REVENUE SHARING AND ITS ALTERNATIVES: WHAT FUTURE FOR FISCAL FEDERALISM?

378

HEARINGS

BEFORE THE

SUBCOMMITTEE ON FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

NINETIETH CONGRESS

FIRST SESSION

NOVEMBER 7, 8, 9, 14, AND 15, 1967

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[NOTE.—Part 1 of these hearings covered the proceedings of July 31, and Aug. 1, 2, and 3, 1967.]

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NOVEMBER 15, 1967

REVENUE SHARING AND ITS ALTERNATIVES: WHAT FUTURE FOR FISCAL FEDERALISM?

TUESDAY, NOVEMBER 7, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in the House Ways and Means Committee hearing room, Longworth House Office Building, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representatives Griffiths and Widnall; and Senator Miller.

Also present: John R. Stark, executive director; James W. Knowles, director of research; and Richard F. Kaufman, staff economist.

Representative GRIFFITHS. The committee will come to order.

At this point in the record we will insert the announcement of these resumed hearings and the list of witnesses and scheduled times for their appearance.

(Announcement and list follows:)

WEDNESDAY, NOVEMBER 1, 1967.

CONGRESS OF THE UNITED STATES, JOINT ECONOMIC COMMITTEE, SUBCOMMITTEE ON FISCAL POLICY

REPRESENTATIVE MARTHA W. GRIFFITHS ANNOUNCES ADDITIONAL HEARINGS ON REVENUE SHARING AND ITS ALTERNATIVES: WHAT FUTURE FOR FISCAL FEDERALISM?

Representative Martha W. Griffiths (D. Mich.), Chairman of the Subcommittee on Fiscal Policy of the Joint Economic Committee, today announced that the subcommittee would hold five days of hearings—November 7, 8, 9, 14 and 15—on "Revenue Sharing and its Alternatives: What Future for Fiscal Federalism?" These hearings are a continuation of those held earlier in the year (July 31, and August 1, 2 and 3). All Hearings will be held in the House Ways and Means Committee Hearing Room, 1st Floor, Longworth House Office Building.

The schedule of the hearings follows:

Tuesday, November 7, 10:00 a.m.—
- FARRIS BRYANT, Chairman,
- WILLIAM G. COLMAN, Executive Director,
  Advisory Commission on Intergovernmental Relations

Wednesday, November 8, 10:00 a.m.—
- HENRY S. REUSS, United States Representative, State of Wisconsin
- MELVIN R. LAIRD, United States Representative, State of Wisconsin
- HOWARD H. BAKER, United States Senator, State of Tennessee

Thursday, November 9, 10:00 a.m.—
- CHARLES E. BENNETT, United States Representative, State of Florida
- EDMUND S. MUSKIE, United States Senator, State of Maine
- NATHAN KAUFMAN, Mayor of University City, Missouri

Tuesday, November 14, 10:00 a.m.—
- JEROME P. CAVANAGH, Mayor of the City of Detroit, Michigan
- WENDELL E. HULCHER, Mayor of the City of Ann Arbor, Michigan

Wednesday, November 15, 10:00 a.m.—
BERNARD F. HILLENBRAND, Executive Director, National Association of Counties

The Fiscal Policy Subcommittee of the Joint Economic Committee will be in order. We are especially happy to have you here, Mr. Colman. We understand you will present a statement by Mr. Farris Bryant, Chairman of the Advisory Committee on Government Relations. You may proceed.

STATEMENT OF HON. FARRIS BRYANT, CHAIRMAN OF THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, AS PRESENTED BY WILLIAM G. COLMAN, EXECUTIVE DIRECTOR OF THE COMMISSION; ACCOMPANIED BY JOHN SHANNON, ASSISTANT DIRECTOR, AND WILL S. MYERS, JR., SENIOR ANALYST

Mr. COLMAN. Thank you, Madam Chairman, Senator Miller. I am representing the Advisory Commission on Intergovernmental Relations and I am presenting a statement by Farris Bryant, the Chairman of the Commission.

Madam Chairman and members of the subcommittee, these proceedings of your committee over the past several weeks have highlighted the fact that the Federal fiscal outlook changes with the times. Sometime soon, perhaps, the National Government again will be in a position to consider declaring "fiscal dividends"—as it was 3 years ago. But meanwhile, the future of fiscal federalism should be built on firmer foundations than the quicksand of a fluctuating outlook for the Federal budget. A broader, more balanced Federal-State-local approach to fiscal policy is needed, and that is what we will discuss in the following statement.

Two years ago, the Advisory Commission embarked on a study of fiscal balance in the American Federal system with a view to developing policies for improving intergovernmental fiscal arrangements. The Commission for some time had been aware that many of the existing grant-in-aid arrangements were causing severe strains in Federal-State-local relations.

The Commission devoted two meetings to its comprehensive report on "Fiscal Balance in the American Federal System." The first meeting in July 1967 focused mainly on the administrative and manageability aspects of categorical assistance at the Federal, State, and local levels. In October 1967, the Commission completed consideration of the report, focusing on topics such as basic structure of federalism, and metropolitan fiscal disparities. A current list of Commission members is appended to this statement as enclosure 1. A complete list of the 39 recommendations adopted by the Commission is appended as enclosure 2 to this statement for insertion in the record, if you desire. The completed report is in the process of reproduction, and printed copies will be available about the end of the year.

(Enclosures 1 and 2, as referred to, follow:)

[Enclosure 1]

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

FARRIS BRYANT, Chairman.
PRICE DANIEL, Vice Chairman (Director, Office of Emergency Planning).

Ben Barnes, Speaker, House of Representatives, Austin, Texas.
William O. Beach, County Judge, Montgomery County, Clarksville, Tennessee.
Neal S. Blaisdell, Mayor, Honolulu, Hawaii.
Ramsey Clark, Attorney General.
Dorothy I. Cline, Professor of Government, University of New Mexico, Albuquerque.
John Dempsey, Governor, Hartford, Connecticut.
C. George DeStefano, Member of the State Senate, Barrington, Rhode Island.
Florence P. Dwyer, Member of the House of Representatives.
Buford Ellington, Governor, Nashville, Tennessee.
Sam J. Ervin, Jr., Member of the Senate.
L. H. Fountain, Member of the House of Representatives.
Henry Fowler, Secretary of the Treasury.
Alexander Heard, Chancellor, Vanderbilt University, Nashville, Tennessee.
Jack D. Maltester, Mayor, San Leandro, California.
Angus McDonald, Commissioner, Yakima County, Washington.
Theodore R. McKeldin, Mayor, Baltimore, Maryland.
Karl E. Mundt, Member of the Senate.
Edmund S. Muskie, Member of the Senate.
Arthur Naftalin, Mayor, Minneapolis, Minnesota.
James A. Rhodes, Governor, Columbus, Ohio.
Nelson A. Rockefeller, Governor, Albany, New York.
Gladys N. Spellman, Commissioner, Prince George's County, Maryland.
Al Ullman, Member of the House of Representatives.
Jesse M. Unruh, Speaker of the Assembly, Sacramento, California.

[Enclosure 2]

Exact Text of Recommendations Adopted by the Commission in Its Report on "Fiscal Balance in the American Federal System"

(Note: Adopted recommendations are shown in logical sequence and not in chronological order of adoption at the July and October meetings)

I. Basic Structure of Fiscal Federalism

A. *Broadened Fiscal Mix and Greater Fiscal Flexibility in Federal Aid to States and Localities*

1. The Commission concludes that to meet the needs of 20th Century America with its critical urban problems, the existing intergovernmental fiscal system needs to be significantly improved. Specifically, the Commission recommends that the Federal Government, recognizing the need for flexibility in the type of support it provides, authorize a combination of Federal categorical grants-in-aid, general functional bloc grants, and per capita general support payments. Each of these mechanisms is designed to, and should be used to, meet specific needs: the categorical grant-in-aid to stimulate and support programs in specific areas of national interest and promote experimentation and demonstration in such areas; bloc grants, through the consolidation of existing specific grants-in-aid, to give States and localities greater flexibility in meeting needs in broad functional areas; and general support payments on a per capita basis, adjusted for variations in tax effort, to allow States and localities to devise their own programs and set their own priorities to help solve their unique and most crucial problems. Such general support payments could be made to either State or major local units of government if provision is made for insuring that the purposes for which they are spent are not in conflict with any existing comprehensive State plan.[1 2 3] (October)

2. The Commission recommends enactment of legislation by the Congress authorizing the President to submit grant consolidation plans, such consolidations to be transmitted to the Congress and to become effective unless rejected by either House within a period of 90 days. (July)

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[1] Chairman Bryant dissented.
[2] Secretary Fowler entered a reservation and dissented in part.
[3] Mayor Naftalin did not concur in the portion of the last sentence which deals with comprehensive State plans.

3. The Commission recommends that the Congress and the President strive toward a drastic decrease in the numerous separate authorizations for Federal grants—adopting as a general goal a reduction by at least half the number; specifically the Commission recommends as a modest beginning, the following major consolidations: (a) elimination of all categorization and earmarking from the vocational education program to provide in effect a single vocational education grant to be usable in specified fields but within the State allotment in such amounts among the fields as determined by the State; and (b) consolidation of the existing grants for water and sewer line construction into a single authorization to be administered by a single agency. (July)

4. The Commission recommends enactment by the Congress of legislation proposed by the Administration to authorize single applications by State and local governments for interrelated projects and for joint funding of projects containing components deriving funds from several Federal sources, in order to encourage States and localities to interrelate various functional programs and to facilitate effective program administration at the national level. It is further recommended that States enact similar legislation where necessary. (July)

5. The Commission recommends to the President that the Bureau of the Budget initiate an aggressive program to simplify and systematize the varied matching and apportionment formulas for existing Federal grant-in-aid programs. (July)

B. *Strengthening State and Local Fiscal and Tax Systems*

1. The Commission recommends that the States which have not done so, give serious consideration to providing more flexibility in their constitutions for long-range State financing programs. (October)

2. The Commission concludes that the development of a more equitable, diversified, and productive State-local tax system is prerequisite to avoiding excessive local property tax burdens, proliferation of local nonproperty taxes, interlocal fiscal disparities, and dependence on Federal aid. The Commission therefore recommends that the States (1) require and enforce effective local use of the property tax including, in some States, a more intensive use of this revenue source, (2) equip themselves with a productive and broad-based tax system capable of underwriting a major portion of the State-local expanding expenditure requirements, and (3) shield basic family income from any undue burdens imposed by sales and property taxes. (October)

3. In order to strengthen the productivity of the sales tax, the Commission recommends action by the States to protect low income families from undue tax burdens on food and drugs under general sales taxes. (October)

4. In order to strengthen the productivity of the local property tax, the Commission recommends action by the States to help the localities finance the cost of relieving any undue local property tax burden on low income families. (October)

II. Metropolitan Fiscal Disparities

A. *Greater Involvement of Private Enterprise in Urban Programs*

1. The Commission recommends that each of the industrial or highly urbanized States remove existing constitutional and statutory barriers to involvement of private enterprise in efforts directed toward enlarging and revitalizing the economic and fiscal base of their major cities, and that after such action take positive steps to enhance private-public cooperation in these endeavors. (October)

B. *Strengthening Local Government Organization and Neighborhood Initiative*

1. The Commission recommends the enactment of State legislation empowering a State agency—or a local agency formation commission—to (a) order the dissolution or consolidation of local units of government within metropolitan areas, and (b) enjoin the use of an interlocal contract within the metropolitan areas when it is found to promote fractionalization of the tax base without overriding compensating advantages; these actions should be taken pursuant to specific statutory standards, with adequate public notice and hearings, and subject to judicial review.

The Commission further recommends the amendment of formulas providing State aid to local governments so as to eliminate or reduce aid allotments to small units of local government not meeting statutory standards of economic, geographic, and political viability. (October)

2. The Commission recommends the enactment of State legislation authorizing large cities and county governments in metropolitan areas to establish neighborhood subunits of government with limited powers of taxation and of local self-government with respect to specified and restricted functions including the administration of specified portions of Federal, State, and local programs. Such subunits would be dissoluble by the city or county governing body at any time. (October)

3. In order to improve the fiscal and program coordination of Federal and State categorical grants going to county and city governments the Commission recommends that the counties and cities themselves provide adequate funds and staff for this purpose; the Commission opposes the use of Federal and State grant funds to provide staff or facilities for the immediate office of the Mayor or county executive. (July)

4. The Commission recommends that Congress amend Title IX of P.L. 89–754 to remove the population ceiling on local governments served by State information centers. (July)

5. The Commission recommends the enactment of State enabling legislation where necessary and action by city governments to establish and finance neighborhood information centers and referral services to orient residents and migrants to the demands and responsibilities of an urban society and to assist them in meeting immediate social and economic needs. The Commission also recommends the inclusion in State enabling legislation of fiscal support for such centers. The Commission further recommends that Federal agencies providing assistance in city rebuilding and in combating poverty encourage the use of grant funds for establishing and manning these centers. Congress should provide incentives to States and communities to encourage them to do this, not through separate new programs, but by amending pertinent existing grants to permit Federal grant funds to be used in this manner. (October)

C. *Reducing Disparities in Educational Financing*

1. The Commission recommends that States add to their school aid formulas appropriate factors reflecting higher costs per pupil among disadvantaged as compared to advantaged children, especially in areas of high population density. The Commission further recommends the amendment of the Elementary and Secondary Education Act of 1965 to authorize the utilization of otherwise available Federal funds for incentive grants to States that make such revisions in their school aid formulas. (October)

2. The Commission recommends the enactment of State legislation preceded by constitutional amendment where necessary establishing or authorizing an appropriate State agency to mandate the establishment of county or regional school property taxing districts; this is suggested for those States where school financing has not already been placed on a countywide or regional basis. (October)

3. The Commission recommends the enactment of State legislation, preceded by constitutional amendment where necessary, authorizing the establishment by the State educational agency of educational facilities designed to make available on a multi-district basis a specialized educational capability, including special personnel, to the children of the districts involved. The Commission further recommends that State governments provide appropriate financial incentives for the creation of such multi-district facilities. (October)

4. The Commission recommends the amendment of the Elementary and Secondary Education Act of 1965 to authorize Federal incentive grants to State and metropolitan educational agencies for the establishment of (a) county or regional school taxing districts, (b) specialized multi-district facilities as recommended herein, or (c) other areawide educational arrangements to assist in equalizing fiscal resources with educational needs throughout the area. (October)

D. *Improved Statistics for Metropolitan Areas*

1. The Commission recommends the establishment of a national system for the collection, analysis, and dissemination of social statistics, with full participation by Federal, State, and local governments, with special emphasis upon the development of such data for sub-State geographic areas (major cities, counties, and SMSA's) as well as State and national aggregates. (October)

2. The Commission recommends that the Internal Revenue Service expand its reporting of income statistics for Standard Metropolitan Statistical Areas to provide data for the units of general local government within such areas. (October)

3. The Commission recommends that Federal, State, and local officials work toward the establishment of data facilities for measuring for major urban functions the comparative performance levels of individual local units of government.

This effort should be undertaken preferably by existing or new nongovernmental organizations and should look toward the establishment of optimal standards, the collection and analysis of data, and periodic publication of comparative figures. (October)

III. Administration of Federal Categorical Aids

A. *Improved Federal Coordination and Management*

1. The Commission recommends an elevation of attention on the part of the President and the Congress to the more general need of insuring the conduct and coordination of Federal grant and other programs in such a way as to improve the overall capability of State and local government and consequently strengthen the American federal system. Its importance warrants assignment by the President of major responsibility in this area to an appointee having status equivalent to that of a member of the Cabinet. This official should be responsible for general liaison with State and local governments and be accessible to them regarding problems encountered in the administration of Federal grants-in-aid. Also this official should report at appropriate intervals to the President, Congress, and the public on the extent to which grant-in-aid programs are achieving their objectives and the extent to which State and local government is being strengthened in the process.

The Commission further recommends the strengthening of the Bureau of the Budget's capability to sustain a vigorous program of interagency coordination of Federal grants-in-aid. (October)

2. The Commission recommends the enunciation by the President of a policy of decentralization of Federal decision-making in the administration of grant programs; among other actions, the Commission recommends decentralization to directors of Federal regional offices of most of the decisions connected with the review and approval of State or local plans developed as a condition of Federal formula-type grants and of amendments to such plans proposed by State and local governments. The Commission further recommends Presidential action to effect a major reduction in the wide variations in the regional boundaries and headquarters sites of Federal field offices. (October)

3. The Commission believes the establishment of a field staff of the Bureau of the Budget should serve many of the purposes of field offices, appropriations for which have been sought repeatedly by the Budget Director and the President within the last few years. In addition to increased coordinative activity in the field by the Bureau, the Commission recommends the strengthening of existing Federal Executive Boards by (a) transfer of supervision of the Boards to the Bureau and (b) provision of at least one full-time staff member for each of the major Boards. (October)

4. The Commission recommends that the President establish within an appropriate agency of the Executive Branch a computerized system for storage and retrieval of information essential for the administration of grants-in-aid, formulation of Federal-State-local fiscal policies and other policy and management purposes. The Commission further recommends that the Congress establish a similar system to provide information for review of grant-in-aid programs and for other legislative purposes. The Commission recommends that tapes and other data resulting from these systems be made available to State and local governments. (July)

B. *Simplification of Administrative Controls Under Federal Grants*

1. The Commission recommends the enactment of general legislation by the Congress applicable to Federal grants-in-aid to State governments, whereby the Comptroller General of the United States would study and review the accounting and auditing systems of State governments which receive Federal grants-in-aid and ascertain the general adequacy and integrity of such State auditing and accounting systems; the Commission further recommends that for those States certified by the Comptroller General as meeting standards of adequacy and integrity, the results of State audits of expenditures of Federal grant funds be accepted by the administering Federal agency in lieu of fiscal audits by agency personnel, such acceptance to cease when and if the Comptroller General finds

that the accounting and auditing system of the particular State no longer meets the prescribed standards. Finally, the Commission recommends that this authorization be extended at the discretion of the Comptroller General to units of local government receiving sizable grants directly from Federal agencies. (July)

2. The Commission recommends the enactment of legislation pending in the Congress to authorize the modification, at the request of a State and with approval by the head of the Federal department or agency, of the single State agency requirement associated with Federal grants-in-aid to State governments. (July)

3. The Commission recommends the enactment of general legislation by the Congress, consolidating insofar as possible into a single Congressional enactment a set of planning requirements—both functional and comprehensive—to be applicable to Federal grant-in-aid programs, both present and future, especially those concerned with or affecting urban development. (July)

4. The Commission recommends that Congress enact legislation which would effect an overall rather than piecemeal revision of Section 701 of the Housing Act of 1954. Specifically, such legislation should employ Federal planning assistance to strengthen comprehensive planning as an arm of elected chief executives, at State, areawide, and local levels; require a closer interlinking of planning, programming, and coordination at those levels; and relate all federally aided functional planning to comprehensive planning at the State, areawide, and local levels. The Commission further recommends that provision be made for State planning agencies, especially in those States with ongoing comprehensive State planning programs receiving Federal financial assistance under Section 701, to review and comment upon all local and areawide applications for urban planning assistance. The Commission takes no position as to the most desirable location of responsibility in the Federal Executive Branch for administering assistance to State and local comprehensive planning activities. (October)

IV. The States as Effective Partners in the Federal System

A. *Strengthening the Executive*

1. In order to achieve adequate intergovernmental fiscal coordination and to strengthen State government generally, the Commission recommends the amendment of many State constitutions to reduce greatly the number of separately elected State officials. (July)

2. The Commission recommends that where needed, State constitutions be amended to permit the Governor to succeed himself. (July)

3. The Commission recommends State constitutional and statutory action, where needed, to provide a gubernatorial budget covering all estimated income and expenditures of the State government to be submitted to each session of the State legislature. (July)

4. The Commission recommends that each State develop a strong planning capability in the executive branch of its State government. The planning function should include: (a) formulation for the consideration of the Governor and the legislature of comprehensive policies and long-range plans for the effective and orderly development of the human and material resources of the State; (b) provision of a framework for functional, departmental, and regional plans; and (c) assistance to the Governor in his budgetmaking and program evaluation roles. (July)

5. The Commission recommends that State constitutions be amended, where needed, to authorize the Governor to reorganize the administrative structure of State government and to shift functions among State departments and agencies with the exercise of such reorganization powers subject to a veto by either house of the State legislature within a specified time period. (July)

6. In order to improve the fiscal and program coordination of Federal categorical grants going to State government the Commission recommends that the States themselves provide adequate funds and staff for this purpose; the Commission opposes the use of Federal grant funds to provide staff or facilities for the immediate Office of the Governor. (July)

B. *Strengthening the Legislature*

1. In order to help strengthen the position of State government generally and to afford adequate time for legislative consideration of State financial participation in Federal grant-in-aid programs, the Commission recommends State constitutional or other appropriate action, where necessary, to remove such restrictions

on the length and frequency of sessions of the State legislature as may interfere with the most effective performance of its functions. Specifically the Commission recommends that the holding of annual sessions be given serious consideration in those States now holding biennial sessions. Further, in order that legislative compensation not deter the holding of annual sessions, the Commission recommends that legislators be paid on an annual basis in an amount commensurate with demands upon their time.[4] (October)

2. In order that the legislature may keep abreast on a policy basis with Federal and State actions on cooperative programs, the Commission recommends that the States provide for year-round professional staffing of major committees of their State legislatures. (July)

3. In order that the State legislative voice may be heard in the formulation, financing, and operation of Federal grant programs and other intergovernmental matters, the Commission recommends that State legislatures consider seriously the desirability of charging—by resolution or other appropriate means—elective presiding officers and/or chairmen and ranking members of those committees having jurisdiction in fields involving Federal-State relations with (1) following the development of proposed legislation in the Federal Executive Branch and the Congress and (2) after appropriate consultation with State executive officials, presenting the views of legislators to Congressional committees considering new or modified grant programs coming within the concern of State legislatures. The Commission further recommends that State legislatures provide adequate funding for this activity. (October)

Mr. Colman. The list of recommendations indicate that Secretary of the Treasury Fowler, Mayor Naftalin, and I dissented in part on the Commission's major recommendation calling for a broader mix of Federal aid. On recommendations other than those dealing with revenue sharing, Governor Dempsey and certain other members of the Commission have filed or may file dissents or reservations.

A New "Mix" for Federal Aid

The Federal categorical grant-in-aid, the principal tool of fiscal federalism over the past 75 years, has had near explosive growth since 1963, in terms of the number of grants, their dollar magnitudes, and their effects on intergovernmental relationships. The impact of Federal aid on State and local government over the past two decades has been felt most acutely by Governors, State legislative leaders, and budget officers. Many of them believe that the increasing number of grant programs has led to greater Federal interference in their administrative and policy roles and that grants of late have tended to be less stimulative and more coercive in their impact. At the Federal level, there has also been a growing recognition of problems associated with manageability and administration of a large number of narrowly defined categorical aids.

A hard look at the Federal aid system reveals a second major deficiency: A failure to clearly sort out the basic purposes for which the National Government should extend aid to State and local governments. The classic objectives of fiscal aid—equalization, stimulation, demonstration, and general support—are not clearly differentiated under the present aid system. In the Commission's view, it is just as necessary to sort out these basic aid objectives as to introduce a greater degree of flexibility into the aid system. Consequently, the Commission has recommended a balanced threefold approach for constructing a more effective and more sensibly structured Federal aid system:

A reformed system of categorical grants-in-aid to stimulate and

[4] Governor Dempsey dissented.

support programs in specific areas of national interest—such as air and water pollution abatement—and to promote experimentation and demonstration where the national interest dictates;

Bloc grants, through the consolidation of existing categories—along the lines of the Partnership in Health Act of 1966—to give States and localities greater flexibility in meeting needs in broad functional areas; and

General support payments—revenue-sharing on a per capita basis, adjusted for variations in tax effort—to allow States and localities to devise their own programs and set their own priorities to help solve their own unique and most crucial problems.

The Commission believes that general support payments could be made directly to major local units of government—cities and counties—if provision is made for insuring that the purposes for which they are spent are not in conflict with any existing comprehensive State plan.

Categorical aids will undoubtedly continue to serve the Nation's needs well, especially for purposes of stimulation or demonstration, in those instances where the national interest in areas of traditional State/local concern are clearly identified. The Commission is heartened by the Partnership in Health Act of 1966, which was designed to "decongest the categorical arteries" with a functional bloc grant that allows States and localities necessary latitude to work out appropriate programs in a field where Federal support is warranted.

But a new approach, that contemporary American federalism requires, is one in which there is the widest possible scope for developing State and local solutions to State and local problems in contrast to a solution prescribed by a Federal categorical grant. Such an approach is typified by the general support grant.

The Commission's recommendations for significant improvements in the categorical aid program offer a means of working toward this three-tiered Federal aid approach. The Commission urges Congress and the executive branch to reduce the number of categorical aids by at least one-half. This can be achieved in a variety of ways and one, recommended by the Commission, is to have Congress give the President authority to propose grant consolidation plans subject to veto by either House of Congress, along lines generally similar to the Reorganization Act of 1949.

The Commission has recommended as a starter, that Federal aid categories in the water and sewer field and for vocational education be consolidated to create two new functional type bloc grants, replacing a dozen or so existing grants. It has also urged the executive branch to initiate an aggressive program to simplify and systematize the varied matching and apportionment formulas for those existing Federal grant-in-aid programs that do not lend themselves to easy consolidation.

Let me explain my own dissent with respect to the Commission's recommendation calling for Federal general support grants to State and local governments. In my view, the revenue sharing concept contains many far-reaching fiscal implications for our Federal system. Conceivably, in terms of its future effects upon fiscal federalism, revenue sharing could rank in significance alongside the adoption of the 16th amendment. In the absence of widespread agreement as to the desirability of such a change and in the absence of effective and specific checkpoints or conditions governing revenue sharing, I cannot support the concept at this time. Furthermore, the goal of complete fiscal equalization among States which is advanced by some of the proponents of revenue sharing is one that I am not ready to accept. I still believe in an intergovernmental system that not only permits but encourages a reasonable degree of fiscal self-determination by the States with consequent diversity in their tax and expenditure policies.

I should also note that the administration has consistently taken the position that in light of its current budgetary situation, it is premature to adopt a proposal calling for a very substantial departure from present methods of extending aid to State and local governments. This position is further elaborated in Secretary Fowler's statement of reservation and partial dissent appended hereto as enclosure 3.

(Enclosure 3, as referred to, follows:)

[Enclosure 3]

RECOMMENDATIONS ADOPTED BY THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS IN ITS REPORT "FISCAL BALANCE IN THE AMERICAN FEDERAL SYSTEM"

Secretary Fowler's Dissent on Recommendation No. 1

Secretary Fowler expresses the following reservation: I am in agreement with this recommendation insofar as it calls for a more flexible grant-in-aid system and for consolidation of grants into broad functional areas. I also strongly favor more State and local participation in the development of joint governmental programs. The Administration is taking action along these lines in carrying out the President's directives in his message to the Congress on "Quality of American Government" on March 20, 1967.

As to methods of giving additional assistance to State and local governments beyond the present programs, many alternatives have been advanced including: substantial Federal tax credits for State income taxes; Federal assumption of a larger share of welfare costs (either directly or through such devices as guaranteed income or negative income tax); expanded urban programs with adequate funding of the Model Cities program and more flexibility provided through an urban development fund which merges different grant programs; and general support grants with a wide range of proposed formulas for distributing funds to States and to localities.

In my view, it would be premature to choose at this time between these and other alternatives, and, consequently, I do not endorse making a recommendation in this area at this time. We are faced with extremely heavy demands on our Federal fiscal resources. Even in the post-Vietnam period there will be many claimants for Federal expenditures and for tax reduction. Each of the alternatives proposed involves large amounts of money. Some of the new grant programs which are now small will certainly increase, and the plight of our cities, so well documented in this report, demands that our urban programs expand substantially. Furthermore, a proposal in principle is far from being a fully developed proposal. All the alternatives involve difficult problems of implementation relating to techniques, intergovernmental relationships, standards and the like, and a wide difference of opinion presently exists as to the proper solution of these problems.

Senator MILLER. May I ask a question at this point?

Representative GRIFFITHS. Certainly.

Senator MILLER. If the program would not add to the budget but would merely consolidate other programs, then why would there be a budgetary problem?

Mr. COLMAN. I think, Senator, that would depend upon the speed with which revenue sharing grew and, of course, opinions differ as to what will happen once revenue sharing is placed into effect.

In the Commission's view, and I am speaking now for the majority of the Commission, in the Commission's view, the launching of revenue sharing can be accomplished within the annual natural growth that is taking place in our Federal aid to State and local governments. It need not cause a budgetary problem in the view of the majority of the Commission.

Senator MILLER. On that point, I was thinking specifically of the recommendation that you made in your statement as a starter.

Mr. COLMAN. Yes.

Senator MILLER. And my reaction to that was that we would take a dozen or so existing grants and abolish those in favor of a new grant program which would be no larger, as far as the budget was concerned, but would merely consolidate these others. That appealed to me, I might say.

Now, I find, however—again in your statement—that the budgetary problem is raised and I do not follow that.

Mr. COLMAN. Well, Senator, let me make a couple of clarifying responses.

In the first place, the earlier proposal regarding the consolidation of existing grants did not propose the elimination of those grants. It proposed——

Senator MILLER. Well, I am not thinking in terms of eliminating them any more than you are, but I am just going on your recommendation as a starter——

Mr. COLMAN. Yes.

Senator MILLER (continuing). Which, as I understood it, would take these 12 or so existing programs and abolish them as far as the statute is concerned and then do the same job or give the State the same opportunity to do a job under a new program or under a new grant, and that, to me, would not have any impact on the budget at all and possibly might even save some budget expenses because of the consolidation.

Mr. COLMAN. Well, the Commission went a step further, though. The Commission said in addition to consolidating these grants, consolidating six here into a single grant and six over here into a single grant, and so on, that in addition to that consolidation process, you add to this fiscal mix, a category of general support.

Now, in the view of the majority of the Commission, since the Federal aid to State and local governments has been increasing each year for a great many years, and there is no need to think that it will be different in the future than in the past, this broadening and restructuring of the mix can be taken care of within the normal growth of the total grant picture.

Now, Secretary Fowler in his dissent, and Governor Bryant to some extent in his dissent, raised the budgetary question; but this budgetary question—this concern about the budgetary aspects—did not reflect the view of the majority of the Commission. In other words, the two paragraphs here—from your statement—represent the views of only two members of the Commission; namely, Chairman Bryant and Secretary Fowler.

Senator MILLER. I appreciate that, but you say the Commission has recommended as a starter that Federal aid categories in the water and sewer field and for vocational education be consolidated to create two new functional type bloc grants and this sounds very good to me, but then in the paragraph you just read during your direct testimony, you stated that the administration has consistently taken the position that in light of its current budgetary situation it is premature to adopt a proposal calling for very substantial departure.

Now, maybe that starter recommendation of the Commission is compatible with that paragraph. I hope it is. But, I would like to find out whether you think it is.

Mr. COLMAN. Yes. I think that there is no dispute and certainly no dissent by either Secretary Fowler or Governor Bryant to the consolidation proposal as stated. Where they parted company with the majority of the Commission was where you went beyond consolidation and said there should be included in this mix some general unearmarked money.

Senator MILLER. So, the administration's position is that the starter is feasible and proper?

Mr. COLMAN. From everything that I can ascertain, that is correct, sir.

Senator MILLER. Thank you.

Mr. COLMAN. There is absolutely no opposition that I have heard within the administration to grant consolidation. It is one thing, though, Senator, to be for this in principle, and it is another thing to implement it in practice. Consolidation of grants is an awfully difficult proposition, and it is for that reason that the Commission has recommended the enactment by the Congress of legislation giving authority to the President to draw up grant consolidation plans and submit those to the Congress for veto if Congress objects.

Now, the administration has not bought that recommendation of the Commission. The administration so far has not gone along with that proposal. They have stated this very positively and the President has stated positively in his messages to the Congress that he favors great consolidation.

Senator MILLER. Has the administration gone along with the recommendation we have been discussing? This so-called starter?

Mr. COLMAN. Senator, that has not yet been translated into a draft bill, which we will do on the Commission's staff. We will translate this into a draft bill.

Senator MILLER. Has the administration gone along with that?

Mr. COLMAN. It is too early to say. They have not objected. The administration has not raised objection to this recommendation but that does not mean, Senator, that they might not find some things wrong with a draft bill that would implement this recommendation. In other words, what I am——

Senator MILLER. I appreciate that; you found objections to a number of Commission proposals but none to this one.

Mr. COLMAN. That is correct, sir.

Senator MILLER. So that you would be hopeful, at least, that on principle the administration would not object to moving ahead on that first one?

Mr. COLMAN. Yes, sir.

Senator MILLER. Thank you.

Mr. COLMAN. Yes, sir.

Senator MILLER. I apologize for interrupting, but I thought perhaps this was a good thing to clear up.

Representative GRIFFITHS. We are pleased to have you do so.

You may continue, Mr. Colman.

The "Pass-Through" Issue

Mr. Colman. Now, let me underscore the Commission's thinking on the most controversial aspect of this general support or revenue sharing proposal; namely, the manner in which Federal general support funds should be routed to local governments. The Commission did not take the doctrinaire position that all funds would have to be funneled through the State, nor, on the other hand, did it advocate a bypass-the-State policy. The Commission simply took the position that if Congress decides to distribute general-purpose aid directly to local governments, it should recognize the potential coordinating role of the State by adding a proviso that local governments could not spend Federal general support funds on projects or programs in conflict with any existing comprehensive State plans.

We believe this State planning proviso is meritorious because its adoption would encourage States to meet their responsibility for planning and coordinating the orderly and effective utilization of the State's physical and human resources. We do not view such a proviso as an invitation to discriminatory action by any State. It would not affect the components of any distribution formula laid down by the Congress. The money "due" the locality under such a formula could not be diverted to other localities or to the State itself. However, such funds could not be expended in ways prohibited by the State's development plans.

Strengthening the State-Local Tax System

There is another point that needs clarification in order to eliminate any notion that the Commission's recent action approving general support aid to State and local governments constitutes an implied repudiation of its earlier proposal for a partial Federal tax credit for State and local income tax payments.

The Advisory Commission's earlier tax credit recommendation grew out of a study of Federal-State personal income tax coordination. The Commission urged the States to make more intensive use of the personal income tax because of its equity and economic responsiveness. The Commission found, however, that intensive use of the personal income tax by the Federal Government, particularly since 1940, has been a principal deterrent to the State income tax movement. Until Nebraska and Michigan enacted personal income taxes this past year, no truly new State income taxes had been enacted since 1937—West Virginia enacted, repealed, and in 1961 reenacted an income tax. The Commission recommended, therefore, that the Congress counteract this Federal deterrent by providing an optional tax credit for State income tax payments.

The reports of both the Commission and the Committee for Economic Development have been and are significant influences in the consideration of new and increased State income taxes in a number of States. In addition to the Nebraska and Michigan enactments, California and Iowa in 1967 took steps to make greater use of this type of taxation. Moreover, other States, including Washington and Pennsylvania, are now actively considering the personal income tax as a revenue source for meeting increased demands for State and local government services.

While these State income tax developments may diminish slightly the validity of the Commission's earlier tax credit proposal, heavy Federal reliance on this form of taxation unquestionably will continue to constitute a large constraint on more effective State use of the personal income tax. In effect, the Advisory Commission's tax credit proposal in 1965 was designed to restore to the States the personal income tax option—a tax policy alternative that has become less attractive to State political leadership as Federal use of this tax has become more intensive. If States are to remain viable, they should have an opportunity to tap this first-rate revenue source under political conditions that make it no less attractive than general retail sales taxes—of course, at such a time as all or most States are utilizing effectively the income tax revenue source, the Commission's tax credit proposal would have lost most of its validity.

Let us now consider the other elements of our State-local tax system—factors of prime importance if we are going to construct a well-balanced intergovernmental fiscal system.

While the States and localities have demonstrated a rather remarkable tax effort in recent years, they still have considerable untapped revenue potential. Our estimates are that the total potential existing in the three major tax areas—personal income, general sales, and property tax—approximates $20 billion annually. If tapped fully, these potentials would increase State-local tax revenues by 35 percent.

Unfortunately, however, this massive untapped potential in many respects is more apparent than real. Assuming the possible, though unlikely, event that the States should tap the full potential of over $20 billion additional annual revenue, would this insure a balance in our fiscal system? Obviously not. One cannot average the added potential of some States with the deficits in others when expenditure needs are measured against available fiscal resources. A surplus in Scarsdale is of no help to New York City. A full tax effort by South Carolina and Arkansas up to the level of the "top 10" still does not give those States the resources necessary to equalize adequately the costs of education between well-to-do children and "poverty children."

Nevertheless, because 15 States still do not levy a personal income tax and six States have no general retail sales tax, the Commission has emphasized in this report that the States in particular must help themselves. Specifically, the Commission recommended that States make effective use of broad-based sales and personal income taxes—two real workhorses of the State tax system. The Commission also noted that many local governments, particularly in the South and Southwest, could make far more productive use of the property tax.

In urging greater use of the sales and property tax, the Commission took note of their regressive character and recommended that the States take action designed to shield low-income families from undue sales and property tax burdens. The Commission noted in its report the pioneering efforts of Indiana and Wisconsin—jurisdictions that have used positive and negative tax credits—cash rebates—to pull the regressive stinger from their sales and property tax levies. While perhaps not as economical in terms of revenue foregone, my own State of Florida endeavors to minimize the regressivity of these taxes through an exemption of food and drugs from the sales tax and a partial property tax exemption on homesteads.

Strengthen State Administrative Capabilities

The State-local fiscal system was and is only part of the Commission's concern in its overall study of fiscal federalism. These governments must also be in a strong administrative position to make maximum effective use of Federal aid. For this reason the Commission adopted a series of recommendations designed to strengthen the executive and legislative parts of State governments. These improvements recommended by the Commission include—

Fewer elected State executive officials;

Authority for a Governor to succeed himself;

Provision for a comprehensive executive budget;

Development of a strong State planning capability; and

Authority for Governors to reorganize the executive branch of State government subject to State legislative veto.

The Commission also focused on the need for stronger State legislatures, stressing the fact that this branch must have the time and the tools to deliberate on and decide broad questions of State policy, including participation in Federal aid programs. In this area, its recommendations include—

Removing undue restrictions on the length of sessions and adoption by more States of annual sessions;

Salary commensurate with the demands on a legislator's time;

Professional year-round staffing for major legislative committees; and

Development of machinery in the legislature for following Federal legislation and presenting legislative views to congressional committees.

The Commission made a series of specific recommendations for improving Federal coordination and management of the categorical aid programs, and we proposed a broad program for simplification and strengthening of Federal interagency arrangements.

Improving Fiscal Balance in Metropolitan Areas

In December 1966 the Advisory Commission on Intergovernmental Relations stated in its eighth annual report that "* * * the tremendous task of financing, servicing and governing metropolitan America clearly poses the greatest challenge to federalism since the Civil War." Within the context of the Commission's study of "Fiscal Balance in the American Federal System," and aided by a grant from the Department of Housing and Urban Development, the Commission was able to probe in depth the "fiscal facts of life" in the 37 largest metropolitan areas and to make case studies in 13 of these areas.

This analysis of the socioeconomic fiscal disparities between the metropolitan central cities and their surrounding suburban communities reveals that:

The central cities, particularly those located in the industrial Northeast and Midwest, are in the throes of a deepening fiscal crisis. On the one hand, they are confronted with the need to satisfy rapidly growing expenditure requirements triggered by the rising number of "high cost" citizens. On the other hand, their tax resources are increasing at a decreasing rate—and in some cases actually declining—a reflection of the exodus of middle and high income families and business firms from the central city to suburbia.

The concentration of high-cost citizens in the central city is dramatically underscored by public welfare statistics. For example, 27 percent of Maryland's population is located in Baltimore, yet 72 percent of Maryland's AFDC expenditures is to be found in that city. By the same token, Boston, with 14 percent of Massachusetts' population, accounts for 40 percent of that State's AFDC expenditure.

A clear disparity in tax burden is evident between central city and outside central city. Local taxes in the central cities are 7.6 percent of income; outside the central cities only 4.9 percent of income.

On the educational outlay front, the central cities are falling further behind their suburban neighbors with each passing year. In 1957 the per pupil expenditures in the 37 metropolitan areas favored the central city slightly—$312 to $303 for the suburban jurisdictions. By 1965, the suburban jurisdictions had forged far ahead—$573 to $449 for the central cities. This growing disparity between the central city and suburban school districts takes on a more ominous character in light of the fact that the central city school districts must carry a disproportionately heavy share of the educational burden—the task of educating an increasing number of "high cost" underprivileged children. Children who need education the most are receiving the least.

While the Commission's recommendations for reducing disparities among jurisdictions within metropolitan areas are set forth in enclosure 2 (page 197), I would like to emphasize the importance of our State and Federal aid recommendations—particularly important in view of our finding that to date at least intergovernmental transfers have not been notably successful in reducing metropolitan fiscal disparities. Here specifically, the Commission recommended:

State school aid formulas should be amended to reflect higher per pupil costs for disadvantaged children, especially in densely populated areas; and the Elementary and Secondary Education Act of 1965 should be amended to authorize the use of available grant funds in support of such action.

States should authorize the establishment of regional school property taxing districts to assist in equalizing the property tax burdens of school financing between central cities and suburbs.

Summary

In summary, the Advisory Commission has looked at the question of fiscal balance in the American Federal system. It has found many manifestations of imbalance:

A hard-to-manage categorical aid system at the Federal level capable of being converted to a more flexible instrument of national policy,

Considerable untapped revenue potential in the aggregate at the State and local level that is politically difficult but not impossible to tap with appropriate tax policies and determined political leadership, and

Severe fiscal pains in some of our central cities relative to their surrounding suburbs which call for a substantially greater State involvement than has heretofore been shown.

In all modesty, let me express the belief that the Commission has developed a well-rounded program to deal with these manifestation of imbalance and for strengthening our Federal system. It is a program that deals with administrative and management matters, as well as questions of money. It is a program appropriate for good times as well as bad, for now and for the post-Vietnam period.

In conclusion, Madam Chairman, let me express the Commission's appreciation for this opportunity to submit our views to your committee.

We will be glad to try to answer any questions.

Representative GRIFFITHS. Thank you very much, Mr. Colman.

Congressman Widnall?

Representative WIDNALL. Thank you, Madam Chairman.

Mr. Colman, do you feel that Federal grants-in-aid have significantly influenced the way States and localities spend their money? Has its influence on balance been good or bad as far as State and local governments are concerned?

Mr. COLMAN. In my opinion, and I am sure this represents the view of the Commission—it has never been put exactly this way—but certainly, grants-in-aid have influenced the way in which State and local governments have spent their money. It has influenced these expenditures because quite often Federal aid breaks new ground in a subject matter field that State and localities are not spending much in. You have a Federal aid program and State and local expenditures respond to that stimulation.

Overall, on balance, the effect of this, in our opinion, has been good. This is not to say, let me hasten to add, that a lot of changes are not urgently and highly desirable in categorical aid programs, particularly with regard to the kind of strings that are attached to them.

Representative WIDNALL. Well, to follow that up further, do you feel on balance it has been good or bad as far as the Federal Government is concerned?

Mr. COLMAN. Oh, on balance I think there is no question but what the effect has been good measured by what the intent of Congress was, because the intent of Congress in enacting these grants-in-aid in a great many cases was to stimulate more activity in the public sector at the State and local levels in fields that it felt were crying for attention in the national interest, and the effect of the grants has been to suck more money into those aided fields at the State and local level.

Looking at it strictly from the standpoint of the Congress and the President, I think the effect has been very good. Looking at it from the standpoint of the State and local governments and what this has meant in terms of meeting priorities, balancing priorities, et cetera, the effect has been pretty mixed.

Representative WIDNALL. Are you taking for granted as a fact that the intent of Congress as expressed, is followed out by administrative regulation and by those who administer the law?

Mr. COLMAN. I think, Mr. Widnall, that the natural inclination of administrators in administering grants-in-aid is to add to rather than give short shrift to requirements that the Congress has voted to attach to the aid program. I think the requirements get embellished and elaborated upon in the process of administration.

Representative WIDNALL. I asked that question because I think many times Members of the Congress who have worked on a lot of these problems for years are very frustrated when, after they pass a law, accompanied by an attempt to clearly express their intent in the legislative history, they find that the administration's interpretation goes in another direction completely. I do not know how you are going to prevent that except bearing down more and more on the administrators to reflect the will of the Congress and the intent of the Congress. Many times we have to go back and close up loopholes by interpretation.

Can you cite instances where different Federal grants-in-aid have conflicting objectives?

Mr. COLMAN. Yes. I think those are not too difficult to find. It is much easier to identify these conflicts than it is to proffer ways of resolving them. Well known to you, sir, has been the complaint over many years that the mortgage guarantee programs in the housing field have operated in directions that are contrary to the desires to maintain economic health and viability of our central cities, and we have been putting money into central city rehabilitation and we have been guaranteeing mortgages in the suburbs, and these have not always coincided. There are many cases like this, I believe, Mr. Widnall, but, to repeat, the identification and resolution—to identify these is much more easy than to resolve.

Representative WIDNALL. I find that sometimes it appears we have too many programs on the books. Various Federal agencies are competing for the business. With respect to community facilities, I think this is true. Today, there are so many avenues of approach that if you are turned down one place, you go another direction and you get longer terms or shorter terms and lower interest rates depending on where you apply.

Mr. COLMAN. Our Commission concurs absolutely in the statement that you have just made and one of our recommendations, one of the major recommendations in this report that has just been described, is to try to reduce by at least one-half the number of separate grant-in-aid programs that now exist, and as a starter—I think you were not in the room at the time we went over this—as a starter, the Commission has recommended the consolidation of all of the water and sewer grant programs into a single grant to be administered by a single agency.

Representative WIDNALL. I would heartily concur with that recommendation, as I have seen the present programs in operation. One of the tragedies of our present day operations, both in the Congress and also in the Government agencies, is that we think up a fine new program with great high ideals and purposes and then we never fund it properly.

Mr. COLMAN. Yes, sir.

Representative WIDNALL. In connection with water and sewers, we started a matching program that took hold very well and was responsible for some major effort in this field; but today, just in this one program, as I understand it, HUD has about $160 million to dispose of and over $4 billion in applications. They have stopped taking applications.

Mr. COLMAN. Yes, sir.

Representative WIDNALL. So, it is perfectly ridiculous to start talking about other programs and getting into new fields when we are not doing a job in the fields that are already established and really the things that should have national priority, and I think this is certainly a good recommendation of the Commission; well worth giving major attention to.

That is all.

Representative GRIFFITHS. May I point out one thing? Is not there a real danger in this consolidation that the States will lose money?

Mr. COLMAN. There might be relatively small amounts of money lost in the process of consolidation; you have to combine formulas. There is a separate formula for each.

Representative GRIFFITHS. Of course. I do not think, however, that we are thinking about the same thing. For instance, if you show for one program amounts of $100,000, a million dollars, $5 million, a billion dollars, et cetera, then all at once you add them all together and for the first time both Congress and the public realize that on this one problem you are spending $3 billion. Do you not think there would be a tendency of the Congress to reduce the authorization and the appropriation?

Mr. COLMAN. I would personally not think so, Madam Chairman. You, of course, would be a much better judge of that, but take the example that Mr. Widnall just raised, regarding the water and sewer programs. Now, you add these four programs together and certainly the amount being spent is less than a half billion dollars. The backlog in one agency alone is more than $4 billion. I think from that standpoint there would not be much objection in the Congress to consolidating and letting the total authorization for the program be the sum of the separate authorizations in the separate categories; but I think where Congress would find it difficult and where the Federal agencies would find difficulty is in the assignment of responsibility to a single agency to administer the entire program.

Now, if you assign this entire responsibility for the water and sewer grants to HUD, some people in Agriculture and, Senator Aiken, for example, people who were instrumental in getting the Rural Water Assistance Act passed, would be rather unhappy. Also the people in the Economic Development Administration would be rather unhappy and Congressmen and Senators who had been a part of the Economic Development Act would feel concerned. This, I think, is the big hurdle that we have to surmount in consolidation.

Political hurdles are very high and this is the reason, to repeat what I said earlier in response to Senator Miller's question, the reason that the Commission has urged the Congress to grant to the President grant consolidation power comparable to that under the Reorganization Act so that these grants could be consolidated in the executive branch and then sent up to the Hill and become effective unless vetoed by either House of the Congress.

Representative GRIFFITHS. Congressman Widnall?

Representative WIDNALL. Thank you.

Would you recommend the Federal assumption of any programs now administered by the States and localities?

Mr. COLMAN. Not in the grants-in-aid field, Mr. Widnall. The Commission has not recommended the nationalization, so to speak, of any function now being grant-in-aided by the Federal Government.

Representative WIDNALL. What are the advantages of having a State or a municipality or locality administer and provide the public service rather than the Federal Government?

Mr. COLMAN. Well, I think there are several arguments, Mr. Widnall. Point No. 1, the program can be adjusted in detail and tailored to meet the needs of individual States and localities through the grant-in-aid system. In terms of detailed regulations for the program, you may have 50 or if it goes directly to localities hundreds of separate nuances and provisos as to the way in which the program is tailored to best meet the needs of the people it is designed to serve. That is the first advantage.

The second advantage is that if you administer these programs through Federal agencies, you have to increase commensurately the size of the Federal bureaucracy and you have a very hometown type of function being carried on by Federal employees responsible to a distant administrator in Washington.

A third advantage of the grant-in-aid technique is that State and local governments are able to vary the extent of their participation, depending upon the type of priorities that they set for the program.

And finally—and this is a budgetary factor—you are able to use State and local revenues to augment Federal revenues in the financing of the program, and this helps assure that at the local level and at the State level projects carried on under the program are not boondoggles because if the State and local government have to raise money, their own hard-earned tax money that it takes a lot of political risk to raise, if they have to put State and local money into those projects, they are going to be very leery of putting such money into projects that seem not too pertinent to the needs to which the program is addressed.

Those are some of the reasons, Mr. Widnall, for financing many of these activities through the grant-in-aid device rather than directly by Federal agencies.

On a more philosophical vein, if the Federal Government begins to administer a lot of these things directly, then we will be changing the form of government that has existed in this country since 1787, namely, we will be changing from a system of federalism to a unitary or a national system because if you have direct Federal administration of many of these functions of domestic government, certainly the Federal system becomes one of name rather than fact.

Representative WIDNALL. Perhaps I should not bring this up at this time, but I know some of us have felt that we are getting into that new system with OEO and administration from Washington within the municipality, with the municipality losing control. I think this may be one of the fights that will take place on the floor of the House when the current bill is before us.

It certainly is always easier to do things if one person can crack the whip or hold the funds.

Mr. COLMAN. Yes, sir.

Representative WIDNALL. But that does not necessarily mean it is the best way to accomplish things and it certainly, in many instances, does not bring in the local involvement which you would like to have in order to make the program successful.

Would you expect State and local governments to view a Federal tax cut as an opportunity to increase their own taxes?

Mr. COLMAN. To some extent, Mr. Widnall, I think, however, that the experience following the 1965 cut shows that people who are then taxed additionally by the State or locality sort of feel doubly resentful, even more resentful than they would have had the new State or local tax been levied without a Federal cut. They feel that the State and local governments are taking away something that is due them and the political risks of moving in and recouping for State and local use the funds released by a Federal income tax cut are very high indeed.

Representative WIDNALL. I remember an example only recently of something that was going to take place in the State of New Jersey when they were talking about eliminating, completely, the phone tax. Oh, this was a delightful area, for the State could now pick up the tax and collect that money, too. The consumer would not have gotten any benefit at all if that had taken place. Of course, we have never made the complete change on the Federal level.

Mr. COLMAN. One example, if I may cite it, Mr. Widnall, that the Commission has had directly in this field has to do with the documentary stamp tax that the Federal Government has imposed on transfers of real estate for a good many years. Our Commission studied that tax and recommends its repeal because it is administered at the county courthouses and really should be a local tax. We recommended to the Congress and to the Ways and Means Committee that the date of repeal of the tax be moved forward to December 31, 1967. This was included in the excise tax repealer that the Congress put through a year and a half or 2 years ago. We then went to work with the States.

The reason for asking for this advanced date was to give the State legislatures time to enact a State-local arrangement that would coincide with the repeal of the Federal tax. We then went to work with the State legislators and the Governors. Tremendous opposition began to arise from the real estate industry, saying that here the Federal Government was repealing a tax and the State and local—the State government was moving in to deprive them of the benefits of the repeal, and in several States the real estate lobby has been able to stave off the enactment of State legislation picking up that repealed Federal tax. In a majority of States we were successful, a majority of the States in which we tried. Some of the States already had this type of legislation on the books. But this illustrates the great amount of slippage that exists between the repeal of the Federal tax on the one hand and its actual pick up and implementation by States on the other.

Representative WIDNALL. Thank you, Mr. Colman.

Representative GRIFFITHS. Thank you very much, Mr. Colman. Now, I would like to point out that this is one of the problems you have just named that we have, for instance, in the welfare laws. One of the reasons that the National Government becomes more mandatory in its law is, of course, that the State never did do anything. In the matter of welfare, for instance, it has long been the law of the Federal Government that you must carry anybody receiving welfare on the unemployed rolls of the State. They were not doing it. This is why the welfare law was changed this year, because we called in the employment security administrators from State after State and we found out they were not carrying any of these people as employable.

But, even if they were carrying them, or even if one of them did come down and ask for a job, he was the one least likely to get a job because when the administrator looked at him, he said: "He is drawing welfare. Here is somebody else who is out of a job—let that person have the job."

So, the real truth is that it has nothing to do with the administration of the Federal Government. It is the administration of the State government that fails in these grant-in-aid programs to live up to what was anticipated when the law and the grants were enacted.

Mr. COLMAN. Well, I would certainly agree, Madam Chairman, that there are sins of omission and commission on both sides of this equation, Federal and State, and certainly, the States have committed some of those sins. On the example you just cited, I think, if you trace back a couple of more steps you would find that that policy you were deploring had its roots not in gubernatorial policy of the States but the Bureau of Employment Security of the U.S. Department of Labor.

Representative GRIFFITHS. Well, it is put into effect out in a local government by a man appointed by a State Governor.

Mr. COLMAN. That is absolutely right.

Representative GRIFFITHS. So, he has complete control of it. He can change it when he gets ready.

Now, a second thing is that in those employment security commissions you have a group of people running things who are really opposed to training anybody to do a job unless he is a member of their group. They want their own union members retrained, not somebody new. They do not want any competition in labor. This means you are compounding the problem at every instance.

Another problem: Michigan came in here for years and in effect said "let people who draw welfare earn some money." So finally, we changed the law at the Federal level. And who did not respond? Michigan. I happen to be from Michigan, so I am glad to point this out. They did not do a thing. They did not change the law. If you drew welfare, you were not permitted to earn a cent.

Finally, we had to insist that welfare recipients be permitted to earn. If not, we will withdraw Federal funds. We tell the State: "You have to give them training, you have to permit them to earn some money and draw welfare. Otherwise, we are going to quit taking care of these children on ADC. You can take care of them by yourself."

The reason you have to get tough is because the State does not do anything. Would you say that is true or not? I see that from my level. If you have any objections I would be glad to hear them.

Mr. COLMAN. I think this varies from State to State and from program to program, and I think that there is no question but what one of the major reasons for the shift over the last several decades in responsibilities from State and local governments to Washington has been due in part to inaction by State legislatures and State Governors. However, I think that States are on the move. States such as your State are revising their constitutions.

Representative GRIFFITHS. It seems to be worse than it was.

Mr. COLMAN. The State of Maryland enacted a greatly improved income tax law last year, sort of a leader among the States now in terms of trying to equalize the kinds of disparities that we referred to in our report. So, a lot of things are happening at the State and local level and there is an awful lot to do. The checklist of things they need to catch up on is extremely long. But we believe in our Commission that there is real hope here and I would like to emphasize this, that despite the wide variation in political ideology that is represented by the members of our Commission, since its inception 6 or 7 years ago, the members of the Commission have been unanimous in saying that the great need in the future is to strengthen State and local government because due to increasing population and advancing technology, the years ahead are going to call for a lot more governmental action and unless we are to have a Federal Government completely overburdened and overwhelmed by domestic responsibilities, we have to strengthen State and local governments to carry part of this load.

Representative GRIFFITHS. I am glad we have Mr. Widnall here now. I would like to ask another question. Mr. Widnall is certainly a most distinguished member of the Banking and Currency Committee, on which I once sat, and he is well informed about the housing law.

