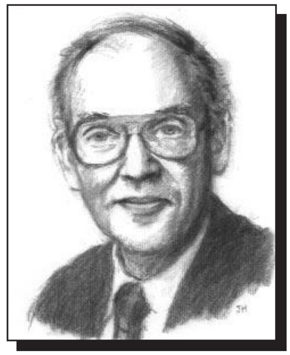
THE POLITICS OF INDIRECT COSTS



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Benjamin Franklin once wrote that the Constitution might not last forever, but that death and taxes would forever be with us. To those who have been attentive to the relationship between the federal government and the nation's universities since the end of World War II, indirect cost recovery deserves a place on that short list. Like the first two, the problem of indirect costs is inherently insoluble, and also like them, it excites extraordinary passions among people who are normally quite peaceable and reasonable.

Here, for example, is an excerpt of a letter I received, while president of the Association of American Universities, from a faculty member at Stanford, a distinguished scientist with whom I had—I thought—a friendly relationship:

> *"Your [remarks] so angered me that I felt compelled to comment on what I consider a totally unacceptable position based on your lack of knowledge of the 'real world'...For you to argue that federal support of facilities construction is needed at this time, and that high indirect costs on research grants are justified...is a clear indication that either you don't know what is going on, or you have a bias that is clearly contrary to that of virtually all responsible scientists. Those of us on the faculties of universities know that excessive indirect costs are largely due to incompetence and mismanagement, and the inability of University Presidents to apply minimum standards of performance to their administrative and support personnel comparable to those commonly found in industry. Your recommendations would make a bad situation even worse! Disgraceful!"*

As a veteran flak-catcher, I would place that and some others like it somewhat below the standard set by the student anti-war movement in the 1960s, but close to the level reached by Stanford alumni outraged by the university's decision to stop making fun of Native Americans by making them the symbol and mascot of its athletic teams. The passions excited by those two issues were, at least, easy to understand: the Vietnam war and the draft were enough to make anyone angry, and alumni emotions were really only an expression of grief for the passage of the university they had known and its replacement by a new and bewildering kind of institution. My faculty friend, though, had worked himself up over the interpretation of a set of government cost principles. Moreover, eventually the Vietnam War and the draft ended, and Stanford alumni accepted, however grudgingly, the loss of their cherished symbol and the reality of the new university. The concern over indirect cost recovery has never passed, has rarely abated, and even after fifty years of efforts to get it right, still eludes solution and elicits anxiety, anger, and righteous indignation.

In this paper, I will try to explain why a set of accounting principles, described, even by those whose occupation requires them to work with it, as "arcane", has had such power. I will do this by first looking at the natural history of the issue, as dispassionately as possible, and then by a bit of autobiography. Like many people who have been involved in public events, I like to think that my view of them sheds some valuable light that doesn't come from any other source. Real historians are rightly wary of such egocentric fancies, and treat them not as history, but rather as some of the data from which history can be written. I will offer mine in that humble spirit.

A Brief History of Indirect Cost Policy*

The system of cost-based reimbursement under which the government support of research ostensibly operates was not an inevitable development. It required, first, the decision to support post-war research in universities, rather than exclusively in independent laboratories. The influential report of Vannevar Bush, *Science, The Endless Frontier*, laid the foundation for that decision and also for the principle that universities, in the conduct of government- sponsored research, should be neither unduly taxed nor rewarded. The dominant role of the military in organizing and funding wartime research made the armed services also the dominant sponsors of early post-war research. The most active agency was the Office of Naval Research. Thus, as Goldberg says, "In 1947, the Office of Naval Research...and the universities negotiated the first formal set of principles for determining applicable research costs. These principles relied on the actual costs reflected in a university's annual financial report and introduced the use of a campus-wide average rate, deliberately eschewing the use of marginal cost rates."

In 1958, those principles were codified in Bureau of the Budget Circular A-21, and the major elements of that document have not changed since then in spite of a large number of revisions in the intervening years. They are: flexibility to account for varying institutional circumstances, the use of generally accepted accounting principles, the need to justify and document costs, the need to develop methods to separate teaching and research costs, the specification of certain unallowable costs, and a simplified reimbursement method for institutions with only a small amount of federal support.

