Approximately 50% of higher education support comes from taxes; 40% from tuition and fees; 8% from endowments and gifts; and 2% from business. Presented here is a proposal for a revolving federal fund to cover operating costs for public and private institutions of higher education. An agency (the Higher Education Finance Corporation) would be set up and would authorize loans covering operating costs for students while they attend college. The recipients of these loans would repay them after becoming employed. A surtax would be added to the borrower's federal income tax when his net income reaches an affluent level. In addition, this proposal calls for an equal-share contribution from the borrower's employer to pay back the loan. (BB)
FINANCING HIGHER EDUCATION: A PROPOSAL

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Topical Paper No. 10
February 1970
This Topical Paper was prepared pursuant to a contract with the Office of Education, U. S. Department of Health, Education and Welfare. Contractors undertaking such projects under Government sponsorship are encouraged to express freely their judgment in professional and technical matters. Points of view or opinions do not, therefore, necessarily represent official Office of Education position or policy.

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INTRODUCTION

In this paper Charles Collins describes an alternative to the present patchwork mode of financing higher education in America. Because the topic covers the entire scope of college and university education—and in order to attain wide circulation of the ideas presented—we felt it desirable to publish the paper in association with the ERIC Clearinghouse on Higher Education. We are grateful to the staff of the Higher Education Clearinghouse for cooperating in the manuscript review process.

Charles Collins has served in many capacities in the junior college field: instructor, dean, project director, and special consultant. His present position is Associate Director, Junior College Leadership Program, University of California, Berkeley.

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FINANCING HIGHER EDUCATION: A PROPOSAL

Background

In some ways, higher education is comparable to a machine manufacturing money, and nations with an adequate supply of these higher education machines are rich, whereas nations without them are poor. In the United States, the higher education machine is vital in producing the $850 billion gross national product; "Forty per cent of the increase in total national income is now attributable to advances in knowledge and the rising skill levels of the labor force" (11). Firms that hire the highly educated people expect to profit substantially from them. Such firms as engineering, law, and business, bid from $10,000 to $16,500 for the 1968 graduates in these fields (3).

Whether or not humanistic enrichment is produced, higher education does guarantee economic enrichment. In 1966, the average income of the college graduate was $3,480 more per year than that of the high school graduate (29). If, therefore, higher education brings dividends to the general society, to the employers in the economy, and to those who secure this higher education, there is good reason for suggesting that these particular groups—the general society, the employers, and the graduates—should be the ones to make the investment that produces the dividends. How could this be accomplished? What percentage should each of these three groups pay? And how and when should they pay their share? These are complex problems, and this proposal presents one attempt, or one approach, for dealing with such problems.

A Sad Financial Tale

The basic problem is that the money-making machine, higher education, is expensive to operate, and even the beneficiaries of its magnificent largess are reluctant to spend the money to keep it running properly. It takes billions of
dollars to make the higher education machine run. For operating costs alone, $13.2 billion was spent in 1967, an estimated barebones $16.8 billion is needed in 1970 (23); these figures are for operating costs only and do not include capital outlay. The Carnegie Commission of Higher Education, using "total institutional expenditures," quoted $17.2 billion for 1967-68 and estimated $41 billion in 1976-77 for a projected full-time equivalent enrollment of nine million students (12). (These operating cost figures represent less than half the yearly expenditure for the Vietnam military adventure.) The $13.2 billion in 1967 did pay for a year of full- or part-time collegiate education for almost seven million Americans (9). The multi-billion-dollar bill is paid in roughly the following ways: taxpayers at federal, state, and local levels, 50%; the students or parents who pay tuition and fees, 40%; endowments, private scholarships, and gifts, 8%; and contributions from the businesses (whose handsome profits depend to a large extent on the knowledge factory), 2% (19).

No one of these groups is graciously or happily paying its share of the operating costs. The tuition-paying parents are grumbling that "little more than one-fourth of America's families can meet all college expenses, even when tuition is as low as $700. Only four per cent of American families can meet the entire cost of high-tuition institutions, the ones in the $3,000 range for resident students" (5). The taxpayers are saying "no" by means of voting down school bonds and tax overrides, and their political spokesmen are trying to use control of state money to force the colleges and universities to heel to their command. The philanthropists are chagrined to find they cannot even keep their favorite private colleges solvent and sadly watch them wither (since transfusing them with public monies would turn them into public institutions). Businessmen threaten to stop their 2% contribution and to pressure state legislatures to cut off all funds,
especially when controversial figures like Eldridge Cleaver or Tom Hayden or Angela Davis or Herbert Marcuse are allowed on campus, although their more knowing associates remind them that to close the colleges or universities would be to shut off the supply of trained talent that creates their profits. Almost everyone—the experts as well as naive individuals—are shouting for help from the federal government, but with the same breath they object to interference and control by whatever apparatchiks are running the show in Washington.

