

## ALTERNATIVE FEDERAL ROLES IN SCHOOL FINANCE

William G. Colman

The President's Commission on School Finance was established in the early summer of 1970 and was charged with exploring thoroughly the major aspects of educational finance and educational reform. The Commission has chartered over 20 research projects covering such fields as intergovernmental relations and the governance of education; public interest in and public support of non-public schools; current and possible revenue sources for education; educational effectiveness and its relationship to educational finance; problems of the inner city schools; early childhood education, and technological innovations in education, to name a few.

It was the desire of the President that we not limit ourselves to financial issues. In his Message to the Congress of March 3, 1970, in which he announced his intention to establish the Commission, President Nixon said:

A new reality in American education can mark the beginning of an era of reform and progress for those who teach and those who learn. Our schools have served us nobly for centuries; to carry that tradition forward, the decade of the 1970s calls for thoughtful redirection to improve our ability to make up for environmental deficiencies among the poor; for long-range provisions for financial support of schools; for more efficient use of the dollars spent on education; for structural reforms to accommodate new discoveries; and for the enhancement of learning before and beyond the school . . . We must make the nation aware of the dilemmas our schools face, new methods of organization and finance must be found, and public and non-public schools should together begin to chart the fiscal course of their educational planning for the Seventies.

The Commission is chaired by Neil McElroy, former Secretary of Defense. Some of the other members are John Davis and Bert Thompson, public school superintendents of Minneapolis and Greenville, Mississippi, respectively; David Kurtzman, Pennsylvania

Mr. Colman is a consultant on governmental affairs and Visiting Lecturer at the University of Virginia, a member of the President's Commission on School Finance, and former Executive Director of the Advisory Commission on Intergovernmental Relations.

Secretary of Education; John Fischer, President of Columbia University Teachers College; William Saltonstall, Massachusetts private educator; Clarence Walton, President, Catholic University; Warren Knowles, former Wisconsin governor; Wendell Pierce, Director of the Education Commission of the States; Dorothy Ford of the Los Angeles County school system; Duane Matheias, Associate Commissioner of Education, and several others.

The Commission has met about 15 times in two-day sessions; in addition, one or more members have kept in close touch with each of the research projects. We have nearly completed action on a "semi-final report once removed." In a couple of weeks we will act on a semi-final draft and we anticipate finishing all of our work except for printing and formal transmittal by early February.

The Commission will be making a number of recommendations to local boards of education concerning school governance; it will be making others to governors, state legislatures, and state education agencies; it will be making still other recommendations to the President, the Congress, and the Commissioner of Education. I will focus here on the Federal role in school finance, not to speak for the Commission or to present its recommendations, for the timing is not right for that, but rather to describe some of the major alternatives for Federal action and indicate some of the advantages and disadvantages of each.

1. *General unearmarked aid.* This type of aid has long been the pet project of many national education associations. Essentially such aid would be added to the present categorical programs, and its magnitude would be such as to raise the Federal share of funding elementary and secondary schools from its present 6 percent to the neighborhood of 20-40 percent. This might be done out of general Federal revenues or from the proceeds of a special Federal tax.

2. *Expansion of functional aids.* Such expansion is favored by many program administrators at state and local levels and by a considerable number of education-oriented Congressmen and Senators. This approach could also bring the Federal share up to the 20-40 percent range.

3. *Incentive grants to help states achieve full state funding.* This alternative would relieve the local property tax base of most school costs and would help the states to readjust state revenues in order to meet the added costs of financing schools. The grants could be either transitional or a more permanent type of support. They could be as modest or as drastic as framers desired, but the most likely long-range effect would be to double the present Federal share, with the added funds of the unearmarked variety.

4. *A tax reform program.* This alternative would provide a package of tax credits to encourage states to use the income tax and to remove the major regressive aspects of sales and property taxes. The most frequent recent estimates of the cost of such a program range from \$5-\$7 billion. The Mills version of revenue sharing includes the equivalent of a \$2 billion part of this tax reform program.

5. *A revenue bolstering and expenditure easing program.* This approach envisions a full Federal takeover of welfare and Medicaid and a general Federal revenue-sharing program, beginning at \$5 billion and going to \$10 billion. This would provide \$12-\$20 billion for state governments and would thus enable them to take over local education costs. Federal aid to education would continue at about its present percentage of total education costs.

All of the foregoing alternatives have their advocates and critics. Educators would generally favor the first two: general unearmarked aid to education or a big expansion in categorical aid. Many governors and state legislative leaders would favor tax credits, welfare takeover, and general revenue sharing. It is quite likely that in this, as in many other areas of intergovernmental relations, the result will be a marble cake or a combination salad depending on whether the intended result is a feast or a diet.

