Indirect Costs: Congress Moves Toward Fixing a 20-Percent Ceiling on Research Overhead

Last week the fall migration of college and university presidents to the American Council on Education's annual meeting took place, and a prime topic of discussion, though not on the official program, was the federal policy on the payment of indirect costs on federal research grants to universities.

Washington was the site of the meeting, and thus the presidents were a convenient local phone call or taxi ride away from their representatives on Capitol Hill, where the legislators have been taking a tack on indirect costs—"overhead" is probably a commoner term—which is giving pain to the presidents and the ACE. And a number of visitors made their feelings known to their senators and congressmen.

Overhead on research grants, in general, cover utilities, costs of laboratory space and maintenance, administration, and some library expenses. Direct-cost payments cover equipment, supplies, and portions of salaries chargeable to specific research projects.

Since World War II, government agencies and universities have failed to find a reimbursement formula for federal R&D work which fully satisfies both sides. In practice, however, there has been much less dissatisfaction with policy on research contracts with universities than with policy on research grants.

Although procedures differ among agencies, research contracts are likely to be awarded for applied research or development work intended to produce a piece of hardware or an answer to a specific problem. Reimbursement on contracts follows the model of federal payment for research by industry, though a university is not permitted to make a profit. Full costs of research are covered on the basis of a thoroughly negotiated and detailed agreement.

Grants are made for work in a specific field by particular investigators, but usually there is no requirement for immediate application of results, and grants are used to finance projects which for the most part are regarded as basic research. Terms of research are generally more flexible under grants than under contracts, and university investigators tend to prefer to work under grants.

Over the years Congress seems to have acted on the assumption that universities benefit from these grants and should pay some of the costs. The result has been a trend in Congress toward putting an arbitrary limit on federal payments for overhead and away from the policy of federal payment of the full costs of research which most university officials and the ACE argue would be equitable.

No uniform federal policy on indirect-cost payments now prevails, for the endemic reason that there is decentralization of authority among agencies and of jurisdiction among several congressional committees. Last year, however, there was a concerted movement toward setting arbitrary limits on indirect costs, and despite efforts by university officials the trend seems to be hardening this year.

Research grants are wrapped up mainly in the three appropriations measures. These are the money bills for the Department of Health, Education and Welfare, which is the parent agency of the Public Health Service and its National Institutes of Health; for the Department of Defense; and for the Independent Offices, which include the National Aeronautics and Space Administration and the National Science Foundation.

Conferees Agree

Senate and House conferees on the Labor-HEW appropriations bill in September agreed to government reimbursement of direct costs to a maximum of 20 percent of those costs. The Senate approved a 25-percent limit, but the House view that 20 percent was sufficient prevailed in the conference bargaining.

The question of indirect costs was also at issue in the conference on the Department of Defense appropriations bill, which includes funds for research. In this case the House version provided a 25-percent limit and the Senate bill proposed a 20-percent figure. The redoubtable chairman of the Senate Armed Services Committee, Richard Russell (D–Ga.), is said to feel that the present 20-percent limit should be retained, and this was counted as significant. On Monday the conferees reported, and the lower 20-percent limit on indirect costs was agreed on.

Appropriations for the Independent Offices have been delayed because of protracted hearings on funds for NASA in the House Independent Offices appropriations subcommittee headed by Representative Albert Thomas (D–Tex.). On Monday, however, the full Appropriations Committee reported out a bill lowering the 25-percent overhead cost limit, which applied to NASA and NSF grants, to 20 percent. The bill now goes to the House for action.

An influential figure in the overhead controversy has been Representative John E. Fogarty (D–R.I.), who heads the House Appropriations subcommittee which handles the big PHS–NIH budget. Fogarty, who has a store of experience in dealing with research-supporting agencies, has long held the position that an arbitrary limit should be set on reimbursement for indirect costs of research. For several years the PHS–NIH overhead limit was maintained at 15 percent, but last year, after earnest representations from the agencies and from university officials, the ceiling was raised to 20 percent. At the same time, Congress clamped the lid on indirect-cost payments in Department of Defense and Independent Offices appropriations bills.

Fogarty's partiality to a flat rate for reimbursement is attributed to his feeling that such a system assures more research for the federal dollar. He and other legislators tend to sympathize with the investigators who are more interested in seeing federal money spent for equipment and researchers' salaries in their labs than for light and heat and the services of typists and bookkeepers.

It may be that university administrators and business officers have been less effective in making their own case for full cost payment on grants because of the wonderland quality in the definition of direct and indirect costs. Different institutions have different systems of bookkeeping, and they may put the same item in different columns. Fringe benefits such as insurance and retirement payments may be carried as direct costs in one place and as indirect costs in another.

One institution may assign a secretary to each researcher and charge secretarial help to direct costs, while another may rely on a secretarial pool and list the cost as indirect. The latter arrangement may cost the government less, but, in the end, cost the university more.

Anomalies of this kind lead many administrators to argue that the universities are, in effect, subsidizing government research. The reply to this from some members of Congress has been that the universities need not accept the grants if they can't afford them.

