DOCUMENT RESUME

ED 091 029 JC 740 158

AUTHOR Harcleroad, Fred F.

TITLE Is Federal Financing a Weak Reed?

PUB DATE 73

NOTE 8p.; A speech presented at the Annual Meeting of the American Association of Community College Trustees (New Orleans, Louisiana, Nov. 2, 1973)

EDRS PRICE MF-$0.75 HC-$1.50 PLUS POSTAGE

DESCRIPTORS Community Colleges; Educational Finance; *Federal Aid; Financial Policy; *Junior Colleges; Revenue Sharing; School Funds; School Support; Speeches; *Tax Allocation

ABSTRACT

The author discusses what he considers to be the weaknesses in Federal support to schools. (SGM)

IS FEDERAL FINANCING A WEAK REED

(A speech presented by Fred F. Harcleroad, President, The American College Testing Program, at the Annual Meeting of the American Association of Community College Trustees on November 2, 1973 at New Orleans, Louisiana.)

One year ago I recommended to the Carnegie Commission that they reconsider their published position favoring increased and changed forms of federal funding as the major support for anticipated rising costs of postsecondary education in the next decade. These recommendations fell on deaf ears. Their ensuing report has raised the greatest storm of criticism about the Commission which has resulted from its six years of effort.

Shortly thereafter the Southern Regional Education Board published Lyman Glenny's classic "myths" speech in which he stated, "To rely on federal aid is to lean on a weak reed." Is the federal government, in actuality, a weak reed when it comes to financing postsecondary education? It would appear that the case is clear, even though there has been sporadic and extremely important financing of postsecondary education by the federal government for decades and even more than a century.

What would make "federal financing" a <u>strong</u> reed? Certainly it would require as a minimum the following six characteristics:

1. Equal priority and consideration for postsecondary education in comparison with other important fields of expenditure;

2. Potential support from a reasonable tax base of well-justified proposed budgets;

3. Reasonable stability in funding from year to year;

4. Budgets approved in time to provide for efficient planning and expeditious use of the funds;

5. Continuity of support for basic programs; and

6. Funding based on meeting essential needs of the society should be as predominant as possible rather than political considerations and expediency.

Many will agree that these six are not unreasonable and most of you would, I hope, assume that they are a proper expectation for financing this type of social institution.

1. Priorities

In most of these minimal requirements, of course, our federal system would be sadly lacking. In the first place the federal constitutional priorities require that Congress and the President give first attention to "providing for the common defense" and "promoting the general welfare." These very specific terms refer to very specific programs. Close to three-fourths of the existing budget must provide for such continuing items as the common defense of the country, for interest payments on the astronomical federal debt, for social security commitments, commitments to veterans, the conduct of foreign affairs which are forbidden to our states, and other fixed costs. Clearly, these expenditures are the first priority of the federal government and they leave very little for optional choices to be made in favor of education. Education as a whole, and postsecondary education as a part of it, was specifically left out of the Constitution and left for the states to finance. Thus, education, except as a part of a "National Defense Education Act" or the Land Grant Acts, is of relatively low priority.

2. Taxes and the Tax Base

Probably the major reason thoughtful persons turn to the federal government for additional support for postsecondary education has been the available tax base. Since Beardsley Ruml proposed that federal income tax should be withheld at the source (thus making sure that people did not spend their income before they paid their taxes) the progressive income tax has become the most efficient money siphon ever developed. Our Internal Revenue Service is the envy of most governments throughout the world and the honesty of the American people in the payment of their income taxes has been phenomenal. Because it is the most collectible and most efficient, it has been considered the best source from which to get large sums of money. Some states are even now seriously considering giving up their own autonomy and having the federal collection agency collect state income taxes as well.

Milton Friedman has pointed out that in 1930 federal spending was 4 percent and state and local spending was 11 percent of the national income, a total of 15 percent. By 1950 federal spending amounted to 17 percent and state and local spending was 8 percent of national income, a total of 25 percent. In 1972 federal spending was 26 percent and state and local spending was 14 percent of national income, a total of 40 percent. Since 1960 state and local spending, over and above federal grants, has been rising more rapidly than federal spending. Interestingly enough, increases in federal spending have occurred in spite of a decline in the proportion of military spending from 12 percent of the national income in 1968 to 8 percent today.

