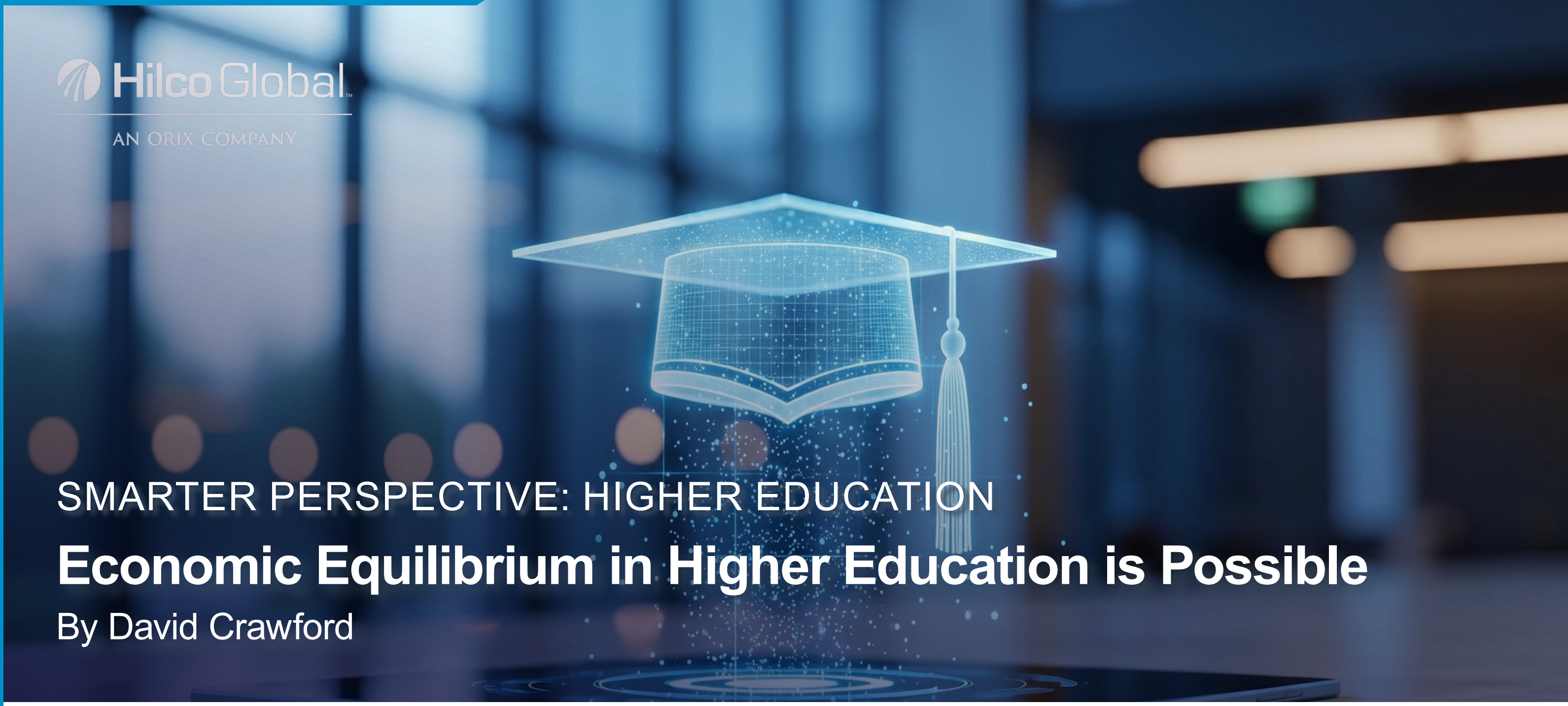


SMARTER PERSPECTIVE: HIGHER EDUCATION

Economic Equilibrium in Higher Education is Possible

By David Crawford

July 2026

I recently attended a memorial service for someone who forever shaped my view of higher education finances. His name was Anthony Ruger, known to many simply as Tony. He served several graduate theological education institutions over the years but was best known for his work at Auburn Theological Seminary in New York and for his service and support of the Association of Theological Schools and its members. Though the educational field Tony worked in may have been modest, his influence and impact (at least for those of us who followed his guidance) were immense.

Tony was the first to introduce me (and many others) to the work of the late Richard Cyert. Despite knowing Tony for more than 20 years, I had not connected the dots linking him to Richard Cyert until it was mentioned at Tony's memorial that he earned his MBA at Carnegie Mellon University during Dr. Cyert's transformational leadership, when Dr. Cyert served as CMU's president from 1972 to 1990.

Who was Richard Cyert?

