

M. M. Chambers
Education Building, Indiana University
Bloomington, Indiana
47401

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(First of two numbers this month)

GRAPEVINE

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A newsletter on state tax legislation; state appropriations for universities, colleges, and junior colleges; legislation affecting education at any level. There is no charge for GRAPEVINE, but recipients are asked to send timely newsnotes regarding pertinent events in their respective states.

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Statement of ownership and circulation of GRAPEVINE is on Page 706 (reverse hereof).

CALIFORNIA. Allocations of appropriated funds by the Board of Trustees of State Colleges, to the California state colleges for fiscal year 1967-68, appear in Table 85, which supplements and extends Table 54, GRAPEVINE page 671, as already augmented in Table 80, page 697.

Table 85. Allocations of state-appropriated tax funds by the Board of Trustees of State Colleges for fiscal year 1967-68, in thousands of dollars.

Institutions (1)	Sums allocated (2)
State colleges --	
San Jose	21,396
Los Angeles	19,519
San Diego	18,766
Long Beach	18,391
San Francisco	17,932
San Fernando Valley	13,737
Fresno	11,766
Cal Poly (San Luis Obispo)	11,576
Sacramento	11,078
Chico	9,115
Cal Poly (Kellogg-Voorhees)	8,463
Fullerton	8,433
Hayward	7,908
Humboldt	6,100
Sonoma	3,011
San Bernardino	2,515
Stanislaus	2,151
Dominguez Hills	1,759
Kern County	357
Chancellor's office	3,020
Total*	196,993

(Continued in next column)

CALIFORNIA (Continued from preceding column)

Footnote to Table 85:

* The discrepancy of \$15 thousand between this figure and the total reported in Table 54 is well within GRAPEVINE's range of tolerance.

MASSACHUSETTS. A tax change necessitated by full state support of public welfare services, and therefore perhaps of only ancillary concern to readers of GRAPEVINE was signed by Governor John A. Volpe December 20, 1967.

July 1, 1968 the Commonwealth will take over full control and support of all welfare programs for the 351 cities and towns of Massachusetts. This will cost the state \$82 million a year. The new tax measure will produce \$94 million chiefly by raising state income taxes. The rate for individuals goes up from 3.075 per cent to 4 per cent; for corporations, from 6 3/4 per cent to 7 1/2 per cent. Also the deduction of 100 per cent of federal tax payments from taxable incomes is reduced to 50 per cent.

The changes were enacted by a Democratic legislature as urged by a Republican governor, and thus have an air of nonpartizan consensus.

Massachusetts has a statewide general sales tax. This, together with the income tax on individuals and corporations, gives it the minimal core of a good modern state revenue system.

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Address communications to M. M. Chambers, Education Building, Indiana University, Bloomington, Indiana 47401.

M. M. Chambers, Education Building, Indiana University, Bloomington

THE EROSION OF THE PRINCIPLE OF FREE EDUCATION^{1/}

Our forefathers' concept was that education should be free--free all the way through the university level. The Articles of Compact of the Northwest Ordinance first stated the high importance of education for the Territory's inhabitants. Then, the authors of the Indiana State Constitution of 1816 developed this statement of principle by incorporating provisions for the free pursuit of education. Article IX, Section 2, reads: "It shall be the duty of the general assembly, as soon as circumstances will permit, to provide by law, for a general system of education, ascending in a regular gradation from township schools to a state university, wherein tuition shall be gratis, and equally open to all."

This mandate was solemnly written by our pioneer forefathers a century and a half ago, yet some people today, ignorant of the State's and the Nation's historical traditions, appear to believe that free education is a great socialistic scheme, a pernicious product of some foreign ideology. In actuality, this great American principle, which led, in Indiana, to the establishment of Indiana and (later) Purdue Universities, and also to the founding of public colleges and universities in many of our states, is being diluted not by alien infiltration but, sadly, by native neglect. It was in the period from the end of the Civil War forward to World War II that the concept of the publicly supported institution, open to all with sufficient preparation and ambition to profit from it, really came into its own in America. And concurrently, large numbers of additional private colleges were founded while some of the older ones began to achieve worldwide prestige.

The important thing, gentlemen, is that it was no coincidence that as

America's institutions achieved an increasing degree of academic excellence and wider availability, the Nation as a whole was enabled to change from a primarily rural, isolated, underdeveloped Nation to the greatest Nation on earth--a Nation strong not only in her original political concepts, but economically strong, highly productive, with social mobility and with military power to back up and preserve her and her concepts of freedom from the threats of fascism and communism.