You have pointed out that the real problem really exists within the cities. I am going to come back to it and ask you now, Why do you not support a program that moves part of the problem out of the cities? And, I would think as a beginner, that we ought to have some type of requirement that before you can build anything with an FHA mortgage guarantee—before any builder can—that he has to build some low-cost housing along with it. Move part of this problem to the suburbs. Why do you not support that?

Mr. COLMAN. We do, Madam Chairman, in this way: In 1965, the Commission issued a report on metropolitan economic and social disparities and made a number of recommendations. On the welfare front we recommended that States enact legislation taking over at least 50 percent of the cost of general assistance. We found, much to our dismay, that in a goodly number of States not one nickel was being put by the State governments into the general assistance problem. That is the nonfederally financed portion of the public assistance load. And this, of course, was being borne by cities and by counties, and we know that an awful lot of the general assistance caseload is concentrated in the cities. So, we have been pushing very hard in the State legislatures for the last 2 or 3 years for the enactment of legislation that would shift at least 50 percent of the cost of general assistance to the State level.

Now, in the State of New York, being voted on today—what its fate will be no one knows—is a proposal in the new constitution to shift all welfare costs from local government to the State in a phased operation over 10 years.

Now, with respect to the low-cost housing, our Commission recommended that with regard to new community development, any new communities subsidized in any way by the Federal Government be required to establish as a part of the community arrangement of housing opportunity and housing costs that would equate arithmetically up to the level of whatever proportion low-income people occupy of the total population of the standard metropolitan area.

We have proposed this amendment to the Federal assistance for new communities that was authorized in the Demonstration Cities and Metropolitan Development Act last year.

Representative GRIFFITHS. And what do you mean by "new communities"?

Mr. COLMAN. Communities that are created outside of the metropolitan area through Federal assistance in land acquisition, utility construction, and generally referred to in the category of "new towns."

Representative GRIFFITHS. Of course, that really is not good enough because, in many of these areas, the community already exists. A builder comes in who will erect outside the city of Detroit or New York or Chicago or any town in New Jersey, 2,000 houses or apartment housing for 2,000 families. Now for all of that new construction FHA mortgage money is available. Why permit it to be available unless he also erects a certain percentage of low-cost housing in the same localities?

Mr. COLMAN. I think there is a lot to be said for your point. The next step beyond what we have already recommended would be a requirement upon local governments, that in order for an FHA program to become operative within a local political subdivision, after a certain date the proportion of housing constructed with FHA assistance would have to bear some arithmetical relationship to the proportion of low-income people in the metropolitan area.

Let me refer to one other recommendation that the Commission made, and this was in advance of the administration's program for rent supplements. In that same report the Commission recommended the inauguration of a rent supplement program. In our view, rent supplements are a very effective way of mitigating these disparities between the central cities and suburbs because through the use of rent supplements, low-income people could be housed outside the central city as well as inside.

Representative GRIFFITHS. In my judgment, nothing is ever going to work that does not move a proportionate share of the low-income families into even the most elegant of suburbs. And I see no reason on earth why it should not be done. I see no reason why you should say to one group of property owners, "you and you alone will subsidize the full cost of low-income housing." Why not let everybody bear this cost? And one of the ways to do it is through these building programs that we have. FHA is one of the very good ways to do it.

Now, why do you not propose that the whole system of Federal grants be changed so that, in fact, they go into the cities where the great need exists? If you permit this money to go back to States, you are going to have exactly the same problem that you have today because the State legislatures are even less democratic than the Federal Congress. Less light is played upon their actions and they have no interest whatsoever in the big cities within even their own district, within even their own States. So, why not set up the grants-in-aid so that the greater proportion goes into those cities?

Mr. COLMAN. The Commission in its recommendation for a restructuring of grants-in-aid and building into that mix some general support along revenue-sharing lines, did not object to money going directly to local units of government providing the money was not expended in violation of an existing State comprehensive plan. A lot of Federal aid presently goes to the cities. The model cities bill provides direct assistance. About 40 other grant-in-aid programs channel money directly to localities.

Representative GRIFFITHS. But, let me ask you—for instance, education, admittedly, is one of the big needs. In Michigan—and I am sure in New Jersey or New Hampshire, in every State—the State gives some money back uniformly throughout the State. Therefore, are not you really saying that any grant which picked out a city and gave more to the city would come into collision with the State plan?

Mr. COLMAN. No. Not at all, Madam Chairman, because if revenue sharing is enacted, it would be up to Congress under the Commission's proposal to lay down the formula. If Congress wanted 50 percent of this money to go directly to cities of 100,000 and over, say, or even 75 percent of it to go to cities of 100,000 and over, that would be fine. The only suggestion we make is that you add one more proviso and say that when the city gets the money, that it use it on projects that are not out of conformity with an existing comprehensive plan. So, this would not allow the State to grab the money; it would not allow the State to divert the money to other places. But, it would assure that where a State comprehensive plan governing urban development was in effect, the money could not be spent contrary to that plan.

Now, if the States are all as sleepy as some people say, then you would not have any comprehensive plans in existence and there would not be any conflict. But, in States that are beginning to live up to their responsibilities and really are trying to help solve the urban problems, you would assure that the money that is flowing directly to the cities would not be spent on projects that were in violation of the plan.

Our Commission, a few years ago, went quite deeply into this issue of whether Federal aid should go directly to local governments or whether it should go through the States, and this was one of the two occasions on which the Commission split narrowly in its vote. The other case was on the one-man, one-vote issue of reapportionment.

Representative GRIFFITHS. Who won on the State-versus-city formula?

Mr. COLMAN. The State people won by a very narrow margin; but let me explain the recommendation. The recommendation is that the Federal aid go through the States if, and only if, two conditions are met.

First, that the State provide appropriate administrative machinery for carrying out the program, and second, let me emphasize this, the State puts up half of the non-Federal share of the funds. In other words, if the State is standing there with money and with the administrative machinery ready to participate in the program, then that program in that State should go through the State, but if in the adjoining State with regard to that same program the State legislature or Governor or any of them say, Well, we are not too interested in that. we do not have any money to put into it, then, in those cases, the Federal aid would flow directly. We still think, Madam Chairman, that that is a sound policy. It differentiates among the do-nothing States and the do-something States.

Representative GRIFFITHS. But has not that program already resulted in a State formula giving less money into a city than it gives to the suburbs?

Mr. COLMAN. No. I do not think so.

Representative GIFFITHS. Well, I think it does. The real truth is that that is what we are doing in Michigan. We are not sending in the same amount of money and you are still going to have the same people voting. The city is still out-voted. So that the formula devised in the State government is still going to defeat the city.

Mr. COLMAN. Except here that if you have State money being put in to augment the Federal money, your Federal dollar is stretching further and you are getting additional financial support from within the State. Of course, I will admit—certainly the political difficulties here at the State level are considerable in doing justice to the central cities. The political difficulties in the Congress, I might say in all due respect, are also great. The suburban influence in the Congress is increasing at a commensurate rate to the way it is increasing in the State legislatures.

Representative GRIFFITHS. Of course, this is one of the big problems and this is one of the problems with the poverty program. The way the money is distributed, you can, in reality, have an extremely wealthy suburb coming in, where it is not probable that there is any real want. They come in for $19,000 or some such thing and then run a Headstart program in which they have plenty of money themselves and they have literally no need. This is the difficulty, in my judgment, not only with the laws we have already enacted, but you compound them when you hand the thing back to the States and let them take one more swipe at it.

Mr. COLMAN. Let me, Madam Chairman, if I may, call your attention to two of the recommendations in enclosure 2—to the statement dealing with metropolitan fiscal disparities and dealing specifically with the matter of financing education, because this is where the big money goes and where the big money is needed at the local level.

We made two recommendations there, both for State legislative action and for action by the Congress. We recommended: First, the enactment by States of a law that would mandate the establishment of an areawide school taxing district whenever the disparity between the poorest district and the richest district exceeded a certain ratio. Once the school taxing district was mandated, all school financing in that entire metropolitan area, suburban and central city, would come from the metropolitan tax base, property tax base. The Commission made it very clear in this recommendation that this is not a recommendation for metropolitan school districts in terms of school operation but only in financing. You would still have neighborhood schools, still have individual jurisdictional schools under each political jurisdiction. But, the financing would be from all of the property tax base within the entire metropolitan area.

Secondly, the Commission recommended that States amend their school aid formulas to reverse this terrible maldistribution now taking place and referred to in the statement where the school aid per pupil, State school aid per pupil, is actually higher in the suburbs in most of our metropolitan areas than it is in the central city despite the much higher per pupil costs that are really needed to educate a disadvantaged child in comparison to one in the suburbs. In that regard we recommend State legislation.

We also recommended that Congress amend the Elementary and Secondary Education Act to provide a strong financial incentive to the States to turn their school aid formulas around so that more money per pupil goes to the central cities.

Representative GRIFFITHS. What is the financial incentive? What is the incentive to the States?

Mr. COLMAN. We were not specific in recommending a percentage, but this could be achieved through either a condition upon the grant itself or upon the authorization of an additional sum of money for incentive grants for this very purpose, or still another alternative way of doing it would be to change the matching ratio where the State had turned its school aid formula around, so to speak.

Representative GRIFFITHS. Why not just cut out the grant from the Federal Government unless they comply?

Mr. COLMAN. Yes; that is one alternative.

Representative GRIFFITHS. For instance, why should Montgomery County, out here in Maryland, or Huntsville, Alabama, continue to get impacted school aid? Whatever the original theory in Huntsville was, apparently it was that nobody was going to be down there very long so we might as well build temporary schools for them. But that is passed. There are now more than 300 districts getting impacted school aid but none of them is in a city. We in Detroit get no school aid on impacted schools.

Mr. COLMAN. Although there may be one or two dissents to this recommendation by the Commission, and I think you can understand where there may be dissents—we do not know for sure yet—the Commission recommendation here is very strong, that this State school aid thing must be turned around. It is going in the opposite places to where it should go. And, to add insult to injury on this score, if I might comment about a piece of legislation now pending in the Congress, the Federal aid that has been going to the schools has sort of compensated to some extent for this maldistribution of State aid, but by raising the so-called poverty level, by raising this figure from $2,000 to $3,000 as far as family income is concerned, which the Senate has under consideration, you will draw quite a bit of Federal money away from the cities and spread it all over the rest of the Nation, and then some of the compensatory effects that the Federal aid has been having on this very bad situation in the cities will have been vitiated and nullified.

Representative WIDNALL. Would the chairman yield?

Representative GRIFFITHS. Yes.

Representative WIDNALL. I would just like to go back a little bit to something else that was briefly touched on by our chairman. There certainly has to be a better look at welfare as it relates to all of these things.

Now, New York City has a terrific problem with welfare, but they have made it the most attractive place to go to in order to get welfare. They have no residence requirements at all, and, as a result, about a quarter of Puerto Rico moved into New York City overnight and all they needed was the plane fare—the one-way plane fare to New York—and in 24 hours they are on relief and getting money for the first time in their lives. Most of them had lived in squatter slums in Puerto Rico, which were absolutely about the worst I ever have seen anywhere. So, they have crowded together, huddled together three or four families in the apartment, and at the same time are on relief rolls and getting money.

If you are to change the structure of your grants-in-aid, especially with respect to the allocation of Federal moneys in connection with any housing program, you are certainly going to have to have more uniformity with respect to welfare laws, too. A lot of communities have a 1-year residence or even tougher requirements than that in order to be eligible to get relief.

I can understand New Yorkers being very enthusiastic, at least some of them, for a new State constitution. But, if they are going to have the welfare load taken off their back and distributed around the rest of the State, they should allocate their resources more in directions other than taking care of welfare.

I can recall, when I was first in the Congress, going up to New York City for some housing hearings. We had Mayor Wagner in to testify before us and I posed this question in connection with housing: How can you ever catch up with low-income housing when you are making it more and more attractive for the poor and those who need welfare to come to New York City? You have got an ever-expanding problem that you cannot possibly catch up with by Federal appropriation for low-income housing within New York City. And, I think this has been true in some of the other cities.

Now, another interesting fact I might throw in for consideration, I spoke to the President's Urban Commission last Friday. Former Senator Paul Douglas, Chairman of that Commission, was asked by a couple of newspaper reporters what the Commission had found out so far and what the recommendations might be from the Commission. Chairman Douglas said the Commission had not met for the purpose of fixing any findings or recommendations but he could give some personal reactions. He was startled to find out that in two cities in which they had understood that urban renewal was going better than elsewhere, Detroit and New Haven, that actually the results had more or less been in the other direction. Both Detroit and New Haven had complicated the problem of urban renewal by getting people huddled together more in a concentrated area. New Haven, Mr. Douglas said, had beautified the Yale campus more than anything else.

But, to sum up his remarks, he said if the same percentage of Federal money had gone to the other cities in the United States as had been spent in Detroit and in New Haven, we would have already spent $52 billion without accomplishing anything. This is a frightening thing to think about when you are looking back at the programs we have on the books right now, and I do not know of anybody who wants to do away with any of the existing programs. They want to add to them and have additional programs with the same ultimate thrust that was wanted when the first urban renewal program was enacted.

I think one of our greatest problems right now in the Congress—and with the people back home, because everybody has some kind of a selfish interest in this world—is to take off the books and stop working some of the areas where we are channeling money today and have been for years without achieving any result, and put that money into a new direction where we can concentrate and profit from the mistakes of the past with new programs and suggestions such as you are making now on behalf of your Commission. I think there are a lot of people in both political parties that are very worried about conditions now, and want to do something about it. You have a very frustrating problem politically in connection with the vested interests.

Representative GRIFFITHS. The vacancy rate in Detroit is less than 1 percent at the present time. It was never, I believe, that low even during World War II. But I am sure that Detroit did nothing different than any other city. They just got more money to do it with. They knocked down the slums and they rebuilt high-rise, high-cost housing, and other such things. I assume Yale did about the same thing. New Haven did about the same thing.

One of the problems, I think, with all of these programs is that if it really is Federal money, then you have got to stop talking about just local people administering it. Somebody has to be out there who also represents the Federal Government.

I talked last night with a woman who works in the social security payment office in a distant State, and she pointed out that since medicare is taken care of by the Federal Government there should be somebody from the Federal Government stationed in every hospital or, she said, the program is going to break the Government. And she pointed out that contrary to the intention of medicare, she found that local hospitals were actually sending things home with the patient that the patient did not really need and charging it off to medicare; she also gave me an example of an item selling at 50 cents wholesale, charged to medicare at $3.50, which was sent home with a patient who did not even need that item.

So, in place of talking about letting the local government exercise full control, in my opinion, if Federal money is involved, there ought to be somebody from the Federal Government there seeing what they are doing with the money, and how it is being spent.

I agree with you completely that if the control is a long distance away money may be wasted. The control ought to be local, Mr. Widnall, but the Federal Government should also have controllers there to oversee each one and protect the Federal money involved.

I hope your Commission also thinks of this, but I hope they consider, too, the fantastic difficulty of getting State administrations to change, in any meaningful way, the way they are distributing the money. They are just as political as the Federal Government. They are just as likely to react.

One of the things I have found in our own State government—we have about the highest paid legislators in the country—is that any of our legislators may turn up in Hong Kong, Europe, Africa, any place, any time. I never heard of such a thing. I do not really understand the reason for a State legislator being in these other nations but we are paying for these trips all the time in Michigan. And there is not too much publicity on this.

When you get right down to brass tacks as to where the money is going, it is coming back out of the Federal Government or the State itself; the money is coming from the central city of Detroit and is being spread in largesse out through the rest of the State—and I do not need to remind you of Detroit last summer.

So, I want a better distribution formula out of the State and I do not want any Federal money to go out unless there is a better distribution formula. I do not want it left to the untender mercies of the Michigan State Legislature.

The staff has a question: Where does the Commission recommend that neighborhood subunits of the Government be established? What kind of limited powers of taxation would these subunits exercise?

Mr. COLMAN. Madam Chairman, the reason for that recommendation was the recognition on the part of many members of the Commission that in our very large cities, government becomes very impersonal and city hall may be physically just 4 or 5 miles away from the low-income resident, but psychologically it might as well be Mars. And this is a recommendation to merely authorize city governments, in large cities, to establish neighborhood city halls, if you will, as a means in inculcating a greater degree of neighborhood initiative, neighborhood self-respect, a feeling of participation on the part of neighborhood residents.

The limited taxing powers proposed in the recommendation would be a very minute millage amount authorized for these people to piggyback onto the local property tax if they so chose. They would be able to spend the money on small projects of improvement, cleaning up, and so forth, within the neighborhood.

I would like to emphasize—and some public finance people have questioned the desirability of this recommendation on the grounds that it might fragment authority and fragment the tax base and so on—not at all, because the units created, the subunits created, would not be local units of government. They would not have any independent status. They would and should be dissoluble at any time by the creator; namely, the city council. But our feeling was that State legislatures ought to put this kind of permissive authority on the statute books of the State, so that any large cities that wish to move in this direction or to experiment in this general area trying to get greater participation on the part of disaffected and disillusioned citizens could legally do so.

Representative GRIFFITHS. Well, how would you tie this in with greater metropolitan planning and coordination?

Mr. COLMAN. I would see no conflict there because the city counsel would certainly not authorize functions or activities that could run afoul of or in conflict with the general plan of the city, the city's master plan, or any metropolitan endeavors. You might consider the local Pride project that operated in the Washington metropolitan area this past summer as roughly analogous. The city council would enable activities of that sort to be carried on utilizing a little bit of public money, publicly raised right there within the neighborhood, certainly with any kind of additional financial assistance that the city council wanted to provide or that the State government wanted to provide. But, let me emphasize again that the recommendation is one for permissive authorization on the part of the State and just how it was carried out and what was done would depend upon the city involved.

Also this relates to another recommendation that the Commission made for the consideration of the States and that is that they search out from their constitutions and statutes and repeal provisions that now limit the ability of the State or local government to cooperate in a financial way with private enterprise for public purposes. Growing out of the old railroad scandals in the late 1800's, most State constitutions have provisions in them that prohibit the use of the State credit in any way being commingled with a nongovernmental endeavor.

Now, this is a barrier, a constitutional and a legal barrier, to some partnership efforts between city and State government with private industry particularly in the area of city rebuilding. And here again, the Commission desires to get these restrictions lifted, get some legal freedom, so that the local units of government could move ahead here and experiment in profitable ways.

Representative GRIFFITHS. What does the Commission mean by "social statistics"?

Mr. COLMAN. Let me defer answer on that, if I may, to Mr. Shannon.

Mr. SHANNON. Madam Chairman, social statistics cover the standard line of demographic statistics and also include statistics on health, crime, employment, welfare, housing, education, the data that provide—and this is the key thing—signals on how society is changing in the various jurisdictions within metropolitan areas.

Representative GRIFFITHS. It might interest you to know I have found that there are a lot of people not very anxious to have statistics gathered. In my district, recently, they sent out a civil defense questionnaire. I have received more objections to that civil defense questionnaire than any other thing that ever happened in my district. And my district is the largest homeowner-occupied district in Michigan.

Secondly, the city is doing some sort of a health survey—spot checking. They look at the outside of the house, then if it appears not well kept, they decide the people on the inside may not have had good health services, so they go in and check with those people.

I am sure that there could not possibly have been more than two blocks in my whole district involved and these people saw all those city cars going up and down gathering information. I heard from everybody in that area, I believe. They did not understand what all the city cars were out there for, but they darn well meant to find out. The Census Bureau may not have so much trouble when they do their work, but you will get a bad reaction from this sort of thing, in my district anyway.

Mr. COLMAN. We would like to make it clear, Madam Chairman, that as far as this recommendation is concerned and the text of the Commission's report will make this clear, that this is not directed toward the very controversial so-called national data bank on individuals, but rather its improved statistics on government functions, and on income, and on public finance within the metropolitan areas. We found in that conduct of this study, for example, one of the most detailed studies, I would submit, that has been undertaken of metropolitan public finance in this country, we found a great many gaps and that information just was not available, and public administrators and political leaders at the local level complain about this repeatedly. Legislation is pending in the Congress for a system of social statistics and we think also that additional statistics from the Internal Revenue Service as to income would be very revealing here also. Not on individuals, but collectively, and aggregated by units of Government.

Representative GRIFFITHS. Internal Revenue Service discovered that individuals were not too anxious to give out statistics on their income.

Are there any more questions?

Representative WIDNALL. Just a couple more. Is the Commission in favor of legislation designed to insure periodic review of the Federal grant programs by congressional committees?

Mr. COLMAN. Yes; it is. Ever since 1961. One of the first reports the Commission adopted called for such a review and legislation on that score has been pending in the Congress for about 4 or 5 years and, as you know, Mr. Widnall, it has been hard going. We got it through the Senate, I think twice, maybe three times. Each time we have some problems in the Government Operations Committee of the House.

Representative WIDNALL. The same would apply to review by executive agencies; is that so?

Mr. COLMAN. Yes, sir.

Representative WIDNALL. Do you believe that Federal aid has encouraged Government fragmentation at the local level by encouraging special districts and administrative units, such as soil districts, urban renewal districts? Is such fragmentation desirable?

Mr. COLMAN. Certainly undesirable and in our findings in an earlier report entitled: "The Impact of Federal Urban Development Programs on Local Government Organizations and Planning," we found that Federal aid was encouraging a fragmentation of local government authority. And what we were just discussing here earlier this morning; namely, the grants for water and sewer treatment, water supply and sewer disposal, the Federal legislation there encourages the formation of private water districts outside of the urban center and grants to those districts by the Farmers Home Administration.

We believe that grants should be made to general units of local government; namely, cities, counties, and towns, where the people are elected—where you have politically responsible governing boards, rather than to these special districts. We have in the Intergovernmental Cooperation Act of 1967 pending in the Congress language providing that in the absence of compelling reasons to the contrary, Federal department and agency heads will honor applications from the units of general local government in preference to these special districts and authorities. The same problem, to a lesser extent, in our view, occurred several years ago in a field with which you are very familiar, the establishment of independent urban renewal authorities, independent public housing agencies.

While recognizing some of the virtues of independence here, we think that the price has been awfully high. We think there is much to be said for the integration of these functions within the regular structure of city government.

Representative WIDNALL. The use of statistics can certainly be very perplexing and confusing, particularly with respect to the public. I know that for many years I was annoyed by the fact that all throughout the United States they talked about New Jersey being 47th in education out of the 48 States. Actually, this was based on the amount of State aid to the municipality. We were actually spending a third, I think, of the whole United States in money for education facilities, and yet throughout the United States everybody thought of New Jersey as being a very backward State because they were 47th in the whole Nation and based purely on the amount of State aid going in.

Now, many times statistics are used for a particular purpose by a group that is trying to get something. In this case they were trying to get State aid but they were not relating the true facts to the public as to the amount that was being spent. And many of the comparisons that we see that are used politically many times do not really reflect the true circumstances within a State. What you are attempting is a leveling and an evening influence where you can, I think. Take a more honest look at everything that is going on, including the methods of financing so that you do have the equalizing influences which are not there at the present time and which Mrs. Griffiths suggested.

I find that it is tough enough for those of us who are trying to acquire expertise in the field to get the honest answers and it must be that much harder for those in the general public who do not as a vocation, get involved in this the same way that we do.

I certainly want to commend you for the work you are doing on your Commission and for the recommendations that you have made. I appreciate your being here today.

Mr. COLMAN. Thank you.

Representative GRIFFITHS. I, too, would like to add my thanks. You have been a very good witness and we do appreciate both you and the Commission. Thank you very much.

Mr. COLMAN. We appreciate the opportunity, Madam Chairman.

Representative GRIFFITHS. This subcommittee will be adjourned until tomorrow morning, November 8, at 10 a.m. We will hear various Congressmen and Senators.

(Whereupon, at 11:45 a.m., the hearing was recessed, to reconvene at 10 a.m., Wednesday, November 8, 1967.)

REVENUE SHARING AND ITS ALTERNATIVES: WHAT FUTURE FOR FISCAL FEDERALISM?

WEDNESDAY, NOVEMBER 8, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess at 10:05 a.m., in the House Ways and Means Committee hearing room, Longworth House Office Building, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representatives Griffiths and Widnall; and Senator Javits.

Also present: John R. Stark, executive director; James W. Knowles, director of research; and Richard F. Kaufman, staff economist.

Representative GRIFFITHS. The Fiscal Policy Subcommittee of the Joint Economic Committee will come to order.

This morning we continue our second set of hearings on fiscal federalism. These hearings are a continuation of those held earlier this year when we heard from a wide range of technical experts on many aspects of fiscal federalism, with special emphasis on our experience with various types of collaboration between the Federal Government and the States and localities.

In this second set of hearings we are calling on policymaking officials from Federal, State, and local governments to consider these problems with us.

Yesterday, we began the hearings with a review of the conclusions and recommendations reached by the Advisory Commission on Intergovernmental Relations. This morning, our second day of the hearing, we are honored to have as our discussants three outstanding Members of the Congress: Representatives Henry S. Reuss and Melvin R. Laird, both of the State of Wisconsin; and Senator Howard H. Baker, Jr., of the State of Tennessee.

Gentlemen, we greatly appreciate your taking time from your heavy schedules to discuss with the Subcommittee on Fiscal Policy the various issues connected with revenue sharing and its alternatives and what the future is for fiscal federalism.

Senator Javits would like to make a statement before we hear our first distinguished witness, Congressman Reuss.

Senator JAVITS. Thank you, Madam Chairman.

First, let me express my satisfaction at the fact that these hearings are being held. I felt I did wish to make a statement at the beginning because I have had bills in upon this subject for some years, including the current bill which is pending in the Senate, S. 482, and which is also pending in the House, and I will supply the number of that for the record.

The Senate bill is sponsored by myself with Senators Baker, Carlson, Cooper, Dominick, Scott, and Young of North Dakota. Here in the House the bill is sponsored by Representatives Reid—and I will fill in the bill number next to each one—and Morris and by Representative Pepper of Florida.

The bill is described in the summary which is available to all members of the committee and, generally speaking, proposes to vote at a beginning 1 percent of the taxable income on individual income tax returns, increasing this amount by a half of 1 percent each year up to an aggregate of 2 percent for the benefit of State and local plans which will be untied grants of funds, but State purposes and local purposes are limited to health, education, and welfare, and exclude highways, administrative expenses, property tax relief, debt service and disaster relief, and the whole plan is based upon local plans which would require the accommodation of State plans to local plans and based also upon population of relative revenue efforts with a special provision for the so-called poor States below the national average of income.

Now, Madam Chairman, I ask unanimous consent that an outline of the details of my bill be made part of my remarks.

Representative GRIFFITHS. Without objection, it is so ordered.

(The material referred to follows:)

FEDERAL-STATE TAX-SHARING PLAN*

Mr. JAVITS. Mr. President, I send to the desk a bill to establish a tax-sharing formula to distribute to the States and through them to local governments a portion of Federal tax revenues.

I ask unanimous consent that the bill lie on the desk for additional sponsors until close of business Monday next, October 18, 1965, unless the Senate adjourns sine die before that time, and that it lie on the desk until the Senate does adjourn if sooner.

The PRESIDING OFFICER. The bill will be received and appropriately referred; and, without objection, the bill will lie on the desk as requested.

The bill (S. 2619) to establish a system for the sharing of certain Federal tax receipts with the States, introduced by Mr. Javits (for himself and Mr. Hartke), was received, read twice by its title, and referred to the Committee on Finance.

Mr. JAVITS. Mr. President, the bill now implements what has become rather popularly known as the Heller plan developed in June 1964, by Dr. Walter Heller, then Chairman of the President's Council of Economic Advisers.

I introduce this bill on behalf of myself and the Senator from Indiana [Mr. Hartke]. A parallel measure is being introduced today in the House by Congressman Reid of New York and other Members.

Mr. President, I ask unanimous consent to have printed in the Record some tables and a study showing what the States would receive under my bill.

There being no objection, the tables and study were ordered to be printed in the Record, as follows:

*Reprinted from Congressional Record, 89th Cong., 1st sess., Monday, Oct. 11, 1965.

STATE-LOCAL GOVERNMENT REVENUES, EXISTING FEDERAL OUTLAYS TO THE STATES AND LOCALITIES AND ADDITIONAL FEDERAL ALLOTMENTS UNDER THE JAVITS REVENUE-SHARING PROPOSAL

State	Total general revenues 1963-64	Revenues from Federal Government		Federal revenue-sharing allotment		
		Amount	As percent of total general revenues (col. 1)	Amount	As percent of total general revenues (col. 1)	Percent increase of revenues from Federal Government (col. 2)
	(1)	(2)	(3)	(4)	(5)	(6)
	Millions	Millions	Percent	Millions	Percent	Percent
Alabama	$904	$214	23.7	$84.3	9.3	39.9
Alaska	180	91	50.6	2.6	1.4	28.6
Arizona	592	95	16.0	19.0	3.2	20.0
Arkansas	502	138	27.5	47.4	9.4	34.3
California	8,929	1,257	14.1	213.6	2.4	17.0
Colorado	802	136	17.0	21.8	2.7	16.0
Connecticut	1,018	134	13.2	23.1	2.3	17.2
Delaware	199	26	13.1	4.4	2.2	16.9
Florida	1,870	251	13.4	62.6	3.3	24.9
Georgia	1,189	234	19.7	105.8	8.9	45.2
Hawaii	314	64	20.4	8.5	2.7	13.3
Idaho	239	45	18.8	18.1	7.6	40.2
Illinois	3,567	437	12.2	88.8	2.5	20.3
Indiana	1,597	170	10.6	47.4	3.0	27.9
Iowa	1,003	134	13.4	30.2	3.0	22.5
Kansas	821	114	13.9	25.4	3.1	22.3
Kentucky	861	205	23.8	76.5	8.9	37.3
Louisiana	1,252	278	22.2	96.0	7.7	34.5
Maine	300	52	17.3	10.0	3.3	19.2
Maryland	1,136	129	11.4	30.5	2.7	23.6
Massachusetts	1,959	244	12.5	49.7	2.5	20.4
Michigan	3,125	404	12.9	86.3	2.8	21.4
Minnesota	1,426	195	13.7	42.7	3.0	21.9
Mississippi	589	128	21.7	61.1	10.4	47.7
Missouri	1,355	244	18.0	36.4	2.7	14.9
Montana	302	74	24.5	8.4	2.8	11.4
Nebraska	488	89	16.4	14.4	2.9	18.0
Nevada	218	57	23.9	4.4	2.0	8.5
New Hampshire	197	36	18.3	5.9	3.0	16.4
New Jersey	2,179	187	8.6	57.3	2.6	30.6
New Mexico	429	103	24.0	28.4	6.6	27.6
New York	8,096	650	8.0	202.2	2.5	31.1
North Carolina	1,233	188	15.2	119.0	9.7	63.3
North Dakota	273	55	20.1	8.7	3.2	15.8
Ohio	3,182	440	13.8	88.7	6.4	20.2
Oklahoma	870	213	24.5	26.8	3.1	12.6
Oregon	800	172	21.5	20.7	2.6	12.0
Pennsylvania	3,526	439	12.5	101.8	2.9	23.2
Rhode Island	289	49	17.0	8.2	2.8	16.7
South Carolina	568	93	16.4	62.4	11.0	67.1
South Dakota	267	61	22.8	19.0	7.1	31.1
Tennessee	1,011	216	21.4	92.8	9.2	43.0
Texas	3,144	505	16.1	103.2	3.3	20.4
Utah	380	95	25.0	11.0	2.9	11.6
Vermont	150	36	24.0	4.5	3.0	12.5
Virginia	1,176	207	17.6	38.4	3.3	18.6
Washington	1,285	204	15.9	34.3	2.7	16.8
West Virginia	509	98	19.3	44.3	8.7	45.2
Wisconsin	1,591	168	10.6	48.9	3.1	29.1
Wyoming	191	64	33.5	4.2	2.2	6.6
District of Columbia	355	100	28.2	6.3	1.8	6.3

STATE ALLOTMENTS UNDER THE JAVITS REVENUE-SHARING PROPOSAL (ASSUMING TOTAL DISTRIBUTION OF $2,500,000,000, WITH 80 PERCENT GOING TO ALL STATES AND 20 PERCENT GOING TO 13 LOW-INCOME STATES)[1]

[Dollars in millions]

State	State and local revenue from own sources (1963–64)	Personal income (1963)	Revenue effort ratio (col. 1÷ col. 2)	Relative State effort ratio (col. 3÷ 13.0)	State percentage of total population (1964 estimated)	Unadjusted State allotment (col. 5× $2,000,000,000)	Adjusted State allotment (col. 4× col. 6)	State percentage of 13-State population, total	Extra allotment (col. 8×$5,-000,000,000)	Total allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Alabama	$690	$5,538	12.5	96	1.8	$35.6	$34.2	10.0	$50.1	$84.3
Alaska	89	704	12.6	98	.1	2.6	2.6	----------	----------	2.6
Arizona	497	3,340	14.9	115	.8	16.5	19.0	----------	----------	19.0
Arkansas	364	2,986	12.2	94	1.0	20.2	19.0	5.7	28.4	47.4
California	7,672	52,317	14.7	113	9.5	189.0	213.6	----------	----------	213.6
Colorado	665	4,831	13.8	106	1.0	20.5	21.8	----------	----------	21.8
Connecticut	889	8,400	10.4	80	1.4	28.9	23.1	----------	----------	23.1
Delaware	174	1,570	11.1	85	.3	5.1	4.4	----------	----------	4.4
Florida	1,619	11,933	13.6	105	3.0	59.6	62.6	----------	----------	62.6
Georgia	954	7,715	12.4	95	2.2	44.9	42.6	12.6	63.1	105.8
Hawaii	250	1,667	15.0	116	.4	7.3	8.5	----------	----------	8.5
Idaho	194	1,366	14.2	110	.4	7.2	8.0	2.0	10.1	18.1
Illinois	3,138	30,020	10.5	81	5.5	109.6	88.8	----------	----------	88.8
Indiana	1,427	11,648	12.3	94	2.5	50.4	47.4	----------	----------	47.4
Iowa	869	6,399	13.6	105	1.4	28.8	30.2	----------	----------	30.2
Kansas	707	5,017	14.1	109	1.2	23.2	25.4	----------	----------	25.4
Kentucky	656	5,545	11.8	91	1.7	33.0	30.0	9.3	46.5	76.5
Louisiana	974	6,072	16.0	124	1.8	36.3	45.0	10.2	51.0	96.0
Maine	248	1,971	12.6	97	.5	10.3	10.0	----------	----------	10.0
Maryland	1,007	9,163	11.0	85	1.8	35.9	30.5	----------	----------	30.5
Massachusetts	1,715	14,889	11.5	89	2.8	55.8	49.7	----------	----------	49.7
Michigan	2,721	20,624	13.2	102	4.2	84.6	86.3	----------	----------	86.3
Minnesota	1,231	8,152	15.1	116	1.8	36.8	42.7	----------	----------	42.7

Mississippi	461	3,183	14.5	112	1.2	24.2	27.1	6.8	34.0	61.1
Missouri	1,111	10,900	10.2	79	2.3	46.1	36.4	----------	----------	36.4
Montana	229	1,553	14.7	114	.4	7.4	8.4	----------	----------	8.4
Nebraska	408	3,376	12.1	93	.8	15.5	14.4	----------	----------	14.4
Nevada	166	1,246	13.3	103	.2	4.3	4.4	----------	----------	4.4
New Hampshire	161	1,450	11.1	86	.3	6.8	5.9	----------	----------	5.9
New Jersey	1,993	18,861	10.6	82	3.5	69.8	57.3	----------	----------	57.3
New Mexico	327	1,953	16.7	129	.5	10.5	13.6	3.0	14.8	28.4
New York	7,445	53,361	14.0	108	9.4	187.3	202.2	----------	----------	202.2
North Carolina	1,046	8,601	12.2	94	2.5	50.7	47.7	14.3	71.4	119.0
North Dakota	218	1,300	16.8	129	.3	6.7	8.7	----------	----------	8.7
Ohio	2,742	25,164	10.9	84	5.3	105.6	88.7	----------	----------	88.7
Oklahoma	656	4,858	13.5	104	1.3	25.7	26.8	----------	----------	26.8
Oregon	628	4,568	13.7	106	1.0	19.5	20.7	----------	----------	20.7
Pennsylvania	3,082	28,017	11.0	85	6.0	119.8	101.8	----------	----------	101.8
Rhode Island	240	2,153	11.1	86	.5	9.6	8.2	----------	----------	8.2
South Carolina	475	3,944	12.0	93	1.3	26.7	24.8	7.5	37.6	62.4
South Dakota	206	1,300	14.8	114	.4	7.5	8.5	2.1	10.5	19.0
Tennessee	795	6,588	12.1	93	2.0	39.7	36.9	11.2	55.9	92.8
Texas	2,640	21,351	12.4	95	5.4	108.7	10.32	----------	----------	103.2
Utah	286	2,083	13.7	106	.5	10.4	11.0	----------	----------	11.0
Vermont	114	827	13.8	106	.2	4.3	4.5	----------	----------	4.5
Virginia	968	8,907	10.9	84	2.3	45.8	38.4	----------	----------	38.4
Washington	1,081	7,575	14.3	110	1.6	31.2	34.3	----------	----------	34.3
West Virginia	411	3,348	12.3	95	.9	18.8	17.8	5.3	26.4	44.3
Wisconsin	1,424	9,617	14.8	114	2.1	42.9	48.9	----------	----------	48.9
Wyoming	127	834	15.2	117	.2	3.8	4.2	----------	----------	4.2
District of Columbia	256	2,645	9.7	75	.4	8.4	6.3	----------	----------	6.3
Total	----------	----------	[2] 13.0	----------	----------	----------	----------	----------	----------	2,456.4

[1] Details may not agree because of rounding. [2] Average.

TABLE B-64.—STATE AND LOCAL GOVERNMENT REVENUES AND EXPENDITURES, SELECTED FISCAL YEARS, 1927–63

[In millions of dollars]

Fiscal year [1]	Revenues by source [2]							Expenditures by function [2]				
	Total	Property taxes	Sales and gross receipts taxes	Individual income taxes	Corporation net income taxes	Revenue from Federal Government	All other revenue [3]	Total	Education	Highways	Public welfare	All other [4]
1927	7,271	4,730	470	70	92	116	1,793	7,210	2,235	1,809	151	3,015
1932	7,267	4,487	752	74	79	232	1,643	7,765	2,311	1,741	444	3,269
1934	7,678	4,076	1,008	80	49	1,016	1,449	7,181	1,831	1,509	889	2,952
1936	8,395	4,093	1,484	153	113	948	1,604	7,644	2,177	1,425	827	3,215
1938	9,228	4,440	1,794	218	165	800	1,811	8,757	2,491	1,650	1,069	3,547
1940	9,609	4,430	1,982	224	156	954	1,872	9,229	2,638	1,573	1,156	3,862
1942	10,418	4,537	2,351	276	272	858	2,123	9,190	2,586	1,490	1,225	3,889
1944	10,908	4,604	2,289	342	451	954	2,269	8,863	2,793	1,200	1,133	3,737
1946	12,356	4,986	2,986	422	447	855	2,661	11,028	3,356	1,672	1,409	4,591
1948	17,250	6,126	4,442	543	592	1,861	3,685	17,684	5,379	3,036	2,099	7,170
1950	20,911	7,349	5,154	788	593	2,486	4,541	22,787	7,177	3,803	2,940	8,867
1952	25,181	8,652	6,357	998	846	2,566	5,763	26,098	8,318	4,650	2,788	10,342
1953	27.307	9,375	6,927	1,065	817	2,870	6,252	27,910	9,390	4,987	2,914	10,619
1954	29,012	9,967	7,276	1,127	778	2,966	6,897	30,701	10,557	5,527	3,060	11,557
1955	31,073	10,735	7,643	1,237	744	3,131	7,584	33,724	11,907	6,452	3,168	12,197
1956	34,667	11,749	8,691	1,538	890	3,335	8,465	36,711	13,220	6,953	3. 139	13,399
1957	38,164	12,864	9,467	1,754	984	3,843	9,252	40,375	14,134	7,816	3,485	14,940
1958	41. 219	14,047	9,829	1,759	1,018	4,865	9,699	44,851	15,919	8,567	3,818	16,547
1959	45,306	14,983	10,437	1,994	1,001	6,377	10,516	48,887	17,283	9,592	4,136	17,876
1960	50,505	16,405	11,849	2,463	1,180	6,974	11,634	51,876	18,719	9,428	4,404	19,324
1961	54,037	18,002	12,463	2,613	1,266	7,131	12,563	56,201	20,574	9,844	4,720	21,063
1962	58,252	19,054	13,494	3,037	1,308	7,871	13,489	60,206	22,216	10,357	5,084	22,549
1963	62,890	20. 089	14,456	3,269	1,505	8,722	14,850	64,816	24,012	11,136	5,481	24,187

[1] Fiscal years not the same for all governments.
[2] Excludes revenues or expenditures of publicly owned utilities and liquor stores, and of insurance-trust activities. Intergovernmental receipts and payments between State and local governments are also excluded.
[3] Includes licenses and other taxes and charges and miscellaneous revenues.
[4] Includes expenditures for health, hospitals, police, local fire protection, natural resources, sanitation, housing and community redevelopment, local parks and recreation, general control, financial administration, interest on general debt, and other and unallocable expenditures.

Note: Data are not available for intervening years.
Data for Alaska and Hawaii included beginning 1959 and 1960, respectively.
See table B-54 for net debt of State and local governments.

Source: Department of Commerce, Bureau of the Census.

Mr. JAVITS. Mr. President, I ask unanimous consent that the text of the bill may be printed with my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

The text of the bill is as follows:

"S. 2619

"*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That this Act may be cited as the 'Federal Tax-Sharing Act.'

"SEC. 2. (a) There is hereby established in the Treasury of the United States a fund to be known as the 'Tax-Sharing Fund.' The Tax-Sharing Fund shall consist of such amounts as may be appropriated to such fund as provided in this section.

"(b)(1) There is hereby appropriated to the Tax-Sharing Fund, out of any money in the Treasury not otherwise appropriated, for the fiscal year beginning July 1, 1967, and for each fiscal year thereafter, an amount determined by the Secretary of the Treasury equal to 1 percent of the aggregate taxable income reported on individual income tax returns during the preceding calendar year.

"(2) For purposes of this subsection—

"(A) The term 'taxable income' shall have the same meaning as specified in section 63 of the Internal Revenue Code of 1954.

"(B) The term 'individual income tax returns' means returns of the tax on the income of individuals imposed by chapter 1 of the Internal Revenue Code of 1954.

"(c) The Secretary of the Treasury (hereinafter referred to as the 'Secretary') shall, from time to time, but not less often than quarterly, transfer from the general fund of the Treasury to the Tax-Sharing Fund the amounts appropriated by subsection (b). Such transfers shall, to the extent necessary, be made on the basis of estimates by the Secretary of the amounts referred to in subsection (b). Proper adjustments shall be made in the amounts subsequently transferred to the extent that prior estimates were in excess of or less than the amounts required to be transferred.

"SEC. 3. (a) Subject to the provisions of subsection (d), the Secretary shall, during the fiscal year beginning July 1, 1967, and during each fiscal year thereafter, pay to each State, from amounts appropriated to the tax-sharing fund for the fiscal year in which payments are to be made, a total amount equal to the allotment or allotments of such State in such fiscal year under this section. Such payments may be made in installments periodically during any fiscal year, but not less often than quarterly.

"(b) From 80 percent of the amount appropriated to the tax-sharing fund pursuant to section 2 for any fiscal year, the Secretary shall allot to each State in such fiscal year an amount equal to the product resulting from multiplying—

"(1) an amount which bears the same ratio to such 80 percent of the amount so appropriated as the population of such State bears to the total population of all of the States, by

"(2) a number which is the quotient resulting from dividing the revenue effort ratio of such State by the average national revenue effort ratio.

"(c) From 20 percent of the amount appropriated to the tax-sharing fund pursuant to section 2 for any fiscal year, the Secretary shall allot to each of the thirteen States with the lowest per capita income of individuals an amount in such fiscal year which bears the same ratio to such 20 per centum of the amount so appropriated as the population of such State bears to the total population of all of such thirteen States.

"(d) Notwithstanding any other provision of this section, (1) the amount of any State's allotment in any fiscal year under either subsection (b) or (c), (2) the total amount of any State's combined allotments in any fiscal year under subsections (b) and (c), or (3) the total amount resulting from combining any State's allotment or allotments in any fiscal year and any reallotment to such State under this subsection, shall not exceed 12 per centum of the amount appropriated pursuant to section 2 for such fiscal year. In the event of any reduction of a State's allotment or allotments in any fiscal year under the provisions of the preceding sentence, the Secretary shall reallot and pay, from time to time during such fiscal year, the amount of such reduction to other States in proportion to the original allotment or allotments to such States under subsections (b) or (c) for such fiscal year.

"(e) For purposes of this section—

"(1) The term 'State' means any of the various States and the District of Columbia.

"(2) The term 'revenue effort ratio,' when used in relation to any State, means a fraction (A) the numerator of which is the total of the revenues derived by such State (including revenues derived by any political subdivision thereof) from its own sources, and (B) the denominator of which is the total income of individuals residing in such State.

"(3) The term 'average national revenue effort ratio' means a fraction (A) the numerator of which is the total resulting from adding together all revenue effort ratios of the States, and (B) the denominator of which is 51.

"(4) The term 'income of individuals,' when used in relation to any State, means income subject to the tax imposed by chapter 1 of the Internal Revenue Code of 1954.

"(5) The population of a State and of all the States shall be determined by the Secretary on the basis of the most recent data available from the Department of Commerce.

"SEC. 4. (a) Each State may use payments from its allotment or allotments in any fiscal year under section 3 for activities, programs, and services in the fields of health, education, and welfare.

"(b) Each State shall apportion in accordance with equitable criteria, from its allotment or allotments in any fiscal year, to each local government within such State an amount not less than an amount which bears the same ratio to such allotment or allotments as to such local government from revenues of such State derived from all sources during the five years preceding such fiscal year bears to the total amount of revenues of such State derived from all sources during such five year period.

"(c) Whenever the Secretary, after giving reasonable notice and opportunity for hearing to a State, finds that such State, or any local government to which such State has apportioned part of its allotment or allotments—

"(1) has used any amount of such allotment or allotments for purposes not within the scope of subsection (a),

"(2) has not apportioned any amount of such allotment or allotments in accordance with the provisions of subsection (b), or

"(3) has not obligated any amount of such allotment or allotments within five fiscal years immediately following the fiscal year in which such allotment or allotments were made

the Secretary shall subtract, from any subsequent allotment or allotments to such State, a total amount equal to the amount referred to in paragraph (1), (2) or (3). In the event of any reduction of a State's allotment in any fiscal year under this subsection, the Secretary shall reallot and pay, from time to time during such fiscal year, the amount of such reduction to other States in proportion to the original allotment or allotments to such States under subsections (b) and (c) of section 3 for such year.

"(d) For purposes of this section—

"(1) The term 'health, education, and welfare,' when used in relation to any activity, program, or service, shall not include any activity, program, or service designed to provide—

"(A) Administrative expenses for State and local government.

"(B) Highway programs.

"(C) State payments in lieu of property taxes.

"(D) Debt service.

"(E) Disaster relief.

"(2) The term 'local government' means any city, township, village, municipality, county, parish, or similar territorial subdivision of a State, but shall not include any department, agency, commission, or independent instrumentality of a State.

"SEC. 5. (a) (1) Any State desiring to receive its allotment in any fiscal year under this Act shall, on behalf of itself and any local government which may receive any apportionment thereof, certify and provide satisfactory assurance to the Secretary that such State and local government will—

"(A) use such fiscal control and fund accounting procedures as may be necessary to assure proper disbursement of and accounting for any allotment paid to such State, and any apportionment made by such State to local governments, under this Act;

"(B) make such reports to the Secretary, the Congress, and the Comptroller General, in such form and containing such information as the Secretary may reasonably require to carry out his functions under this Act including a statement of intent as to how and for what purpose the fund shall be spent, except that any State may make such reports on behalf of any local government thereof; and

"(C) adhere to all applicable Federal laws in connection with any activity, program, or service provided solely or in part from such allotment.

"(2) For purposes of this subsection, the provisions of title VI of the Civil Rights Act of 1964 shall be deemed to be applicable to any activity, program, or service provided solely or in part from any allotment received by a State under this Act.

"(b) Whenever in any fiscal year the Secretary, after giving reasonable notice and opportunity for hearing to a State, finds that such State, or any local government thereof, is not in substantial compliance with the purposes of subsection (a), the Secretary immediately shall—

"(1) in the case of the failure of compliance of any State, cancel any subsequent payments to such State under this Act in such fiscal year and reallot any remainder of such State's allotment in such fiscal year to other States in proportion to the original allotment or allotments to such States under subsections (b) and (c) of section 3 for such fiscal year, or

"(2) in the case of the failure of compliance of any local government, require satisfactory assurance that such State will cancel any subsequent payments to such local government under this Act in such fiscal year and reapportion any remainder of such local government's apportionment to other local governments of such State in proportion to the original apportionments to such local governments under section 4(b) for such fiscal year.

"SEC. 6. The Secretary shall report to the Congress not later than the first day of March of each year on the operation of the Tax-Sharing Fund during the preceding fiscal year and on its expected operation during the current fiscal year. Each such report shall include a statement of the appropriations to, and the disbursements made from, the Tax-Sharing Fund during the preceding fiscal year; and estimate of the expected appropriation to, and disbursements to be made from, the Tax-Sharing Fund during the current fiscal year; and any changes recommended by the Secretary concerning the operation of the Tax-Sharing Fund.

"SEC. 7. The Appropriations Committee and the Finance Committee of the Senate and the Appropriations Committee and the Ways and Means Committee of the House of Representatives, respectively, shall conduct a full and complete study at least once during each Congress with respect to the operation of the Tax-Sharing Fund and the activities, programs, and services provided by the States from allotments received pursuant to this Act, and report its findings upon such study to each House, respectively, together with its recommendations for such legislation as it deems advisable at the earliest practicable date. This section is enacted by the Congress as an exercise of the rulemaking power of the Senate and the House of Representatives, respectively, with full recognition of the constitutional right of either House to change such rules (so far as relating to the procedure in such House) at any time, in the same manner and to the same extent as in the case of any other rule of such House."

Mr. JAVITS. Mr. President, the bill would accomplish a number of objectives in an effort to bring about better equalization between the tax resources upon which State and local governments can draw and those which are preempted by the Federal Government. This is a problem which every State—including my own State of New York, which has the second largest tax revenues in the country—must solve.

The Javits plan would provide as follows:

First. Establishment of a trust fund in which 1 percent of aggregate taxable income would be deposited from the Treasury, beginning July 1, 1967. Under present conditions, this would amount to $2.5 billion a year and would grow as the tax base grows. Transfer from the Treasury to the tax-sharing trust fund would take place at least once every 3 months.

Second. Payments from the trust fund to the States under the following formula: (a) 80 percent, would be distributed on the basis of population. This amount would be increased or decreased depending on the State's own tax effort, which would be measured by the ratio of the total revenue derived by the State over total personal income of individual State residents, as compared with the national average; (b) 20 percent of the fund would be paid each fiscal year to the 13 States with the lowest per capita income. This would be distributed according to population of the States involved.

Third. No State could receive a total payment for a fiscal year in excess of 12 percent of the trust fund in that year.

Fourth. A State may use its allotment of funds for programs in the field of "health, education, and welfare," but not to include (a) debt service of the States, (b) general administrative expenses for the executive, legislative, or judicial branches of State and local government, (c) highway programs, (d) State payments in lieu of real property taxes, (e) disaster relief.

Fifth. To benefit from the plan, a State must file reports with the Secretary of the Treasury, the Comptroller General and the appropriate committees of Congress, including a statement of intent as to how and for what purposes it shall spend the money. States must also comply with all applicable laws including title VI of the Civil Rights Act of 1964. The Secretary of the Treasury must provide a detailed audit report to the Congress annually on the operation of the trust fund during the preceding fiscal year and on its expected operation during the current fiscal year.

Sixth. Failure to comply with prescribed conditions would require cancellation of future payments and permits reallocation of the remainder of a State's allocation to other States in proportion to the original allotment.

Seventh. The State must distribute to its local governments an equitable portion of its allotment. The amount distributed to local governments must be no less than the average of the State's distribution of its own revenues to local governments over the previous 5 years.

Eighth. Appropriations Committees of both Houses and the Finance Committee of the Senate and Ways and Means Committee of the House, responsible for appropriations and tax legislation, must, at least once during each Congress, conduct a complete study of the operation of the trust fund and provide such legislative recommendations as appropriate.

The measure I introduce today is designed to provide a workable formula to channel Federal revenues to the States with a minimum of strings attached in order to restore fiscal balance to the Federal-State partnership and to strengthen the capacity of local governments to serve their citizens effectively.

The general outlines of a plan to distribute Federal tax revenues to the States was first suggested in June 1964 by Dr. Walter Heller, then Chairman of the President's Council of Economic Advisers. It has since been endorsed by a task force of economists headed by Joseph W. Pechman, of the Brookings Institution. It was supported by the Republican Governors Association last July as well as by numerous conferences of local officials. But no concrete plan has yet been formulated as to the precise allocation of Federal funds for a wide range of State activities. Despite its complexity, I believe Congress should have before it now a carefully drawn proposal embodying this plan so that it may be fully considered by congressional committees during the period between sessions and may be the subject for hearings early in the second session.

State and local governments face a severe crisis. While the future with its demands for new services is rushing in on them, they remain victims of a financial revenue base which is years out of date. In the past 18 years, total State and local government expenditures have multiplied six times over. State and local outlays for education alone increased from $3 billion at the end of World War II to $22 billion last year. In the past 10 years, these expenditures, now totaling about $87 billion per year, have risen at 8 percent per year, twice as fast as the gross national product. In contrast to this, the Federal Government made cash expenditures during fiscal year 1965, excluding costs of national defense, of $66 billion.

The sad fact is that the present resources of State and local government are not sufficient to meet the expanding needs caused by exploding population, rapid urbanization, and advanced technology; nor is there any indication that this situation will correct itself. Indeed, almost every imaginable tax resource has already been subjected to increasing and sometimes undesirable pressures. State taxes alone have gone from $4.9 billion in 1946 to $24.2 billion in 1964, an average increase of over a billion dollars a year. In 1965, property taxes increased 7.3 percent over the previous year; sales taxes went up 8.7 percent, corporate and individual income taxes rose 7.5 and 6.3 percent, respectively—all in 1 year.

In 1964, State tax increases siphoned off one-third of the $6.5 billion Federal tax cut. Despite warnings from economists, a bewildering variety of consumption, payroll, and service taxes have appeared at the local level from Detroit to Oakland, Fairbanks to Mobile, Los Angeles to Baltimore. Over 40 cities have recently imposed motel and hotel taxes in an effort to shift some of their tax burdens to nonresidents. In a frantic search for additional revenues, New Hampshire has instituted a State-sponsored sweepstakes on horseracing.

The end is not in sight. Twenty-six Governors have asked for tax increases this past spring and many of those who are relying on larger yields from present taxes have warned their legislatures that increased taxes are a future necessity. Yet there is evidence that traditional taxes have already reached the limits of desirable expansion.

Dramatic proof of the growing disparity between government responsibilities and government resources is found in the increase in State and local debt. From a $15.9 billion level in 1946, public indebtedness at the State and local level almost doubled by 1952. Since that year, State and local debt has tripled, an average increase of more than $4½ billion per year.

State governments, which can tap a wider variety of revenue sources than local authorities can, have been active in using these sources. Between 1946 and 1963, no less than 14 States instituted a tax on cigarettes, while general sales taxes were added as a source of funds by 13 States. At the same time, four States added an individual income tax. Of course, virtually all States have also increased rates on previously tapped tax sources.

The financing of local government expenditures has been a problem of at least similar difficulty. These governments rely almost exclusively upon property tax revenues. While the postwar increase in property valuations has swelled the property tax base, there has still been a steady need to raise the property tax rates themselves.

Interstate competition to attract new industry—and similar competition among localities—has undoubtedly hampered efforts to add to current revenues, particularly in the case of corporate taxes. States and localities generally offer some form of inducement to attract new corporations to their areas, with the long-range objective of creating new job opportunities and increasing the overall tax base, and this competition tends to restrain local governments from increasing tax rates.

In the face of heavy demands placed upon State and local governments, the increase in their taxes and borrowing has been insufficient to prevent them from becoming gradually more dependent upon financial assistance from the Federal Government. The bulk of Federal assistance in the form of grants-in-aid programs has grown from a total of $884 million in 1946 to approximately $11 billion in 1965. In 1964 the Federal expenditure of $9.8 billion represented approximately 16.7 percent of total taxes and other general revenues raised by State and local governments, compared with only 7.3 percent in 1946. Grants to help support public welfare programs and to help build public roads and highways have shown the sharpest increase over the postwar years, and together they totaled some $7.5 billion in 1964.

