

I would ask your leave, if I may, to run a bit over my time, since this will be the only presentation I will be able to make.

Representative GRIFFITHS. You may proceed.

Mr. YLVISAKER. I will be wearing two hats. I came at your invitation as a long-time observer of the American Federal scene, I suppose as a technical expert. But I can't ignore the fact that I also am Commissioner of the Community Affairs Department of the State of New Jersey. What this means I am sure you understand, that as a politician I reserve the right to take exception to conclusions and remarks I might make as a technical observer.

I can start by wearing both hats very easily: Both as observer and commissioner I am generally in favor of a redistribution and redeployment of national tax resources in favor of State and local governments.

As a State commissioner, I am particularly in favor when the money comes to where I am. I am with the States these days. I used to be with the mayors and I suppose in those days you would have found me arguing for very much of a pass-through arrangement, which would avoid the States and get directly to the central cities where I was particularly concerned.

However, I think there are contrary arguments, cases to be made on both sides. Let me start by making the case for decentralization and redeployment.

I think the most persuasive argument in favor of decentralizing our national resources is that the problems in this country have become far too complex, and the national bureaucracies have become far too impotent to get the jobs really done. More and more I think we have to recognize that we have scouts out in front of the National Government in the form of States and in the form of mayors and county people throughout the country, and these scouts need a lot of elbow-room, and a lot of support. We really don't have, as I will argue through this statement, basic solutions to basic problems.

Usually national programs presume clear policies, agreed-upon solutions, and agreed-upon ways of doing things. This is not the case with the major problems we deal with in the United States today. They are extraordinarily diverse, varying from one community to the next as we have seen these last 2 weeks. Therefore, putting some flexible funds, certainly more ample financial elbowroom at the disposal of people where the problems are, will be a generally supportable proposition.

Another compelling argument for a redeployment of national tax resources has been provided by Professor Baumol of Princeton University. He has indicated that as we move toward the service economy away from manufacturing, we get into a situation of escalating costs because labor is the end product of service activity. In manufacturing, one can increase output and reduce the costs by automating out the service element, the labor component. Yet in the field that we are dealing with, in the public sector particularly at State and local levels with the kind of problems we have, services are the end product: fire and police protection, all kinds of security, medical, health, education, welfare, and the rest.

One cannot in the service sector avoid an implicit escalation of costs, and this is what the Government these days is being faced with. Even to keep the quality and levels of services as they are, requires, with an expanding population and rising wages, almost a geometric