consumer-driven. These three indicators are also interrelated. For example, GDP (output and production) impacts unemployment (need for workers) and the stock market (future potential corporate earnings).

The chart below reflects the three recent economic challenges along with the Great Depression of the 1930s. It shows the economic event timing, the change in the stock market value, the change in GDP during the challenge, the highest levels of unemployment throughout the crisis, and the years to recover back to levels prior to the challenge.

Economic Event	Timing	Stock Market	GDP	Unemployed	Years to Recover
Great Depression	Sept 1929–debated	-87% Dow	-10% Canada -15% US	30% Canada 25% US	10+
DotCom Bubble	Mar 2000–Oct 2002	-78% NASDAQ	Up	7% Canada 6% US	5
Great Recession	Dec 2007–Jun 2009	-53% Dow	-3% Canada -4% US	8% Canada 10% US	4
Great Pandemic	Feb 2020–TBD	-37%/-17% Dow	-5% to -8% est.	13% Canada 15% US	?

as of 5/18/20

During the Great Depression, the US stock market measured by the Dow Jones lost 87% of its value. GDP declined by 10% in Canada and by 15% in the United States. Unemployment soared to 30% in Canada and 25% in the US. Although experts debate the impetus for recovery

and the length of time to recover, there is no debating that it took more than a decade to recover.

During the DotCom Bubble, there were some significant differences. The loss in the stock market occurred in the technology-heavy NASDAQ, which lost 78% of its value. This concentration was driven by speculative investing in new and unproven technology companies that spent a lot on advertising a bright and shiny potential without real results to show. The stock market losses were steep, but GDP actually did not contract and unemployment levels only increased slightly in North America. By some measures, it still took years to recover.

The Great Recession had broader implications and impacted more average Canadians and Americans. The loss in the stock market was not as deep as the DotCom Bubble era, but it was much broader as measured by the Dow Jones. GDP declined by 3%-4%, and unemployment reached 8% in Canada and 10% in the US. Of note, by 2008, unemployment had settled back to about 5% in the US following the DotCom Bubble, and then took 18 months to climb to 10% as the economy sputtered and corporations took action to layoff staff to reduce costs as a result of the Great Recession. Even with this broad decline, it took only about four years for the economies to recover.

When looking at the Great Pandemic, there are marked differences. The stock market loss was immediately deep at 37%, but it recovered within two months to be only down about 17% from its historic high. The decline in GDP for Canada and the US is presently estimated to be in the range of 5%-8%, which would make it twice as deep as the Great Recession. The deepest impact might come from the unemployment losses, which are around 13% for Canada and 15% for the US. The unemployment numbers are much deeper than the Great Recession and the fall was very precipitous. In February 2020, unemployment in the US had fallen to 3.5%, which was its lowest point in many decades. In less than two months, the unemployment rate had grown to nearly 15%, with some projections that it could soar to beyond 20%. Given that some of the economic indicators are worse with the Great Pandemic than the previous two, it may take longer than four to five years for a full recovery.

Historically speaking, the Great Pandemic is producing an extraordinary impact on the workforce. According to the Bureau of Labor Statistics, the US unemployment rate averaged about 5.8% from 1948 to 2017. Only twice across those seven decades—1982 to 1983 and in 2009—did the unemployment rate grow to 10%. In both cases, the rate climbed steadily from the average of 5.8%-10% over at least 18 months. In 2020, the unemployment rate increased from 3.5% in February to 4.4% in March, and to nearly 15% in April. It's currently not possible to know how much higher the rate will climb nor how quickly the rate will retrace from its summit. These high unemployment rates are integrally related to decline in GDP, in consumer spending, and in current and future corporate earnings.