No Dearth of Proposed "Solutions"

What seems to be needed is a perpetual motion machine that can feed on its own product, can expand as rapidly as demand, can operate independently of the politicians who turn it on, can produce as well and as equitably in Mississippi as in New York, and can give motion to higher education while leaving direction to the educators and trustees in whose care the people have placed this marvel. Impossible? Maybe not.

Social mechanisms are only partially analogous to machines. They are capable of self-generation while nuts-and-bolts contraptions are not. With some ups and downs, the national economy seems successful in using its own product to make itself grow bigger. A rich man in today's financial world can keep on growing richer. The New Deal's Social Security scheme has been so profitable to everyone—including the national treasury—that not even an ultra-conservative administration would scuttle it. And, closer to the subject of financing higher education, the effect of the G.I. Bill was to bring the federal government much more revenue in increased income tax payments than it invested in the education of the veterans of World War II and the Korean War.

Schemes have been suggested for providing the students in colleges with tuition money and the colleges or universities with operations budgets, for instance
using pure capitalism, "a number of banks handle educational loans as they would any other consumer loan transactions, with charges running roughly from 9 to 11% a year in simple interest, though the rate may be expressed in jargon that makes it sound much lower" (5). One part of the National Defense Education Act of 1959 provides for loans up to $1,000 per year for undergraduates and up to $2,500 per year for graduate students who meet the scholarship and need qualifications. The colleges have to put up one-tenth of the money, and although the interest is only 3%, with ten years to pay, the delinquency rate has been high and "collections, which the schools must handle, add to the cost of maintaining the program." The Higher Education Act of 1965 also has a provision by which banks lending money for tuition costs at 6% interest will have their investment guaranteed by the federal government (5).

Many writers on the subject of financing higher education and many concerned congressmen and senators have proposed compensatory income tax deductions to make present and future tuition costs bearable. There is, however, nothing self-perpetuating about tax write-off schemes; they are simply ways of having the federal government pick up all or part of the tab. Furthermore, this benefits the middle- or upper-class parents who have a moderate or large income tax to pay. Such a plan would help neither the poorer parents nor the lean-budgeted, tuition-free junior colleges to which they usually send their youngsters (5).

A proposal of recent years that sent the editorial writers scurrying for their pens was made by Kingman Brewster, President of Yale University. President Brewster suggested making federal loans for higher education readily available and keeping the revolving fund slowly revolving by having those who profited from higher education pay back not just their own loans but a percentage of their lifetime incomes. As noted in one publication,
The President of Yale, Kingman Brewster, has come up with an intriguing proposal for financing a college education through loans that a student would pay back out of his earnings throughout his working years. Mr. Brewster suggests that a student who borrows funds for his college education would pay back not only the borrowed amount, but the amount he borrowed plus an additional amount based on his increasing income level. It is similar to the progressive pattern of our income tax system with individuals who earn more repaying more (19).

The Johnson Administration also tried to attack the problem of financing higher education and came up with a variation on the Brewster plan.

A government advisory group, the Panel on Educational Innovation, recently recommended the creation of a federal "Educational Opportunity Bank," which would make loans to undergraduate students to cover the full expenses of their college education. Under the panel's proposal, the bank would borrow money at government rates and lend money to students without regard to their resources. The loan could be large enough to pay for tuition, costs, and subsistence at any university or college the student attends. At the time of the loan, the student would pledge a percentage of his future income for as many as thirty or forty years after graduation. Preliminary estimates were that the bank could be self-sustaining by charging borrowers 1% of gross income over thirty years for each $3,000 borrowed. The borrower would have the option of withdrawing from the plan by paying in full the amount borrowed plus interest compounded at 6% (1).

If funded, this plan would sweeten the pot substantially for the students as well as for the colleges they elected to attend. It would also allow tuition to reflect the full operational cost of education and would help colleges improve the quality of their offering, enabling poor as well as rich students to attend the college of their choice. Some critics chose to attack the plan, arguing that all citizens should pay for whatever contributes to the general welfare, and

it is an ironic commentary on our times that in this most affluent nation in the world's history, in the year 1967, a panel should seriously take the position that our society cannot afford to continue to finance the education of its young people, and must therefore ask the less affluent to sign a life-indenture in return for the privilege of educational opportunity (1).

James Tobin, a member of President Kennedy's Council of Economic Advisers, recommended the establishment of a National Youth Endowment, that would entitle every
citizen to $5,000 in government credit upon graduation from high school or at age 19. This credit could be drawn on for higher education or vocational training and would be paid back starting at age 28 (22).

