

GOVERNOR MILTON J. SHAPP'S PROPOSAL FOR A NATIONAL EDUCATION TRUST FUND

A. Edward Simon

Governor Shapp had hoped to attend this meeting and present to you personally his proposal for a national solution to the problems of financing public education. While education is a growing state problem, however, it is not the only problem, and the best intentions and desires of a governor must yield to the demands of his office. The intensity of Governor Shapp's interest in this conference and in the opportunity to present and discuss his proposal is reflected in the attendance also of Dr. Ernest H. Jurkat, personal economic advisor to the Governor. Dr. Jurkat is co-author with Governor Shapp of an economic blueprint for Pennsylvania entitled "New Growth, New Jobs, for Pennsylvania," published in 1962, in which the original elements of this plan were first presented.

The idea of a National Education Trust Fund was most recently presented by Governor Shapp at the White House early in June of 1971. That presentation was prompted by a continuing awareness of the desperate need for new approaches to the financial plight of education at the state and local levels. The fact that 56 percent of the total state budget now goes to education is indicative of Pennsylvania's concern.

It is easy to conceive of education simply as a *cost* of government. For many individuals, communities, and states, all or parts of our educational system are costs, for which benefits often seem remote or nonexistent because of population mobility, the concentration of special problems of education, and the present distribution of the tax burdens for education. Yet in our society education must be viewed as an important investment, vital to our national survival and to our hopes of a life that is meaningful and rewarding.

Mr. Simon is Special Assistant for Fiscal and Economic Affairs to Milton J. Shapp, Governor of the Commonwealth of Pennsylvania, and former Research Associate, Twentieth Century Fund Research Foundation. Governor Shapp would like to acknowledge the contributions of Mr. Ellis Harned and Mr. Martin Margolis of the Office of State Planning and Development in preparing the analyses of the implications and impacts of the National Education Trust Fund that appear in this paper.

A. Edward Simon

119

We cannot find solutions to education's problems without a strong national approach to financing and the establishment of goals and priorities for education. The *Serrano v. Priest* decision before the California Supreme Court and the subsequent decisions in Minnesota, New Jersey, and Texas, dramatic as they are, serve only to highlight the demands for change in the system of financing education. To anyone aware of the shifting patterns of educational needs and the decreasing relevance of the value of local real estate to children's need for education, change has always appeared to be a matter of time.

We are at last faced with the immediate need for new solutions. And as important as financing will be to these solutions, the answer is not so simple as infusion of new money from the Federal pocket-book. A new solution must provide both money and equality of opportunity for education. In order to do this, it must establish policies and priorities that direct funds on the basis of need. The economics of real estate and urban/suburban/rural population concentrations currently mitigate against this. The political realities of this compartmentalization also mitigate against a state's contributions being directed effectively to the areas of greatest need. Economic measurement of the returns of education is difficult, but there is a real need to relate the cost of education to its benefits.

The National Education Trust Fund Concept

We propose the creation of a National Education Trust Fund as the vehicle for the massive investment in education that is required. The Fund would finance a portion of the costs of education at all levels, and those who benefited would replenish the Fund through a tax on their incomes throughout their working years.

The Fund could finance up to 90 percent of the cost of the crucial preschool years, 50 percent of the cost of primary and secondary education, 60 percent of the cost of post-secondary education, and 90 percent of adult basic studies and manpower retraining. These proportions could be changed to meet changing national priorities.

The National Education Trust Fund would advance money only for the direct costs of education and not for such purposes as school construction, since the aim of the Fund is to invest in people and not in buildings. Although the investment needed is large, the Fund could be started with \$4-\$8 billion, with 10-20 percent of all students participating at all levels of schooling. Participation could increase by 10-20 percent yearly so that the Fund would include all students after 5 to 10 years.

Our initial projections indicate that if the National Education Trust Fund were to begin operation in 1973, it would be contributing between \$40 and \$50 billion annually by 1980 to the direct cost of education. More than half of this would go to primary and secondary schools, and a third for higher education. These sums may seem staggering today, but they represent less than 3 percent of the projected gross national product in 1980. Nevertheless, they would provide for more than half of the overall direct cost of education in that year.

Since the benefits of education accrue largely to the individual in the form of increased income, status, and a desired life style, the National Education Trust Fund would require that repayment be made by the beneficiaries in proportion to their income and education. This would be done by means of an education tax which would vary according to earnings and years of schooling.

Provision could be made for an income floor below which no payment would be required. A ceiling would insure that the tax did not deter those from wealthy families from going on to higher education. Since the tax would be collected in conjunction with the Federal income tax, administrative effort would be minimized.

Repayment would be made when the beneficiary could best afford it — in his years of high earnings. In years when an individual had little or no income he would not be taxed. Similarly, exemptions could be provided for the aged and the infirm. It is significant to emphasize that the education tax would not constitute an additional tax. It would be a substitute for existing regressive taxes.