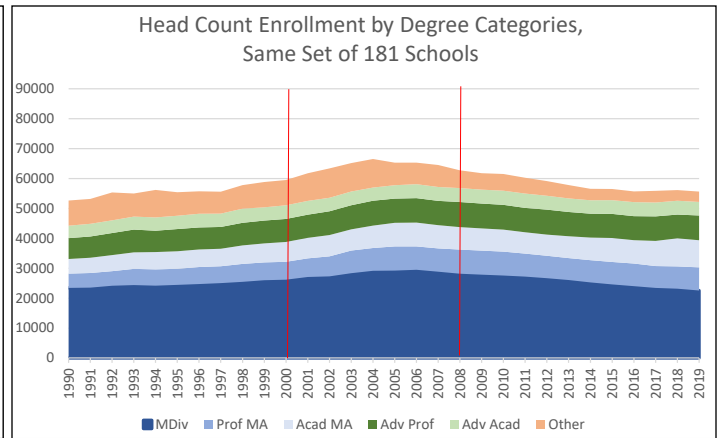
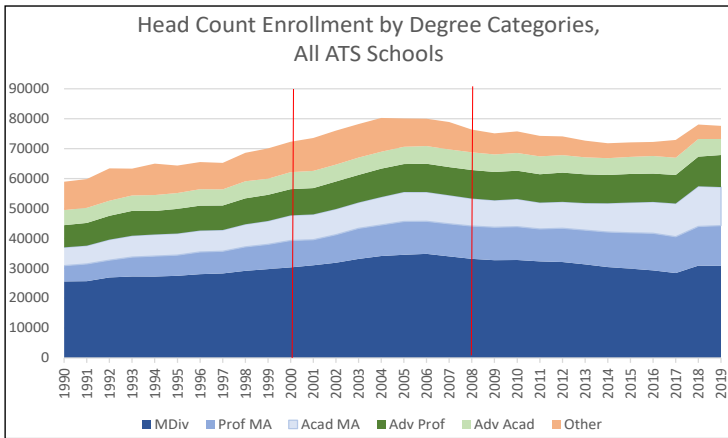
There is one final element to the Great Pandemic that makes it unique when compared to the other economic crises—the health component. Much of the complexity in projecting the trajectory of the macroeconomic factors in North America is largely due to the unknowns around the length and severity of the virus itself. In the prior economic challenges brought by the DotCom Bubble and the Great Recession, countries, corporations, and theological schools leaders were not also having to face the realities of a frequently changing global pandemic.

What can we learn?

Enrollment

ATS schools have experienced enrollment changes during the last two decades that many of you are familiar with from articles written by ATS staff. It bears reviewing some of these trends with an additional eye to what the past economic challenges may have meant previously and what they might mean now.

The two charts on the next page show head count enrollment by degree category across all ATS schools and then the same set of 181 schools that were part of ATS during the last three decades. The chart on the left shows a significant climb in total enrollment from 1990 to 2004, a decline from 2005 to 2014, stability from 2015 to 2017, and a jump in 2018 and 2019. The chart on the right



showing the same 181 schools during the three decades shows a bit of a similar pattern, but the climb up is less steep, the fall down is steeper, and the steady last five years is present.

In this high-level industry analysis, the charts show little interruption in the trajectories brought by the prior economic crises. Neither 2000 nor 2008 created a marked change in head count enrollment across either all ATS schools or the same set 181 schools. There doesn't appear to be a significant change in either total head count enrollment nor in the particular degree categories represented. The Master of Divinity, for example, continued its steady climb from 1990 to its peak in 2006, and then began a decline from there. There is no marked change in the path represented by the DotCom Bubble nor by the Great Recession. Likewise, the professional and academic MA degrees have continued their growth patterns from 1990 through today.

In both charts, the combined lighter blue sections continue to widen throughout the three decades, and the prior two economic challenges seem to have little effect on the enrollment. Similarly, advanced degrees (both professional and academic) grew slightly on an annual basis from about 1990 to about 2010–2011, and then stabilized generally for the rest of the period. Although it is a little harder to tell whether the Great Recession impacted these advanced degrees, it is certainly true that the stability to slight decline that occurred in 2010–2011 was not dramatic at all.

I also wanted to see what the impact, if any, was at the school level. For this review, I looked at the change in

enrollment by school on an annual basis. From 1990 to 2004—when overall enrollment in ATS schools was growing—55% of schools were growing each year. Conversely, from 2005 to 2014—when overall enrollment in ATS schools was declining—45% of schools were growing each year. These data points indicate that the majority of ATS schools experienced growth in the first period. Similarly, in the next period reflected by overall enrollment decline, a majority of ATS schools were also experiencing enrollment declines. In fact, there was a dramatic shift in these numbers—55%-60% of ATS schools grew between 1999 and 2004, 45%-50% of ATS schools grew between 2004 and 2006, and only about 40%-45% of ATS schools grew between 2007 and 2016.