Despite their achievements to date, State and local governments will continue to face a wide variety of additional public needs, and they do not want to curtail their responsibilities. They have doubled their employment over the past 13 years and increased their budgets many times. Obviously, problems of water and air pollution, overcrowded schools, and substandard recreation and housing facilities, as well as inadequate health care exist. In our vast and diversified country, these services can often be most effectively provided only through programs run at the State and local level. Thus, the immediate problem is to develop intergovernmental relationships that will enable State and local governments to carry out their vital role. Innovations and experimentation will be needed in future Federal-State cooperation and in planning and budgeting public programs if we want to get maximum benefit out of every dollar spent.

Under the plan I introduce today, New York whose 1963–64 State and local revenues amount to $7,445 million—the second largest in the Nation—would receive $202 million; Alaska, with State and local revenues during this period amounting to $89 million—the smallest in the Nation—would receive $2.6 million. Similarly, California would receive $213 million and Arkansas, $47 million. Through this plan, for example, New York would receive a 31-percent increase in Federal aid; California, 17 percent; Ohio, 20 percent; Alabama, 39 percent; Colorado, 16 percent, and Kentucky, 37 percent.

It may be argued by some that State and local governments will not use these Federal funds wisely or that they will use them to reduce their own taxes and expenditures for necessary programs. Experience of the past, however, indicates that such fears are groundless. A large proportion of total State and local outlays over the past years have been used for educational, health, and welfare purposes—an indication that local governments are cognizant of the needs of their people in these areas and are attempting to meet them.

Grants made to State and local governments under a plan such as this will enable these bodies to operate more independently. Local officials will be free of Federal domination, and the spread of a growing Federal bureaucracy may be halted. State and local governments will be in a stronger financial position, and a better fiscal balance will be achieved between Federal, State, and local governments.

Now, let me direct one word to those who may feel that the sort of tax-sharing plan I propose would mean further incursions on State prerogatives. Of course, there is always a possibility that this can happen, but the choice we face is not between State dollars and Federal dollars, but between Federal dollars bound by strings and conditions and funds which are relatively unconditional and can help buttress the capability of State and local governments to carry their responsibilities and not to abdicate authority to the Federal Government due to financial inability to discharge it.

For, we have to look to the days and years ahead when the demand for more and better local governmental services will increase.

Critics on the one side of the political spectrum are suspicious of the States and seemingly convinced of Federal "infallibility"; critics on the other side are suspicious of Washington. But mutual suspicions should not produce a deadlock, for this country cannot be governed well unless Government is imaginative and active and responsible and works at all levels in a Federal-State system.

I feel that the proposals embodied in the bill I introduced today can help prepare our governmental system to meet needs of the coming decades, and can help us to put cooperative federalism into practice for the benefit of all our people.

Distribution of the Revenue-Sharing Fund

The total amount deposited in the revenue-sharing trust fund provided for by Senator Javits' Federal Revenue-Sharing Act (S. 482) is distributed among the fifty states and the District of Columbia on the basis of state need and state effort to meet that need.

State need for shared Federal revenue is measured in two ways: by population size and per capita personal income. State effort is measured by the ratio of the revenue each state and its localities have raised from their own sources to the personal income of the inhabitants of the state. The shared revenue is actually distributed in the following manner:

First, 85 percent of the fund is divided among all the states by population share of the national population.

Example: New York[1]

state's percentage of nat'l population (col. 1)[2]	×	amount in this fund	=	unadjusted primary allotment (col. 2)
9.34%	×	$2,550	=	$238.2

[1] Figures for fiscal 1965, dollar amounts in millions.
[2] Column numbers refer to table accompanying introduction of S. 482 on Jan. 18, 1967.

This unadjusted primary allotment is then adjusted up or down for each state depending on whether the state's revenue effort is above or below the average effort of all states.

Example: New York (cont'd.)

state and local revenue from own sources (col. 3)	÷	state's personal income (col. 4)	=	state's revenue effort ratio (col. 5)
$7,951	÷	$55,946	=	14.2
state's revenue effort ratio (col. 5)	÷	average revenue effort ratio for all states	=	state's relative revenue effort ratio (col. 6)
14.2	÷	13.2	=	1.076
state's relative revenue effort ratio (col. 6)	×	state's unadjusted primary allotment (col. 2)	=	state's allotment from this fund (col. 7)
1.076	×	$238.2	=	$256.3

The remaining portion of the revenue to be shared, 15 percent of the total trust fund, is distributed among the poorer states, those states with per capita personal income below the average state per capita personal income. Each state's allotment is calculated on the premise that the lower a state's per capita income, the greater its need and the larger should be its share of the supplementary allotment.

To determine the allocation of the supplementary allotment, a per capita income deficiency is calculated for each of the poorer states, equal to the difference between the state's per capita income and the average state per capita income. These deficiencies are then added together to obtain the total per capita income deficiency. Each state's share of the supplementary allotment is then calculated from its share of the total deficiency.

Example: Kentucky [3]

average state per capita income	—	state's per capita income (col. 8)	=	state's per capita income deficiency (col. 9)
$2,431	—	$1,887	=	$544
state's per capita income deficiency (col. 9)	÷	total of all state's per capita income deficiencies	=	state's percentage share of total deficiencies (col. 10)
$544	÷	$9,793	=	5.55 percent
state's percentage share of total deficiences (col. 10)	×	amount in this fund	=	state's allotment from this fund (col. 11)
5.55 percent	×	$45 [4]	=	$25 [4]

[3] Figures for 1964.
[4] Dollar amounts in millions.

The total revenue shared with each of these poorer states is then obtained by adding the state's share of this fund to its share of the primary fund.

[From the Washington Post, Sept. 22, 1965]

JAVITS BREAKS THROUGH

Sen. Jacob K. Javits deserves a burst of applause for introducing a bill that would provide for the sharing of surplus Federal revenues with the states. The prospect for tax legislation sponsored by a member of the minority party cannot be regarded as suspicious. But Mr. Javits is performing the necessary task of bringing a controversial proposal to the attention of Congress for the first time.

Mr. Javits's point of departure has already been amply discussed by proponents of revenue sharing. The Federal Government, under conditions of high employment, will collect more tax monies than it can wisely spend. The state and local governments will be spending more money than they can raise through efficient measures of taxation. Both problems—the embarrassing affluence of the Federal Government and the pressing needs of state and local governments—can be neatly solved through a program of Federal revenue sharing.

In the Senator's thoughtful proposal, 1 percent of the current income tax base—about $2.5 billion—would be deposited in a trust fund. The proceeds of the fund would then be allocated to the states. Each year 80 percent would be distributed on the basis of population and 20 percent would be divided among the 12 or 15 states with lowest per capita incomes.

The Federal grants would be used only to support programs in the fields of health, education, and welfare. This constraint would leave the States and localities ample freedom of action, while precluding the support of programs such as highway construction that are already heavily funded by the Congress.

The revenue sharing plan was first proposed by Walter W. Heller, former chairman of the Council of Economic Advisers. But the President, seemingly piqued by a premature leak, has maintained an air of chilly disdain. It would be ironic indeed if this important proposal, the brainchild of a Democrat, should become the property of the opposition.

Senator JAVITS. The important thing I wish to state today, with that as a preliminary, is as follows: We are not a legislative committee. We are really an investigating and acquiring and study committee. I know that our chairman, whom I laud and applaud for initiating these hearings, will give us a report at the earliest possible moment so that it may have the maximum effect upon the Congress. But the matter of whether there shall be substantive actions is really in the hands of the Ways and Means Committee and Senator Long of the Finance Committee. I have asked them in correspondence, and I ask unanimous consent that it be included in the record, for hearings on our bills and I make that plea today, at the opening of these hearings. They are urgently required, hearings conducted by this subcommittee be made part of the hearings of both Ways and Means and Finance, and I urge our colleagues and I hope our subcommittee will urge our colleagues in the legislative to be active on this matter because the States need it very, very urgently and are in many respects in a much worse financial state than the Federal Government. So, I hope very much, Madam Chairman, that this may be heard and listened to with these hearings as a springboard and I ask unanimous consent that the statement which I made on the introduction of my bill in the Senate, January 1967, together with an editorial from the Washington Post endorsing it, may be made a part of the record.

Representative GRIFFITHS. Without objection, it will be included.

(The letters and article referred to follow:)

JANUARY 11, 1966.

Hon. JACOB K. JAVITS,
U.S. Senate.

DEAR SENATOR JAVITS: This acknowledges your letter of December 21 relative to your bill, S. 2619, to establish a system for the sharing of certain Federal tax receipts with the States.

As stated in your letter, a number of identical measures were introduced in the House and referred to the Committee on Ways and Means at the end of the First Session of this Congress. Included among these measures are: H.R. 11535 (Mr. Reid of New York), H.R. 11586 (Mr. Halpern), H.R. 11600 (Mr. Ellsworth), H.R. 11603 (Mr. Morse), H.R. 11690 (Mr. McDade), H.R. 11735 (Mrs. Dwyer), and H.R. 11770 (Mr. Donohue).

It is good of you to provide us with this additional information, and we shall be glad to see that it is included in the Committee's legislative files on these bills. As you know, the Committee has not yet met to consider and prepare a tentative agenda for the present session of Congress. I shall be glad to keep your request in mind when we hold such a meeting. I am sure you are aware of the fact that there are several pending items which are in process now in our Committee such as unemployment compensation, firearms controls, private foundations, etc.

Sincerely yours,

WILBUR D. MILLS,
Chairman, House Ways and Means Committee.

JANUARY 25, 1966.

Hon. JACOB K. JAVITS,
U.S. Senate,
Washington, D.C.

DEAR JACK: I appreciate your writing me with respect to your bill, S. 2619, which would provide for sharing a portion of Federal taxes with the States. While legislation of this sort, which affects the Federal revenues, is required by our Constitution to originate in the House of Representatives, there is no similar limitation on the right of a Senate Committee to hold hearings on a measure, or issue, which is within its jurisdictional responsibility.

However, on an issue as important and far-reaching as tax-sharing—indeed, an issue on which a constitutional amendment may well be desirable—I believe it would be wise to wait until other tax-sharing proposals can be worked out. In this way a hearing could be more well-rounded and meaningful, giving witnesses who favor tax-sharing an opportunity to consider the relative merits of various proposals rather than confining their remarks to a single bill. Similarly, those who disapprove of splitting Federal revenues with the States could direct their criticism to all the proposals simultaneously.

For these reasons, and because the rising cost of the Vietnam conflict are certain to prohibit enactment of any bill which would substantially affect the Federal revenue, I do not believe a hearing on this subject at this time would be constructive. But don't misinterpret my position. Personally, I am convinced that tax-sharing is a good idea and I intend to support the proposal along that line which appears to be best calculated to serve the overall interest of the American people.

With every good wish, I am,

Sincerely yours,

Senator RUSSELL B. LONG,
Chairman, Senate Finance Committee.

FEDERAL REVENUE SHARING BILL ESSENTIAL FOR FEDERAL-STATE PARTNERSHIP[1]

Mr. JAVITS. Mr. President, I understand that it is agreeable to the leadership to allow a little extra time to Senators at this moment, and I, therefore, ask unanimous consent that I may proceed for 10 minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. JAVITS. Mr. President, I send to the desk for appropriate reference, on behalf of myself, and Senators Baker, Carlson, Cooper, Dominick, Scott, and Young of North Dakota, a Federal revenue-sharing bill, designed to return to the States, and through them to local governments, a portion of Federal tax revenues with a minimum of strings attached.

A companion measure is being introduced in the other body by Representative Reid of New York.

Mr. President, I ask that the bill be printed as part of my remarks, together with specific tables as to the distributions to States and other data which implement the concept of the bill.

The PRESIDING OFFICER. The bill will be received and appropriately referred; and, without objection, the bill and explanatory material will be printed in the Record.

The bill (S. 482) to establish a system for the sharing of certain Federal revenues with the States, introduced by Mr. Javits (for himself and other Senators), was received, read twice by its title, referred to the Committee on Finance, and ordered to be printed in the Record, as follows:

"*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That this Act may be cited as the 'Federal Revenue-Sharing Act.'

"SEC. 2. (a) There is hereby established in the Treasury of the United States a fund to be known as the revenue-sharing fund. The revenue-sharing fund shall consist of such amounts as may be appropriated to such fund as provided in this section.

"(b)(1) There is hereby appropriated to the revenue-sharing fund, out of any money in the Treasury not otherwise appropriated, for the fiscal year beginning July 1, 1968, an amount equal to 1 per centum of the aggregate taxable income reported on individual income tax returns during the preceding calendar year; for the fiscal year beginning July 1, 1969, an amount equal to 1½ per centum of the aggregate taxable income reported on individual income tax returns during the preceding calendar year; and for the fiscal year beginning July 1, 1970, and for each fiscal year thereafter, an amount equal to 2 per centum of the aggregate taxable income reported on individual income tax returns during the preceding calendar year.

"(2) For purposes of this subsection—

"(A) The term 'taxable income' shall have the same meaning as specified in section 63 of the Internal Revenue Code of 1954.

"(B) The term 'individual income tax returns' means returns of the tax on the income of individuals imposed by chapter 1 of the Internal Revenue Code of 1954.

"(c) The Secretary of the Treasury (hereinafter referred to as the 'Secretary') shall, from time to time, but not less often than quarterly, determine the amounts appropriated by subsection (b) and transfer from the general fund of the Treas-

[1] Reprinted from Congressional Record, 90th Cong., 1st sess., Wednesday, Jan. 18, 1967.

ury to the revenue-sharing fund the amounts so appropriated. Such transfers shall, to the extent necessary, be made on the basis of estimates by the Secretary of the amounts so appropriated by subsection (b). Proper adjustments shall be made in the amounts subsequently transferred to the extent that prior estimates were in excess of or less than the amounts required to be transferred.

"SEC. 3. (a) Subject to the provisions of subsection (d) and sections 4(c) and 5(b), the Secretary shall, during the fiscal year beginning July 1, 1968, and during each fiscal year thereafter, pay to each State, from amounts appropriated to the revenue-sharing fund for the fiscal year in which payments are to be made, a total amount equal to the allotment or allotments of such State in such fiscal year under this section. Such payments shall be made in installments periodically during any fiscal year, but not less often than quarterly.

"(b) From 85 per centum of the amount appropriated to the revenue-sharing fund pursuant to section 2 for any fiscal year, the Secretary shall allot to each State in such fiscal year an amount (computed by the Secretary) equal to the product resulting from multiplying—

"(1) an amount which bears the same ratio to such 85 per centum of the amount so appropriated as the population of such State bears to the total population of all of the States, by

"(2) a number which is the quotient resulting from dividing the revenue effort ratio of such State for the preceding fiscal year by the average national revenue effort ratio for the preceding fiscal year.

"(c) From 15 per centum of the amount appropriated to the revenue-sharing fund pursuant to section 2 for any fiscal year, the Secretary shall allot to each State with a per capita annual income of individuals residing in such State which is below the average of all the State per capita annual incomes, an amount (computed by the Secretary) in such fiscal year which bears the same ratio to such 15 per centum of the amount so appropriated as the amount of the difference between the per capita annual income of any such State and the average of all the State per capita annual incomes bears to the total of the amounts of the differences between the per capita annual incomes of all such States and the average of all the State per capita annual income.

"(d) Notwithstanding any other provision of this section, (1) the amount of any State's allotment in any fiscal year under either subsection (b) or (c), (2) the total amount of any State's combined allotments in any fiscal year under subsections (b) and (c), or (3) the total amount resulting from combining any State's allotment or allotments in any fiscal year and any reallotment to such State under this subsection and sections 4(c) and 5(b) shall not exceed 12 percent of the amount appropriated pursuant to section 2 for such fiscal year. In the event of any reduction of a State's allotment or reallotment in any fiscal year under the provisions of the preceding sentence, the Secretary shall reallot and pay, from time to time during such fiscal year, the amount of such reduction to other States in proportion to the original allotment to such States under subsection (b) for such fiscal year.

"(e) For purposes of this section—

"(1) The term 'State' means any of the various States and the District of Columbia.

"(2) The term 'revenue effort ratio,' when used in relation to any State for any fiscal year, means a fraction (A) the numerator of which is the total of the revenues derived by such State (including revenues derived by any political subdivision thereof) from its own resources during such fiscal year and (B) the denominator of which is the total income of individuals residing in such State during the calendar year ending within such fiscal year.

"(3) The term 'average national revenue effort ratio' means a fraction (A) the numerator of which is the total resulting from adding together all revenue effort ratios of the States, and (B) the denominator of which is 51.

"(4) The term 'income of individuals,' when used in relation to any State, means income subject to the tax imposed by chapter 1 of the Internal Revenue Code of 1954.

"(5) The population of a State and the per capita annual income of individuals residing in a State shall be determined by the Secretary on the basis of the most recent data available from the Department of Commerce; but the same period shall be used in determining the population of all the States and the same period shall be used in determining the average of all the State per capita annual incomes.

"(6) The term 'State per capita annual income,' when used in relation to any State, means the quotient resulting from dividing the total income of all individuals residing in such State by the population of such State.

"SEC. 4. (a) Each State may use funds from any allotment or reallotment to it in any fiscal year under this Act for activities, programs, projects, and services (including capital expenditures) in the fields of health, education, and welfare. In addition each State may use a portion of such funds, not to exceed 5 per centum thereof, to provide for planning, research, and development in the fields of modernization of the institutions of State government and the improvement of governmental procedures. Toward these ends, each State may provide for planning, research, and development directed toward the establishment of active, well-staffed State budgetary offices, improved budgetary procedures and expenditure controls, adequate recruiting and retaining of qualified planning personnel, reasonable policy coordination between the various unit of government, and an appropriate salary schedule for management personnel. None of such funds shall be used for administrative expenses, except that each State may procure the services of special consultants and experts, or organizations thereof, as necessary to carry out the research, planning and development authorized herein and may establish and operate programs for the training of its employees in order to increase economy and efficiency in the operations of State government and to raise the standards of performance by employees of their official duties to the maximum possible level of proficiency.

"(b) (1) In order to insure that each State shall give maximum consideration to the needs of local governments within such State, the Governor of each State, shall, after consultation with officials of such local governments, develop a plan prior to the beginning of each fiscal year, for sharing the anticipated funds which such State will receive under this Act in such fiscal year with its local governments. In determining the anticipated allotments of such funds by such State to its local governments, the Governor shall take into consideration the population and population density of each such local government, the per capita annual income of individuals residing therein, local costs, and other relevant factors.

"(2) On or before such date prior to the beginning of each fiscal year as the Secretary may prescribe, the Governor of each State shall submit to the Secretary a detailed statement showing the intended use of the anticipated funds which such State will receive during such fiscal year, including a report of such State's plan for sharing its funds with its local governments. Any State desiring to amend its reported plan for sharing its anticipated funds with its local governments may do so only after due consultation with officials of such local governments. After such consultation, any State may modify the allocation of its funds for any fiscal year by filing a statement of its amended plan with the Secretary.

"(c) Whenever the Secretary, after giving reasonable notice and opportunity for hearing to a State, finds that such State, or any local government to which such State has apportioned part of any allotment or reallotment—

"(1) has used any amount of such allotment or reallotment for purposes not within the scope of subsection (a),

"(2) has not apportioned any amount of such allotment or reallotment to its local governments in accordance with the provisions of its plan, as filed with the Secretary, for sharing its funds, or

"(3) has not obligated any amount of such allotment or reallotment within five fiscal years immediately following the fiscal year in which such allotment or reallotment was made

the Secretary shall subtract, from any subsequent allotment or reallotment to such State, a total amount equal to the amount referred to in paragraph (1), (2), or (3). In the event of any reduction of a State's allotment or reallotment in any fiscal year under this subsection, the Secretary shall reallot and pay, from time to time during such fiscal year, the amount of such reduction to other States in proportion to the original allotment to such States under subsection (b) of section 3 for such year.

"(d) For purposes of this section—

"(1) The term 'health, education, and welfare' shall be construed in its broadest sense so as to provide the greatest possible coverage of activities, programs, projects, and services related directly or indirectly to the fields of health, education, and welfare; except that such term shall not include any activity, program, project, or service designed to provide—

"(A) administrative expenses for State and local government;

"(B) highway programs;

"(C) State payments in lieu of property taxes;

"(D) debt service; and
"(E) disaster relief.

"(2) The term 'local government' means any city, township, village, school district, municipality, county, parish, or similar territorial subdivision of a State, but shall not include any department, agency, commission, or independent instrumentality of a State.

"SEC. 5. (a)(1) In addition to the requirements of section 4 any State desiring to receive any allotment or reallotment in any fiscal year under this Act shall, on behalf of itself and any local government which may receive any apportionment thereof, certify and provide satisfactory assurance to the Secretary that such State and local government will—

"(A) use such fiscal control and fund accounting procedures as may be necessary to assure proper disbursement of and accounting for any allotment or reallotment paid to such State, and any apportionment made by such State to local governments, under this Act;

"(B) make such reports to the Secretary, the Congress, and the Comptroller General, in such form and containing such information as the Secretary may reasonably require to carry out his functions under this Act, including the statement of intent and report of sharing funds required by section 4(b), except that any State may make any such reports on behalf of any local government thereof; and

"(C) adhere to all applicable Federal laws in connection with any activity, program, or service provided solely or in part from such allotment or reallotment.

"(2) For purposes of this subsection, the provisions of title VI of the Civil Rights Act of 1964 shall be deemed to be applicable to any activity, program, or service provided solely or in part from any allotment or reallotment received by a State under this Act.

"(b) Whenever in any fiscal year the Secretary, after giving reasonable notice and opportunity for hearing to a State, finds that the Governor of such State has failed to submit any statement of intent or report required by section 4(b) or that such State or any local government thereof is not in substantial compliance with the purposes of subsection (a), the Secretary immediately shall—

"(1) in the case of the failure of compliance of the Governor of any State or the failure of compliance of any State, cancel any subsequent payments to such State under this Act in such fiscal year and reallot any remainder of such State's allotment or reallotment in such fiscal year to other States in proportion to the original allotments to such States under subsection (b) of section 3 for such fiscal year, or

"(2) in the case of the failure of compliance of any local government of any State, require satisfactory assurance that such State will cancel any subsequent payments to such local government under this Act in such fiscal year and reapportion any remainder of or such local government's apportionment to other local governments of such State in proportion to the original apportionments to such local governments under the State plan reported to the Secretary pursuant to section 4(b) for such fiscal year.

"SEC. 6. The Secretary shall report to the Congress not later than the first day of March of each year on the operation of the revenue-sharing fund during the preceding fiscal year and on its expected operation during the current fiscal year. Each such report shall include a statement of the appropriations to, and the disbursements made from, the revenue-sharing funds during the preceding fiscal year; an estimate of the expected appropriation to, and disbursements to be made from, the revenue-sharing fund during the current fiscal year; the use by each State of the funds which it received under this Act during the preceding fiscal year and the amounts distributed by each State to its political subdivisions; and any changes recommended by the Secretary concerning the operation of the revenue-sharing fund.

"SEC. 7. The Appropriations Committee and the Finance Committee of the Senate and the Appropriations Committee and the Ways and Means Committee of the House of Representatives, respectively, shall conduct a full and complete study at least once during each Congress with respect to the operation of the revenue-sharing fund, the activities, programs, projects, and services provided by the States from allotments and reallotments received pursuant to this Act, and the manner of the distribution of funds by each State to its local governments, and report its findings upon such study to each House, respectively, together with its recommendations for such legislation as it deems advisable at the earliest practicable date. This section is enacted by the Congress as an exercise of the rulemaking power of the Senate and the House of Representatives, respectively, with full recognition of the constitutional right of either House to change such rules (so far as relating to the procedure in such House) at any time, in the same manner and to the same extent as in the case of any other rule of such House."

The explanatory materials follow:

COMPARISON OF PERSONAL INCOME AND TAXABLE INCOME, 1939-64

[Dollar amounts in billions]

Year	Personal income	Taxable income	
		Amount	Percentage of personal income
1939	$72.8	$7.2	9.9
1940	78.3	10.7	13.7
1941	96.0	22.7	23.6
1942	122.9	36.1	29.4
1943	151.3	50.1	33.1
1944	165.3	55.3	33.5
1945	171.1	57.1	33.4
1946	178.7	65.3	36.5
1947	191.3	75.4	39.4
1948	210.2	74.7	35.5
1949	207.2	71.6	34.6
1950	227.6	84.3	37.0
1951	255.6	99.4	38.9
1952	272.5	107.5	39.4
1953	288.2	115.7	40.1
1954	290.1	115.3	39.7
1955	310.9	128.0	41.2
1956	333.0	141.5	42.5
1957	351.1	149.4	42.6
1958	361.2	149.3	41.3
1959	383.5	166.5	43.4
1960	401.0	171.6	42.8
1961	416.8	181.8	43.6
1962	442.6	195.3	44.1
1963	464.8	209.1	45.0
1964	[1] 495.0	229.9	46.4

[1] Preliminary.

Sources: Personal income: Survey of Current Business (August 1965). Taxable income, 1939-45: Author's estimates; 1946-63; Table B-4; 1964: Statistics of Income, 1964, Preliminary, Individual Income Tax Returns; Federal Tax Policy, by Joseph D. Pechman.

TABLE C-63.—STATE AND LOCAL GOVERNMENT REVENUES AND EXPENDITURES, SELECTED FISCAL YEARS, 1927–64

[Millions of dollars]

Fiscal year [1]	General revenues by source [2]							General expenditures by function [2]				
	Tota	Property taxes	Sales and gross receipts taxes	Individual income taxes	Corporation net income taxes	Revenue from Federal Government	All other revenue [3]	Total	Education	Highways	Public welfare	All other [4]
1927	7,271	4,730	470	70	92	116	1,793	7,210	2,235	1,809	151	3,015
1932	7,267	4,487	752	74	79	232	1,643	7,765	2,311	1,741	444	3,269
1934	7,678	4,076	1,008	80	49	1,016	1,449	7,181	1,831	1,509	889	2,952
1936	8,395	4,093	1,484	153	113	948	1,604	7,644	2,177	1,425	827	3,215
1938	9,228	4,440	1,794	218	165	800	1,811	8,757	2,491	1,650	1,069	3,547
1940	9,609	4,430	1,982	224	156	945	1,872	9,229	2,638	1,573	1,156	3,862
1942	10,418	4,537	2,351	276	272	858	2,123	9,190	2,586	1,490	1,225	3,889
1944	10,908	4,604	2,289	342	451	954	2,269	8,863	2,793	1,200	1,133	3,737
1946	12,356	4,986	2,986	422	447	855	2,661	11,028	3,356	1,672	1,409	4,591
1948	17,250	6,126	4,442	543	592	1,861	3,685	17,684	5,379	3,036	2,099	7,170
1950	20,911	7,349	5,154	788	593	2,486	4,541	22,787	7,177	3,803	2,940	8,867
1952	25,181	8,652	6,357	998	846	2,566	5,763	26,098	8,318	4,650	2,788	10,342
1953	27,307	9,375	6,927	1,065	817	2,870	6,252	27,910	9,390	4,987	2,914	10,619
1954	29,012	9,967	7,276	1,127	778	2,966	6,897	30,701	10,557	5,527	3,060	11,557
1955	31,073	10,735	7,643	1,237	744	3,131	7,584	33,724	11,907	6,452	3,168	12,197
1956	34,667	11,749	8,691	1,538	890	3,335	8,465	36,711	13,220	6,953	3,139	13,399
1957	38,164	12,864	9,467	1,754	984	3,843	9,252	40,375	14,134	7,816	3,485	14,940
1958	41,219	14,047	9,829	1,759	1,018	4,865	9,699	44,851	15,919	8,567	3,818	16,547
1959	45,306	14,983	10,437	1,994	1,001	6,377	10,516	48,887	17,283	9,592	4,136	17,876
1960	50,505	16,405	11,849	2,463	1,180	6,954	11,634	51,876	18,719	9,428	4,404	19,324
1961	54,037	18,002	12,463	2,613	1,266	7,131	12,563	56,201	20,574	9,844	4,720	21,063
1962	58,252	19,054	13,494	3,037	1,308	7,871	13,489	60,206	22,216	10,357	5,084	22,549
1963	62,890	20,089	14,456	3,269	1,505	8,722	14,850	64,816	24,012	11,136	5,481	24,187
1962-63 [5]	62,269	19,833	14,446	3,267	1,505	8,663	14,555	63,977	23,965	11,150	5,420	23,442
1963-64 [5]	68,443	21,241	15,762	3,791	1,695	10,002	15,952	69,302	26,533	11,664	5,766	25,339
1964-65 [5]	74,341	22,918	17,118	4,090	1,929	11,029	17,256	74,954	28,971	12,221	6,315	27,441

[1] Fiscal years not the same for all governments. See footnote 5.

[2] Excludes revenues or expenditures of publicly owned utilities and liquor stores, and of insurance-trust activities. Intergovernmental receipts and payments between State and local governments are also excluded.

[3] Includes licenses and other taxes and charges and miscellaneous revenues.

[4] Includes expenditures for health, hospitals, police, local fire protection, natural resources, sanitation, housing and urban renewal, local parks and recreation, general control, financial administration, interest on general debt, and other unallocable expenditures.

[5] Data for fiscal year ending in the 12-month period through June 30. Data for 1963 and earlier years include local government amounts grouped in terms of fiscal years ended during the particular calendar year.

Note: Data are not available for intervening years. Data for Alaska and Hawaii included beginning 1959 and 1960, respectively. See table C-54 for net debt of State and local governments.

Source: Department of Commerce, Bureau of the Census.

INDEBTEDNESS OF STATE AND LOCAL GOVERNMENTS BY TYPE OF DEBT, 1952–65

[In millions of dollars]

Item	1964–65 [1]	1963–64 [1]	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952
Total	99,512	92,222	80,802	75,023	69,955	64,110	58,187	53,039	48,868	44,267	38,931	33,782	30,100
Long term	94,204	87,527	77,067	71,540	66,801	61,127	55,737	50,845	46,775	42,272	36,898	32,004	28,720
Full faith and credit	56,417	53,266	48,185	44,664	41,650	39,263	35,844	32,577	31,815	29,325	26,992	24,273	22,436
Nonguaranteed	37,786	34,261	28,883	26,878	25,151	21,864	19,893	18,268	14,960	12,947	9,905	7,731	6,284
Short term	5,309	4,695	3,735	3,483	3,154	2,983	2,450	2,195	2,093	1,995	2,033	1,778	1,380
Net long-term debt	85,942	79,950	71,181	65,812	61,596	56,361	51,297	46,678	43,217	38,502	33,182	28,553	25,513

[1] Data for fiscal year ending in the 12-month period through June 30. Data for 1963 and earlier years include local government amounts grouped in terms of fiscal years ended during the particular calendar year.

Source: Department of Commerce, Bureau of the Census.

STATE-LOCAL GENERAL REVENUES, PRESENT FEDERAL AID AND ADDITIONAL ALLOTMENTS UNDER FEDERAL-STATE REVENUE SHARING PLAN

State	Total general revenues, 1964-65 (millions)	Revenue from Federal Government, 1964-65: Amount (millions)	Revenue from Federal Government, 1964-65: As percent of total general revenue	Federal revenue sharing allotment: Percent increase over total general revenue	Federal revenue sharing allotment: Percent increase over revenue from Federal Government	Federal revenue sharing allotment: Per capita allotment
Alabama	$1,014.9	$246.6	24.3	7.3	30.0	$21.14
Alaska	214.6	113.0	52.7	1.7	3.2	13.48
Arizona	667.0	128.2	19.2	4.7	24.4	19.87
Arkansas	527.8	134.5	25.5	10.3	40.5	28.08
California	9,843.5	1,403.8	14.3	2.8	19.6	14.95
Colorado	894.5	165.7	18.5	3.2	17.3	14.67
Connecticut	1,103.3	136.8	12.4	2.7	22.0	10.64
Delaware	232.9	31 5	13.5	2.8	21.0	13.12
Florida	2,033.5	267.5	13.2	4.2	32.1	14.80
Georgia	1,335.8	249.3	18.7	5.6	30.0	17.01
Hawaii	331.6	63.6	19.2	3.0	15.6	13.94
Idaho	274.0	59.5	21.7	8.8	40.3	39.63
Illinois	3,845.8	512.8	13.3	2.9	21.5	10.37
Indiana	1,748.0	193.5	11.1	3.5	31.2	12.34
Iowa	1,073.5	144.4	13.5	3.8	28.1	14.72
Kansas	877.3	127.5	14.5	3.5	23.8	26.39
Kentucky	918.5	212.8	23.2	6.8	29.2	19.60
Louisiana	1,363.1	309.9	22.7	5.7	25.2	21.94
Maine	324.1	53.5	16.5	8.3	50.5	27.38
Maryland	1,268.8	157.1	12.4	3.2	25.7	11.40
Massachusetts	2,122.5	277.5	13.1	3.0	32.9	11.84
Michigan	3,370.3	426.2	12.6	3.2	25.3	12.97
Minnesota	1,553.7	226.9	14.6	3.5	24.1	15.33
Mississippi	656.4	141.7	21.6	11.9	55.0	33.74
Missouri	1,476.9	256.1	17.4	3.4	19.4	11.06
Montana	322.3	84.4	26.2	5.8	22.0	26.46
Nebraska	494.1	75.3	15.2	3.9	25.9	13.37
Nevada	245.0	62.4	25.5	2.4	9.5	13.59
New Hampshire	214.8	33.5	15.6	3.6	23.3	11.59
New Jersey	2,380.5	216.9	9.1	3.0	33.1	10.57
New Mexico	475.9	116.3	24.4	6.9	28.4	32.54
New York	8,700.5	749.1	8.6	2.9	34.2	14.16
North Carolina	1,360.6	214.7	15.8	6.2	39.1	17.02
North Dakota	300.2	57.8	19.3	10.8	56.1	46.69
Ohio	3,306.7	414.6	12.5	3.3	26.6	10.76
Oklahoma	914.0	208.1	22.8	5.2	23.0	19.57
Oregon	875.5	188.8	21.6	3.1	14.3	13.93
Pennsylvania	3,845.7	463.9	12.1	3.4	28.4	11.36
Rhode Island	326.1	62.4	19.1	3.6	15.9	11.11
South Carolina	623.0	104.5	16.8	10.4	61.9	25.37
South Dakota	284.6	70.3	24.7	12.7	51.5	52.77
Tennessee	1,083.8	227.3	21.0	6.6	31.6	18.65
Texas	3,413.0	523.2	15.3	4.2	27.4	13.54
Utah	416.5	109.1	26.2	5.1	19.4	21.33
Vermont	171.0	42.5	24.9	11.6	46.8	49.26
Virginia	1,327.6	268.2	20.2	4.1	20.4	12.40
Washington	1,373.6	220.8	16.1	3.1	19.2	14.23
West Virginia	561.2	133.7	23.8	8.4	35.3	26.01
Wisconsin	1,673.8	163.7	9.8	3.6	36.6	14.47
Wyoming	210.6	79.7	37.8	2.5	6.5	15.76
District of Columbia	368.1	98.1	26.7	2.1	7.8	9.60
All States and District of Columbia						

Source: Department of Commerce, Bureau of the Census.

FEDERAL-STATE REVENUE-SHARING PLAN—STATE ALLOTMENTS

State	Percentage of national population (1965 estimate)	Unadjusted primary allotment (col. 1÷($2.55B)	General revenue from own sources 1964–65)	Personal income (1964)	Revenue effort ratio (col. 3÷ col. 4)	Relative revenue effort ratio (col. 5÷ 13.2)	Primary allotment (col. 6× col. 2)	Per capita personal income (1964)	Per capita income deficiency ($2,431— col. 8)	Percentage share of total deficiencies (col. 9÷ $9,793)	Supplementary allotment (col. 10× $0.45B)	Total allotment (col. 7+ col. 11)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
		Millions	Millions	Millions			Millions				Millions	Millions
Alabama	1.72	$43.9	$768.3	$6,098	12.6	95.5	$43.6	$1,777	$654	6.68	$30.0	$73.7
Alaska	.14	3.6	101.6	789	12.9	97.7	3.6	3,082	----------	----------	----------	3.6
Arizona	.81	20.7	538.8	3,520	15.3	115.9	24.0	2,272	159	1.62	7.3	31.3
Arkansas	1.00	25.5	393.3	3,374	11.7	88.6	22.7	1,740	691	7.06	31.8	54.5
California	9.50	242.3	8,439.8	56,404	15.0	113.6	275.1	3,133	----------	----------	----------	275.1
Colorado	1.01	25.8	728.8	4,967	14.7	111.4	28.6	2,559	----------	----------	----------	28.6
Connecticut	1.46	37.2	966.5	9,004	10.7	81.1	30.1	3,234	----------	----------	----------	30.1
Delaware	.26	6.6	201.4	1,542	13.1	99.2	6.6	3,121	----------	----------	----------	6.6
Florida	2.99	76.2	1,766.0	12,920	13.7	103.8	79.1	2,285	146	1.49	6.7	85.8
Georgia	2.27	57.9	1,086.5	8,626	12.6	95.5	55.1	2,004	427	4.36	19.6	74.7
Hawaii	.37	9.4	268.0	1,912	14.0	106.1	9.9	2,775	----------	----------	----------	9.9
Idaho	.36	9.2	214.5	1,464	14.7	111.4	10.2	2,131	300	3.06	13.8	24.0
Illinois	5.49	140.0	3,332.9	32,136	10.4	78.8	110.4	3,050	----------	----------	----------	110.4
Indiana	2.52	64.3	1,554.5	12,556	12.4	93.9	60.4	2,599	----------	----------	----------	60.4
Iowa	1.42	36.2	929.1	6,608	14.1	106.8	38.8	2,392	39	.40	1.8	40.6
Kansas	1.16	29.6	749.8	5,565	13.5	102.3	30.3	2,488	----------	----------	----------	30.3
Kentucky	1.64	41.8	705.7	5,968	11.8	89.4	37.2	1,887	544	5.55	25.0	62.2
Louisiana	1.84	46.9	1,053.2	6,762	15.6	118.2	55.3	1,936	595	5.05	22.8	78.1
Maine	.51	13.0	270.7	2,088	13.0	98.5	12.8	2,122	309	3.16	14.2	27.0
Maryland	1.82	46.9	1,111.7	9,734	11.4	86.4	40.3	2,828	----------	----------	----------	40.3
Massachusetts	2.77	70.6	1,844.9	15,383	12.0	90.1	63.5	2,910	----------	----------	----------	63.5
Michigan	4.29	109.4	2,944.1	22,626	13.0	98.5	107.9	2,772	----------	----------	----------	107.9
Minnesota	1.84	46.9	1,326.9	8,610	15.4	116.7	54.6	2,440	----------	----------	----------	54.6
Mississippi	1.19	30.3	514.6	3,422	15.0	113.6	34.4	1,485	946	9.66	43.5	77.9
Missouri	2.32	59.2	1,220.8	10,988	11.1	84.1	49.7	2,458	----------	----------	----------	47.9
Montana	.36	9.2	238.9	1,585	15.0	113.6	10.5	2,255	176	1.80	8.1	18.6
Nebraska	.75	19.1	418.8	3,506	11.9	90.2	17.3	2,383	48	.49	2.2	19.5
Nevada	.22	5.6	182.6	1,351	13.5	102.3	5.9	3,232	----------	----------	----------	5.9
New Hampshire	.35	8.9	181.4	1,600	11.3	85.6	7.7	2,428	3	.03	.1	7.8
New Jersey	3.50	89.3	2,163.6	20,501	10.6	80.3	71.7	3,069	----------	----------	----------	71.7
New Mexico	.52	13.3	359.6	2,107	17.1	129.5	17.3	2,090	341	3.48	15.7	33.0
New York	9.34	238.2	7,951.4	55,946	14.2	107.6	256.3	3,127	----------	----------	----------	256.3
North Carolina	2.55	15.0	1,145.9	9,321	12.3	93.2	60.4	1,918	513	5.24	23.6	84.0
North Dakota	.34	8.7	242.4	1,294	18.7	141.7	12.2	1,991	440	4.49	20.2	32.4

FEDERAL-STATE REVENUE-SHARING PLAN—STATE ALLOTMENTS—Continued

State	Percentage of national population (1965 estimate)	Unadjusted primary allotment (col. 1÷ $2.55B)	General revenue from own sources (1964–65)	Personal income (1964)	Revenue effort ratio (col. 3÷ col. 4)	Relative revenue effort ratio (col. 5÷ 13.2)	Primary allotment (col. 6× col. 2)	Per capita personal income (1964)	Per capita income deficiency ($2,431— col. 8)	Percentage share of total deficiencies (col. 9÷ $9,793)	Supplementary allotment (col. 10× $0.45B)	Total allotment (col. 7+ col. 11)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
		Millions	Millions	Millions			Millions				Millions	Millions
Ohio	5.28	$134.6	$2,892.1	$26,736	10.8	81.8	$110.2	$2,641	----------	----------	----------	$110.2
Oklahoma	1.26	32.1	705.9	5,196	13.6	103.0	33.2	2,111	$320	3.27	14.7	47.9
Oregon	1.00	25.5	686.7	4,904	14.0	106.1	27.0	2,600	----------	----------	----------	27.0
Pennsylvania	5.98	152.5	3,381.8	29,770	11.4	56.4	131.6	2,588	----------	----------	----------	131.6
Rhode Island	.46	11.7	263.7	2,344	11.3	85.6	9.9	2,652	----------	----------	----------	9.9
South Carolina	1.32	33.7	518.5	4,287	12.1	91.7	30.9	1,696	735	7.51	33.8	64.7
South Dakota	.35	8.9	214.3	1,314	16.3	123.5	11.2	1,877	544	5.55	25.0	36.2
Tennessee	1.99	50.7	856.5	7,130	12.0	90.9	46.2	1,874	507	5.69	25.6	71.8
Texas	5.47	139.5	2,889.8	22,966	12.6	95.5	133.1	2,208	223	2.28	10.3	143.4
Utah	.51	13.0	307.4	2,216	13.9	105.3	13.8	2,268	163	1.66	7.5	21.2
Vermont	.21	5.4	128.5	850	15.1	114.4	6.1	2,130	301	3.07	13.8	19.9
Virginia	2.28	58.1	1,059.4	9,895	10.7	81.1	47.2	2,264	167	1.70	7.7	54.8
Washington	1.53	39.0	1,152.8	8,063	14.3	108.3	42.3	2,714	----------	----------	----------	42.3
West Virginia	.94	24.0	427.5	3,447	12.4	93.9	22.4	1,891	540	5.51	24.8	47.2
Wisconsin	2.14	54.6	1,510.2	10,388	14.5	109.8	59.9	2,534	----------	----------	----------	59.9
Wyoming	.17	4.3	131.0	821	15.6	118.2	5.1	2,429	2	.02	.1	5.2
District of Columbia	.41	10.5	270.0	2,804	9.6	72.7	7.7	3,527	----------	----------	----------	7.7
All States and District of Columbia:												
Total	100.00	2,550.0	----------	----------	----------	----------	2,464.0	----------	9,793	100.00	45.0	2,930.5
Average	----------	----------	----------	----------	13.2	----------	----------	2,431	----------	----------	----------	----------

Source: Department of Commerce, Bureau of the Census.

MEMORANDUM ON DISTRIBUTION OF THE REVENUE SHARING FUND.

"The total amount deposited in the revenue-sharing trust fund is distributed among the fifty states and the District of Columbia on the basis of state need and state efforts to meet that need. State need for shared Federal revenue is measured in two ways: by population size and per capita personal income. State effort is measured by the ratio of the revenue each state and its localities have raised from their own sources to the personal income of the inhabitants of the state. The revenue is actually distributed in the following manner.

"First, 85 percent of the fund is divided among all the states and the District of Columbia by population share of the national population, the more populous states receiving greater allotments than the less populated. This unadjusted allotment is then adjusted up or down for each state depending on whether the state's revenue effort is above or below the average effort of all states. A state whose revenue effort ratio is 10 percent greater than the average of the states would receive a 10 percent greater allotment than it would be entitled to on the basis of its population size alone. Thus, it is to each state's advantage to increase its revenue from within the state, for a larger revenue effort ratio means a larger share of the revenue-sharing fund.

"After this primary allotment has been decided for each of the states and the District of Columbia, a supplementary allotment is calculated for the relatively poorer states. This portion, 15 percent of the fund, is distributed among those states with per capita personal incomes below the average for all the states. Each state's allotment is decided by the idea that the lower a state's per capita income, the greater its need and the larger its share of the supplementary allotment.

"To decide the allocation of the supplementary allotment, a per capita income deficiency is calculated for each of the poorer states equal to the difference between the state's per capita income and the per capita income average for all the states. These deficiencies are then added together to obtain the total per capita income deficiency. Each state's share of the supplementary allotment is then calculated from its share of the total income deficiency. For example, if the total per capita income deficiency for all the poorer states equaled $10,000, and an individual state had a deficiency of $1,000, it would receive $1,000/$10,000 or 10 percent of the total supplementary allotment. The total amount received by each of the poorer states is then calculated by adding each state's primary allotment to its supplementary allotment."

Mr. JAVITS. Mr. President, the bill is a modified version of the tax-sharing bill of 1965, which I authored, and would return to the States 1 percent of the annual aggregate income the first year, 1½ percent the second year, and 2 percent thereafter. Using annual taxable income as reported in 1966 income tax returns, about $3 billion would be returned to the States the first year after passage of the measure.

Under the bill, 85 percent of this fund would be distributed to the States on the basis of population. The remaining 15 percent would be distributed among the States with per capita income figures below the average State per capita income—the farther below this norm, the greater the allotment.

I point out that under the bill's formula, for example, New York would receive $256.3 million; Pennsylvania, $131.6 million; Kansas, $30.3 million; Colorado, $28.6 million. Under that portion of the formula used to distribute the additional 15 percent on the basis of per capita income, Kentucky would receive a basic allotment of $37.2 million. Because the per capita income of the State in 1966 was $544 below the average State figure, the State would receive an additional $25 million, for a total of $62.2 million. North Dakota with a per capita income $440 below the norm, would receive an additional $20.2 million for a total of $32.4 million.

Under the plan introduced today, the States would receive the following amounts, based on 1966 figures, during the first year of operation:

[In millions of dollars]

Alabama [1]	73.7
Alaska	3.6
Arizona [1]	31.3
Arkansas [1]	54.5
California	275.1
Colorado	28.6
Connecticut	30.1
Delaware	6.6
Florida [1]	85.8
Georgia [1]	74.7
Hawaii	9.9
Idaho [1]	24.0
Illinois	110.4
Indiana	60.4
Iowa [1]	40.6
Kansas	30.3
Kentucky [1]	62.2
Louisiana [1]	78.1
Maine [1]	27.0
Maryland	40.3
Massachusetts	63.5
Michigan	107.9
Minnesota	54.6
Mississippi [1]	77.9
Missouri	49.7
Montana [1]	18.6
Nebraska [1]	19.5
Nevada	5.9
New Hampshire [1]	7.8
New Jersey	71.7
New Mexico [1]	33.0
New York	256.3
North Carolina [1]	84.0
North Dakota [1]	32.4
Ohio	110.2
Oklahoma [1]	47.9
Oregon	72.0
Pennsylvania	131.6
Rhode Island	9.9
South Carolina [1]	64.7
South Dakota [1]	36.2
Tennessee [1]	71.8
Texas [1]	143.4
Utah [1]	21.2
Vermont [1]	19.9
Virginia [1]	54.8
Washington	42.3
West Virginia [1]	47.2
Wisconsin	59.9
Wyoming [1]	5.2
District of Columbia	7.7

[1] Funds for States include the supplementary allotment for States with per capita incomes lower than the average of all State per capita income figures.

Mr. President, *the aspects of the bills which are the most important, are as follows:*

First. A trust fund would be established in the Treasury Department into which an amount equaling 1 percent of the aggregate taxable income reported on individual income tax returns would be appropriated starting July 1, 1968. The fund would increase to 1½ percent of aggregate taxable income starting July 1, 1969, and to 2 percent of taxable income starting July 1, 1970, and thereafter. Using current data this fund would total $3 billion. It would grow as the fund increased and as the tax base expanded.

Second. Payments to the States from the trust fund would be made on the basis of the following formula: 85 percent would be distributed on the basis of population. This amount would be increased or decreased depending on a State's own tax effort relative to that of other States, which would be measured by a "revenue effort ratio" for each State. This is obtained by dividing the total revenue collected by the State and its political subdivisions by the total income of individuals residing in the State. The State's revenue effort ratio is then compared to the average ratio for all States by dividing the State's ratio by the average; 15 percent would be distributed to those States with per capita personal incomes below the average for all the States. The per capita income for each of these States is subtracted from the average of all States. The difference between these figures is then used to compute each State's share of the fund.

Third. No State could receive a total payment for any one fiscal year in excess of 12 percent of the trust fund for that year.

Fourth. A State could use its allotment of funds for programs, projects and services—including capital expenditures—in the general areas of health, education, and welfare. In addition each State may use a portion of its allotment—not exceeding 5 percent—to provide for planning, research and development in the modernization of the institutions of State government and the improvement of governmental procedures.

Fifth. To insure that each State will give local governments a fair share of this fund, the Governor of each State would be required to develop a distribution plan prior to the beginning of each fiscal year and following consultations with local officials. The plan would set forth how the State proposed to share with local governments the funds obtained under the act.

Sixth. Funds could not be used for administrative expenses for State and local governments; highway programs; State payments in lieu of property taxes; debt service; and disaster relief.

Seventh. To benefit from the plan, a State would be required to file reports with the Secretary of the Treasury, the Comptroller General, and the appropriate committees of Congress, including a statement of intent as to how and for what purposes it shall spend the money. States would also have to comply with all applicable laws including title VI of the Civil Rights Act of 1964. The Secretary of the Treasury would be required to provide a detailed audit report to the Congress annually on the operation of the trust fund during the preceding fiscal year and on its expected operation during the current fiscal year.

Eighth. Failure to comply with prescribed conditions would require cancellation of future payments and permit reallocation of the remainder of a State's allocation to other States in proportion to the original allotment.

Ninth. Appropriations Committees of both Houses and the Finance Committee of the Senate and Ways and Means Committee of the House, responsible for appropriations and tax legislation, at least once during each Congress, would be required to conduct a complete study of the operation of the trust fund and provide such legislative recommendations as appropriate.

The President missed a great opportunity in his State of the Union Message in failing to propose legislation providing for the sharing of Federal revenues with the States. He did, of course, make the declaration:

"* * * Only a total working partnership among Federal, State, and local governments can succeed."

But declarations are not enough. He failed to note that the relationship between Washington and other levels of government in this country today, in terms of real taxing power, more closely resembles that of a patriarch to poor relatives than a partnership of equals. The interchange of ideas and services so essential to a genuine partnership will not be possible until the States and local governments have the financial resources to innovate, to initiate, and to pay for programs designed to meet the individual needs of their people. This cannot be done without money, and many States are already using their taxing powers to the fullest extent possible.

In my judgment there can be no genuine partnership between the Federal and local governments without some well designed program of Federal-State revenue sharing with a minimum of strings attached. The bill being introduced today is designed to accomplish this in the most meaningful and equitable way, so that the poorer States will have an opportunity to improve their services and that the so-called richer States will have the resources necessary to meet the overwhelming problems of their urban complexes.

There has been growing support, both inside and outside of Congress, for legislation to distribute a portion of Federal tax revenues to the States with a minimum of Federal controls since I first introduced a distribution formula based on the Heller-Pechman proposals in 1965. In that year, the Ripon Society, a group of Republican activists at Harvard, and the Republican Governors Association were among the few groups to support such an idea.

But in recent months, Representatives and Senators of both parties have either introduced revenue-sharing legislation or have declared their intention of doing so in the near future. As an example, two of the cosponsors of this measure—Senators Baker and Scott also plan to introduce programs of their own incorporating certain additional innovations. In 1966, both the bipartisan National Governors Conference and the National League of Cities called for the sharing of Federal revenues with States and local governments.

Nevertheless, in view of the administration's failure to act in this field, I am pleased to see the initiative taken by members of my party, including Representatives Goodell and Reid of New York. Republican support for this idea should be based on the record of those State and local governments which can show accomplishment and should be motivated by our desire to enable other levels of government to meet the growing needs of their residents by themselves.

Many Republicans in Congress believe that an effective revenue-sharing program would be a major step in this direction and I hope we can successfully convince the majority and the administration.

The problem facing State and local governments is essentially this: While their expenditures have risen steeply in the postwar period, their present and foreseeable resources are not adequate to meet the expanding demands for greater services, the increased costs of education or the complex problems of development.

Unless legislation is enacted giving States and local governments a share of Federal tax revenues with a minimum of strings and with maximum freedom to spend it as they see fit the trend will continue inexorably toward more grant-in-aid programs, with increasing Federal instrusion into decisionmaking at the State and local levels.

The strain on State and local government finances is illustrated by the 125 percent increase in total debt outstanding for State and local governments over the past decade while the Federal debt increased by 14 percent. The outlook for the future is not very encouraging either. A study recently published by the Joint Economic Committee estimates State and local government debt, totaling about $100 billion in 1965, will reach $145 billion in 1970 and almost $200 billion in 1975.

The States undoubtedly will increase their sources of revenue from property taxes, sales taxes and individual income taxes. The question is can they increase these taxes without limit? State and local tax revenues increased from $23.5 billion in 1955 to $51.6 billion in 1965.

Interstate competition to attract new industry—and similar competition among localities—will undoubtedly hamper efforts to add to current revenues, particuarly in the case of corporate taxes. States and localities generally offer some form of inducement to attract new corporations to their areas, with the long-range objective of creating new job opportunities and increasing the overall tax base. This sort of competition tends to restrain local governments from increasing tax rates.

In the face of heavy demands placed upon State and local governments, the increase in their taxes and borrowing has been insufficient to prevent them from becoming gradually more dependent on financial assistance from the Federal Government. Between 1955 and 1965 Federal aid to the States increased by 252 percent. The bulk of Federal assistance in the form of grants-in-aid has grown from a total of $884 million in 1946 to approximately $11 billion in 1965. In 1964 the Federal expenditure of $9.8 billion represented approximately 16.7 percent of total taxes and other general revenues raised by State and local governments, compared with only 7.3 percent in 1946. Grants to help support public welfare programs and to help build public roads and highways have shown the sharpest increase over the postwar years, and together they totaled some $7.5 billion in 1964.

It may be argued by some that State and local governments will not wisely use Federal funds under a revenue-sharing plan or that they will use them to reduce their own taxes and expenditures for necessary programs. Experience of the past, however, indicates that such fears are groundless. A large proportion of total State and local outlays over the past years have been used for educational, health, and welfare purposes—an indication that local governmments are cognizant of the needs of their people in these areas and are attempting to meet them.

Grants made to State and local governments under a plan such as this will enable these bodies to operate more independently. Local officials will be free of Federal domination, and the spread of a growing Federal bureaucracy may be halted. State and local governemnts will be in a stronger financial position, and a better fiscal balance will be achieved between Federal, State, and local governments.

Now, let me direct one word to those who may feel that the sort of tax-sharing plan I propose would mean further incursion on State prerogatives. Of course, there is always a possibility that this can happen, but the choice we face is not between State dollars and Federal dollars, but between Federal dollars bound by strings and conditions and funds which are relatively unconditional and can help buttress the capability of State and local governments to carry their responsibilities and not to abdicate authority to the Federal Government due to financial inability to discharge it.

For, we have to look to the days and years ahead when the demand for more and better local governmental services will increase.

Critics on the one side of the political spectrum are suspicious of the States and seemingly convinced of Federal infallibility; critics on the other side are suspicious of Washington. But mutual suspicions should not produce a deadlock, for this country cannot be governed well unless government is imaginative and active and responsible and works at all levels in a Federal-State system.

I feel that the proposal embodied in the bill introduced today can help prepare our governmental system to meet needs of the coming decades, and can help us to put cooperative federalism into practice for the benefit of all our people.

The issue of revenue sharing involves a struggle between those who want the Federal Government to earmark everything and those who want to leave something to the States, provided there is something in addition; in other words, the Federal funds provided are added to the States' resources and are spent largely at the discretion of State and local governments on the basis of their priorities.

I am with those who believe that with the safeguards written into this bill—and I am the ranking member of the Committee on Labor and Public Welfare which handles most of these programs—we are better advised to begin the process of some form of Federal revenue sharing with the States and localities, letting them, as they progress in showing their ability to discharge their responsibilities, get a greater and greater share of Federal tax revenues rather than being tied to the grant-in-aid idea which, up to now, has been the best we could do. I do not believe that the grant-in-aid program has given us the optimum efficiency or the optimum return per dollar expended.