This total of 40 percent is quite close to taxes of 42 percent of gross national income which are reported as paid by Swedish citizens, one of the world's highest levels of taxation. The current unrest over taxes and state socialism in Sweden makes it appear that the United States is dangerously close to a maximum of taxation which free citizens will endure. Those who have faced bond issues know this because a large percent of the bond issues for education have failed in recent years, no matter how good the purpose or the campaign. Thus, it would appear that available tax rates, with very small additions, will have to provide for the postsecondary education needs which our citizens feel are essential.

One of the major imbalances between federal versus state and local funding occurs in "providing for the general welfare." Currently, state and local funds provide almost $15 billion yearly for the federal welfare program. It is proper to call it the federal welfare program for this reason: The Supreme Court in a number of decisions in recent years has ruled that states cannot establish residential and other comparable criteria for eligibility for welfare funds. A number of states have tried several times to establish such regulations, including the two largest states in the nation. Such regulations regularly have been ruled unconstitutional. This certainly makes the program a federal program.

This $15 billion charge on the states and localities for a federal program is a major cause of the shortage of funds to provide for those social institutions which are basically state supported. As one critical suggestion, I would propose to you that the federal government, through the social security system, provide for all of the costs for existing welfare programs, including equalizing them throughout the country without additional state subsidies of any type. This would provide a huge block of funds in every state which would be used for financing social institutions such as elementary, secondary and postsecondary education, hospitals, parks, and correctional institutions. Postsecondary educators could make their case directly to the state legislature--and differing state priorities would determine amounts of state support for institutions and students.

In exchange, the federal government could and should discontinue much of the $8.3 billion which is now spent in support of postsecondary education. National needs and national programs should still be supported: such as hospitals and medical schools which are part of the national health program (federal because it is directly related to the social security program and medicare). Likewise, social security payments and veterans' payments which support college students would be continued since they are the result of a federal welfare program and an end result of the defense of our country.

3. Stability, Timeliness and Continuity

Most self-respecting state legislatures and governors would be horrified at the idea of operating in the same fashion as do the Federal Congress and the Executive. Federal funding may well be the least stable, least timely, and least continuous of any funding provided for many programs, including postsecondary education. The system, involving, first authorization by two committees, one of each house, appropriation by another set of such committees, and then potential impoundment by the Executive, has the most potential for lack of continuity and political decision making that it is possible to conceive. Charles Lee, executive secretary of the Committee for Full Funding of Education Programs, has estimated that "most programs eventually get funded at about one-third of the authorized appropriation levels." Staff members of key congressional committees estimate the figure at one-fourth rather than one-third. In spite of the sophistication of this audience, probably many of you do not realize that an authorization bill is only a fiscal hunting license. This is generally misunderstood. After the Education Amendments of 1972 were passed, solely an authorization bill with no appropriations, many institutions sent questions into the federal government offices, indicating the amounts that their institutions should be receiving as a result of those amendments and wondering how soon to expect them. Clearly, this represents a political hoax on many of the American people, since they believe that an authorization has some validity. In fact, all it represents is an opportunity to request appropriations up to that amount. Then, with the threat of impoundment hovering menacingly over passed and signed appropriation bills, it becomes extremely difficult to plan for optimum and efficient use of federal funds.

Finally, government financing by "continuing resolution" is comparable to the old "Perils of Pauline." Continually, the total financing of the federal government is based on last minute or after-the-fact actions designed to keep the bureaucratic wheels from stopping completely. In early October of 1973, only four of 13 major departmental budgets had been approved for the fiscal year which started last July. In fact, at one time, technically, funds were not available to pay the costs for the departments for which no budget had been established. Under such circumstances, programs stop or, at best, mark time; advance planning is literally impossible; timely and efficient use of funds is incredibly difficult; and, worst of all, students and institutional staff do not know what support they can expect or what programs can be offered. Such a system leaves much to be desired.

