After carefully considering the policy statements in the earlier issuances in 1955, 1957, 1959, and 1966, we believe the basic statement of policy on competition with private enterprise was, in fact has been, essentially the same through the years since the first bulletin was issued about 12 years ago.

STATE AND LOCAL TAXES

The subcommittee report also made reference to the possible inclusion in Government costs of estimated amounts for State and local taxes. The revised circular makes no change in respect to this item, but we are continuing our exploration of it. Large and growing grant-in-aid programs, and rising interest in the subject of Federal sharing of revenues with State and local governments, both indicate a need to study further the policy of excluding State and local taxes from cost comparisons. We know, however, that estimating these taxes will be difficult, and that in many, perhaps most instances, the effect of inclusion or exclusion will be small.

Mr. RUMSFELD. That last sentence bothers me.

You say it will be difficult to estimate, I cannot see, myself, why it is any more difficult than any number of other estimates which you are making. And I would be interested to know why you say the effect would be small. It is a rather substantial sum.

Mr. HUGHES. Let me try and comment—first on the difficulty of estimation. True, we can estimate anything—the question is the difficulty of estimating reasonably accurately.

The problem stems in part from the large number of local jurisdictions and consequent differences in tax practice, tax rates, and so on, and in part also from identifying through the contractor, subcontractor, and so on where the taxes actually are being paid or forgone, as the case may be.

Now, with respect to the effect of inclusion or exclusion, we are exploring this further. But except for utilities—and that is an important exception, obviously—the best data which we have seen and analyzed suggests that State and local taxes in general are less than 1 percent of costs in manufacturing, distribution or service industries.

Now, utilities are different, because of their generally large real estate holdings.

In the case of utilities, the data we have suggests that State and local taxes may approximate perhaps 5, 6 percent of total costs, in which event they may well be significant in a particular cost comparison.

Mr. RUMSFELD. Is this part of the 10 percent?

Mr. HUGHES. The 10 percent is a margin, sort of, and was, as originally contemplated, considered to include an allowance for this and other elements of potential error or oversight in the estimating process.

In addition, it was also intended to be an "edge" for private industry in making these sorts of decisions.

Let me add just one other point.

The 10 percent is not intended to be 10 percent and only 10 percent. It is rather a kind of ground rule or baseline.

Representative RUMSFELD. It came out of the air?

Mr. HUGHES. Yes, sir. It has no technical——