

years of \$150 billion or more, *in addition* to the "normal" growth of \$120 billion cited earlier. That would mean that, in ten years, State and local debt would be rising by \$30 to \$35 billion or more a year, rather than by \$10 billion, or less, as at present.

To some extent, the new programs cited may substitute for what I have counted as "normal" growth. But this overlap may not be large; the new programs cited will deal essentially with new types of needs. Also, the annual new dollar authorizations which Congress has now provided for the next few years may not be continued at the same level for a decade. Given the pressure of underlying needs, however, it seems at least as likely that, on the balance, we will see increases rather than reductions in Congressional authorizations as the decade progresses.

In citing these potentially very large figures, it has not been my purpose to suggest that the indicated requirements cannot be financed through debt issues. My hunch is, in fact, that, in a strongly growing economy and with continued progress in tapping new sources of savings, the task will, in the end, prove manageable. If the economy expands at a rate in real terms of 4 to 4½ percent over the next decade—which is quite practicable under intelligent economic policies in both public and private sectors working together—we would have a GNP in 1978 of some \$1.3 trillion, which would generate a lot more tax revenues and a lot more savings. But there can be no doubt that, even so, the task will be more manageable only if we have major improvements in methods of mobilizing capital.

The need for new financing approaches

In calling for such improvements, I assume that the traditional means of financing State and local government needs will have a continued role, particularly in the financing of tasks that have customarily been entirely in the province of such governments. But I do not think that these means alone will be adequate to cope with the huge additional demands generated by new types of programs or that they can fully satisfy the criteria of maximum efficiency and economy.

As I have indicated previously, by far the most promising approach for mobilizing the needed new capital in a more efficient manner would seem to lie in the establishment of a new central financing institution for domestic development—such as a National Urban Development Bank.

Many different proposals for such a central development financing institution have recently been offered, and the need is to reach agreement on the more precise characteristics of such an institution.

As I see it, the new institution would issue its own securities, backed by Federal guarantee, and relend the proceeds to program agencies—either to Federal lending agencies or directly to State and local bodies, depending on Congressional decisions as to individual program structure and control. Aside from the Federal guarantee, which would help marketing and minimize interest costs, a Federal contribution, to the extent necessary and desirable, could come from clearly identified interest rate subsidies given borrowers from the institution and provided by direct Congressional appropriations.

The advantages of the new approach would be manifold.

First, the new institution could develop one efficient marketing instrument—or family of instruments—with broad appeal to various investor classes. It could thus tap a much wider market than the many instruments now being issued by a great variety of Federal agencies and State and local agencies receiving Federal assistance. The market for such instruments would also be likely to attain much greater depth than alternative financing means for urban development purposes. Thus, secondary markets should develop which would allow ready "shiftability" of the securities among investors. In speaking of "one" efficient marketing instrument, I do not necessarily mean that the institution would issue only a single type of instrument. It could offer a number of closely related types of securities, but tailored in ways that broaden the range of reachable investors, similar to the spectrum of offerings now used in Federal debt management, itself. But these instruments should be carefully designed to fit into a coherent whole. Probably variations in types should be relatively few for some time; and their relation to the Treasury's debt, itself, would have to be carefully considered.