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To: Michael S. Goldstein, Chair of the UCLA Academic Senate

Against the Universal Pay Cut

Dear Michael:

I appreciate your thoughtful response on this - the best argument against a universal pay cut is a financial one. It is easy to quantify the outcome of an 8% pay cut, which would be disastrous. If all those paid from soft money get an 8% pay cut, it would actually **cost** the UC general fund $40M. Losing overhead (indirect costs) of 50-60% on the 8% of the, say, $1 billion/year in NIH, NSF, engineering, DOD, foundation, and other sources of funds that are brought into the UC system to be used in large part for salaries (that means around $40M), is throwing the baby out with the bath water. I outline these arguments in an open letter:

http://www.loni.ucla.edu/~thompson/BUDGET/UC-PayCutLetterJune20.pdf

An **equity** argument can be used to explain why those paid entirely from soft money should **not** be cut. There is perfect equity in us not paying our money as a salary cut to UC, as we are not getting any money from UC. So if our pay is not cut, there is a perfect equity of money flowing from UC to us, and from us to UC. There is also a **legal** argument as to why UC should not interfere in the level of existing grants and contracts for which budgets have been already agreed by both parties. Ironically, if everyone paid from soft money (non-UC grants) got a slight **raise**, it would bring in about $5M revenue to UC (as overhead) for each one percent salary **increase**. People who do not understand the economics of this should read Thomas Sowell's book "*Vision of the Anointed*". It explains how payscales are in reality set by supply and demand, and not by how politicians would prefer society to be. Avoiding artificial pay controls in fact **creates** revenue. In this case, you can compute exactly how much revenue will be created per salary dollar: there is a negotiated federal overhead rate on salary (now 54% for UCLA). **So each 1 percent of salary <u>increase</u> creates $5M of new revenue for the UC General Fund.**

There is also a Keynesian multiplier effect in the economy when these dollars are spent. But that part of the argument is not necessary to make that case that **increasing, not decreasing,** soft money salaries will help the UC general fund substantially. Thank you taking time to consider everyone's inputs.

Paul Thompson

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