

“Proving the Value of Higher Education,” speech to Commonwealth Club of California, Nov. 17, 2008

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I wanted to thank you for the kind invitation to be here tonight. I’m looking forward to Father Privett’s questions that you’ll submit to him and I’ll do my best to try to answer.

Usually when I begin a talk, I like to begin with the good news. But I think if I did that, we’d all be thinking about the elephant in the room.

Let’s state what we know to be true: And that is that California and our nation are undergoing tremendous economic upheaval.

Jobs are threatened or lost. The 401(k)s many people count on for their retirement are dissipating. Many parents are asking themselves whether to pay for health care or for groceries. These are very difficult times and virtually no one is immune.

Let me tell you a little bit about where things stand in my current institution, the University of California. And I’ve discovered many of these things recently. We have with us Dick Blum tonight, the chairman of the board, and he didn’t tell me about any of this stuff when he hired me. I just want to make that clear.

We are, by my count, underfunded by nearly \$1 billion. And I figure I’ve only been in office five months, so at this rate we’re in deep doo-doo at \$1 billion deficit and not even a full year.

We get funding from a lot of sources – the federal government funds research grants and some student financial aid; our teaching hospitals bring in their own revenues – but the core funding for academic programs comes from the state of California and from student fees.

And what has happened in California is that the state share has declined while the student share has grown.

Just since 1990, adjusting for inflation and enrollment growth, the per-student spending, or funding for education at the University of California, has fallen nearly 40 percent – 40 percent over a bit less than a 20-year period. Meanwhile, the student contribution, which is paid through student fees, has doubled over that same period of time.

What has happened is NOT a dramatic increase in the costs of running the university – many people don’t understand this. Operational costs in higher education have been rising roughly at the rate of inflation, maybe a percentage point higher. What has happened is that the decline in the state funding contribution has led to a corresponding increase in the price for students.

If you want an analogy in your life, it's like the co-pay when you go to have a prescription filled at the local pharmacist. Your co-pay may have doubled; the cost of the drug may not have gone up at all or may have gone up marginally. The cost to the consumer has gone up, but the cost of producing the drug has not necessarily gone up, and that is the case in higher education.

Today, in the current fiscal year, we're facing cuts of about \$113 million – and that is a real cut. That is \$113 million less this year than last, assuming that the governor's proposal for mid-year cut is enacted by the Legislature. And we're looking at another \$100 million that we have to use to pay, from existing resources, for other bills that come due like rising energy costs, some rising personnel costs, increased costs of library books and so forth. So \$113 million in direct cuts, another \$100 million to be absorbed out of existing budgets, with potentially more cuts to come along the way.

So what does it mean in real terms? My fear is that continuing state budget cuts will threaten access, quality and affordability at the University of California.

Budget cuts bring a risk of what I call “silent cuts” – I call them silent cuts because they are almost invisible to the larger community off campus and they rarely get reported in the newspapers. Such cuts include things like hiring more lecturers instead of engaging in searches for tenured and tenured-track faculty; such things as allowing class sizes to grow; such things as having fewer sections of introductory courses, so it might take a student longer to graduate; such as limiting library hours and other student services and so on down the line.

Now we are going to try very hard to avoid those types of things. And we're working through a process to look very carefully at the budgets. But given the fact that the instructional budget is such a large proportion of our expenditures, it's very difficult – and it's certainly impossible to absolutely promise – that the instructional budget will be unscathed as we go through this year. And by the way one of my fears is that I don't see this getting better. What about next year? What about the year after? And I'm concerned about alternative sources of revenue. Philanthropy, we all suspect, will be way down. And the number of patents and intellectual property we transfer may well be down. It's not a good time overall.

And it's not a good time for student fees. This is a difficult time for families to contemplate paying more for a college education.

