1. State-local governments will be disposing of sums which are very large indeed. The room for maneuver ought to be greater than we have come to associate with state-local spending. There will then, I suggest, be numerous margins at which urgency, to say the least, will be slight. Would it not seem reasonable, then to expect that emerging needs of high urgency could sometimes be financed by curtailing the growth of existing expenditures? The amounts of some programs will be large enough so that the importance of marginal outlays will presumably be rather slight.

2. The rate of projected rise in revenue might well serve to alert us to the importance of effort for efficiency in state-local spending. Otherwise avoidable waste seems likely to grow. An easing in the net financial position invites relaxation of effort for economy; removal of the power of insistent necessity as a factor for care in state-local spending calls for some counterpart.

3. My third point is the "exception" referred to in the last footnote. A large portion of state-local spending goes for salaries. The power of human desire for more income needs no documentation. The salary projections may understate the rise. One must be cautious lest the immediate and familiar, especially if it is a bit novel, assumes undue weight in assessments for the longer run. Correctives do have a way of appearing, as the change in birth rates reminds us. Yet collective bargaining grows among government employees. Use of the term "militancy" in discussing some groups of public employees may not be sheer hyperbole. It takes little imagination to foresee cities in which more than all available revenue increases are always demanded by employee groups to whose power the public tends to defer.

4. The increase in Federal grants under programs now existing will be substantial. Without this increase, the state-local picture would be rather different. Yet assuming the overall magnitudes projected—and in a sense "planning" on the basis of such an aggregate—one does not preclude change in the form by which the higher total is to be provided. Some move toward broadening grant categories, and even toward block grants, seems to me desirable in principle.

5. The greatest promise of making Federal grant programs more conducive to national well being—whether by rearrangement within the same dollar total or by any increase—would seem to me to lie in enlarging the Federal proportion of the total of the country's pure welfare assistance. (Choice among alternative forms is not my present point.) Perhaps I am too close to the immediate problems of New York City. Increasingly, however, I feel that, per dollar, the best promise of constructive improvement of Federal-state-local financial relations will be found in the broad area of welfare assistance. Perhaps Medicaid will in fact accomplish much indeed along these lines.

6. Reduction in Federal tax rates offers an alternative not to be overlooked. Time has not permitted me to try, as I once planned, to trace out possible effects of reduction in the corporation income tax rate. Getting rid of the top 10 percentage points seems to me to have far greater all-around merit than commonly recognized.[4]

7. The submission of projections such as these involves a subtle risk. The speaker may appear to assume that the growth of state-local spending shown would always, or even generally, be preferable to reduction in tax rates. No such conclusion ought to be read into anything I say. One of the more welcome fruits of rising prosperity could well be greater freedom for the individual and voluntary groups to dispose of more of the increases. Clearly, the political process must be used for some economic decisions. But beyond the essentials lies a considerable area open to choice. The very nature of a society with the total output envisaged for 1975—$1.2 trillion of GNP—would seem to me to be one with relatively greater scope for freedom of choice. At the very least, it would be wrong to imply that no such opportunity will lie before us and our children.

Representative GRIFFITHS. Thank you very much.

Mr. Kegan?

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[4] Much of the discussion of Federal-state-local financial relations now deals, one way or another, with concern for the very low income groups. On the assumption that half of the corporation income tax falls on consumers, the total burden on the "Under $2,000" and "$2,000 to $3,000" income classes is substantially greater than the total of state general sales taxes; even taking account of differences in total revenue yield, the corporation income tax bears heavily on low income groups. (Other considerations add to my reasons for recommending that corporate rate reduction get high priority.) Tax Foundation, *Tax Burdens and Benefits of Government Expenditures by Income Class, 1961 and 1965* (New York: The Foundation, 1967), p. 48.