

Mr. BAILEY. They do not pay a tax as such, Mr. Curtis, but in some States there is a use tax levied on the contractor for Government—

Representative CURTIS. Equipment? Well, this is very good. I didn't even know there was that.

Mr. BAILEY. Materials, particularly.

TAXES AND LOCAL BENEFITS

Representative CURTIS. I was thinking of both, of equipment and materials. Now, in most States or most local communities, manufacturers' and license tax do go to leased equipment. It isn't just whether it is ownership. If it is leased it will go to that.

The significance of this, of course, is that the manufacturer gets the benefit of police, fire protection, streets, sewer, all the community facilities which cost, and this is one way of sharing the cost that goes with it.

The police protects that inventory, the fire department protects the inventory, protects the machinery. It all gets this advantage.

LOCAL TAXES AS A FACTOR IN DETERMINING GOVERNMENT IN-HOUSE OPERATIONS

I am very disturbed, I might say, at the Federal Government not paying its fair share for its facilities, and I am now switching fields a bit, to an entirely owned Government facility which gets the same benefits from local services, and yet, here in the A-76 memorandum of the BOB where we are trying to establish the guidelines, the factors in cost accounting, in order to determine whether the Government should be doing something in-house, or whether it should be done in the private sector, there is no recognition of the costs of local taxes, which I would argue again are costs which relate to real services that are rendered. Would you comment on this?

Mr. STAATS. We point this out in our statement here, Congressman Curtis. This is undoubtedly the most difficult and most significant unresolved question in terms of the policies that the budget circular addresses itself to, and I emphasize this because one of the reasons that it is difficult and important is that the size of State and local taxes has obviously gone up very dramatically over the last several years.

Representative CURTIS. Not in relation to wealth, if I may say; not the percentage.

Mr. STAATS. It has gone up almost any way—

Representative CURTIS. Not percentage.

Mr. STAATS. Percentage of what?

Representative CURTIS. Of the tax, the rate of the tax has not gone up. What has happened is that the base, the wealth has gone up, so the total revenue take of local governments has continued to increase, as you said.

But, let me assure you that the ratio of the tax to the wealth, which is the base, is a very healthy one. The tax base of the local communities is in a healthy position, because wealth has been increasing more rapidly than gross national product.