Since there are presently over four million Americans who would be eligible for this $5,000 endowment, the first year cost to the taxpayers would be $20 billion. By the time repayments could begin, nine or ten years later, the federal government would hold IOU's in excess of $200 billion.

The proposed plans for financing higher education that are the most recent--Olympian in their prestige and carrying the heaviest political clout--are those coming from the Carnegie Commission on Higher Education. The plan proposed by Howard R. Bowen (4) calls for federal grants to any student who could demonstrate need. These minimal grants would cover only those educational and living costs that parents cannot afford. Under this scheme, the grants would be supplemented by a national system of student loans and would be as available to the rich as to the poor. They would be conventional loans "subsidized by the federal government as to interest and guaranteed as to risk." This grant-loan system would give financial backing to the students but would not add much to the budgets of collegiate institutions. To correct this, Bowen outlines a complex formula calling for federal grants to fill the budgetary gap between income from the states, donors, and tuition, and the actual amount of money needed by the institution to provide better higher education to an increasing enrollment of students (4).

Other recommendations that emanate from the Carnegie Commission on Higher Education touch on various financial aspects and the major recommendations are similar to Bowen's proposals for student grants, student loans, and heavy federal supplements to fill the ever-enlarging hole in the institutions' budgets. Student grants, based on demonstrated need, would range from a maximum of $750 per year for lower-division students to $1,000 per year for upper-division and graduate
students. The federal bill for these grants would grow from $.9 billion in 1970-71 to $1.6 billion in 1976-77. Students holding non-federal grants would have their federal opportunity grants enriched by a 50% increase. Present work-study programs would allow undergraduate students to earn up to $500 per year in institutionally administered programs of employment "in tasks important to academic institutions."

Student loans, irrespective of need, would be made to undergraduates, not to exceed $2,500 per year, and to graduates, not to exceed $3,500 per year. These loans would be repaid on a basis of fixed percentage of income per $1,000 of loan over a 30- to 40-year work-life. Initial federal funding would start at $2.5 billion in 1970-71 and expand to $5 billion by 1976-77. Furthermore, the institutions would receive a sizable supplement for each grant holder--ranging from $525 for lower-division students through $1,050 for first-year graduates to $3,500 for doctoral candidates. The price tag on this institutional supplement would begin at $1.13 billion in 1970-71 and by 1976-77 would be hiked to $2.71 billion. In grand total, these recommendations would raise the federal investment for higher education from the present $3.5 billion to $7 billion in 1970, and to $13 billion by 1976. Local, state, and private support to higher education would also continue at an even higher rate than at present (12).

Whether it is the N.D.E.A., the Higher Education Act of 1965, compensatory tax write-off, the Kingman Brewster plan, the Educational Opportunity Bank, the National Youth Endowment, the plans of the Carnegie Commission on Higher Education, or the proposal to be presented here, the cost is going to soar into the billions, for higher education is not a bargain basement item. These billions should be seen in the perspective of a society that has handed over $902 billion to the military in the twenty-five years since World War II; that has spent over $30 billion to put a man on the moon; that seriously contemplates spending $300 billion
for space exploration of Mars; and, on the positive side, a society that fully expects its educated citizenry to elevate the present $850 billion gross national product to $1.5 trillion by 1977!

the society can afford a military establishment priced at $82.5 billion in 1969, an anti-ballistic missile screen with a cost range of $6 billion (Chinese thin) to $40 billion (Russian thick), and over $5 billion a year for exploring outer space, then it can undoubtedly afford the $16.8 billion projected as minimum operating cost for higher education in 1970. Furthermore, perhaps the priorities should be reordered, and then our society would be able to afford the $20 or $25 billion, or however many billions a first class higher education really does cost. The question to be put to Americans is not, unfortunately, "can we afford this?" nor "should we afford it?" but rather "will we afford it?" And if the answer is "no, not by present financing," then those committed to universal higher education must not sink into the inaction of despair; they must cast about for feasible and more equitable ways to finance higher education.

A PROPOSAL FOR FINANCING HIGHER EDUCATION

Considered in this paper is a proposal whereby the federal government might establish a revolving loan fund to provide for the operational cost of public or private higher education for any and all citizens. The loan would be paid back over the years by the beneficiaries through a surtax when their income reaches a level of reasonable affluence.