Representative GRIFFITHS. Thank you, Senator Javits, and now I believe Congressman Reuss has polled the Ways and Means Committee and decided that the Heller-Pechman plan will not work and he offers a substitute plan. Congressman Reuss?

STATEMENT OF HON. HENRY S. REUSS, A U.S. REPRESENTATIVE FROM THE FIFTH CONGRESSIONAL DISTRICT OF THE STATE OF WISCONSIN

Representative REUSS. Thank you so much, Madam Chairman. It is a privilege to have been allowed to participate in the very timely hearings that your subcommittee has been conducting. First, let me say that I have a prepared statement. With the Chair's permission, I would like to submit that and then proceed to summarize it briefly.

Representative GRIFFITHS. We will be delighted.

Representative REUSS. My view, in a nutshell, is that the Heller-Pechman plan of revenue sharing offers a constructive opportunity if it is changed around a bit to give incentives so that the States can make long-overdue reforms in their own systems of State and local government. Thus, we can use revenue sharing to develop a more creative federalism in our country.

In earlier hearings before your subcommittee, Madam Chairman, certain truths have become self-evident—that our population is growing, that Americans need and deserve better services where the people live, which is very largely in metropolitan areas, that children need better schools. We all need better police protection. Our traffic system is archaic. Low- and moderate-income homes by the millions are needed, and all the tried and true staples of local government, health, fire, recreation, lighting, are increasingly needed and increasingly expensive.

There is agreement, too, that the chief source of revenue of the localities—the local property tax—has been pressed pretty close to the limit of what taxpayers are able to pay; that States and localities cannot borrow endlessly; and that the leading revenue raiser is a tax which, by its very preemptive nature, needs to be primarily Federal; namely, the income tax. It is also a source of revenue which promises, in the years ahead, particularly when Vietnam is no more, to yield substantial surpluses. Therefore, the purpose of the Heller plan, the Javits bill, the numerous other pieces of legislation which have been introduced, is to get this Federal surplus into the hands of the States. Those who take this view—and up to a point I agree with them—say that the solution is not to proliferate endlessly our Federal programs of categorical aid. Categorical aid in education is fine, and we support it; but it does not really come to grips with how the localities build the new schools they need and how they pay their teachers decent salaries. Health funds are invaluable for such things as research, but they do not actually build many new hospitals in our cities nor do they pay for their expensive staffs. Anticrime legislation is now before the Congress and that, too, is valuable; but it does not come to grips with the central problems of how our cities get enough policemen and pay them adequate salaries.

We are all familiar with model cities and pilot plans and demonstration grants. Frequently, what these demonstration grants demonstrate best is, that when you cut them off the locality does not have the financial resources to continue with whatever good program it started. If you add to that the enormous paperwork, the bureaucratic delays of the categorical aid programs, you come to the conclusion—which I think was reached by the great majority of your witnesses—that categorical aid programs, while they should be continued and improved, cannot do the whole job. So, what one concludes is that the cities need more unfettered money and that is where the Heller plan comes in. The Heller plan would give the States unfettered money.

An equally disturbing feature of our State and local government as its fiscal crisis is what one might call its organizational crisis. Every student of State and local government agrees that major reforms are necessary in our State-local relationships. And in fact, it is the State which has a State constitution, which writes State statutes, and which gets out State administrative regulations—which is the real creator and curator of local government. If we are to reduce our number of local governments to end the unnecessary proliferation of towns and counties and special districts which cost so much money and so often produce something less than democracy at the local level, it is the State that is going to have to do it. If we are going to give our localities a strong local government with a good executive and a businesslike administrative authority, it is the State that is going to have to make the reforms. If we are going to solve the fiscal crisis of local government, it is the States which are going to have to review their programs of shared taxes and grants-in-aid. And above all, if the problem of our metropolitan areas is going to be solved, if somehow or other while preserving local autonomy where it ought to be preserved we are going to attempt to generalize over a whole metropolitan area the responsibilities of carrying on the work of government, if we are going to generalize our fiscal sources, then it is the State that is going to have to take the initiative.

So, if we are right in saying that what our cities need most is more money and more effective organization, where does the Heller plan fit in?

The Heller plan says, let us take some $5 billion a year, deriving it from a percentage of the Federal percentage income tax base, and distribute it to the States on a per capita basis, with a special break for the poorer States.

Now, as far as it goes, this is ingenious and commendable. But it does fail to come to grips with these two problems, that the cities need money and the cities need the ability to reorganize themselves.

I think that both of these defects can be remedied, and that the Heller plan thus reoriented is not only viable but necessary. I put some of these thoughts together in a bill which I introduced last January, H.R. 1166, which would provide Federal bloc grants to the tune of about $5 billion a year at the service of States which take steps to modernize their own government and the governments of their cities. I realize this is not a hearing on specific bills, so I will talk in terms of the general program which I propose.

It would, in essence, be a Heller plan, $5 billion for the States, with two important conditions. Condition No. 1, which I believe is also a condition of the Javits bill and similar legislation, would require that a percentage—I suggest 50 percent—of what the States get in unrestricted bloc grants be passed on to their local government for the unrestricted uses of the local government—police, fire, education, health, housing, or whatever. I would also hope that the States would do better than this. Fifty percent is merely a minimum. I hope they would not only pass on somewhat more than that minimum, but that they would accompany it with a better system of shared taxes and State aids of their own.

The second requirement of my bill is that for a State to become eligible for these bloc grants, which would be on a per capita basis with perhaps some allowance for the poorer States, it must in good faith prepare what I call a modern government program setting forth what it intends to do in the next 5- or 10-year period, if all goes well, to revitalize its own government and the governments of its localities. The bill, H.R. 1166, sets forth a checklist of whole categories of improvements which, by and large, are the reforms that have been worked over and agreed on as necessary by all our great organizations—the National League of Cities, the National Municipal League, the Mayors' Conference, the Committee on Economic Development, the Advisory Commission on Intergovernmental Relations.

First, these recommendations would include arrangements for several States to attack interstate regional problems; second, methods of modernizing State government by more efficient executives and legislators, and improved fiscal practices; and third—most importantly—strengthening and modernizing local government, rural government, urban government, metropolitan government, by reducing inefficient levels of government, by streamlining local government, by making possible a metropolitan approach and encouraging more State financial and technical responsibility for its localities.

Once this plan was formulated by each State on its own—they would get 100 percent Federal planning grants to permit that formulation, a task which I think would take at least a year once the legislation was enacted—each Governor would engage in Socratic dialog with the Governors in his neighboring region. My bill divides the country into four regions—roughly, east, south, north, and west. One could change this, but the idea is to have neighboring Governors constructively criticize and improve on the draft plan of each State. If a majority of the Governors in that particular region approved the plan of State X, it would then be forwarded to the Advisory Commission on Intergovernmental Relations, that excellent 10-year-old organization set up by the Congress with membership of leading people from the Federal, State, and local governments. The Advisory Commission on Intergovernmental Relations would have to approve the plan as reflecting sufficient creative State initiative so as to qualify the particular State for Federal bloc grants. Then, once the State had qualified, it would then—under this revised Heller plan that I propose—be eligible, for the initial 3-year period, for its share of approximately $5 billion a year in unrestricted bloc grants. There would be no strings at that point. The States, and the localities in the pass-through, could use these funds for whatever purposes they deemed most in their interests.

I would fear that if you just enacted a Heller plan without putting any incentives on the States to review the whole system of fiscal and organizational relationships with their localities, you might merely be giving States an oxygen tent which would restrict their initiative. If, however, you combined the lure of Heller plan bloc grants with an opportunity for courageous Governors and legislators to get on with the task of modernizing, we might at one and the same swoop cure both the fiscal and the organizational problems of our localities.

There is a precedent for this approach and I want to conclude by alluding to this precedent, because I was fortunate enough to have something to do with it. Twenty years ago the United States embarked on one of the most creative ventures in foreign policy in our entire history, the Marshall plan, with which I was privileged to be associated. Under the Marshall plan we said to the war-torn countries of Europe:

> Look, we have $5 billion a year for the next 4 years of U.S. money which we are prepared to put at the disposal of you 16 Western European countries if you will show right at the start a great act of faith—if you will do what you have never done before in history; namely, get together and each one draw up a self-help and modernization plan for his country and then submit it to the judgment of your peers in the then Committee for European Economic Cooperation and get their criticism and their improvement. If you will then embark on these plans, we will fund the program and we will not interfere with its day-to-day administration. We will let you follow your local priorities, though, of course, we want periodic reporting on it.

The Marshall plan at its start was criticized by those who said:

Well, you are putting $5 billion or $4 billion a year into the coffers of these European countries without any real assurance that they are going to do the right thing.

But, because right at the start, we had shown our confidence in them, the Marshall plan did work, and I think most historians today agree that it was one of the more refreshing things that we have done.

Today, 20 years later, the U.S. Government will again—as soon as Vietnam is put to one side—be seized with the abundant resources of a healthy economy. It will see before it State and local governments which, though capable of abundant life, are barely functioning, barely functioning physically and barely functioning organizationally. The Marshall plan analogy suggestion is not wholly farfetched. The United States would say in the years to come as it said 20 years ago, that it would take some $5 billion a year and make it available to the States in unrestricted bloc grants, providing they first, each one on its own and then in Socratic dialog with its neighbors prepared a modern government program which could liberate the localities from the thralldom under which they are now laboring.

The drawing up of these programs and their approval by regional groupings of States and by the Advisory Commission could be deemed by Congress an act of faith rendering unnecessary more detailed performance standards.

So, Madam Chairman, I am grateful for this opportunity and I would hope that when Congress, within the next 2 or 3 years, does act—as I believe it should—on this whole question of a more creative federalism and revenue sharing, it will try to use some device—not necessarily the one I propose, but perhaps one like it—to insure that the bloc grants are not wasted but instead act as a real incentive to secure a long overdue modernizing of State and local governments.

Representative GRIFFITHS. Thank you very much, Congressman Reuss.

(The prepared statement of Congressman Reuss follows:)

PREPARED STATEMENT OF REPRESENTATIVE HENRY S. REUSS

The Joint Economic Committee is to be congratulated for conducting hearings in depth into revenue sharing and its alternatives. My view is that revenue sharing with the states offers a constructive opportunity if it's accompanied by incentives, to induce the states to make long overdue reforms in their own government and in the government of their localities.

While our population grows, Americans are demanding more and better services from their cities. More children need better schools. Increasing crime requires better police protection. Traffic snarls require not only better streets but whole new systems of urban transportation. Millions of low and moderate income homes are needed. Health, fire protection, recreation, lighting, renewal—all are increasingly needed and increasingly expensive.

Everyone agrees that the city's chief source of revenue, the local property tax, has been pressed close to the limit. Everyone agrees that cities are close to the limit of their borrowing power.

Neither the cities themselves, nor the state governments which gave them birth, have the tax revenues to do the job. The nation's leading revenue raiser is the federal income tax. By its very progressive nature, it must continue to be a federal tax. It is the one source of revenue, at any level of government, which promises to yield substantial surpluses in the years ahead, when Vietnam no longer distracts our national energies.

This nation will want to use a substantial part of the "fiscal dividend" which is slated to appear as soon as Vietnam is behind us for meeting the pressing needs of our cities.

How can this best be done? We are now spending some $16 billion a year on federal grants to state and local governments. I don't believe that the needs of our cities can be met by an endless proliferation of the current system of categorical grants.

Too many of them splatter around the edges of a problem, without really coming to grips with the fundamental needs of our cities—they need money.

Educational programs help out with new libraries or instruction for the disadvantaged—but they don't help to build new schools, or to hire enough good teachers at decent salaries. Health funds are generous with grants for research—but they don't build many new hospitals in our cities, nor pay for their expensive staffs. Anti-crime legislation would set up valuable special programs for training law enforcement officers—but it would not meet the central problem of how the city finds the money to get enough patrolmen and pay them adequately. "Model", "pilot", and "demonstration" grants frequently demonstrate only that the city cannot perform the service without the grant.

And, no matter how good the program is, you always have the welter of required paperwork and applications by the cities. You always have the hindering of local initiative by Washington dictating how its money shall be matched and spent. We would do better to rationalize and improve our existing categorical grant program before we do much expanding of it.

So what the cities need is more unfettered money, to be spent on whatever each city considers to be its own most pressing needs.

The first reason, then, for taking a good look at the Heller plan is that cities need money.

A second reason, equally important, is that cities need reorganization. Reorganization can only come from the level of government which gives the cities birth—state government. State constitutions and state statutes and state administrative practices are today the principal barriers to modern and revitalized local governments.

It is only the state which can take action to reduce the number of, or to eliminate, local governments whose cost far outweighs their effectiveness.

It is only the state which can take action to give localities strong executive leadership, businesslike administrative authority, and personnel practices based on merit and competence.

It is only the state which can take action to revise the terms of state grants-in-aid and shared taxes so as to minimize differences in local fiscal capacity.

It is only the state which can take action to permit local government in metropolitan areas to organize itself along metropolitan lines, with metropolitan resources, for the solution of metropolitan problems.

If we are right in saying that what our cities need most is more money and more effective organization, where does the Heller plan fit in?

In a nutshell, the Heller plan proposes that some $5 billion a year, derived from a percentage of the federal personal income tax base, be distributed to the states on a per capita basis, with a portion redistributed to the poorer states, for the states to spend pretty much in their uncontrolled discretion.

The proposal is ingenious and commendable, insofar as it preserves the role of the federal government as the leading tax collector and economic stabilizer for the nation. But it fails to come to grips with the two central problems of our metropolitan areas that I have discussed—they lack money, and they lack the ability to reorganize themselves.

I believe that both of these defects can be remedied, and that the Heller plan, thus improved and reoriented toward the problems of our cities, is not only viable but necessary. To that end, I introduced in January, 1967, H.R. 1166, a bill to provide federal block grants to states and cities which take steps to modernize their governments.

Like the Heller plan, H.R. 1166 would put $5 billion a year into the Heller plan pot, starting in 1970. States would become eligible to receive it, however, *only* under two conditions.

First, the state would have to agree to pass on *at least* fifty percent of the grant to its local governments, for their unrestricted uses—police, fire, education, health, housing, or whatever. The bill contains strong incentives for sums greater than fifty percent to be passed on to the local communities, and for the states to accompany the pass-ons with matching funds of their own.

The second requirement of my bill is that for a state to become eligible for these block grants, it must first prepare in good faith a modern governments program, setting forth what it intends to do, by whatever constitutional and legislative and administrative change, to help local governments modernize and revitalize themselves. The bill sets forth whole categories of areas needing attention. These are the tried and true areas that every state government knows about, but very few are doing much about. They are the reforms suggested for so long by the National League of Cities, by the National Municipal League, by the Committee on Economic Development's July 1966 report on "Modernizing Local Government," and by the many studies of the Advisory Commission on Intergovernmental Relations. These areas include (1) arrangements for dealing with interstate regional problems; (2) strengthening and modernizing state governments to provide more efficient executives and legislatures and improved state taxing, spending, and borrowing powers; and (3) strengthening and modernizing rural, urban, and metropolitan local governments, by reducing or eliminating inefficient levels of government, streamlining local government, making possible a metropolitan approach, encouraging more state financial and technical responsibility for the urgent needs of local government.

Under my bill, once the state qualified, there would be no strings attached to its grant. But in order to qualify, each governor would have to present a plan setting forth just what it proposed to do by way of modernizing local government. The state plans would have the benefit of the Socratic dialogue of the neighboring states of their region. Federal planning funds would finance the preparations of the Modern Governments Program. And the Advisory Commission on Intergovernmental Relations—that excellent organization of leaders from federal, state, and local levels—would have to approve the Modern Governments Program of each state as reflecting "sufficient creative State initiative so as to qualify that State for Federal block grants."

Once the state qualified—with a plan that combined an adequate pass-through of funds to the cities and an urgent agenda for modernizing local government generally—the no-strings-attached block grants would be forthcoming. After a three-year $5 billion a year trial period, Congress would have an opportunity to review the program.

Simply to give unrestricted block grants to the states, without requiring that a large portion be passed on to the cities of that state, and that the state get on with the business of allowing local governments to modernize themselves, could well be simply to pour money down a rathole. With their fiscal problems eased, there would be a great temptation for states to be more lethargic than ever.

But the requirement that states have to do something to earn their block grants—do something for the localities where the people live—could be just the political incentive that could catalyze the movement for state constitutional and statutory reform.

In any revenue-sharing proposal, the needs of people must be paramount, and this means people who live in cities as well as those who do not. Creative federalism envisages a vital role in our system for all three levels of government—federal, state, and local. If we would lift the responsibilities and capacities of our states, we should do it only in a way which will assure that our cities in the process get the money and the authority that they need.

Twenty years ago the United States government, rich with the resources of a healthy economy, saw before it governments in West Europe that were sick but capable of revival. In a mood of creative invention, we evolved the Marshall Plan to place close to $5 billion a year at the disposal of the European countries. There was to be only one string to the aid, and that was a big one right at the start—that the European countries prepare programs of self-help and modernization in order to qualify. The drawing up of these programs, and their approval by the regional group of states, the Organization for European Economic Cooperation, was deemed by the Congress to be a sufficient act of faith, one which rendered unnecessary detailed performance standards. And so the Marshall Plan was launched.

Today, the United States government, rich with the resources of a healthy economy, sees before it state and local government which, though capable of abundant life, are barely functioning. Is the Marshall Plan analogy wholly far-fetched—for the United States government to place some $5 billion a year at the service of the states, with one big string—that the states prepare programs for the organizational and fiscal improvement of themselves and of their local governments? The drawing up of these programs, and their approval by the regional groupings of states, and by the Advisory Commission on Intergovernmental Relations, could well be deemed by Congress an act of faith rendering unnecessary more detailed performance standards.

Perhaps it is time to try a Marshall Plan right here at home.

Representative GRIFFITHS. I would like to ask you two questions: First, will you make it clear how you are going to evade the Ways and Means Committee? And second, are you going to continue to give the States the money just on a plan or how are you going to check up on performance?

Representative REUSS. May I answer the second question first?

Representative GRIFFITHS. Yes.

Representative REUSS. When one works in this field, he is confronted, of course, by conflicts. I have already expressed my fears that, if you put no strings on it, the grants would act as a crutch which would delay, rather than help, necessary reorganization of local government. If, on the other hand, you try to impose endless strings, you defeat your purpose, because you have merely set up another categorical aid program in which you would have Federal bureaucrats surveying the new laws and constitutions of the States of Michigan, New York, and Wisconsin, and saying, this particular State tax-sharing program is inadequate and your police system is poor, and so on, which I think would be undesirable.

I believe that if we held high the torch, initially, and demanded real and sincere modern governments programs from the States, that we could take our chances as we did with the Marshall plan, that they would, in substance, be followed. I think there would be so much political pressure that would be let loose within these States that backsliding Governors and legislators would find that they did not command majorities among their own people. We need, in short, some catalyst for our State and local government, something which will encourage other States to do what New York and Michigan and Maryland are at least trying to do. If we do that, I believe that excessive Federal supervision is not necessary.

Bear in mind that the program I suggest would be for an initial 3-year trial period. If Congress at the end of that period feels that there has been bad faith and backsliding, it could, though I would hope this would not happen, discontinue the program. Congress could also get periodic reports, and perhaps ask the Advisory Commission on Intergovernmental Relations to ride close herd on the program, but that would be in a sense of informing ourselves. In short, I think any revenue-sharing program does require that one hold his breath and accept an act of faith.

The point I would make is that my proposal asks Congress to let go of the purse strings much less than the Heller plan in its original and pristine form, which pretty much says here: "States, take this money, and we do not really care what you do with it."

Representative GRIFFITHS. Is it not true, though, that in the Marshall plan, those governments must have looked upon this thing as a real bonanza and must have felt that the United States would withdraw the money unless it were properly used. But with the State legislatures, when you have Americans versus Americans, you are not going to have that type of reaction necessarily. What they are really going to say is, from here on, anything you do not have is because of Congress. They have not sent us the money. And if anything, they have a long history of knowing that once Congress has started something, it continues long after the need is gone—when we really cannot even explain why this money continues to be spent. Americans are not going to be taken in by any idea that the money is going to be cut off—that they have to perform or the money will be cut off. They know better. They are legislators as you and I are. They are Governors, and they are going to demand the money. Once it is started you must send the money. If you do not send the money you will be blamed for anything that is wrong in the State. It is the fault of Congress. I can already see signs of this.

Representative REUSS. Certainly, the point of view which you have just expressed is a valid fear which has to be expressed, has to be concerned. I point out that the fear that you have just expressed, Madam Chairman, is much more likely to come to pass if we adopted a straight pristine Heller plan than if we adopted a program with at least one big string at the start. I would suggest that if the choice were between a straight Heller plan and no straight Heller plan, that your argument might well prevail.

On the other hand, if we did require the adoption in good faith of a charter, a modern government program by each State, I would hope that congressional leadership could generate enough citizen support in each State so that backsliding Governors and legislators felt the heat. I would point out, of course, that while the Marshall plan was enacted originally for a 4-year period—it was a 4-year authorization—Congress, had it gotten disgusted half-way along the line in 1949 or 1950, could have cut it out.

Similarly, if a proposal such as I here suggest should turn out to be a farce, Congress would have the power, certainly, to terminate it. It is not making any contractual commitment.

Representative GRIFFITHS. They would have that power; but it is their own constituents that they are now going to begin to hurt and their own constituents are going to be urged by others saying to them, "Write to Congress. They are not voting for this money for you." And they are going to begin to blame you for anything that happens at the local government level. You, the Congressman, have not supplied the money. Now, I think you really cannot get around that.

Representative REUSS. I agree, I cannot, and I will not attempt to get around the fact that these pressures would exist. I think one has to look at the alternatives. One alternative is letting our States and localities starve. Another is the proliferation of categorical aid programs which have some of the defects in them that have been mentioned by various witnesses. I am sure that both the chairman and Senator Javits are keenly aware of the need for America, in the years to come, to spend much more on and do a much better job in health, education, welfare, police services, housing, all of the problems of our cities. So, there is no difference between us on that. It is just the question of should it be done—by Federal categorical aid programs, or by some sort of bloc grant program with, I hope, the kind of built-in incentives which my gloss on the Heller plan provides.

Representative GRIFFITHS. We have heard from the Commission on Intergovernmental Relations that at the present time the child in the inner city is getting about two-thirds the amount of the child in suburbia on an educational program. How will your program in any way correct this?

Representative REUSS. My program is designed for just that problem. The reason the child in the inner city of Detroit or Milwaukee or a score of other cities tends to have—my figures are a little wrong—

$600 a year spent on them as opposed to the $900 a year that is spent in the suburbs, is that the city tax sources, largely the real property tax, are increasingly inadequate and the States neither give adequate sums of a compensatory nature to the city schools nor do they, by their fundamental laws, permit and encourage the metropolitan areas to organize so that by and large, in Greater Detroit or Greater Milwaukee, all schools get at least the same amount of money per child. You and I know that the children in the inner city probably ought to get more, but let us just talk about the same amount of money. This can only be done by some sort of metropolitanizing of the fiscal situation in metropolitan areas.

Let the suburbs control their local schools by all means, but let them contribute, either through the State or through the county or in some metropolitan form of government, to the support of central city schools. Listed in the checklist of what States need to do in my bill is just this problem. I do not see how we are ever going to begin to get a solution to that until we give some goad and incentive to the States to address themselves to it, as most of them have not so far done.

Representative GRIFFITHS. Of course, the real problem is that the State legislature sets up the formula by which the money goes back into these areas and they automatically give back less money to the city. For instance, in the State of Michigan, every child living out-State is bused to school. Not in Detroit; but the rural legislators pay. They took Detroit money and paid for it. So that our children have to get there under their own power. Their parents have to take them; but this is not true in the out-State. Now, I do not see that your bill can correct this. You are not going to abandon the State legislature.

Representative REUSS. No; but my bill——

Representative GRIFFITHS. It is a good idea but I do not think——

Representative REUSS. My bill has in its checklists a definite provision that the State modern governments program, which the Governor in consultation with other Governors, has to adopt before he can get the money, must address itself to the very problem of the central city and the surrounding metropolitan areas that you, Madam Chairman, have just mentioned. It does not set up one given royal road to a solution, but it says it must do something about the problem. That something could be larger direct State compensatory aids to the central city. It could be incentives to set up a metropolitanwide fiscal school district, which would allow the people of Grosse Point to decide on curriculum and hire teachers, but would also require that they contribute financially to the support of the Detroit schools. Unless there is a good faith effort on the part of the State program to address itself to this burning No. 1 problem, then this would not, in my judgment, cinstitute a good faith effort. After all, you have two checks on this. One is by the surrounding Governors. Of course, you might say they will all "chicken out" on this. But then, you have the Advisory Commission on Intergovernmental Relations with which the chairman is familiar, which in its reports has repeatedly advocated just the approach that we are talking about.

So I would envisage that a State which did nothing about this problem of the disparity of education between central city children and wealthy suburb children would not be deemed to have presented in good faith a modern government program, and the Advisory Commission on Intergovernmental Relations would tell its Governor, "back to the drawing board—you are not qualified."

This is what I refer to as the one big string right at the beginning. In other words, I would envisage that a modern government's program would have to include something on this very point you have mentioned. If it was slow in implementing it, that is a risk which I think I would be prepared to take for the 2- or 3-year trial run I would want to give this program.

Representative GRIFFITHS. It is not even as simple as letting Grosse Point contribute to Detroit. The truth is Detroit contributes to Grosse Point. That is the real truth. Detroit pays the taxes largely for the whole city; that is, the city of Detroit, not the metropolitan area. The city of Detroit pays it. But, too, the State then refuses to permit them to tax themselves sufficiently to educate their own children. They know the amount they could tax themselves. So, you have a double problem.

Now, I think it is only fitting that here in this room you should explain how you are going to evade the Ways and Means Committee.

Representative REUSS. Actually my bill, H.R. 1166, was—by a miracle of drafting legerdemain—sent to the House Committee on Government Operations.

Representative GRIFFITHS. Where you sit.

Representative REUSS. Where I sit, and where the gentlelady sat with great distinction for a number of years. Whichever committee gets it, Ways and Means, or Government Operations, it will have a backbreaking, several-year chore ahead of it. All I can say is that the problem of where our States and cities go, the problem of how we keep this country at full employment without inflation in the years ahead, and how we preserve our Federal system so that we do not fall apart, are problems that the Congress is going to have to address itself to at once. That is why I am so proud of the study that you and your subcommittee are conducting.

Representative GRIFFTHS. Thank you, Mr. Reuss.

Senator Javits?

Senator JAVITS. Congressman Reuss, first, let me compliment you upon your always fine work here and that is shown by your testimony and the fact that you have put in a bill on this subject. I had the honor to introduce the first bill to try to implement the concept of Heller and Pechman, both of whom are Democrats, I believe, but that is life around here.

I would just like to ask one question because I think our chairman has gone over this a good deal. Would you agree with me that the argument that we may start a program and may find it politically inconvenient to terminate it is not really a very good argument to answer the need for starting a point if we need one, and that the analogies with the poverty program—though we are having a lot of trouble getting the money—and with the impacted areas school program—where we often have trouble getting the money—are cases in point. Sure, people are going to get after you. But, is that a sound reason for not doing what must be done?

Representative REUSS. I do not want to sound too agreeable, but I agree with both you and the chairman. I agree with you that it is not a sound reason for not embarking on a program which otherwise on its merits makes sense. And I have to agree with the chairman that there is a glacial law about so many of the programs that we pass, and it is difficult to stop the glacier once it is moving.

But, I think that the Heller-Javits plan with the Reuss gloss is a good program and that we would want to continue it. The chances of its turning sour are, I think, not too great.

Senator JAVITS. I would invite the Chair's study and Congressman Reuss' study of the concept in our bill which has been widely discussed of requiring both State and local plans and thereby exposing to the public view the possibility of congressional change or cutoff, the way in which the funds will be used before they are so used and that let us try, Madam Chairman, to avail ourselves to some extent of the famous Marshall plan experience. But, I invite study of that.

One other point. I do not want to detain you. I see Senator Baker, one of my colleagues waiting. That is, the relationship of this idea to two things. The Vietnam war and budget deficits. We have sort of taken for granted what I do not think we ought to take for granted, the fact that you cannot go in for Federal revenue sharing with the States unless, and until, you have an end to the Vietnam war which, ipso facto, probably means an end to the enormous Federal deficit problem. What would be your attitude on that?

Representative REUSS. I am afraid that sitting here in November 1967, in the committee room of the House Committee on Ways and Means, I would have to say—perhaps not as an economic reality but as a political and psychological reality—that I do not think we are really going to get into Heller-Javits plans until our military expenditures can be markedly diminished. I do not say an end of the war in Vietnam, but such a diminution that we do have something approaching a budget surplus—and at the present, we are nowhere near that.

If our tax-writing committees could do something about plugging tax loopholes and thus bring more revenues into the Federal Treasury, the day of that surplus would be much hastened. But I guess I am constrained to say that I think that the Heller plan and its variations is a post-Vietnam prospect. But, now is the time to be holding hearings on it and talking about it and even, I would think, to legislate on it next year.

Senator JAVITS. I thoroughly agree with the idea of pushing it forward. I would not necessarily agree with the idea that there is a built-in inhibition that we have a budget deficit and that we are in war, and for this reason, this is something you have not been asked, how do you connect this idea of revenue sharing with the categoric grant limitation which we have practically imposed? Your categoric grants in these tremendous fields, notwithstanding the increase in necessity at the State and local level, have a tendency to remain at the very best level. Therefore, if they will remain level, and that is what the appearance is, notwithstanding the increased need and the increased take of the Federal income tax resulting from a higher gross national product, is not this about the only way in which we can bring the States and localities into a more equitable sharing with the Federal Government of the increase in the American economy as apportioned to the increase in their need?

Representative REUSS. I entirely agree, Senator Javits, that the great priorities of national need—education, health, conservation—should remain in large part a Federal responsibility. I would envisage, perfectly consistent with the adoption of a bloc grant Heller plan, the increase of what we now spend on categorical grants. We now spend some $16 billion a year. I would envisage that this sum would have to go up.

I would, however, like to see our present system of some 200, 300, 400 categorical grant programs rationalized. Your distinguished body in the Senate earlier this week did what I thought was a good thing. We had done it earlier in the House. You took the proposed categorical control program and put it, blanketed it, into the omnibus health measure. I was very much in favor of that because I do not think we need a separate and entirely distinct rat control program, vitally necessary though that $20 million a year on rat control is.

Now, I think we have got the wherewithal to do it, but do not do it in a way unduly to segmentize our categorical assistance.

I think, therefore, we need to rationalize and streamline our categorical aids. I think we have got—in the years to come as we grow richer—to increase the amount that the Federal Government spends on housing, health, education, and similar fields. But in addition to that, I think there is room for something like a $5 billion unrestricted bloc grant program.

Heller himself talks about a formula whereby you would reduce taxes somewhat, let consumers spend a little more; where you would increase categorical aids somewhat; and where you would have a program of bloc grants. I think it is for the Ways and Means Committee and the Appropriations Committee to decide how we make our divisions between the public and private sector. My own preference is, I suspect, very like your own.

Senator JAVITS. It is, but the only thing I would say is, I would not stay my hand because of the Vietnam war or because of the deficits. I think we have to move forward in this field because of the urgent necessity of especially the big cities and we have to make every effort to see that the big cities do participate in what we do make available in the Federal revenue sharing.

Madam Chairman, I have a paper here which may be of use to the subcommittee which I would happily incorporate if the Chair thought it was useful. In March of 1966, I made a study for the New York State congressional delegation of the way in which Federal grants-in-aid programs, so-called category of grants, tend to discriminate against the big cities by various types of limitation of total distribution to any State, and other inhibitions which are really apportioned to a rural country which we are not any more, with vestigial remains of the past, but if the Chair thinks that would be of use to the committee, I would ask unanimous consent that the report entitled: "Discrimination Against Highly Urbanized States on the Federal Grants-in-aid Program," be included in the record.

Representative GRIFFITHS. We will be delighted to include it in the record.

(The report referred to follows:)

DISCRIMINATION AGAINST HIGHLY-URBANIZED STATES UNDER FEDERAL GRANT-IN-AID PROGRAMS

A REPORT TO THE NEW YORK STATE CONGRESSIONAL DELEGATION*

For many years, we in the New York Congressional Delegation have been deeply concerned about the relative proportion of Federal grant-in-aid assistance

* Senator Jacob K. Javits, Mar. 6, 1966.

which our state is and has been receiving. On many occasions I have stated in Senate debate that for every dollar of Federal taxes contributed by our state's citizens, we have received a disproportionately low amount in return. In 1963, for example, we received only 54 cents in return. In 1964, on a per capita, or population basis, New York ranked 46th, and on the basis of percentage of personal income, it ranked 49th in Federal aid to state and local governments.

This is not to say that the states should receive from the Federal government precisely what they contribute to it in Federal taxes. But it does raise a grave question as to whether the allocation of Federal funds among the states is fair in the light of today's needs, particularly in the major urban centers with their vastly aggravated problems and soaring costs.

In this report I have analyzed the most significant urban programs and have found a great many discriminatory features affecting distribution among the states. In each case I have sought to measure the degree of discrimination and its adverse impact on New York State. I have also proposed amendments to each law to help correct the imbalance, and I urge the Delegation to study and support these proposals.

There are more than 125 different grant-in-aid programs and each has its own unique impact on the states. The Advisory Commission on Intergovernmental Relations—the body established by the Congress to consider on a long-term basis the relationships between the Federal Government and the states—published a detailed study in January, 1964, entitled "The Role of Equalization in Federal Grants." This study analyzed in detail the impact of various legislative provisions on the allocation of Federal funds among the states. The Commission called these provisions "equalization features," which seek to level out the differences in the capacity of the state and local governments to raise funds from taxes in order to finance joint Federal, state and local programs.

The Commission identified the common equalization features as allocation formulas among the states and matching requirements, either or both of which often include a factor of inverse relationship between per capita income and the size of each state's own share of Federal funds. The theory of such provisions, which was developed in the 1930's, was that per capita income was a useful index of relative state fiscal capacity and that by building it into the Federal programs, it would reflect the greater need for Federal assistance to the poorer states. Another theory behind such provisions was the desire of the Congress to assure that a basic minimum level of the needed services was achieved in all the states.

The Commission found, however, that in reality a confusing variety of technical formulas has grown up with the growth of the Federal grant-in-aid programs, some in the statutes themselves and some administratively. It also found that little or nothing has been done to determine in any rational way whether the provisions are in fact doing what they were supposed to do or whether they are really operating fairly in the light of considerably changed circumstances.

One major change in the circumstances is that the poorer states are no longer relatively as poor as they were when these equalization provisions were introduced into the law.

The Commission found that:

"The rich States have been growing but the poor States have been moving up the scale at a faster pace. In 1929 the per capita income of the highest income States was 4.3 times that of the lowest . . . By 1950 the per capita incomes of the highest income States was 2.9 times that of the lowest and in 1962 the ratio was 2.6."

On the face of it one might expect the per capita income factor in present equalization formulas to reflect this narrowing of the income gap. The analyses which are the basis for this report indicate that this is not the case because another and even more explosive change has been taking place at the same time.

That change is the enormous shift of population into the major urban centers, most of which are in high per capita income states. This shift is occurring at an ever-accelerating pace. It has brought with it tremendous strain on the capacity of the major cities and the states in which they are located, even with maximum taxing efforts, to meet the vastly increased demands for governmental services and the sharply increased costs of such services. The fiscal plight of these urban centers demonstrates that the per capita income basis for distributing Federal funds among the states is no longer fair or sound, because the extraordinary growth of the cities has multiplied the cities' needs for those funds far more sharply than the income gap between the states has narrowed. What has happened is that we have perpetuated a benefit for the less populated states without considering whether it is still relevant. Rather than being in a poorer position to offer a basic national minimum standard of governmental services many of these states are even in a better position than are the densely populated cities and states.

Where in 1930 only 56.2% of the Nation's population lived in urban areas, in 1960 69.9% lived in urban areas, and it is estimated that in 1970 more than 75% will live in urban areas. In number of people this means a progression from 68.9 million people living in urban areas in 1930, to 125.2 million in 1960, to a projected 154.4 million in 1970. In concentration of population this has already caused an increase in population in the existing 222 metropolitan areas (Standard Metropolitan Statistical Areas) of 26.5% in the decade between 1950 and 1960 alone.

What this means is that, as the attention of Congress finally turns to the vast problems raised by this new factor of sheer size and density of population in the urban centers, it must be concerned also with whether its programs will really reach those problems. So far there has been little effort to evaluate in this light the equalization provisions, which the Commission notes have been even more frequently enacted in recent years than before.

As the Commission put it:

"The growing urbanization of the country is concentrating increasingly larger proportions of the less privileged and less prosperous components of the population in central cities. This is producing in some city centers an unhappy combination of disproportionately heavy service load (school-age children, unemployed, sick, and aged), a special need for services linked to urban living, relatively high unit costs for governmental services, and disproportionately low local taxpaying capabilities."

The Commission, in considering this factor, quite properly discussed the capacity of state and local government to develop tax resources to meet their responsibilities in these areas. This is a point which I believe is a crucial adjunct to this subject, and I urge support for a proposal which I have already introduced with Senator Hartke (S. 2619), to channel a part of increased Federal revenues from the progressive income tax to the states with a minimum of strings attached, in order to strengthen the capacity of local governments to serve their citizens effectively.

However, even with a tax-sharing plan such as I and others have proposed, the Federal grant-in-aid programs will continue to exist and will have to be supplemented to meet the special national policy objectives for which they were enacted. Thus their capacity to meet those objectives under present formulas in the light of changing conditions must be re-evaluated.

To this end the Commission has repeatedly recommended that there be periodic Congressional review of grants-in-aid to evaluate their adequacy. This proposal is embodied in S. 561, introduced by Senator Muskie, which would impose this requirement upon subsequently enacted programs. This bill was passed by the Senate unanimously in August of last year and has been pending since then in the House Government Operations Committee. I urge the delegation to support early consideration and enactment of this measure, which I believe would go a long way toward preventing the continual recurrence of the kind of morass into which the equalization features of grant-in-aid programs are now floundering.

This, again, leaves the question of how to deal with those provisions which are already in the law. On this point I have sought to analyze the equalization factors in a broad range of existing grant-in-aid programs which are of particular concern to highly urbanized states such as New York. The Commission report, which of course could not and did not seek to take any particular area's point of view, made pointed recommendations about the limited value of equalization formulas, urged that they be made more uniform and more responsive to real fiscal capacity of the states and localities. It also recommended that they be continually reviewed as to their effects by the Executive Branch as well as by the Congress.

My own view is that, matched against any standard, many of the current equalization formulas are out-of-date, arbitrary, grossly unfair to large urban states and should be amended.

For many years, members of the New York delegation, including myself, and members of other urban-state delegations, have been willing to support giving some advantages to the less urban states, and it is very likely that some type of equalization may still be necessary in certain programs. But the time has come to mount a campaign to review and revise these formulas and redirect their impact toward the urban centers and urban areas, where the most pressing needs exist today.

For too long, the degree of advantages to the less urban states has been altogether too arbitrarily determined and too freely perpetuated, ignoring the fact that the face of the nation has been changing at an extremely rapid rate, and that the nation's most critical problems are now in our large urban areas.

To document the above thesis, there follows a detailed analysis of major programs affecting urban states, based on five principal issues:

I. *What are the equalization factors which appear to be a problem for urban states?*

These factors are (1) allocation formulas, which usually combine population with the inverse ratio of per capita income; (2) maximum and/or minimum amounts for each state; and (3) matching requirements.

Often two or more of these factors are combined in the same program, so that it is difficult to determine readily whether only one is responsible for limiting aid. Thus, it is superficially appealing to zero in on an especially discriminatory allocation formula, but amendment of this alone may bring little or no additional aid, because of another factor in that program. For example, the matching requirement may be too high for the state to meet in full, in view of the priorities it has established in matching its available resources against the whole variety of Federal programs. In these cases, additional factors will have to be considered.

II. *How much has New York received under this program in one or both of the most recent fiscal years (Fiscal Years 1964 and 1965) in comparison with New York's percentage of the nation's total population?*

New York's share of the nation's population in 1964 was estimated at 9.4%. Obviously, there are defects in treating population as a perfect measure of the need of all states for all programs. But, as indicated above, it is surely a better measure—however imperfect—than the present admixture of population with the inverse ratio of per capita income. And it is a useful gauge in determining need where a program is designed to meet a problem greatly aggravated by the density of population, such as water and air pollution, low-rent public housing, and urban renewal.

III. *What has been the experience of one or more other states under the same provisions as compared with their percentage of the national population?*

This comparison is not intended as an attack on any other state, but only to show that the equalization provisions are not rationally related to the goals of the Federal program.

IV. *What are the relevant New York State agency estimates as to the need for Federal funding under the given program, over and above current assistance?*

It is recognized that similar estimates could be obtained from other states as well, whether or not they believe they are being fairly treated by the equalization provisions. But the order of magnitude of these additional estimates, beyond what in fact has been granted, is at least some guide, especially when considered in conjunction with the population ratio, to the degree to which the equalization provisions are inadequate.

V. Finally, the most difficult question: *What changes should be made in the law to achieve a fairer apportionment of funds to the highly urbanized states?*

There are a certain number of obviously very highly discriminatory factors, many of which—like the 15% limitation for each state on low-rent public housing—have already been attacked by me and by others in the Delegation and in the Congress.

In that particular case I succeeded last year in broadening the limitations at least to permit the agency to pool and reallocate to needy states funds left unused by other states. But in many cases there is no easy answer, and it may be necessary in the first instance simply to seek to eliminate any per capita equalization, at least as a way of obtaining Congressional consideration of the entire problem. The Intergovernmental Relations Advisory Commission report indicated that personal income "has some limitations as an index of the relative capabilities of the state and local governments to raise revenues."

The report mentions that there are some other indexes still unevaluated, and the Delegation should explore the impact of these other indexes. One index which clearly requires urgent consideration in the light of the population density problem is that of state by state differences in costs and prices for a given level of governmental services. The Commission notes that such figures have not yet been developed. Clearly every effort should be made to do so and to weigh this factor into more realistic formulas. Perhaps the density of population itself should be a factor in new formulas.

A further complicating aspect is the uneven impact of any statewide formula upon programs—such as the War on Poverty and the Economic Development Act—which do not pass funds from the Federal government to the states and thence to the localities, but which generally pass them directly from the Federal government to the localities. In the former case it is assumed that the states are responsible to the variation in need, costs and taxing power of the localities. In fact it is this assumption which in part underlies the conviction of many Members of Congress, including myself, that more programs should be channelled through the states than not, since the same sensitivity to local needs cannot be expected at the Federal level. But the fact remains that some programs do involve direct Federal outlays to the localities, and in some of these programs the use of a statewide formula of the per capita income type may be wholly inappropriate since a poor locality in a wealthy state may be penalized because of the relative prosperity of other parts of the state.

This feature is of even greater significance when private non-profit organizations receive funds directly from the Federal government, either along with, or instead of, governmental units. An entirely separate study could and should be made of the extent to which existing law imposes statewide equalization factors on such recipients and of the undesirability of imposing them in these cases.

In evaluating what follows it should also be kept in mind that New York, like other highly populated states, receives extremely small proportions of large sums of Federal money appropriated under a long series of Agricultural grant-in-aid programs. For example, in 1965 it received only 3% of the $45,449,120 spent for agricultural experiment stations, only 2% of $80,371,512 spent for agricultural extension education, only 3% of $15,283,821 spent for forestry cooperation programs, only 4% of $3,043,784 spent for agricultural marketing research and services, only 7/10ths of 1% of $58,440,952 spent for watershed protection and flood prevention. It is not contended that these proportions are unfairly related to rural needs as distributed throughout the Nation. But these proportions and the amounts involved do strengthen the point made here, that where programs are directed toward urban needs, or needs which are vastly aggravated by metropolitan density, the interstate allocation should reflect those needs more fairly than they now do.

(The program-by-program analysis follows: In all cases the Roman numerals correspond to the outline previously explained.)

Hill-Burton Hospital and Medical Facilities Construction

I. All three factors are present:

(1) An allocation formula which weights the population of each State with the inverse ratio, not of per capita income alone, but the square of per capita income. This is achieved through a complex computation which also limits the per capita income variations to a range of between 75 and 33⅓ percent. The net effect is a gross distortion of the per capita income standard, even assuming the validity of that standard, at the expense of the heavily urban States.

(2) Minimum allotments per State set a floor, again at the expense of the heavily urban States: for hospitals and public health centers, $200,000; for chronic disease hospitals, $200,000; for diagnostic or treatment centers, $100,000; for rehabilitation facilities, $50,000; and $100,000 for nursing homes.

(3) Variable matching from ⅓ to ⅔ based on the inverse ratio of per capita income.

II. Compared to its population share in 1964 of 9.4%, New York received 5% in 1964, or $8,912,574 out of a nationwide $188,760,682; in 1965 New York received 5.5%, or $10,686,788 out of $195,266,393.

III. This compares with:

North Carolina, which with 2.5% of total population received 4.5% in 1964, or $8,535,950, and 3.6% in 1965, or $7,007,326;

Alabama, which with 1.8% of total population received 4.7% in 1964, or $8,953,105; and

Georgia, which with 2.2% of total population received 4.6% in 1965, or $9,713,755.

IV. As a measure of the additional need in New York State, State authorities estimate that an additional $48,540,340 could have been used for planned hospital construction in 1964; an additional $43,943,820 in 1965. Projections of additional need in 1967 and 1968 soar to $105,099,529 and $132,788,993, respectively.

V. The enormous disproportions in distribution in this program in the light of the excess need in areas of very great population density clearly call for changes in all three allocation factors:

(1) At the very least, the delegation should support legislation eliminating the squaring of the per capita income factor in the allocation formula and substituting the ususal per capita income factor (i.e. the higher the average per capita income in the State, the lower its share of funds). During the last session of Congress I pledged, in conjunction with the pending Vocational Rehabilitation Act, which borrowed the same allocation formula as in Hill-Burton, to seek revision of this aspect of Hill-Burton. However, I believe even the straight-forward per capita income formula may be grossly inadequate, as has been discussed above, and, particularly in this area of governmental service, in which density of population brings special communicable disease and other health problems, a straight population or density of population factor should be substituted. Certainly with the gross disproportion which the law has carried since its enactment in 1946, there should be careful examination as to whether the need for additional hospital space in the less densely populated areas matches the enormous needs in the heavily populated areas.

(2) The minimum allotments per State should be repealed at this point, for the same reasons set out in (1) and for the additional reason that the specification of particular types of facility is unnecessary and creates its own distortion within the States.

(3) Variable matching, while on its face complementary to the purpose of a per capita income allocation formula, serves actually to multiply its effect. Not only is a State with higher per capita income reduced to a smaller share of the Federal funds, but to utilize that share it must raise an even larger percentage of State funds to match the Federal money. Again, for the reasons stated in (1), the delegation should support legislation at the least substituting a flat matching requirement.

Community Mental Health Centers Construction

I. All three factors are present:

(1) The Act specifies only the criteria of population, the extent of need for community mental health centers, and the financial need of the respective States. Administratively this has been enforced by allotting ⅔ of the funds on the basis of population weighted by per capita income, ⅓ on the basis of population alone, which is taken to represent the need for community mental health centers.

(2) A minimum of $100,000 to each State.

(3) Matching is variable between 33⅓% and 66⅔%, with the State permitted to apply either a flat rate across the State or a variety of rates for the various localities depending upon economic status of the areas and other "relevant" factors.

II. Compared to its population share in 1964 of 9.4%, New York received in the first year under the Act 7.7%, or $2,711,019 out of $35,000,000.

III. This compares with Arkansas, which with 1% of total population, received 1.3%, or $454,470; Alabama, which with 1.8% of total population, received 2.2%, or $787,622; Louisiana, which with 1.8% of total population, received 2.1%, or $751,603; Mississippi, which with 1.2% of total population, received 1.8%, or $628,233; in 1965.

IV. As a measure of the additional need, New York State authorities estimate that for New York City alone there are pending projects which are eligible for more than five times the amount of the total State allocation. For 1965 this would have amounted to approximately $13.6 million.

V. All three factors should be amended to minimize this disproportion:

(1) The Act should eliminate financial need as a criterion or at the least should reverse the proportion of funds weighted by per capita income, so that only ⅓ of the funds, rather than ⅔, is so weighted. The reverse propor-

tion would reflect the administrative determination under the Mental Health Community Services Act, which contains the same statutory criteria. However, it is noteworthy that the Department of HEW itself recognizes in its description of the administrative formula that population is the best index of need for this program.

(2) The $100,000 minimum should be repealed.

(3) Variable matching, which only compounds the distortion of need, should be eliminated and a flat matching rate substituted.

VOCATIONAL REHABILITATION

I. Two factors are present:

Beginning in 1967, the allotment formula will follow the Hill-Burton formula, squaring the per capita income factor which weights population. Prior to the 1965 amendments the formula used a straight per capita income factor weighting population.

(3) Also beginning in 1967, the matching will be 75% Federal-25% State; prior law required 50%–50% matchings.

II. New York's experience to date is not relevant in view of the drastic change in the allotment formula beginning in 1967. But in 1967, compared to its population share in 1964 of 9.4%, it is estimated that its allotment will be 5.1%, or $17,782,628 out of $350,000,000; and in 1968 will be 5.1%, or $20,323,003 out of $400,000,000.

III. This will compare with:

North Carolina's which with 2.5% of total population, 3.8% or $13,402,941, in 1967; and in 1968 will be 3.8%, or $15,317,647;

Mississippi's, which with 1.2% of total population, will be 2.4%, or $8,239,913, in 1967; and in 1968 will be 2.4%, or $9,417,043;

Texas, which with 5.4% of total population, will be 6.7%, or $23,422,680; and in 1968 will be 6.7%, or $26,768,777.

IV. New York State authorities estimate that, with the change in matching requirement in 1967, New York would be able to obtain $18,041,676 in Federal funds if the allotment formula had not been made so disadvantageous. They estimate that New York's entitlement under the new formula will be only $14,871,612 and that New York will thus lose a needed additional $3,170,064, or 17.6% of its need.

V. For all the reasons presented in the case of the Hill-Burton Act, the allotment formula should be amended and at least the straight per capita income factor restored. The House version of the 1965 Act retained the latter; the Senate version, which I opposed, inserted the former.

URBAN MASS TRANSPORTATION

I. Two factors are present:

(1) Project grants in any one State may not exceed 12½% of the aggregate amount authorized to be appropriated.

(2) There is a matching requirement in that up to ⅔ of "net project cost" may be met from Federal funds.

II. Compared to its population share in 1964 of 9.4%, New York will be eligible for no more than 12½% of the authorization for Fiscal Year 1965 through Fiscal Year 1967, which totals $375 million. New York's maximum share will be $46,875,000.

III. This cannot be compared with other States' experiences as yet because the applications are still in the process of being submitted. It is estimated, however, that at least three States, New York, Pennsylvania, and California, will be limited by the 12½% limitation.

IV. As a measure of the additional need in New York State, State authorities estimate that New York City alone will use $23 million of the State's share for its subway and $10 million for its commuter railroads. The total need is for $1 billion additional for the subway in the next 10 years and $400 million additional for commuter railroad rolling stock in the next five years.

V. The same considerations apply in this case as in the cases of Urban Renewal and Low-Rent Public Housing: the upper limitation should be eliminated. The adequacy of inserting a reallocation provision should be considered. The adequacy of the amount of the Federal matching share should be evaluated.

Low-Rent Public Housing

I. Three factors are present:

(1) Contracts for additional units for any one State may not exceed 15% of the aggregate amount not already guaranteed under contracts on June 30, 1961. However, under an amendment I offered in 1965 which was adopted, unused funds may be pooled and reallocated to States which have used their maximum of 15%.

(2) There is an administrative upper limit (on allowable cost of construction) of $20,000 per unit (consisting of 4.2 rooms).

(3) Administratively there is a form of matching in that the Federal contribution cannot exceed a sum equal to the annual yield, at the applicable going Federal rate plus 2 per cent, upon the development or acquisition cost of the project involved, and is for a maximum period of 40 years.

II. Compared to its population share in 1964 of 9.4%, New York received 15% in 1964, or $52,421,921 out of $333,812,696; and 15% in 1965, or $51,904,082 out of $346,027,213.

III. This compares with:

Alabama, which with 1.8% of total population, received 3.7% or $12,511,654 in 1964;

New Jersey, which with 3.5% of total population, received 6.3% or $21,058,635 in 1964;

Illinois, which with 5.5% of total population, received 8.3% or $28,853,891 in 1965.

IV. As a measure of the additional need in New York State, State authorities estimate that in New York City alone 200,000 families live in substandard dwellings. At present 7,000 new units are being constructed in New York City annually. The need is estimated at 18,000 additional units per year, which would amount to an additional $360 million per year, more than the amount expended for the entire nation at present.

V. The same considerations apply in this case as in the case of Urban Renewal: the upper limitation should be eliminated and the adequacy of the reallocation provision evaluated. The $20,000 limit per unit on cost of construction should be carefully reviewed to determine its adequacy in high construction cost urban centers, toward which this program was intended to be directed. In addition, the Federal share of costs should be evaluated to determine whether the major urban centers are being discriminated against because of considerably higher costs of both borrowing and construction.

URBAN RENEWAL

I. All three factors are present:

(1) An apportionment formula giving the Administrator authority to assess urgency of need and feasibility.

(2) A maximum limitation of not more than 12½% of the funds expended in any one state. However, the Administrator may expend additional $100,000,000 in states where more than ⅔ of the maximum has been obligated.

(3) Variable matching: generally, ⅔ Federal, but ¾ Federal in communities with population under 50,000 or in communities with population under 150,000 which are designated as Redevelopment Areas.

II. Compared to its population share in 1964 of 9.4%, New York received 12½% or $27,489,178 out of $211,912,510; in 1965 New York received 12½% or $34,844,687 out of $291,653,771.

III. This compares with:

Arkansas, which with 1% of total population, received 2.5%, or $5,352,308, in 1964;

Pennsylvania, which with 6% of total population, received 12.7%, or $26,972,974, in 1964;

Connecticut, which with 1.4% of total population, received 7.4%, or $21,785,192, in 1965.

Massachusetts, which with 2.8% of total population, received 9.2%, or $26,779,168, in 1965.

IV. New York authorities estimate that the entire allocation for the State would not even be adequate for New York City alone, much less for the entire state. In FY '64, New York City received $10 million and in FY '65, $16 million. For FY '66 through '69, New York City is seeking 10% of the $2.9 billion authorized, or $290 million and needs $200 million more.

V. Clearly the 12½% maximum limitation is unrealistic and should be repealed. The authority to exceed the limitation now in the Act should be evaluated to determine why it has not been effective in reflecting New York's obviously disproportionate need. The limitation now built into the Act reflects Congressional acceptance of the fact that urban centers have needs for renewal which exceed any one state's population share. But the amount of the limitation fails to reflect the degree to which this is true. It must be considered that, as of the 1960 census, only 9 states have 5 or more cities with populations of more than 100,000: one has 14; one, 11; two, 8; two, 6; and three, 5. In these 68 cities are crowded some 15.8% of the nation's population. Consideration should also be given to eliminating the discrepancy in matching for smaller cities.

Air Pollution

I. All three factors are present regarding control program grants, which were inaugurated in Fiscal Year 1965:

(1) An allocation formula listing as criteria: population, the extent of the actual or potential air pollution problem, and financial need. Administratively the funds are allocated on a project, not a State-by-State basis.

(2) A maximum statutory limitation on each State of 12½% of available funds.

(3) Federal matching up to ⅔, except up to ¾ in the case of intermunicipal or interstate agencies. Administratively the full ⅔ or ¾ is granted unless it is not requested.

II. Compared to its population share in 1964 of 9.4%, New York received 12½% in 1965, or $522,500 out of a nationwide $4,180,000.

III. This compares with:

Alabama, which with 1.8% of total population, received 3.8%, or $160,000, in 1965;

New Jersey, which with 3.5% of total population, received 6%, or $250,000, in 1965;

Arizona, which with 0.8% of total population, received 3.1%, or $130,000, in 1965.

IV. As a measure of additional need, New York State authorities estimate that an amount two to three times greater than that granted would have been applied for, had the 12½% limitation not been in effect. In dollar terms this would have amounted to an additional $522,500 to $1,045,000.