Had the military remained the dominant patron of research, it is quite likely that the reimbursement of indirect costs would not have come to be charged with so much controversy. Arguments there would have been, to be sure, over the allowability of this or that category of cost or method of calcu-

* In 1988, Milton Goldberg, the Executive Director of COGR, prepared a brief history of OMB Circular A-21 for the members of the Ad Hoc Committee on Indirect Costs of the Association of American Universities, better known as the Pings Committee, after its chairman, Cornelius Pings, Provost of the University of Southern California. Goldberg's paper is still the best short chronology of Circular A-21 that I have seen. For what follows here, as with so much of what I think I know about indirect costs, I am indebted to Milton Goldberg.

lation, and the difficulty of allocating costs in universities where teaching and research are done by the same people in the same places would have remained. But the culture of military sponsorship, dominated by its relations with industry, would have supported a cost-based system of reimbursement. As time passed, the small number of universities that kept one of the armed services as their rate-setting agency generally experienced smoother relations than did the bulk of the universities for which the Department of Health, Education and Welfare (later Health and Human Services) came to play that role. Indeed, there were even instances in which universities tried, unsuccessfully, to change their cognizant auditor to a DOD agency.

However, change came and the management culture of the Department of Health, Education and Welfare could hardly have been more different from that of the military. It was a granting rather than a contracting culture. Unlike the military, in which research was seen as a product that had to be bought in the interests of national defense, the social services tradition was that of the grant-in-aid, to enable the recipient to do something that the recipient would be doing even without the grant, though perhaps at a slower rate or a lower level.

That difference was reflected in the earliest arrangements for the payment of indirect costs. From 1950 to 1963, HEW set a fixed upper limit for indirect costs on grants. Until 1958 the limit was 8%. In 1958, it was fixed in law at 15%, then raised to 20% in 1963. Finally, in 1966, the limit was removed in exchange for a requirement of mandatory cost sharing on grants. Also during that period, HEW, primarily through the National Institutes of Health, was growing into the largest patron of university research, and it was becoming the rate-setting agency for virtually all universities. As a consequence, the early tradition of cost-reimbursement gave way to a new and eventually dominant outlook of cost sharing combined with a subsidy, rather than procurement. It must be emphasized that these changes took place under the very same A-21 cost principles used by the military, with no articulated change in policy—save for the requirement of cost sharing. It was a train wreck on its way to happening.

The 1966 amendments to Circular A-21 masked the reality of the change because they appeared to move in the direction of a cost-based reimbursement system to which all agencies that sponsored research would have to adhere. In fact, however, they set in motion a cycle, which continues to this day, in which university administrations argue that the rules require full cost reimbursement (less some amount to be shared) and then feel aggrieved, even righteously indignant, when government officials, in the process of inventing new ways to reduce reimbursement, assert that they have never in their lives heard of such a foolish idea.

Since the ceiling was removed in 1966, the struggle over what A-21 does and does not mean has been unremitting. It takes place at the micro-level in negotiations over each institution's indirect cost rate and at the macro- level in policy battles over efforts by one side or the other to change the terms of the engagement.

Underlying the struggle at both levels has been a growing concern over the plain fact that the removal of the ceiling and the opportunity to negotiate indirect cost rates has allowed those rates to rise. That has had two major effects, both having profound political consequences. First, indirect cost rates came into play in the deficit-reduction wars that began in the 1980s. And second, rising rates combined with the flattening of the growth curve for research funding—also in the 1980s—to bring faculty into the fray, largely on the side of those in government who wanted to slow or reduce the growth of the rates. As a result, the dynamics of the struggle over indirect costs changed dramatically. Over the years, university administrations had won most of those battles. However, they now found themselves fighting not only gimlet-eyed government negotiators and auditors but fearful and angry faculty on their own campuses and in the Washington debates. As we shall see shortly, the change was profound.