Relevant to the economic crises of the past, there was a slight uptick in the number of schools that had enrollment growth in 2001 (62%) and 2002 (64%)—the two highest representations of growth across the three decades. This could represent a slight positive impact in enrollment because of the DotCom Bubble, given the proximity to the challenge and the broad growth rates reflected across ATS schools, but it was only sustained for two years. ATS schools began their general enrollment decline two years later. There was no such positive change around the time of the Great Recession. In the years just preceding and following 2008, an average of 45% of ATS schools showed enrollment growth, and there was not a marked difference in the years.

There are many other ways enrollment could be analyzed to discern patterns of change and the potential impact from broad economic challenges. From conversations I've had with boards and administrators, there often is an

expectation that graduate theological education enrollment will grow when bad economic news occurs. With the data presented, however, there does not appear to be noticeable fluctuations resulting from the DotCom Bubble or the Great Recession. There may have been a slight uptick across a broader range of schools in 2001 and 2002 (and this may have been due to the bad economic news of the DotCom Bubble), but the general decline across ATS schools began just two years later and lasted for a decade (right through the Great Recession). It's possible that broader economic trends have some impact on enrollment, but it's even more likely that enrollment trends are fueled by religious adherence, church attendance, and the perceptions of the value of theological education as it is currently offered.

What can be learned from the past to project the current challenge of the Great Pandemic? It's likely that overall enrollment trends of stability in "all ATS schools" and slightly down in "same set schools" will continue through the Great Pandemic. It's equally likely that 40%-45% of ATS schools will show growth from year-to-year during this time. Although possible, it's not likely that there will be a major bump in enrollment brought by the current economic challenge because enrollment is mostly fueled by other influences. With this said, there are also other factors in play now than previously. With the addition of the health component, schools are already concerned about the impact of enrolling new students and continuing to enroll existing students. Religious adherence and church attendance have already been declining in North America, and it is only likely to take more of a hit through the Great Pandemic. As a potential counter-influence, unemployment rates have grown so quickly and the return to average may take many years; those affected may need to consider alternative routes to reenter the job market.

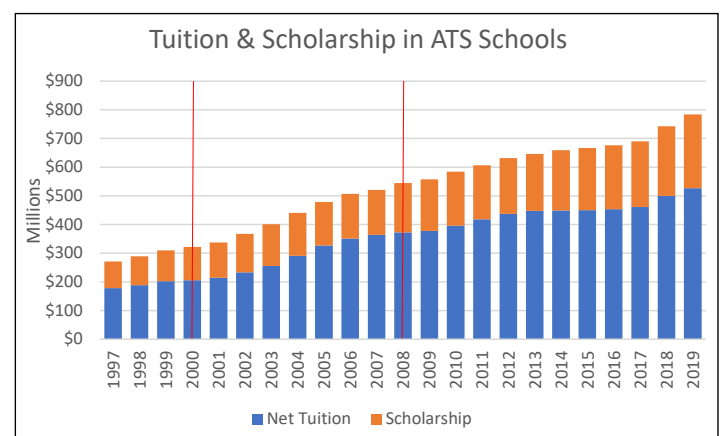
These broader trends are a roadmap designed to help you consider the influence on your own institution. To understand what might occur in these next few years, it might be beneficial to examine enrollment trends surrounding the last two crisis periods. Were your enrollment trends affected by the DotCom Bubble and Great Recession? What was the magnitude of any change and what drove the variance? Do those influences still exist today? In addition to past influences, given the health component of this

crisis, it may be necessary to contact students proactively to discern their own thinking about enrolling or returning. Rather than wait for students to come, your school might need to sample pockets of students to have a better sense of their approaches to fall attendance. Economic crisis alone does not appear to considerably impact enrollment trends, so ATS schools will need to expand their own efforts to manage through the current crisis—especially when navigating the uniqueness of the of the Great Pandemic's health component.

Revenues

Theological schools continue to seek alternative sources of revenue to fund their missions, but the three main sources of revenue still are net tuition, giving, and endowment income. The following charts show revenue sources from 1997 to 2019, identifying the years 2000 and 2008. Perhaps this historic review of revenues and the reactions around 2000 and 2008 can be instructive for today.