The Scenario

For the academic year 1970-71, the total operating cost for all accredited institutions of higher education can be upgraded from the estimated $16.8 billion to the more realistic figure of $18 billion. At the same time, however, homeowners are claiming to be staggering under the tax burden of supporting the elementary and secondary schools, and they might openly rebel against the property tax that
provides 60 to 70% of the operational costs of the tuition-free junior colleges (8). The legislatures, hoping to punish "those radical activists" at several state colleges and universities, are likely to be niggardly in their appropriations of state revenues to higher education. The blacks, browns, and others who are counting on the revolution of rising expectations, find themselves dealt out just as they are demanding to be dealt in. Only the upper class can afford the rising tuition at the private liberal arts colleges and the ivy league universities. Supposing that now, into this crises, steps the 91st Congress which sets up a plan that hews to most of the virtues of free enterprise while at the same time affords opportunity for quality higher education to all on the basis of "learn now, pay later."

An independent agency, the Higher Education Finance Corporation, can be established and initially funded with $18 billion.* The Corporation is authorized to extend loans to any citizen--who is qualified--for the purpose of obtaining an education at the public or private college of his choice. Each college is required to make a cost analysis of operating expenses and to legally certify these costs to its accrediting association. Loans are then made in the amount of the (average) per-student operating cost of the colleges that the students are attending, plus the standard student fees and the cost of books and supplies. The loan contract is part of the admission process, and the money for the quarter or semester is paid directly to the college upon certification that the student did in fact enroll and attended at least the first three weeks of the term. The same procedure is repeated each term, with, of course, the necessary paperwork of loan contract and enrollment certification going to Washington and the check for average per-student operating cost going to the college.

*Eighteen billion dollars is only 2.1% of the present GNP of $850 billion. The Carnegie Commission on Higher Education advises that 3% of GNP be spent on higher education by 1975.
A Workable Arrangement

No collateral or co-signers would be needed, for at the time of the loan the applicant would take out the Corporation's term insurance sufficient to cover the amount loaned, the Corporation being the beneficiary of the policy in case of the applicant's death. The student would be allowed to continue to borrow the operational costs for each term at whatever college he chose as long as his satisfactory academic progress was certified. If the student dropped out after the third week, the college would still get the tuition and the student would still owe the amount borrowed for the entire term. A freshman beginning in 1970 would probably still be borrowing as he completed an A.A. in 1972, an A.B. in 1974, and perhaps even a Ph.D in 1978. Any student who chose to pay his own costs would certainly be allowed to do so, but the student who wanted to be independent of his rich parents would be just as eligible to borrow as the student without a nickel's worth of assets.

The first year's funding may take $18 billion, although increased numbers and improved quality would up the ante a billion a year, and the dribble of repayment that might begin by 1975 would not reach flood proportions until 1980. The picture can look very bad, in view of the fact that the federal government could fund the Corporation with as much as $225 billion in the decade it would require to make the fund self-revolving. In that decade the GNP would have climbed past the $1,500 billion watermark (7) though, and perhaps the scheme is thus analogous to a family with $1,500 a year income borrowing between $18 and $27 a year—or $225 over a period of ten years—to set up a family kitty that would provide quality education for the children, grandchildren, great grandchildren, ad infinitum. Actually, the debt is not that awesome. In the second decade, much more money would be paid back each year than would be paid out. By Orwell's dire 1984,
approximately 75 million beneficiaries would have paid or be paying what they owe on their loans. Projecting a half-million increase in college enrollment each year, the 1984 potential borrowers would be 14 million, or twice the figure for the 1968-69 school year.

Unlike many foreign and domestic loans made by the federal government, this one would actually be paid back. At the same time, the better educated citizenry would make themselves and the whole country richer than ever. The hooker, of course, is the fact that for the first five to ten years the federal government would have to supply $18, $19, $20, $21, $22 billion per year before incoming money would even begin to equal outgoing money. In the long run, however, the money borrowed would be repaid and thus the federal government would simply be priming the pump to make money for higher education flow in proportion to the need, in an automatic fashion, and in perpetuity.

Filling in Some of the Details

The rather astronomical figures that have been bandied about do not represent federal grants-in-aid. Instead they represent loans, and the people benefitting from the loans financially are the ones who will have to repay them. Until and during the period of repayment, the loan would be guaranteed by the Corporation's term insurance policy, which for the duration of the loan would name the Corporation as beneficiary. The premiums on this insurance could follow National Service Life Insurance rates (33) and could be collected by that peerless collection agency, the Internal Revenue Office. It would be a destitute student indeed who would have trouble paying the annual premiums, although if there are such, private money from foundations, from scholarships, or from other funds raised under college auspices could be used for payment of the insurance premiums.
### Amount of Loan

<table>
<thead>
<tr>
<th>Age</th>
<th>Amount at $1,000 per year</th>
<th>Annual Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>$1,000</td>
<td>$14.21</td>
</tr>
<tr>
<td>20</td>
<td>2,000</td>
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</tr>
<tr>
<td>22</td>
<td>4,000</td>
<td>60.60</td>
</tr>
<tr>
<td>23</td>
<td>5,000</td>
<td>77.55</td>
</tr>
<tr>
<td>24</td>
<td>6,000</td>
<td>95.16</td>
</tr>
</tbody>
</table>