In study after study, it has been shown that the greatest single factor in the growth of the Gross National Product in this century has been education, not capital, not the size of the labor force. The productivity of the work force, all the way through top management, has reflected the mounting economic effect of education. As I pointed out in a speech for the International Management Congress in 1963: "One of the increasingly visible phenomena of the post-war world is the emergence of the modern university as a central factor in almost all advances in this society, and not least in the field of economic growth. This is because universities not only have become our primary sources of highly trained intelligence but also are contributing so greatly to the explosive pace of the discovery of new knowledge." I mentioned there too, by the way, a fact that some of us are prone to forget--that the University is concerned above all with the high development of the human intellect, by far the most important resource on this planet.

Curiously enough, the percent of GNP spent on higher education during this time grew scarcely at all, despite the fact that it was basically responsible for the GNP growth. In fact, we have failed to reinvest enough to keep opportunity as open as it had been.

(Continued on page 708)

^{1/} Excerpts from an address of President Elvis J. Stahr of Indiana University to the St. Thomas More Society, Indianapolis, April 29, 1965.

FREE EDUCATION --

(Continued from page 707)

Concomitantly, an erosion of the principle of education-for-all began. Public institutions began to charge fees, increasingly, to make up the difference. Private institutions began to raise their tuition markedly. How ironic that even though far fewer real sacrifices are required of us today, the willingness to sacrifice at all has lessened so much!

A curious theory, or rationalization, has arisen that it is the student alone who benefits from higher education and therefore he alone should pay for it. The theory in part grew out of the observation that over the lifetime of a student, he is likely to have much higher earnings than if he hadn't attended college. This is of course so, and applied to high school as well. But it is a strange warping of logic to reason that since the student will in time benefit, he must be charged for future benefits while he is still a student and no one else should be charged at all, even though everybody else benefits too! This pattern of thinking overlooks two basic considerations: 1) the principle, recognized by our forefathers, that society does indeed benefit from an educated citizenry, indeed cannot survive without it, and therefore in equity should bear at least part of the burden; and 2) the fact that graduates become members of society and quickly begin to repay the cost of their education in taxes and other ways during their many productive years. Their education is far from a free ride at society's expense; for they with their higher earnings are keeping the investment in education constantly renewed. The basic principle, as our pioneer ancestors perceived, is the same as for, say, elementary schools; society, not the pupil, pays for them; but the principle has now been badly bent after the 12th grade!

But really, you may ask, what of the citizen without a college education? Why

should he pay for others to be educated? The answer, obviously, is that he too benefits from those who have had the advantage of college. What kind of society would it be for non-college graduates if there were no lawyers, no doctors, no engineers, no well-educated people at all? I might draw an analogy from the Congo. The Congo obviously has abundant manpower and almost limitless natural resources, but there is a critical lack of education among the Congolese. As a result, they have little indeed in their way of life that we would want for ourselves or our children. The developing countries, striving to move forward, haven't a chance of succeeding without more and better education. The point is, neither have we. Yes, education requires an investment, as I've often told our Legislature, but it is an investment and not an expenditure, and it should always be regarded that way. The cost of not making it would soon be far too expensive to be supportable.

When we escalate the cost to the student, on the other hand, we are escalating far more--the ultimate cost to society. For if we raise economic barriers that only the exceptional young man and very few young women indeed can hurdle, we are in effect decreeing that they shall be less productive than they could have been. May I remind you that the cost of an unemployable to society is far greater than the relatively small investment required of society for his education. No one proposes college education for everyone; but I submit that the vital thing is to include and exclude not on the basis of ability to pay, but of ability to learn.

This is my public issue number one tonight--and it is a real one as well as a philosophical one, a practical one, a live one, and one that should be discussed when the Legislature is not in session, rather than just biennially. For the people really decide, and you are leaders among the people.

M. M. Chambers, Education Building, Indiana University, Bloomington

NEW YORK. In December 1967, looking toward a program for the 1968 legislature, three interesting events, all redounding to the credit of the Empire State and its latter-day leaders, were publicized.

*(1) The veteran Governor Nelson A. Rockefeller had the good sense, candor and courage to let it be known in advance that substantial upward revision of state taxes would be necessary, though he was not yet ready to propose a detailed plan for additional revenues.

*(2) Arthur Levitt, State Comptroller for 13 years, and not of the same political party as the governor, agreed in general and went further into specifics in a thoughtfully prepared statement released December 17.

He recommended a 20 per cent surcharge on the state income tax, plus increases in taxes on business, liquor, and gasoline. He would also eliminate the deduction for life insurance premiums on the income tax.

Mr. Levitt mailed his statement to all members of the legislature, and said he was only offering "guidance" and not making specific recommendations; but his preferences were quite clear and generally supported by good reasoning.

He is against an "across-the-board" flat-rate increase in all income-tax rates, and against the elimination of the tax-credit now allowed all taxpayers (\$10 for individuals and \$25 for families) because both these measures would place a heavier burden proportionately on the poor.

