Shanker

4le

CONFERENCE ON INFLATION

HEALTH, EDUCATION, INCOME SECURITY AND SOCIAL SERVICES

Statement of Albert Shanker, President
of the American Federation of Teachers, AFL-CIO
September 19-20, 1974

At the outset let it be clear that we disagree with the major premise of this administration: that federal spending is the cause of our current run-away inflationary spiral.

We particularly take issue with the idea that the federal Education Budget should be trimmed as part of the fight against inflation. In point of fact, federal Education spending is far too low. There are many reasons related to fighting inflation for advocacy of increased federal investment in the public education system.

The United States currently provides its citizens with the highest standard of living in the world, a standard of living accredited to "American ingenuity", "know-how", and other rather mysterious and vague-sounding formulations. In fact, these phrases are euphemisms for the success of the American Education System. We have the most productive work force in the world because we have the best educated work force in the world. We celebrate ingenuity when in fact "ingenuity" means that our work force as well as our technology is productive and creative. It is because of our educational and training opportunities which are available nowhere else in the world.

Another trait ascribed to the American work force, and venerated as a method of meeting inflationary pressures, is productivity. We believe that education leads to productivity. The history of American industrial, financial and technological success is interwoven with the rise of free public education. In fact, schooling and the development of skills explain between 30 and 40% of U.S. economic growth since the early 1940's. If we wish to control inflation, this most vital government service, education, obviously is not the one to cut.

Education spending is anti-inflationary and should be increased. The alternative to spending a few billion dollars now is to continue outlays for food stamps ($4 billion), public assistance ($4.6 billion), rehabilitation ($3.1 billion), medicaid ($6.3 billion), and unemployment insurance ($8.3 billion).

The alternatives to and consequences of a static Education program are these:

- Increased unemployment payments (unemployment for those with less than a high school education is 4-5% more than those who finish high school).
- Increased welfare assistance (close to two out of every three adult recipients have had less than a high school education).

CURRENT FEDERAL PROGRAMS: Or what we believe is necessary at a minimum. All of this could be done without enacting new laws.

Elementary and Secondary Education: The Elementary and Secondary Education Act of 1965 represents the federal government's major contributions to education.

Title I - Aid to disadvantaged children. The President's budget request for Title I is $1.885 billion in F.Y. 1975. The labor HEW appropriations subcommittee cut this inadequate figure by $85 million. While this represents an increase of approximately $86 million over F.Y. 1974, it is $10 million <u>less</u> than appropriated in F.Y. 1973; it is entirely inadequate. While we feel that the authorized level of $3,733,480,000 represents the best measure of how much is needed to do the job of educating disadvantaged children, an appropriation of at <u>least</u> $2.1 billion is necessary to keep pace with inflation over the past two years and to allow the new formula to begin operating.

<u>Bilingual Education</u>: The United States takes pride in its development of the "melting pot". While assimilation of immigrants into this society was traumatic and exacted a toll in human suffering, the result was a work force able to learn a language that was not their native tongue. Today the Supreme Court has ruled that extra help has to be given to children whose native langauge is not English. The Federal Bilingual Program which assists in the teaching of English as well as providing education in the native language--must be provided to assist non-English speaking citizens in their attempts to learn English and to find a place in American society. The President has requested $70 million for Bilingual Education. We believe that even full-funding to the maximum authorization of $135,000,000 does not come close to meeting the need. It is only a start. The federal budget for Bilingual Education should be the full amount authorized.

Emergency School Aid: This is still another critical area where major funding is required. In F.Y. 1974, $258,193,000 was appropriated to meet the needs of school districts in the process of desegregation. (Witness the current continuing needs in Denver, Baltimore, Boston and other cities.) Desegregation must lead to Quality Education for all students, for without it, school desegregation can only lead to polarization and destructive tensions. Aside from the obvious ethical necessity, desegregation was ordered by the Courts because segregated education was inferior and impeded minority citizens all their lives.

Education for the Handicapped: It is more prudent fiscally to educate and train handicapped children so they can become self-supporting adults, or we will continue to pay at the welfare line and in the process deny these individuals the dignity and self-respect of being able to support themselves. While this formulation is relevant for all education programs, the clearest example is in this particular one. We should invest $650 million now for Education for the Handicapped or we will certainly spend countless billions later in order to maintain people at a bare subsistence level. We urge the immediate investment of full-funding up to the $650 million authorization.