The Fund could be reimbursed from a combination of individual taxes and contributions from employers and general Federal revenues. One example developed in our preliminary analyses would work as follows: Assume that the Fund had been in full operation in 1970 on a pay-as-you-go basis with all adults aged 25 to 65 eligible to repay. In this example, employers would contribute one-third of the annual reimbursement to the Fund, and the Federal government would contribute at its current level of funding education — about 11.7 percent of all education expenditures. Assume further an income floor of \$3,000 below which no individual would pay this tax, and an income ceiling of \$50,000 above which the tax rate would no longer rise. In this example taxes are paid by individuals rather than families or households. A typical individual who had completed high school and reported an adjusted gross income of \$6,600 (about the mean for employed individuals with that education in 1970) would pay a tax of 2.7 percent. A beneficiary who had

completed four years of college and earned \$10,500 (about the mean for that education group) would pay 5.3 percent. Four years of graduate school would add about 1.8 percent more to this individual's tax. Note that the tax rate is progressive along two dimensions: income and years of schooling.

The Fund would be self-sustaining over the long run as revenues from the education tax replenished it. It would also be the vehicle for continuing Federal aid to education, and Federal money could be provided to the Fund to underwrite greater support of such programs as adult basic education and manpower retraining.

Operation of the Fund

This is how a National Education Trust Fund could operate. Money for primary and secondary education would be distributed to the school districts through the states, just as Federal education funds are now distributed. For all post-secondary education, it is proposed that students be advanced credit each year to cover a portion of the direct costs they incur. The credits advanced would be used to attend the institution of the student's choosing, subject only to minimal National Education Trust Fund accreditation. For college and university education the Fund would assist students through completion of one degree beyond the bachelor's level, limiting the amount of money made available to each student based on average costs of an education in different fields of study. Generally these would be within an overall limit of 60 percent of the cost of post-secondary education, but specific programs might be funded at higher or lower levels to reflect national priorities.

The National Education Trust Fund could be a major force for equalizing educational opportunity throughout the Nation. The gross inequities which characterize the present system of financing education largely could be overcome by channeling education money through the Fund. By decreasing the dependence of public education on the local property tax, the Fund would reduce the effects of the present wide variations in local effort and ability to support education, which have tended to make the quality of an individual's education dependent on the wealth of his family and neighbors.

The Fund could implement one of the key recommendations of the National Educational Finance Project regarding primary and secondary education: "THE NUMBER OF DOLLARS SPENT ON EDUCATION SHOULD BE BASED ON THE EDUCATIONAL NEEDS OF THE CHILDREN RATHER THAN THE WEALTH OF

THE SCHOOL DISTRICT."¹ To do this the Fund would have to develop a basis for assessing individual pupil needs and the costs of meeting these needs. This might be done by assigning weights to the per pupil costs of various types of education. The goal of equality of educational opportunity will be achieved only if funds are allocated on the basis of need.

Post-secondary school financing might also be based on a system of weights reflecting the costs of various types of training. In addition the Fund might give greater weight to critical needs such as doctors, thus encouraging more people to acquire an education in these fields. In any case the Fund would promote the philosophy that access to higher education be based on talent and motivation, and not on wealth.

Continued State Responsibility

Present responsibility for education, which rests with the states, the school districts, and the public and private institutions of higher education, would not be altered by the proposed National Education Trust Fund. Such a Fund need not be involved in the administration of education, nor would it be concerned with what is taught in the classroom. The Fund would, however, promote accountability on the part of educators, students, and citizens.

The Fund itself would determine what expenditures are needed on a per pupil basis to insure a minimum acceptable level of education. This would be the basis for its allocations and would serve as a guide to educators and citizens on the costs of education. The fact that students would bear a major share of the costs of their own education would encourage them to evaluate its relative costs and benefits. This should also encourage more efficient development of our education resources, since a student would be likely to remain in school only so long as he expected real benefits from his education.

National Education Trust Fund financing of 50 percent of the cost of primary and secondary education, along with continued state funding at present levels of about 40 percent, would mean that about 90 percent of the direct costs of education could be provided by non-local revenues. According to the Advisory Commission on Intergovernmental Relations, this would free about \$16 billion to be used to finance local needs other than education. Some revenue could be returned to the citizens through local property tax reforms.

¹National Educational Finance Project, "Future Directions for School Financing," Gainesville, Fla.: 1971, p. 8.

Education and American Society

The education of the American people needs a massive investment of resources which can be provided only by a national effort. At present education expenditures make up about 7 percent of our gross national product; in our evolving post-industrial society, education will have an ever more significant role. Furthermore, the benefits of education are not limited by school district or state boundaries.

The proposed National Education Trust Fund does not mean a Federal takeover of education; it means only that the Federal government will bring together the resources of the country at the national level to aid the states. The Fund would strengthen education in all the states. It would promote equal educational opportunity by helping to provide equal access to fiscal resources, and it would provide access to higher education to all with talent and motivation. The Fund actually should increase local control over the process of education. Local school boards which now spend more time than ever on fiscal matters — balancing budgets, raising taxes, selling bonds — would be able to concentrate on the central issues of education: how our children are learning and what they are learning.

There is little doubt that education at all levels will undergo major changes in the coming years. The question is whether these changes will be dictated by financial constraints or by our desire to make education more meaningful for students and for our society. Only if we resolve the financial issues will we be able to turn attention to the more important issues of education.

We are still hard at work gathering data, analyzing proposals for the National Education Trust Fund, considering alternatives, and arguing their implications. It is our hope that this conference will provide an opportunity to gather both support and constructive advice and criticism for this plan. We welcome your participation in what we hope will be a significant step forward in education.