Richard M. Cyert was a brilliant economist, economics professor, and coauthor of the groundbreaking book A Behavioral Theory of the Firm. He held multiple academic and administrative roles at Carnegie Mellon University before becoming its 6th president. Over the years, Cyert reframed how leaders approach university finance. For Cyert, economic equilibrium in an academic setting is not simply a one-year balanced budget. It is a dynamic, multi-year state of sustainable solvency in which revenues reliably support the academic mission. At the same time, the institution preserves sufficient organizational capacity (or "slack") to absorb shocks and pursue opportunities. In practice, equilibrium means moving from chronic deficits and market dependence to financial sustainability, and maintaining that discipline through active, engaged governance, informed resource allocation, and purposeful investment.

Cyert's view departs from a static, firm-style equilibrium. As he well knew and I have written about previously, colleges and universities are coalitions—faculty, students, staff, trustees, alumni, vendors, contractors, bondholders, banks, and surrounding communities—whose aims differ and whose time horizons rarely align. The practical leadership task is to reconcile those aims while keeping resources focused on the mission. Cyert's roadmap pairs cost control with selective expansion; it eliminates inherited deficits first, then channels resources into high-potential programs that boost reputation, attract students, broaden the funding base, and increase future revenues.

Core Elements of Cyert's Equilibrium

1. **Long-term solvency.** Institutions reach equilibrium by eliminating structural and event-driven deficits and by consistently funding mission costs with recurring revenues over multiple years.
2. **Organizational slack as a stabilizer.** Slack—cash reserves, flexible staffing arrangement and leadership bandwidth—is not waste but a shock absorber and catalyst for thoughtful programmatic investment. This supports the kind of new revenue-generating and reputation-boosting programs that produce sustainable transformation.
3. **Goal alignment across stakeholders.** Decisions about programs, personnel, and facilities must align constituencies behind a transparent strategy. Without regular, meaningful communication and transparency, bold financial plans will stall or derail during implementation. Consensus does not mean unanimous support and does not mean the decisions that are made will always be popular; however, consensus will ensure that plans move forward with maximum support and minimum resistance.
4. **Cost control followed by selective investment and reinvestment.** Sequencing matters. Schools must stabilize first, build consensus on goals, and then invest or reinvest in programs best positioned to strengthen academic distinctiveness, enhance institutional reputation, and, as much as some may dislike the term, improve-market position.

Carnegie Mellon as a Working Model

During his tenure as president of Carnegie Mellon University (CMU), Cyert implemented these strategies. He first addressed deficit reduction and undertook unpopular but essential streamlining to stabilize the university's finances. Subsequently, CMU reallocated funds to emerging disciplines such as Computer Science, Robotics, and Cognitive Psychology, where small investments could yield significant academic and reputational gains. Lastly, CMU adopted a centralized tuition and subsidy approach to cross-subsidize high-cost, mission-critical programs, thereby safeguarding the academic core while promoting selective excellence.

Facilities as Part of the Production Function: Maintain Facilities

Cyert argued that the physical plant is integral to academic production, not merely overhead. Neglecting facilities shifts costs elsewhere—to safety risks, brand damage, recruitment challenges, and costly emergency repairs. In my interpretation of Cyert's theory, institutions must integrate deferred maintenance into operating plans rather than wait for crises. Strategic facility management prioritizes mission-critical spaces, seeks shared or leased arrangements when appropriate, and invests in technologies that permanently lower operating costs (e.g., energy management and smart controls). Strategic management also means knowing when to dispose of facility assets.

Budgeting as Learning, Not Just Incrementalism

Traditional incremental budgeting (last year ± x%) assumes a steady state. Over the years, especially since the middle of the 20th century, higher education has largely operated in a relatively steady state. That is no longer the case. Cyert's behavioral view treats budgeting as organizational learning, in which institutions make targeted investments, monitor outcomes, update assumptions, and reallocate resources. This approach justifies trimming or cutting programs that no longer align with mission-market realities and doubling down on areas with clear evidence of impact. A key lesson from Cyert's work for me is that slack enables learning: it gives leaders time and resources to test, adapt, and scale without endangering the core.

Endowment Management and Intergenerational Equity

Extending Cyert's equilibrium concepts to endowment and investment policy, many institutions are guided by and assessed against an annual spending rate, typically set as a percentage of a multiyear rolling average of the endowment's market value. This protects the educational core and budget from market volatility and preserves intergenerational equity by maintaining inflation-adjusted purchasing power. The endowment becomes the financial expression of slack: a buffer that sustains the mission through cycles and enables strategic investment when opportunities arise.

Internal Subsidies and "Responsibility-Center" Logic

Equilibrium is an explicit internal subsidy that channels surpluses from high-margin programs (e.g., professional master's programs) to mission-essential but lower-revenue disciplines (e.g., the humanities and basic research). Whether implemented centrally or through responsibility-center units within the wider institution, the principle remains the same: let mission, not just margin, determine the final allocation of resources—provided the aggregate system remains solvent. Put another way, solvency is part of the mission.

Translating the Framework to Theological Education

The economics of theological schools sharpen the focus of Cyert's insights. In many seminaries, net tuition covers only a fraction of operating costs, making gifts, endowment draws, and right-sized operations critical.