By the end of his sixth year, a student could have earned a master's degree and could possibly be affluent enough soon to start repaying the loan. But we can indicate a hypothetical case, a student attending a high-cost university ($2,000 per year) for his undergraduate years and then going to a $3,000-a-year dental college for four years. Obviously the premium costs would increase but still they are not too formidable:

### Amount of Loan

<table>
<thead>
<tr>
<th>Age</th>
<th>Amount at $2,000 per year</th>
<th>Annual Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>$2,000</td>
<td>$28.42</td>
</tr>
<tr>
<td>20</td>
<td>4,000</td>
<td>58.24</td>
</tr>
<tr>
<td>21</td>
<td>6,000</td>
<td>88.80</td>
</tr>
<tr>
<td>22</td>
<td>8,000</td>
<td>121.20</td>
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</table>

### Amount of Loan

<table>
<thead>
<tr>
<th>Age</th>
<th>Loan increased to $3,000 per year</th>
<th>Annual Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>$11,000</td>
<td>$170.61</td>
</tr>
<tr>
<td>24</td>
<td>14,000</td>
<td>221.94</td>
</tr>
<tr>
<td>25</td>
<td>17,000</td>
<td>275.74</td>
</tr>
<tr>
<td>26</td>
<td>20,000</td>
<td>333.80</td>
</tr>
</tbody>
</table>

Not a cent of the money would be lost unless the student died or failed throughout his whole life to repay his loan. As the loan is repaid, the borrower would gain dollar-for-dollar equity in a mandatory term insurance policy. By the time the loan is fully amortized, the student in the first example would be paid up to date on a $6,000 policy and the student who finished dental college would be current on a $20,000 policy.
If the Higher Education Finance Corporation were to be funded from actual federal revenue—instead of federal borrowing—it would not seem necessary to charge interest on these loans. Once the Corporation's fund became self-revolving there would be even less reason to charge interest; but of course it would hardly be fair to charge interest during the first decade and then let all subsequent borrowers off interest-free. Anticipating the cost of staffing and operation one Corporation to be a great deal less expensive than the operation of 40 federal agencies that are now in existence to dole out the $3.5 billion federal contributions to higher education (13,18), we could have further justification for a no-interest plan. Moreover, a service agency of our society should be paid for by the whole society—i.e., members of the Federal Reserve Board or the Security and Exchange Commission or the National Service Life insurance Board do not derive their salaries from the profits of their agencies. By the same token, since the whole society benefits from the education of its young people, there should be no interest on the loans that make the education possible.

Repayment of the Loans

As noted briefly before, the loan would be repaid by a surtax that is automatically added to the borrower's federal income tax when his net income reaches a level of reasonable affluence. In addition, this proposal calls for an equal-share contribution from the borrower's employer, as will be explained later.

The borrower would not have to pay back the loan until he could afford to, which is the reason for the surtax being added after his net income reaches a certain level. The rare borrower who never reached this level would never personally repay his loan; he would simply have the Corporation's insurance premium tacked on to his income tax each year and when he died, the insurance money would
pay off his loan.

The amount of the loans would, of course, depend on the nature (the operational costs) of the college and the number of years of college attended. If, for present purposes, all differences are averaged out and the total 1967 operational cost of $13.2 billion is divided by the 1967 full-and part-time enrollment of 6,898,977, the annual operational cost of higher education turns out to be $1,928 per student. Actually, in 1967, the operational cost for a student in a California junior college ranged around $800; in a California state college about $1,600; and in a California state university nearly $2,000. These examples indicate that lower-division education is cheaper than upper-division education and is much cheaper than small-class, research-oriented graduate school. Nevertheless, in describing how the loan would be repaid, the figure of $1,928 can be used as an average, and the assumption made that the student will complete his B.A. or B.S. degree. His loan from the Corporation would therefore total $7,712--for four years.

During 1967, the median gross income per family in the United States was in the neighborhood of $7,800 a year (3). As this figure is short of "reasonable affluence," we can set the annual net income at $8,500 as the figure that triggers the Internal Revenue Office computer to start adding a surtax earmarked for loan repayment. Employers would also be notified that surtax payroll deductions are to begin, since they will be contributing one-half of the loan repayment charge as long as the debtor is in his employ, or until the loan is amortized.

