

ASSOCIATION OF AMERICAN UNIVERSITIES  
EXECUTIVE COMMITTEE MEETING  
AT PARK HYATT HOTEL (1201 24TH ST. NW)  
April 18th(Sunday, 1:30 PM)

YOU WILL BE MET IN HOTEL LOBBY BY CHANCELLOR BUDIG AND PROCEED TO THE TIVOLI ROOM.

COMPOSITION OF AAU EXECUTIVE COMMITTEE

JOE B. WYATT, Vanderbilt (AAU CHAIR)  
STANLEY O. IKENBERRY, U. of Illinois (VICE CHAIR)  
RICHARD C. ATKINSON, U of Cal at San Diego (PAST CHAIR)  
THOMAS E. EVERHART, Cal. Institute of Technology  
STEVEN C. BEERING, Purdue  
EAMON M. KELLY, Tulane  
KATHARINE C. LYALL, U. of Wisconsin  
CORNELIUS J. PINGS, AAU

GENE A. BUDIG, Kansas  
ARNOLD R. WEBER, Northwestern  
CHARLES M. VEST, MIT

\*\* note \*\* ATTACHED IS AN INFORMATION SHEET ON AAU.

PURPOSE OF MEETING

Chancellor Budig would like to have an informal exchange of ideas relative to the deficit, taxation, health care, and higher education. He is also looking for suggestions on how to better present the case for higher education to lawmakers.

HOT POINTS ON HIGHER EDUCATION

- o \$2 Billion for Pell Grants in the Stimulus Package. Pell Grants are short this amount because Congress got in the habit of forward funding them and eventually ran out of money. The recession also exacerbated the problem by increasing the number of eligible students. Rumor has it that Sen. Pell would help kill direct lending if Pell Grants were included in Stimulus.
- o DIRECT LENDING. Clinton wants to replace current student loan program with Direct Lending, as does AAU. However, no school in Kansas supports direct lending, but KU would be the best position to do so.
- o HIGHER EDUCATION TECHNICAL AMENDMENTS will probably not be dealt with until late June to July.
- o COLLEGES NEED TO GET THEIR SPENDING UNDER CONTROL. Costs tripled in the 70's and more than doubled in the 80's. Some of these costs have been improperly passed onto the Federal Government. It was just recently revealed that when Sec. Shalala was Wisconsin's chancellor, the school improperly charged Uncle Sam for \$10.5 million, including \$58,000 for maids and flowers for Shalala's and the school President's residences.

## AAU (American Association of Universities)

---AAU is the national association of the major public and private research universities in America.

---Is viewed as having the most prestigious research university membership of the more than 65 Associations of Higher Education.

---The Constitution of the AAU states its purposes as:

- (1) to consider and express opinions on matters of common interest relating to university policy, particularly those relating to graduate study, research, and professional education;
- (2) to inform public and private individuals and institutions of the purposes, responsibilities, and needs of these universities; and
- (3) to cooperate with similar universities in other countries in fulfilling these purposes.

---The AAU defines its members as: "the criteria for admission are high quality of graduate or professional programs in a substantial number of fields and general recognition that the university is outstanding by reason of the excellence of its graduate and professional programs."

---Due to its membership and status, it is expected that AAU will take a leadership position in addressing national issues affecting higher education and research. The AAU often has problems speaking as one voice. It is currently undertaking a self study of its purpose, structure and future.

---AAU was founded in 1900 by fourteen American universities offering the Ph.D. degree; KU became a member in 1909.

---Currently consists of fifty-six (56) American and two Canadian universities (see attached list). Approximately one-half are public institutions and one-half are private universities.

---Consists of universities with strong programs of graduate and professional education and research.

---All but 8 members are included in the listing of Top 100 American institutions receiving funds for research and development, as reported in 1989.

---Invitation of new members, which requires assent of three-fourths of the membership, is considered approximately every three years. The most recent additions to membership occurred in 1989 with the admission of SUNY Buffalo and Rutgers.

