

# Valley leaders see health care, schools as biggest challenges



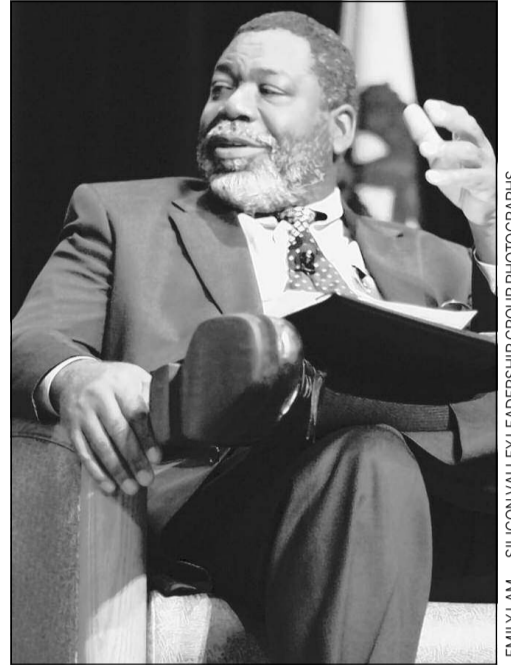
Tom Campbell



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## Skilled, educated work force critical to maintaining California's edge, panelists say

"Projections 2010: Leadership California," this year's edition of the Silicon Valley Leadership Group's annual public policy conference, gathered public officials, CEOs and community leaders at Santa Clara University for a conversation on the critical issues facing the state. Maintaining the competitiveness of Silicon Valley and of California was the focus of one panel, in a discussion that ranged across education, health care, taxes and government reform. This is an edited transcript of the Sept. 16 discussion. The full transcript is online at [mercurynews.com/opinion](http://mercurynews.com/opinion).

**Marshman:** Let's start off with a general question. What concerns you most about doing business in California and Silicon Valley today?

**Campbell:** My biggest concern is that we won't have the trained work force that we need, that we're killing ourselves right now in education. We've underfunded K-12. In the budget negotiations this spring, I put forward a plan of my own that said no more firing of teachers. I was concerned that we were threatening to cut off Cal Grants. If talented, able students are not able to get to college in California simply because they don't come from a wealthy family, we are finished. California's long-term competitiveness is not in the low-cost labor side. It's in the products of our minds.

**Clay:** We know that what it takes to be competitive is a skilled work force. I think it also requires a high degree of racial inclusion, and income and wealth equality in the region. So my biggest concern is that we don't have a policy of inclusion in this state. We have a lot of disparities in small-business contracting, housing, employment, education programs. Education is the big one, starting with age zero all the way up through postgraduate. It means that we underinvest in human capital.

**Colligan:** This is probably the most dynamic, amazing place to work and live on the planet; and so, from my perspective, I think the biggest thing we need to do is not screw it up. The biggest issue when I'm recruiting people is the cost of living. If you're going to have an expensive place to live, you better make it a great place. If our education institutions, which were a huge part of making this the place that it is, start to crumble, then it won't be the most dynamic place to work anymore.

**Archambeau:** What's the biggest concern that I have? It's our inability to manage our money. It's fundamental. We have to do that as families. We have to do that as employees. We have to do that as business people. We have to do it as a state. And the fact that, in California, you have to have the same level of consensus in the Legislature to pass a budget that you need to change the Constitution — it seems to be a little off. This whole two-thirds approval just to get a budget makes it very difficult, and actually causes some bad behavior in the overall process.

**Marshman:** Let's move to the cost of doing business. Workers' compensation is, again, on the list. I thought reforms were working, but I see that the rating bureau is looking at a huge increase in rates. What progress has been made, and what still needs to be done?

**Archambeau:** A lot of progress has been made in workers' comp. We significantly reduced the overall cost. However, California is still second-highest in the nation. And the fact that we're now back on that rise again without a view and a strategy really has me concerned. I do think this all ties together around health care. Our inability to manage our health-care costs is what's really driving

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up the workers' comp.

**Colligan:** That's the fundamental issue. We have to figure out how to control those costs. I'm a huge proponent, obviously, of reform. Safeway has been very innovative in managing health care costs by providing incentives to employees to be healthier. They've lowered their costs by 40 percent by putting a system in place where you pay more for destructive behavior, and you pay less if you do well. And so they measure employees on their weight, their cholesterol level, their blood pressure, and they give them incentives — lower costs for their health care. I don't feel like we've had enough of that part of the discussion. It's all, "How are we going to get the insurance companies to do something differently?" It really should be, "Are there ways to make the population healthier?"

**Marshman:** Health-care reform isn't always framed as a business issue, but premiums in California have doubled in just six years. What do you think are fundamental components to successful reform?

