Before taking up this problem of geographic disparities, I would just like to make a brief remark on the other side of the whole issue of fiscal federalism; that is, the fiscal position of the Federal Government. I can't see any way of denying the likelihood of great fiscal ease for the Federal Government assuming that the Vietnam war is ended. There is just nothing that you can see that points in any other direction. And if massive fiscal drag is to be avoided, some combination of reductions in Federal taxes, increases in direct Federal spending or increased Federal financing of State-local services will be necessary. This is the context within which our discussions must take place. If the Federal Government is flush, modest State-local fiscal problems suggest Federal tax cuts, severe State-local problems indicate increased direct or intergovernmental Federal expenditure.

Now, I also think there is really very little argument with the proposition that the really grave fiscal problems, to the extent that there are any at all in the State and local sector, will occur in the more urbanized parts of the country, and within these regions in the large central cities. This is for reasons that are familiar to all of us: the concentrations of the poor and the disadvantaged in large cities, their accumulations of fiscal obsolescence, and their relatively slow rates of growth in income and wealth due to the decentralization of economic activity. Optimistic overall projections of State-local fiscal prospects are based upon the responsiveness of tax systems in a rapidly growing economy. And I think these projections make great sense. But the big central cities show up very poorly in this connection. If their economic or their tax bases are not expanding rapidly, the kind of projections we have been making when we deal in aggregates simply are not relevant to this situation. Meanwhile, central city expenditures are climbing rapidly.

This is not mainly a result of responding to the needed improvements in their physical plant. Consider the largest conceivable increases in expenditure for things like urban renewal, mass transportation, parks and recreation, and so on, that is, to improve the physical plant and public facilities within central cities, increases of several hundred percent over existing levels of spending. These, by themselves, would really present no great problems, because the amounts of money involved really are not large in the aggregate. The real fiscal difficulty in the big central cities arises from rapid increases in expenditures for services relating to race and poverty, notably now what is called compensatory education, health and welfare activities.

In this connection it is important to note that virtually all of those who have projected State and local expenditures, including me, did not really forecast the very large recent rises in the State and local expenditures for resources related to poverty. Dr. Mushkin's projections of public welfare expenditures are really better than most in this regard. But since they are more explicit, they are a good target. She projected a national increase in total public welfare expenditures averaging 6.8 percent a year between 1962 and 1970, and a 4.6 percent annual increase in expenditures less Federal aid, that is, expenditures financed by State and local government.

But between 1962 and 1965, both the total and the portion financed from State-local funds rose by about 8 percent a year, substantially