5/6/92

April 15, 1993

M E M O R A N D U M

TO: SENATOR DOLE  
FROM: NINA OVIEDO  
SUBJECT: VALUE ADDED TAX (VAT)

The Administration is once again floating the idea of a value added tax (VAT) to pay for their health care proposal. The following is intended to provide an overview of the basic issues associated with a VAT.

VALUE-ADDED TAX

A value added tax is one type of consumption tax. It taxes consumption and exempts saving. "Value Added" is typically defined as the gross sales of a business less purchases from other businesses.

Unlike a retail sales tax that is collected by businesses only on final sales to consumers, a value-added tax is collected at each state of the production and distribution process. However, the same amount of revenue is collected under a VAT or under a sales tax for a given rate of tax. At each stage of activity, the VAT is reduced either by deducting the cost of purchases (cost of goods) or a tax credit is provided to account for all taxes paid at previous stages of production and distribution. At each stage in the production and distribution process tax is imposed only on "value added," not on gross receipts.

Example. A farmer grows wheat using his own seeds, land and water. With a 10% VAT, if he sells wheat for \$10, he will pay \$1 of tax. There is no reduction of VAT liability through credits or deductions because no tax was paid on inputs.

The wheat subsequently is purchased by a miller who processes it into flour and sells the flour for \$30. With the same 10% VAT, the miller is liable for \$3 less a credit for the amount of tax already paid by the farmer (\$1). The miller's total tax liability is \$2.

The flour then is sold to a baker who makes bread that sell for \$60. The baker is liable for \$6 of tax less a credit for the amount of tax paid by the miller (\$2) and the farmer (\$1). The baker's VAT liability is \$3.

[Rather than being allowed credits for taxes paid at earlier stages, the amount of tax due from the farmer, miller and baker could be calculated based on the difference between their sales price and cost of goods -- for the baker this would be, \$60 [sales price] less \$30 [cost of goods] = \$30 X 10% VAT = \$3 tax. The tax liability would be the same.]

### TYPES OF VATs

There are two major types of VATs: the credit-invoice method and the subtraction method. The two, illustrated above, produce the same economic effect if a uniform rate is applied on a comprehensive base. However, there are significant economic, policy and administrative differences between the two methods if the coverage of tax is not comprehensive or if multiple rates of tax are used. Most nations with a VAT use the credit-invoice method except Japan which uses a subtraction method.

### TAX BASE

Most experts agree that a uniform VAT applied to all goods and services would create fewer distortions and be less expensive to administer than a narrowly based tax. Nonetheless, most countries with a VAT system provide "preferential rates" or exemptions for specific goods and services. Special exemptions are often provided for food, drugs, medical care, housing and for services provided by nonprofit institutions. On the other hand, some countries tax "luxuries" at higher rates.

### ECONOMIC CONSIDERATIONS

Long-term Economic Growth. A VAT, if used to reduce income taxes, may have a positive effect on long-term economic growth. Under our current system, the majority of our revenue is derived from income taxes, both individual and corporate. Payroll taxes are also an important source of revenue. In general, an "income tax" system is biased against savings since both savings and the return on savings are taxed. A VAT would neither penalize nor promote savings leading some to believe that replacing the current U.S. income tax system with a consumption tax would provide greater incentive for saving than current law.

Inflation. A VAT likely would result in a one-time increase in prices. However, if this one-time increase fuels wage adjustment and inflationary expectations, inflation could persist into later year.

Balance of Trade. A VAT is not levied on exports and a similar "VAT" tax is levied on imports. These border tax

adjustments are legal under GATT. No such adjustments are permitted for income taxes. A VAT may improve the trade balance to the extent it increases savings, capital formation, and productivity because greater productivity increases the competitiveness of domestic products.

