

in a comparison of cost of production in the public sector, and in the private sector, and for reasons which BOB regards as sufficient I believe it is the determination of the Bureau of the Budget to still exclude State and local taxes from such determinations. This exclusion is defended on the basis that it is difficult, if not impossible, to arrive at an estimate of what the State and local taxes would be. That was Mr. Gainsbrugh.

At the same time those State and local taxes are very real and in general we know they are going to be on virtually on everything you are going to purchase and there are taxes.

Mr. HUGHES. State and local taxes were excluded for a variety of reasons from consideration in Circular A-76 as it was originally issued. This is one of the suggestions that we have received from the General Accounting Office, as a matter of fact. I think Mr. Gainsbrugh referred to this and requested that consideration be given to the inclusion of such taxes. They were excluded after a great deal of consideration originally for several reasons, not just the one Mr. Gainsbrugh made. Difficulty of calculation is a part of it. The tremendous range of taxing jurisdictions and so on.

A second consideration was the fact that at least so far as the Federal Government is concerned, State and local taxes do not represent a cost, they are a public sector cost but not a Federal Government cost.

Third, such examination—

Chairman PROXMIRE. What do you mean by that? They are a public sector cost but not a Federal Government cost—why not?

Mr. HUGHES. The Federal Government would not be paying State and local taxes whether or not the enterprise is private or public.

Chairman PROXMIRE. At the same time those taxes do represent a contribution to State and local governments.

Mr. HUGHES. That is correct.

Chairman PROXMIRE. Absent that procurement from a private source which enables them to pay that State and local tax you would have less support for education, for welfare, and so forth.

Mr. HUGHES. That is correct. That's what I was trying to say. State and local taxes are derived by State and local governments but they are not a direct cost, at least to the Federal Government. And this was one of the considerations which moved us to leave them out of the original circular.

A third consideration was the fact that such analysis as we have given to the problem would indicate to us that the effect of the inclusion of State and local taxes on comparisons would be virtually de minimis, of the magnitude of 1 or 2 percent, perhaps, excluding the utilities area.

Chairman PROXMIRE. That low when you consider personal property taxes?

Mr. HUGHES. Yes.

Chairman PROXMIRE. And State income taxes and so forth?

Mr. HUGHES. Yes. This is the best analysis that we have been able to get.

Chairman PROXMIRE. One or two percent?

Mr. HUGHES. Yes.

Chairman PROXMIRE. Astonishing.