Mr. HELLER. Well, one reason that we key it to the base rather than to the rate structure, that is, a percentage of revenues, is so that it would not tie the Federal hands in any way in terms of stabilization policy—though, I must admit that making it sound like 2 percent instead of 10 percent is a politically attractive proposition.

Senator PROXMIRE. It is very clever. It certainly is.

Mr. HELLER. That was not our rationale; not that we would not want to take advantage of it.

Senator PROXMIRE. Advantage of it.

Mr. HELLER. But the rationale of it was that by not giving the States a vested interest in a particular set of rates by giving them instead a chunk that is collected for them related to the income tax base, fluctuations in Federal tax rates for stabilization purposes would simply not affect them.

It does mean that the Federal Government at a particular time might have to incur a larger deficit than it otherwise would. But the Federal Government is equipped to do that. It is the stabilization agency. It has the monetary powers and it has the responsibilities under the Employment Act of 1946 to maintain stability.

Senator PROXMIRE. You are following a Friedman-like approach. As far as this is concerned, his notion on monetary policy of having an increase in the money supply at a certain time of the year, you are saying that regardless of whether you had a depression, a recession, inflation, you would feed out a certain amount to the States.

Mr. HELLER. No. It is—heaven forbid.

Senator PROXMIRE. Isn't that what you said?

Mr. HELLER. As far as the States are concerned, this would be, in effect, like saying that under the categorical grants you do not shift the categorical grants down in a recession or up in prosperity. You simply have a stable allocation of a certain percentage of this base. It will change somewhat in relationship to the faster or slower growth of the base, but I do not think that this ties the hands of the Federal Government in its stabilization policy actions at all.

I believe in discretionary changes in the Federal tax rates, and I would not want to pursue a plan that would tie the Federal hands in any way, and I do not believe this does.

Senator PROXMIRE. My time is up, Madam Chairman.

Representative GRIFFITHS. I would like to get on the record some questions that I think have to be answered.

As I have read your plan or your testimony, the way I understand that this would work would be something comparable to social security.

You would set up a trust fund; you would have an automatic feedback.

Now, I want you to explain to me why it does not have some of the other problems of social security.

For instance, Mr. Rumsfeld, I believe, represents the highest level of income in any congressional district in the United States. Every person in his area——

Representative RUMSFELD. I might say I am not representative of that. [Laughter.]

Representative GRIFFITHS. Every person in his area, it is possible, is paying the maximum social security tax.