An actuarial table can show that the loan of $7,712 could be repaid in ten years without severe hardship for either the debtor or his employer.
<table>
<thead>
<tr>
<th>Years</th>
<th>Percentage</th>
<th>Estimated Net Income</th>
<th>Annual Payment</th>
<th>Employee's Monthly Deduction</th>
<th>Employer's Monthly Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>$8,500</td>
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<td>$17.71</td>
</tr>
<tr>
<td>2</td>
<td>5.5</td>
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<td>495</td>
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<tr>
<td>3</td>
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<tr>
<td>5</td>
<td>7</td>
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<td>735</td>
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<tr>
<td>6</td>
<td>7.5</td>
<td>11,000</td>
<td>825</td>
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<td>12,000</td>
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<td>10</td>
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<td>13,000</td>
<td>1,105</td>
<td>46.04</td>
<td>46.04</td>
</tr>
</tbody>
</table>

The engineer, lawyer, or business administrator who earns $16,500 a year on his first job and wants to pay off his whole debt ($7,712) in one year could still live fairly well on the remaining $8,788. The employer would not necessarily agree to pay off his half of the debt in one year though and could take the standard ten years. Medical doctors with a mean income of $25,000 (1966), dentists with $21,000, lawyers with $27,000, who may have borrowed as much as $20,000, could probably repay an average of $2,000 a year for ten years (31). The self-employed recipients of Corporation loans would be obliged to pay the entire debt.

Naturally college graduates find that their expenditures expand to fit (or exceed) their incomes in a budgetary equivalent of Parkinson's Law, and therefore repayment of the loans will not be painless; but their earning power is greater as a result of the college degree. In 1966, the median income of family heads with four or more years of college was $11,697--$3,480 more than the income of family heads with only a high school education (29). Based on 1965-1966 figures, family breadwinners with five or more years of college had mean lifetime incomes of $587,000, which was $246,000 more than the $341,000 mean income of high school graduates (14). The monetary benefit of higher education is by no means the only, or even the most important, benefit, but it is the most tangible: the average college graduate in his 35-year worklife can gain an extra $246,000 from an investment that, during his tenure in college, would have been a lot less than $7,000.
This approximates a 3,500 per cent lifetime return on an out-of-pocket investment.

PROBLEMS THAT MIGHT BE ENCOUNTERED

This proposal is not intended to make higher education into a federal government enterprise, which not only would be unconstitutional but would deserve the universal censure it would probably get. The role of the federal government would be to establish and initially fund the Higher Education Finance Corporation, and that would be the extent of its involvement. To be sure, the United States Office of Education probably would be the logical agency for keeping records on normative costs and a host of other valuable statistics, and would still perform its numerous valuable coordination and leadership functions. The Corporation, then, would be a fiscal rather than a regulatory agency, the point being that federal funding of the Corporation's revolving loan, if properly legislated, could mean much less federal control and bureaucratic harassment than at present.

Eighteen billion dollars would be, nevertheless, a gargantuan temptation of avarice. Neither the corporate institutions of higher education nor the people in them are entirely free of this deadly sin. What is to keep the colleges from padding their figures in order to gain more of the federal monies?

One way would be to strengthen the college accrediting associations and give them the job of stamping approval on institutions that are to receive money from the Corporation's revolving fund. Clear definition of "current operating costs" would have to be spelled out in the basic law governing the administration of these loans. The science of cost accountant would be used by the accrediting associations to establish exact operational cost figures for colleges of various quality; for upper, lower, and graduate divisions within any one school; and even for various academic majors, if that fine a breakdown were desired. The college would have to
justify to the accreditation association team any significant escalation of operational costs. An important force for honesty would be the dynamics of the marketplace. That is, a college with excessive operational costs would price itself out of the market—and students would not borrow money to pay Harvard prices for attending Old Siwash. Equally important, many students would not pay, for instance $2,000 a year for lower-division education at a state university if they could get as good an education for $900 a year at an attractive junior college in their community. In other words, if higher education is going to be universal it must also be plural and diverse; differential pricing will reflect this pluralism and diversity. Moreover, if equal opportunity is to be provided for all students—in poor and wealthy areas of the country alike—then operational costs will have to be equalized, at least somewhat, and the role of the accrediting associations might then be to encourage poor colleges not only to spend more money on education but also to charge more for it.

Qualifying the Terms of this Proposal

There is a question as to whether or not developmental and/or remedial education would be admissible under the loan provisions of this plan. If no provision is made, those who have been damaged by years of shoddy education would be blocked from ever repairing the damage. Since the society at large is responsible for the good, bad, or indifferent education of its children, then certainly the society should pay for the development of basic skills, even remedial education if this is necessary. It is therefore suggested that courses being taught in junior as well as four year colleges that are clearly sub-collegiate and whose basic aim is remedial should be paid for with state funds. Cost analysis could determine the bill that the college should send to the state for this educational "therapy," and it might mean that a Chicano, a black student, or a disadvantaged white student could
go for a semester or so to a junior college without incurring any debt at all. By the same reasoning, it could mean that students would not elect courses for which they are not prepared; i.e., they would not become indebted until they can handle the more advanced work.