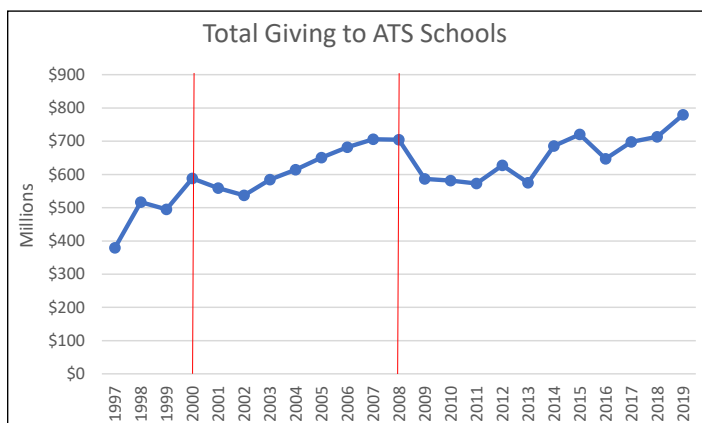
The chart below is gross tuition, scholarship, and **net tuition**. The full bar represents gross tuition, the orange portion represents scholarship expenditures, and the blue portion represents net tuition for each year. Starting in 1997, gross tuition was around \$270 million, scholarship was about \$90 million, and net tuition was nearly \$180 million. Tuition, scholarship, and net tuition reflected growth that averaged about 6-8% per year until 2006, with much of this fueled by overall enrollment growth across ATS until 2004. From 2007 to 2019, the pace of growth slowed to about 3-4% per year as overall enrollment declined for much of this period. It should be noted that there was a slight reduction in growth in net tuition during 2000 and 2001 relative to the years preceding and following, but there does not appear to be



a significant impact from the DotCom Bubble. Likewise, there is a slight reduction in growth in net tuition in 2008 and 2009 relative to the years preceding and following, but those years still reflected some growth overall, so it does not appear that net tuition was dramatically impacted by the Great Recession.

The past two crises show an impact on net tuition, but the effect is minor. As was shown previously, enrollment growth to 2004 was fairly steady and the overall enrollment decline from 2005 to 2014 was also fairly stable. With the ability to change tuition rates and administer scholarship funds, schools appear to have been able to manage through the last two crises related to net tuition. This was likely due to enrollment changes that were not dramatically up or down overall. The difference in 2020 may be the health component of the current crisis and the unknown as to what the impact will be on enrollment. If enrollment changes are minor, then net tuition changes may also be minimal as seen in the past. If, however, enrollment changes are significant, then net tuition may be more impacted and harder to manage. Summer and fall 2020 enrollment trends for both new students and returning students will likely give an indication of the impact the health issues will have on net tuition.

The chart below reflects **giving** across all ATS schools from 1997 to 2019, and there are visible differences in this chart versus the prior one. The impact of the DotCom Bubble and the Great Recession are apparent. Overall giving to ATS schools declined by 10% from 2000 to 2002, but it recovered by 2003. The influence of the Great Recession on giving was more dramatic. From 2008 to 2009, giving dropped by 17% and stayed essentially at those lower levels



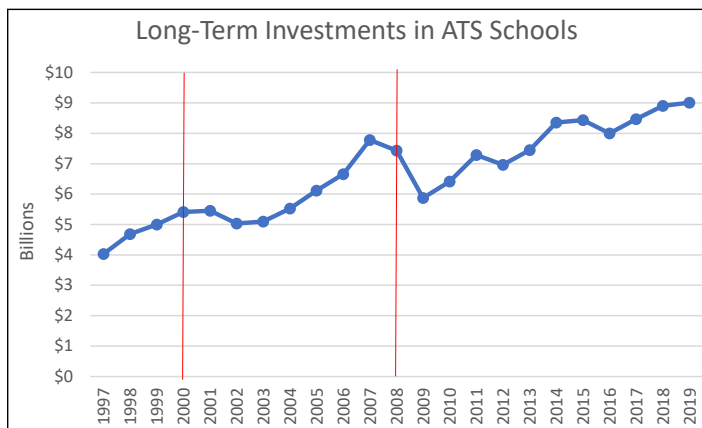
until 2014. It was not until 2015 that giving across ATS schools recovered to pre-Great Recession amounts. The trough created by these years alone meant a total loss of about \$500 million in giving across ATS schools in five years, not to mention the loss of growth from the \$700 million level in 2008.

