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I am delighted to be here. This is an organization that I have long admired. And when you were kind enough to invite me and it was just an hour and a half across the bridge, I decided that I would come over.

I have to remind you that I am a Philadelphia lawyer – I don't have a Ph.D. – so you should interpret my remarks accordingly.

I have now been in California for six months. I'm adjusting to the culture change; I'm hoping California is adjusting to me. I'm just not very big on sprouts. I do like my pancakes and kosher hot dogs better.

I'm also not going to regale you with fundraising stories. When I was dean at the law school at Texas ... I have great stories. I'm sure you all do. Maybe I'll just tell you one that's my favorite. I had this man – let's call him Bill Smith. I thought about this man and I had him absolutely figured out. And I wrote him a letter asking for money for a scholarship. We sent it off. And then someone came into my office and said, "You know, we sent it to the wrong Bill Smith. It went to this law firm and not to that law firm." So I sat there and did nothing. And a week later, the *wrong Bill Smith* sent me a check for the full amount of the scholarship!

And then three days later, the man I had absolutely figured out sent me a note saying he was declining the honor of making a contribution. And that's my story.

I am adjusting to my new role. It is a huge and wonderful system, the University of California. People say a number of things: "Is it lonely at the top?" And I say, "It's not nearly lonely enough. I have lots of people that tell me what to do." And they say, "Well, what's your job like?" And I always say, "It's sort of like being groundskeeper at a cemetery: Everybody's underneath you, but no one's listening." But you're a captive audience – we have locked the doors – and everything's peachy.

I'm going to talk to today mostly about all higher education, with some examples from the University of California.

Obviously, the elephant in the room is the economic downturn. It's what we're all thinking about. I've heard estimates that philanthropy could be down as much as 50 percent. That's obviously a major concern. And it's also a concern that the crisis seems to be affecting nearly all families across the country – and it also is affecting higher education.

I've met a number of you, and it seems like all your legislatures are in session trying to figure out how to balance the budget.

If you're looking at your endowment returns, your endowment returns are really non-returns over much of the last year.

There just are all sorts of strains in the system.

And this is against the backdrop – and I think this is true of many places across the country – we were already underfunded when all of this started. And you can go back to the mid-1970s and the appropriations per-student in most of the states were higher in real, adjusted-dollar terms. So today, you take account of enrollment growth and inflation over that 30-, 35-year period, we're already down a lot. At the University of California, we estimated we were at least \$1 billion underfunded to where we were probably in 1990, again, just adjusting for inflation and adjusting for the additional students that the university has taken over that period of time.

So we already started in a position where we were having already weak investment in the human capital, the human infrastructure of this country. And now we really are in a crisis mode.

And, of course, we've learned to deal with it in a lot of ways.

We have raised student fees and tuition. It makes some people very uncomfortable. We've done that. We've tried to set aside enough money for scholarships so that at least the financially worst off students don't take it on the chin.

We've probably done other things that we're not so proud of. We've probably let the student-faculty ratio rise. We have probably relied more on faculty who are not tenured or tenure-track faculty. We have probably cut back sometimes on our course offerings, jeopardizing timely graduation.

And every part of the system seems to be under strain – the philanthropy part, the investment return part, the families that are suffering that don't really feel capable of paying these higher student tuition and fees.

And all of these things combined present a real threat to access, quality and affordability at the University of California and across the country.

And when you look at the national data, California is not an anomaly. Arizona is not an anomaly. Virginia is not an anomaly. With the possible exception of North Carolina – and I don't know what's in the drinking water there and it may be (former) Governor Hunt, where they seem to be putting more money per student into higher education – it really is a national phenomenon. And therefore it is systemic. It's through Republicans and Democrats and education chairs you liked and you didn't like. The emphasis of the country had moved on to health care, to the prisons, to other issues of the baby boom generation, which didn't completely rule out higher education but sort of displaced it, to some extent, at the top of the list.

So what we have is a systematic underinvestment in human capital in this country, at the state level and at the federal level. And, in my view, the human capital is the future of this country.

I'm not against putting people to work. I sure believe in health care for children if they don't have insurance or they can't afford it. I sure believe in K-12 education. And I think the levees ought to be rebuilt, the highway bridges ought to be better and all the rest of that.

But the future of this country is going to be being smart about our investments – investing in things that in the short term make some sense but in the long term help us to build the infrastructure of the country, the human infrastructure.

Now a few months ago I was invited to give a speech in Saudi Arabia at the new King Abdullah University. I was little shocked – they don't invite that many Jewish guys to do it. They didn't serve much pork – that was the good news.