It should be noted at this juncture that the effect of state tax policy on local taxes is belatedly claiming legislative attention. Perhaps the most noteworthy effort in this connection is the work of the Massachusetts Special Commission to Develop a Master Tax Plan.<sup>1</sup> The major proposal of the Master Tax Plan would fix by law the relative amounts of revenue to be raised by the three major taxes: property, income, and sales. This would be done by a commission composed of members of the state legislative and executive branches and representatives of local government, empowered to establish the tax rates necessary to maintain the relationships among tax sources on a year-by-year basis.

The underlying premise of the Master Tax Plan is that the legislature must henceforth consider both the public services the state-local revenue system will support and the quality of the major tax measures that comprise the revenue system. The property tax would no longer be used, in effect, as the residual tax instrument to fill the gap between an established expenditure level and available revenue from non-property tax sources.

<sup>1</sup>See the paper by Robert T. Capeless in this volume.



The growth of Federal aid and the insistent state-local demand for more of it have spurred policymakers at all governmental levels to give more consideration to the impact of Federal policies on state-local fiscal problems. For example, Congressional action on welfare reform, revenue sharing, or direct aid to schools or cities might so alter the tasks assigned traditionally to the state-local revenue system as to undermine all efforts to increase reliance on state personal income taxation.

Indeed, the decisions of Congress on Federal policy proposals now under discussion will have a profound impact on the role of the states in the Federal system. A massive increase in Federal aid to local schools, for example, introduces a new element in the debate on how to redress the fiscal imbalance among government levels. Not only would a dramatic increase in Federal aid to education rival other major Federal fiscal moves, but massive aid to education would also sharpen the debate over the form Federal aid should take.

There is general agreement among educators and political leaders that a moderate degree of consolidation should take place in present Federal functional grants for education. Despite this general agreement, consolidation will be hard to achieve because special interests that are protected by earmarked categories fear the verdict of the educational-political marketplace where priorities would otherwise be determined.

The final resolution of Federal aid approaches and the degree of categorical consolidation will depend in considerable measure upon the relative importance assigned to the many major challenges confronting the nation, its states, cities, and neighborhood schools. My own assessment of priorities would run something like this.

*Save the inner city schools:* Public education in all of the United States is in a time of trial, but for inner city schools it is a time of peril! Until these schools become institutions to be proud of instead of something to escape, the cycle of blight, decline, and abandonment will continue in our central cities — a cycle that threatens the very fabric of our society. Old buildings must be replaced, discipline and safety restored, highly qualified and dedicated principals and teachers specially recruited, and links with parents and neighborhoods created and strengthened. Parochial and other private schools serving the central city poor must be preserved. Personally, I would place the inner city schools not only at the head of an “educational priority list” but at the top of the multitude of issues of domestic government confronting the country. The number of schools and students in this category is so large that I question seriously the

capacity of the American body politic to withstand the cancer of despair, delinquency, and degeneracy that spreads inexorably from the tragic failures of these schools.

*Restore fiscal balance to the American Federal system* so that our states, counties, and cities may again assume some self-determination, instead of being manoeuvred by narrowly categorized grants-in-aid from higher levels of government. This means a strong income tax and a strong sales tax at the state level and a strong state-supervised property tax for the use of local governments, with welfare and income maintenance totally a Federal responsibility and school finance predominantly a state responsibility.

*Assurance of equality of educational opportunity* is required in terms of the fiscal resources behind each child, taking into account differential costs of educating different categories of youngsters. Today those children needing education the most are receiving the least!

*Early childhood education* is needed to help provide equality of educational opportunity.

*Reorientation of educational values in our society* must be achieved, so that career and vocational education assumes a major and respected role and uses at least half our resources for secondary education, ending its status of second-class citizenship in the educational hierarchy.

*Reform of educational governance* should include year-round schools, community schools, and schools without walls.

*Overhaul of the teaching profession* should include incentives for early retirement and tenure modification, so that the level of teacher competence can be raised while dealing fairly with individuals; teacher training and certification can be modernized and the pupil-teacher ratio dethroned as the be-all and end-all of local school budgeting.

The list could go on, but this one illustrates the need for a non-doctrinaire approach to the general subject of financing our schools. Undoubtedly we are at the threshold of a revolution in school finance. Primary reliance can no longer be placed on local tax sources; there is growing agreement across the country that substantially full state funding of the non-Federal share of education costs is essential, if equality of educational opportunity is to be translated from an empty phrase into living reality.

The Federal role must help pattern this objective while strengthening, not weakening, state and local government in the process. At the same time the Federal government must help support state and

local efforts to meet some of the most critical challenges confronting public and private education today. We have the ingredients; what we must seek is both the will and the wisdom to so put them together that the goals of governmental vitality and educational excellence are highly served. This is a task that demands the best of our political and educational leadership at this juncture of our national life.