My own view is the closer to zero the fees are, the better I feel about it, the happier I am about it. But we have a problem. And that is universities are moving – it's a motion picture. And we can't have a freeze frame and say that if we absorb cuts and fees don't go up that the university will be the same university you enrolled in one, two, three and four years ago. It probably won't be the same. We will lose professors to other institutions. We will have fewer people to package the aid packages. We'll have fewer people to deliver the services and the like. So we're always trying to balance the diminution in quality against the real impact that fee increases have on our students.

Now one thing I have observed about this is many things in America – some things, maybe not many – have gotten less expensive over time. You know, there is manufacturing of TVs and clothing, and what is similar about them is they've gone offshore and they've become more competitive. My daughter took me to Old Navy; I didn't understand it. She said I wasn't cool. I always thought I was cool. And I was amazed that some of the shirt prices were not different than what I paid in the '70s and '80s.

But there is a difference between two of our real problems in America and the shirts that I'm describing and some of our electronic goods. That is, by and large, health care and higher education will not go offshore. They are domestically produced. And by and large, these other types of enterprises have. So I think that if we continue the present model, we are probably in for a very difficult period. That is it's a labor-intensive model – it depends upon a professor and a modest-sized class; it depends on being able to supervise writing and a thousand other things – all of which I would argue work very well.

But we may be forced over the next 10 or 20 years to take another look at the use of technologies in higher education, because it may not be possible to stick with the model that we have pursued, I would argue very successfully, over so many years.

So what are we to do?

One thing all families do in times like this is to re-examine their budgets, and we're doing that. We have been downsizing the Office of the President in Oakland, and since we've began we've reduced the budget there by about \$60 million and 500 employees – much of this predates me. Our campuses are also tightening their budgets in all kinds of areas ranging from travel to purchasing to business systems.

We have also made sure we have robust financial aid programs, so that students of limited means are protected from fee increases to the greatest extent possible. A third of all the fee increases is immediately plowed back into financial aid for the students and it's modulated by income level so the poorest students get the most financial aid.

But even in these challenging financial times, we also must continue laying the groundwork for the state's eventual economic recovery, and in my judgment higher education is critical to that recovery. Ultimately, we need to be talking about investing in higher education and our state's human capital once again.

And that's what I'd like to focus on briefly tonight.

Part of what we need to do more effectively in higher education, I believe, is tell our story.

I think it's widely known that the University of California provides an excellent education. Many people have first-hand experience with the high-quality health care that

is provided. And even the economic impact and job creation that come out of the University of California's research is fairly well known.

It is not well known that public higher education contributes to the lives of nearly all Californians, irrespective of whether you have a son or daughter at one of our institutions or whether a family member is employed on one of those campuses.

There are hundreds of examples of that, and let me just give you a few of them.

-- The highway bridges we drive on are more resistant to earthquakes because of University of California research.

-- Everyday devices like the CD player and the bar code scanner have their roots in UC research – you may have mixed feelings about the bar code, but there it is.

-- Faculty at the University of California have developed better flame-retardant gear for firefighters ... smaller solar cells to enhance the energy efficiency of buildings have been developed ... devices that kidney-disease sufferers can wear to liberate them from dialysis machines were developed at the University of California.

-- Researchers at the Lawrence Berkeley Lab are developing a much more powerful automobile battery that could make us as a state and as a nation much less dependent on fossil fuels, while obviously one of the great challenges of our time.

-- And the list goes on and on.

-- And if you like strawberries, I'll almost guarantee they were developed at University of California, Davis. (Ruby red grapefruits at Texas A&M University, a little iffier proposition.)

So if you're talking about workforce development or advances in human health or new products to drive our economy and enhance our quality of life, you're talking about the work of higher education.

But talk is not enough.

We in higher education need to prove – to the people of California and to their elected officials – that the true value of their investment in higher education is very high and it is very important. And this is one of the things that I have tried to stress.

There is a higher authority – I know it's hard to imagine in California – than the California Legislature. And that higher authority is the people of California. And if we can make them aware and persuade them of these needs, perhaps more will happen.