One further piece in the history of Circular A-21 will complete the foundation. In 1982, the Circular was amended once again, this time to allow, among other things, the charging of interest costs directly associated with the construction and renovation of research facilities. This was an especially important change for private universities. In the late 1960s, the government, with some specialized exceptions, had essentially stopped subsidizing research facilities. The infrastructure was growing older, while the science it was required to support grew more complex, and more dependent on instrumentation for which the older facilities were increasingly inadequate. The ability to charge interest on construction as an indirect cost provided a stream of revenue against which universities could borrow—usually at tax-exempt rates. It set off a building boom on major university campuses that surely improved the nation's research capacity, but also made the major private universities dependent on indirect cost policies and vulnerable to changes in them to a degree that sometimes approached desperation.

Choreographing the Issue

To understand the course that the battle over indirect cost policy took it is necessary to understand the parties involved in the battle. The language most often used to describe the conflict over indirect cost policy makes it seem as if there were two combatants—universities and the government, the former represented by their administrations and the latter by negotiators and auditors. The reality is several orders of magnitude more complicated. Three other groups are involved, and it is in the interaction among the five that policy is made. The first group is the faculty of the universities. As indirect cost rates began to rise in the 1980s, largely as a result of the liberalized rules for charging facilities costs, scientists began to be alarmed about the effect of higher rates on their competitive position in the search for grants. Concern became alarm, and then organized alarm, as appropriations for research became tighter and competition for grants became stiffer. Those concerns were especially acute among scientists who looked to NIH and NSF for their primary support. Scientific societies, led by the Federation of Associated Societies of Experimental Biology (FASEB), became active advocates for policies to restrain indirect cost rates so as to provide a larger number of research grants and a higher proportion of each grant for the direct costs of the research. It became common for representatives of university presidents to appear before a Congressional committee or an agency review group and to meet, coming or going, scientific society representatives arguing the opposite position.

The scientists were aided in their efforts by a second group, the program managers of the research-granting agencies. No program officer ever found satisfaction in thinking about the amount of money his or her agency was providing for indirect costs. Professional satisfaction comes from supporting good scientists doing good science. Finding the wherewithal to run the university in which that takes place was the university's problem, not theirs.

That is perhaps an overstatement, but it is close enough to the truth to make the point that scientists and their agency patrons had similar interests and a similar agenda. Students of public administration long ago identified what came to be called 'the iron triangle"; the alliance between agency patrons and those seeking their patronage constituted two sides of the triangle. The third side contained the congressional committees responsible for the program and budgets of the agency. Each side reinforced the other in their common desire for higher appropriations: the source of professional satisfaction, status and power.

It was frequently argued during my years at AAU that university administrations needed to do a better job of educating their own faculties about indirect costs—what they are, how they are calculated, and why they are important. It was hard to argue against the value of better education, but the implicit assumption that lay behind the argument always seemed to be innocent of an important reality, namely that faculty believed that their interests and those of university administrations were actually in conflict. On campuses with high rates, it was virtually an article of faith that any further increase would result in a loss of grants to scientists whose institutions had lower rates. One could always find anecdotal evidence of one or another applicant who believed that his grant would have been approved but for his institution's outrageous indirect cost rate, but anything approaching the quality of evidence that would pass muster in a peer-reviewed publication was lacking. Nationally, scientific associations believed that lower rates would result in smaller average grant totals with a larger proportion allotted to direct costs and, overall, a larger number of grants. As we shall see, however, the government's interest in lowering indirect costs came from the desire to reduce the budget deficit. Therefore, it always seemed unlikely that money saved by reducing indirect costs would produce anything other than a reduction in the overall research budget. But beliefs rooted in self-interest are hard to shake, and progress in changing them required more than seminars on the meaning of the indirect cost rate.