Other studies have shown that giving to theological schools is mostly influenced by large gifts and bequests and those donations often come from individuals and foundations. This is not to say that smaller gifts from alumni and fundraisers are not beneficial, but it does signal that larger gifts and bequests add up more quickly. In analyzing the impact of the DotCom Bubble and the Great Recession on ATS schools, giving from individuals dropped by 6% in 2001 and 26% in 2009, and giving from foundations declined by 27% in 2002 and 11% in 2009. In addition, giving to theological schools from religious organizations, such as denominations and churches, has been declining for decades, but there was also a marked drop by 6% in 2001 and 22% between 2009 to 2011. Theological schools would benefit from reviewing both giving patterns overall and the makeup of that giving both currently and in the past to discern what the immediate future might hold.

As economic uncertainty occurs, it is often the case that donors retrench and revisit their giving patterns, and this definitely occurred after the Great Recession. The Great Pandemic inserts economic uncertainty in terms of GDP decline and very high unemployment, but it has not impacted the stock market as significantly as of mid-May 2020. In general, donors of larger gifts will often be less impacted by GDP and unemployment and more impacted by the change in the value of the stock market. After the Great Recession, which brought a decline in the stock market and loss of wealth, donors likely revisited their patterns of giving and relationships with gift recipients. Also, as the influence of social media giving grows, the number of worthy causes has created more competition for larger and smaller gifts. It is possible that the number of worthy causes coming out of the Great Pandemic will be even higher than the causes that formed out of the Great Recession. Given the influence that the DotCom Bubble and Great Recession had on giving to ATS schools, it is very likely that there will also be a negative

impact on giving coming out of the Great Pandemic. The depth and length of that impact, however, is hard to project.

In a similar fashion to giving patterns, **long-term investments** across ATS schools responded to the economic challenges of the past. From 2000 to 2002, investments in ATS schools declined from \$5.4 billion to \$5 billion, which certainly represented a decline, but was not as deep nor broad. By 2004, investments had recovered to \$5.5 billion. As mentioned earlier, this makes sense as the DotCom Bubble impacted mostly the tech-heavy NASDAQ, which was a fledgling industry at that time. The Great Recession, on the other hand, significantly influenced investments more broadly. From 2007 to 2009, investments in ATS schools declined from \$7.8 billion to \$5.9 billion, and didn't return to the 2007 level until 2013–2014. At a 5% draw on these investments, this loss of nearly \$2 billion would mean that ATS schools lost \$100 million per year almost overnight. In addition, because it took more than six years to recover, ATS schools lost more than \$600 million in available draws through this period. This had a heavy effect on theological school budgets for a number of years.



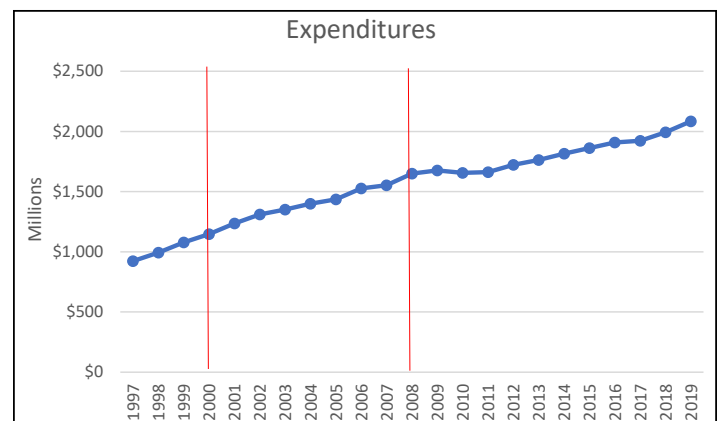
It is still too early to know what the impact will be on investments in theological schools. In mid-February 2020, the Dow Jones had climbed to a historic high of about 29500. By late March, it had fallen to 18500—a loss of about 37%. In late April, it had recovered to 24600, which would reflect a 17% decline from the 29500 high. During May, the index had fallen to 22800, representing a 23% decline from the historic high, but then recovered again to 24500 by the time I'm writing this. These last two months are anticipated to be indicative of the stock market for some period. Investment counsel and economists talk about different types

of recoveries, such as a V or U or W—letters representing the general decline and resurgence of economic data and the broader stock market. More recently, I read about the concept of a square root economic recovery. Economists use these letters and metaphors to give a familiar picture of what a recovery might look like but no one really knows what it will look like and how long it will take.