V. In view of the disproportion of New York's metropolitan needs, at least the 12½% limitation should be repealed.

Water Pollution

(Waste Treatment Works Construction)

I. All three factors are present:

(1) An allocation formula beginning in Fiscal Year 1966 which allots the first $100 million appropriated 50% on a population basis and 50% on the basis of the inverse ratio of per capita income; the balance ($50 million each for Fiscal Year 1966 and 1967) on the basis of population alone. There is a reallocation provision for unused funds; and a provision increasing grants by 10% if certified as conforming to a comprehensive plan for a metropolitan area.

(2) A type of minimum distribution to smaller communities, which requires that at least half the first $100 million appropriated annually must be used for municipalities of 125,000 or less population;

(3) A matching requirement, the Federal share not exceeding 30% of a project or $1.2 million, whichever is smaller, except in the case of a project which serves more than one municipality, where the fixed limit is $4.8 million.

II. Compared to its population share in 1964 of 9.4%, New York received 7% in 1964, or $4,685,034 out of a nationwide $66,432,402; in 1965 New York received 5.4%, or $3,769,284 out of $69,755,014.

III. This compares with:

Georgia, which with 2.2% of total population, received 3.3% or $2,186,349 in 1964;

Arkansas, which with 1% of total population, received 1.8%, or $1,171,573 in 1964; and

Louisiana, which with 1.8% of total population, received 2.6%, or $1,816,333 in 1965.

IV. As a measure of additional need in New York State, State authorities estimate that $65.8 million was actually spent in 1964 for this purpose, within the State, more than $60 million of it from non-Federal sources; $50.8 million was spent in 1965, more than $47 million from non-Federal sources. In addition, New York State has committed itself to a $1.7 billion program for 1967 through 1972, involving a projected State and local effort of $1.1 billion; yet the Federal 30% cannot be met under the present allocation factors.

V. At least two of the three factors are distorted and should be amended:

(1) The allocation formula slightly reduces the negative effect of the per capita income factor by applying the latter only to 50% of the Federal funds, and, as amended in 1965, only to 50% of the first $100 million. What has been said above about substituting for the per capita income factor remains basically valid, however, particularly in view of the discrepancy in percentage of funds related to population in a program which clearly is affected by density of population. In addition, the fact that so much more than the 70% expected to be spent by the States is spent by New York State, is an index to the need, which will clearly be severely aggravated in the next five year period.

(2) For the reasons stated in (1), the minimum distribution factor should be repealed.

(3) For the reasons stated in (1), the $1.2 million limitation should be repealed, since it discriminates against larger cities with need for larger facilities; and the 30%–70% matching requirements should be re-evaluated.

Library Services and Construction

I. All three factors are present:

(1) An allotment formula based on population.

(2) A minimum allotment to each State of $100,000 under Title I, library services; a minimum of $80,000 under Title II, library construction.

(3) A variable matching requirement between 33⅓% and 66⅔% based on the inverse of per capita income.

II. Compared to its population share in 1964 of 9.4%, New York received 3% in 1964, or $279,948 out of $7,442,537; and 6% in 1965, or $1,555,013 out of $26,110,985.

III. This compares with:

North Carolina, which with 2.5% of total population, received 4.2%, or $309,703 in 1964;

Kentucky which with 1.7% of total population, received 2.7%, or $204,994 in 1964;

Maryland which with 1.8% of total population, received 2.3%, or $603,628 in 1965;

Rhode Island, which with 0.5% of total population, received 1.1% or $293,807 in 1965.

IV. As a measure of the additional need in New York State, State authorities estimate that at present rates of planning the State could use an additional Federal payment of at least $9 million, consisting of $4 million for services and $5 million for construction.

V. The disproportion should be reduced by:

(2) Reducing or eliminating the minimum allotment to each State under both Titles, since this factor immediately withdraws from the possibility of allotment to New York on any basis approximately ⅓ of the total amount of funds, or approximately $8.8 million out of $26.1 million in 1965.

(3) The variable matching requirement should be repealed and a fixed matching requirement substituted.

ELEMENTARY AND SECONDARY EDUCATION ACT

I. Title I, aid to local school districts for special educational programs in areas having high concentration of children of low income families, contains only one factor, an allocation formula using the population of 5- to 17-year-old children in families with incomes of less than $2,000 per year (1960 census) and those in families with incomes above $2,000 from the aid to dependent children program under Title IV of the Social Security Act (1962 data).

Title II, school library resources, textbooks and other instructional materials, contains an allocation formula based upon the population of children enrolled in public and private elementary and secondary schools.

Title III, supplementary educational centers and services, contains an allocation formula, one-half based upon the population of children aged 5 to 17 on July 1, 1963, and one-half based upon the total population on that date. But, it also contains a minimum amount of $200,000 for each state.

Title V, strengthening state departments of education, contains an allocation formula based upon school population in the fall of 1964. But it also contains a minimum amount of $100,000 for each state and, beginning in FY '68 there will be a variable matching requirement of between 50% and 66⅔%, depending upon the inverse of per capita income.

II. Compared to its population share in 1964 of 9.4%, New York was allocated out of authorizations for FY '66:

Title I: 9.4%, or $109,639,348 out of $1,163,940,540.
Title II: 8.3%, or $8.3 million out of $100 million.
Title III: 5.8%, or $5.8 million out of $100 million.
Title V: 3.1%, or $784,668 out of $25 million.

III. The Title I share compares with:

North Carolina, which with 2.5% of total population, was allocated 4.5% or $52,826,063;

Arkansas, which with 1% of total population, was allocated 1.9% or $22,600,021;

Louisiana, which with 1.8% of total population, was allocated 3.3% or $38,344,221.

IV. As a measure of need, New York State authorities estimate additional requirements, based upon applications received to date, as follows for each of these titles:

Title I: 50% more, or $54.5 million.
Title II: $15 million to $20 million.
Title III: at least $7 million.

V. While allocation under this Act is more closely related to population than under most others, its allocation provisions nonetheless should be amended:

Title I: I sought a higher income figure than $2,000, which is substantially below the poverty line of $3,000 established for the Anti-Poverty Program and which clearly discriminates against the major urban centers. Although New York's allocation equals its total population share, this is a prime example in which the problems of density of population and the increased burden imposed upon the disadvantaged as a result of density should result in a higher percentage for such areas than population alone would warrant. In view of the disproportion of need, the delegation should support amendment of Title I to achieve a higher standard than $2,000 of income. It should also implement Commissioner Allen's request in his letter to the delegation dated December 27, 1965, for amendments 1) requiring more recent data than the 1960 census and 2) authorizing the reallocation of funds not used in some schools districts to those whose needs have not been met fully. Reallocation provisions already exist in Title II and V. Commissioner Allen suggested that the reallocation be based upon the proportion of each district's students from families receiving aid to dependent children.

Title II: The state authorities contend that even a pure population standard is unfair to New York because of the critical need in large cities. The delegation should consider an alternative which would stress those areas, perhaps a Title I-type formula, amended as recommended above. Since a reallocation provision already exists in this Title, its adequacy for meeting New York's needs should be evaluated.

Title III: The $200,000 minimum should be reduced or eliminated.

Title V: The $100,000 minimum should be reduced or eliminated, and the variable matching should be replaced with a fixed matching requirement.

EDUCATIONAL TELEVISION CONSTRUCTION

I. There is no statutory allocation formula, but the Act imposes a $1 million maximum on the aggregate funds granted within a state over the 5-year period of the program. There is also a matching requirement, the Federal share totalling 50% of the project cost plus 25% of the cost of any educational TV broadcasting facilities owned by the applicant. Administratively these two factors have been combined into an allocation formula which considers population relative to area, but with an upper limit of $1 million and a lower limit of $300,000, which is taken to represent the approximate Federal share of a major broadcast facility.

II. Compared to its population share in 1964 of 9.4%, New York will receive over the 5-year period 3.3%, or $1 million out of $30,001,120.

III. This compares with:

Maine, which with 0.5% of total population, will receive over the 5-year period 1%, or $300,000;

Montana, which with 0.4% of total population, will receive over the 5-year period 2.5%, or $765,460.

IV. As a measure of additional need, the New York authorities used their maximum allocation in the first half of the first fiscal year under the program and estimate the need for first an additional $600,000 by the end of FY '66.

V. In view of the strain on classroom space in urban areas and the resulting need for other techniques such as educational TV, the $1 million maximum should be repealed, or at least a reallocation provision for unused allotments should be provided and the $300,000 minimum should be eliminated.

National Defense Education Act

I. All three factors are present in Title III, public school laboratory equipment and materials for science, math and modern foreign languages:

(1) An allocation formula under which 86% of the funds are distributed according to school-age population and the inverse ratio of income per school-age child: the latter is limited to a range of 66⅔ to 33⅓.

(2) Grants for supervision and administration are a minimum of $20,000 per State.

(3) 50%–50% matching requirement.

All three factors are present in Title V–A, guidance, counseling and testing:

(1) School-age population.

(2) But a minimum allotment of $50,000 to each State.

(3) And 50%–50% matching.

Two factors are present in Title X, improvement of statistical services:

(2) No State may receive more than $50,000.

(3) 50%–50% matching.

II. Compared to its population share in 1964 of 9.4%, New York received 7% in 1964 under all NDEA titles, or $6,017,962 out of a nationwide $84,214,013; in 1965 New York received 5%, or $3,828,957 out of $80,703,642. In 1965 New York received 5.8% under Title III alone, or $2,863,820 out of $50,185,668; 3.3% under Title V–A alone, or $577,900 out of $17,259,978; and 2.9% under Title X, or the maximum, $50,000, out of $1,712,416.

III. This compares with overall NDEA allocations:

Colorado, which with 1% of total population, received 2.2% or $1,779,376, in 1965; Georgia, which with 2.2% of total population, received 3.8%, or $3,055,827, in 1965; North Carolina, which with 2.5% of total population, received 4.2%, or $3,396,226, in 1965.

IV. As a measure of the additional need, New York State authorities estimate that for Title III in 1966 some $1.5 million will be necessary above the Federal share to match the requests of New York schools; an additional $1,438,000 could be utilized under Title V–A; and an additional $140,000 is needed under Title X.

V. In view of the disproportions, the following amendments should be made:

Title III:

(1) The factor of income per school age child should be eliminated;

(2) Consideration should be given to eliminating the $20,000 minimum;

(3) The adequacy of the matching requirement should be studied.

Title V–A:

(2) The minimum allotment of $50,000 should be eliminated;

(3) The adequacy of the matching requirement should be studied.

Title X:

(2) The $50,000 maximum should be increased to $200,000;

(3) The matching requirement should be eliminated.

Maternal and Child Health Services

I. Three factors are present:

(1 & 2) An allocation formula which splits the funds into two equal parts, Fund A and Fund B. From Fund A each State receives $70,000 plus a portion of the remainder based upon the ratio of live births in the State to those in the Nation. From Fund B 25% is for regional or national special projects on a project basis. The remainder is apportioned on a per capita income and live birth basis, with a minimum of $35,000 to each State. Here the live birth criterion is weighted so that each rural birth is given twice the weight of an urban birth.

(3) Grants from Fund A require equal matching; matching is not required for formula grants from Fund B.

II. Compared to its population share in 1964 of 9.4%, New York received 6% in 1964, or $1,374,033 out of a nationwide $27,249,553; in 1965 New York received 5%, or $1,604,163, out of $31,948,969.

III. This compares with:

North Carolina, which with 2.5% of total population, received 3.6%, or $993,930, in 1964; Virginia, which with 2.3% of total population, received 3.4%, or $920,072, in 1964.

Alabama, which with 1.8% of total population, received 2.5%, or $890,076, in 1965.

IV. As a measure of additional need, New York State authorities estimate that an additional $1,139,926 could have been used, on a straight population basis, in 1964, and an additional $1,021,199 in 1965.

V. In view of the disproportions and magnitude of additional need, the allocation formula should be amended for both Fund A and Fund B so that the minimum amounts of $70,000 and $35,000, respectively, for each State are eliminated. And even more important, the weighting of rural births at twice urban births should be repealed.

Mental Health Community Services

I. All three factors are present:

(1) By administrative determination, an allocation formula for 30% of the funds weights population with per capita income; the balance of the funds are distributed on a straight population basis;

(2) A minimum grant for each State, administratively set at $65,000 for 1962, and at $115,000 for 1963;

(3) 50%-50% matching required.

II. Compared to its population share in 1964 of 9.4%, New York received 7% in 1964, or $705,115 out of $9,667,561; and 7% in 1965, or $773,582 out of $11,063,781.

III. This compares with:

Rhode Island, which with 0.5% of total population, received 1.1%, or $106,422 in 1964;

New Mexico, which with 0.5% of total population, received 1%, or $116,414 in 1965;

Mississippi, which with 1.2% of total population, received 1.4%, or $137,768 in 1964;

Nevada, which with 0.2% of total population, received 0.8%, or $88,755 in 1965.

IV. As a measure of the State's need, New York authorities estimate that they receive annually applications for more than four times the amount of the State's allocation, most of which would be approved if the funds were available. For 1964 this would have amounted to approximately $2.8 million; for 1965 approximately $3.1 million.

V. (1) Given the disproportions and the measure of need, the per capita income factor should be eliminated. The act itself requires the Surgeon General to consider population, the extent of the mental health problem, and the financial need of the respective States. Administratively he has applied per capita income to 30% of the funds to satisfy the financial need criterion. Thus the act should be amended to remove financial need as a criterion in order to eliminate the per capita income factor.

(2) The minimum grant per State should be eliminated in view of its relatively high amount in proportion to the total funds available under this program.

(3) The adequacy of the matching requirement should be reconsidered.

COMMUNITY HEALTH SERVICES, PARTICULARLY FOR THE CHRONICALLY ILL AND AGED

I. All three factors are present in grants to States:

(1) A discretionary allocation formula basing program need on the criteria of population and fiscal capacity as reflected by per capita income. Administratively 40% of the funds is allotted on the basis of population, weighted by the reciprocal of State per capita income.

(2) Administratively a minimum allotment has been established, for fiscal year 1962 it was $40,000 per State.

(3) Matching of 66⅔% Federal, 33⅓% State obtained through fiscal year 1965; thereafter it became 50%–50%. None of the factors apply to grants to nonprofit agencies.

II. Compared to its population share in 1964 of 9.4%, New York received 10% in 1964, or $2,449,464 out of $23,066,604; and 8.4% in 1965, or $2,698,935 out of $32,087,096.

III. This compares with:

Mississippi, which with 1.2% of total population, received 1.4%, or $329,812 in 1964;

West Virginia, which with 0.9% of total population, received 1.5%, or $348,819 in 1964;

Oklahoma, which with 1.3% of total population, received 1.6%, or $520,409 in 1965.

IV. As a measure of additional need, New York State authorities estimate that on a population basis New York needed an additional $256,800 in 1964, an additional $222,350 in 1965, and needs an additional $227,600 in 1966.

V. In view of the disproportions, the per capita income factor should be elminated from the allocation formula, the desirability of the minimum allotment should be evaluated, and the adequacy of the matching requirement should be considered.

CANCER DEMONSTRATION AND CONTROL

I. All three factors are present:

(1) The statutory allocation formula specifies population, cancer mortality and per capita income. Administratively 60% of the fund is allotted on the basis of the extent of the cancer problem as measured by mortality from cancer (using a 3-year average) and the inverse of population density.

(2) Administratively each State receives a minimum grant of $25,000 or 25 cents per capita, whichever is less.

(3) Matching 50%–50%, except for demonstration grants, which require no matching.

II. Compared to its population share in 1964 of 9.4%, New York received 8% in 1964, or $267,890 out of $3,391,568; and 8% in 1965, or $270,900 out of $3,366,394.

III. This compares with:

South Carolina, which with 1.3% of total population, received 1.7%, or $57,591 in 1964;

Mississippi, which with 1.2% of total population, received 1.9%, or $64,195 in 1964;

Arkansas, which with 1% of total population, received 1.4%, or $47,203.

IV. As a measure of the additional need, New York State authorities estimate that on a population basis New York required an additional $50,100 in 1964, an additional $47,600 in 1965, and requires an additional $49,400 in 1966.

V. In view of the disproportion, the per capita factor should be eliminated; the minimum should be eliminated; and the adequacy of the matching requirement should be reconsidered.

HEART DISEASE CONTROL

I. Two factors are present:

(1) An allocation by statute listing as criteria population and per capita income. Administratively, 38% of the funds is allocated on the basis of 50 cents per capita for the first 100,000 population, or fraction thereof, and 62% is allocated on the basis of population weighted by per capita income.

(2) 50%–50% matching.

II. Compared to its population share in 1964 of 9.4%, New York received 6% in 1964, or $396,606 out of $6,109,723; and 5.6% in 1965, or $364,100 out of $6,276,529.

III. This compares with:

Colorado, which with 1% of total population, received 1.9% or $114,985 in 1964;

Mississippi, which with 1.2% of total population, received 2.4% of $148,926 in 1964;

South Carolina, which with 1.3% of total population, received 2.2% or $133,400.

IV. As a measure of additional need, New York State authorities estimate that on a population basis New York required an additional $282,200 in 1964, an additional $272,900 in 1965, and requires an additional $376,500 in 1966.

V. In view of the disproportion, the allocation formula should be amended to eliminate the per capita income factor; and the adequacy of the matching requirement should be re-evaluated.

General Health

(Community Health Practice and Research)

I. Two factors are present:

(1) The statute specifies as criteria of general health need, population, financial need, and extent of the health problem in the various States. Administratively, 95% of the funds are allotted on the basis of population weighted by the inverse per capita income; and 5% on the basis of the extent of the health problem as measured by the weighted inverse of population density.

(2) Equal matching is required.

II. Compared to its population share in 1964 of 9.4%, New York received 6% in 1964, or $892,619 out of $15,233,821; and 4% in 1965, or $670,700 out of $11,142,001.

III. This compares with:

Texas, which with 5.4% of total population, received 5.2%, or $797,911 in 1964;

Mississippi, which with 1.2% of total population, received 2.1% or $315,548 in 1964; and 1.9%, or $211,479 in 1965;

South Carolina, which with 1.3% of total population, received 1.8%, or $197,159 in 1965.

IV. In view of the disproportion, the allocation formula should be amended to eliminate the per capita income factor. It is noteworthy that, as a measure of special health problems, the Department of HEW has itself selected density of population as the index, but has used it in exactly the reverse of its significance by giving the largest shares to the States with the lowest density and the smallest to those with the highest.

Vocational Education

I. In the greatly expanded Act of 1963, all three factors are present:

(1) An allocation formula which weights population of certain age brackets with the inverse ratio of per capita income;

(2) A minimum amount to each State of $10,000;

(3) 50%-50% matching except for research and training programs.

II. Compared to its population share in 1964 of 9.4%, New York received 6%, or $2,490,146 out of $41,076,168; in 1965 New York received 4%, or $5,870,584 out of $131,524,980.*

III. This compares with:

(1) Alabama, which with 1.8% of total population, received 2.3%, or $936,007, in 1964;

(2) Kentucky, which with 1.7% of total population, received 2.4%, or $994,050, in 1964;

(3) Georgia, which with 2.2% of total population, received 3%, or $4,311,-053, in 1965;

(4) North Carolina, which with 2.5% total population, received 4.1%, or $5,423,408, in 1965.

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*All the dollar amounts in this discussion include amounts appropriated under the George-Barden and Smith-Hughes Acts, which, interestingly enough, apportioned funds related to agricultural education on a straight rural population basis and those related to industrial training on a straight urban population. The funds for 1964 for these two programs totaled $56,076,168 and for 1965 totaled $56,592,828.

IV. As a measure of additional need, New York State authorities estimate that for fiscal year 1966 an additional $3,400,000 is needed beyond the allotment of Federal funds, consisting of $600,000 for the George-Barden programs, $1,000,000 under the Work-Study Program of the Vocational Education Act of 1963 and $1,800,000 for the other programs under the Act.

V. (1) The extremely low percentage of participation if New York State as compared with the need demonstrates that the allocation formula in the Vocational Education Act of 1963 should be amended to eliminate the per capita income factor. This is very strongly supported by the straight population factor used in the preceding George-Barden and Smith-Hughes Acts (see note below).

(2) The minimum amount is prejudicial to the urban States but the amount is so small as compared with total outlays that it is probably negligible.

(3) The delegation should consider amending the matching provision to increase the Federal share from 50% to 75%. The State Vocational Education authorities recommend this increase for specific classes of persons who have entered the labor market: those who need training or retraining to achieve stability or advancement in employment; and those who have academic, socioeconomic, or other handicaps which prevent them from succeeding in regular education programs. These are goals which are of greater significance in an urban, industrial setting, and therefore, support the reasoning in (1) above as well.

Construction of Higher Education Facilities

I. Title I: Grants for Construction of Undergraduate Facilities. Two factors are present for public community colleges and public technical institutes, which receive 22% of the funds allotted to each State:

(1) An allocation formula weighting the population of high school graduates in the State by the inverse of per capita income. The range of the latter factor is limited to between 33⅓% and 66⅔%. A special allotment ratio of 50% is fixed for any State with exceptionally high construction costs.

(2) Matching of 40% Federal–60% State.

Two factors are present for other undergraduate facilities, which receive 78% of the funds allotted to each State:

(1) One-half on the basis of enrollment in institutions of higher education; one-half on the basis of enrollment in grades nine through twelve.

(2) Matching of not more than 33⅓% Federal.

Title II: Grants for Construction of Graduate Facilities. One factor is present: no State may receive more than 12½% of the total appropriation for any fiscal year.

Title III: Loans for Construction of Academic Facilities. One factor is present: no State may receive more than 12½% of the total appropriation for any fiscal year.

CONCLUSIONS

This is the age of the cities. The nation and the Congress are recognizing this fact and all that it implies. With similar realizations of national movements, our public and private institutions have responded magnificently. When the decline of the farm population loomed as a danger to our ability to feed our people, we reacted with multi-billion dollar rural aid programs which have boosted our agricultural production so vastly that it is now the wonder of, and a major source of supply for, the world. When the roads of our nation were found to be grossly inadequate to the great rush into the automotive age, we reacted with a multi-billion dollar interstate highway construction program, which is planned to end in 1972.

Now the city must be the focus of our attention, for the huge concentrations of population in major urban centers have created conditions entirely beyond the proportions ever experienced before. These are conditions which threaten the basic livability of the dwelling-place of almost 75% of our nation's people. And they are conditions which the cities and the states in which they are located are incapable of handling with their available resources. Only the Federal government can help to do this job; without the Federal government the cities are strangling.

This is not because the cities and urban states have not been trying. Between 1946 and 1964 local debt rose from $13.6 billion to $68.4 billion while Federal debt increased from $269 billion to $312 billion. On a per capita basis, local debt in that period rose from $97 to $357 while the Federal debt per capita actually decreased by about $300. At the same time the sources of revenue for the cities have been drying up. In 1932 the municipalities were collecting 52% of all taxes, more than the Federal and state governments combined. By 1962 the cities' share of revenues had dropped to 7.3%.

II. Compared to its population share in 1964 of 9.4%, New York received 8.4% in 1965, or $19,303,194 out of $230,900,000.

III. This compares with:

California, which with 9.5% of the total population, received 10.2% or $23,647,473;

Minnesota, which with 1.8% of total population, received 2.2% or $5,019,166.

IV. As a measure of additional need, New York State authorities estimate that Title I community college applications for Fiscal Year 1966 will total $10,258,346, or $3,300,065 more than the allocation; and that Title I other than community college applications for Fiscal Year 1966 will total $44,593,548, or $13,129,411 more than the allocation.

V. In view of the disproportionate need, the following amendments should be sought:

Title I: Per capita income should be eliminated as a factor in the community college grants. It is noteworthy that the existing formula makes a gesture toward a fairer approach by stipulating a special 50% per capita income rate for States with exceptionally high school construction costs.

The adequacy of the matching requirements should be evaluated for both the community college and other undergraduate grants.

Titles II and III: The 12½% maximum limitations in both titles should be eliminated.

What this means is that the Federal commitment to aid the cities needs to be greatly increased and intensified. It is almost unthinkable that as recently as 1963 Federal aid to cities for housing and community development was only $400 million compared to $7.7 billion spent by the Department of Agriculture and $1.9 billion for interstate highways. It has been estimated that, even with the War on Poverty, total expenditures for urban aid are less than 1% of the entire Federal budget.

Clearly there needs to be a massive re-evaluation of our Federal government's expenditures, other than those for defense, international affairs, space, veterans, and interest costs. These civilian expenditures account for between 20 and 26 per cent of the total budget. A major question is whether there should not be some re-allocation of our civilian expenditures as between urban and non-urban purposes. A second major question is whether there should not be massive new programs designed specifically for aid to the cities, for example, in housing, schools, recreation, parks, policing, social services. A third major question is whether out of its expected increase in tax revenues the Federal Government should not share some percentage of its revenues with the states, as I have proposed in S. 2619.

Finally, as this report documents, there is much that could and should be done to make many of the urban-related programs already in operation more equitably geared to the needs of the urban centers:

(1) Allocation formulas should be amended to eliminate the per capita income feature, which distorts the shares received by the urban states, and in the absence of a more equitable and sensitive measure, population alone or the density of population should be the basis for allocation.

(2) Maximum and minimum limitations on amounts for each state, which also distort the allocations, should be repealed.

(3) Matching requirements which vary according to per capita income should be amended, and matching requirements should be re-evaluated to determine their adequacy, particularly in relation to each other as competing demands for available state and local funds.

(4) Legislators from urban states should seek alternative methods to determine the need in urban states, such as, for example, measures which effectively incorporate differences in the cost of providing governmental services in the most densely populated urban centers.

Clearly the highest priorities should go to amending those allocation formulas and matching requirements which not only use a per capita income factor but intensify that factor by squaring it, such as those in the Hill-Burton Hospital and Medical Facilities and the Vocational Rehabilitation programs, and those, such as the Urban Renewal, Low-Income Housing, Urban Mass Transportation, and Neighborhood Youth Corps programs, which impose maximum limitations on each state's share. But as the analyses show, there are many other programs which do not have such obvious distorting factors on their face but which nonetheless result in disproportionately low amounts for the urban centers, and priorities among these should also be established.

(5) We should also support early enactment of S. 561, pending before the House Government Operations Committee, which calls for periodic Congressional review of further grant-in-aid programs, so that allocation features are not endlessly perpetuated without any conscious re-evaluation from time to time as conditions change.

In short, it is high time that the legislators from urban states became as sensitive to the significance of allocation patterns for Federal funds as those from non-urban states obviously have been for many years.

Representative GRIFFITHS. Thank you, Congressman Reuss and Senator Javits.

Senator Baker?

STATEMENT OF HON. HOWARD H. BAKER, JR., A U.S. SENATOR FROM THE STATE OF TENNESSEE

Representative GRIFFITHS. Senator, I am very happy to have you here. I would like to tell you that when I first came to the House Ways and Means Committee, your distinguished father was a member of that committee. He was most highly regarded, highly thought of, and we relied a great deal upon his judgment, and I am happy to see you following in his distinguished career and I wish you all the happiness.

Senator BAKER. Madam Chairman, thank you very much.

Senator JAVITS. May I just say before Senator Baker proceeds that I, too, knew his father and had affection for him, and serving with him I had veneration and respect for him. I would like to say Senator Baker is now making a great reputation in the Senate. We are very proud of him.

Representative GRIFFITHS. I thoroughly agree.

Senator BAKER. I am most grateful. I might say, Madam Chairman, Senator Javits, that this is my first opportunity as a Member of Congress to participate in proceedings in this committee room. I remember that my first real exposure to the congressional process was with my father, when he sat here as the next most junior ranking member of the House Ways and Means Committee. The parallel of my being the next to the most junior Member of the Senate does not entirely escape me at this time.

Representative GRIFFITHS. You may proceed.

Senator BAKER. Madam Chairman, I am most grateful for the opportunity to testify, and state with some brevity, I hope, my views and ideas on the subject of these hearings: "Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism?"

You, Madam Chairman, and the members of the Subcommittee on Fiscal Policy of the Joint Economic Committee deserve the commendation of the Congress and of the American people for initiating the first congressional hearings specifically upon the bold, new proposals in federalism which are characterized as Federal revenue sharing.

Consideration of this topic by the Congress certainly is timely. This idea has, in a relatively brief period, generated an uncommon amount of excitement among students of government. It has attracted the interest and approval of the American people; public opinion polls indicate that 70 percent of the Nation's citizens favor such proposals. This popular sentiment is reflected in this session of Congress where nearly 100 Senators and Congressmen of both political parties have sponsored or cosponsored bills that would begin some form of revenue sharing.

I think it is especially appropriate that the Congress and this committee at this time consider this general broad area not in the frame of reference of any given piece of pending legislation or of any particular theory or idea but, rather, in the context of the relationship of the fiscal policy of the Central Government and the other units of Government to the total welfare and the governing efficiency of the structures of Government in the United States as a whole.

The concept of revenue sharing in a relatively brief period has generated an uncommon amount of excitement among participants in Government and students of Government. It has attracted the interest and approval of the American people. Public-opinion polls indicate that 70 percent of the Nation's citizens favor such proposals. This popular sentiment is reflected in this session of the Congress where nearly 100 Senators and Congressmen of both political parties have sponsored bills that would enact some form of revenue sharing. I am one of that number, having introduced S. 1236 with the cosponsorship of 15 of my colleagues, including the distinguished member of this committee and my colleague, Senator Javits. I also cosponsored Senator Javits' revenue-sharing proposal which, I think, indicates something more than simple congressional accommodation. I think it indicates the flexible attitude which is essential when Congress considers a relatively new and relatively drastic proposal. This attitude recognizes that we do not have a categorical, direct, immediate, and perfect solution to this problem, but rather that we are exploring the prospect and potential as we go along.

Revenue sharing has been discussed primarily as a tool of national fiscal policy planning, especially since the spring of 1964, when Dr. Walter N. Heller, then Chairman of the President's Council of Economic Advisers, proposed to President Johnson the initiation of such a program. However, I believe that the importance of revenue sharing is as a political phenomenon. It is probably the most important new idea in domestic politics to appear during the last decade.

By "politics," I do not necessarily mean partisan politics. I do mean "politics" in the sense that revenue sharing has become the foremost symbol representing what I refer to as "pragmatic decentralism" in the crucial dialog about what new direction our Federal partnerships of government will chart for the future.

The presence this morning of my distinguished colleagues, one a Republican and one a Democrat, should emphasize that neither party has a monopoly on revenue sharing in its political sense. Congressman Laird introduced his first revenue sharing proposal in the Congress in 1958. Congressman Reuss has, for several years, been a prominent exponent of revenue sharing. Both have emphasized the political importance of this new idea.

Therefore, this morning, if I may, I shall not, except only peripherally, attempt to discuss revenue sharing in the context of national fiscal policy planning. An array of able economists capably performed this task at your hearings earlier in the summer. Rather, I will attempt to begin where the economists stopped. Specifically, my departure point can be the concluding remarks at these hearings of the distinguished economists, Drs. Heller and Pechman:

"In conclusion, revenue sharing expresses the traditional faith most of us have in pluralism and decentralization, diversity, innovation, and experimentation. For those who lack that faith—for the died-in-the-wool Hamiltonians and those who want the States to wither away—there can be little attraction in revenue sharing and other instruments relying heavily on State-local discretion and decision."

Drs. Heller and Pechman frame the issue nicely. They suggest that there is a newness in the tone and spirit of the dialog about federalism. Once the debate was between the activists and those who resisted almost any involvement by Government in almost any effort. Today, the debate is between the "pragmatic decentralists" and those centralists who seem always to insist—with sort of a knee-jerk reaction—that every new problem should be met with a highly specific, highly categorical, and highly regulated grant-in-aid program. Today's discussion, and the real issue of American politics, is not whether Government should act, but how and at what level.

A philosophy of "pragmatic decentralism" focuses upon the *delivery* question; namely, how to deliver in the best way the public services which citizens require of their governments. This philosophy rejects the centralist status quo which today dominates our Federal structures. We believe that the Nation must move in a new direction, a direction which endeavors to meet public needs on a basis which gives greater attention than in the past to the role that States, cities, and counties play. This philosophy is based upon the attitude that the Nation should leave to private initiative what it can, should next use the level of government closest to the community for all that it can, and, finally, should reserve for the strong National Government only those clearly national responsibilities which State and local governments cannot adequately perform.

The argument for revenue sharing as the best first step toward a national policy of "pragmatic decentralism" in government is based upon recognition of the following assumptions and facts:

First, the foremost domestic challenge confronting our Nation is to make government effective in delivering or stimulating the delivery of the services and aids that will help to solve the plethora of social problems which are accompanying our ascent into the revolutionary space age;

Second, since the advent of the Federal income tax, much of the effective taxing power and, therefore, much of the effective governing power has been transferred from State and local governments to the Central Government. The Central Government has, therefore, taken initiatives more often than have many State and local governments partly because it has been better able to afford to;

Third, State and local governments, uniquely pressed for solutions to problems because they are the governments closest to the people, are without the financial resources to meet adequately their responsibilities during the next decade;

Fourth, because of the demands on State and local governments, the Nation will, during the next decade, commit a substantially larger share of its centrally collected revenues to aid States, cities, and counties. The President, during a White House conference, in March of this year, with 49 Governors, indicated that Federal aid to States and cities would rise from its present level of about $17 billion to $60 billion per annum within 5 years. He indicated most of this aid would come through the form of the typical grants-in-aid.

Finally, the transferring of more effective political power to State and local governments should not mean the weakening of a strong Central Government. We have prospered because our strong Central Government made our country, in fact, a nation. But because our strong National Government has developed national objectives and programs in areas such as health, education, welfare, and civil rights, medical care for the aged, et cetera, any use of the increased power on the State and local levels in these areas would work within the limits outlined by these broad objectives. I believe that a transfer of money and political authority on a general aid basis would, on balance, promote the more effective implementation of these national objectives.

I have devoted the bulk of my comments to framing the issue that divides the "pragmatic decentralists" and the centralists because I believe that once the issue is properly framed, our battle is better than half won.

For the remainder of my remarks, I would like briefly to argue the issue, which in the context of this discussion is whether the National Government should quadruple its aid to States and cities through grants-in-aid instead of through a mix of Federal aids, an important part of which is unrestricted general aid.

The Intergovernmental Relations Subcommittee of the Senate Committee on Government Operations of which I am a member, has discovered more than 220 major Federal aid programs involving 400 authorizations and administered by 21 Federal agencies with over 150 major bureaus in Washington alone, and by some 400 regional and subregional offices. Commenting upon this in February before our subcommittee, Governor Nelson Rockefeller lamented, "All this has reached such a point that the Advisory Commission on Intergovernmental Relations has prepared a catalog of these catalogs—of Federal aids—running to more than 16 single-spaced pages."

My view is that to parcel out $60 billion annually to States and cities through the present maze of 400 categorical grant-in-aid programs would sound the death knell of effective and responsible local government. Such a development would confirm the role of the States as convenient administrative extensions of the Central Government. State and local units would become truly, in Dr. Heller's phrase, "mere service stations of federalism."

The centralists do not seem to object to this role for States and local governments. Their position is that there are fewer and fewer services which can be the responsibility of the States, cities, and counties, and that there are a correspondingly larger number of areas which demand the attention of massive national attacks launched and administered from Washington. The centralists may be nostalgic about the diminishing role of States and local governments, but they do not seem anxious to reverse the trend.

What seems to me a classic example of the centralist attitude in opposition to revenue sharing was presented by Dr. Melville J. Ulmer, of the University of Maryland, in his testimony at your earlier hearings. I quote Dr. Ulmer as follows:

In any event, if one objective here is to help the poor, I think that this can obviously be accomplished more effectively by helping poor people than by helping poor States. And insofar as Federal money is used, this implies Federal programs aimed at specific social targets—a far cry from casting money out upon the waters, no strings attached, but with a hope and a prayer that it will do some good.

Professor Ulmer, at first glance, appears to be arguing that throwing money upon the waters, that is, to State and local governments, is bad because State, city, and county officials care nothing for the poor; or even if they do care, they are not as capable as persons in the National Government of solving the particular conditions of poverty in a particular locality.

There is obviously no time today to document the argument that States, cities, and counties, in general, are perfectly willing and quite capable of helping the poor, or of effectively attacking other great social problems. I will simply say that I believe that the record conclusively shows that they are. And, I further submit that, in any event, the argument that State and local governments are incompetent, or simply are not to be trusted, is not an argument that will stem the popular trend toward revenue sharing and "pragmatic decentralism."

There are too many indicators that such arguments will not wash with today's Americans. Too many persons are doubting that the problems of the core cities can really be solved by massive wars directed in Washington. There are an increasing number of suggestions that more of the Nation's domestic business ought to be managed from the statehouse and from the city hall and the courthouse while Washington spends more of its time managing the world. Although there is agreement that the Central Government is the most efficient collector of revenues, there is less agreement today that it is also the most efficient deliverer of the goods it pays for. There are more American people who are doubting the need for a national decision about the worth of every application for every new water and sewer system financed by Federal funds, even though there is a national need for improved water and sewer systems. And there is everywhere a growing frustration with the staleness and inevitably limited effectiveness of the ponderous national bureaucracy. The bureaucracy seems to swallow initiative poured in from the top, to discourage that coming up from the lower levels, and to generate too little initiative from within; as a result, the gap between what the citizens on the State and local levels demand and what the National Government can deliver grows larger every day.

The argument about whether State and local governments can be trusted to deliver the goods will not be decisive in determining whether a program of Federal revenue sharing should play a role in our Nation's future. Instead, revenue sharing will stand or fall upon the determination whether the people are better served by a Federal system of government which permits more priorities set and more decisions made and implemented at the State and local level than are currently permitted by today's centralism. The question is whether a portion of the taxes collected on the national level should be returned on a general aid basis, for example, to New York and Tennessee, even though New York may decide to defer some new highway construction until its narcotics problem is solved, and Tennessee may decide to defer any narcotics program until more of the hollows and coves of its Appalachian region are laced with roads.

We should be under no illusions: an attitude of "pragmatic decentralism" should encourage a flow of political power from Washington to Albany, to Nashville, to Sacramento, and to New York City, Chicago, and Walla Walla. It should make more difficult the directing from Washington of every detail of a national war on poverty, but, it should facilitate the encouraging of States and cities to devise many different methods of fighting poverty in whatever way the particularities of the local situation require.

Under a national policy of "pragmatic decentralism" there should be a noticeable flow of power back to the people. There should be a change in the character of the role of leaders of national labor, farm, business, medical, and other organizations. Such organizations will have to spend more time making their views known in State capitals and city halls because more of the power will be there; but there should correspondingly be an increasing influence on government by the individual workingman, farmer, businessman, physician, and other individuals.

It should be easier for people who have problems, who need to get something done, to pinpoint a responsible State or local official. And that official will be more likely to have the authority and ability to get the problem solved, or, as important, to explain more satisfactorily why the problem cannot be completely solved immediately. I understand that the need for this return flow of power to the people is being demonstrated dramatically to the President's Commission on Civil Disorder. An important cause of the tension in our cities this past year may prove to have been the frustration which follows the National Government's raising of hopes which later are brutally dashed by that Government's inevitably limited ability to deal successfully with local problems. Those of us who regularly help citizens deal with the National Government's administrative structure can understand the frustration which occurs when the decision and sometimes the decisionmaker in the national bureaucracy are inexplicably difficult to locate.

Madam Chairman, I hope that I have been at least partially successful this morning in two respects:

First, in emphasizing the central role of revenue sharing in the political debate about whether the new direction for our Nation shall be toward "pragmatic decentralism;" and, second, in structuring the debate in such a way that it is clear that what we decentralists are questioning is not States rights, not civil rights, not whether or how government should act, but at what level it should act. We are talking about the *delivery* question. In this crucial dialog, Federal revenue sharing, in my judgment, offers a first step toward more effective, more efficient, and more personalized government for the citizens of our Nation.

Representative GRIFFITHS. Thank you, Senator Baker.

Congressman Laird is in the room—I understand that the Republicans are having a caucus and he needs to return. Would it be all right, Senator, if I ask him to deliver his statement now and we will return to you later?

Senator BAKER. By all means.

(Senator Baker's statement continues on p. 308.)

STATEMENT OF HON. MELVIN R. LAIRD, A U.S. REPRESENTATIVE FROM THE SEVENTH DISTRICT OF THE STATE OF WISCONSIN

Representative GRIFFITHS. Congressman Laird, we are very happy to have you here.

Representative LAIRD. Thank you, Madam Chairman. I appreciate very much the opportunity to appear before your distinguished committee. I regret that the Members of the minority party are caucusing in the House Chamber, and, as chairman of the caucus, I should be there presiding. I would appreciate it very much if my remarks which are some 17 pages long with the charts and graphs could appear in your record, and I would like to paraphrase those remarks at this time.

Representative GRIFFITHS. We will be happy to see to it that they appear in the record and we are happy to have your remarks and we are glad to have you here.

Representative WIDNALL. I, too, would like to welcome you here today and also compliment you on being, I believe, the original sponsor in the House of Representatives of the revenue-sharing proposals. I know you have been in the forefront in this matter for many years and we look to your testimony with great interest.

Representative LAIRD. I appreciate your comments.

Dr. Heller and Dr. Pechman have recently become very interested in revenue sharing. They come from my State of Wisconsin where we started revenue sharing with the local units of government back many years ago and made major revisions under a tax study which I happened to have been chairman of in 1947. Dr. Heller was associated with the University of Wisconsin where Dr. Harold Groves, a professor of economics at the University of Wisconsin, was research director of the Tax Study Commission when I was chairman.

Representative GRIFFITHS. I might say I read your entire statement last night. It is a very good statement.

Representative LAIRD. Thank you very much, Madam Chairman. I appreciate the opportunity you have afforded me to appear before your distinguished committee to discuss with you one of the most novel, and yet one of the most traditional solutions to the crises facing our Nation. I consider revenue sharing a novel idea because it represents a new, pragmatic answer to the problems facing our society. At the same time, revenue sharing is in the best American tradition because its basic purpose is to redress the balance in our Federal system and preserve the decentralized system of government which we are all convinced is the best method of government yet devised.

I commend the Joint Economic Committee for its pioneering work in publishing the three volume study of staff papers on "Revenue Sharing and its Alternatives: What Future for Fiscal Federalism?" These three volumes, together with volume I of these hearings, represent a heartening response to the challenge which many of us, in both Houses of the Congress, have been issuing for several years now. The challenge is that we must redress our fiscal balance if we are to preserve our Federal system. In my remarks to you this morning, I am going to deal with several aspects of the question of revenue sharing which have not been considered by previous witnesses. I am sure you know that I am fully convinced of the value of an early enactment of a general-purpose revenue-sharing bill, such as my own bill (H.R. 5450). I would point out that the main outline of my specific legislative proposal is contained in volume II of your committee's staff papers at pages 890 to 913.

The areas which I would like to discuss with you this morning are: (1) The broad basis of support for revenue sharing; (2) deficiencies of grant-in-aid programs; and (3) how we might combine the best of two worlds (revenue sharing on one hand and tax credits on the other) to attain a real balanced fiscal federalism.

BROAD SUPPORT FOR REVENUE SHARING

The first area, then, which I would like to mention today is the growing public support for revenue sharing. In my remarks on the floor of the House of Representatives last February 15 (pp. H1330–H1349) when I introduced H.R. 5450, I mentioned that in a nationwide Gallup poll in January 1967, 70 percent of the population favored the idea of revenue sharing. Only 18 percent opposed the idea. Since that time, the Gallup poll has asked this same question on two subsequent occasions. In April 1967, the poll results indicated that again 70 percent of the population favored the idea. The last time this question was asked, in August 1967, some 72 percent of the population indicated support for the proposal.

In addition, as my colleagues have surely noticed, in the polls of the congressional districts conducted by many Members of Congress, the overwhelming response of our constituents to revenue-sharing proposals is favorable.

In addition to the general public, 48 out of the 50 State Governors support revenue sharing. In recent months I have been in personal correspondence with the Governors of our States on this vital issue. Our exchange of letters has been truly instructive and very helpful to my thinking on this subject.

From the correspondence which has been received, it is clear that almost all of the Governors support some form of revenue sharing. Even those who are not in favor of a rebate of funds from the Federal Government to the State governments are at least in favor of reducing the categorical grants-in-aid and replacing them with bloc grants. For example, I quote from Gov. Calvin I. Rampton of Utah:

> I am not in favor at this time of unconditional revenue-sharing by the Federal Government with the states. I realize that I am in a minority among the Governors in this regard. At our Governors' meeting at Greenbrier last November, only Governor Hughes of New Jersey and I voted against a Resolution endorsing the tax sharing principle.
>
> I am, however, in favor of easing the restrictions placed on grants by the Federal Government to the states. In other words, I favor a movement toward what are commonly known as bloc grants rather than categorical grants. (Letter from Calvin I. Rampton to Melvin R. Laird dated September 12, 1967.)

Of course, as Governor Rampton pointed out, only he and Governor Hughes, of New Jersey, were opposed to revenue sharing at the 1966 meeting of the National Governors Conference, when this subject was last discussed.

The problems which are inherent in the present categorical grant-in-aid system are widely known to the members of this committee. Even though this is so, I would like to quote extensively from letters from

Gov. Paul Laxalt, of Nevada, and from Gov. Stanley K. Hathaway, of Wyoming.

Governor Laxalt speaks not only as a political leader, but also as an astute historian when he talks about the problems which have arisen between the Federal and the State governments and when he discusses the "partnership of creative federalism":

> Let me begin by telling you that I have been deeply troubled by the trend the relationship between the Federal government and the States has taken. Federal centralization of power and money, if continued, will eventually undermine the role of the states. It has already drastically altered the Constitutional relationship between Washington and the states.
>
> It is misnomer to describe the new relationship as "creative" Federalism or "partnership"—it is neither. It is self apparent that the newly developing system is not "creative," is not "Federalism" as we know it, and is not partnership.
>
> It is, as a matter of fact, most destructive of Federalism or Federal-State partnership. Partnership denotes an equality of interest. There is little of equality here; federal grants have attached to them onerous mandates and standards which the states must accept "or else." Congress is using tax revenues from the states to force the states to tax again to raise revenues to meet the money requirements of federal matching and other types of grants.
>
> Much of this is encroachment on and intrusion into purely state and local matters; state legislative money committees find their prerogatives violated by Federal legislation which, either by law or Federal agency rule or requirement, forces them to raise and spend money in areas in which their special knowledge of their own states tells them it should not be spent.
>
> In addition, the concentration of vast revenues in the Federal government enabled the ill considered and undisciplined flood of social and other programs onto the states and subdivisions and into many areas where no apparatus existed locally to accept and properly administer the programs. The end result was chaos on a monumental scale which was compounded by a lack of flexibility in the laws and regulations to enable the states to meet their very diverse problems. (Letter from Paul Laxalt to Melvin R. Laird dated September 14, 1967.)

Governor Hathaway again sheds the mantle of the politician to make his points in a realistic and somber manner. He realizes quite honestly that the needs of Wyoming are not as great as those of some of our other States; and yet he points out the difficulties the people of Wyoming are encountering in meeting those needs:

> While the expenditures of Wyoming state government are not as large as those of some of the more populous states, the needs of our citizens, cities, towns and counties are very real. It is the sincere desire of this state's government to meet those needs in every way possible. Economic and social problems can, I am sure you agree, best be met at the state and local level.
>
> Wyoming citizens and local and state government want to do this. We must have the proper financial ability to do so.
>
> Federal revenue sharing measures, like those to which you have given your support, will certainly provide state and local government with increased financial ability.
>
> I believe that the benefits of such legislation would be obvious almost immediately. (Letter from Stanley K. Hathaway to Melvin R. Laird dated September 14, 1967.)

To dispel any doubts that the members of this subcommittee may have about the stand of the Governors of the heavily populated States, I would now like to quote from a letter to me by the distinguished Governor of the State of New York, Nelson A. Rockefeller.

Governor Rockefeller not only endorses the concept of Federal assistance to the States in the form of lump-sum payments, but also points out that he has "long recommended a system of Federal tax credits, so that specified State and local taxes could be credited against specific Federal taxes."

Portions of Governor Rockefeller's letter follow:

As you know, I have been concerned for some time with the growing financial plight of state and local governments. To meet their historic responsibilities for financing the needs of their citizens, they should have access to more revenues themselves, rather than relying increasingly on the Federal Government either for grants-in-aid or assumption of their responsibilities through direct Federal programs.

Yet, with the over-all tax structure in the United States today weighted so heavily in favor of the Federal Government, many states and municipalities cannot fulfill their responsibilities from their own resources alone.

Accordingly, I favor sharing of revenues by the Federal Government with the states and their localities. I have long recommended a system of Federal tax credits, so that specified state and local taxes could be credited against specific Federal taxes. This would give state and local governments a larger proportionate share of total national tax revenues while avoiding Federal involvement in state and local fiscal affairs. The tax credit approach preserves freedom of action for the states and taxpayers and encourages local initiative as well, while automatically strengthening the fiscal position of the states. Even more important, the tax credit approach maintains the responsibility for both taxing and spending decisions in the same hands. (Letter from Nelson A. Rockefeller to Melvin R. Laird dated September 27, 1967.)

In concluding this portion of my statement, I would like to quote from one more Governor, the Honorable Nils A. Boe of the State of South Dakota:

I have read with keen interest the speech which you so kindly forwarded to me, and I am pleased to advise that I could support your proposed legislation fully.

* * * * * * *

I feel the combining of a tax-sharing provision with a Federal income tax credit for individuals paying state and local taxes is most worthwhile and definitely will permit the state and local authorities to increase their tax levies to meet needed state and local problems.

I am not of the opinion, evidenced by some, that tax-sharing should be instituted in addition to all other grants-in-aid and programs now being funded by the Federal government. It would be my belief, on the contrary, that a tax-sharing procedure such as you have incorporated in your proposed legislation should be in lieu of, at least, some of the specific categorical grants-in-aids which are presently distributed among the state jurisdictions. (Letter from Nils A. Boe to Melvin R. Laird dated September 18, 1967.)

Without being redundant, I could quote from many other Governors of our States who have taken their valuable time to communicate with me on this very vital subject. But I believe the point has been made that the Governors overwhelmingly support revenue sharing.

As you can see from table I, a number of State legislatures have acted to recommend that a revenue-sharing plan be enacted. These resolutions of the State legislatures are certainly indicative of the broad base of support that this proposal has received from the State level.

TABLE I.—STATE LEGISLATURES WHICH HAVE TAKEN FAVORABLE ACTION ON REVENUE SHARING

State	Result of action	Appearing in—
Florida	House Memorial 180	Letter to MRL dated Sept. 18, 1967.
Georgia	Resolution 96	Congressional Record, May 4, 1967, p. S6299.
Illinois	S.J. Res. 63	Congressional Record, June 28, 1967, p. S9023.
	S.J. Res. 40	Congressional Record, July 17, 1967, p. A3588.
Iowa	H. Con. Res. 3	Congressional Record, Apr. 11, 1967, p. S4796.
Minnesota	Resolution 3	Letter to MRL dated Oct. 2, 1967.
Missouri	H. Res. 74	Congressional Record, Apr. 5, 1967, p. H3558.
	Senate Memorial 1	Congressional Record, Apr. 5, 1967, p. H3558.
New Hampshire	H. Con. Res. 18	Letter to MRL dated Sept. 15, 1967.
New Mexico	Joint Memorial	Congressional Record, Apr. 21, 1967, p. S5669.
North Dakota	H. Con. Res. M	Congressional Record, Apr. 18, 1967, p. A1885.
Oregon	House Joint Memorial 4	Congressional Record, Mar. 21, 1967, p. S4161.
Pennsylvania	H. Res. 60	Letter to MRL dated Oct. 17, 1967.
South Dakota	S. Con. Res. 1	Congressional Record, Mar. 22, 1967, p. A1456.
Texas	S. Con. Res. 12	Congressional Record, June 28, 1967, p. A3342.

Besides the governmental support for revenue sharing, there are a number of individuals in private life who have come out strongly in favor of revenue sharing. Such a prominent social critic as Daniel P. Moynihan, director of the Joint Center for Urban Affairs at Harvard and MIT, has endorsed revenue sharing in these words:

> The Federal government is good at collecting revenues, and rather bad at disbursing services. Therefore, we use the Federal fiscal system as an instrument for redistributing income as between different levels of government, different regions and different classes. If state and local government is to assume an effective role as an innovative and creative agent, it simply must begin to receive a share of Federal revenues on a permanent ongoing basis. (*Congressional Record*, September 26, 1967, p. H12500)

A further point that Professor Moynihan, a former Assistant Secretary of Labor in the Johnson and Kennedy administrations, has made is that:

> A system has to be developed, therefore, under which domestic programs go forward regardless of what international crisis is preoccupying Washington at the moment. This in effect means decentralizing the initiative and the resources for such programs. (*Congressional Record*, September 26, 1967, p. H12499)

A remark of this type, coming from a leading liberal was enough to create headlines across the country. It was a welcome statement to those of us who have been holding this position for many years. It represents, I think, a new attitude that I sincerely hope will involve the participants in this great debate over the means of building our society in a harmonious and ordered manner. The mere fact that I can cite a leading member of the Americans for Democratic Action (when my ADA rating is zero), indicates that American politics is coming to a new and enlightened stage of development when the question will again focus on the means of achieving a free creative society, and not on the end.

It is here that revenue sharing has its greatest appeal. Revenue sharing is a solution that is within the framework of our traditional values. It is a solution that permits the greatest amount of diversity among our State and loyal governmental units (the very hallmark of our diversified Federal system) while simultaneously providing enough revenue at the Federal level to carry out those functions that are uniquely national in scope.

Deficiencies in the Present Categorical Grant-in-Aid Program

I need not go into great detail as to the problems which we have found in the categorical grant-in-aid programs. Many of these programs were originally intended to provide a specific service or to meet a specific local need. As it has developed, however, the proliferation of these grant-in-aid programs has caused many unforeseen difficulties, in administration and in the distortion of local priorities. Let me give you an example: In the Housing Act of 1965, a total of $200 million per year was authorized for 50 percent matching grants for the construction of local sewer systems. But the President requested only $100 million each in fiscal 1965 and 1966. For fiscal 1968, the President could have requested a total of $400 million but has asked only $165 million.

The program is a very popular one—as a matter of fact, over $5 billion in applications have been received from all over the United States for grants under this program—more than 15 times the amount available in fiscal 1967.

The net result of so many Federal programs chasing so many goals with so few dollars is often to retard progress and impede local initiative.

So long as the hope for Federal money exists, local politicians will find it suicidal to propose bond issues for immediately needed improvements and they will be delayed.

Some might maintain that it will be good enough to "streamline and modernize" the categorical grant-in-aid programs into a smaller number of categories. This is a most worthwhile objective. With over 400 separate categorical grants, all with their own administrative bureaucracies, all with their separate forms, separate allocation formulas, and separate requirements, we clearly must do whatever we can to simplify and combine these grant-in-aid programs. Along this line, I commend the House membership for the enactment in the 90th Congress of bloc grants, replacing categorical grants-in-aid in four separate programs.

Under the leadership of Mrs. Green and Mr. Quie, the Elementary and Secondary Education Act, in significant sections, was amended in the direction of bloc grants. The Crime and Juvenile Delinquency Acts of this 90th Congress have both been amended by House action to permit administration at the State, rather than the Federal, level through a system of bloc grants. And finally, and most controversially, the new "rat bill," passed by the House as an amendment to the Comprehensive Health Planning Act, gives the localities the option of spending this $20 million a year for rat control or for other, more pressing, public health needs.

If the Senate concurs in these forward-looking changes, then we will have started down the path in the right direction.

I reiterate that, failing early enactment of a revenue-sharing "package" such as H.R. 5450, I believe the right direction is from the categorical grant-in-aid program with which we have become saddled, to the bloc grants, and from there to unconditional revenue sharing, which would include a system of tax credits which will free up the state resources for their own taxing purposes.

Personnel Problems in Categorical Grant-in-Aid Programs

Madam Chairman, I would now like to explore an area which has never, to the best of my knowledge, been adequately investigated; that is, the effect which these categorical grant-in-aid programs have on the availability of middle- and top-level management to administer the State and local governmental programs in the general areas of health, education, and welfare. In attempting to measure the impact which these Federal programs have, I have received the cooperation of the Honorable John W. Macy, Jr., Chairman of the Civil Service Commission. Mr. Macy has arranged to run a computer study for me which takes a selected sample of 7,812 individuals who are currently employed in the grades of GS–15 through GS–18 throughout the Federal Government. These 7,812 represent a sample of more than one-third of the total number of 19,677 GS–15 through GS–18 Federal Government employees. GS–15 through GS–18 are commonly considered top-level management positions for the Federal service. Of these 7,812 cases, some 856, or 10.59 percent have had experience at the State and local governmental level. Unfortunately, from the data available, it is impossible to determine if these 10.59 percent have come directly from State and local government, or if their State and local service was at some earlier stage in their careers.

