Tough times ahead, but it’s not all bad news for the School and its newest graduates, writes Howard Davies.

These days everyone is affected by the recession in some way and LSE is no exception.

As you may have seen, a number of universities in the US are having to make significant cuts to their expenditure and staffing. In some cases that is because of tighter public budgets as state governments cut back on higher education, but in others because the returns on their large endowments have fallen sharply. The first problem is affecting us – we have recently been told of forthcoming cuts in government grants. The second is a problem the LSE unfortunately does not yet have! So we are not as badly affected as some of our competitors, at least so far.

Indeed, for the moment, student demand for places here is on the rise. Undergraduate applications are up five per cent or so, and for postgraduate taught courses we have seen a leap in demand by over 15 per cent year on year. We think two factors are at work. First, the recession itself, which has made job hunting more difficult and caused many young people to think that they might sit out the next year or so and improve their CV with an additional degree. That is a general trend internationally. But there is a second factor in the UK: the sharp decline in the value of sterling. In effect, for students from dollar or euro based economies we have had a price cut of 25 per cent or so. It is difficult to disentangle the respective effects of these two factors but I am sure that both are relevant.

But we are likely to be affected by the recession in other ways. It may be that some of this increased demand does not translate into students turning up, as finance will be more difficult to secure. Student loans are much harder to get these days. Demand for executive education has levelled, and it is more difficult to let residence rooms in the vacation. Fundraising will clearly be a challenge in the recession, especially as we have had a lot of support from people in the financial sector recently. They are not quite as flush with spare cash as they used to be.

Perhaps most importantly, students here in the School are anxious about their job prospects. In the last few years, fully 30 per cent of the graduating class has gone into the financial sector, many of them into well paid positions in investment banking, hedge funds or private equity. Financial firms are still hiring. Vikram Pandit of Citibank came to speak here in March and met 30 or so new recruits from the School. But some previously large recruiters like Lehman Brothers have disappeared and others are cutting back sharply on the numbers they hire.

So we are advising our graduating classes to look more broadly for opportunities. There are a growing number of jobs in the public sector, for example. The United Nations and its various agencies always feature in our top ten employers, but there are other public and third sector bodies which are now recruiting here, who would not have done so before. The Australian treasurer, Wayne Swan, also came to speak at the School in March and asked to see the Australian students afterwards. He took that opportunity to make a strong pitch to them to consider working for the Australian government, and specifically for the Treasury.

The net result is that, perhaps surprisingly, we have as many jobs listed on our Careers Service site now as we did 12 months ago. It may be that, on average, the starting salaries will be rather lower. But the variety is greater, so our talented young people will be going into a broader set of jobs next year. Maybe, though the people concerned might not see it this way immediately, it will not be a bad thing for society if our ambitious young men and women shake up government service around the globe. This could be a positive side effect of the downturn. In any event, it is the best I can do to find a silver lining to the very dark clouds which hover over us.

Howard Davies is director of LSE.