University Student Government Association
Emory University
Atlanta, Georgia 30322

November 10, 1969

Mr. Orie Myers
Vice President
Emory University

Dear Mr. Myers:

On Sunday, November 2 and Monday, November 3 the Student Center Board and Student Government Association respectively passed a resolution that recommended one concrete way in which the University could meet the financail [[financial]] crisis it faces as regards special funds to be set aside for disadvantaged students. Upon investigation of how this might be executed we have talked to a member of the Development Committee and some faculty in the College and Business School. If the million dollars is in investable cash the per cent interest that we could reasonably suggest ranges between 8 to 9 1/2 per cent (this includes unrealized capital gains). We are aware that the rise in costs for the University will cut this amount of gains about in half. We do not wish to ask the University to lose money in this proposal, rather that the students show their commitment by losing the renovation of the AMB for one year. Therefore, we would like to make the request that this subject be put on the agenda at the next meeting of the Development Committee and that, as a gesture of the students' commitment, 4 1/2 per cent of the million dollars be recommended to go toward replacing the Rockefeller grant which has terminated this year. Please consider this

request and inform us of your decision and that of the Development Committee.

Sincerely yours,

George N. Garin, President
Student Center Board

Charles Haynes, President
Student Government Association

cc: All member of the
Development Committee

The following argument in support of the SCB-SGA Resolutions is offered to the Development Committee for its consideration.

If the University delays AMB renovation for one year and allows the $1 million set aside for this purpose to generate income, the amount of income that can be used during the year while providing for the same renovation at the end of the year depends upon two factors: (1) the accretion in the financial resources of the University generated by the $1 million during the year, and (2) the change during the year in prices the University has to pay.

With respect to (1) above, the accretion in financial resources depends upon the income earned by the $1 million of assets and additions to its value during the year because of increases in the market price of the assets. Last year, the University's portfolio earned approximately 3 per cent. On this basis, estimated income from $1 million is $30,000.

It is more difficult to estimate growth in the value of the University's portfolio because market prices fluctuate widely. In some way, these wide fluctuations have to be averaged in order to arrive at the long-run underlying rate of appreciation in market value. The Committee on Financial Policies of the American Economic Association, headed by Professor Milton Friedman of the University of Chicago, has determined that cycles in stock market prices have averaged three years since World War II and recommends that the Association use three year periods in calculating the market gains on its portfolio. In line with the advice of this committee to the American Economic Association, the long-run rate of increase in Emory's portfolio is estimated in the

table below. Data for the three-year period ended August 31, 1969, are not yet available in the Library for Advanced Studies, but the data for the three-year periods ended August 31, 1968, and August 31, 1967, are presented below.

3-year period ended	Market value at beginning of period	Market value at end of period*	Annual rate of increase value
Aug. 31, 1967	$78,341,000	$93,097,000	5.9%
Aug 31, 1968	$104,421,000	$104,421,000	7.2%

*Adjusted for additions to value of portfolio attributable to new contributions rather than increase in market value.

Source: Emory University Treasurer and Controller, Report of the Treasurer, 1966, 1967, 1968

Using an average of the two rates shown above as an estimate of the expected return, $1 million of endowment should grow in market value To $1,065,000 in one year. Adding this to the $30,000 expected income, waiting one year will result in an accretion of $95,000.

Waiting one year, however, will also reduce each dollar's command over resources because of rising prices. Determination of the amount of this $95,000 that can be spent without reducing income-earning capital depends upon the amount of increase during a year in prices the University has to pay. Since there is no index of the prices of things bought by the University, a reasonable approach is to assume the University's expenditures follow the same pattern as those of the other sectors of the economy and use the expected change in a general price index to estimate changes in purchasing power owing to inflation. The

logic for using a general price index, rather than an index of construction costs, is the same as that for using the average return on endowment rather than the return on a specific asset.

The Gross National Product deflator, the most general price index, rose 5 per cent in the year ended September, 1969. Most observers are agreed that inflation will be no worse in the next year, so an anticipated 5 per cent increase in the prices the University will have to pay next year is a good guess. This means that the market value of the $1 million endowment will have to increase by $50,000 in order to keep income-earning capital intact. Since an accretion of $95,000 is expected, $45,000 can be expended for current expenses, The Student Board is asking that this $45,000 be used for scholarships in 1970-71.

William Shropshire
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