You know, there's a saying, which Chairman Blum is tired of me saying, about university presidents – and this particularly applies to president of the University of California. You

remember, it's not a university at 12th and Broadway in Oakland. It's sort of an ethereal existence, a university without faculty, without students, without prize-winners, without blackboards, without progress in many forms, actually.

But university presidents are like groundskeepers at cemeteries, there are a lot of people under you but almost no one is listening.

Having said that, I have been pleased as president with some of the responses I have gotten. And the first thing I think it's important if you want to make your needs clearly known is to provide for greater transparency and accountability in our operations.

I believe that we should be held accountable by parents, by students, by taxpayers, by employees, by the Legislature. If someone asks did you have a good year at Berkeley or asks about a specific research program or asks about diversity or asks about new technology – whether it's worth the cost and what are you getting out of it – I think we ought to be able to give an honest answer, backed up by empirical data, and that is my view.

My motto, which I know that I plagiarized from someone: “In God we trust – all others bring data.” And that's the maxim that summarizes this approach.

And I think, fortunately, the Board of Regents and the faculty – we have at least one faculty representative here – have bought into that. And now we're producing an annual accountability report – it's still in draft form. It has 102 measures. It's not perfect, but it talks about affordability, research, faculty quality, diversity, university finance and other things. It's online and it's undergoing public review and will be revised for final submission by the end of the year. And over time it will, I hope, improve and will identify more variables and try to answer the questions I've talked about.

Now I'm the first to admit that not everything at a university can be measured quantitatively. If a student is turned on by poetry or a student becomes a great student of the arts, it may not be easily measured. And those are important outcomes and we have to be careful that we leave a lot of room for those types of aesthetic qualities. So we can't overemphasize the number.

But my experience, just because you can't measure everything doesn't mean you shouldn't measure anything. And there are areas of university life where we can measure. We can determine what our graduation rates are. We can figure out whether we are admitting enough transfer students from community colleges. And we can figure out whether they are going on to graduate schools or to good jobs. There are many things that we can measure and we ought to do it.

And that accountability, I think, is helpful in a number of ways. It's important in terms of justifying ourselves to those who fund us and to the parents and to the families. It's also important because it helps us manage better. We know where we're coming up short. And that's a very important thing to do.

Having said all of that, I think California needs to pay greater attention to its investment in human capital.

We fund infrastructure through public funds in this state and across the county. We fund prisons. We fund a lot of things with public money. But our investment in human capital development has the greatest impact on the growth potential of our society.

Fifty years ago, Californians knew that. Governor Pat Brown and the great UC President Clark Kerr knew that human capital would change the future of California.

They put together a Master Plan for Higher Education that provided for universal access to higher education in California and access to high-quality education.

They realized that all these young minds in the baby boom generation, if given the right tools, would become the knowledge infrastructure that would allow California to thrive in a way that no other state in the country – indeed, no other place in the world – had thrived.

And look at California today. (Or perhaps, look at California a year ago would be a better case.) We have the eighth largest economy in the world. We're the birthplace of entire industries like biotechnology. There have been more Nobel laureates in California than in any other place in the world – 54 of them [have been UC faculty]. (I keep checking the list – I thought my letter may have gone awry but I'm not on it, for the Nobel.)

We can also look beyond our shores to understand what truly has been created here in California.

Earlier this year, I was invited to give a talk to the new King Abdullah University in Saudi Arabia. I'm a Jewish guy, and to say I was surprised is to put it mildly. But I went and I learned a lot.

Saudi Arabia is investing \$10 billion to create a major research university to build it in two years – in two years. And when I went with the oil minister, he said to me, he said, "Mark, knowledge is the oil of the 21st century. You know, we will eventually run out of oil, but if we have the knowledge base, the creativity, the entrepreneurship, the research, all will be well."

After we had discussed this for a while – I can't say a few drinks because that's not the way it works in Saudi Arabia – the education minister finally turned to me and said, "You know, on reflection, it's better to have knowledge and oil." And I concur with that statement – better to have both.

Other nations around the world are behaving just like the Saudis. South Korea, Singapore, China – they are all building knowledge-based economies, and they're looking to the United States for their higher education models.

