Now, just a few comments on the meaning of a revenue-sharing plan on the revenue side, and its relationship to grants-in-aid, and something on equalization.

I indicated that if 2 percent of the income tax base were set aside this year for the States, the grant would equal $6 billion or roughly $30 per capita. Any State can figure out its annual allocations by multiplying the population of the State by $30, leaving aside for a moment the 10-percent equalization.

Now, over the years it is striking how much the income tax base has grown. It was $65 billion in 1946. It was $210 billion by 1963, and as I indicated it will be about $300 billion this year. The income tax base—that is the base after all exclusions, exemptions, deductions, and evasions—has risen from 31 percent of GNP in 1946 to an estimated 36 percent in 1967. Taking this growth rate, by 1972 our Federal individual income tax base should be $426 billion, and that means that a 2-percent set-aside would grow to $8½ billion for the States by 1972. That underscores the point that a share in the Federal income tax would be a share in U.S. economic growth.

Now, some people are concerned that in recession there might be a very bad setback to the State shares. I would like to note the tax base has declined only twice since the end of World War II—by 4 percent in 1949 and by less than one-tenth of 1 percent in 1958. One could build some safeguards so that even those small declines would not occur.

Another standard that was suggested was that we increase the progressivity of the Federal-State-local tax system. I think putting some of the power of the Federal income tax at the disposal of the State-local government, whether they use it for expanding services, whether they use it in place of increases in regressive State-local property sales and excise taxes or even if they use it for an occasional tax cut, in all of those cases we are still relying more heavily on the Federal income tax and less heavily on the State-local regressive taxes.

And coupled with this is the interstate equalization point. A significant part of the case for the revenue-sharing approach as compared with other approaches now rests on the service that it does in the cause of narrowing the gaps in service levels between wealthier and poorer States. I think we need to remind ourselves how huge those gaps are. In 1964, for example, the total State-local expenditure per capita ranged from $525 on the average in the highest five States to only $252, less than half in the poorest five. For education alone the range was from $197 to $94. For public welfare it was from $52 to $15.

You get much the same story for per capita revenue collections. Yet, the poorest States are making just as great a tax effort in terms of the ratio of tax to income as the richest States. Since they are getting a much poorer diet of government services for their pains, we see here a serious indictment of the workings of our fiscal federalism.

Finally, just a few words on the relationship to grants-in-aid. There is no doubt that grants-in-aid require a substantial amount of internal reform of their own. They are too tightly categorized. They often undercut mayors and Governors in the way in which they are distributed. Yet, they are a fundamental instrument for carrying out functions in which there is a national interest, functions in which we economists say there are large spillover effects, spillover effects that