University Groups Protest Cost Cuts

New proposals for capping overheads on federal grants draw fire from university administrators; savings of $200 million projected for next year

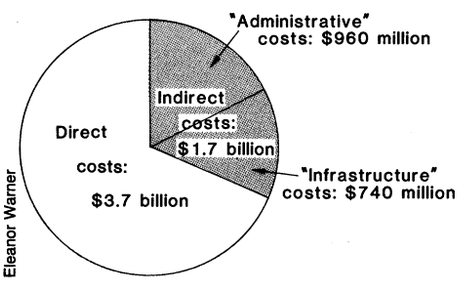
OFFICIALS of organizations representing university administrators are in a state of extreme agitation over the latest proposals for changing the way the federal government pays overheads on research grants. The proposals, which were drafted by the Office of Management and Budget without the customary protracted negotiations with the universities, could reduce payments to academic institutions by $100 million this year and more than $200 million in fiscal year 1987.

"Arbitrary and capricious" is the way Robert Rosenzweig, president of the Association of American Universities, describes the proposals. Noting that they are scheduled to take effect on 1 April, less than 6 weeks after they were made public, Rosenzweig accuses OMB of "abandoning any pretense" of working out a mutually acceptable arrangement with the universities.

Thus goes the latest battle in a 20-year war of attrition over how the federal government should reimburse academic institutions for costs, such as administration, heating, depreciation of equipment, and maintaining libraries, that are associated with research performed under federal grants and contracts. This issue probably results in more mistrust and ill-feeling than any other item in federal-university relations, causing rifts not only between academic officials and government agencies but also between researchers and their own university administrations.

Arguments over indirect costs have become more intense in recent years in part because payment for overhead is taking a growing share of the federal government's support for academic research. Out of every dollar spent on university research, more than 30 cents now pays for university overhead (see chart). Thus, federal agencies have been seeking ways to hold down growth in indirect costs to enable more money to be spent directly on research, and researchers have been complaining because they see university administrators slapping large overhead charges on their grant applications for costs that they believe research funds should not have to bear.

For their part, university officials have argued that indirect costs associated with research have gone up for a variety of legitimate reasons, such as the need to ensure compliance with a vast array of federal rules and regulations and increased energy expenses. Moreover, they argue that items and services paid for by indirect costs are an integral part of the research enterprise. The problem is not that indirect costs have been growing too rapidly, they contend, it is rather that total support for academic research has not been growing fast enough.



The academic research pie, 1984

Indirect costs accounted for more than 30 percent of total federal academic research spending. [*Source: HHS*]

These arguments have been going on in one form or another for years. Now, however, OMB has cut through the rhetoric with what amounts to a fiat. It intends to limit payment for administrative costs, which comprise over half of all indirect costs, starting on 1 April. It will then reduce these payments even further next year.

To understand OMB's proposal, some background on the arcana of indirect costs is in order. Every university has its own indirect cost rate, determined through negotiations with federal auditors, which is added to each grant proposal before it is submitted to a funding agency. The rate, expressed as a percentage of the direct costs of conducting the research, consists of several different components, which, at the risk of oversimplification, can be categorized as "administrative," such as faculty salaries and so forth, or "infrastructure," such as depreciation and energy costs. The rules for calculating and negotiating these rates are set out in a document known as OMB Circular A-21.

Indirect cost rates vary widely from university to university, ranging from about 30 to 100 percent of direct costs. The national average, according to estimates by the Department of Health and Human Services, is about 46 percent, with private universities generally above the average and public universities, which get some support from state legislatures for infrastructure costs, generally below it. Differences also arise from variations in accounting methods, geographical location, the age of facilities, and so on.

In essence, OMB is proposing to establish a fixed ceiling for administrative costs that will apply to every university in the country. To begin with, the ceiling will be set at 26 percent of direct costs, which is the national average, and it will be dropped to 20 percent on 1 April 1987. The impact will thus be felt disproportionately by those institutions that currently have high administrative cost rates; those below the ceiling will not be cut, though the proposed rules expressly forbid their rates from going up.

This proposal is based in large part on a report completed late last year by the HHS Inspector General's office.* The report noted that total payments for indirect costs have been climbing rapidly in recent years, rising from $900 million in 1978 to $1.7 billion in 1984. Administrative costs have been the fastest growing component of overall indirect costs, climbing from $495 million to $960 million, the report said. These increases have driven the overall indirect cost rate up from 36 percent of direct costs in 1978 to 46 percent in 1984.

The report concluded that most of the increases in infrastructure costs were "reasonable and beneficial to research sponsored by the Federal Government," but claimed that almost one-third of the administrative costs paid in 1984 "did not benefit Government sponsored research."