And, of course, the most successful model in America – and I would say in the world – is the University of California.

And it is incredibly ironic to me – incredibly ironic – that as our system of higher education is being emulated around the world, when they send teams of people to find how the University of California did it, when they send their students to our universities to learn engineering and mathematics and computer science and everything else – demography and social sciences and medicine and so forth – it's incredible to me that higher education is fraying here at the home of the model that is the envy of the world.

And they're not fooling around. They're not concerned about state governments and provincial governments and national governments. It is national policy in those countries to try to create a structure – and it will be very difficult for them because the physical infrastructure is not everything – but they are trying desperately to emulate the model that really started at the University of California.

And I think that fraying is critical because as that commitment frays, it will be very difficult for us to continue on the path that historically we have been on in terms of the economy and to produce the generations of creative young people who will add to economic productivity.

We need to keep the doors of college open to students from every background and ethnicity so they can develop their own potential, and it's good for them, it's good for their families, it's good for California and it's good for the nation.

So I believe it's time for all of us – the citizens, elected officials, our own institutions of higher education – to focus in a committed way on investing in our human capital development ... our future.

And by the way, I don't think it's just within California. I believe that there is an important role for the federal government to play. The huge challenges we are seeing in public higher education in California are being replicated in every state across the nation – the flagging commitment to the great public research universities.

There are some leaders in politics and higher education today who think that they can ignore that reality. But the reality is this: The funding model for higher education is broken. It is broken. And it has been broken for more than 30 years. It's just becoming more obvious by the day. And for those who don't want to face it, what I would say is that old adage, denial is not just a river in Egypt.

We can't ignore it.

One place I'd suggest we have more conversations is in Washington, where there is a great deal of discussion right now about strengthening the economy by investing in physical infrastructure in the states – highways, bridges, public works and the like.

I believe that we should also be looking at capital investments by the federal government in the infrastructure of our public universities. Doing this would create jobs for people who help to build those buildings. It would also have the benefit of improving educational opportunities for generations of students. It would help us foster a competitive work force, and reducing the strain on university budgets by reducing the debt service on our facilities, which is an enormous, enormous problem.

And I realize this initiative would probably redefine the federal role in higher education. With few exceptions, the federal role basically is paying for sponsored research – National Institutes of Health, National Science Foundation, Department of Agriculture, Department of Defense, National Endowment for the Arts and so forth – the provision of student financial aid, which is very important – access issues, Pell grants, Stafford loans and the like – and then the funding of other programs to improve college access along the same lines – some of the interventions in public high schools. These are all very important roles for the federal government.

Today in the area of facilities, we have a practice of earmarks in Congress for particular facilities projects. This is very, very bad public policy. It's political in nature. It's episodic in nature. And the buildings often get built where they really can't be utilized because it really depends on who chairs what committee.

We need to create a fairly administered program at the federal level for helping universities to construct the academic and scientific facilities – not as a bailout but because this is the kind of investment which, frankly, is critical to our national competitiveness and ultimately to our national security.

Now I'll be talking about these ideas in the coming weeks and these are complex – and remember, it was Clark Kerr who first warned us about taking money from the federal government and all the strings that could be attached to it. But I think we really need to think about reconceptualizing the federal role.

Let me close by saying I'm pleased to be here tonight. I'm pleased to be in California. I'm getting used to being shaken and stirred late at night by the occasional earthquake.

I did have a great life in Texas until Regent Blum interfered with it. I had good access to Tex-Mex. I had tenure at the law school. But I really could not pass up the opportunity – and the opportunity, despite all the forewarning that I've talked about tonight – is that the University of California is and remains the world's greatest public university with incredible people, resources and student resources and physical resources.

We have in the University of California one of the things that works well. And I hope that everyone takes pride in this institution.

Now it's our job to sustain it. We're going to do our part by proving our value. And we're going to look to Californians like all of you to help sustain that dream of a half-century ago. Thank you again for inviting me here tonight.