Finally, in the choreography of this issue, it should be noted that the university community was, itself, far from a seamless whole in its approach to indirect cost policy. The most obvious division was between public and private universities. In general, the rates in the latter were significantly higher than those in the former. There was no mystery about this; in most public universities state appropriations paid the bills for many of the costs which private universities billed to the federal government. Moreover, in some instances, reimbursement for indirect costs went into the state's treasury rather than the university's coffers. In either case, public universities had much less incentive to do the work necessary to document higher rates. It was not that one set of institutions was more efficient than the other, or that the actual costs in one were significantly lower than in the other. Rather, it was simply that public and private universities had different sources of funds for their operational budgets, and the difference affected the way in which both viewed the issue of indirect costs.

For an organization like AAU, whose members were evenly divided between public and private universities, this was a potential source of real trouble. In practice, though, at least in my experience, the potential for trouble was never realized. With occasional grumbling about the amount of time and effort the organization was devoting to the issue, public university presidents recognized the importance of the issue to their private colleagues, and were prepared to defer to them. That generous impulse was strongly reinforced during the 1980s, when very tight state budgets put a clamp on spending for higher education and public universities began to look to indirect cost recovery as an important source of revenue. This combination of collegiality and self-interest made a potentially difficult political problem no problem at all.

The View From The Trenches

It is now time to turn to autobiography—or primary historical data, as I prefer to think of it—because it was in 1983 that I arrived in Washington as President of the Association of American Universities, the university group whose members were most deeply concerned about fair payment for the costs of research. I did not realize, though perhaps I should have, that the issue of indirect costs would occupy so much of my time over the next ten years. If I thought about it at all, I am sure that I thought that the 1982 revisions had laid the issue to rest, if not forever, then at least long enough to see me peacefully through my tenure in office. Certainly, my background did not make me the most obvious person to land in the center of this particular controversy. I had been more than content, during my years at Stanford to leave that exotic topic to those who seemed to derive pleasure from arguing about it with government auditors. Far from being an expert on Circular A-21, I was a genuine innocent.

Innocence does not flourish in the Washington air, however, and I was quickly plunged into the indirect cost wars in the context of the Fiscal 1983 budget, the first of a series of efforts on the part of the government to lower indirect cost rates unilaterally and by an arbitrary amount. The Department of Health and Human Services proposed in that year's budget to limit the reimbursement of indirect costs to 90 per cent of the negotiated rate for research grants. This strike by DHHS was notable in three important respects. First, until this point, changes in indirect cost rules had been negotiated between experts on the two sides, and were confirmed in the form of amendments to Circular A-21. This time, however, the change by-passed the rule-making process entirely. It was embedded in the President's budget, it was but forward by a single department, and its passage through OMB had been via the budget side of the agency, not the management side, where these matters had traditionally been handled.

Second, for the first time, a major change was proposed that had nothing to do with reimbursement principles but was wholly driven by budgetary considerations. The purpose of the initiative was to allow the Reagan Administration to demonstrate that it was committed to enabling NIH to make 5000 awards for new and competing grants without having to ask for a larger appropriation. In doing so, faculty groups would be appeased and the myth of fiscal responsibility would be honored.

The third important respect in which this initiative differed from others was that there was not even a pretense that the proposed 10 per cent reduction in recovery had been negotiated or was in any way consistent with the cost-based system laid out in A-21. In short, indirect cost policy had ceased to be a technical issue, to be worked out by technicians, and had become a political issue, to be fought out in different arenas using different methods.

The principal arena was the Congress, and the methods were those used by higher education on issues of tax policy, appropriations, or any other matter in which the Congress is involved. Using the ready access to Members of Congress that university presidents and other officers enjoy by virtue of their status back home, the case was made against the reduction. As it happens, the Congress tends to be sensitive to charges of arbitrary action by the agencies of the executive branch, and this one struck a resonant chord. But as it also happens, indirect cost recovery is not an issue that Members enjoy dealing with. Unlike tax policy, for example, which is even more mind- numbingly technical, there is no compensating political reward for becoming an expert on indirect cost recovery. In this instance, therefore, the Appropriations Committees rejected the ten percent reduction, but in doing so they noted that indirect cost rates were rising, and so the Secretary of HHS was instructed to review the matter in consultation with universities and other concerned government agencies and to report on the findings of the review.