Another study that is being claimed as

*The Impact of Indirect Costs on Research Sponsored by the Federal Government at Universities and Colleges, Office of the Inspector General, Department of Health and Human Services, 23 December 1985.

providing justification for OMB's move is a draft report by a panel of the White House Science Council, which was chaired by D. Allan Bromley of Yale University and David Packard of Hewlett-Packard (*Science,* 31 January, p. 447). The report recommended a fixed ceiling on administrative costs, to be phased in over a 2-year period. However, it also recommended offsetting changes in the way infrastructure costs are estimated, essentially arguing for more rapid depreciation of buildings and equipment. Implementing the administrative cost cap without allowing changes in infrastructure costs "could result in significant damage to the academic enterprise," the panel warned.

The university lobby groups are as much concerned about the way OMB has gone about things as they are about the impact of the proposed rules. The OMB proposals were signaled in the Administration's budget on 5 February (*Science*, 21 February, p. 785), but were not spelled out until 12 February, when they were published in the *Federal Register*. The proposals, which formally amend Circular A-21, are open for comment for 30 days and are scheduled to take effect on 1 April.

In the past, when changes have been made in A-21, OMB has entered into extended negotiations with university representatives. This time, it is imposing a cut unilaterally without any consultation. Thomas Kennedy, a senior official of the Association of American Medical Colleges, charges that OMB is acting with "unseemly haste." And in a telegram to OMB, the four top elected officials of the AAAS warned that "such inflexible action would have disruptive and seriously damaging consequences for research universities."

The proposal appears to have been thrown together quickly, and OMB itself is not clear on some of the details of how it will be implemented. For example, federal agencies do not know whether the ceiling will apply only to new grants issued after 1 April or whether it will also apply to existing grants.

What seems to have happened is that the Administration saw a political opportunity in the current obsession with cutting the federal deficit to do something it has wanted to do for some time. It made an attempt to curb growth in indirect costs of NIH grants in 1983, when HHS proposed an across-the-board cut of 10 percent. After heavy lobbying from university groups, however, Congress decreed that indirect costs should be paid in full, but asked for a study of the issue. This year, with the focus on holding down federal expenditure, the political climate may be on the Administration's side.

A week after publication of the proposal, university groups were trying to coordinate a response. Rosenzweig says the prime objective is to secure an extension in the time for public comments and to delay implementation of the rule. ■ COLIN NORMAN

French Science Policy Breaking 300-Year Mold

Moves to loosen central control over technology are likely to be accelerated if the conservatives win the coming election

Paris.

FOR the past 300 years, French policies toward technology—whether designed by governments of the left or the right—have been dominated by the legacy of Jean Baptiste Colbert, Louis XIV's powerful minister who argued that national independence could only be achieved through strong state direction of projects that ranged from the construction of the national canal system to the equipping of the French Navy.

In the early 1960's, President Charles de Gaulle drew heavily on this tradition to argue that France should master both the civilian and military applications of nuclear technology to avoid sustained dependence on the United States. And when the present socialist government came to power in 1981, it, too, invoked the name of Colbert to justify both a substantial increase in support for science and technology, and the detailed specification of where the most rapid expansion of research and development should take place to make France competitive in international markets.

But Colbert's days may now be numbered. In the past few years, as a report on French innovation published last week by the Organization for Economic Cooperation and Development makes clear,* it has become increasingly obvious that policies that worked well for the development of fast-breeder reactors or satellite launchers cannot necessarily achieve the same results in microelectronics or biotechnology.

How things should be changed will be a key point of dispute in the general elections that will take place on 16 March. The present government wants to continue its policy of reducing the direct centralized control of research and technology—for example, by giving greater autonomy to universities and research institutes, and more responsibility to regional authorities—but under broad guidelines laid down by the state.

The conservative opposition has already pledged itself to move even faster toward reducing state control if, as is widely expected, it wins the general election. Indeed, some opposition spokesmen are already suggesting that flexibility can only be achieved by dramatic actions such as dismantling the Centre Nationale de la Recherche Scientifique (CNRS), the main government agency responsible for the support of research.

The conservatives will have a strong record to match. The present government has not managed to achieve all that it promised for science in the first flush of postelection enthusiasm 5 years ago. Yet it has successfully restored a sense of optimism and purpose in the scientific community that were at a low ebb when it came to power, partly because of the previous right-wing government's distrust of the academic community.

The most obvious indicator of achievement has been the size of the research budget. In a law passed in the summer of 1982, the government pledged itself to raising national expenditure on research and development to 2.5 percent of the gross national product by 1985, compared to 1.8 percent in 1980 (with the proviso that achieving this target was predicated on a sustained period of economic growth).

The target has not been reached; indeed, the figure for 1986 will still be less than 2.4 percent of GNP. But research funding has remained a top spending priority, and has risen on average by almost 5 percent a year in real terms since 1981—faster than in the United States and, perhaps more significant-

**Review of Innovation Policies: France.* Book I *(Examiners Report)* and Book II *(Background Report)*. Directorate for Science, Technology, and Industry, OECD.