However, the 10.59-percent figure is certainly not the most significant one in this study. At my further request the Civil Service Commission has broken these figures down by major governmental agencies. The results of this tabulation are shown in table II.

TABLE II.—FEDERAL GS-15 THROUGH GS-18 EMPLOYEES WITH PRIOR STATE AND LOCAL GOVERNMENT EXPERIENCE

Agency	Total full-time GS-15 through GS-18 employees in the agency	Total employees in the sample (includes some part-time consultants)	Employees with State and local government experience	Percent of employees with State and local government experience
Arms Control and Disarmament Agency	26	17	2	11.8
Atomic Energy Commission	2	1	------	------
Department of the Air Force	1,184	289	22	7.6
Department of Agriculture	973	600	74	12.3
National Foundation on the Arts and Humanities	7	5	------	------
Department of the Army	2,056	1,058	99	9.2
Bureau of the Budget	141	57	18	31.6
Department of Commerce	1,343	456	45	9.9
White House Conference on Civil Rights	1	1	------	------
Civil Service Commission	126	17	2	11.8
Office of the Secretary of Defense	509	168	10	6.0
Department of Justice	623	323	47	14.6
Department of Labor	388	55	7	12.7
Export-Import Bank	38	28	3	10.7
Federal Coal Mine Safety Board of Review	1	1	------	------
Federal Communications Commission	128	38	5	13.2
Federal Radiation Council	2	2	------	------
National Advisory Commission on Food and Fiber	3	3	------	------
Farm Credit Administration	14	13	1	7.7
Federal Trade Commission	170	109	11	10.1
General Services Administration	334	157	15	9.6
Department of Health, Education, and Welfare	1,270	274	78	28.5
Department of Housing and Urban Development	288	119	34	28.6
Information Agency	112	82	8	9.8
Interstate Commerce Commission	235	19	1	5.3
Department of Interior	823	41	14	34.1
National Commission on Food Marketing	1	1	------	------
National Science Foundation	38	89	7	7.9
National Capital Housing Authority	2	1	1	------
National Labor Relations Board	221	72	6	8.3
National Aeronautics and Space Administration	2,033	333	14	4.2
National Capital Planning Commission	6	3	2	------
Department of the Navy	1,599	489	38	7.8
Office of Emergency Planning	96	48	10	20.8
President's Commission on Consumer Interests	4	1	------	------
Post Office Department	206	75	8	10.7
Renegotiation Board	35	21	1	4.8
Railroad Retirement Board	36	40	5	12.5
Small Business Administration	127	44	7	15.9
Securities and Exchange Commission	88	31	1	3.2
Smithsonian Institution	67	18	3	16.7
Department of State	468	312	36	11.5
Tax Court of the United States	5	3	------	------
Transportation Department	------	265	37	13.6
Office of Special Representative for Trade Negotiations	6	2	------	------
Department of Treasury	1,217	584	60	10.3
Veterans' Administration	375	1,442	124	8.6
Water Resources Council	2	5	------	------

From this table it is clear that the four agencies of the Federal Government which have the greatest proportion of high-level employees with prior State and local experience are:

	Percent
Department of Interior	34.1
Bureau of the Budget	31.6
Department of Housing and Urban Development	28.6
Department of Health, Education, and Welfare	28.5

Now, one must be extremely cautious when drawing conclusions from this study. However, it is quite clear that the areas where the States and localities are most in need of trained, competent, managerial-level personnel, are in the areas of budget analysis, and general administration for those programs which are administered by these three departments. We cannot say that "the Federal civil service is pirating the help away" from the States because the help is going where the action is. But we can say, with some degree of confidence, that the removal of these individuals from the State and local payrolls has the following effects:

(1) It removes trained top-level management from the States where it can closely and effectively deal with State and local-level problems.

(2) It imposes an undue burden on the States and localities in terms of training and related costs for their top-level managerial help.

(3) It makes the State and local level career service less attractive, as fewer individuals are willing to start there, only to have to move on when it becomes clear that the Federal level is where they can be most productive.

(4) It perpetuates and accentuates the imbalance which has been built into the present categorical grant-in-aid system.

Combining Tax Credits With Revenue Sharing

Madam Chairman, there are several aspects of what I would call revenue sharing. These include bloc grants, lump-sum revenue payments and tax credits. In this portion of my testimony I hope to show that they represent a single, viable package. I have already stated that there are certain areas in which the House has, very wisely, in my opinion, moved from the realm of categorical grant-in-aid programs to the bloc grant approach. From bloc grants it would be a fairly simple task to move on to lump-sum payments and then to tax credits. I have introduced a bill—H.R. 5450—which combines these several programs. To the best of my knowledge, it was the first bill introduced in the Congress which combined these different aspects of revenue sharing. I am very proud that several of my colleagues from both parties have since introduced bills similar to H.R. 5450.

Now, before discussing the problem of coordinating lump-sum payments with tax credits, I would like to make one fact very clear. There are certain provisions about my bill and about all of the other revenue sharing bills which have been introduced in this Congress, that will almost certainly have to be modified during the legislative discussion process. I am certainly not wedded to any particular formula that appears in H.R. 5450. In fact, I am quite certain that when a revenue-sharing bill is reported out of the appropriate congressional committee, it will be a bill that is different from H.R. 5450 in at least some respects.

Let me give you one specific example of what I mean when I say that any bill will have to be perfected by the legislative discussion process. In my bill and in many other revenue sharing bills which have been introduced in this Congress, there is a provision that the 17 poorest States (the lowest one-third of the States in terms of per capita income) will share in a supplementary "equalization" portion of the grant. Now, those 17 States in some years include, and in other years exclude, Texas. If Texas is one of the 17, it will make a lot of difference, not only to the people in Texas, but also to the people in the other 16 States, since these funds are distributed on a per capita basis, and Texas, of course, has a substantial population. It is possible, or at least conceivable, that under this provision of H.R. 5450 and many other bills, in some years Texas will be one of the 17 States with the lowest per capita income. In those years, Texas would receive a supplementary grant. Then, with the supplementary grant, it is possible that Texas would be taken out of the 17 poorest States and be replaced by another State. Then, when Texas is not receiving the supplementary equalization grant, it is again possible that it will find itself among the 17 States with the lowest per capita income, and again be eligible to receive a supplementary grant. With Texas bouncing in an out of the 17 poorest States, it is playing havoc with the amount of funds which can be made available to the other 16 States. I am indebted to Dr. Bruce F. Davie, professor of economics, Georgetown University, for calling this particular case to my attention.

The problems which are created by situations such as this, however, do not invalidate the general concept of revenue sharing. They only make it more necessary that any revenue-sharing proposal be discussed in great detail before the relevant committees of Congress. Of course, in this particular case there are very real alternatives which can be readily substituted for specific portions of H.R. 5450. For example, instead of equalizing grants among the 17 States with the lowest per capita income, it could be that a 2-percent supplementary grant among those States which are below the national per capita income, could be granted for every 1 percent that they are below.

Again, I emphasize that these are not insurmountable obstacles; that they can and will be resolved through the legislative discussion process.

Tax Credits Versus Revenue Sharing?

In most discussions of revenue sharing, the question of tax credits is viewed as an alternative to lump-sum payments to the States and political subdivisions. I prefer to view the two as complementing each other, rather than competing with each other. Tax credits have been proposed for a great many purposes, as the members of this subcommittee are well aware. They are proposed in the various bills introduced in both Houses of the Congress for higher and secondary education tuition. They are proposed in the Human Investment Act, sponsored by the ranking minority member of this committee, Mr. Curtis. And they are proposed in various other forms for a number of purposes.

The tax credit which I consider to be a part of the revenue sharing package is one which would be granted to an individual for his payment of State and local taxes. It would be graduated to a maximum level, in H.R. 5450, of 40 percent of the taxpayers' State and local tax liability. To discuss the mechanics of it for a moment: in H.R. 5450 the tax credit would increase in 10-percent increments annually to a total of 40 percent. As I have pointed out previously, at a level of 10 percent there are very few individuals who would elect to take a tax credit rather than a tax deduction, as they are able to do under present internal revenue provisions. This is so because the tax deduction is equal to about a 14-percent reduction in the net tax liability of the individual. As the tax credit provision increases to 20 and 30 and, finally, 40 percent, more and more individuals will elect to take advantage of it, rather than of the tax deduction. I should emphasize that the choice will always be available to the individual to choose a tax deduction or a tax credit. Table III illustrates the tax benefits which an average family can expect to receive from the tax credit provision of H.R. 5450 and the net advantage to that family.

TABLE III.—COMPARISON OF ESTIMATED TAX BENEFITS BY VARIOUS INCOME LEVEL TAXPAYERS FROM (1) DEDUCTION FOR STATE AND LOCAL TAXES UNDER PRESENT LAW, AND (2) TAX CREDIT IN LIEU OF DEDUCTION, AS PROPOSED IN THE LAIRD REVENUE-SHARING BILL, H.R. 5450 (90TH CONG.)

[Computations based on a family of 4]

Income level [1]	Income tax liability [2]	Average deduction for State and local taxes	Tax benefit from deduction of State and local taxes	Estimated tax credit, and net tax benefit [3] therefrom, for State and local taxes							
				10-percent credit		20-percent credit		30-percent credit		40-percent credit	
				Amount of tax credit	Net tax benefit	Amount of tax credit	Net tax benefit	Amount of tax credit	Net tax benefit	Amount of tax credit	Net tax benefit
$3,500	$36	$217	$30.38	$21.70	−$8.68	$43.40	$13.02	$65.10	$34.72	[4] $86.80	[4] $56.42
5,500	281	319	47.85	31.90	−15.95	63.80	15.95	95.70	47.85	127.60	79.75
7,500	555	438	74.46	43.80	−30.66	87.60	13.14	131.40	56.94	175.20	100.74
12,500	1,386	679	129.79	67.90	−61.89	135.80	6.01	203.70	73.91	271.60	141.81
17,500	2,348	962	222.17	96.20	−125.97	192.40	−29.77	288.60	66.43	384.80	162.63
35,000	7,228	1,541	564.63	154.10	−410.53	308.20	−256.43	462.30	−102.33	616.40	51.77
75,000	24,783	3,394	1,798.82	339.40	−1,459.42	678.80	−1,120.02	1,018.20	−780.62	1,357.60	−441.22

[1] All income is assumed to be earned income.

[2] Tax computations made on the following assumptions (and rounded to the nearest dollar): (a) The taxpayers itemized their deductions. The amount of deductions used in the computations were the average deductions for the respective income classes. These were derived from the basic data in "Preliminary Report, Statistics of Income—1964, Individual Income Tax Returns." (b) Taxpayers use the tax rate schedule.

[3] The net tax benefit is equal to the tax credit (allowed under H.R. 5450) less the deduction allowed under present law. A minus figure for the net tax benefit indicates that the deduction will provide a larger tax saving than the tax credit will.

[4] Since the credit is limited to the tax liability of the taxpayer, before applying the credit, the net tax benefit, in this example, would be limited to $36. (A tax credit of $66.38 (i.e., $30.38 plus $36) would provide this maximum benefit.)

As another example of how a revenue sharing bill would have to be discussed quite thoroughly in the legislative discussion process, I mention the question of which taxes should be included in a Federal income tax credit. As this distinguished subcommittee is well aware, the Committee for Economic Development would limit the credit to State and local income taxes. I object to this limitation as it forces the States to adopt a single form of taxation, thus reducing that very diversity which is the hallmark of our Federal system. On the other hand, it is quite possible that the inclusion of all State and local taxes is not the best course to follow. I say this because of the fact that some of these taxes are so-called "nuisance taxes" which the CED and other economists rightly would like to minimize (such as cigarette, liquor, and so forth). Therefore, Prof. Harold Somers of the University of California has called for a "bloc tax credit plan" under which income, sales, and property taxes would be eligible. This would simplify the overall tax structure without the coercive element of a single tax credit for only State income taxes. This is a legitimate area of inquiry, but it should be pointed out that it falls into the category of income tax reform. In fact, under existing provisions of the Internal Revenue Code, the taxpayer is allowed to take deductions on most State and local taxes. Under the provisions of H.R. 5450, there would be no change in the task which faces the taxpayer who itemizes his deductions. He would now simply enter the same total as a credit on his Federal income tax form.

I am mentioning Professor Somers' idea as an alternative, not because I believe that it is superior to my plan in H.R. 5450, but because it shows that there are alternatives to the specific provisions in most revenue sharing bills, and that it is only through the legislative discussion process that the best bill will be passed by the Congress.

Conclusion

As the members of this subcommittee are aware, the Advisory Commission on Intergovernmental Relations has recently endorsed the concept of Federal revenue sharing. This very welcome endorsement was made at the Commission's October meeting in the following words:

> Congress and the Administration adopt a flexible combination of Federal financial assistance to States and localities to consist of categorical grants-in-aid, general functional block grants, and per capita general support payments. The Federal support payments, adjusted for variations in tax effort, could be made to either State or major local units of government; they should not conflict with any existing comprehensive State plan. (Chairman Bryant dissented and Mayor Naftalin dissented with respect to the comprehensive State plan requirement.)

When the endorsement of this portion of the revenue sharing package is coupled with the Advisory Commission's previous endorsement of Federal tax credits, we find that this very distinguished body has endorsed all parts of a general revenue sharing plan.

Thus, as Prof. Walter W. Heller stated in a recent letter to me:

> Concerning the combining of revenue sharing with tax credits apparently the ACIR must inherently believe in this concept, since they have endorsed both. (Letter from Professor Walter W. Heller to Melvin R. Laird, dated October 17, 1967.)

A further endorsement has come from former North Carolina Governor Terry Sanford, who has just completed a 2-year study of State government. The first product of his research is a very interesting book entitled "Storm Over the States." In this volume Governor Sanford advocates a package revenue sharing plan very similar in many respects to the provisions of the Laird revenue sharing bill. I commend his interesting volume to the members of the committee.

There are several aspects of the tax credit plan which should be discussed in further detail. As I have mentioned, the very distinguished Committee for Economic Development released a Research and Policy Committee statement in June 1967 entitled "A Fiscal Program for a Balanced Federalism." Both Mr. Kegan and Mr. Stein of the CED appeared before this committee in August and outlined the committee's position with regard to tax credits.

I have outlined my basic disagreement with the CED as to which taxes a Federal income tax credit should be granted for. The CED policy is to provide for a Federal credit only for State and local income taxes, and not for other State level taxes, be they sales or "nuisance" taxes, and not for local property taxes. I have engaged in a detailed correspondence with the members of the CED Research and Policy Committee on this point. I find that some of the individuals on the CED Research and Policy Committee are not in favor of the majority recommendation of the Committee to limit these tax credits. These individuals, who indicated their dissent on pages 52–53 of the CED report, summarize my own opposition to this limiting feature of the CED recommendation:

> I concur in most of the general observations in this paper, but I disagree with its major policy recommendation.
>
> This statement recommends action by the federal government intended to coerce the states into adopting income taxation. I am not opposed to state income taxes, but I am opposed to such federal coercion. This statement does not establish the need or justification for such coercion. States can now levy income taxes just as well as other taxes. (Statement of Dissent, by Theodore O. Yntema, with which Joseph L. Block and Charles Keller, Jr., have asked to be associated, p. 52–53.)

In my correspondence with members of this very distinguished group of business and academic leaders, it is very encouraging to note that they are invariably in support of continuing the dialog which has been instituted on various aspects of revenue sharing, or "fiscal federalism," if you will. In the words of the distinguished president of the Committee for Economic Development, Mr. Alfred C. Neal, "I hope that we shall be fortunate enough to be confronted with the possibility of having some revenue sharing before too long" (letter from Alfred C. Neal to Melvin R. Laird dated August 28, 1967).

Like Mr. Neal, I hope that we will have this opportunity. I again congratulate this subcommittee for the pioneering work which it has been doing in this area, and trust that these hearings will indicate that revenue sharing is truly "an idea whose time has come."

Thank you, Madam Chairman.

Representative GRIFFITHS. Thank you very much, Congressman Laird. May I ask you, were you in the State legislature?

Representative LAIRD. Yes; I was.

Representative GRIFFITHS. Why did you come to Congress?

Representative LAIRD. Well, I think all politicians who are interested in a career in politics and interested in a legislative career, look to the House of Representatives as a place where that career can be carried out.

Now I would have to admit that as I look back on my position as leader of our State senate, and the spokesman for three different Governors in that State senate, I must say I enjoyed my work in the State legislature perhaps even more than I enjoy my work in the Congress. But as one looks to moving up the ladder in politics, I chose to run for the House of Representatives. I am glad I am here and I hope I can make a career out of the House.

Representative GRIFFITHS. But that is really true with all the rest of these people. The Federal Government is not really pirating people away from the States. Those people get their experience there and they are just like you and me. I was in the State legislature, too, and I sat in city government. We came here not only because of the pay—certainly not because of the pay in my situation, because I drew more in the city when I came than I do here. But we came here because it is much more interesting, the challenge is so great.

Representative LAIRD. This is a little different because you are talking about those people who are not looking for security. Most people who are working in the civil service have security and tenure. The reason we chose to be politicians and did not choose security, was because this is the kind of challenge we wanted. I think, in civil service, when people make a change from State civil service or from city civil service to the Federal civil service, it is not only the civil service system that the Federal Government has but you also receive a considerable increase as far as the salary scales go in most of the States in this country.

Now it is improving in some of the States but you can't compare that State pay and the State opportunities for advancement as the Central Government continues to expand. I have served on the HEW Appropriations Committee ever since that Department was created and when that Department went from 12,000 to over 100,000 employees, the opportunities for advancement there were much greater than the opportunities for advancement in the city of Milwaukee, or in the State government in Madison, because you have so many more thousands of employees.

My point here is that I think many of our people are going into the Federal service and many times they are not dealing directly with the problems of local people and sometimes we are not solving those problems because we have a brain drain into our Federal system, the central part of Federal system.

Representative GRIFFITHS. Well, I think the brain drain is a natural brain drain and I do not think anything we are going to do about sending back more money is going to stop the brain drain. But, I would like to ask both of you, on the business of this suggestion of revenue sharing being a popular one, and obviously the polls show it is popular: Would you say offhand, or do you know, whether or not this comes from an assumption that it will thereby be cheaper? If the money is sent back from the Federal Government, that the local communities will save money on it? Do you think this exists within people's minds as one of the reasons for its popularity?

Representative LAIRD. I think it does. This is part of it. I also think that most of our cities and our States are getting rather confused with having to establish separate departments or agencies just to handle the requests for categorical programs. We have most of these categorical programs coming before our Appropriations Subcommittee and the confusion and the tremendous overhead expense that is involved with getting a Federal dollar under the categorical approach, I think, is rather frustrating to many local officials and they have the idea that they can save some of these administrative expenses.

Representative GRIFFITHS. I mean from this 70 percent of the taxpayers, do you feel that the taxpayers believe that if the money comes back from the Federal Government, that each of them personally will get some sort of tax reduction? Do you think that this exists with the people?

Representative LAIRD. I think they feel they might get some real estate tax reduction because this is the thing that bothers most people. The real estate taxes in this country are getting rather high in the local units of the government. And the local units of government have had to rely more and more on the real estate tax and I think they do feel that they could make better use of the money that they are sending to Washington.

Representative GRIFFITHS. Obviously, this is a mirage, a complete mirage, because the moment we start sending that money back to those States, we are obviously going to have to increase taxes. It is perfectly clear.

Representative LAIRD. Well, I would hope that we would not take that as a final step in revenue sharing——

Representative GRIFFITHS. It is not necessary, but——

Representative LAIRD (continuing). Because I would hope we could make the move toward tax credits for State and local taxes paid. Now, I think this has to be done carefully and that is why I propose the tax credit on a 10, 20, 30, 40 basis, working up to 40 percent, because I believe that we also have to keep the responsibility at the level of the local units of government and I think that this ultimately is the answer insofar as revenue sharing is concerned. The best approach, and really, the heart of my revenue-sharing bill is the tax credit approach. But during this transition period, we should stop the further proliferation of categorical grant-in-aid programs. We almost established some 15 new ones this year—now, we have cut that down to only about five, so far. Only five have gone through the Congress. Fifteen had been asked for by the executive branch and I think we have got to be careful as we set up more and more of these categorical programs and I hope we can eventually move more toward the tax credit program.

Representative GRIFFITHS. Detroit voted for income tax under the impression they were going to get their property taxes reduced. They were increased. So, you see, the real truth is that I feel that the public in general thinks somehow or other they are going to get a tax reduction out of this and I think that that is an illusory hope. It is true it is possible, but the chances are it is not very probable.

Representative LAIRD. I think we will solve the problems, though. The important thing for us to bear in mind is that we are not solving the problems with the categorical aid approach. The problems of education, of health, of welfare, of poverty, of crime are increasing, not decreasing. The categorical aid approach, since 1932, has not solved these problems. It is time that we looked for a better way to solve these problems. I do not want to sell revenue-sharing on the basis of whether you get a tax increase or a tax decrease. I want to sell it on the basis that we have got to find better ways to solve problems in our society as we approach the decade of the seventies, and I believe in the revenue-sharing approach because it gives freer rein to the creativity of the individuals in our communities and in our States.

Representative GRIFFITHS. Now, let me ask you, then, to look at it from a different standpoint, and this goes back to Senator Baker's statement, that the Federal Government does not really deliver the goods. Why do you not suggest, both Congressman and Senator, that in place of sending back money the Federal Government take over some of the problems that are really national problems, get the State completely out of the business, and let the Federal Government run it, and I have in mind, particularly, welfare. Why do we set up a system that permits you, when you enter the city of New York, to start drawing welfare? And yet Chicago has no general assistance program whatsoever, as have other States. Why do we not just take over the welfare program?

Representative LAIRD. Well, I think this is a good point and if I could just comment, I am going to ask to be excused. I would like to carry on this dialog but I am supposed to be presiding at the minority conference. But, I think that this whole question is a question that should be explored and right now I am working with some very outstanding economists and others in this country exploring the whole area of the welfare program to see it, perhaps, through some sort of a negative income tax or some other type of proposal we could relieve the local communities and the States in the welfare area.

Now, this is something that needs to be explored. I am not ready to move in that area as of now, but I think there may be a better way to handle the welfare program in this country of ours than the present way we are handling it and we should not fail to look at those other ways.

I have got some very interesting papers in hand which have been prepared by some of our leading academicians in this country in this whole area of welfare and this is an interesting, very important area that we need to look at.

Representative GRIFFITHS. Thank you. I am sure Congressman Widnall would like to ask you a question.

Representative WIDNALL. Just one question. We are constantly importuned by the mayors of the cities through the Conference of Mayors to do more on the Federal level to help them and their problems and I just wondered whether any of the mayors, or others in lower political subdivisions, take the attitude that you do on revenue sharing. Do you have any favorable comments from them?

Representative LAIRD. Yes. They are supporting the provision with the added proviso that up to 70 percent of the funds be used in the local units of government.

Now, I am sure more than that will be used by the local units of government and so I do not have an objection to arranging some sort of a proviso in the bill, but they insist on that kind of a proviso. They did at their mayors' conference recently.

Representative WIDNALL. That is all.

Representative GRIFFITHS. Thank you so much, Congressman Laird. We are so happy to have had you here and your statement was excellent. We will now return to Senator Baker. You may proceed.

Senator BAKER. Madam Chairman, you asked me to respond with the Congressman on the first issue about whether or not the popular support reflected by the polls is a general feeling that people save money. I think it is impossible to tell and I think more definitive polls might be undertaken if that were germane.

Representative GRIFFITHS. Yes; I feel so, too.

Senator BAKER. But, my own view is that people are more concerned with responsiveness and extension and elaboration of local services. I feel really that the overall fiscal and social dilemma that we have in the mix of governments, central and local, is that we have, on the one hand, a burgeoning system of governments and tax structures, and on the other hand, we have demands for governmental services which are outstripping even the growth of the governmental structure of which we complain. So, I think that some place imbedded in the public viewpoint toward revenue sharing is the idea that this might give us more flexibility, an opportunity for elaboration or extension of services uniquely required for a given area, and might release us from some of the real or imaginary rigidity that goes with categorical grant-in-aid programs.

I would hasten to say that it is obviously not that simple. Government is not a neatly structured affair like a layer cake. It is more nearly like a swirl cake and the various levels of government interact as they respond to the demands for services and changes in tax policy.

Representative GRIFFITHS. All right. Now, may I ask you also to respond to this question. Why not have the Federal Government take over some programs that really are national programs? It cannot be questioned any longer that welfare is a national program. Let the Federal Government run it.

Let me give you an example. I was one of those who produced the people who testified and made the food stamp possible. We have run test after test in the city of Detroit, and there is literally no cheating. It is something like 2 percent. And, yet, a Congressman from Pennsylvania told me that in the rural county which he represented, they also ran tests, and 44 percent of those people getting food stamps were not entitled to them.

Now, of course, this is because the local officials permitted this. Why not determine which are really Federal programs and let the Federal Government run them? Police protection, for example, it seems to me is really a local problem.

Senator BAKER. I agree, Madam Chairman. I think when we, if you will pardon the expression, put our nose under the tent on this whole question of the concept of revenue sharing, in the broader sense, what we are really saying is, we want to reexamine the relationship of governments to each other and the relationship of given areas of responsibility to those governments.

I think you have undertaken something far broader than merely examining the merits of revenue sharing or tax credits or bloc grants. I think we are far past the point where we can put off any longer a searching analysis of the functions best served by the various units of the government. I think your welfare example is a good example. I, like Congressman Laird, am not completely at peace with my conscience on what I would do about it but I do recognize the necessity for an elaboration of a national purpose and the implementation of a national purpose in welfare programs.

Representative GRIFFITHS. Of course, one of the big drawbacks is that the total expenditure of the moneys of the United States on welfare runs something like $60 billion, so it would come as a horrible thing if the Federal Government suddenly had to take it over. I think, too, education is really a national problem.

Senator BAKER. Within certain limits. I think it is some of each.

Representative GRIFFITHS. Well, true, within certain limits, and yet I know that almost every person feels that it would be better to control that right from the local community. We do not want our children doing this or that for which I have great sympathy, but yet the real truth is that an ignorant child in the State of Michigan may move over to the State of Wisconsin and become a welfare case.

Senator BAKER. This is increasingly a problem because of the mobility of the population. That further underscores the point you make. Let me give you a contrary example, though, not to unduly prolong this discussion of education, but I know of one area in Tennessee where, through a Federal program, a school has obtained a rather elaborate visual aid system for projecting slides, showing movies and the like, but the school building has broken window lights. So, here again, we have the frustration of a cut and a try and a fit and a stitching of the garment that does not exactly fit the particular subject. The community to which I refer needs the building worse than it needs the visual aids.

I think, therefore, to revert to my previous remark, that your broader examination by this committee has to do with the reassessment of relationship of governments to each other and the most efficient assignment of areas of responsibility within that structure of governments.

I reiterate what I tried to say in my earlier remarks. I have no illusions that my bill or any of the several bills pending in the Senate or the hundred pending in both Houses of Congress is the final answer. And I am not adamant in my demands that any one given program be adopted and made the law of the land.

But, I am convinced that we are at the crossroads in deciding whether or not we will continue an elaboration of one theory; that is, categorical grant-in-aid programs, or some new direction which would encompass a mix, a better definition, a reexamination of the relationship of governments each to the other.

I happen to think as Congressman Laird thinks, that our categorical grants-in-aid system will not be supplanted by revenue sharing. I think both are necessary and both will live side by side and, hopefully, will produce more economical and responsible results than either working alone.

Representative GRIFFITHS. Thank you very much.

Congressman Widnall?

Representative WIDNALL. Thank you.

Senator Baker, I appreciate your statement and a lot of the very wholesome ideas in it will be considered.

You mentioned that revenue sharing will encourage the flow of political power from Washington to the State and local governments and that consequently labor, business, farm, and other organizations will have to devote more of their energies to making their views known in the State capitals and city halls.

Now, is not some of the opposition to the concept of revenue sharing due to this very fact?

Senator BAKER. I think that is probably so, Congressman, and I think I am treading on politically dangerous ground when I make that statement, but I believe it. I think that, in a sense, it is far more economical, it is far easier and far more convenient, for a labor organization or a business organization to concentrate its efforts on the Congress than it would be to pattern the organization efforts on the particular requirements of 50 State houses or 500 city halls. But, you see, I do not necessarily feel that that convenience is the determining characteristic of the problem. I think our Nation's history of diversity indicates that increasingly we are going to find more different problems which require a greater variety of solutions from area to area to get truly effective results. So, I point out, in all candor, that 10 years from now, or 20 years from now, it may very well be that the National Association of Manufacturers or the AFL–CIO, only as example, might find that one national program will not really get the job done, but rather that many programs will have to be patterned to the requirements of the 50 different States and localities. This, I happen to think, might be good.

Representative WIDNALL. What do you believe are the essential differences between your revenue sharing bill and that of Congressman Reuss and Congressman Laird?

Senator BAKER. Well, the first is that mine is almost token modest in terms of money. I am only talking about $500 million.

Representative GRIFFITHS. Good.

Senator BAKER. Second, mine is based on a three-part formula that takes or tries to take into account absolute need in terms of a State's share of the national population, relative need in terms of the ratio of average income for the residents of that State to the national average income, and tax initiative which takes into account how hard the State is trying to do its own job. These parts and ratios are mixed together to produce a factor that is applied to the amount of money set aside for revenue sharing.

Another distinction is that the revenue sharing fund, the trust fund, is made up of two parts. The first part is a fixed percentage of the total income tax revenues after you first subtract that amount required for the debt service and national defense, which are fixed or essential. And the second part, part B of the trust fund, is a sum that the Congress may or may not appropriate as it sees fit every year, to supplement the formula amount of part A.

The justification of part B is that the fiscal policy of the Central Government is far more than just a measure of the revenue received. It also has to do with the continuation of economic cycles. It has to do with the relative wealth of the Nation, the level of activity of the economic machine, and the like. The Congress must maintain flexibility, hence, the flexibility of part B. The second justification for part B is that we may turn up some day with a far less critical fiscal problem than we have got now with an impending $28 to $40 billion deficit. Then we may be able to respond more quickly to the need for a fiscal dividend by putting more money in part B.

So, these are the salient features of my rather modest plan. I have tried, in some measure, to accommodate the views on tax credits of Congressman Laird, on the underlying Keynesian justification of Congressman Reuss, on the no-strings-attached concept of Walter Heller, and on the tax responsibility points of Henry Wallich at Yale. I try to bring all of these together to create a concept of tax sharing on a very modest scale to establish the principle now, without waiting for some dim distant future date when we are over with wars in Vietnam or elsewhere, because I think we cannot wait. I think we have got to judge our fiscal direction without total reference to the exigencies of the current foreign policy.

Representative WIDNALL. I have noticed a tremendous growth in the use of representatives for a State in Washington, a State ombudsman, if you want to call him that, to see that the States get their share of the Federal collections or the Federal programs. Certainly, if you got into a true revenue sharing setup between the States, there would not be that same urgent necessity for seeking that share by having a representative in Washington and then having all the dealing that goes on between the Federal agency and the representatives from the State.

Senator BAKER. I entirely agree. I think one other thing might happen, too. I think we would see a dropoff in the distortion of local priorities and programs which results simply because money is available in Washington for this purpose in the categorical grant-in-aid programs.

Representative WIDNALL. I think one of the tragedies of our whole situation today is that you do have a dragging of the feet in local municipalities throughout the United States once you establish a Federal program. Now, this is particularly true in the area of sewers and water. There is an urgent necessity for improvements in many municipalities, but local municipal officials feel they are subject to tremendous criticism if there are Federal laws on the books as they do not get some of these Federal funds to finance the project within their own specific municipality. They are subject to criticism because the next municipality gets part of the Federal largesse and they do not get any.

Senator BAKER. This is the distortion of which I speak. It produces an unnatural response to problems instead of a response to real priorities.

Representative WIDNALL. We also find the abandonment of the immediate local responsibilities in many instances where it would be assumed that if you did not have the large-scale promise of a Federal program—and it is a promise because there is not the money to adequately finance most of them—the municipality would finance the project out of local revenues.

Senator BAKER. I would like to reiterate, if I may, Mr. Widnall, Madam Chairman, that in this I want to make it abundantly clear that I do not advocate the elimination of categorical grants-in-aid. I happen to feel they must exist side by side with revenue sharing, that there will always be the necessity for the Central Government to set objectives, and in many instances either to accelerate those objectives or actually implement them by direct intervention such as with the categorical grant-in-aid type program. But once again, I would point out that I can see that both categorical grants-in-aid and revenue sharing or its equivalent should live side by side and produce a more effective result than either by itself.

Representative WIDNALL. I think you might also comment that there is a healthy movement in seed money coming from the Federal system to show the way and encourage the way as an incentive to the municipalities to do things which had been abandoned in the past or not properly treated.

I am pleased that Mrs. Griffiths has gotten into this problem and is digging into it because it is of tremendous interest to the people of the United States. It has a great impact and there is a great possibility that by an honest discussion and dialog with respect to the things that have been brought to our attention we are going to be able to achieve a better solution than we have at the present time.

Senator BAKER. I would like to join you in that and say most sincerely that I think that the efforts of Mrs. Griffiths and this committee in trying to elaborate these ideas rather than in trying to test a given proposal constitute probably the greatest contribution that could be made to the evolution and development of these ideas at this point. This is far better than a Republican-Democrat debate over a given bill. I think this really will build a solid foundation for our orderly, intelligent judgment of the merits of the various proposals.

Representative WIDNALL. Thank you.

Representative GRIFFITHS. Thank you. I would like to point out to you that, at a later date, this committee is going to look into the proposals for a guaranteed annual income, whether it is through family allowances or other types of allowances.

We are especially happy to have had you with us, Senator Baker. It was very kind of you to come.

Senator BAKER. Thank you very much.

Representative GRIFFITHS. This committee will adjourn until tomorrow morning at 10 o'clock, when we will hear other Members of the Congress.

(Whereupon, at 11:50 a.m., the subcommittee was adjourned, to reconvene at 10 a.m., Thursday, November 9, 1967.)

REVENUE SHARING AND ITS ALTERNATIVES: WHAT FUTURE FOR FISCAL FERERALISM?

THURSDAY, NOVEMBER 9, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:10 a.m., in the House Ways and Means Committee hearing room, Longworth Building, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representative Griffiths.

Also present: John R. Stark, executive director; James W. Knowles, director of research; and Richard F. Kaufman, staff economist.

Representative GRIFFITHS. The subcommittee will come to order.

We are very glad to have you here, Senator Muskie. As you read the questions, I would like your best advice in answer.

STATEMENT OF HON. EDMUND S. MUSKIE, A U.S. SENATOR FROM THE STATE OF MAINE

Senator MUSKIE. Thank you very much, Madam Chairman.

I do appreciate this opportunity to appear before the Subcommittee on Fiscal Policy to give my views on the future of fiscal federalism.

I compliment you on holding these hearings. I think it is very important that we get into this subject with the thoroughness and the understanding and the perceptiveness that I think you are getting from the members of the committee and the witnesses you have been hearing. Your list of witnesses is most impressive.

It is clear that you are getting all sides of this issue. This should be helpful to us because I think that this subject will stimulate more than any other subject the future evolution of the Federal system and the relationship of the three levels of Government, so I think we ought to have the kind of thoughtful consideration and depth that you are giving.

As you know, Madam Chairman, I have been directly concerned with this critical area of intergovernmental relations for some time, as a city official, State legislator, and Governor.

Since becoming a Senator, I have been fortunate to obtain a broader knowledge of the fiscal problems of the States and their local governmental constituents, particularly as they relate to the problems of the metropolitan areas, some of which involve more than one State. This knowledge has come from the hearings and the studies conducted by our Subcommittee on Intergovernmental Relations of the Senate Committee on Government Operations.

In this connection, I would like to submit for the reference use of your members a package of materials developed by our subcommittee. I would particularly call your attention to our hearings on creative federalism, parts 1, 2(a), and 2(b), which contain a great deal of information on the points you have been exploring.

These hearings were held last December and early this year as a prelude to what I hoped would be more extensive hearings, but we have not yet had the time to get into them.

As a member of the Advisory Commission on Intergovernmental Relations, which was established by the Congress to seek information and opinion from Federal, State, and local public officials, I have had first-hand exposure to the procedural and fiscal problems which are putting an inordinate strain on our Federal system.

I know that this committee is giving or will give particular attention to the work which was done at the most recent meeting of the ACIR on this very subject of fiscal federalism and tax sharing.

The statistics and structural analyses we have gathered, and which you are gathering, are of little value unless they are placed in the context of the day-to-day problems which affect all our citizens. They include inadequate housing—especially for lower- and middle-income groups—education, poverty, discrimination, inadequate job opportunities, social disorganization, threats to public safety, pollution of our air and water, transportation, beautification, and public facilities.

Madam Chairman, this question of the fiscal resources of the Federal system has something more to do than simply the academic exercise of the best theory to be applied to the structure of Government. We are talking about the problems of people. If our fiscal resources, their organization, and their distribution are not effective to deal with these problems, then they are ineffectively organized and ineffectively distributed.

And if any proposal to rearrange the mobilization of our resources in that distribution will not give us greater effectiveness in dealing with these problems, then such proposals ought to be rejected.

I think we ought to study tax sharing from this point of view and not as an academic exercise or an exercise in political science because these are the problems which are part of the great paradox of our modern society. Although our national wealth and technology does produce for us a wide range of opportunities for choices of living patterns, our attitudes, our social structures, and the political machinery which responds to these attitudes and structures are changing with agonizing slowness.

As the events of the past summer have demonstrated, time is running out. The performance of our society has not kept pace with the promises of the Declaration of Independence and the Constitution.

The basic question to be answered in connection with the various proposals for revenue sharing with the States is whether such a system would improve our performance in meeting the needs of all our citizens in our complex, crowded society.

With this test in mind, I should like to pose a series of specific questions on Federal tax rebates to the States:

(1) Would State and local governments use the funds in line with national goals and priorities such as elimination of poverty, promotion of civil rights and equal opportunity, rehabilitation and training of the unemployed, education for the disadvantaged, and rebuilding the core cities? Without the use of national policies as guidelines, would we see the development of further disparities between groups of citizens, areas of the country, and central cities and the suburbs?

On this point, the only information we have suggests that the State and local governments would not meet or move toward these national goals. Some would perform better than others. Some would perform perhaps well enough in terms of the performance we have had under national guidance. But, up to this point, the evidence is such as to suggest that the Federal Government cannot relinquish the role of leadership in moving toward the resolution of these problems and that we must continue to exert this leadership by the use of incentives, stimuli, and even pressure from the Federal Government.

I think that we ought to consider enlarging the area for exercise of State and local discretion and initiative, but I do not think we can enlarge it to the point where the Federal Government can afford to relinquish its responsibilities in this connection.

(2) Would States which are refusing to implement the Civil Rights Act or other basic laws use the tax-sharing money in ways which subvert constitutional guarantees?

I think we have very little evidence upon which to base a fair answer to this question at this point. But I think that until we develop such evidence we must insure that there are safeguards attached to any proposal for revenue or tax-sharing which will minimize the possibility that this will happen.

(3) Would some State and local governments be tempted to hold the line or reduce taxes and local financing, and use the unrestricted tax-sharing money to make up the difference? Some States are making a real effort to maximize their tax revenues and equalize their application. Under tax sharing, they would be put in the same category as States that are making a minimal effort to provide for their own development. Thus, the tax rebates to the deficient States—in part made up by tax revenues received from taxpayers in the more active States—could amount to a windfall.

Now, my answer to this question on the basis of my experience as a State legislator, as a Governor, and as a city official, is that the temptation to do what this question suggests is a very great risk. There are, of course, responsible people at the State and local levels who seek to pull the load for State and local government. But there would also be those who would be tempted not to do so.

Representative GRIFFITHS. The danger is that the State and local official will take advantage of the situation and become a hero in his own community by reducing their taxes and then a strong advocate of the real fault in this community lies with the National Government.

Senator MUSKIE. That is right.

Representative GRIFFITHS. They would be very compelling advocates.

Senator MUSKIE. Especially in these days when the taxpayers, themselves, rebel against taxes and even bond issues.

(4) Would some State and local governments use the rebates to develop special incentives to draw industry from other States? This could be in the form of industrial locations and facilities, in State and local tax exemptions, allowances, and lowered tax rates, and loan programs.

Now, these are risks, I think, that it would be unrealistic of us not to recognize.

Representative GRIFFITHS. And they are already in effect.

Senator MUSKIE. That is right.

If State and local governments are using their own revenues for this purpose, they are certainly going to be tempted to use Federal revenues for the same purpose.

(5) Would rural-dominated or rural- and suburban-dominated State legislatures discriminate against urban barriers, particularly the core cities?

The evidence is that they have. There is very little evidence to indicate that they would not continue it. I think there is a study connected with Syracuse University which demonstrates pretty specifically and in detail the kind of discrimination that has been built up over the years in New York State and other States favoring these suburban areas of a State like New York as against urban areas. The evidence, I think, is irrefutable.

Now, whether or not the States, themselves, in the face of that evidence might then reconsider their own policies is a fair question; but we do not have evidence to answer that one yet.

Representative GRIFFITHS. Of course, all the evidence you have and the experience of those who lived in large cities and went to State legislatures is that in fact the State legislature was looking upon the people within the large cities as really some other type of Americans. They hardly considered them part of the group.

Senator MUSKIE. I remember the difficulties I used to have as Governor in trying to develop equitable school subsidy formulas to funnel State money into local school systems.

Now, the objective of those programs is to enhance the capacity of the poorer districts of the State, to provide a minimal educational level for the kids. Every time we had to pay a price to the wealthier or relatively well off districts of the State in the formulas. We could not give full consideration to the equalization aspect of our effort. Equalization always had to be compromised in order to buy the votes necessary to support the program.

If this is done every time the subsidy programs are looked at, then the compromise of equalization tends to grow. The net result is that you do not really achieve equalization, you do not really do in the poorer districts of the State what ought to be done to equalize human opportunity.

Now, if that has been happening in a State like Maine where we really don't have classes of citizens in the sense that you have them in more metropolitan States, then what is happening in those States? I think the evidence is clear.

Representative GRIFFITHS. At a time when, in the State of Maine, the local area furnished every single thing for the school, including crayons, books, everything, in the city of Detroit there were schools in which they did not furnish toilet paper. So, the difference in what a

State legislature will do in any State to the poorer communities, or the place where the need is, is already on the books in every State.

Senator MUSKIE. The record is clear. There are those who are tempted to believe that with a one-man and one-vote decision and reapportionment of the legislatures that this problem will automatically be taken care of.

As President Kennedy said once about a newborn nephew: "It looks like a fine baby. We will know more later."

I think this looks like a fine baby but we had better find out more about it before we rest too many of our policies on the assumption that we will get automatic improvement.

The sixth question I would put, Madam Chairman, is this:

(6) Would the rebate money reach local levels or would it be used to strengthen State programs and administration to the detriment of local administration and "home rule?"

I think the record here is clear.

(7) Would State executives and legislatures encumber funds provided under revenue sharing with requirements before passing them on to local governments?

The interesting thing here is that, to my knowledge, no State government has ever done for its local governments in the way of giving them initiative and authority and autonomy in the expenditure of State funds what State governments are asking the Federal Government to do for them as they plead for tax sharing.

I think there is merit to the suggestion that if we approve tax sharing or adopt it as a policy that we ought to insist that the same principle be required in the distribution of these funds at the State level to the local levels of government.

Representative GRIFFITHS. Wisconsin, I believe, proclaims that they have done this rather effectively. If this is true, it is the only State in the Union.

Of course, one of the things that is happening in this Congress right now is that as we are sending money back to the specific areas of need; the bills are being amended on the floor of the House to send it back to the States—I don't think you have any difficulty seeing that if they are going to apply it through some uniform formula throughout the State, that hurts the area of need, juvenile delinquency, and police officers.

Senator MUSKIE. We just did this in the Senate the day before yesterday on a bill which is not one of the spectacular ones but I think a very important one, the Intergovernmental Personnel Act.

Under this bill, the Federal Government would provide programs and grants to open up training programs to State and local government personnel because manpower is the greatest crisis at the State and local levels of government. The Senate adopted an amendment which I resisted, an amendment to give Governors the power to decide whether or not a State or local project should be approved; not only that, but in effect to give Governors the authority to write the check on the Federal Treasury, without veto power on the part of the Federal level.

Governors who testified before our committee on tax sharing and who urged tax sharing as a Federal policy, in response to questions from me said that they would not consider a similar policy for State government or their local governments. This is how far the inconsistency goes.

The eighth question I would ask, Madam Chairman, and I have just two more, is:

(8) What would be the effect of rebates on the incentive grants which require State matching funds? Would States use their tax sharing money, directly or indirectly, to match up their contribution, and thus "bleed the Federal Treasury with its own money"?

I think another question that goes with it is this:

What will happen to the categorical grant-in-aid programs?

Now, they amount to something like $17 billion in this fiscal year. If tax sharing is the wise policy, then eventually to be meaningful it is going to have to mean money of this same magnitude. If we begin to put money of this magnitude into tax sharing, the categorical grant-in-aid programs are going to have to starve.

I can't conceive of a Congress supporting each with equal weight and emphasis. So, one is going to have to give way to the other. We ought to contemplate the conditions of that shift. It is not simply a question of adding another grant-in-aid program called tax sharing, because tax sharing will grow if it is adopted. It is going to mean the end of these other programs, I think, or at least the dilution of these programs which are geared to national objectives, which are being stimulated, promoted, and implemented by Federal incentives and Federal enforcement.

The ninth and final question, Madam Chairman:

(9) Are the States ready—administratively and legislatively—to administer tax-sharing money in the best interests of all their citizens?

The Subcommittee on Intergovernmental Relations has found that too many Governors can neither coordinate nor control State agencies which for years have developed plans and priorities for Federal and State aid without reference to overall State needs, particularly as they relate to social welfare and metropolitan programs.

I found as Governor that the one area where it was the most difficult to get State legislatures to act is in the area of State government reorganization and reform, in the area of giving Governors adequate authority to be in fact the chief executives of their States.

So, the Governors, and Maine's Governor constitutionally and statutorially is one of the weakest, have no authority in fact to mobilize the State effort to deal with these problems. If they are not given that authority with respect to the State resources they now have, then should we not consider whether or not Federal tax sharing, subjected to the same kind of situation, would be equitably used by the States?

This business of State organizations, especially of organizations of State executive branches, I think is critical in this whole area.

Just to give you some "for instances," in the Maine situation, when I took office I could appoint department heads only to the extent that their terms expired in my 2-year term. Now, there were department heads who held office when I took office whose terms would not expire in the 2 years of my first term. So that, there were department heads over whose activities I had no control or influence except to the extent that they looked at the vote I had gotten as Governor, except to the extent they found me persuasive as an individual. But, if they should buck me in any respect, I had no control over them.

May I say that the relationship was not altogether cooperative. This was one problem.

There were department heads who had terms as long as 7 years when I took office, whose terms would not expire if I had two terms as Governor. It was that kind of situation.

Another kind of situation was this: That when there were vacancies in department heads, I could fill them with the approval of an executive council elected by the legislature and consequently entirely of one party and you can guess what that party was in my State. So, I had a Republican executive council that could veto every appointment of a department head which I proposed. And they did that freely, and with obstruction as their goal.

We have a Democratic Governor in Maine right now who is undertaking to make the Maine Public Utilities Commission a consumer-oriented instrument for a change. So, he proposed a chairman last February who has not yet been approved by the executive council. The only objection that has been voiced by any member of the executive council is that this individual is for public power. Now, he can make that objection a matter of record and not be disciplined for it.

Here is a man of undoubted qualifications, consumerminded to the point where he thinks we need a public power yardstick, and he is being resisted rather openly by the executive council for that reason.

This is the kind of situation Maine's Governor has. I can recall Governors' conferences at which we discussed this with Governors from the then 48 States. This Maine picture was repeated over and over again. I do not think we ought to assume automatically that one-man, one-vote is going to improve the situation or that tax sharing will improve the situation. They won't.

So, I think that the Federal Government, in the interest of strengthening the State governments, in the interest of improving the performance of State governments, in the interest of developing viable, vital, progressive, and dynamic State governments, ought to assert national leadership which will move State governments in that direction.

So, as we share Federal resources with the States, we ought to use them in such a way as to move State government toward a higher level of performance and thus minimize in the long run the responsibilities that the National Government may have. I do not think you are going to achieve this objective by simply giving the States a blank check. So, tax sharing, I would say, Madam Chairman, may be a legitimate long-range objective, but, it ought not to be immediately implemented.

My own view for the immediate future is that we should use and improve the grant-in-aid programs which are designed to meet the needs of the Nation. One important way to improve them would be to reduce the now over 200 Federal aid programs, with 400 separate authorizations, to a manageable few so that Governors and State legislatures and agencies can know about them and have a greater flexibility in handling Federal assistance.

In this connection, I would vigorously support the block grant approach such as we are using in the health field and in the model cities program. This block grant approach, I think, should be extended to welfare, education, and other programs.

Madam Chairman, the remainder of my testimony deals with some specific proposals which the Subcommittee on Intergovernmental Relations has developed to streamline and improve the Federal grant-in-aid program. I won't take the time to read that but will insert it in the record. I shall be glad to cover any part of it that may be of interest.

(The statement referred to follows:)

CONCLUSION

The Subcommittee on Intergovernmental Relations has developed a number of proposals to streamline and improve the Federal grant-in-aid program, including the Intergovernmental Cooperation Act of 1967 (S. 698) and the National Intergovernmental Affairs Council Act (S. 671).

The Intergovernmental Cooperation Act offers a number of related measures which would, among other things:

Improve the administration of Federal grants-in-aid;

Provide technical services to State and local governments:

Establish criteria for coordinated intergovernmental policy and administration of Federal assistance for urban development; and

Authorize the President to submit to the Congress plans for the consolidation of individual categorical grants within broad functional areas, in the same way he submits executive reorganization plans.

The second bill would establish a National Intergovernmental Affairs Council in the Executive Office of the President, as a working organization to advise the President on intergovernmental relations problems and to see that agreed-upon administrative procedures for the coordination of programs are carried out.

In conclusion, Madam Chairman, I wish to underscore my primary concern in the matter of Federal assistance to State and local governments. That concern is with the application of our considerable resources to the problem areas of our country so that they will touch and transform the lives of our citizens. The improvement of the system, the strengthening of State and local governments are means toward an end, and that end is the achievement of the American dream as voiced by the author, Thomas Wolfe:

"To every man his chance; to every man regardless of his birth, his shining golden opportunity. To every man the right to live, to work, to be himself, and to become whatever things his manhood and his vision can combine to make. This . . . is the promise of America."

Senator MUSKIE. In the hearings which I referred to earlier last year on creative federalism, we undertook to emphasize the importance of improving our administration of grant-in-aid programs. This proliferation of programs, I think, has caught us unaware from an organizational point of view at the Federal level.

We have been so preoccupied in the Congress with authorizing these new programs to serve worthwhile national purposes that we haven't paid much attention to the organizational morass which we were creating. This is not anybody's fault especially, that I can see. It came upon us suddenly, and especially as the result of the actions of the 89th Congress where new programs flowed out so fast that nobody could keep track of them. Now we have them, we have the policies, we have all these objectives that we are pursuing, and we have to give attention to the organizational problem, and the organizational problem is coordination.

Now, I proposed to the Budget Bureau and to the White House, and we have had a continuing dialog over this proposal over the last year and a half, that we set up a coordinating mechanism in the Office of the President. I said to Mr. Schultze that this could well be in the Bureau of the Budget. I have no objection to the Budget Bureau doing this job. It has the authority now, but it has never been implemented in the sense of setting up an organization which on a day-to-day basis works on the objective of coordinating the activities of the Federal agencies whose activities and legislative mandates overlap and to some extent duplicate, as well as coordinating the three levels of Government in this creative federalism partnership which we are trying to develop.

The response is that you can't legislate coordination. Of course, you can't legislate coordination, but it seems to me that we can take three steps to improve coordination:

First of all, we in the Congress, with the assistance of the President and the executive branch, ought to look at these grant-in-aid programs and reduce their number, consolidate them to the extent that we can do so and preserve the integrity of the various objectives that they represent.

In the water field, for example, we have one sewage treatment grant program for communities under 5,000 people under the Aiken Act. We have another one under the Federal Water Pollution Control Act. Then, in HUD, we have a sewer construction program which is supposed to be geared to the sewage treatment grants program. Then, in the Department of Commerce, we have the Economic Development Administration which also can pour money into both of these programs. So, you have four major departments of Government concerned with the same subject.

We ought to look at the legislative programs and consolidate them and preserve the interests of all of the various areas of our country intended to be served by them, but nevertheless put them together legislatively.

You can do this with a number of programs. Even the objective of serving underdeveloped areas in our country is performed by the Departments of Commerce, Agriculture, to some extent HUD, and there may be others. I cannot keep track of them all. So, legislative consolidation of programs is one step we can take.

The second step we can take, and we can do this by means of legislative reorganization plans, is to consolidate the agencies themselves that deal with like subjects.

Then, thirdly, when we have achieved maximum results from the first two steps, I think we must still have a coordinating mechanism, one which will coordinate the efforts of State and local government with Federal Government, also one which will coordinate efforts of Federal agencies. I think this has to be done on a day-to-day, ad hoc basis under an agency which has this responsibility constantly in mind.

Now, HEW has set up this kind of organization within its boundaries. It does this kind of coordinating job at the Federal level among its constituent agencies, at the regional level among its constituent agencies there, and with other Federal agencies, and then at the local level. It is encouraging this coordination approach.

I think we could do this in the meantime, whatever happens to tax sharing, and maybe if we do it well enough we can eliminate the idea of tax sharing. My own prediction, and I am not much of a prophet, is that using the approach I have suggested we will end up at about the same point where the tax sharers end up when they finally refine their proposal.

Thank you very much, Madam Chairman.

Representative GRIFFITHS. Thank you, Senator.

I would like to ask you, Why should we not examine the problems and make a new determination as to what is the Federal problem and what is the local problem? I think what bothers me tremendously is that some States have no general assistance program under welfare.

As a member who sits on the Ways and Means Committee, I can watch the social security bill be changed so that it picks up some of that burden of the welfare within those States. Now, I really don't approve of this. I feel that this money which has been paid in by the great industrial States should be returned to them. That was the original intent. I think that rather than permitting people to trade around for the best welfare they are going to get, it might be wise for the Federal Government to say, "This is a national problem and hereafter we will run it."

Senator MUSKIE. I think we should make that kind of in-depth exploration of many of these fields that have grown like Topsy with patchwork solutions.

Representative GRIFFITHS. We have been so afraid, we have taken the attitude that this is something which that State must be permitted to control. Yet, in many instances, as much as 80 cents on the dollar is really Federal money. But you have other laws to take care of what State will take care of anyhow.

Senator MUSKIE. You are right. I don't think that can be rebutted. There is a temptation on the part of the States to do this. I recall, for instance, when I was Governor, we faced the problem of medical care for people who would be eligible for the categorical aid programs, ADC, aid to the disabled, aid to the blind, and aid to the aged. Now, many of these people who were getting help in my State, were getting hospital care that was pretty much subsidized by the private-paying patients of those hospitals because the State was not picking up the charitable side of the load.

Although the legislature had, over the years, slowly increased the State's share of the load, it has not yet reached 50 percent. So, I tried to come up with a new answer. Finally, we made use of the Federal programs to set up a pool of money from the categorical aid programs which we then were able to use for these various cases.

Although it is perfectly true that this was legal, perfectly true it was authorized by the categorical aid programs, nevertheless, in a sense, this was a crutch that we used in my State to do a job which perhaps should have been done totally with State funds, using the Federal program for purposes that were more nearly in line with its principal objectives.

The pressure of human needs drove us in this direction, so we went in that direction. I don't know that we did anybody any harm. We played with the problem of general welfare assistance for 2 or 3 years without coming up with an answer how to get some Federal money to help us with that problem.

But there is this tendency on the part of the States to distort their programs to take maximum advantage of Federal programs, not because they are reluctant to exert an effort but because the pressures upon them are so very great that they will relieve the pressure wherever they can by using Federal programs and sometimes distorting them.

I think our best answer is to find better ways to provide additional resources from the Federal Government but to insure that these resources are used more intelligently and effectively and wisely.

Representative GRIFFITHS. Thank you very much for coming here and giving us your opinions. We are very grateful to you.

Senator MUSKIE. Thank you very much, Madam Chairman.

Representative GRIFFITHS. Congressman Bennett?

STATEMENT OF HON. CHARLES E. BENNETT, A U.S. REPRESENTATIVE FROM THE THIRD CONGRESSIONAL DISTRICT OF THE STATE OF FLORIDA

Representative BENNETT. Madam Chairman, I deeply appreciate this opportunity to appear before the committee which is hearing testimony on revenue sharing and its alternatives.