DHHS chose to interpret the Congressional instruction as a mandate to restrain the growth of indirect cost rates. Armed with that interpretation, the Department (or OMB—each agency claimed that the proposal originated with the other) proposed to freeze each institution's indirect cost rate at the current year's level. In exchange, it was proposed that mandatory cost sharing be ended. Not only had this arrangement not been negotiated, but it was less generous than it seemed, because virtually all universities were already sharing costs at well above the mandated level, and would need to continue to do so in order for their faculty to remain competitive. Again, the Congress rejected the proposal, and in doing so, it appeared to accept an argument put forward by university representatives that, if there was a problem of rising research costs, it was not a problem limited to indirect costs. Costs are costs, the argument went, and if the Congress were to conclude that too much money was being spent on research, the rational way to deal with that belief was to cut appropriations for research, not one class of expenses. The Congress, in a King Canute-like gesture, this time instructed DHHS to act vigorously to restrain the rise of both direct and indirect costs. It was possible to detect in this instruction a rising level of irritation.

Given the recent record, it was not surprising that in 1986 the government chose to implement half of the congressional mandate—the half having to do with indirect costs. This time, allegedly in order to save $100 million from the NIH budget, the budget that the President submitted to the Congress proposed to limit recovery for administrative costs to 26 percent (later reduced to 20 percent). In fact, nobody knew what such a change would cost universities or save the government. It was a made-up number, useful largely for the number of zeros in it. It was clear, however, that some institutions would have lost a great deal of money, while others would not, depending largely on how they had chosen to account for various administrative items. If the proposal were to be adopted, though, it would put another nail in the coffin of cost-based reimbursement. That was important to all universities, but especially to those in the private sector whose costs could not be met by state appropriations and whose rates, in part a reflection of that fact, were considerably higher than those in the public sector.

The differential impact of this proposal on private institutions led one day to a revealing and alarming insight into the way the world had changed. A small group from AAU and COGR visited the senior official of OMB responsible for the NIH budget and, hence, for this proposal. We pointed out to him that, if adopted, this cap could seriously hurt some of the nation's leading research universities, a result which, surely, we said, no one wanted. He was, to say the least, unmoved. In his view, the government should buy research as it buys anything else, from the low bidder, so long as the quality is adequate. When star faculty in private universities figured out what was happening, either they would bring pressure on their universities to lower their price or they would move to public institutions where their proposals would be more competitive. In either case, the government's purpose would be served: acceptable quality research would be done at lower cost. Where it was done was a matter of complete indifference. I remember thinking, as we left the office in a state of shock, that we had come a long way from the vision of Vannevar Bush, James B. Conant, and the other architects of post-war American research policy.

The battle went on through the Spring and Summer. In the end the Congress had appropriated $1 billion more for NIH than the President had asked, ten times the ostensible savings from capping the administrative portion of the rate. As part of the final budget deal, a sub-element of the administration rate was capped, saving the government no money and costing the universities none. But, to whatever extent cost-based reimbursement constituted a principle worth fighting for, the principle had been formally breached, and the breech would be widened in the years to come. When it was all over, I tried to explain to AAU's member presidents what I thought had happened.

> *"...this attempt to reduce indirect cost recovery was, like its predecessors, motivated primarily by budgetary considerations, not by any particular zeal to reform the research support system. The alleged abuses in the latter were merely useful arguments in support of the former. There are, of course, those who would like to reform the system. For them, the budget pressures provided important support, just as their arguments buttressed the position of those whose goal was to make the budget look better.*
>
> *"If the case had been solely budgetary, I believe that it would have been relatively easy to defeat it outright...*
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> *"However, it was not to be that easy. Doubts about the legitimacy of the administrative elements of the indirect cost rates increasingly were shared by key Members of Congress, and their patience for doing battle yet again in a seemingly endless campaign was growing shorter. As in the past, they were willing to help, but this time the help was accompanied by a clear message: 'Settle it, and try not to come back again.' The instrument for conveying the message was the Yates Amendment to the Urgent Supplemental Appropriations Act, which prohibited OMB from spending any money to implement changes in A-21. OMB took the message to mean that they were expected to reach a reasonable result after consultation with the universities, and we took the message to mean that we could not expect the Congress to continue this extraordinary provision much longer or repeat it very often."*