This is an utterly incredible operation, right? The king says, "We're going to have a research university 50 miles out from Jeddah." They start building one: \$10 million, 15,000 workers, two years, they're going to have a research university.

And, you know, whether in the long run this will work, I don't know. It's all about people – people who will populate this university – students and faculty.

But my point is that in Saudi Arabia they understand that they may run out of oil someday and that knowledge is the oil of the 21st century. And they understand that in Singapore. And they understand that in China and in South Korea. And the Europeans are beginning to understand that.

And, you know, the tragedy is they all want to emulate the United States; this is the home of the great public research universities and the great private research universities. And they want to be just like us at a moment where in the homeland – where it all started, where it was all conceived, where the investment took place post-World War II – it's really withering on the vine, the very concept that this country pioneered.

Now I should add one little footnote that when I talked to the oil minister about this, he said, "Mark, you know, you are right, knowledge is the oil of the 21st century, but it is good to have some real oil, too. Knowledge and oil is the true key." And I couldn't dispute that.

I think it's beginning to be recognized, this need to invest in human capital, by many. I was encouraged by the president-elect's recent speech on the economic stimulus package. And recently Bill Gates was interviewed, and this is what he said: "The key point I'd make is that in addition to that stimulus you've got to fund the kind of scientific work and educational investments that could really have us be a much better country as we emerge from the recession." He said, it may be important to put people to work. It may be important to meet their needs. It is important to keep certain levels of consumption. But what's really needed is the scientific work and the educational investment that will mean when the country comes out of this recession, that it will emerge stronger with a better human capital infrastructure.

The question then is, what can we in higher education do to advance our cause?

And I have a number of things I wanted to talk to you about. And I'll try to do it briefly.

We need to be re-examining our budgets and doing our cost-cutting. Everybody else is cost-cutting. We're particularly difficult because we're so labor intensive, the way we deliver our services. But everyone is expected to come to the table with having delivered some reductions. And I think we're doing a lot. If anything, we suffer because we don't like to ballyhoo what we've done because we're trying on one hand to say we're hurting, and on the other hand it's not the Titanic, we're not rearranging the chairs on the deck.

A second thing to do, I think, is to look at central office expenses – and we've done a fair amount of that, and we've reduced our expenditures by about \$30 million in the Office of the President. And that's important. Unfortunately, no one likes administrators. And a lot of them are there precisely because of what state and federal legislatures have enacted. We're all so busy filing reports with them. But, nonetheless, looking at the centralized services, I think, is important.

A third thing is we need to tell our story better. And that's where you come in. And I know everyone always says that, but we really do need to tell our story better. And this is what I would challenge you: What is the story that you need to tell?

You need to tell the story that to people of Virginia or Arizona or Hawaii or wherever – California, Nevada – you need to say to them, “You have a really big stake in the success of the University of California, California State, University of Nevada, Arizona State and right on down the line. Even if you don't have a child attending that university, even if no one [from your family] is employed there, because this university produces the technological breakthroughs. This university trains the people who go out and establish businesses, who will invent new product lines, who will do all the things that will sustain this economy – and not just the economy, the culture of the state, the democratic participation in the state. And if this great university fails, this state will be much less. We will become a high-tax – or at least moderate-tax – state, low human capital investment. And over the long run, you are going to look more like the developing world than wherever you aspire to be in the economic pecking order.”

It has to be the case that they are as upset about a cut to our university as they are when you close down a local fire station. It has to be that direct in their lives, and we haven't done that yet. And that requires a lot of work to get it done. And it means more than just promoting your internal messages. They don't care about losing a faculty member – they being the people of the state. They don't care about the faculty salaries. They don't even care about research. They want to know is, what is the impact of this on my life?

They know the impact of a highway. They really know the impact on their children when they send them to these great universities – they understand that. But we have to do a better job of explaining it. We can explain it in the new media. We can explain it in the old media. I'm even thinking about getting out my quill pen – I've had it for many years, but I like it. We need to be smarter about getting free time in the newspapers and on the air and maybe Facebook and all the rest of it.

Many of you may be aware when I was at Texas we did a 13-part public television series. We explained to them, when Katrina came to New Orleans, there were researchers and professors from the University of Texas who were there to ameliorate some of the harm. If you're interested in global warming, there are people working on it. Alternative energy, wind power, [we have] people working on it. If, God forbid, you had a certain sort of cancer, there was a proton therapy machine and one of the great cancer centers in Texas. And so on. Every one of these was not addressed to the internal audience but was addressed to people to say why it's important in a time of scarcity to put money into your university.