A further qualification might clarify the present proposal. This scheme is not a federal "give-away" program, nor is it a system of annual federal aid to education. Our concern for the student is, in fact, secondary, since universal and a higher quality of education presupposes more and better institutions of learning; and this is a vain presupposition unless these institutions have a stabilized source and a heavier flow of money. The plan proposes a bold use of the enormous lending power of the federal government not only to keep U. S. higher education from going bankrupt, but also to give it a solvency in future expansion and improvement.

Whether public or private, most U.S. colleges are in such desperate financial straits that by the year 2000 they will be almost totally dependent on the federal government for support. So...argued Alan Pifer, President of New York's Carnegie Corporation in a frank and chilling analysis of the nation's future.... Although educators may regret it, Pifer concluded, the trend toward federal funding is irreversible (16).

Colleges and universities are in deep trouble financially. In 1969, the State College System in California was forced to curtail freshman enrollment as well as acceptance of bona fide transfer students from the state's junior colleges. The student militancy and demands for immediate Black Studies programs may, indeed, be a painful exercise in futility, because, in the first place, college officials have no money in the budget to institute these programs, and, in the second place, it becomes necessary to pander to racial prejudices in order to get the state legislature to appropriate even minimal operating funds for the schools.
On a key bond issue in the November 1968 election, California voters turned down a $250 million transfusion to the higher education system by a "no" vote of 55%. A taxpayers' revolt has been building in fury, and the public colleges, elementary, and high schools are the most vulnerable Bastille to attack.

In the State of California during the school year 1966-67, 200 school districts held 240 tax elections, of which 128 (53.3 per cent) passed and 112 (46.7 per cent) failed. Likewise, during the school year 1966-67, 169 school districts held 207 bond elections, of which 85 (41.1 per cent) passed and 122 (58.9 per cent) failed (8). [An election to increase the school tax rate takes only a majority vote, whereas a bond election requires a 66 2/3 per cent "yes" vote.]

And California is not the only battlefield:

Yes, there was a revolt in the November 5 election, and you may not have heard about it. Local communities all around the nation tossed overboard plans for improvement. It was like the Boston Tea Party. Over the side went bond issues for schools, sewers, mass transit, pollution controls, new jails. The projects were often desperately needed but that didn't matter. Overboard they went as voters rejected bond issues to implement them (27).

These financial troubles were occurring when the total operational costs of higher education stood at $13.2 billion. How is the $16.8 billion requirement for 1970 going to be met? If the taxpayers rebel at the $13.2 billion price tag for higher education covering about 7 million students in the late 1960's, what will happen by 1984 when there will be 14 million college students to educate?

Some Specific Objections

A plan such as this will not want for critics. For instance, economists may object that the federal government cannot raise the more than $18 billion kitty for the original loan fund; and, even if the money could be raised, it would disrupt the economy by inflation and/or flooding of the bond market.

Doctrinaire liberals may indicate that, since the whole society benefits from higher education, the whole society--not the students--should be paying the cost.
Students in public institutions may object that this will end "free" higher education and force them to mortgage their futures to pay their tuition.

College administrators may be tempted by the prospects of a more stable and higher income, but they may suspect that federal money will bring federal control.

State and local taxpayers may be anticipating some tax cuts, but when taxes that had been channeled into higher education are not being returned to them because the money is needed for elementary and secondary schools, rapid transit, urban renewal, anti-pollution, and other social programs, they may object strenuously.

Be this as it may, some type of federal funding of higher education will be inevitable; as J. P. McMurray, President of Queens College, has said, "Most economists and educators, I among them, long have held that the federal government, with its greater fiscal capacity, should assume much more responsibility than it now does for higher education" (20). The federal government could afford to invest more in higher education while the local governments cannot afford any more investment, and

Our gross national product has been rising at a rate of about 5% per year. But local government expenditures are rising at a rate of about 7%. From 1952 to 1966, federal expenditure fell from 20.5% of gross national product to 18.1%, while state and local expenditures rose from 6.5 to 9.2% of gross national product (20).