Another major disadvantage is that single individuals with great power (either Congressional or Executive) can make decisions affecting all institutions in all 50 states. The more efficient and more responsible systems of the state legislatures meet the six suggested criteria in better fashion than does the federal system -- and political decisions of a single powerful individual or group affect only one state at a time, rather than affecting all 50 states, most institutions, and thousands or millions of students. And, of course, in the federal system the constituency is farther away from the elected representative and has greater difficulty keeping track of the quality of the work of the legislator. These factors, combined, encourage emphasis on state funding of postsecondary education.

Many state and national leaders have recognized these problems for years and recently become vocal about them. For example, the Keppel Commission in New York and the New York Times recently called for full coordination between the state plan andy any projected federal plan -- but stated that it is "dangerous at this time to hitch the fate of New York's students to the erratic aid star in Washington."

Also, we must consider the aftereffects of too close a tie with federal aid programs. Even though the regulations are sometimes fuzzy and unclear, states have been billed to repay money years after it has been spent -- even though it is a retroactive judgment based on new, revised regulations. By last November, 42 states were challenged and 18 required to repay to the federal government large sums spent from Title I funds for compensatory education. They are funds spent between 1965 and 1969 when, as federal officials admit, the guidelines were not as detailed -- or as federal officials describe them, "weak." In the case of the National Highway Traffic Safety Administration, 18 so-called federal standards were adopted and, although they cannot be imposed directly in intrastate travel, they are "strongly suggested" for adoption, with the threat that federal subventions will be cut off if the state does not comply. California has held out against the mandatory, regular inspection of all vehicles since it would cost $240 million and affects only 5 percent of accidents. This example can be multiplied hundreds of times -- and in many postsecondary education activities. I will cite one for example. A college planned a two year program, hired staff and converted space, based on a commitment from an authorized official. In August of the second year funds were suddenly withdrawn because of a change in priorities. Many of you can duplicate this story. It can happen at the state level, too, but in my experience it happens much less often and college officials are closer and more able to do something about it. TRULY, FEDERAL AID IS A WEAK REED!!!

But the other question then remains -- Do the states have the money? Yes, they do. Recently the prestigious Advisory Commission on Intergovernmental Relations created a storm because it recommended that the states could better solve their educational finance problems if the federal government would leave them alone. The study staff found that "over half the states had untapped relative tax capacity in excess of 20 percent of actual tax collections in 1970." And for those states which might have difficulty raising the additional needed revenue, general revenue sharing and federal assumption of welfare costs would provide the difference.

With the wealth of the United States its citizens can afford many of the benefits they desire. And currently our economy has limits but provides for a number of choices which can be supported. Consider these five comparisons between 1963 and October 15, 1973 --

1. In ten years, people's incomes have almost doubled and in spite of inflation real income has increased by 50 percent of this growth.

2. Corporations, through their taxes, pay a great deal of the cost of our social institutions. Their profits, after taxes, rose $33.1 billion to $72 billion over this same decade.

3. Inflation, of course, has taken its toll. However, with 1967 as a base year of 100, 1963 was 91.7 and 1973 is 132.5. This is a large increase, particularly during the past year -- and the United States still has one of the lower rates of inflation in the world. And, as was pointed out earlier, real incomes have increased significantly at the same time.

4. With regard to job trends, 1963 was a fairly good year, with over 70 million people employed. In 1973 the figure is over 86 million, the greatest number ever employed in the United States. More new jobs have been created since 19,1 than in any comparable period (and done at the same time that we have disbanded a war, moved from a semi-wartime economy to a peacetime economy, and cut the proportion of our gross national product going into defense from 14 percent to eight percent).

5. Finally, our gross national product has grown in a decade from $509 billion to $1.3 trillion, and the federal budget has gone to $269 billion, with plans to really hold it down next year to $290 billion. Obviously, the people of the United States care a great deal about education because a record $96.7 billion will be spent this year on education and it will be the principal activity of 30 percent of our population. Of this amount $35.2 billion is for colleges and other advanced training institutions. Last year $89.4 billion was spent, making this year's increase of eight percent a real three to four percent increase above inflation.