It also means – and I won't go into the details – it does mean the accountability report. You know, a friend of mine has a motto: "In God we trust, all others bring data." And I think my staff will tell you that. I don't think we can get away with saying, "What type of year did you have, Mr. President?" "Oh, it was peachy." I think we need to say, "We've improved our graduation rates. We're getting the top of the pick of the graduate students. We are graduating outstanding nurses. We have in our math and science initiative produced more math and science teachers for high school." Or whatever the heck our measures are, I think we need to be able to make our case.

We also need to make our case that we are addressing college cost needs for family, and that financial aid is important. And I won't go into that in any detail, but you have to remember that left to their own devices, rising prices are a story, declining prices are not. How many stories have you seen on \$2 gasoline compared to how many that you see at \$4? And that's just the world we live in.

But we have to tell the truth. We have to set aside ample money for poor kids. We have to be honest about the challenges for the broader middle class. We have talk about ... the real price and not just the sticker price. Ask them the last time they bought a car at the sticker price. And the majority of our students are not paying the full tuition, at least at the four-year institutions. And we need to reinforce that message – although I think the pressure is mounting and mounting and mounting against these tuition increases. It's just making the middle class unhappy, and when they're unhappy, they have the votes. And that's true of both political parties.

One more thing about the accountability and financial aid: I think it's very important to be transparent, and that's where you come in. I think what is true is true. You ought to put your accountability report on your Web sites. I think you ought to mail a copy to your state leaders. And I think, you know, we ought to say, "We'll try to do better where we are coming up short," and brag on where we are doing well instead of just bragging sometimes where it's not deserved.

The last thing I wanted to say is look to the future. The funding model for higher education in my view is broken. And it has been broken for a long time. If it's broken, then what are the alternatives? And there aren't many.

Last time I checked my economics, if you don't have enough money, one alternative is to try to get some more money. (It's something that I thought of late at night.) So we need to make our pitch to the Legislature. We need to try to turn on philanthropy. We need to try to get more

money from our technology transfer business. We need to land research grants and get our indirect federal costs where that's possible. Obviously, that's one part of the strategy.

I already mentioned the second part of the strategy, which is where we do what we can to cut costs. If you look at the two largest categories of things that Americans are upset about in terms of price, what are they? Health care and higher education. And there's one thing they share: Neither is available at Old Navy. Neither of them went offshore, right? They are highly labor intensive, onshore, and involve a lot of people to deliver. But nonetheless we still mow the grass, we still pay energy bills, we do a lot of things that are like what is done elsewhere, and we need to look at the ways of saving money.

The third thing is much more conjectural and I think would meet much more resistance. In the long run, if existing trends continue, we will have to rethink the model for delivering educational services. In other words, the model today really is anti-efficient viewed from a certain perspective. That is, what, when you ask the faculty, would they prefer to see? They'd prefer to see more tenured and tenure-track faculty members. They want smaller class size. They want lower teaching loads so that they can do their research. All of which is sensible, but all of this, at least viewing efficiency in terms of dollars spent to produce a degree out there, is inefficient in those terms.

And I don't know what the answer is. There are the new technologies. People, certainly students, are culturally more adjusted to that than perhaps many of my generation were. But something will have to change. If we don't see the spigot being turned on and we can't do the savings and philanthropy is not going to replace basic core funding from the state, then we are going to have to re-examine the model.

And one more last thing I wanted to say is – I think that's only my second "last" – a number of us in higher education are trying to work with the Obama transition, with the Congress and so forth, to try to reach an accommodation on support for facilities on university campuses.

I can imagine a change in the federal role. My view is the states are underinvesting in human capital. That is a national security issue. That is a national competitiveness issue. And if that's the case, just like with regard to Civil Rights Act, just like the national highway system, like airports and other things, you could make a credible case for federal involvement when the states seem to be coming up short.

And there are all sorts of other issues there. We don't want them telling us how to do our business out of Washington. We don't want to nationalize higher education. But to me at least it is thinkable that the federal government in the next year, five years, 10 years will have a different role than it has had in the past – which is primarily access, Pell Grants and the like, and research – a role in facilities and maybe even a role in operating expenses, although that's really much more treacherous from a policy perspective.

Let me stop there. I think we just have about 10 minutes for questions. I appreciate your attention. You've heard my best jokes – I don't think I have any more.