The universities, of course, do keep taking the grants, for the plain reason that if they stop they will begin to lose researchers and their science departments may well go to pot.

The extent to which the universities subsidize research by paying indirect costs out of their own funds has not been firmly established. The evidence most often quoted is contained in a 1962 NSF study, *Indirect Costs of Research in Colleges and Universities, Fiscal Year 1960*, which shows that in fiscal year 1960 indirect cost rates averaged 28 percent of direct costs for a selected group of large colleges and universities (those for which direct costs for research were $250,000 or more) and 32 percent for a sample of smaller institutions.

What is even more difficult to show, of course, is the effect on the institutions of their transfer of other funds to make up the portion of the science research costs not covered by federal payments. University administrators and champions of the humanities and social sciences argue that the diversion of funds further unbalances the total educational program, which has already grown lopsided because of the flow of federal funds into university science.

Congress as a whole has not appreciated these subtleties, and many legislators harbor doubts that the government is getting its money's worth out of basic research.

They tend to be more tolerant of research contracts, which they regard as providing payment for specific services rendered. Grants, on the other hand, seem to be regarded as gifts, and one need not look too far to find the feeling expressed by Senator Allen J. Ellender (D–La.) in the fiscal 1964 Defense Appropriations hearings in the Senate.

Defense Secretary Robert McNamara had told the senators he felt that in general, in respect to research, the universities are subsidizing the Defense Department rather than the reverse. Ellender said, "That is not the way I heard it," and told McNamara, "You might be surprised if you read the list of money being spent for research in the various universities not only to pay the teachers, but also to construct buildings and facilities around the school."

Congress seems, so far, unconvinced by the argument that the support of scientific research and education is in the national interest and can be effected with the least distortion of university programs through the means of grants.

Most legislators, to be sure, are unfamiliar with the intricacies of the controversy on overhead. More hard information on actual practices within institutions and on effects of present policies might help to dispel the confusion that certainly exists.

It should be noted that, among officials in some research-supporting agencies, there is genuine uncertainty about what policy on reimbursement of indirect costs finally would be the most equitable and desirable. Federal research projects vary widely in their value to the government and to the universities. It is generally agreed that there are some projects for which the government should pay all costs. But there are others, often involving grants, from which the universities may derive benefits for which they reasonably could be expected to pay part of the costs. It is this problem of cost sharing which remains the hard core of the overhead problem.

The science agencies and the Office of Science and Technology have recently embarked on a joint effort, first to gain more basic data and then to recommend changes in Budget Bureau Circular A-21, which is the most widely consulted guide for computing indirect costs.

Until these things are done, university emissaries dealing with Congress on overhead costs will have to continue to rely on old-style personal diplomacy.

—JOHN WALSH

Announcements

Stanley McCormick Hall, the first permanent residence for women at Massachusetts Institute of Technology, was dedicated last week in Cambridge. The eight-story building for undergraduates has facilities for housing and feeding 116 women. It was built as the result of a $2 million gift from Mrs. Stanley McCormick, a 1904 graduate of MIT.

MIT admitted its first coed, Ellen Swallow, in 1871 as a special student, keeping her name off the records in case the "experiment" of having a woman student failed. But the experiment succeeded, and she ended up teaching chemistry at the Institute. Today, of the total enrollment of 6600 (including 3100 in graduate school), over 240 students are women, about half of them in graduate training.

The Biophysical Society has announced the availability of a free **placement service.** Further information is available from I. Gray, Director, Placement Service, P.O. Box 668, Frederick, Md.

The **Canadian Photobiology Group** was organized recently "to advance the study of photobiology," or the effects of light on living things. The group aims to provide meetings of Canadian biologists, chemists, and physicists, to adopt standardized methods, and to work with similar organizations in other countries through affiliation with the Comité International de Photobiologie. The group's chairman is G. Krotkov, biology professor at Queen's University, Kingston, Ont.

The **Pan American Health Organization** has received a grant of $5 million from the W. K. Kellogg Foundation to build a permanent headquarters. In return, the organization must spend an equal sum over a period of 20 years on education, training, nutrition, and water programs in the hemisphere. The headquarters of the organization will be built in Washington, D.C., on land given by the U.S. government.

A **psychiatric center** for emotionally disturbed children is being established at the University of Pennsylvania. The Oakbourne Hospital, West Chester, Pa., has announced plans to join the university, the Philadelphia Child Guidance Clinic, and the Children's Hospital of Philadelphia, in a center for the teaching, care, and treatment of emotionally ill children. Each institution will retain its autonomy. I. S. Ravdin, vice president for medical affairs at the university, heads a ten-member committee to implement the plans for the psychiatric center.

Meeting Notes

Papers are being solicited for presentation at an international conference on **mass spectrometry** 14–18 September 1964 in Paris. The sponsors of the meeting are Committee E-14 on mass spectrometry of the American Society for Testing and Materials, GAMS (the