### ADMINISTRATIVE CONSIDERATIONS

Unless a VAT replaced another major tax -- for instance the corporate tax system -- a VAT would increase compliance and administrative costs for taxpayers, IRS and the Customs Service. Also, based on the experience of countries with a VAT system, administrative and compliance costs increase greatly with special exceptions for such items as food, drugs and clothing.

### POLITICAL ISSUES

Regressivity. Consumption taxes with no mitigating provisions generally are considered to be regressive taxes because low-income families consume a larger percentage of their income than do high-income families. In the long-run a VAT would not favor any one age group. However, because it is a tax on consumption, a VAT would have a relatively larger adverse impact on elderly people who consume in excess of their current income as they draw down on savings.

States. Since states rely much more heavily on revenue from excise and sales taxes a federal VAT may be viewed as an encroachment on the state's traditional tax base. The possibility of an eroding tax base could be a particularly difficult problem for states currently subject to a variety of legal and market constraints that make it more difficult to issue debt. Also many states are constitutionally required to have a balanced budget. Some have advocated that in order to mitigate the adverse impact on the states, some portion of VAT revenues should be used to provide benefits to state and local governments. Some coordination through the federal government would be necessary to deal with the interaction of current state sales taxes and a new federal VAT.

Certain Industries. There are also political issues with regard to particular industries -- housing and financial services. It is likely that a consumption tax would not apply to housing even though these costs are one of the largest components of consumption. And no practical method has been developed to adequately tax the services provided by banks, insurance companies and other financial companies because of the difficulty in separating services (which should be taxable under a VAT) from return on savings (which is not taxable under a VAT).

MARCH 30, 1993

TO: SENATOR

MEDIA

1) APRIL 18TH, SUNDAY -- GENE BUDIG REQUESTING 30 MINUTES AT 3 PM FOR INFORMAL MEETING WITH THE EXECUTIVE COMMITTEE OF THE AMERICAN ASSOCIATION OF UNIVERSITIES -- A DOZEN UNIVERSITY PRESIDENTS FROM THE MOST PRESTIGIOUS PRIVATE & PUBLIC SCHOOLS. *early!*

PARK HYATT HOTEL.

BUDIG -- 913-864-3131.

*4:1 AM!*

*1:30 PM ?*

*30, 1993*

2) NATIONAL PRESS CLUB SPEECH -- APRIL 29TH IS OPEN AND YOU CAN NAIL IT DOWN: THE DATE IS KEY BECAUSE THE FOLLOWING DAY WILL MARK BILL CLINTON'S 100 DAYS IN OFFICE; COULD BE A KEY PART OF A DAY-LONG BLITZ FROM REPUBLICANS. *oy*

3) EVANS & NOVAK FORUM -- THEIR ANNUAL WASHINGTON SCHMOOZ FOR SUBSCRIBERS. ANY TIME THURSDAY, APRIL 29TH, THE SDAME DAY OF THE NATIONAL PRESS CLUB OPENING. *oy*

4) MENNINGER'S 100TH BIRTHDAY CELEBRATION -- ASKING FOR YOUR PARTICIPATION IN TOPEKA CEREMONIES, GIVING SPEECH EITHER THURSDAY JULY 22ND, OR FIRDAY 23RD. LEW FERGUSON HEADING ARRANGEMENTS. 913-234-5654. *~*

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# The University of Kansas

Office of the Chancellor

February 10, 1993

Walt Riker  
Office of the Republican Leader  
United States Senator  
Washington, DC 20510-7020

April 18~~th~~

Dear Walt:

The spring meeting of the Association of American Universities will be held in Washington on April 18-20 at the Park Hyatt Hotel. Its Executive Committee meets on Sunday afternoon at 3:00. As you know, the AAU represents America's most prestigious public and private universities. As a member of this committee, I would like to invite the Senator to spend 15 to 20 minutes in informal discussions. I believe this meeting would be very good for both the Senator and the AAU.

Respectfully,



Gene A. Budig  
Chancellor

GAB:jj

... my best wishes to you and Senator Dole, Walt.