ically and in a constructive attitude by the major decision makers at all levels of government.

Question.—You argue that the States and local governments need financial assistance. Don't most of the current projections show that they will be accumulating large surpluses in the next few years?

Answer.—In spite of dramatic postwar growth in categorical aids as well as State-local tax revenues, there has been no let-up in the intense fiscal pressures on States and localities. Some recent projections seem to suggest that prosperity in State-local finance is just around the corner, that spending pressures will relent while revenues grow. But these projections are vulnerable on two counts:

First, they rely too heavily on projections of demographic factors, which tend to show that the pressure for government services at the State-local level will not build up as fast during the next decade as it did during the last. But these projections not only under-emphasize current deficiencies in State-local services, but tend to underestimate the demand for increased *quality* of these services, which—because of the slow growth in productivity in these sectors—must reflect itself in increased expenditures. Virtually all projections of State-local financial needs have in the past underestimated the great surge in State-local expenditures for this reason.

Second, the projections show relatively small net surpluses on balance for all State and local governments. This aggregation process tends to obscure the sharp pressures for higher expenditures and taxes, because they lump together States where pressures will be heavy with those where pressures will be lighter. In those circumstances where surpluses will be developing, expenditures will tend to rise to eliminate them, since there will be urgent unmet needs in such States. In all the others, it will be necessary to raise taxes to keep going.

Recent and current tax activity among the States testify to the unrelenting pressures for more funds. Between 1959 and 1967, every State but one raised rates or adopted a new major tax; there were 230 rate increases and 19 new tax adoptions in this period. This year, the governors asked their legislatures for $3 billion in additional revenues, and many of these proposed have already been enacted. In the first six months of 1967:

Michigan enacted new personal and corporate income taxes.

Nebraska added new personal and corporate income taxes and a sales tax.

West Virginia adopted a corporate income tax.

Minnesota added a sales tax.

Increases in sales tax rates were enacted in Illinois, Iowa, Nevada, North Dakota, Rhode Island, Washington, Wyoming.

Individual income tax rates were increased in California, Iowa, Maryland, Montana, Vermont.

Corporation income tax rates were raised in California, Iowa, Maryland, Minnesota, Montana, Tennessee.

In addition to these actions already taken, other State legislatures are still considering proposals by their governors. The California revisions, which increased State taxes by more than 20 percent, were approved by the Governor on July 29. Only two States—Kansas and North Carolina—lowered taxes to some extent, and both were cases of tax reductions concentrated at the lower income levels.

All this activity does not warrant the complacent conclusion that State and local governments can meet future needs with their present resources. The projections which were made as recently as last year are already out of date, and will become increasingly so with the passage of time.

Question.—Many people have recommended a Federal income tax credit for State income taxes as a substitute for revenue sharing. Wouldn't the credit do the trick?

Answer.—Federal income tax crediting for State income taxes is an attractive device, particularly if it could be coupled with tax sharing or general assistance. But, if a choice has to be made, the balance of advantages favors the revenue sharing plan:

First, because of its contributions to interstate equalization, which the income tax credit can't possibly duplicate.

Second, because its entire proceeds would flow into State and local treasuries while a good part of the benefits of the tax credit would initially accure directly to the taxpayers rather than to their governments.

Third, because the tax credit would have to overcome the barriers involved in inducing 15 States to adopt a tax they have not chosen to adopt on their own.