The $18 billion projected as the opening ante in the Corporation's revolving fund represents slightly over 2% of the present $850 billion GNP. If the magic wand of a Congressional act were to institute this plan tomorrow, the effect would be to raise federal expenditure up to 20% of GNP, and to lower state and local expenditure from 9.2% to 6.5% of GNP. Actually, the national economy, in one way or another, is going to have to afford to spend 2% (and more) of its product on research and development in order for the GNP to rise from $850 billion to the
$1.5 trillion projected for 1977 (7). The federal government is paying 70% of the $25 billion annual bill for research and development now; and 2% of the $1.5 trillion GNP predicted by 1977 comes to $30 billion. Thus, we could foresee 2% of the GNP being used to fund the Corporation, which would then be nearly self-revolving. As a matter of fact though, Clark Kerr, speaking for the Carnegie Commission on Higher Education, has recommended that 3% of GNP be spent on higher education by 1975, but this would include capital outlay as well as operational costs (13).

Where would the $18 billion to fund the Corporation come from? What effect would this have on inflation and on interest rates of bonds?

The federal government is already contributing $3.5 billion a year to higher education. If the present $4.7 billion contribution of state and district governments were completely channeled to needed capital outlay, the federal government would be obliged to raise $14.5 billion to bring the figure to $18 billion. This could be done by re-allocation of present expenditures, by increasing taxes, or by borrowing. To borrow this huge sum would not only upset the bond market but would, inevitably, argue for imposing an interest charge on the loans made to students. Nor does borrowing appear to be necessary. Holding the present level of income tax constant while other federal expenditures are reduced should provide the needed billions without borrowing or increasing taxes. A neat trick, but can it be done?

Funds might become available as the United States gradually pulls out of Vietnam.

Carl Kaysen, who was national security adviser McGeorge Bundy's deputy in the Kennedy White House, argues the case for a sharp reduction in the U.S. military budget, from its present level of $82.5 billion down to roughly $50 billion during the 1970's (22).
After a cease-fire in Vietnam, as former Budget Director Charles Schultze predicts, there could be a surplus of $21 billion in 1971 and $24 billion in 1974. Schultze suggests possible use of the Social Security surplus—which grows by $4 billion a year—to help finance pressing domestic programs (22).

Possible Spin-Offs

Several significant changes could occur in the whole college scene if students began pretty much paying their own way through loans as proposed here. Mainly, if the students are paying for the education, they will expect to have more of a say in college policies. A college with an outmoded or irrelevant curriculum may find its students making an exodus to a college with something better to offer; and students who might tolerate an arrogant, inadequate, punitive, or incompetent instructor when others were paying that individual's salary might not be the least bit tolerant when their money is paying his way. This is not to say that the students will have any kind of final power, but ultimately they are going to have more power than at present, and a more direct say in matters that affect them directly. To keep things in proper perspective and balance, it is being suggested in this proposal to strengthen accreditation associations and use them as a type of "watchdog," to prevent unfair practices on the part of any one group—students, college staff and administrators, teachers, etc. The colleges and universities must adhere to certain standards or else accreditation will be withdrawn, and, as a result, money from the federal government will not be received.

Another change that could occur is in the composition of the boards of regents or boards of trustees. A reorganization of the system of financing higher education could require a comparable reorganization of the policy-making and governing boards of these institutions. Even at the present time it is
becoming more and more difficult to justify boards whose membership is 75 to 100 percent businessmen. Perhaps the students will insist on having one or two students on the board; the faculty may insist on being represented, as well as the alumni; and other relevant groups should have a voice.

A further shift in the power dynamics could be anticipated if students were responsible for the cost of their own higher education: the state and local politicians would no longer be able to speak so self-righteously about "the privilege of an education," and "students should show more gratitude," and so on. If there is good reason to have Eldridge Cleaver or Angela Davis on the campus, speaking out about matters that each is qualified to discuss and at least some students are eager to hear, then the governor, other politicians, businessmen, etc., would not be able to say "no" to this, since the major part of the money to support higher education no longer would be coming from their pockets.

For many years it has been said that if only students were paying for their education, their motivation to learn would shoot up like a skyrocket. And it may be that, even when the payment is delayed, a student's knowing that he is going to pay, will be motivation enough to ensure getting his money's worth. Furthermore, the students will be more likely to insist that the education be relevant; and if it is relevant to them, the motivation becomes intrinsic—significance inheres in the substance being taught. For a poverty or disadvantaged student, the chance to obtain a good or excellent higher education that he can eventually pay for himself out of his increased earning power, will perhaps be sufficient motivation for doing well in school and making the most of this chance.

A plan such as the one outlined in this paper might have far-reaching consequences that cannot even be anticipated at the present time. Only a few of the
difficulties and problems that are likely to be encountered were touched on here, and only a few of the benefits could be mentioned. However, something drastic has to be done about higher education as we move into the 1970's. A possible method of financing the educational program has been proposed, and, it is hoped, this will stimulate others to give serious consideration to the relationship between financial methods or programs and the quality that we want in our higher educational institutions.
REFERENCES