Clearly, at the local level people still support education and want opportunity for postsecondary education available to themselves and to their children. Amazing as it may seem, our past, highly successful method of paying for improved access and more equal opportunity in postsecondary education has been seriously questioned during this period of relative affluence. Approximately three-fourths of American college students now attend low-tuition public colleges, universities, and other postsecondary institutions. Much of the rest of the world envies this system because of the unparalleled educational opportunity it provides and its enormous contributions to social and economic progress. The great debate currently raging about low tuition has been sharpened by recent recommendations from three organizations which have been widely publicized and criticized. For example, the New York Times on October 6 editorialized as follows: "The Committee for Economic Development has joined the Carnegie Commission on Higher Education and the College Entrance Examination Board in recommending a dramatic increase in the tuition charged by the public colleges and universities.... College doors could never have been opened for millions of young men and women without free or low-cost public institutions. Even the most sincere promise to keep those doors open by continuing to give liberal subsidies to the needy is likely to founder on legislative realities. Once raised, tuition charges will stay high; student aid appropriations are subject to the fickle mood of legislatures.

"Instead of closing the gap between the price of public and private institutions, a dramatic tuition increase in the public sector would be quickly matched by the private colleges. The result would be leap-frogging inflation, with middle-income families caught in the squeeze and the lower middle class priced out of the college market. This is the crucial argument against the proposed rise in tuition for public institutions."

George Meany, president of the AFL-CIO, has strongly encouraged all state labor federations to oppose the large tuition increases proposed by the CED, the Carnegie Commission and the CEEB, asserting that they "would shatter the hopes of workers to insure that their children have the advantage of higher education....the CED recommendations would price education beyond their reach." And Allan Ostar has summarized the entire issue succinctly -- "Low tuition represents an extremely important, long-term guarantee of access and opportunity for millions of lower income as well as middle-income students."

Presently, there is concern in the colleges about the decreasing pool of future students. It seems illogical to propose major price increases in such a situation. Many of the persons encouraging higher tuition are economists who favor a market approach to postsecondary education. The basic decisions regarding payment for postsecondary education -- and which groups should be supported -- are social value decisions. Unfortunately, proposals for higher tuition by the CED, the Carnegie Commission and CEEB emphasize the economic costs rather than the social benefits. Recently, the Harris survey (August 23, 1973) reported that its national poll indicates that four out of five people want free education for all qualified persons, a slight increase over those thinking it was this important in the past. Such education was one of the five most important items judged necessary to make our country continue to be great in the future, in the results from this national poll. Thus, it appears obvious that there will be strong local support throughout each of the United States for low-cost postsecondary education.

What would be the cost of two years of tuition-free access to public postsecondary educational institutions? The National Commission on the Financing of Postsecondary Education recently developed cost estimates to answer this question, based on the following nine major assumptions:

1. Students would be provided with education with no tuition and fees for the first two years of postsecondary education at public collegiate institutions.

2. Public collegiate institutions would receive from the federal government an amount equivalent to lower division tuition and fee revenues, in the form of general support provided directly to the institutions.

3. The federal government would fund institutions differentially, based on the type of institution and the number of students. The per student fees would be as follows:

	1974-75	1979-80
Research Universities	$670	$889
Doctoral Granting Institutions	567	752
Comprehensive Colleges	422	559
Liberal Arts Colleges	316	419
2-Year Colleges	172	228

These estimated fees are based on 1971-72 average dollars per student, inflated at 5.8 percent annually.

4. Public institutions, in providing tuition-free access, could not escalate their prices faster than overall cost inflation (assumed to be at 5.8 percent).

5. Zero tuition for the first two years would be expected to result in increased enrollments at the lower division. This increase has been estimated at 1.1 percent

for each $100 decrease in tuition and fees at public two-year institutions and 2.7 percent for each $100 decrease in tuition and fees at public four-year institutions, adjusted downward by 1.058 percent annually to reflect the assumed increase in per capita income. The increase in enrollment is estimated to be:

	1974-75 and 1979-80
Research Universities	15.3%
Doctoral Granting Institutions	12.9
Comprehensive Colleges	9.6
Liberal Arts Colleges	7.2
2-Year Colleges	1.6

6. State and local governments would provide additional institutional support for the increased student enrollment at the lower division. The support would be provided at the current (recognizing inflation) average costs per student in two-year public institutions.