Adult Education: We urge a $50 million increase over the current budget request. The justification for this is that our society reaps benefits from the increased productivity of adults who re-enter the educational process, learn new skills, upgrade their earning abilities and, thus, pay more taxes. We can spend the money now and reap the benefits of greater earning power, increased productivity and personal betterment or we can spend it later for unemployment compensation, food stamps and welfare.

Impact Aid: This program is criticized more than any other federal program. If we cut impact aid, we accomplish a sharp rise in property taxes in many school districts, a result hardly guaranteed to help citizens in an inflationary period. Many districts are being forced to curtail the school year and to terminate many vital services. Again, the question is not if but when the costs will be paid--and by whom.

Higher Education: In this area, we find investment in education paying one of our highest social dividends. It cost $19 billion to pay for both the WW II and Korean War "G.I. Bills". Former Senator Ralph Yarborough, who served as chairman of the Senate Labor and Public Welfare Committee, estimated that for every 3 dollars spent, 6 dollars were returned in tax revenue. In terms of increased productivity, Senator Yarborough estimated that we received 12 times as much from this program as was spent. Currently there is a dispute over how much we should increase the current "G.I. Bill". A cut in this program would not help the battle against inflation. It would be another step backward.

Basic Opportunities Grants: Another program currently underfunded is the Basic Opportunity Grants. Here, productivity increases can be expected from economically disadvantaged students who receive the benefits of higher education. We also must increase institutional aids so that colleges and universities which only receive one-third of their operating budgets from tuition and fees can continue to offer quality experiences.

There are other ways to control inflation. Interest rates, which are a cost of every item produced, add to the inflationary spiral. Food prices could be dealt with through selective export controls on commodities and other basic raw materials.

We fully realize the costs of such a program in terms of increased federal outlays. We therefore have the obligation to offer the following suggestions as to how these costs can be met.

Balancing the Budget: If it is necessary to balance the budget to control inflation, we believe that it must be done at a much greater level of public investment than the current budget estimate of $300 billion. The method of balancing overlays with receipts should be tax equity.

Tax Reform: Four areas must be considered.

(1) Close the Capital Gains loophole. This loophole classifies income in a preferential system. Income from Capital Gains is taxed at 50% the rate of income earned by work. Not only is this discriminatory, but it costs the Federal treasury as much as $10 billion per year, i.e., almost twice what the Federal government spends on all its Education programs.

(2) Eliminate Tax Subsidies for overseas investment. Under these loopholes United States corporations pay no federal taxes on the earnings of their overseas subsidiaries until the money is brought home (which may be never). Similarly the foreign tax credit which allows corporations to deduct foreign taxes dollar for dollar from their U.S. tax bill must be altered. By comparison, citizen taxpayers may only take state and local taxes as a deduction for their taxable income. Closing this loophole would raise $3 billion each year.

(3) The 7% investment tax credit originally was justified in the Revenue Act of 1971 by claiming that it would cause increased capital investment and therefore improve efficiency and productivity. There is no evidence of any kind to indicate an increase in capital investment. Organized labor warned in 1971 that with a plant capacity surplus no increase in investment could be expected. This gimmick is a windfall along with accelerated depreciation. Closing these two gaps would raise $6 billion per year.

(4) Lastly, one of the more disgraceful tax loopholes is the oil depletion allowance together with excess profits in oil and other industries such as banking, steel and the coal industry. Last year, profits from oil production amounted to $5 billion. These profits are expected to double this year. Under present tax laws, after-tax oil company profits (according to Treasury estimates) are expected to rise from $4 to $9 billion, a windfall of $5 billion realized from the energy crisis. (This amount alone is equal to slightly more than 80% of the F.Y. 1974 Education budget.) Immediate repeal of this depletion allowance would bring in $2.6 billion of the $5 billion windfall profit. In addition, through the various depletion and foreign tax credit loopholes, the largest 19 oil companies managed to reduce their tax liability to something on the order of 6% in 1972. The oil industry situation is so outrageous that we must digress at some length in order to examine some of the sources of this wealth which relate particularly to the budget squeeze in education.