Of all the battles in the indirect cost war, this one was the most revealing. It was the first clear example of what should already have been clear, and of what the future held: Indirect cost policy was no longer to be thrashed out between government and university accountants. Instead, the political people had taken over on both sides, and while the early rounds of that battle might be called a draw, something had to be done to change the terms of the debate or bad results lay ahead.

The response of the AAU universities, working with COGR, was the creation of the Pings Committee, so named for its chair, Cornelius Pings, then Provost of the University of Southern California and later my successor as President of the AAU. The committee was charged with considering all sensible ideas for reform of the system and to recommend changes that would make reimbursement policies clearer, simpler, easier to explain, more stable, and therefore easier to defend.

The Pings Committee held sessions around the country in which it met with government officials, university officers, and representatives of faculty groups. It commissioned studies of institutional indirect cost rates in an effort to understand better why rates varied among institutions that seemed on the surface similar. In the course of its deliberations, it produced a great deal of interesting and useful information and not least of all a set of recommendations that became the basis for the universities' negotiating stance in the years ahead.

The committee conceded that charges for administration were hard to explain, unpopular and an easy target for ridicule. Since those costs were, in any case, not rising, according to data generated by the committee, it made sense to offer universities an incentive to accept a fixed allowance in lieu of the need to document and negotiate a new rate each time. In exchange for that concession, the committee proposed that facilities and instrumentation costs—interest, depreciation and maintenance—be allowed to rise as those costs actually increased. Adoption of this scheme would neutralize the most controversial parts of the rate and focus on the main issue of public policy involved in the entire indirect cost debate, namely, the need of research universities to keep their facilities and instrumentation up to date.

The Pings proposals produced a spirited debate within AAU. A significant minority of members feared that the report offered the government a menu of acceptable cuts, from which it would gladly choose the choicest ones, without any assurance that the second part of the deal would actually come to pass. Such fears were not groundless, but they were more than matched by a broadly held view that the failure to offer some reasonable plan would be likely to produce even worse results. With some misgivings, therefore, the report was adopted.

The Pings report turned out to be a useful document. It provided the basis for substantive discussions with the government about changes in the system that might be advantageous to both sides. Discussions of this kind always go slowly. While OMB is formally responsible for the rules governing indirect cost payments, it is the research supporting agencies whose budgets and priorities are actually at stake. Getting them to the same table is no easy feat, and once there, their interest in pursuing change is highly variable. The three hundred-pound canary at the table is the Department of Health and Human Services which is the largest supporter of university research and which is responsible for rate-setting and auditing at the vast majority of universities.

The truth is that DHHS has never been committed to genuine cost-based reimbursement. Its historic policy has been to keep rates as low as possible. It shares that view with the National Science Foundation; both agencies preferred to use their appropriations to make more grants at a lower average cost, and the obvious place to lower the average was on the indirect cost side of the ledger. In keeping with that tradition, DHHS representatives had no particular interest in proposals that would allow any major part of the rate to rise with real costs—as the Pings Committee proposals would have done for facilities costs. Thus, the discussions were hardly models of crisp deliberation. Still, progress of sorts was being made, and at the very least, the fact that serious deliberations were taking place seemed to calm the indirect cost waters somewhat.