I want to congratulate the committee and its staff for the fine work you have done in preparing for this vital study.

We are living in an age of vast and speedy change. Our problems almost overwhelm us. We have a race for the moon, air and water pollution, a crying need for better schools, a glut of slums and crime, and overpopulated cities, and the critical problem of getting from one place to the other.

On top of all of this, our fiscal house is a mess. We are fighting a war in Vietnam, costing at least $2 billion a month; we are faced with a deficit in the budget this year of $30 billion; and we have a national debt of $340 billion.

The kind of inquiry your committee is making in these hearings is important in solving our basic domestic problems at home and in finding ways to finance our Government with all of these problems heaped upon us.

You are leading the way in the development of the kind of "creative federalism" our Nation desperately needs to meet the challenges of today and tomorrow. The President has said:

> The basis of creative federalism is cooperation. If Federal assistance programs to State and local governments are to achieve their goals, more is needed than money alone. These programs must be carried out jointly; therefore, they should be worked out and planned in a cooperative spirit with those chief officials of State, county, and local governments who are answerable to their citizens.

What we have here is a call for the sharing of responsibility between governments and cooperation between all levels of government and officials. The genius of our system of government is based on effective government at all levels—Federal, State, and local.

Woodrow Wilson wrote, 80 years ago, the best definition of "creative federalism" I have seen:

> Our duty is to supply the best possible life to a Federal organization, to systems within system; to make town, city, county, State and Federal Governments live with a like strength and an equally assured healthfulness, keeping each unquestionably its own master and yet making all interdependent and cooperative, combining independence with mutual helpfulness.

Creative federalism, to my way of thinking, does not necessarily include the suggestion of tax-sharing with the States and local governments.

At this particular juncture in our Nation's history—with an announced $30 billion deficit, and facing a gigantic inflation—we can ill afford to adopt any tax-sharing scheme that I have seen.

The fastest way I know of to assure an even larger tax increase than the President's surtax request is to have a tax-sharing program with States and local governments. The enactment of the proposal made earlier in this session by several Congressmen would only add further to the present high level of Federal expenditures and would cause an even larger budget deficit.

I am opposed to this tax-sharing plan because:

1. It violates the principle that authority and responsibility should be in the same hands. In the proposals mentioned, the responsibility to tax would be on Congress, and the authority to spend would be in the hands of State and local officials.

The well-established grants-in-aid programs in many fields have been effective and helpful to our communities and this seems to me the best route for further distribution of tax moneys to States and local governments in the future—when our country can afford it.

2. Tax-sharing could not prevent Federal strings being attached by later enacted Federal law, under our Constitution. If we analyze the numerous bills which have been introduced during this 90th Congress on this subject, we can see that a great many of them impose certain requirements which must be met in order to qualify for such assistance.

And, once the funds-granting system is established and the local governments become dependent, other later laws would become politically feasible with which to attach whatever strings the Federal Government may wish to impose. Federal control and power would tend to be enlarged rather than curtailed by enactment of such a program.

3. This idea would not constitutionally prevent the Federal Government from continuing or entering anew any local type governmental function.

4. It would contribute to the breakdown of local government by removing the responsibility of local government to provide for needs. I believe this program would simply make State and local governments more and more dependent upon a handout from Washington. Some would be tempted to reduce their own taxes or cut back spending for vital programs. Like unused muscles, local governments would atrophy.

5. The trend would be more toward centralized government in Washington, not less, because Congress, as a whole, not the local officials and voters, would be deciding how much should be spent and taxed for.

6. It erodes the power of voters to hold down excessive government spending. Even if a State's congressional delegation voted against the increased taxes needed for the local spending and the whole Congress acted otherwise, the taxes would be imposed.

7. Because of this, it would unnecessarily increase overall government spending. The U.S. Government is already contributing substantial sums of money each year to State and local governments for a wide range of Federal grants-in-aid. During this current fiscal year 1968, such payments made directly to these governing units are expected to amount to $17.4 billion.

8. A blow against the democratic process would be struck because of the relative lack of contact with a Congressman as distinguished from a State legislator.

9. It would minimize the chances for exposing local corruption and wastefulness.
10. A new element of difficulty in planning local budgets because of emergency Federal requirements and other budget questions being injected into local government. This problem has been apparent in the planning in the new school aid program, because timing in congressional appropriations is based on different scheduling than local school needs.

Much has been said about the Federal Government's ability to pay for public expenditures, because the income tax is more responsive to the economy than taxes on property and sales, heavily relied upon by States and local governments. Of course, States and local governments can also impose income taxes. Many do. From statistics recently published by the Bureau of the Census, it was revealed that for fiscal year 1966, State and local revenues actually exceeded expenditures, which is more than can be said of our National Government.

I do not think the tax-sharing idea is as popular with the voters as most people seem to think. I conducted a poll of all residents of my district this year. Eighteen thousand replied, and on the question: "Should Federal income taxes be increased over Federal needs to provide for tax sharing with States?" 93 percent voted "No" and only 7 percent voted "Yes."

Before Congress enters into the proposed tax-sharing program, all these aspects should be considered.

Representative GRIFFITHS. I would like to say you got that kind of an answer because you asked an honest question.

In general, I feel that the question is being asked as if it would give people relief from taxes. It is not going to relieve anybody of any taxes; it is going to increase taxes.

Representative BENNETT. I certainly agree, Madam Chairman.

In the questionnaires I have prepared for my constituents, I have always put the question the hard and honest way that you and I, as Members of Congress, have to answer it.

I try to give all the facets to it so that it will be a really helpful poll.

Finally, I would like to say that perhaps some of these could be overcome, but apparently, most of them cannot. We should not rush into this program facing our current fiscal problems.

Thank you very much, Madam Chairman.

Representative GRIFFITHS. Thank you.

I am going to be very happy to convey your entire message to the whole Ways and Means Committee. I know they will be delighted.

Thank you.

Representative BENNETT. Thank you, Madam.

Representative GRIFFITHS. We will hear now from Mr. Nathan Kaufman, mayor of University City, Mo.

I would like to say again to you, Mayor Kaufman, how pleased I am to have you here. If anybody can make me believe that this revenue sharing is on the right track, I am sure that it will be your own testimony. You have done a wonderful job.

Mayor KAUFMAN. Thank you very much for your gracious comments. I appreciate them very much.

STATEMENT OF HON. NATHAN KAUFMAN, MAYOR OF UNIVERSITY CITY, MO.

Mayor KAUFMAN. I should preface my remarks by suggesting I am a part-time mayor. I am an attorney by profession. I have spent most of my time earning a living through that endeavor.

Since 1952, I have participated in municipal affairs. Throughout that period of time, of course, I have gained some ideas. I was hoping for a platform where some of these thoughts which have been bubbling over can be spread on the record.

I am here at a time when other distinguished guests have appeared and made outstanding statements. I am reminded that many years ago the famous jurist, Oliver Wendell Holmes, made this observation, in one outstanding case, that the life of law has not been based on logic; it has been based on experience.

I would like to speak to this committee based upon my experience in municipal life. I do not come here with any special expertise. I merely come here as an individual who has gained some experience from my local community; I have gained some experience from conversations that I have had with other municipal officials throughout the entire country as I have attended many of these conventions.

I have concluded that perhaps the national purpose, one national goal, as suggested by Professor Heller, comes down to providing adequate basic neighborhood services which are being rendered by municipalities.

It is my privilege to address this committee on the subject of fiscal problems of small cities, with particular consideration of the application and need for revenue sharing with communities.

Since we hear daily of the problems of the big cities, I was happy to read in the press this week that the need to preserve the smaller city was being urged by such eminent thinkers of our day as Constantinos Doxiadis and Margaret Mead, at a recent conference in San Juan. We are not a lost cause, a political anachronism.

If I may, I would prefer to expand the term "small cities" to cover a broad population spectrum from 500,000 down to 50,000, since our city staff, in conjunction with some members of the St. Louis University staff, has undertaken rather intensive studies of the expenditure patterns of the 300 cities in this population group. They also have studied the 22 largest cities, all of which exceeded 500,000 by the 1960 census.

Although neither I nor anyone else can claim comprehensive knowledge of the financial capacity of all these cities to meet their service needs, I am intimately familiar with my own city's financial pressures and the conditions of many others around the St. Louis area and Missouri, generally. I feel confident, also, that the rather unhappy plight of many small and large Missouri cities is being repeated in area after area for a number of similar reasons which I shall describe.

URBAN BLIGHT IS NOT UNIQUE TO BIG CITIES

We hear much about the problems of the core city, the big city. I believe a more accurate term for the problem at hand would be the "established" or the "older city." Deterioration and obsolescence for years have been attacking not only the metropolitan core cities but also many suburbs and out-of-State cities.

For example, Newark is a deteriorated suburb of New York, and East St. Louis likewise has suffered percentagewise far greater deterioration than the core city, St. Louis. Hundreds of cities, large and small, have had to undertake urban renewal, and many more should. The financial strangulation of cities is not unique to the core city. Why?

THE FLOW OF INVESTMENT IS AWAY FROM CITIES

Older urban centers, whether suburbs, central cities, or outstate cities, generally suffer from a radial or outward flow of private investment capital, which in itself engenders further depletion of the particular local government's operating funds by undermining the local tax base. In established cities, only a few very select and intensely desirable neighborhoods such as university core areas, such as some business areas, such as areas of historical importance, such as areas of potential luxury high-rise development, or areas of great natural beauty are continuing to attract substantial private rehabilitation and reinvestment. Why? Because it is profitable to invest only in neighborhoods of these types.

If our urban economies were to function ideally, private capital automatically would flow back without subsidy into all of the oldest areas for reinvestment and reconstruction. In actual fact, private capital not only tends to flow outward radially from the most recently developed fringes; but because of lands held for speculation, often skips over substantial chunks of developable land. This is how development profits are to be made as largely dictated by the tax structures and other economic forces.

Representatives GRIFFITHS. May I interrupt you?

Mayor KAUFMAN. Yes.

Representative GRIFFITHS. Does University City collect less in taxes than it has previously, or not?

Mayor KAUFMAN. We are not collecting less in taxes than we have ever collected previously, but we are basically a mature bedroom city, which, like many others, must keep raising our tax rates, and other types of levies.

Representative GRIFFITHS. What about East St. Louis? Would you say they are collecting less, or not?

Mayor KAUFMAN. They probably are not collecting less in taxes but I think that they have the problem of a declining community. Their property tax rate is such that about 30 percent of their property levy is in default.

Representative GRIFFITHS. But the demand for services is greater.

Mayor KAUFMAN. The demand for services, of course, is very substantial in that area. I think they have a minority problem in East St. Louis and, of course, the basic services which must be rendered in that community are far out of proportion to the amount of revenue which can be stimulated locally.

This is the thesis of my whole presentation, that we must look to the basic need, neighborhood services which must be rendered, for example, police protection, fire protection, garbage and rubbish collection, and the municipalities physically are unable to generate sufficient income to perform these services.

Representative GRIFFITHS. It is not that the tax base is gone. It is that the demand for the services is so much greater.

Mayor KAUFMAN. The tax base is also gone, in a sense, because many of the businesses flee from the cities to the newer suburbs, and when the businesses flee, of course, the tax structure is diminished.

Now, in the city of St. Louis, they have enacted an earnings tax which, in effect, has saved that community from bankruptcy. I have an office in the city of St. Louis; I pay earnings taxes in the city of St. Louis. This is true of other people in the community who do not live in the core city. So, the tax burden has been shifted, somewhat, from the property tax to the earnings tax in the city of St. Louis.

Now, I know, I had occasion to listen to an expert from England at one municipal conference. Apparently they have a very interesting program in that country. Although industry may move out of the core or older city, nevertheless there is national refunding to the city where the businesses have left so that they have the capacity to continue to maintain their functions.

I think this is the basic wedge necessary in many communities where the industry flees from the core city or the industry may flee from the older suburban city.

Representative GRIFFITHS. But, industry moves also because plants are outmoded. It is cheaper to build a new plant in a different area than it is to knock down the old plant and rebuild that one. Of course, they could have the new plant ready to operate on the day the old one stops.

Mayor KAUFMAN. Yes; I can see the justification.

Representative GRIFFITHS. You may proceed.

THE FAILINGS OF THE PROPERTY AND OTHER LOCAL TAXES

Mayor KAUFMAN. There are severe failings in the property and other local taxes.

Local governments' greatest single revenue source is the property tax. Unfortunately, aside from the exceptions noted, builders tend generally to build where property taxes are low; where prosperity prevails; where raw land is cheap—not where services are needed; not where more property taxes or more tax base is needed.

Moreover, we know that the property tax system subsidizes the slum landlord, penalizes rehabilitation efforts, discourages good quality in building, falls most heavily on the small homeowner, creates enormous hostility among local voters, is costly and complex to administer, is uniquely vulnerable to political abuse and outright dishonesty.

But, above all, the property tax, even with the help of many other local taxes, cannot supply the growing revenue needs of established cities; that is, without severe detriment to the competitive position of these cities. Due to the national inflation and growing service demands, city per capita costs have been increasing by about 6 percent annually. We have indeed a growing revenue gap for the established city.

Representative GRIFFITHS. May I ask you, Is the building code in University City such that it discriminates in favor of high-priced buildings?

Mayor KAUFMAN. It is not in our community.

Representative GRIFFITHS. Is it in St. Louis?

Mayor KAUFMAN. I think they have gone through a very substantial reform in our area and there is a tendency to be very enlightened in the building codes.

Representative GRIFFITHS. There are areas in which a prefabricated home cannot be constructed in various places in the country?

Mayor KAUFMAN. Yes; they have undergone substantial reform in building codes, both in St. Louis and St. Louis County.

Representative GRIFFITHS. You may proceed.

OTHER DESTRUCTIVE IMPACTS OF TECHNOLOGY

Mayor KAUFMAN. There are other destructive impacts of technology.

We all know that industry, for its survival, often must move out of established cities for more space and better transportation; many people move out of established cities at the beck and call of the developers and the search for greater status as well as to escape deteriorating neighborhoods.

Commercial facilities then follow the people and so goes the property and other tax bases; and so is destroyed the capacity [1] to support the greater service needs of the declining neighborhoods. Unfortunately, too much of our fringe area development actually depends for its success upon the decline of established communities, large and small.

Likewise, we know that the mass production of automobiles has placed numerous additional burdens on the established city's private and public facilities—more streets, parking space, traffic control, et cetera—while making possible an accelerating flight of better-off people and property from both central city and older suburb. The American public now is urged by Madison Avenue and its image manipulators to throw away not only its cars every 5 years or less, but its houses also.

OTHER THROWAWAY, RUNAWAY ASPECTS OF THE URBAN ECONOMY

There are other throwaway, runaway aspects of the urban economy.

While abandoning the housing, we abandon costly public and private facilities.[2]

We also abandon people left behind, or many who enter cities because of being already abandoned by farm mechanization. Our throwaway economy includes by now throwing away cities and the people within.[3]

This process is accelerated dramatically by racial differences and riots are adding another level of pressure to the flight.

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[1] The financial decline of cities perhaps is best illustrated by the fact that in 1932 city tax revenues accounted for 52 percent of all government tax revenues: by 1966, city revenues accounted for only 7 percent of all government tax revenues while the Federal Government was collecting two-thirds of same.

[2] The accelerating rates of abandonment of churches, synagogues, and hospitals provide interesting indices of this wasteful process.

[3] Already by 1960, the median family income for all cities over 50,000 covered a relatively narrow spectrum: 97.6 percent of the 64,526,165 people in these 322 cities were residing in cities with median family incomes under $8,000, and 82.5 percent were in cities with less than $7,000 median income.

This throwaway and runaway approach is the nature of our urban economy aided and abetted by our tax system. As a result, cities no longer can finance adequately even those traditional neighborhood services for which cities were originally created to provide. The process of urbanization in the United States results in a self-generating cycle of established city destruction, which can only be broken by revising the taxing systems.[4]

The Cycle of City Destruction as Related to Failing Neighborhoods

The cycle of city destruction is intimately related to failing neighborhoods.

I have used, deliberately, the phrase "traditional neighborhood city services," because I believe the preservation and revitalization of the urban environment and of cities, really means the preserving and revitalizing of the neighborhoods as well as the rehabilitation of their residents. I have described, in broad terms, some causes of urban decay. Actually, we painfully observe this process continuing to occur, block by block and neighborhood by neighborhood, in our own metropolitan area. Most often it is attributed to racial change; but racial change also often merely constitutes the coup de grace or last big step in the spiral of decay.

Loan agencies, both private and public, already have refused to place money in the area; and insurance companies have refused both building and vehicular insurance to the neighborhoods. Neighborhood services in terms of public safety, sanitation, and inspectional controls generally have dropped to low levels because the cities cannot provide the additional housing inspectors, additional police, additional refuse service, and sanitation service. Owners and investors will not risk their money, regardless of color. They turn to the last market opportunity for the neighborhood; namely, the minority group tenants.

Spotty Fiscal Reform at the State Level

There has been only spotty fiscal reform at the State level.

But what does it take to reverse this trend? In many States, much has been accomplished by State revenue sharing to bolster city services. I would cite the States of Wisconsin, California, and New York.

State-collected income, sales, cigarette, gasoline, et cetera, taxes are refunded to cities by various formulas—some by per capita, some by locus of collection, et cetera. Unfortunately, State legislatures nationwide show a rather spotty performance pattern.

Wisconsin has had relatively generous programs resulting in very-well-serviced and attractive cities, generally; while in contrast, in Kentucky, by State constitution, it is impossible to have a State refunding program and the cities are in bad shape.

Although much can and should be accomplished through State assistance, in many States it is both politically and perhaps economically impossible to meet many of the urban crises through State refunding for years. Without doubt, many medium and smaller cities,

[4] Many European industrial democracies already have adopted extensive national revenue-sharing programs for city governments.

theoretically could be "saved" by adequate State income tax refunding. State reform is at best a slow process and we do not have much time. Therefore, cities large and small have turned to the vast resources of the Federal Government.

Some Failings of the Federal Categorical Grant Programs

There are some severe failings in the Federal categorical grant programs.

Federal aids to cities in contrast to State refunding have been traditionally in the form of categorical grants. We believe that these must now be supplemented by block grants for neighborhood or traditional city services, in order for cities to survive as effective political entities while strengthening the local service programs.

First, I should like to emphasize that the Federal categorical grants to city governments in many instances have been most beneficial and indeed critically needed; but they have been very modest in amount in comparison to the rhetoric, and headlines these grants have received.

In 1966, out of a Federal $106 billion budget including $13.1 billion of aids to State and local government, city governments received only $601 million for all 18,000 municipalities.[5]

This included all money for urban renewal, planning, beautification, housing, welfare, and everything else.

Cities have not been aided under Federal programs to work systematically through their operating services on neighborhood improvement except through the very limited code enforcement programs. However, even though receiving relatively a pittance, many of us have had very great frustrations and embarrassments in the uncertainties, delays, waste, and inefficiency of this categorical process.

While participating in grant programs, city budgeting in a rational manner often has become exceedingly difficult and long-range fiscal planning impossible. Some scholars are saying that the model city program will bring order out of the confusion of 400 grant-in-aid programs. The lack of coordination and conflicting objectives of Washington agencies are to be straightened out in each city. This is optimism indeed.

Cities, maybe, can survive delays in many grant categories. In fact, grants for major planning, redevelopment, housing, and antipoverty activities may always have to be rather categorical. Cities, however, will not be able to survive the delays and uncertainties of the categorical process when it comes to financing police, fire, sanitation, streets, inspectional, and other traditional municipal services.

Cities work under great pressure, often in rapidly changing environments, and according to strictly budgeted financing and time schedules. They must man critical services around the clock.

The categorical approach by definition implies detailed Federal review and Federal decisions on all city objectives, programs, and operations before money can be forthcoming. The key community decisions would have to be made by many people in many remote agencies such as in regional offices and/or in Washington, for each city and for each city operation. How can these people know the detailed answers and act effectively?

[5] "City Government Finances in 1965–66," Bureau of Census, p. 5.

Under an expanded or comprehensive categorical approach, city councils inevitably would become advisory bodies. Mayors would become primarily public relations men and Washington lobbyists. They would be painfully vulnerable to Federal administrative agency and Federal political domination. More than ever, local democracy would become a sham, if not completely chaotic and very expensive. American representative democracy as a whole would be weakened inevitably and creative federalism really would lapse into creative centralism.

A supplemental block grant-revenue sharing approach to local government financing offers some solutions.

The Block Grant Revenue-Sharing Approach to Local Government Financing

In contrast, carefully designed block grant programs could provide very positive boosts to local democracy and to sagging neighborhoods suffering from declining city finances at this critical time with a very modest outlay by the Federal Government. As a result of some research in this matter, I can offer the committee some idea of the scale of nationwide costs and the potential impacts of possible block grant programs.

If all 322 cities in the United States over 50,000 population were to receive an average general fund grant equal to about 45 percent of their actual 1965–66 expenditures for basic neighborhood services, which would include police, fire, streets, environmental sanitation, parks and recreation, general administration, inspectional, et cetera; the total annual cost would be $2.2 billion nationwide. For the 300 cities 50,000 to 500,000, the total cost would be only about $950 million annually. The typical city would receive about $30 per capita.

Because of their more intensive problems and broader service responsibilities, larger cities would receive higher per capita grant maximums, generally. Considering the potentially enormous boost to urban America, the total costs would constitute extraordinarily small impacts on a Federal budget of about $130 billion. We are thus recommending a small, but critically needed, addition to the present substantial package of aids to State and local governments.

Representative Griffiths. How would you keep the money from going into areas that didn't really need it?

Mayor Kaufman. In some few instances, need may be yielding to equity.

From the standpoint of equity, take the State of Wisconsin, where Wisconsin contributes very generously to its municipalities. Can we, on an equitable basis, say that lesser amounts of money should go to that particular area because they are promoting their own services as a result of relatively greater local taxing effort?

Now, I recognize this is a critical problem, a problem of fair treatment to every community throughout the entire country; but, based upon our analysis, we have reached the conclusion that virtually all municipalities throughout the country—over 50,000 in 1960, perhaps there are a few exceptions—are, or will be, in serious trouble. I have already mentioned the pattern of modest median family incomes for these.

Representative GRIFFITHS. Well, I represent an area outside the city of Detroit. It is the largest land area in Michigan, really. It is really brand new. The homes have been put there within the past 10 or 15 years. It grew from about 5,000 to 100,000 within a period of a few years. The homes have sold at a reasonably high price. There is industry within the area. Now the question would be: Why help these people? They are already fleeing the city of Detroit. They came from the city of Detroit to that area. Wouldn't this really increase the problem of people leaving the major cities?

Mayor KAUFMAN. I think we can easily introduce variables to cope with these situations.

In this next paragraph you will observe I speak of introducing variables; such as cities with a larger number of low-income families receiving additional amounts. Likewise, cities with high median family incomes could be excluded. It is a question of developing standards. This would have to be determined, of course, by Congress and your committee.

Representative GRIFFITHS. For instance, one of the young members on this committee is Mr. Rumsfeld, from an area outside of Chicago. His congressional district has the highest mean average income of any district in the country. It is about $9,000. He represents the lakefront. Yet, I am sure that there will be cities within that congressional district that would qualify.

In my judgment—this is one of the problems that you have today with the poverty program. Some of the money is going into cities which do not need the money at all.

Mayor KAUFMAN. Initially, when we did the formula study we had a cutoff at 50,000 population as of 1960.

Rrepresentative GRIFFITHS. I am sure he has an area of over 50,000 population.

Mayor KAUFMAN. I would suggest again we could introduce variables to meet the particular standards you would establish. I know in many of the grants you do establish standards, and, if the community does not meet the standard, it does not qualify for the grant.

Other variables could be introduced. For example, if cities with larger numbers of low-income families were to receive additional amounts, this element can be injected into the formulas. For about $600 million more, the 1,587 cities between 10,000 and 50,000 could even be included. However, State control of distribution would seem necessarily below 25,000, for a number of reasons. Probably revenue sharing should not be considered at all with respect to cities under 10,000 in any metropolitan area.

Here I try to eliminate the very affluent suburban areas or at least make them a State responsibility.

Representative GRIFFITHS. Of course, some very affluent suburbs around large cities do today have more than 10,000 people. I live in Bloomfield Hills near Grosse Pointe, Mich., and they are extremely affluent.

Mayor KAUFMAN. These funds could be in the form of grants to city general funds, whereby city councils could determine the ultimate appropriation and disbursal on already legally defined city functions. Local and State taxing effort could be recognized by limiting grants to 50 percent of a city's own expenditures; thus, 2 local dollars at a minimum would be required for each federally collected dollar.

Full accounting of this money would be possible for all cities over 50,000, because of the existence and effective operation of the present Bureau of Census annual cost accounting reports on cities. These census reports already report annually on what each city spends each year on each service. The entire system could be operated using a handful of people, the census cost record system, and simple application forms. This nationwide approach could be more equitable, effective, and better controlled than any of the many existing State-administered revenue-sharing programs.

Such a program would not only result in an immediate raising of service levels for police, fire, sanitation, recreational, inspectional, and other services, but also—

(1) Would provide opportunities to city governments to exercise great local initiative in a wide variety of city problem solving;

(2) Would provide a basis for increased inner city employment opportunities for all levels of positions;

(3) Would stimulate many cities to better taxing efforts while releasing others of excessive and regressive local tax burdens; and

(4) Would stimulate governmental and jurisdictional reorganizations in metropolitan areas.

Aside from newly created jobs in the local government services, private investment certainly would tend to create many more jobs from regained confidence in older neighborhoods.

Other secondary effects could include extensive improvements in lower cost housing through better neighborhood preservation and rehabilitation. The rate of abandonment of housing and other private facilities certainly would be decelerated. City governments would be provided with the means to work effectively with neighborhood youth, homeowners, business owners, residents, and investors in neighborhood self-improvement.

In regard to the merit of bolstering neighborhood services, I would like to quote from Mr. Walter Heller's "New Dimensions of Political Economy," 1966:

> Many of the seemingly humdrum functions of State-local governments, undertaken with little or no Federal help, come pretty close to the heart of our national purpose, police protection and law enforcement, elementary sanitation, recreation facilities, street maintenance and lighting—things that, together with housing and schooling, spell the difference between a decent and a squalid environment, a respectable neighborhood and an explosive ghetto—are cases in point. We neglect them at our peril.

Perhaps most important, a well-planned and properly controlled block grant program to cities would assist greatly in putting new life into local democracy, and would provide an absolutely necessary step in making it meaningful and workable in the future. I believe this also to be a worthy national as well as local goal.

Finally, I should like to emphasize again that block grants for neighborhood services are not intended to solve by themselves the massive problems of urban poverty, ignorance, unemployment, housing, racial prejudice, and major metropolitan regional problems. However, in addition to substantially aiding some existing and needed grant programs such as that for antipoverty, sound plans for funding neighborhood services citywide actually will be essential to the success of other Federal grant programs.

For example, it is difficult to conceive of a permanently successful rebuilding of neighborhoods through urban renewal, through housing subsidies, or through the model cities program without at the same time insuring that the day-to-day environmental services of the particular neighborhood and adjacent areas are adequately financed on a long-term basis. Thus, sustained support of our neighborhood services through block grants will be a vital adjunct to many other remedial actions on our urban ills, in addition to a means for preserving meaningful political democracy.

(Supplementary exhibits follow:)

Revenue Sharing for Neighborhood Services [1]

Exhibit A—Principles for a Revenue Sharing Plan, Section 5.404—National Municipal Policy, National Municipal League—1968

Exhibit B—Table I—Statistics on General Revenue, Sources of State and Local Governments

Exhibit C—Comparisons of Operating Expenditures Per Capita for City Services by Population Groups—1960 and 1964–65

Exhibit D—Estimated Distribution of Basic City Services for All U.S. Cities Over 50,000

Exhibit E—Explanation of Tables I and II on a Proposed Block Grant Program to Cities for Neighborhood Services, National Cost Estimates by Region, National Cost Estimates for 22 Largest Cities

Exhibit A

5.404 Principles for a Revenue Sharing Plan

Because present revenue sources available to cities are not adequate and because the Federal system of income tax collection is the most efficient system administratively and more equitable method of taxation throughout the United States, the municipal revenue gap can be successfully closed by utilization of this system for the collection and redistribution of revenues to supplement present grant-in-aid programs. Equitable methods of distribution of revenues thus collected for cities can be achieved by adherence to the following principles:

A. The plan should assure substantial additional Federal financial resources to municipalities based upon a direct, equitable and continuing sharing of a portion of the Federal income tax.

B. Any general fund allocation formula for revenue sharing should be simple, understandable, and fair; and focus on the commonly accepted public service responsibilities of municipalities and in particular traditional neighborhood service responsibilities as well as reflect fiscal needs of cities.

C. Educational finance should be separately considered and any revenue sharing plans for aid to municipalities should in no way interfere with Federal aid for education; consideration should also be given to treating separately groups of service responsibilities such as welfare, health, and hospitals which are widely distributed among City, County and State levels of government.

D. The revenue sharing plan should be designed to supplement local funds rather than substitute for local tax effort.

E. The revenue sharing plan should buttress and strengthen most major categorical Federal grants-in-aid, and not be viewed as a substitute for such aids; however, one objective of such programs would be to lessen the eventual overall need for categorical grants.

F. Revenue sharing for municipalities should encourage an effective and responsible structure of local government, and should deter further fragmentation of local government.

G. The procedures for Federal revenue sharing should support fiscal policy for a stable and growing economy, without impairing orderly budgeting in municipalities.

H. Any programs of block grants or revenue sharing should require periodic and effective financial reporting by participating cities.

[1] By Nathan B. Kaufman, mayor, University City, Mo., Nov. 1967.

Exhibit B

TABLE I.—1965-66 STATISTICS ON GENERAL REVENUE SOURCES OF STATE AND LOCAL GOVERNMENTS [1]

[In millions of dollars]

	Raised from own sources	Received from Federal	Received from State	Received from other local units	Total [2]
Cities	13,122	[3] 601	3,255	284	17,262
States	34,511	11,743		503	46,757
School districts and other local units	22,282	777	13,140		35,907
Total [2]	69,916	13,120	16,395	787	99,929

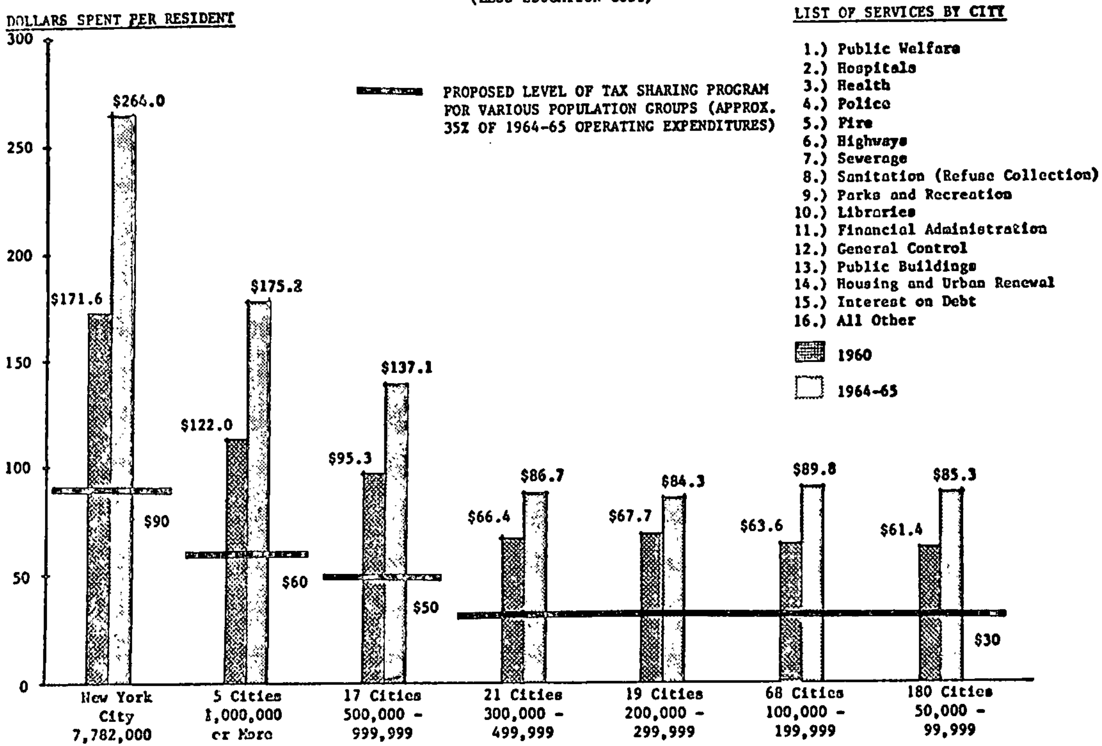
[1] Sources: Tables 4 and 16, Governmental Finances in 1965-66, Bureau of Census.
[2] Totals vary slightly due to rounding off figures.
[3] Total Federal aid to city governments for services under their directioni ncluding health, welfare, urban renewal, housing, planning, etc., was $601,000,000.

EXHIBIT C

TABLE 1

COMPARISONS OF OPERATING EXPENDITURES PER CAPITA FOR CITY SERVICES BY POPULATION GROUPS 1960 AND 1964-65

(LESS EDUCATION COST)



Source:- United States Department of Commerce - Bureau of Census Bulletins

Exhibit D

TABLE III.—ESTIMATED DISTRIBUTION OF BASIC CITY SERVICES FOR ALL U.S. CITIES OVER 50,000

	1960 expenditure (minimum per capita) (A)	Number of cities providing service [1] (B)	Percentage of 310 cities supplying service (C)
Police	$5	300	96.7
Fire	4	299	96.5
Highway	5	294	94.8
Refuse collection	3	246	79.4
Parks and recreation	2	287	89.4
Administration	2	310	100.0
Total	21		

[1] The numbers in col. B were derived by reviewing in the Census bulletin, City Government Finances in 1960, the expenditures per capita for each city over 50,000 population. If their expenditures exceeded the minimum criteria of col. A, they were considered to be providing at least a recognized level of service.

Exhibit E

Explanation of Tables I and II on a Proposed Block Grant Program to Cities for Neighborhood Services

Tables I and II summarize some of the findings of a study made by Mr. Allan Tomey, a St. Louis University Economist, on a modified application of the *Proposed Tax Sharing Plan for all U.S. Cities Over 50,000* as presented by University City, March 1967.

The original proposals suggested that cities be given General Fund per capita grants graduated by population groupings; namely, $30 per capita for cities 50,000 to 500,000; $50 per capita for cities 500,000 to 1,000,000; $60 per capita for cities over a million; and $90 per capita for New York City. These grants were to be reduced by certain per capita amounts in each instance where a particular city did not provide one or more of the specified basic city services; namely, police, fire, highways, refuse collection, parks and recreation.

The modified proposal summarized on these tables requires, in addition, that no city shall receive 50 percent more than they spent on the above listed basic services; but basic services were expanded to include also General Control, Finance Administration and Public Building Maintenance as defined by the census financial reports for 1964–65.

In order to develop the results of Table I by region, the total basic service costs per capita and the proposed General Fund Grant per capita for each of the 322 cities and townships were computed from the 1964–65 Census Cost figures. These computations show that the entire program would cost $2.2 billion annually if operated for cities only in this group. An estimated $584 million additional would finance all cities in the 10,000 to 50,000 group.

In general, the results also show fairly consistent patterns as long as basic service costs are being considered. In effect, with few exceptions, nearly all cities in the South, North Central, and Northeast regions would be receiving a grant equal to 45 percent to 50 percent of their 1964–65 expenditures for basic services. The West coast cities would receive more like a 35 percent to 45 percent of their basic service costs and would be qualifying for the maximum grant in most instances. 154 of the 322 cities nationwide would be receiving exactly 50 percent of their 1964–65 expenditures for basic services, while 31 other cities 50,000 to 500,000; $50 per capita for cities 500,000 to 1,000,000; $60 per capita would receive less than either 50 percent or the maximum grant, because they failed to provide at least one of the basic services. Table II shows that 19 of the 22 largest cities in U.S. would receive 50 percent of their 1964–65 expenditures for basic services.

Since it was impossible to extract all capital outlay expenditures for these services, the most prominent causes of substantial variations in basic service costs were due to variations in major public improvement spending and not to operating costs.

TABLE I.—NATIONAL COSTS ESTIMATES BY REGION FOR PROPOSED BLOCK GRANT PROGRAM FOR NEIGHBORHOOD SERVICES [1] USING 1964-65 BUREAU OF CENSUS COST DATA

United States	Number of cities	1960 population	Total regional grant (thousands)	Median total basic service cost per capita	Median general fund grant per capita	Median percent grant to total basic
North East	88	19,631,044	$813,934	$63.27	$30.00	47.4
North Central	89	18,101,150	576,497	55.04	26.12	47.5
South	86	15,443,075	441,450	52.11	26.06	50.0
West	59	11,350,896	386,735	75.84	30.00	39.6
Nationwide	322	64,526,165	[2] 2,218,616			
22 largest cities				80.82	40.41	50.0

[1] Neighborhood services or basic services include police, fire, highways, parks and recreation, sanitation other than sewage (refuse), general control, finance administration, and public building maintenance as defined by U.S. census.

[2] If New Nork City is not included in this program but treated separately, the nationwide cost for the 321 cities and townships over 50,000 would be:

322-city cost	$2,218,616,000
New York City cost	440,071,000
Nationwide cost less New York City	1,778,545,000

In 1960 there were 453 cities in the 25,000 to 50,000 population group with a total population of 16,275,000. Assume a maximum $20 per capita grant. Total program cost $320,000,000.

In 1960 there were 1,134 cities in the 10,000 to 25,000 population group with a total population of 17,568,000. Assume a maximum $15 per capita. Total cost $264,000,000.

In 1964–65 310 largest cities spent an estimated $71.10 per capita average for basic services. In 1964–65 17,690 small cities spent $46 per capita or less for same basic services.

TABLE II.—NATIONAL COST ESTIMATES FOR 22 LARGEST CITIES FOR PROPOSED BLOCK GRANT PROGRAM FOR NEIGHBORHOOD SERVICES (1) USING 1964-65 BUREAU OF CENSUS COST DATA

City	1960 population	Total basic services (thousands)	Total general fund grant (thousands)	Percent, grant to general expenditures less education and capital outlay [1]	Percent, grant to total basic services	Per capita grant
New York City	7,781,984	$880,049	$440,071	21.4	50.0	$56.55
Chicago	3,550,404	276,406	138,217	44.2	50.0	38.93
Los Angeles	2,479,015	201,402	100,698	43.9	50.0	40.62
Philadelphia	2,002,512	165,444	82,724	34.0	50.0	41.31
Detroit	1,670,144	122,373	61,194	30.6	50.0	36.64
Baltimore	939,024	81,317	40,660	25.6	50.0	43.30
Houston	938,219	48,299	24,150	40.8	50.0	25.74
Cleveland	876,050	64,354	32,177	43.8	50.0	36.73
Washington, D.C	763,956	130,744	38,198	17.3	[2] 29.2	50.00
St. Louis	750,026	60,606	30,309	34.6	50.0	40.41
Milwaukee	741,324	63,197	31,603	43.9	50.0	42.63
San Francisco	740,316	85,291	37,016	21.3	43.4	50.00
Dallas	697,684	48,550	24,279	48.8	50.0	34.80
Boston	697,197	72,445	34,860	17.6	48.1	50.00
New Orleans	627,525	39,607	19,805	36.7	50.0	31.56
Pittsburgh	604,332	42,843	21,424	42.8	50.0	35.45
San Antonio	587,718	22,483	11,243	45.5	50.0	19.13
San Diego	573,224	41,371	20,688	49.5	50.0	36.09
Seattle	557,087	48,810	24,406	49.0	50.0	43.81
Buffalo	532,759	42,371	21,188	38.0	50.0	39.77
Cincinnati	502,550	35,130	17,564	30.4	50.0	34.95
Honolulu	500,409	38,479	19,241	40.1	50.0	38.45
Total	29,113,459	2,611,571	1,271,715			

[1] General expenditures less educational capital outlay include expenditures from (1) public welfare, (2) hospitals, (3) health, (4) police, (5) fire, (6) highways, (7) sewerage, (8) sanitation (refuse collection), (9) parks and recreation, (10) libraries, (11) financial administration, (12) general control (13) public buildings, (14) housing and urban renewal, (15) interest on debt, and (16) all other.

[2] Washington, D.C., was having a very extensive highway construction program during 1964-65 resulting in a high basic service cost.

Representative GRIFFITHS. Thank you very much.

Now, what I would like to ask you is, what are you going to do with the poor people? If your plan were to go into effect tomorrow in place of decelerating the decay of the central city, it seems to me that the effect would be to guarantee that the central city might maintain all of the poor. How can you keep it from working out that way?

Mayor KAUFMAN. I don't think this would be the effect of this program.

As I have observed in this particular presentation, the program that we have established deals with neighborhood services. It bears an indirect and helpful relation to all of the grants, the categorical grants, which are made to the cities.

The model cities program, for example, must be continued. The urban renewal program must be continued. But, the point that we are attempting to urge at this time is simply this: That if the neighborhood services are not perpetuated and preserved in the core cities and in the suburban cities, all this money that the Federal Government is pouring into the model cities program, urban renewal program, coming into the downtown city, will go down the drain.

I think this, that if we are able to maintain the neighborhood services, police, fire protection, beautiful parks, recreational areas, in the core cities as well as in many of the areas which surround the core cities, you are going to hold the middle class or more of the better-off people within the cities. They will be prepared to stay there. You are going to slow down the growing concentrating of the poor within cities. The remedy we speak of, out of a Federal budget of $130 billion, amounts to less than $3 billion on an annual basis.

I am merely relating this to a basic neighborhood service on a continuing and sustaining basis. This is precisely what cities are not doing at the present time. When you speak of riots in your major cities, we have riots in minor and major cities. But, I believe we can reach the point where, as I have suggested at the risk of repetition, that if we can maintain, at a reasonable level, these basic neighborhood services which constitutes a national goal, as Professor Heller has indicated, perhaps we won't have as many better-off people fleeing from these many cities, or as much rioting.

Representative GRIFFITHS. But, I go back. The truth is that you have many poor people. Now, if each central city is going to have to take care of those people by themselves, then the central city is going to become the home of the poor, exclusively. I would like to give you an example.

In my district, there are five apartment houses built beside a park, a beautiful park. They house 102 units. They have one- and two-bedroom apartments. For some mysterious reason, to me, the original builder has let it go back to the FHA in spite of the fact that in 19 years there has never been a vacancy, and, in spite of the fact there is presently a 3-year waiting list to get into those apartments.

Now the city is about to buy those five apartments and make them into low-cost housing for elderly people. The answer of the city is that, "We have to have some place, and this is the only FHA sale in the city of Detroit, and we have the first right to buy and we don't have to compete."

Why can't we move those families that they have to take care of? Why don't we move those people out to Bloomfield Hills? And, if the Federal Government sends back money to all these surrounding areas, how are you going to keep this from happening over and over and over?

Mayor KAUFMAN. I have some charts which I am filing with the record. I think, upon examination of our charts, it will be very evident that most of the money will go to the core city, and that this program is basically a larger city program. In fact, New York City, based on one exhibit I have here, will receive by far the greatest portion because they have the largest expenditure for the basic services

New York, of course, is a special problem and the question has been raised in many areas whether it is governable or whether it ever can become governable.

But, based on the chart I have here, we would allocate to the city of New York up to $90 per capita, placed in the special category. (See chart on p. 337.)

In cities of a million or more, based on a standard we have established, we would allocate up to $60 per capita among the funds available. Seventeen cities, 999,000 to half a million, $50 per capita. Those cities below that category, $30 per capita. The 22 largest cities in the United States would receive $1.27 billion as against only $0.95 billion for the 300 cities 50,000 to 500,000.

We relate this to the basic expenditures per capita made within the municipality, and the size of the city.

Chicago and New York would receive the largest portions. What we would be doing is encouraging the city to spend more for the basic services, because we believe this necessary to preserve a reasonable municipal environment.

Representative GRIFFITHS. The real problem is that you are going to maintain the status quo of cities. Nothing much is going to change. If you really are going to change the situation and the Federal Government is going to send back money or even finance through FHA mortgages to builders, why isn't it a proper thing for the Federal Government to specify the use of the money. The only way you can have FHA mortgaging in your town is that for every 10 houses or five houses or one house built that carries this mortgage you must provide low-cost housing for so many people.

Mayor KAUFMAN. I agree with you 100 percent that they ought to do that with respect to many of their programs which they have. But, in addition, what I am suggesting is that over and above and beyond what you have proposed, that unless the basic services within the municipality—this is New York, Detroit, Milwaukee, my community, and many others—are maintained, we are merely going to compound many of these problems.

Representative GRIFFITHS. But if you just send back the money without changing some of these other laws, you really are going to maintain the status quo in cities. Nothing much is going to change at all except that maybe people will be safer. I doubt seriously that anybody is going to move back.

I think that your theory that we now have a Madison Avenue approach to throwaway housing is correct; the FHA law is a builder's law. It is not a homeowner's law at all. It has nothing to do with homeowner laws. It is purely incidental. It is set up to assist the building industry.

If you do not do something about changing this type of thing so that you have areas in cities or whole cities or whole suburbs that are really isolated by the price the people can pay, you have a monetary exclusion, then all of our problems are going to continue.

Mayor KAUFMAN. I think the programs which you are suggesting, and what I am advocating here, have to go hand in hand, because, if we don't establish some programs pretty quickly—and I don't think we can wait until the end of the Vietnam war—for the maintenance of these basic services which I have spoken about, the police, fire, garbage and rubbish collection, we are going to see riots of a magnitude which we as yet have not seen. If we are going to try to preserve some order, eliminate the chaos, we are going to have to start pouring some money into these municipalities.

You speak of preserving the status quo, but I am interested in making certain that we can maintain certain basic levels of services. No matter what we are going to do, we are not going to maintain status quo. People have been moving from one part of the country to the other since the beginning of time. Business has moved from one municipality to another part of the State, to another part of the country.

The only governmental body that has any control from the taxing standpoint is the Federal Government. Business may move out of my community, may move out of my State, but it generally won't move out of the country.

Representative GRIFFITHS. A lot of them do.

May I ask you, also, if the money is to be given back. Would you care to answer the question as to what would happen if it is given first to the State legislatures to distribute in place of the different cities? Senator Muskie has given his expression on it. What is your opinion?

Mayor KAUFMAN. I prefer not to be the middleman, having to deal with the Central Government. I don't want any additional delay. I think we can draw a line perhaps below 50,000 population.

We do have a U.S. census report, so there is some standard which the Federal Government can use with respect to populations. I think they also have records of populations between 25,000 and 50,000. So, I would, perhaps arbitrarily, draw the line between 25,000 and 50,000.

Representative GRIFFITHS. Would you agree with Senator Muskie that you are taking a real risk if you give it back to the State legislatures, that they will distribute it in the way they have distributed other moneys, which actually works against the cities?

Mayor KAUFMAN. He is more familiar with the State problem; he has worked at that level.

I am assuming that the States would act in good faith, but in view of our relationship with the Federal Government in the renewal program where the money comes in and moves rather quickly, I would rather eliminate the middleman.

Representative GRIFFITHS. When Professor Heller came before the committee, he pointed out that men of good will would work this problem out. It is my contention it won't be men of good will. It will be the Ways and Means Committee versus the Governors and each one of them will have his own ax to grind. The Ways and Means Committee will not want to tax any more and the Governors will want all they can get without their raising taxes.

So, any theory that it will be worked out in a vacuum can be forgotten. It is not going to be. Anything that happens is going to be worked out in the same grubby, difficult, political situation as all problems are worked out. The economic theory sounds great. It is the political problem, in my judgment, that is the real problem.

Mayor KAUFMAN. You have put your finger on the heart of the problem. There may be certain strings, tax limitations, that may make it difficult.

Representative GRIFFITHS. You have left out of your suggestion both education and welfare.

Mayor KAUFMAN. Yes, because we are dealing with neighborhood services. I think this is a special problem which should be dealt with by a separate system of grants. But, we did not overlook it. In exhibit A, paragraph C of "Principles for a Revenue Sharing Plan," this point is mentioned.

Representative GRIFFITHS. May I ask you your judgment? The longer we have involved ourselves with this problem, the longer I have looked at welfare laws of the country, the more convinced I have become that welfare, if no other, is really a national problem and should be taken care of by our National Government. I don't think we should have a right to choose which way you are going and I don't think the country has the right to say that in certain areas of the country people will starve and others we will take care of.

Would you feel that it would be justified for the Federal Government to assume this burden?

Mayor KAUFMAN. I would in view of the vast mobility of our population, the movement of people from one part of the country to another, and the establishment of certain standards by States as a condition of receiving grants. I think this is a national problem.

Representative GRIFFITHS. I want to thank you very much for coming here. It is a very, very great pleasure.

Mayor KAUFMAN. Thank you very much.

Representative GRIFFITHS. This committee will adjourn until Tuesday morning at 10 o'clock in this room.

(Whereupon, at 11:40 a.m., the committee recessed, to reconvene at 10 a.m., Tuesday, November 14, 1967.)

REVENUE SHARING AND ITS ALTERNATIVES: WHAT FUTURE FOR FISCAL FEDERALISM?

TUESDAY, NOVEMBER 14, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in the House Ways and Means Committee hearing room, Longworth House Office Building, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representative Griffiths and Senator Proxmire.

Also present: John R. Stark, executive director; James W. Knowles, director of research, and Richard F. Kaufman, staff economist.

Representative GRIFFITHS. The Fiscal Policy Subcommittee of the Joint Economic Committee will come to order.

I am especially pleased to have somebody here from Detroit. I have sat in Congress for 13 years and for 13 years I have begged the distinguished citizens of Detroit and Michigan to come down here and give us the benefit of their experience, and it has been only rarely that I have seen anybody from our State or our city. So, Mayor Cavanagh, you are the most welcome witness in the world. We will be delighted to hear what you have to say.

STATEMENT OF THE HONORABLE JEROME P. CAVANAGH, MAYOR OF DETROIT, MICH.

Mayor CAVANAGH. Thank you very much, Madam Chairman. Let me say I am delighted at the opportunity to appear before this subcommittee for the purpose of discussing this most important topic. I have had the occasion in the past to testify before various congressional committees, but never the opportunity to testify before one of the distinguished citizens of our own community.

We are delighted, I might say, and I say it not only for the purpose of the record, but to express my own feeling, to have you so ably representing a very significant portion of our community in the very excellent fashion which you do.

Representative GRIFFITHS. Thank you.

Mayor CAVANAGH. All of us in our community are very proud of that representation.

The subject of your hearings, Madam Chairman, revenue sharing and its alternatives, really asks, as you pointed out earlier in the year, one of the most important and certainly one of the most serious questions that confront this Nation; that is, Is our Nation as sincerely committed, as I think it should be—and I am sure at least parts of it are—to the goal of rebuilding, rehabilitating, and reviewing the physical, the economic, and, above all else, I think, the social structure of our country?

I think unless we are willing to reverse the trend in intergovernmental relations of the last 12 years, and unless we are willing to accept not just the unrest but the discontent that would result from such a policy—and it would, I think—we must continue and indeed strengthen our commitment and investment in the improvement of the lives and well-being of all of our citizens.

While we, and some Members of the Congress, I think, appear to be going through sort of a period of reaction against the civil disturbances that have wracked this country over the last 3 years, particularly since this last summer, I do feel that America's basic commitment to its citizens of the opportunity for each of those citizens to realize to the fullest his or her potential is too strong—and too just—to be ignored for too long a period of time.

These hearings are affected by these facts.

I would also say again, Madam Chairman, what Walter Heller told this distinguished committee when he appeared before it in August. Dr. Heller, as you know, has consistently advocated some kind of revenue-sharing proposals, but under the Federal budget, at least as it's now laid out, he didn't see any opportunity for revenue sharing this year. In fact he felt such an opportunity would only exist if the Federal spending for the Vietnam war leveled off. Even then, I am sure both of us would agree that it is unlikely that Congress would act favorably on revenue-sharing proposals in the face of maybe the massive Federal deficits of the last year and projected for this fiscal year, particularly in the height of the apparent congressional reluctance to approve a surcharge on personal income taxes.

So, it is evident then, I think, what we are talking about: we are discussing revenue sharing as it might come sometime in the future.

Representative GRIFFITHS. If I might interrupt, Mr. Mayor——

Mayor CAVANAGH. Yes.

Representative GRIFFITHS (continuing). I would like to point out to you what I pointed out to Mr. Heller, that I did not feel it was fair to suggest that we wait for purposes of experimentation, that there never would be a time when we didn't have some problems, and that under his theory we would have to start the thing and stop it and start and stop, which I think would be disastrous.

Mayor CAVANAGH. I agree with you, Madam Chairman. As I attempt to point out, the problems that we all face, particularly the cities, are problems of great immediacy.

Most of the major cities in this Nation have reached already—or those few that haven't will soon reach—the limits of their taxing power. Detroit, as you know, the city which I am privileged to represent, is in some very serious immediate financial difficulties. As of last June 30, for example, our city had a deficit of more than $11 million, and I would hate to calculate even for the purpose of this discussion today, what it will be as of June 30 this upcoming year. No funds, as you know, were available for any kind of pay adjustment for any of our city employees last year, and this, in turn, as you know, Mrs. Griffiths, led to very general discontent among city employees, our police, and our nurses. There were some work stoppages, and this situation hasn't improved. In fact it has gotten even worse.

Detroit's financial problems are not atypical of those of other major urban areas throughout the country. The question could be asked: Why is it that Detroit, and so many other cities, are in this financial straitjacket? In our city we are near the constitutional limit in the levying of our property tax. We are only really a very slight way from that limit, and there is absolutely no prospect at the present time for expanding that property tax base.

We were able several years ago, as you recall, to enact an income tax on those who earned their livelihood within the city of Detroit. However, the State legislature, in its wisdom, and I use that word, you know, in a questioning sort of way, fixed the rate upon which we could tax the nonresidents at one-half of 1 percent, and then subsequently imposed ceilings on the taxes which could be levied on both the residents and nonresidents.

Then interestingly enough, Madam Chairman, as you recall, under the new and so-called improved State constitution there was supposed to be more taxing authority given to local units of government. As a matter of fact, the State legislature, when it adopted the Uniform Income Tax Act eliminated all excise taxing power from local units of government, a step even backward beyond the 1908 constitution that was considered outmoded at that time.

It is true that an excise tax is inherently regressive and frequently it constitutes a heavier burden upon the poor than upon the rich, and should be used only as a last resort. I think the fact that the cities in Michigan would even consider requesting the excise taxing power is indicative of the very serious financial condition in which all the cities find themselves.

State legislatures have even been reluctant to recognize the valid claims of the cities for help.

I frequently refer to them as the silent spectators to the plight of the urban dweller. Through an alliance between the less urbanized areas of the State and the growing power of the suburbs—much of this rural ethic has been transferred now to suburbia as far as our State legislatures are concerned—major urban areas have not been able to obtain their fair share of State tax revenues. Our ability to derive more revenue from the city income tax has been severely hampered, first by this legislative reduction and then by the imposition of the ceilings I mentioned.

I think we also have to consider that there are presently no alternative methods available to Detroit and other local communities to raise these additional revenues.

As I pointed out, excise taxes cannot be levied. We are going to receive some slight assistance, but I say it is only slight, from the increase in the gas and weight tax which the State legislature recently enacted.

Thus, the single most important reason for Detroit's financial strain has been the drying up of local tax revenue. This has been similarly experienced by other communities and is an example of the radical change in the distribution of governmental revenues over the past six decades.

It is interesting, I think, Madam Chairman, to note that not too many years ago, in 1902—I used to think that was a long time ago, but the older I get I don't think that is so long ago—the tax revenue in the United States totaled $1,398 million.

Local governments received $27.3 billion, or only 17 percent of the national total.

State revenue totaled $181 million, 12.9 percent of the national total. And Federal revenue totaled $513 million, 36.6 percent of the national total.

If we look now at the tax distribution of the United States, as we see it in 1966, at least, all U.S. tax revenue amounted to $160,838 million.

Local governments received $27.3 billion, or only 17 percent of the national total.

State governments received $29.4 billion, 18.2 percent of the national total, and the Federal Government received $104 billion, or 64.7 percent of the national total revenue.

The reason I cite these statistics is, I think, rather evident, but in 1902, I think, at best, municipal government could only be considered sort of a housekeeping agency. Its task principally was to keep our streets clean and provide maybe some minimal police and fire protection in these communities. Of course, today we know that all the vast problems of social disorganization and social alienation, the physical problems are all stuck really at the city level, and as Professor Galbraith has said, and others, that if you had to sit down and consciously structure a worse design you probably couldn't do it with the resources elsewhere and the cities faced with the problems.