From where are the enormous oil company profits coming? A concrete example, mirrored throughout the rest of the United States, was seen in

New York last winter. "No. 6" heating oil is used to heat most New York City schools. The fuel bill budget for the 1973-74 school year was set at $9.5 million, a price of 13.45¢ per gallon. In 1974, by mid-January, the price skyrocketed to 32.21¢ per gallon, a 145% rise midway through the heating season. This increase forced the New York City Board of Education to revise its heating costs upwards by $2 million to $11.5 million for the school year ending in June. The 1974-75 fuel bill for New York City will be approximately $18 million.

Buffalo, New York found itself in a similar squeeze. Its schools are heated with "No. 2" and "No. 6" oils. In September, 1973, "No. 2" was selling at 18.70¢ per gallon and by January, 1974, it was 31.90¢ per gallon (a 70% increase). "No. 6" heating oil also skyrocketed from 12.15¢ per gallon in September, 1973 to 30.8¢ per gallon (a 148% increase). The original 1973-74 school year heating budget called for an expenditure of $467,000. Due to price rises the current school heating bill is $1,594,000.

The story of gasoline for school buses is the same. A survey of twenty-one school districts by the New York State Department of Education showed that in September, 1973, bulk gasoline was priced at 15.85¢ per gallon, but by January, 1974 the price had risen to 23.81¢ per gallon (an increase of more than 50%).

Lest anyone believe that the oil companies were making any attempt to moderate their demands in hardship situations, the New York experience proved the opposite. Rather, there was a "scramble" to "get out of" contracts negotiated before the shortage and to shift supplies away from wholesale buyers onto the retail market. Additionally, the regulations promulgated by the Federal Energy Agency did little to help the wholesale purchaser. With respect to heating oil, the FEA regulations referred to base period levels and base period suppliers with the base period usually defined as the previous year. Many districts switched to new suppliers for the 1973-74 school year either because their traditional supplier did not submit a bid or because the bid was not the lowest (requests for bids go out each year). A number of contractors who were "new suppliers" claimed that their contracts put them in a confusing situation since they did not supply the districts in the base year; further, they claimed that the contracts violated the regulations. And then they announced that the contracts were cancelled. (These suppliers were further supported by a clause in the regulations which stated that any contractual arrangements violating the regulations is null and void.) The result was that the New York State Attorney General's office was forced to authorize districts to go into the open market and pay the resultant market price which often was the retail price. The same situation held true for gasoline. Most of those contracts negotiated in mid-season were either month-to-month or included escalator clauses. It was a case of charging what the market would bear.

The oil industry, together with steel, coal and banking, provides an example of industries whose product price increases are a significant element in the current inflationary spiral. Yet this same industry, making enormous windfall profits, has a comparatively infinitesimal tax burden, and only the numbers change when we examine the coal, steel and banking industries.

Equity demands that any move toward a balanced budget begin with repeal of the oil depletion and other mineral depletion allowances and imposition of an excess profits tax to insure that the oil industry and other industries earning excess profits pay their fair share.

We have elaborated in some detail in order to illustrate in depth some of the more glaring tax loopholes which, if "plugged", could raise upwards of $25 billion a year for the Federal treasury.

There are additional loopholes which, if closed, could raise more money and allow for both a balanced budget and expansion of services. What is clear from this is that if there is a will to balance the budget, there certainly is a way! Such a way not only would allow needed services, but, moreover, it would restore faith in our tax system, a faith thoroughly shaken by the tax manipulation of our most immediate former occupant of the Oval Office.

We could do this or we could slash the current inadequate budget. It is estimated by OMB Director Roy Ash that for each $5 billion cut (and remember that <u>all</u> education expenditures amounted to only $6.1 billion in F.Y. 1974), we would create 300,000 unemployed and reduce inflation by 2/10 of 1%. In my meeting with President Ford during the labor summit conference on September 11, the President announced that he was releasing previously appropriated public service employment funds and that he hoped the 170,000 jobs created would help ease the burden of using high interest rates and budget-cutting and the resultant unemployment as a method of fighting inflation.

While we support public service employment and through our legislative program have attempted to expand and improve federal public employment programs, it makes no sense whatsoever to cause unemployment through fiscal policies and to then try to repair the damage by hiring people laid off from regular jobs on a temporary public employment program. This trade-off represents a backward step. What is needed is an expansion of permanent jobs at decent wages and the result will be increased tax and productivity benefits. Slashing the budget is not worth it. In human terms, it is not justified. The real question is, then, do we pay <u>some</u> now or <u>more</u> later?