7. Although enrollments are likely to increase in the short-term, additional construction will not be funded due to the anticipated stabilization in enrollments beginning the end of the decade, and the current high levels of capacity.

8. The federal government's financial support to lower division students in public collegiate institutions in terms of Basic Opportunity Grants, Supplemental Educational Opportunity Grants, College Work-Study, National Direct Student Loans, and Guaranteed Student Loans paid for lower division students by the federal government will be reduced by the amount of tuition subsidies. The state and local governments, however, will continue their present student aid programs, providing financial assistance to students who need support for additional living costs.

9. To provide students with reasonable choice in attending private institutions and to stabilize the effects of an enrollment shift away from the private sector due to increased price competition, for every $4 provided to public institutions by the federal government in support of zero tuition, $1 will be provided to the states to be distributed in the form of grants to lower division students attending private institutions.

Implementation of a plan for two years of tuition-free access would require either the reallocation or new appropriation of $893.1 million of public funds in 1974-75 (about 4.5 percent) and $1,172 million in 1979-80. The responsibility carried by the students and their families would decrease by $1.19 billion in 1974-75 and $1.7 billion in 1979-80.

Lower division enrollments in the public collegiate sector would increase by 6.8 percent, or approximately 232,000 and 250,000 in 1974-75 and 1979-80 respectively, due to zero tuition.

However, I would propose that you might work to secure these funds in a different way than is proposed by the National Commission. The federal government should assume all costs of a nationwide, balanced program of Aid to Dependent Children -- a major part of the states' $15 billion subsidy of the federal welfare program. Each state could then allocate the tax monies released -- and two-year or lower division post-secondary education would be able to obtain its share. Only a modest percentage of the total would be needed, although it would vary from state to state. Those states which are now tuition-free should push to have these new funds used to increase the percentage of the total bill paid from central state funds. For example, California, with a million tuition-free community college students should raise the percentage of educational costs paid by the state above the current low rate which is far below the master plan agreements of a decade ago.

Now, let me return to the original question: "Is Federal Aid a Weak Reed?" Three weeks ago it was asked of John Dellenback, the distinguished and capable Congressman from Oregon, at the American Council on Education meeting. His first response was, "That's a good question -- do you have any others?" Then, he went on to say that in his experience "Federal authorizations for educational funding are too loose and they are too high. There will be very slow increases." He did not predict that appropriations would ever reach authorization levels. This question and his response was directed to the Education Amendments of 1972. With such a forthright statement from such a knowledgeable Congressman, the thesis presented here is supported. States should not look to the federal tax power for basic post-secondary education costs but should push forward on their own. Students must be pushed to achieve higher earning levels in exchange for this type of support. But the gates must and will be open for those who want the opportunity and will work hard to justify the expenditure of each taxpayer's dollars.

How much better this is for students than starting their occupational efforts with a debt possibly as high as $25,000 to $50,000 for a man and a wife with maximum loans for two bachelor degree programs. Certainly, the phrase which describes this plan, "The Indentured Student Plan," is appropriate. Students who are earning two-year degree programs from community colleges could build such enormous debts prior to starting their occupational work. What a price to pay! It would essentially force students to pay at least three times for their education. First, their loan money must be repaid. Then, interest will be due over a long period of time. Finally, they will pay again through higher taxes.

Students also will repay the free-tuition costs supported by the other citizens of their state and the nation through their greater productivity, as well as through higher taxes, and, in turn, support other students who will come after them. In your capacity as trustees you hold the key, in my judgment. You set the policies. You determine the educational standards to be achieved by the students who are subsidized in this way. You will answer one of the great social value questions of our time. I hope you opt for tuition-free or low-tuition institutions with carefully established standards of required student accomplishments and state financing and support of this priceless resource which we have available to our democratic society.