**Colligan:** In business, when you're getting your butt kicked by someone else in a particular area, you go look at what they're doing, and copy it. There are a lot of countries around the world that have solved this problem. This is not rocket science. It takes leadership to make this happen. Canada has half the cost per capita of our health insurance, and yet they have a three years longer life expectancy and a lower infant-mortality rate. And they're not a socialist country.

**Archambeau:** It's important to realize that the majority of people have some health coverage. Would we like lower premiums? Yes. But, in general, we're OK with it. So part of the challenge is getting everyone to realize that this is a broader issue. Forty-five million Americans have no health insurance. Two studies were done by Harvard professors. (In) 49 percent of the foreclosures over the last two years, a medical problem in the family was a key contributor. Forty-nine percent! Fifty percent of all personal bankruptcies stem from health-care-driven expenses. These numbers are staggering.

**Marshman:** Let's move to general competitiveness and job creation. Among the 30 developed nations in the Organization for Economic Cooperation and Development, the United States has one of the highest

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overall corporate tax rates. How does this impact our ability to create jobs and produce positive economic results here?

**Campbell:** The world is our marketplace. If we don't treat the exporting of products, and the competition overseas, as an important part of our country's economic health, we will fall behind. The danger I see most clearly is that President Obama's administration is at least presently floating (a proposal) that if you have activities overseas, and you earn money, and you pay taxes over there, you would not be able to offset your domestic tax by the amount of the tax that you pay on your overseas earnings.

**Archambeau:** In California, we have the double whammy of having not only the highest country-level corporate tax — well, we're not quite the highest, but we're in the top five — but we have the highest state income tax. We have the highest sales tax. You add them all up, and all of a sudden, it is harder for us than even for a competing company in a different state, and then, globally, it makes it very challenging.

**Clay:** I do agree that taxation and regulation is an issue, but I wouldn't want it to become such a big issue that we forget what I think are bigger issues — the quality of our workforce and our educational system.

**Colligan:** At some level, it's hard to believe we have the highest taxes and yet we're what, 50th among the states for student education now. There's something wrong with that picture.

**Archambeau:** Back to managing the budget and getting your fiscal house in order.

**Campbell:** The statistic I'd focus on is we're actually 50th in class size. We have larger classes. So, on the budget, (when) I said no to firing more teachers, it was because we can't afford to have a bigger class size.

**Archambeau:** Where is the money going?

**Campbell:** It's going to health care. That's the fastest-rising component of the state budget. But I wanted to just point out, we're No. 1 in teacher salaries. Highest teacher salaries, worst in class size. So that should tell you a little bit about the system.

### PARTICIPANTS

**Tom Campbell,** candidate for governor, former member of Congress and state budget director

**Shellye Archambeau,** CEO, MetricStream

**Ed Colligan,** former CEO, Palm

**Roger Clay,** president, Insight Center for Community Economic Development in Oakland

**Barbara Marshman,** editorial page editor, San Jose Mercury News, moderator

**Marshman:** I'd like to get to a finding from the Silicon Valley Leadership Group's annual Projections Report. California appears to lag well behind states such as Texas and Arizona in providing tax incentives.

**Colligan:** Why do we need to give any incentives? This is the best place on the planet for jobs and for growth and for entrepreneurship. Let's just make what we have work, and spend our money wisely, and get our education act together, keep our environment in place, fix the transportation. Those are the big things. We've just got to make what we have work better with the money we have, not by raising taxes. I think the whole incentive thing is way misdirected. Make what we have, which is great, work great.

**Archambeau:** We're all running our companies here despite all the things we talked about — high taxes, poor public transportation. We're doing it because you can get some of the best and the brightest workers here. The whole can-do attitude, the "Give me a problem and let's come up with a creative way to solve it." And it's absolutely worth that extra cost, to go leverage and take advantage and harness that; but the challenge —

**Colligan:** How many places have tried to be Silicon something?

**Archambeau:** Exactly. They're all over, right? "Silicon India." "Silicon China." They're absolutely happening; but the reason we got here is because we made those investments before. California's public education, K-12, actually used to be very, very highly rated. Our University of California system, our private colleges and universities, all got the right support. If we don't figure out how to fix it, and fix it soon, it's going to be "woulda, shoulda, coulda."

**Campbell:** Outstanding. Totally with you. Please read this morning's Mercury News. Of course you should do that every morning anyway, but there's a report that's very disturbing. There is a racial gap in how the K-12 system is performing. And it's getting bigger. And it's getting bigger in Silicon Valley.

**Marshman:** Is Silicon Valley still a competitive place to start an innovation-economy company?

**Colligan:** Absolutely! There is no place like this on the planet. Period. But we're going to end up looking back some day, going, "Wow! Those pyramids are sure nice!" We're going to blow it if we don't really fix the education system. We're augmenting the education system right now through immigration. There are still so many people who want to come here and that we're getting a lot of smart entrepreneurs from other countries.

**Campbell:** I don't think that's anything to be sad about.

**Colligan:** No, it's great. But we should be home-growing some of our own, too.