The Great Pandemic offers a unique challenge to discerning what will happen with investments in ATS schools. With the decline in GDP and the increase in the unemployment rate to historic heights in a short period of time, some experts would say that the stock market has not fallen enough. Others would say that the unemployment figures are only temporary and the stimulus packages implemented by governments across the globe will help the North American and global economies recover. Some of the steps taken to help the economies have also led to a lowering of interest rates, so the other significant portion of theological school investment portfolios are also impacted. There is great uncertainty in terms of the depth and the breadth of the fall of the stock market and interest rates; thus, doubt about the influence on investments across ATS schools. Initially, the fall in the market during the Great Pandemic is not as steep as the DotCom Bubble nor the Great Recession, but it is too early to tell if that will remain the case. Also, with the health component impacting the ability for some to return to work and for others to move, travel, and spend more freely, the recovery from the Great Pandemic may take longer than the prior two crises.

Spending

As shown below, ATS schools started the period spending just under \$1 billion in total per year. There has been a



steady climb of about 3%-4% annually through almost the entire period—beginning in the last two years, ATS schools now spend in excess of \$2 billion per year. The steady climb in expenditures continued through the period of the DotCom Bubble. The main variance reflected in the chart occurred from 2008 to 2011, when ATS schools took quick and decisive action to reduce expenditures because of the Great Recession. With the known and anticipated decline in investments and gifts, many schools reduced staff and faculty and cut costs in other areas, and those expenditures reductions were held for a couple years. For some schools, it may be that they never recovered from that time in terms of staffing and expenditures. Even with the required efforts from 2008 to 2011 to reduce costs, ATS schools had returned to increased spending annually by 3-4% since 2012.

A broad look at total expenditures across all ATS schools certainly doesn't reflect the differentiation among schools, their budgets, and their operating particularities. It does, however, show how the industry reacted to the past two crises with a broad resetting of spending. With anticipated losses in revenues, especially from giving and long-term investments, theological school leaders acted to reduce their budgets quickly and those reductions were maintained for a time. In my opinion, most schools cut spending as a short-term fix to continue operating as usual without using the opportunity to take the decisive and innovative action required from the past crisis to reimagine a new way of operating, a new way of structuring, and a new way living out their missions (see my article, "Sustainability and Strategic Thinking in Theological Education"). Theological school personnel are still prone to talk about how their institutions are being impacted by the Great Recession more than a decade later. I wonder if this is because the schools still act out of an incremental way of thinking and being, still operate in a fashion similar to how it was prior to the Great Recession, and still try to do everything the way they were doing it but with fewer staff, faculty, and students.

There are also seeds of change that came out of the past two crises. Although not immediately, some schools undertook major changes, such as closing, selling campuses,

changing constituencies served, embedding with other institutions, creating new affiliations, and reimagining new educational and organizational paradigms. Some theological schools made these changes from a position of moderate strength while acknowledging the new realities present. Other schools waited for years while waiting for a return to the past, and then struggled to find the proper next steps as the institution's mission and resources continued to weaken. Leaders of theological schools need to find the appropriate balance of understanding the past and the present to forge a new future as they seek to fulfill their missions.

The Great Pandemic has already impacted theological school leaders' perceptions about spending and budgeting for the future. In a brief survey completed in the midst of the crisis, presidents and deans of ATS schools reflected concerns about keeping current students, enrolling new students, losses in donations, and the need to cut staff and faculty. The stress was severe enough that one in ten mentioned the potential need to declare financial exigency—a momentous step for any educational institutional to consider. I would appeal to the recent past to engage the current realities. If theological school leaders continue with an incremental approach to address the Great Pandemic, they and their successors may still be talking for a decade or more about its effects on the institution. After dealing with the very immediate impact of the crisis and ensuring the health and safety of its many constituencies, I would ask theological school leaders to seize the opportunity to reimagine a new educational and operational paradigm that can serve the mission of the school into the future. Perhaps the Great Pandemic can ultimately be seen as the catalyst for the institution to rethink its educational model, its governance model, its operational model, and its personnel model to better serve a mission and constituency that likely have also been changed by the crisis.



Chris Meinzer is Senior Director of Administration and COO at The Association of Theological Schools in Pittsburgh, Pennsylvania. A Biennial Meeting mini-course, "Mission and Money in These Unique Times" that's based on the issues raised in this article can be found on the [online Biennial Meeting site](#).