He is also opposed to any increase in the statewide 2 per cent retail sales tax, because it is regressive, taking a larger portion of the poor man's income than the rich man's. (He is apparently not satisfied that this characteristic of the sales tax is sufficiently counterbalanced by the progressively graduated income tax.) He also pointed out that New York City and some other municipalities have local 3 per cent sales taxes, and that there is a statutory limitation of over-all sales

taxes which sets the ceiling at 5 per cent. Therefore the legislature would have to enact a repeal or an escalation of the ceiling before it could adopt a sales tax increase, he thought.

He would raise the corporation franchise tax rate, which has been 5½ per cent since 1949, to 6½ per cent, to produce \$75 million a year. He would similarly adjust the bank tax and the unincorporated business tax to yield another \$45 million.

Raising the gasoline tax to 7 cents a gallon from the present 6 cents would bring in \$50 million, and increasing the taxes on alcoholic beverages by about 25 per cent would add \$18 million, he reported.

His proposed 20 per cent surtax would raise \$380 million, and dropping the insurance premium deduction would produce \$25 to \$30 million. All together, his recommended measures would produce about \$600 million of added revenue, which is close to what the governor has intimated will be needed. This, it is estimated, would bring the state's total budget for 1968-69 up to about \$5½ billion.

*(3) The august Board of Regents of the University of the State of New York and State Board of Education recommended on December 20 a boost of \$385 million in the budget of the State Education Department, which would escalate the appropriation for that purpose to a little over \$2 billion. This would provide for raising the ceiling on regular state aid to local public school districts from the present \$660 per pupil, to \$800 per pupil.

And (marvel of marvels!) the Regents repeated last summer's recommendation that the historic and fiercely competitive Regents' Scholarships be phased out, to be supplanted by the more recent "scholar incentive program" which is expected eventually to provide financial aid to all "college-capable students, according to their financial need, the full costs of graduate or undergraduate study at the colleges of their choice in New York State, including tuition and maintenance."

OREGON. The recent special session of the legislature proposed an amendment to that section of the state constitution which authorizes state bond issues for higher educational buildings.

The amendment will go on the ballot at the primary election May 28, 1968, under the following caption:

"Proposes amendment to Article XI-G, Oregon Constitution. Establishes new bonding limitation for higher education and community college educational and general purpose building programs at amounts equal to three-fourths of one per cent of true cash value of taxable property in state. Restricts bond issues in any biennium to amount of matching legislative appropriation. Authorizes financing of higher education building programs from combined sources. Prohibits using Article XI-G bonds proceeds for wholly self-liquidating and self-sustaining programs."

It is estimated that this measure, if adopted, would enable a total of about \$80 million in bonds to be issued during the year after the year of its adoption. Before adjourning, the legislature authorized projects aggregating \$9,350,000 at Oregon State University, Portland State College, and the University of Oregon to be financed under the amendment, if it is adopted.

These events are of interest as indicating activity in the area of general obligation state bonds for academic buildings--the best way of financing when borrowing is necessary, but severely limited in some states by archaic restrictions on total state debts.

Having failed to enact a much-needed 3 per cent general sales tax, the special session also cut back the appropriations previously made for biennium 1967-69 by the earlier regular session. Details of this later.

Oregon is one of the corporal's guard of six states that have not yet enacted a general retail sales tax.

PENNSYLVANIA. The legislature, having previously enacted increases in the state income tax on corporations and raised the cigarette tax to 13 cents per pack (GRAPEVINE, page 698), during December 1967 also enacted virtually all the other numerous tax measures recommended by Governor Raymond P. Shafer.

Not content with this, in the middle week of December legislative leaders suddenly proposed raising the 5 per cent general sales tax to 6 per cent, and this was enacted to be effective for an 18-month period ending June 30, 1969. It is estimated to bring in \$66 million during the six months preceding June 30, 1968, and at least twice that amount during fiscal year 1968-69.

Pennsylvania is thus the first state to have a general sales tax as high as 6 per cent. Washington State now has it at 5 per cent; Maine at $4\frac{1}{2}$ per cent; and 41 other states range downward to as low as 2 per cent

Among the various revenue measures enacted in December were:

(1) Capital stock and franchise tax. Increased to 6 mills from 5 mills, retroactive to January 1, 1967.

(2) Gross receipts tax on utilities. Raised to 20 mills from 14 mills, retroactive to July 1, 1967.

(3) Inheritance tax on direct heirs. To 6 per cent from the former 2 per cent.

(4) Sales tax exemption on restaurant foods. Reduced to 10 cents from the former 50 cents. Will produce an added $\$8\frac{1}{2}$ million a year.

(5) Annual tax on bank and trust company shares. Raised to 10 mills from the former 8.

(6) Tax on shares of mutual thrift institutions. Raised to $7\frac{1}{2}$ per cent from former 6.

(7) Excise tax on liquor at state stores. Raised to 18 per cent from the former 15.