All of that came to an abrupt end when John Dingell, Chairman of the House Committee on Energy and Commerce, perhaps the most powerful and feared member of Congress, and self-described nemesis of fraud and corruption in government contracting set his sights on Stanford University. Rep. Dingell did not earn his reputation through the use of judicious understatement. The blunderbuss, not he rapier, was his weapon of choice. Here is how he described Stanford's alleged misdeeds in a column for the Palo Alto Times Tribune on March 31, 1991:

> *"What we have learned about Stanford makes former Defense Secretary Weinberger look frugal with his $600 toilet seat. Stanford purchased an early 19th century Italian fruitwood commode at $1200—subsidized by taxpayers. The taxpayers also contributed to...$7000 for linens, the purchase of two Voltaire chairs from Pierre Deux at $1500 apiece, and a pair of George II urns for a 'special price' of $12,084, and $400 for flowers for the dedication of the Stanford horse stables. While all of this was happening, the Board of Trustees saw fit to visit Lake Tahoe on a retreat cost-*

ing $45,250—also subsidized by the taxpayers. In addition, the taxpayers are being asked to pick up a significant portion of the administrative expenses of Stanford's elite shopping center."

With such juicy stuff to chew on, no reporter was inclined to look into the arcana of cost pools, memoranda of understanding, or any other aspect of the system that failed to titillate. Nor did Mr. Dingell and his staff have any interest in helping the press and the public to understand what was at issue. Instead, all discussion of reform stopped, while universities, including Stanford, frantically rushed to a retrospective examination of their cost pools for possibly offending charges and to pay the government for any that they found. The government, for its part, proposed in record time, a revision to Circular A-21 that prohibited reimbursement for charges that failed to pass the smell test—thereby implicitly admitting that those charges had been legitimate before the new rules were adopted.

As is often the case with high profile Congressional investigations, this one turned out to have far less to it than met the eye. In the end, Stanford was essentially cleared of wrong-doing and settled with the government for a little more than $1,000,000 for ten years of audits—a number well within the normal rounding error. But in these matters vindication comes late and in private, while the damage is done early and in public. Stanford suffered some short-term damage to its reputation and some longer-term financial consequences. Research universities, as a class, suffered from a loss of public esteem and a souring of the political climate. And public policy suffered because for nearly a year it was impossible for any government agency to risk talking about reform with universities while they were the object of ridicule and scorn by so powerful a person as John Dingell.

By 1992, calmer heads came into positions of responsibility at OMB and the Office of Science and Technology Policy. Wise and experienced leadership in those two agencies helped to organize a series of informal meetings on Saturday mornings in which the parties explored ways to work out of the impasse that had developed. That process was helped along by a parallel set of discussions co-chaired by William Richardson, President of The Johns Hopkins University and Harold Varmus, a Nobel Laureate, a Professor at UC San Francisco, and not long thereafter, Director of The National Institutes of Health. These conversations included university administrators, association heads, faculty, and representatives of the major scientific societies. Their purpose was to identify areas of agreement and to use those as a means of bridging the areas of disagreement. The process, as much as the substance of the group's work, helped make it possible for all parties to take part in the larger negotiations then in progress and gave the results of those negotiations a degree of political legitimacy previously unattainable.

Eventually, a new set of proposals was developed that would limit recovery of administrative costs but continue to reimburse facilities costs, very much in the spirit of the Pings Committee report. Language incorporating those changes was drafted and largely agreed to. It seemed that closure was near.

But 1992 was not an ordinary year; it was a presidential election year. During the campaign, candidate Bill Clinton stopped at a Maryland college campus, and in his speech to students and faculty, he promised to bring an end to the waste, fraud, and abuse of the indirect cost system. He would, he said, take research funds from the wasteful university administrations and return them to the scientists in their laboratories. No doubt to the surprise of the candidate and his staff who could surely not have known much about the history of the issue or the passions it excited, a tidal wave of letters, faxes and phone calls hit the campaign from every "friend of Bill's" who could be identified by university representatives. The Clinton campaign, while not publicly changing its position, gave informal assurances that the candidate had not meant exactly what he said. It turned out, however, that, upon taking office, the new leadership of OMB refused to issue the revised rules that the old crowd had agreed to, and a new round of studies and negotiations was begun.

What Have We Learned?