Three adaptations stand out:

- **Slack as a missional necessity.** Endowment smoothing and reserves protect ministerial formation, academic scholarship, and student services from market shocks; leadership capacity (human capital slack) is essential for pivoting delivery models without causing burnout.
- **Selective distinction and curricular pruning.** Schools are aligning offerings with vocational ministry needs, consolidating or retiring programs that undermine mission-money-model coherence, and focusing on denominational or thematic niches where they can lead
- **New delivery models and the hybrid equilibrium.** Shifting portions of the M.Div. and related programs to hybrid/online formats reduces facility burden, mitigates deferred maintenance risks, expands access for place-bound students, and treats digital channels as essential facilities.

Illustrative Case Patterns in Seminaries

Recent seminary actions appear to reflect Cyert's roadmap. Some institutions have reduced payroll and monetized underutilized property to eliminate deficits—stop the bleeding before reinvesting. Others have offered early retirements, frozen salaries, tightened program budgets, or deferred noncritical maintenance to protect the academic core while stabilizing and resizing. In many institutions, endowment policy has been aligned with moral commitments, demonstrating that equilibrium can incorporate identity as long as the numbers still add up. A particularly helpful move has been campus right-sizing: closing or selling large, high-overhead facilities in favor of embedded or shared models that preserve academic identity while lowering fixed costs

McCormick Theological Seminary

I had the honor of serving first as a trustee, then as Chief Business Officer, and ultimately as the 11th President of McCormick Theological Seminary. It was here that I first met Tony Ruger, and as a trustee, I adopted (and later adapted) his Cyert-based notion of economic equilibrium. McCormick's sale of its Hyde Park residential facilities, followed by the sale of its campus to the University of Chicago, and its relocation to leased space within the Catholic Theological Union campus—alongside the Lutheran School of Theology at Chicago—put Tony's teachings into practice. It required coalition building across four different institutions, each with its own governance and goals. Together, the disposition of these real estate assets, along with periodic debt paydowns when markets were buoyant (notwithstanding the loss of arbitrage), ultimately resulted in the redemption of all of McCormick's debt, eliminated long-term capital needed to maintain facilities, and shifted the operating model to a shared-amenity, shared-services model that preserves academic identity while building a more student- and faculty-friendly learning and teaching environment. Savings can be directed to lowering tuition, preserving competitive salaries, investing in new technologies, and "investment capital," each of which contributes to institutional distinctiveness, sharpens the mission, and strengthens market relevance. The pattern is not unprecedented: decades earlier, McCormick executed a similar structural reset by selling its Lincoln Park campus and relocating to Hyde Park, underscoring that equilibrium is a repeating, time-bound discipline rather than a one-time fix.

Time as the Critical Variable

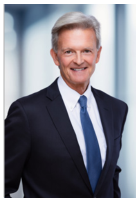
Equilibrium is fundamentally about time. Short-term actions (cost control and monetization) create slack for medium-term experiments (hybrid delivery, partnerships, program redesign), which inform long-term commitments (identity- and mission-defining centers, embedded models, student support, faculty and staff training and investment, enabling infrastructure). Leaders must pace decisions to enable learning without jeopardizing financial stability and solvency. The key lesson is that change takes time.

A Practical Board Checklist

1. **Diagnose structural misalignments.** Map Mission–Models–Money and quantify gaps using multiyear trends and facility-condition metrics.
2. **Sequence the turnaround.** Stabilize (eliminate structural deficits, reduce debt); invest (reallocate to high-leverage programs and enabling tech); and differentiate (build signature strengths).
3. **Protect slack.** Preserve reserves, endowment purchasing power, and leadership capacity—these are execution fuel.
4. **Right-size the footprint.** Integrate deferred maintenance into operations; divest, share, or repurpose space that does not support mission-critical activity.
5. **Stabilize with smoothing.** Use endowment spending rules and realistic enrollment scenarios to dampen volatility and protect the core
6. **Align coalitions.** Secure faculty–administration–board alignment (and church/donor alignment in theological settings) on priorities, trade-offs, and metrics.

Conclusion: Equilibrium as an Integrated Long-term Governing Principle

Cyert's framework and Tony Ruger's practical application call on leaders to treat budgets as strategic instruments: trim to breathe, invest to differentiate, and govern to endure. The institutions that thrive will be those that maintain solvency over time, build and steward slack, and align coalitions around mission-first, right-sized models and realistic budgets. In a future shaped by demographic softness, capital and political uncertainty, and technological change, equilibrium is not optional; it is the discipline that will separate failing institutions from those that flourish.



DAVID CRAWFORD
MANAGING DIRECTOR
HEAD OF HIGHER ED./FAITH-BASED/NOT FOR PROFIT REAL ESTATE ADVISORY SERVICES
REAL ESTATE BROKERAGE
PROFESSIONAL SERVICES

David can be reached directly at dcrawford@hilcoglobal.com or 312.543.3880.