That is far from the whole story, though. The place to start is with a dose of reality—or several. For universities, that means that it is past time to give up the fantasy that government is a partner in the research enterprise. The government is many different things in this relationship—patron, priority-setter, scold, regulator—but it is not and cannot, by its nature, be a partner, if that word means what it is commonly understood to mean in ordinary discourse. It is not that the government acts in bad faith, it is that it acts out of its own nature: a democratically-controlled apparatus, subject to multiple pressing demands, in which policy is set by a changing cast of characters who come to power with different ideas of what is important and how to accomplish it, urged on them by shifting electoral constituencies. For all its ups and downs and fits and starts, there has been a remarkable constancy in the government's commitment to university-based research, but no commitment is good beyond the next appropriations cycle, and in emergency circumstances, not even that far.

The most debilitating manifestation of the partnership myth as it affects indirect cost policy is the persistent notion that universities were promised full cost reimbursement for research, and that any departure from that commitment is a breach of faith. I can say, categorically, that in my ten years dealing with this issue in Washington I never met a single federal official who believed that any such promise had ever been made or who had any intention of reimbursing full indirect costs, even if it were possible to calculate that elusive sum.

Universities can save themselves future trouble if they view their relationship with the government as another example of the most common kind of Washington relationship, a combination of business and politics. The goal should be to strike the best deal possible, to keep a sharp eye out for changes in the environment that might produce a shift in policy, and to be prepared to act to help shape the new policy.

Faculty, too, have a date with reality. Even in this (perhaps brief) period in which politicians have chosen research as the road to sustained economic growth, it cannot have escaped their notice that there is broad public and political concern about the quality and availability of undergraduate education and that institutional subsidies for research are blamed by many for rising tuitions. While faculty enjoy short term advantages from lower indirect cost rates, in the longer term the insistence on low rates combined with the demand for compensating institutional subsidies may well increase the force of a backlash that is already larger than the size of a man's hand on the horizon.

There is a general lesson which both university administrations and faculty would do well to learn: The great thing about disputes over money is that they provide a handy matrix for compromise. However, when disputes over money are turned into arguments about principle, only war can settle the matter. The battles over indirect cost are quintessentially fights about dollars in which invented principles have been used to bludgeon the adversary. The sensible approach is to negotiate as hard as possible on every occasion, and then return to fight another day. It is an approach that applies equally to institutional negotiations over rates and to higher level negotiations over policy.

Finally, and most important of all, it should be clear that in facing the government universities and their faculties have far more important interests in common than there are differences between them. Differences there are, to be sure, but they are not necessarily unhealthy unless, as was too often the case in the past, they are allowed to grow larger for want of a structure in which they can be negotiated and resolved. Much more effort needs to be devoted to building and maintaining a coalition that will enable universities and their faculties to deal with the government on all of the issues of research costs, direct and indirect, as if they were actually participants in a common enterprise and not warring parties that happen to inhabit the same piece of land. That won't "solve" the indirect cost problem, but it is the course most likely to produce policies that will enhance the great enterprises of teaching and research in the interest of the American people.

About the Author

In 1993 **Robert Rosenzweig** became President Emeritus of the Association of American Universities. He lives in Palo Alto, CA where he has been writing and consulting with a number of universities on issues of policy and organization.

From 1983-93 he served as President of the Association of American Universities, a Washington-based organization representing the interests of the nation's leading research universities. For twenty years prior to that he held a variety of academic and other administrative positions at Stanford University, the last of which was Vice President for Public Affairs.

Rosenzweig took a BA and MA in Political Science from the University of Michigan and a PH.D. in the same field at Yale. He taught at Amherst College, and before joining Stanford in 1962 spent five years in Washington, first as a Congressional Fellow of the American Political Science Association and then in the U.S. Office of Education, the last two years of which were as Special Assistant to the Commissioner.

He has written three books and many articles on various topics in higher education

The books are: "The Federal Interest in Higher Education" (with Homer D. Babbidge, Jr.) 1962 (McGraw Hill); "Research Universities and Their Patrons" (1982); and "The Political University: Policy, Politics and Presidential Leadership in the American Research University", The Johns Hopkins University Press (1998).