A year ago I was criticized in some quarters for having made a calculation of the amount of money it would probably require, or would be required, to rescue our cities from their present plight. I had an opportunity to be testifying before the Ribicoff committee and, on the basis of some figures I submitted, one of the members of the committee, using his own calculations, estimated that it would take as much as a trillion dollars over the next 10 years. I might add that was before the riots of this last summer, and since the riots this same figure, a trillion dollars, has been more commonly cited as the base cost for meeting the more urgent needs of our cities.

Let me make it clear when I am speaking about a trillion dollars I am not speaking about public money or merely Federal money. I would say that means the amount in dollars or in equivalent services by government and labor, business, private foundations, and private citizens. I admit this sounds very much like a staggering figure, which it is, but I think all of us should remember that the forecasts of our gross national product place the GNP at some $20 trillion during the next 20 years.

I think it should be clear from what I have said so far that the cities in this Nation do face a great financial crisis, that they can find little help in either their own tax base or from the rural-suburban coalition which is frequently found in State legislatures.

Only the Federal Government, clearly the most efficient collector, I might add, of tax revenues, and the level of government which has recognized to a far greater degree the problems and needs of the people that live in the cities, has the resources to help solve these problems.

The Federal Government already supports a variety of programs in cities through grants-in-aid for single-purpose projects and grants earmarked for broad purposes such as education, and even some grants in the nature of block grants for multipurpose projects.

Why then, I think the question could be asked, are cities so vitally interested in revenue sharing with the Federal Government? I have already cited some of the reasons, but perhaps the most dramatic is that over the decade from 1966 to 1975 it has estimated the cities of this Nation face a revenue gap of some $262 billion. This is the amount of money that will be required in excess of present revenues and those expected to be generated through normal economic growth. State aid, increases in city charges, and increases in net city debt can be expected to fill a little over half of this revenue gap, or $137 billion. The remaining $125 billion will have to come from some place—I am assuming from the Federal Government.

This revenue gap is already significant and amounted to $4½ billion in the year 1965, and by 1970 it is estimated that this figure will increase to $22.2 billion.

One of the most serious results of this revenue gap is already apparent. A study by TEMPO, a subsidiary of General Electric, which was done by the National League of Cities when I was privileged to serve as president of the National League of Cities, cites the figures which I just used, and it shows, too, that the figures which were taken show the capital outlays of city governments from 1955 through 1965 had averaged some 19 percent of total local expenditure.

However, over the past several years the funds available for capital improvements in every community in the country have been inadequate. I think it could be conservatively estimated, Madam Chairman, the cities of America are at least 25 years behind in their public works or capital improvement program, and I say that using it as a conservative figure.

In Detroit, for example, the present budget under which we are operating allows only 5 percent of our total revenue for capital improvements, and in the coming fiscal year except for a few uncompleted projects which have to be carried forward, there will almost be no funds available for capital improvements. As you know, under our charter limitations, similar to every community in the State, or every kind of similar community, 2 percent of our State equalized assessed value can be used, and that includes your operations and your capital. So, you have to diminish your capital budget if you propose to increase your operational budget, and we have a very small amount of money in our capital budget and most of what little is there will have to be taken out this coming year.

This, of course, is just an intolerable situation. It contributes to certainly the deterioration of the city and, in turn, decreases its attractiveness as a place to live. And also, as we fall further and further behind in our capital improvement budget, we find the interest expense of financing capital projects tend to increase at the same time. So, the case for Federal support of city governments, through some form of revenue sharing, appears to me to be overwhelming.

I would emphasize, however, that any such plans for unassigned grants to cities supplement, not replace, the other three forms of Federal aid to cities.

Single-purpose grants, broad foundation aid, and grants for multipurpose projects and programs, each have, I think, their place in the intergovernmental structure, because each has different goals and certainly each has degrees of Federal Government control.

Unassigned grants from shared revenue, I think, should be made directly to the cities, and should be allocated maybe on the basis of population, of the population which that city serves, not just the residents but the population which that city serves, including those who make their living within that city, but live elsewhere, those who have and demand and receive services from that community during the daytime hours while they are working there in that city.

It is estimated, I think, if I recall correctly, that there are at least 400,000 people who come into that city every day, maybe more, into Detroit, and use its services, so your population increases by at least that amount every day, and it is incumbent upon city government to provide the services to those people which they would provide even to their own residents. As a matter of fact, in some instances there is a greater demand for some of those services. There is greater use made of some of those city services.

So, any revenue shared by the Federal Government with cities should come to those governments, I think, with no strings attached, for their use in fleshing out or balancing out more specific grants in aid. This would allow those most directly concerned with the administration of local programs to use these funds to fill gaps where the need exists and to build the kind of infrastructure necessary to equalize the maximum potential from more specific grants-in-aid for such things as education or housing.

I certainly fully endorse the eight principles outlined in the national municipal policy for 1968 of the National League of Cities, and I would commend these guidelines to this distinguished subcommittee which you chair, Mrs. Griffiths, for your consideration.

One: The plan should assure substantial additional Federal financial resources to municipalities based upon direct, equitable, and continuing sharing of a portion of the Federal income tax.

Two: Any general fund allocation formula for revenue sharing certainly should be simple, understandable, and fair; focus on the commonly accepted public service responsibilities of municipalities, and in particular traditional neighborhood service responsibilites as well as reflect the fiscal needs of the cities.

I admit some of these things might be extremely difficult to organize by way of formula.

Three: Educational finance should be separately considered and any revenue-sharing plans for aid to municipalities should in no way interfere with Federal aid for education. Consideration should also be given to treating separately groups of service responsibilities such as welfare, health, and hospitals which are widely distributed now among city, county, and State levels of government. And sometimes these services certainly suffer because of that fact.

Four: The revenue-sharing plan should be designed to supplement local funds rather than as a substitute for local tax effort.

Five: The revenue-sharing plan should buttress and strengthen the major categorical system of Federal grants-in-aid and not be viewed as a substitute for such aid, with some exceptions. However, one objective of such programs would be to lessen the overall need for categorical grants.

Six: Revenue sharing for municipalities should encourage an effective and responsible structure of local government, and I think should deter further fragmentation of local government.

Seven: The procedures for Federal revenue sharing should support fiscal policy for a stable and growing economy without impairing orderly budgeting in municipalities.

Eight: And last, any programs of block grants or revenue sharing should require periodic and effective financial reporting by participating cities.

Certainly Congress has shown a growing interest in this subject over the past several years. In fact, as you well know, the 89th Congress has seen the introduction, I think, of some 51 tax-sharing bills, but the effort by this subcommittee to document and to provide the foundation for a rational and objective consideration of this subject is further evidence certainly of congressional concern and, I think, the greatest service which the Congress can render to this whole subject at this point.

There are dangers in revenue sharing that certainly concern myself, as I am sure they do you, and they certainly concern public officials and mayors of other urban centers.

The first is the possibility that were some form of revenue sharing enacted into law there would be a tendency on the part of some elements in the country to see this as an excuse to almost immediately abolish more specific grant-in-aid projects using the rationale that the Federal tax revenue that is being shared is sufficient to cover these needs.

This would be disastrous and would at best leave the cities exactly where they are today, falling further and further behind.

I think that this is an obvious danger that has to be foreseen and certainly guarded against.

The second danger is that the funds would be channeled through State governments. The impact of such an approach, I think, has been clearly outlined in the TEMPO study to which I referred, and if the committee does not have a copy——

Representative GRIFFITHS. We have a copy.

Mayor CAVANAGH. You do? I was sure you did.

Let me just briefly quote from that:

> If given power to administer such funds as they see fit, it is naive to believe that the states would not divert some of the funds to other uses. Nor is it enough that the states be given functional instructions on how to use these funds—that is, instructions on how much money is to be spent on community health programs, education, urban beautification, and so on—but left complete freedom in allocating the funds among cities. Probably the best distribution that could be expected from states would be a division by population. But this procedure is defective because it makes no allowance for differences among cities in fiscal needs and capacities. As a result it would short-change cities with relatively high per capita fiscal needs and low fiscal capacities.

Certainly I support the sharing of Federal revenues with the cities of this Nation. I think without a plan of some kind the ever-increasing demand of the citizens in these major urban areas cannot be met.

I think what Dr. Heller has pointed out in his book, "New Dimensions of Political Economy," is most appropriate for consideration here. He said:

At the Federal level, economic growth and a powerful tax system, interacting under modern fiscal management, generate new revenues faster than they generate new demands on the Federal purse. But, at the State-local level, the situation is reversed. Under the whiplash of prosperity, responsibilities are outstripping revenues—

Or the problems are outracing the solutions, as I frequently say.

I think, Madam Chairman, that would conclude the formal part of my testimony and I would be most happy to try to respond to any questions you might have.

Representative GRIFFITHS. I can't tell you again how much I appreciate your coming here.

I would like to point out to you that even this year the House has passed two bills, very modest bills, one for police and one for juvenile delinquency assistance, set up to go back to the areas of greatest need. They were changed on the floor of the House to send that money back to the States, and the State governments. I agree completely with Mr. Triplett that the true constituency of a State legislature is the lobbyist, it is not the people that they represent, and nothing has been clearer than your testimony or that while some people cry out for local government, let the local government do it, that, in fact, there is a great body that is saying let the local government do it but don't give them the money to do it with.

Mayor CAVANAGH. Yes.

Representative GRIFFITHS. When I sat in the State legislature, the city of Detroit paid more than 50 percent of all taxes and actually got back practically nothing. Someone asked me yesterday, on the elevator, about busing in our city and I said we are never bothered with that problem. We have never paid any child's way to school. That is done in the out-State affluent area; correct?

Mayor CAVANAGH. Yes.

Representative GRIFFITHS. That is still a grant; isn't it?

Mayor CAVANAGH. Yes, it is, Madam Chairman.

Representative GRIFFITHS. So, the city has been terribly shortchanged by the very people who have spoken up.

Now, what I want to know is, How do you think we are going to get around this formula distribution at the national level, and then, even if we were successful in making some sort of revenue-sharing approach, how would you get around at the State line?

Mayor CAVANAGH. Well, one suggestion that I think we should well consider, could well consider, would be an analysis of the actual population of the cities. I refer to it in my testimony, the actual population of cities like Detroit, Grand Rapids, and Flint is in excess, really, of the census population because those cities, and the services which those cities rendered, are used to a considerable degree by thousands or more people each day, and there should be some measurement, and there can be some measurement, of the numbers of people that use that community's services. I think, therefore, there might be a first step reflected by setting up some kind of a formula for distribution, to measure actually what the population of that city is in a way different than we normally measure populations of cities. This would be the first step.

I admit that the second question you pose is an extremely difficult one; it is one that, as the mayor of one of the major cities in this country, and as president of the U.S. Conference of Mayors and the National League of Cities, I have had opportunities many times to testify as strongly as I can to the Congress about this tendency to substitute the State as sort of a middle layer to filter these funds into the urban areas. I have pointed out many times that the most successful of the Federal-city programs are those that have direct Federal-city relationships. The most unsuccessful, and those with the least impact, are those where the State is interposed between the Federal Government and the city. This we can demonstrate by pointing to any number of programs particularly in some of our welfare areas and in the manpower and training areas in many of our Department of Labor-State labor programs that eventually go down to State level.

But I think it really is necessary for the Congress to recognize the value of the Federal-city tie. I know it was extremely difficult in view of the two bills you mentioned. I agree on the crime bill, for example, to have that administered through the State police is ridiculous when the State police are primarily concerned with traffic enforcement and not the real problems of crime on the streets of most of the cities of the State.

Representative GRIFFITHS. Certainly there really aren't enough State police.

Mayor CAVANAGH. That is correct.

Representative GRIFFITHS. We ran a whole campaign on the fact that between midnight and 6 o'clock in the morning there were only 18 State police officers on the roads of the State of Michigan.

Mayor CAVANAGH. Yes.

I wish I had some very dramatic and different suggestion on how you eliminate, or, if not eliminate, at least minimize, State influence in this Federal-city programing or Federal-city relationship. I think it is slowly happening because the States just have not been responsive, and I think there is a gradual realization on the part of an increasing number of people that the States, as a viable, effective mechanism of government, just are not doing that which they should be doing. Therefore, maybe time will be the best solution, although I don't know, as you pointed out, that we can wait to have this kind of an awareness take place in the country.

I think the Congress really has to take the lead and follow the suggestions and certainly the philosophy laid down by you and other Members of the Congress who recognize the fact that the State has been pretty much a silent spectator to these problems. I don't really know of any other way, Mrs. Griffiths.

Representative GRIFFITHS. Now, I would like to ask you, as I have asked every other witness who has testified: Supposing we were to reanalyze those problems that really are national ones, and determine which of them the Federal Government should pay for. Would you say, offhand, that welfare is a national problem?

Mayor CAVANAGH. Yes.

Representative GRIFFITHS. It is ridiculous that in the State of Kentucky there is no general assistance program, but that in the State of Michigan or the State of New York you do have a general assistance program, and the Federal Government is paying into these programs. In some measure the State of Kentucky gets around it, along with others, by sending their welfare cases to us, and in some measure they make the social security bill fit their problems.

If we just took over welfare, how much would it free for the city of Detroit to use as it saw fit?

Mayor CAVANAGH. Of course, the welfare program now has been assumed by the State government in the State of Michigan. We finally extricated ourselves from the administration of welfare in the city. The exact dollar figure that it would mean in relation to the State and county, which acts as its agency, I am not prepared to testify to today at this point. But, I think, in theory, I would have to generally agree with you, Mrs. Griffiths, that this indeed is a national problem and, therefore, is a logical area of governmental responsibility for our National Government.

I have long felt, and I have said, as a matter of fact, in a rather controversial speech that I made a week or two ago, that was subject to some misinterpretation, that we do not have in this country any national policy regarding the assistance of the rural poor, and particularly the rural Negroes in America and, therefore, this has imposed a tremendous additional burden upon the cities of the North. As a result, our welfare costs are staggering, as you know, and as you pointed out, it isn't because the cities are so wonderful, it is because the countryside is so terrible, that so many of our rural poor, particularly rural Negroes, when they come to the cities, stay.

It is interesting to observe in a city like Detroit, many of the rural poor southern whites that come for employment, when employment is down in the automobile plants, many of them return to States like Kentucky, Alabama, and Tennessee, and then come back maybe a year or two later, but the rural Negro has no place to return to, and, therefore he stays in that city aand the costs of welfare keep spiraling, as you know.

So, certainly, even though the administration of welfare is the kind of governmental service that we should take great pains not to make too remote from the people, it indeed should reflect as best it can, the real needs of the people. I think it can do that best when it is administered by the Government that has the resources to do it, which State and local governments don't have.

Representative GRIFFITHS. What about education, supposing we removed from the city of Detroit the full educational bill and assumed it ourselves?

Mayor CAVANAGH. Yes.

Representative GRIFFITHS. Would this greatly help you?

Mayor CAVANAGH. Yes; no question about it, it would greatly help the taxpayers of the community, assuming that money was then available for local use. I am also assuming that there still would be a degree of local control over education, through local boards of education, even though the resources were supplied basically from another level of government, the Federal Government.

But those are two that certainly should and would be well considered by, I think, the Congress of the United States, those two areas you just mentioned.

Representative GRIFFITHS. Now, I would like to ask you, since I think it is ridiculous that the State does not permit a city to levy any tax it sees fit, supposing you had the unlimited power to tax. Besides giving you enough money to do the things you think are necessary, what other reactions do you think it would have?

Mayor CAVANAGH. Well, of course, some communities, like Detroit, probably would have to levy a greater degree of taxes than other communities. One of the reactions might be that some industry or some residents might leave your community if you have an inordinate system of taxation within one community as opposed to another community.

There are some basic excise taxes, though, that just about every city in the country should be able to levy, such as new insurance, taxes on hotel occupancy, and amusement taxes. It is true they don't generate tremendous amounts of revenue, but they sometimes generate just a sufficient amount to maybe get you over that little revenue gap that you are facing.

It wouldn't solve the problem in Detroit alone. But there has to be uniformity in taxation, otherwise you get into this competitive situation that we saw in this country not too many years ago in which a lot of industries were leaving some areas of the North because they thought there were greater tax advantages in other parts of the country. They found out, I think, in many instances, that actually the advantages weren't there at all in some of those, some of our sister States in the southern areas, that after they got there they soon were paying even more in taxes than some of them paid in the State of Michigan.

Representative GRIFFITHS. And, of course, they paid really higher labor costs.

Mayor CAVANAGH. Oh, yes.

Representative GRIFFITHS. No matter what they believed when they left, labor costs were higher, and good labor is cheaper than poor labor.

Mayor CAVANAGH. That is correct.

Representative GRIFFITHS. No matter what price you are higher, it is better than cheap labor.

Mayor CAVANAGH. Yes.

Representative GRIFFITHS. But if a block were given back to the cities, would you suggest that it be a percentage of what the Federal Government takes in, or should it be simply a certain amount each year?

Mayor CAVANAGH. Well, I think, first, the block grant would have to be based upon the need of the local community; that would be No. 1.

Representative GRIFFITHS. Yes.

Mayor CAVANAGH. Assuming you could develop some kind of an equitable formula based upon need, and I think there are some things that haven't been tried that we could try.

I am sort of ambivalent as to whether it should be a percentage of the total or a specific dollar amount. I think it would probably have to have some degree of flexibility to be, you know, reflective of the amount of revenue which the Federal Government collects each year.

Representative GRIFFITHS. Of course, if it becomes a percentagewise grant it would then mean it is going to go up or down as the Federal Government collects money.

Mayor CAVANAGH. Yes.

Representative GRIFFITHS. Which would present, I would assume——

Mayor CAVANAGH. Much greater problems.

Representative GRIFFITHS (continuing). Some problems to a city.

Mayor CAVANAGH. You see, that is one of the great problems in the categorical aid programs right now. To try to develop some kind of a comprehensive program using an annual categorical aid program as your basic source of revenue makes it extremely difficult because, take the poverty program, for example, or any one of those categorical programs, when it fluctuates each year it means that your staff has to fluctuate, your services and your programs fluctuate, plus this one other important thing, and I think this has to be considered. There is a great desire on the part of government today, Federal Government and local government, to involve the private sector of our country in a much more meaningful way in many of these areas, not just housing, but in social disorganization and other things.

I think it is impossible to get any meaningful participation by the private sector if we are going to structure these programs on a year-to-year basis where it may be wiped out the following year. I don't know of any private enterprise that invests its money on that kind of a schedule. It has to be projected over 3- or 5-year periods of time to enable them to make those kinds of commitments, and I think it makes the participation of our private sector extremely difficult in these programs, because they don't know from one year to the next, just as government does not. So, the point you make is excellently taken. There is no question about it from the city's budgetary standpoint. It would be much better if it was a fixed grant.

Representative GRIFFITHS. I would like to say that I personally feel that the Federal Government is, itself, in the laws it passes, partially, if not very greatly, responsible for the mess that the cities are in. I have thought for a long time that it would be quite simple for the Federal Government to say that if you use so many dollars in FHA mortgages then you must build so much low-cost housing in that area.

Mayor CAVANAGH. Yes.

Representative GRIFFITHS. I asked a builder who is here in Congress what the reaction would be where he was building large, luxury apartments, to requiring that perhaps a hundred units be built of low-cost housing for every thousand high-cost housing, and he said, well, he thought it would have some merit. This, in itself, would help solve some of the city's problems; wouldn't it?

Mayor CAVANAGH. Yes; it would.

Representative GRIFFITHS. There is no question about the fact in the judgment of many that the FHA, for example, one agency of Government, has contributed to the proliferation of these all-white suburbs, the white—new, so-called.

Mayor CAVANAGH. I was criticized for it. I opposed, as did some mayors of some of the other larger cities in this country, some of the town legislation that was pending before the Congress some years ago for that very reason, not that we shouldn't have any town legislation—I think we should—but the new-towns legislation that was suggested, even by the administration, would have just contributed to this proliferation of all-new, white, middle-class suburbs because there was no necessity to program in any kind of diversity or mix of various kinds of housing. And, unless there are opportunities for low-income housing in these new towns, you are just going to have the traditional, typical suburbs that we have seen in the last 15 or 20 years, so the Federal Government, in fact, was, by suggesting this program, contributing to the plights of the cities.

Many of the grants, for example, that are made, the physical categorical grants that are made to suburban communities, don't carry with them the kinds of conditions that maybe I think the Federal Government should put on, the nondiscriminatory conditions that should be on these grants. I admit this is sort of tough to do, but I think in the long run it is going to have to be done.

Representative GRIFFITHS. Now, various departments of the Government are suggesting, but no one has yet suggested that FHA carry it out, but other departments of the Government are saying that if Federal money goes into the area, then there must be low-cost housing. Personally, I approve that. I think that is the way we should do it.

I would like to give you another example of what I think we are doing that is wrong. For a long time the welfare bill has carried in it an unequivocal direction that the employment commissions of a State should carry on the rolls those people who are on welfare so that they could be given jobs. In this room, in executive session, we discovered this wasn't done at all. They never had carried them on the rolls.

Sunday night, in our district, I heard a woman raise some questions on "why don't Negroes work? My boss is a contractor and he goes every morning to Eight Mile and Wyoming, the Michigan Security Commission sends him there, and nobody is there to work. And they would draw more money carrying cement than my husband does as a police officer."

Well, of course, there are two answers for it. One, if they go off welfare that day, they may lose their welfare check, that is one of them. But, two, the real answer is the Michigan Employment Security Commission is not carrying these people on the rolls. They are not telling those people, and even if they tell somebody down in the central city, that person may not have the money to get to the employment security commission, even know where it is, Wyoming and Eight Mile.

Mayor CAVANAGH. Yes.

Representative GRIFFITHS. So, the Federal Government is messing up some of these programs by the very foolish way in which they are administering them and in the way in which they write the laws. So, you can't get out of the jacket. The city can't help itself.

Mayor CAVANAGH. I am most happy to at least attribute part of the blame to some other level of government other than the municipal government for some of the problems we face.

Representative GRIFFITHS. Good.

Mayor CAVANAGH. The point you make is a most interesting one. The Greenleigh report which we had made several years ago in our community—Greenleigh & Associates, as you know, is a management consultant firm in New York. We had them come in and do a study on what you consider, you euphemistically call, the hard core poor and of the 2,000 heads of households that they interviewed of these poverty families they discovered that less than 4 percent of those 2,000 had any contact, directly or indirectly, with any of the existing public or private agencies, social agencies, which meant one thing: That the agencies were geared toward, in Michigan, the lower middle class and obviously weren't extending their services to the poor. But they also discovered, as you pointed out, that the poor in that community didn't even have knowledge of the existence of most of these services, didn't know how to get to them, didn't know where to find them.

There was a rather classic case, I think, in our community that points this up. The Wixom plant with which you are familiar, of course, produces Fords and Lincolns. Over the last several years it has been searching for unskilled labor, since the plant was at full production. We had this vast reservoir of unskilled labor in the central city most of whom are Negroes, but Ford Motor Co. was advertising for unskilled laborers down in Kentucky and places like that, whites, simply because: One, the Negroes didn't have any transportation and our bus system by law was precluded from taking them to Wixom, and, two, they couldn't live out in that area. Therefore, the job was inaccessible to a Negro, but a white person from Kentucky, or Alabama, or some place else could come up and could find some kind of housing in that Wixom area and could, therefore, take that job. It just seems to be so ironic that here 30 miles away you had thousands of unemployed Negroes. I don't necessarily blame the Ford Motor Co. for this sort of situation, it is merely reflective of what is happening.

Representative GRIFFITHS. This is a problem for the rest of us. Those of us in Government should anticipate these problems, see how they work, and create a remedy. We really aren't creating that remedy fast enough and part of this blame belongs on the Federal Government.

Mayor CAVANAGH. Yes.

Representative GRIFFITHS. We should do something about it.

Mr. Mayor, I am very happy to have you here.

Senator Proxmire has arrived. Is anybody from Wisconsin for revenue sharing?

Mayor CAVANAGH. Yes.

They have all been here to so testify.

Senator PROXMIRE. I may be an exception to that. Certainly Congressman Reuss has his plan and Congressman Laird has his plan.

Representative GRIFFITHS. And Heller has his.

Senator PROXMIRE. Heller is from Wisconsin, and we are proud of him.

I was in your city last night, and spoke at Wayne State University, and was very impressed with that institution.

Mayor CAVANAGH. I am sorry I was not there.

Senator PROXMIRE. I know how hard you worked and what a problem it is being mayor of a big city in this country today, I think it is as tough a problem as there is. I have very deep sympathy for you.

As I look at your proposals, Mayor, it seems that, No. 1, you want additional shared revenue. You don't want that revenue to go through the State, and I agree with you wholeheartedly on that. It is most unrealistic. If it does I think the State is going to hold on to too much of it, to the disadvantage of the cities, big cities that obviously need this help.

However, I think it is going to be extremely hard under present circumstances, under circumstances that are probably going to, in my view, continue for some years, to find a way of sharing a substantial amount of Federal revenue if there is no compromise in the categorical aids or somewhere, because you know, we have been waiting for these "embarrassing Federal surpluses" for a long time. They were predicted with great force by very competent economists a few years ago. But, now we are faced with enormous deficits and I think we are likely to have deficits—big ones—for some time.

Mayor CAVANAGH. Yes.

Senator PROXMIRE. So under these circumstances, it is very, very hard for me to see how we can meet this especially in view of the point you make that you feel revenue sharing should be on a sound fiscal policy basis in its effect on the economy. If you do that in a situation like the present where we have inflation threatening at least, it seems this year if we did have a revenue-sharing program we might be persuaded that it ought to be cut down in view of the Federal deficit. Of course, this would be a tough year to do it for you.

Mayor CAVANAGH. It certainly would. I do see though some ray of hope. For example, the model cities program: The important thing in that model cities program as far as I am concerned is obviously not the amount of money that the Congress might eventually appropriate, because it will be inadequate, but it is the theory really of a block grant to a city. It is the first major block grant program to communities since they started the Federal-city relationship, so I think that is a first step.

Now, I do point out in my testimony that there are some categorical aid programs that if there is any kind of a block grant or revenue-sharing program, developed that obviously there will have to be some that will either be combined or eliminated, but I would not want to see nor do I think we should see a substitution for the categorical aid programs by block grants or by revenue sharing because as I pointed out earlier, Senator, it would merely find the cities in at best the bad position in which they presently find themselves.

Senator PROXMIRE. There is a good psychological reason, too. I think it is a lot easier to persuade Congress to go along with substantial funds for education than it would be in increasing, even though badly needed, revenue sharing. If this is done on a revenue-sharing basis then there are going to be more serious problems in getting the kind of big substantial money you are going to need, than if you continue some of these programs that have a very clear human appeal to all of us.

Mayor CAVANAGH. Yes, I recognize that the whole theory of revenue sharing is not one that is easily sold to anyone, particularly Members of the Congress who traditionally have the feeling, since they have the power to appropriate money, that in effect it is sort of not an abandonment of this power, but at least it is a slight relinquishment of that power, and I know that that is not an easy thing to accomplish in any given year.

But I think the fact that this committee has set out to hold a series of hearings which you have been doing and to lay a record, create a record, I should say, for some subsequent legislation, is really a very important step forward.

Senator PROXMIRE. If we could provide some kind of credit device so that the cities, or the cities and States together, somehow could have the responsibility for imposing and raising taxes, I think that this would solve part of the problem. You see I am reluctant, and I think other Members of Congress are, and I think if you were a Senator or Congressman you would feel the same way, reluctant. We are the ones who have to raise the taxes, and the people out in the States are the ones who are going to spend the money. Raising taxes is not very popular and spending money is something that people can approve.

Mayor CAVANAGH. Yes.

Senator PROXMIRE. So, if we could give you some type of tax hike responsibility, I guess it would have to be on a statewide basis for a corporation income tax or personal income tax—encouraging this, that might help substantially because then you would have, I think, the salutary although very painful pressures of the taxpayer who insists on keeping taxes and spending under reasonable surveillance, rather than have us in Washington impose the taxes, and you in Detroit, Milwaukee, and other cities do the spending.

Mayor CAVANAGH. Well, it does seem no matter who raises the taxes the mayor's office still gets picketed anyway.

I think there are so many things that relate to this revenue-sharing proposal or series of proposals. For example, something I proposed to some Members of the Congress, the creation of an Urban Development Corporation, and an urban development fund similar to some of our International Monetary Funds, a revolving fund for some kind of comprehensive urban development in this country could be tied very well, for example, to some revenue-sharing proposals or at least some payments by the Federal Government into this kind of a corporation in which the local units of government could draw. I merely mention that because it springs to mind as a suggestion that I made in the past.

I think there are all sorts of possibilities that have as yet to be explored as far as distribution of moneys, Federal tax moneys, or the allocation of those moneys.

Senator PROXMIRE. Do you have a State revenue-sharing plan, does the State of Michigan share with Detroit part of their income?

Mayor CAVANAGH. No—well, on education, yes, there is some State aid to education, but there is no comprehensive——

Senator PROXMIRE. They don't get part of the taxes that the State raises? Wisconsin, for example, 50 percent of our State personal income tax goes to the cities.

Mayor CAVANAGH. The State sales tax by virtue of an amendment which the cities themselves put on a number of years ago, we divert a percentage of 1 percent back to the cities of the 4 percent State sales tax. But this is the only direct revenue sharing we have, if I recall correctly. The State income tax now—well, with the new State income tax, let us say, yes, there is some distribution back. I think there is a half of the 3 percent, a half of 1 percent of the 3 percent, is now returned to cities and counties, which was just adopted by our State legislature.

The point you were making and Mrs. Griffiths made earlier—and I must send this to you as chairman of the committee and you might want to have it entered into the record—there was a recent editorial in the Detroit Free Press which was a reprint of an editorial from the Hillsdale County paper. Hillsdale is a small county in Michigan. They pointed out something very interesting on the point you made. They added up all the taxes that the residents of Hillsdale County paid to the State, and then they added up all the revenues or benefits that they derived from the State, and they discovered that they received 10 percent more in that county than they paid in. So, they deduced, and properly so, that, yes, it was a fact that the residents of the major urban areas aand particularly Detroit paid their bill. Of the 83 counties in Michigan, I think there were some 70 counties that actually received more from the State than what they paid in, which meant they didn't contribute a nickel to State-supported universities or any other State services, and this meant one other thing and that was that the city of Detroit, principally, and the Detroit metropolitan area, paid the bill for the rest of the State.

But, it was interesting that here was a rural paper that had sat down and done its own calculations and had come to the same conclusion that you and I had made years ago.

Senator PROXMIRE. I am glad to see also that you support the Reuss proposal that this sharing should be based on efficiency and sensible organization, and so forth, of the cities and can be used as an incentive to provide for modernization. It is very welcome. Thank you very much.

Representative GRIFFITHS. Thank you very much for being here. We do appreciate your testimony.

Mayor CAVANAGH. Thank you, Senator, and thank you, Madam Chairman.

Representative GRIFFITHS. We are happy to see Congressman Esch here this morning.

Representative ESCH. Thank you very much, Madam Chairman. I am pleased to be here to present our mayor to the members of your committee. With your permission, I have a statement which I would like to have inserted in the record at this point.

Representative GRIFFITHS. Without objection it will be inserted.

STATEMENT OF HON. MARVIN L. ESCH, A U.S. REPRESENTATIVE FROM THE SECOND CONGRESSIONAL DISTRICT OF THE STATE OF MICHIGAN

Representative ESCH. Madam Chairman, it is with a great deal of pleasure that I appear before you today to present to you the mayor of the city of Ann Arbor, Mich. Before introducing Mayor Hulcher, however, let me address myself briefly to the subject matter of your committee's hearings.

It has long been clear that the Federal Government is the most efficient and effective tax collector. However, anyone who has had the opportunity to deal with massive Federal redtape and bureaucracy knows that the Federal Government is far from the most efficient distributor of funds. In nearly every Federal program vast amounts are wasted in irrelevant management expenses. Every local administrator is frustrated by the extensive forms that must be submitted to numerous Federal agencies in applying for a proliferation of specific Federal grants-in-aid, each requiring different sets of data, involving different auditing procedures and granting different percentages of the total cost on a given project. Indeed, the grant-in-aid program has become so complex that many communities and school systems find it necessary to employ outside experts for the sole purpose of keeping track of the Federal programs and the procedures for filing for them.

I am sure that all of you on the committee have found it necessary, as I have, to designate one person on your congressional staff to spend full time tracking down the applications of local communities in your district that have been lost somewhere in the Federal paper shuffle.

Centralized and intelligent community planning is discouraged by the present system since communities are encouraged to apply for whatever specific funds are available. Thus the plans for a community are frequently built around the availability of Federal funds rather than determined on an impartial basis. At the same time, various Federal agencies in charge of disbursing funds require different standards for community planning, sometimes leading communities to change their plans from time to time to meet new Federal requirements rather than new local needs.

All of this indicates one thing—that we need a more efficient and effective means of distributing funds collected on the Federal level to the hands of the local government and State governments where they are being used. The grant-in-aid system may have been adequate when the flow of money from the Federal to the State and local level was small. But today that flow has reached $15 billion annually in 485 separate programs, and the amount is steadily rising. The grant-in-aid system is clearly outdated. New and creative concepts must be instituted if we are to maintain a viable Federal, State, and local system.

There is a consensus among scholars and administrators on the State and local level that the most desirable means to bring about this change is some type of tax sharing starting with a categorical aid system. Certainly, this concept has important and impressive support among our colleagues here in the Congress. Additionally, it has been endorsed by the Council of State Governments, the National Governors' Conference, the U.S. Conference of Mayors, the National League of Cities, and numerous other groups directly involved in the administration of Government funds.

I strongly feel that the Congress should take affirmative action in this direction. I am hopeful that your committee will recommend to the Congress specific tax-sharing proposals so that we can stop the ever-widening proliferation of specific Federal grant-in-aid programs. Perhaps it would be well to begin this program on a limited basis with funds designated for a general area of public problems but not committed to a specific program within that area—for instance: funds designated for education but the percentage to be devoted to any given educational program not delineated; or perhaps funds for transportation, leaving to the individual city the determination of whether a rapid rail transit system, or a new highway system, or a new bus system is of greatest importance to its own local transportation program.

Whatever the committee recommends, I hope that you will encourage prompt action on the part of legislative committees of both Houses and the leadership of the Congress.

Madam Chairman, my hometown of Ann Arbor, Mich., is one of the most progressive and forward-looking communities in the Nation. A winner of the All-American City Award and home of the University of Michigan, it has become a fast expanding center of research and science. It has attracted new industry based on its scientific resources and will come close to doubling its population in this 10 years. Ann Arbor has, throughout the years, had imaginative leadership and has expanded to meet the new problems created by its increased population and industry. But, like hundreds of other American cities, its tax base will be insufficient in the near future to meet its new need for services.

It is with a great deal of pleasure that I introduce to you today Mayor Wendell Hulcher of Ann Arbor to discuss with you in detail some of the specific problems faced by Ann Arbor and what revenue sharing would mean to the ability of the local government to meet the local needs of the community. Mayor Hulcher has long been an advocate of the revenue-sharing concept and his views have been heard and supported throughout Michigan and the Nation. I'm sure this committee will benefit from his views.

Representative GRIFFITHS. Thank you very much.

Mayor Hulcher, we are very happy to have you here.

STATEMENT OF HON. WENDELL E. HULCHER, MAYOR OF ANN ARBOR, MICH.

Mayor HULCHER. Thank you, Mrs. Griffiths.

It is a real privilege to be here. Thank you, Congressman Esch, for your introduction; Senator Proxmire, happy to be with you, sir. I do represent Ann Arbor. I come to you on behalf of Ann Arbor, which we are fond to say is the home of the University of Michigan, and this year the winner of the All-American City Award.

We are a very-fast-growing city and we also take pride in being the research center of the Midwest. So from the people of Ann Arbor I bring you greetings and best wishes.

We are also proud to be a neighbor of Mrs. Griffiths' Detroit, and also Mayor Cavanagh's city. I think you will find our viewpoint somewhat different because our problems and our cities are different.

So we thank you for considering our Ann Arbor viewpoint.

While recognizing that some of our characteristics are unique, like being a university city and a research center, many of our concerns do apply similarly to all fast-growing cities in the 100,000 population class.

I assume that one of the reasons that I was privileged to testify is that this can in some ways represent the 100,000-population-class city.

Incidentally, I would like to state we would match our Ann Arbor record of self-help with any city in the country and our citizens' response to local need will also match any community in the country.

I would like to give you one example. We have over 300 citizens in our city of 100,000 who serve on boards and commissions, without pay, just as a symbol of participation. But, some things are "bigger than all of us," and require National and/or State action.

In announcing plans for the July and August hearings, according to the record, Mrs. Griffiths said this:

"Sharing Federal revenues with State and local government is a vital issue deserving a full study by the Congress," so I would like to commend her for initiating these hearings. I think they are a very vital thing.

She also stated, "The issue is much broader and much more important than simply debating any one revenue-sharing plan. Revenue sharing should be seen in the context of being one of many alternative means to deal with a changing array of problems facing the Federal, State, and local governments."

It is in this context that I address you, and I appreciate again the fact she has opened up the whole subject.

Federal income tax revenue sharing, in my view, should be adopted in order to form a partnership of Federal, State, and local governments. This will permit the full resources of government to be focused on finding solutions to the urban problems and to meet the needs of our citizens.

I propose that the Congress agree to local use of some of the locally paid Federal income tax.

Federal income tax sharing is a specific way to give meaningful substance to what President Johnson has often stated as his desire for cooperative federalism, as well as Vice President Humphrey's oft-repeated desire for partnership with local officials.

At times we have to stop and remind ourselves that the creative source of all revenue is the individual citizen and every unit of government exists to serve the needs of the citizen. As elected officials we must reevaluate our governmental arrangements and interrelationships and find better methods for meeting the needs.

The President had many of us in, recently, for a presentation concerning the surtax and once again was stressing this desire for partnership with local officials.

The revenue sharing, I think, would help give substance to that idea.

Now, in response to a couple of questions that were posed by Senator Javits at the beginning of the earlier hearings, I would like to submit these:

Yes, revenue sharing is applicable to urban problems.

And, yes, recent tragic events in many cities make it mandatory that mayors, Governors, legislatures, and the Congress work out immediately a mutually agreeable arrangement for the control of funds involved in revenue sharing.

My comments will develop the rationale for these summary answers.

I would recall one of Mr. Walter Heller's statements to you in the earlier hearings that seems so important: "* * * a share in the Federal income tax would be a share in U.S. economic growth." Is it not logical that the local communities, which contribute so greatly to economic growth through the provision of essential services, should participate in this growth by sharing the Federal income tax?

The State of Michigan, and this gets back to a question you asked, Senator Proxmire, a few minutes ago, the State of Michigan has for many years had a revenue sharing in a sense. This is through the State-collected, locally shared State sales tax, the intangibles tax, and motor vehicle weight and gasoline taxes, and beginning in 1968, cities, counties, villages, and townships share in the newly enacted State income tax, so there is this form of revenue sharing. It is historical and it is also current. And it is improving.

So revenue sharing between the State and local governments does have a record of success. Federal revenue sharing can also have a record of success.

There is a widespread agreement today that cities need aggressive leadership and action based upon sound plans and expanded financial resources to meet the needs of dynamically exploding city populations and new social and economic conditions, which is what we hear the most about.

Accordingly, I propose that a portion of the Federal income tax paid by citizens of Ann Arbor and other cities to the Federal Government be retained locally and utilized for local needs as determined by local government. For purposes of identity, let's call this proposal the Hulcher plan.

For example, even $10 per person would mean $1 million a year from our 100,000 population in Ann Arbor. This would pay for vitally needed capital improvements such as streets and thoroughfares, or for other critical needs.

The Hulcher plan first acquired its name when it was widely distributed, starting 2 years ago, to mayors in Michigan and the Governors of the 50 States.

Responding mayors and city councils have given it enthusiastic endorsement and essentially unanimous support; 39 Governors responded, reflecting mixed reaction.

Subsequently, the Hulcher plan received the endorsement of the Michigan Municipal League and the U.S. Conference of Mayors, so the proposal is offered on behalf of cities as an emergency based program of Federal income tax revenue sharing which is simple enough to be implemented immediately.

The total revenue involved is $2 billion based upon $10 per person even if made applicable to every one of our 200 million U.S. population. The proposal will provide immediate financial resources for cities while the more extensive revenue-sharing proposals are being worked out. I recommend adoption of this proposal by Congress immediately.

The proposal just outlined would, therefore, be a vital helpful first step.

The next step would be development of a comprehensive Federal income tax revenue-sharing plan that will supplement the base program just suggested.

These hearings are a most important step in that development because there is a lot of complex criteria and distribution formulas to make an equitable demand definition.

You have several very worthy alternatives under examination. It is not my intent, nor within my capability, to choose among them. But, I would like to offer a few comments on related aspects.

Perhaps a committee should examine the possibility of both State and local "piggyback" income taxes on the Federal tax base, to be imposed by the respective units, collected by the Federal Government on the Federal base and shared accordingly with State and local units. It would have to be recognized that there may be legal and constitutional problems involved but that it is worth studying. The total U.S. income tax resources could be delineated in a way that local, State and Federal governments could levy a prescribed portion of the total.

This would maintain local initiative, and again commenting on something you spoke of, Senator Proxmire, would keep each level of government responsible for both the raising and expending of tax money. It is somewhat similar to the taxing of property by several local units of government. Each unit determines its own millage rate and there is one assessment and collection procedure so the taxpayer has minimum paperwork. In discussing this back home, there was a great appeal to the folks to have one form, one simple procedure, so that if there is a city income tax, a State income tax, and a Federal income tax, let the citizen have only one thing to fill out and to worry with, and then have it shared.

In drawing up the comprehensive Federal revenue plan to be considered, it would seem that the Congress could benefit by having the National Advisory Commission on Intergovernmental Relations, or a similar body of national stature, be considered to aid the Congress in drawing up a suggested plan of implementation. During the development of the plan, I suggest they call one or more joint conferences with representatives of the National Governors Conference, the U.S. Conference of Mayors, the National League of Cities, the Council of State Governments and other such groups to formulate mutually agreeable guidelines and seek unified effort.

Two primary purposes can be served by any proposal in which the States and local governments share in the Federal income tax revenues.

It will provide needed funds for hard-pressed State and local governments, and

It will help arrest the centralization of power in Washington.

There have been some meetings along this line. I would like to see more, because it seems to me very essential that all the folks get in the room together and you kind of lock the door. This is the Governors and the mayors and the Federal folks, and let's just stay in that room until we work something out that is mutually satisfactory.

The way it is now it is sort of divide and conquer. The mayors are sort of going in one direction and the Governors are sort of going in a different direction and the Congress is sitting up here watching everybody take off in all directions and, therefore, nothing is being solved.

So I would hope that we can get everybody together and have a mutually agreeable program of revenue sharing.

Perhaps it is incumbent upon this Congress to investigate present Federal programs to aid cities. This would be in the interest of building confidence.

Are the funds actually helping the persons for whom they are intended, such as the poor? Perhaps the funds can be much more effectively utilized in a meaningful revenue-sharing plan.

Revenue sharing gives to local communities the "home rule" right to solve their problems in their own way. Where pat answers and standard approaches no longer apply, the initiative belongs in the hands of the local officials. Even the multiple and varied Federal aid programs available today to enterprising cities cannot be adapted to the point where they meet head on the individual needs of each and every community.

One of the incongruities of our economic life today is that our cities and their governments must plead lack of resources in the midst of affluence. Themselves the producers of the national wealth, the cities find themselves unable to tap that wealth sufficiently for their own necessities. Instead the needed public funds flow from the citizens to the national capital, and do not always return to the hometown.

While I speak out of experience in Ann Arbor, I suggest that I may be talking as well on behalf of perhaps a hundred cities with populations around the 100,000 level. Each of them stands on the brink of being a metropolitan area and of confronting the problems which large urban centers face today.

Local Initiative and Leadership

In Ann Arbor we seek continually to keep our own house in order, this idea of efficiency and good organization which you mentioned awhile ago. We do this through local initiative, and I would offer you a few examples.

A citizen committee spent many months, recently, studying ways to improve city efficiency. We do use computers, and we are experimenting concerning mechanized planning and programing. So we are looking ahead and attempting to use the modern techniques.

Our citizens have supported local bond issues recently to build major thoroughfares, a major new Huron River Bridge, parks, public swimming pools, and ice rinks.

They have stepped up and voted "Yes" on these bond issues and raised their own taxes.

Now, as local officials we are closer to the needs of the citizens, but as Federal officials you have at your disposal the more viable revenue source. Revenue sharing can team up to strengthen both localized government and massive Federal financial resources.

Taxes, Revenues, and Expenditures

As a national trend, you are aware that State and local taxes have been increasing significantly. The combined State-local per capita tax burden for Michigan citizens has increased from $237 in fiscal year 1962 to $290 in 1965 and to $310 in 1966. The $310 compares to a national average of $290, according to the Commerce Clearing House.

As you are well aware, local expenditures in recent years have risen dramatically and local sources of revenue have not produced funds at a sufficient rate to match the increasing expenditures.

According to the Municipal Yearbook of 1967, net city revenue nationally has been increasing at 6.6 percent per year since 1955 while city expenditures have been increasing at an annual rate of 7 percent. There is a gap.

Ann Arbor's annual increases recently have been far above these national averages for cities due to dramatic growth and higher levels of services. The Ann Arbor operating budget increased 17 percent last year and 13 percent this year. The budgets have been balanced but with very marginal contingency reserves. In fact, we had a heavy snowfall last year and we got in trouble because we had to dip into the contingency reserves.

Our projected 6-year capital improvement needs total $50 million and estimated available funds are substantially less than the needs. Recent capital improvement projects have been running up to 50 percent more than originally estimated due to the severe toll of inflation, and I would like to underline that because it is partially under the control of the Federal fiscal policy.

Inflation has been diminishing the power of our dollar, and this in and of itself has helped increase the problems of our cities.

Ann Arbor financial pressures are accentuated by rapid growth—we double every 15 years. In addition, our assessor estimates that up to 60 percent of the value of the city may be exempt from the property tax due to our large proportion of public buildings and land,

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including those of the University of Michigan, county government, Veterans' Administration hospital, and others.

Your passage, in the House of Representatives, of the mid-decade Federal census should be appreciated by all cities which receive State revenues allocated according to population. And I would hope, Senator Proxmire, that the Senate would take similar action.

Ann Arbor has allocations from the State that are based on 67,000 population but we are providing services for 100,000. And it won't change until the 1970 census when we shall number about 120,000 persons.

So if you could encourage the mid-decade census it would be helpful.

Municipal finance has become more and more complex. Taxation and expenditures are joined by the severe pressures of debt management, by questions of intergovernmental financial relations, and by problems of investment and inflation. The average citizen finds it difficult to keep up, and elected officials, including mayors I feel able to say, do not master these intricacies with ease.

As a city government, such as that of Ann Arbor, faces its annual financial chores it is quite aware that it is not alone. Local governments and local taxing entities are three and four deep. There is the county, the school board, the community college district, and if need be the special-purpose district to levy a further tax and solve a particular problem. Usually these various activities are dependent upon one type of tax, the property tax, for their survival. Hence, the scramble to grab the millage early before a competing government gets it.

Recognizing the interrelationship of fiscal conditions facing the local units of government in our area, I initiated joint meetings with other governmental agencies in December 1966. In periodic discussions we have shared our concerns and sought mutually acceptable solutions to our fiscal problems. Our projections of expenditures and revenues indicate that the combined demands on the property tax are at levels that undoubtedly will result in many rejections at the polls by our citizens as extra millage is proposed. The combined demands will skyrocket this tax beyond any reasonable ability to pay.

Mrs. Griffiths, while you were out, I complimented the House on the middecade census and hoped the Senate would pass it, too.

Representative GRIFFITHS. Good.

Mayor HULCHER. Experience has indicated that a major reason for "No" votes on millage often is simply a protest vote against the high level of Federal taxes and all taxes generally. Needs will go unmet due to this process unless alternative sources of revenue are found.

The property tax paid by our Ann Arbor citizens has increased 10 mills every 3 years during the past decade and is now at $91 per thousand. This includes taxes for various local units of government including county, city, school board, intermediate school district, and community college. The school and education needs, which you discussed earlier, Mrs. Griffiths, accounts for almost two-thirds of the total. In the next year the total property tax rate will go up another 10 percent in 1 year—due primarily to the school board functions, which are separate, of course, from the city.

Because of these conditions, I appointed several months ago a mayor's blue ribbon committee on finance. We get kidded about this, everybody has blue ribbon committees, but this one is doing a good job. It has very broad citizen representation, several of whom are faculty members of the University of Michigan which, incidentally, is a prime asset for our city to be able to draw on their expertise.

This committee is providing valuable analysis of our fiscal affairs and economic capacity. Recommendations are under development to improve our efficiency of administration as well as to project alternate levels of service, expenditure needs and sources of revenue.

As indicated earlier, the State of Michigan for many years has had "revenue sharing" through several State collected, locally shared taxes. The total distribution of the revenues of the State sales, intangibles, and income taxes to local units is $15.74 per capita and it can be used for unrestricted purposes. Of this, the cities, villages, and townships receive $13.31 per capita and the counties $2.43 per capita. Additional revenue is shared through taxes earmarked for State aid to local schools and local streets and highways. Michigan cities and villages will receive an estimated $73 million from unrestricted taxes in 1968 and $52.5 million in highway aid.

Additional revenue sharing for streets and highways is under consideration in the State legislature currently through increases in the vehicle license fees and an increase in State gasoline tax.

There is one other factor in the State action, the Governor has a special commission on urban problems, and as Mrs. Griffiths is aware it has been working for more than a year. I happen to be a member of it, and there are recommendations expected by the end of this year, and this is on the broad area of urban problems.

These matters illustrate concerned and responsible action from our citizens, our local officials, our Governor, and our elected representatives in the State legislature, and I realize it is debatable but in some ways they have been very, very responsible out our way, and I realize Mrs. Griffiths has other opinions on part of it.

These actions——

Representative GRIFFITHS. At least we will both admit that our State legislature is one of the best paid in the country.

Mayor HULCHER. I think that is correct, and I hope they keep working for it.

These actions do assist our city in meeting the pressing problems, but these efforts can hardly be expected to meet our rapidly increasing needs.

Incidentally, they weren't paid that well when you were there, were they?

Representative GRIFFITHS. No.

Mayor HULCHER. So we do ask additional response from the Congress.

The solution to many of our local problems are inherently a part of solutions to national problems. For example, transportation, health, civil defense, and water and air pllution are not readily reducible to local boundaries. Others, such as housing, are beyond the financial resources of local government.

I might interject here that we do have a $3.6 million Federal program of low-cost housing underway, so we are utilizing these resources that you are making available to us.

Accordingly, dedication of national revenue to the solution of these problems would seem most logical, as a supplement to local effort. A sharing of national fiscal resources seems essential but solution rests heavily with local management.

The Federal Government has the greatest potential for closing localities revenue gaps efficiently, fairly, and effectively. Federal tax obligations cannot be avoided by intercity or interstate moves. Also, the Federal Government administers tax programs with less effort per dollar collected than State and city governments.

The interplay among the social economic and physical aspects of urban problems often are purely local in character. Revenue sharing will give city officials the challenge and fiscal capability to deal flexibly and effectively with the unique characteristics of the problems of each city.

If local units are to be expected to carry out their responsibilities, either the fiscal tools must be achieved to do the job, or else the Federal and State governments are going to have to foot the bills.

Revenue sharing should be the answer.

Thank you very much.

This is the prepared testimony, and I would be happy to discuss any matter with you.

Representative GRIFFITHS. Thank you very much, Mr. Mayor. I am especially pleased to have you here because I realize that you represent a different situation in a different city.

I see that you have avoided, too, the possibility that this money is going to go back to the State and we are going to rely upon the State legislature to redistribute that in the State.

May I ask you what would keep your plans—I mean what would help your plan to distribute the money to the area of greatest need?

Mayor HULCHER. I would support that concept. What I have suggested here is a temporary interim emergency program of $10 per capita just to get something going, but I would view this as the minor part of the total revenue-sharing program. I am just suggesting we ought to do something fast, let that be the minimum standard, if you will, and then let's all get in the room together and work out this total, much more complex program that should be superimposed on top of it of revenue sharing in total which must incorporate the elements of need.

Representative GRIFFITHS. Now, may I ask you, also, what would your answer be to the rethinking of the problems as to which really are the Federal problems and which are local problems, and letting the Federal Government take over completely its general problems and, in my judgment, education is one of those problems.

It is perfectly obvious that both you and the mayor of Detroit are taking over people who have been educated in other areas of the country so that if the Federal Government supplied the money that provided the education, wouldn't this relieve every city of some problems?

Mayor HULCHER. It would, Mrs. Griffiths. As I mentioned in my testimony, two-thirds of our property tax revenues go into education and schooling, so in terms of financial help this would be tremendous.

In terms of the desires of the citizens, I would want to have a little further study of it. I have a real strong playback from some of our local people that they don't want to release the local initiative and control of education to the "long distant Federal Government." They don't—they are happy to have the money, but they don't want the control to go with it.

Representative GRIFFITHS. Of course, I don't think you would have to give them control except to this extent: It could not be really within the supervision of a local area that they could permit some citizens to remain uneducated.

Mayor HULCHER. Let me speak to you affirmatively on the other point that you raised, which is welfare.

Representative GRIFFITHS. Yes.

Mayor HULCHER. And I illustrated at another point the family that came up from a Southern State in a car. They ended up under the Huron Bridge, at our city, and they had to live in it a few nights until we could find them a place. This illustrates the mobility of America, it illustrates that this problem is not local, it is national, and people must be allowed to move, and the welfare payments and system should be adaptable to this national movement.

So I would be more inclined to go to the route you are suggesting on welfare and want to study further education.

Representative GRIFFITHS. Without any doubt, the welfare should be a national problem, particularly in view of the Supreme Court decisions that say that you cannot institute a 1-year waiting period or any other such thing. If you have welfare within your State, it has to pay it.

Mayor HULCHER. This is troubling us right now, Mrs. Griffiths, this 1 year waiting. Under the Federal programs for low-cost housing which we have, there is a 1 year waiting, you have to be a citizen for 1 year to qualify and we have to administer that because there isn't money enough, if you eliminate that criteria.

So it gets into housing, low-cost housing, as well as this other program.

Representative GRIFFITHS. I see.

Senator PROXMIRE. First, I want to say I am so happy to see the mayor of Ann Arbor here this morning because on Saturday we are hoping that your great football team will accommodate us in Madison. You are playing the Badgers. We haven't won a game all year long and I think it would be a great gesture on your part if you can persuade that team to lose to us.

Mayor HULCHER. Senator, those gestures don't come easy.

Representative GRIFFITHS. Don't go that far.

Mayor HULCHER. That is right.

Senator PROXMIRE. What is the per capita income in Ann Arbor, is it higher or lower than the national average?

Mayor HULCHER. Higher.

Senator PROXMIRE. Higher—how much higher?

Mayor HULCHER. We are a relatively well-to-do city, you know, up around $10,000 to $12,000 per family.

Senator PROXMIRE. You have a situation in which many wealthy people live outside of the city limits in Ann Arbor.

Mayor HULCHER. We have one area that is just outside the city limits, Barton Hills.

Senator PROXMIRE. By and large, your taxable potential is better than the average in the country and certainly in a city like Detroit.

Mayor HULCHER. That is correct. This is why need must be a factor in all of this.

Senator PROXMIRE. Why cannot Ann Arbor under these circumstances raise the revenue it needs to do the job? You have people who have an income, you have property that yields an income greater than the national average. Why is it necessary for you to get a share of the national revenues?

Mayor HULCHER. Senator, there is a question of definition of revenue sharing here. I am suggesting, as you see, once we get by this emergency period, that the citizens of Ann Arbor do vote to tax their own income.

Senator PROXMIRE. I am going to come to that in a minute.

Mayor HULCHER. It is a supplement.

Senator PROXMIRE. But, I am asking, absent that, if we never pass a revenue-sharing program: Why is it such a problem for Ann Arbor? I can see Detroit, Milwaukee, and other big cities, that have much more serious problems by and large, than cities like Madison and Ann Arbor, and they have a much lower per capita tax base.

Mayor HULCHER. The element of taxation is probably what I would respond to. The property tax is overworked, and that has been our source of revenue so as the citizen goes to the polls to vote one more tax he ends up saying "No." So it is an inability to get the citizenry at times to say "yes."

Senator PROXMIRE. That is a matter of State and local structure, and isn't it perfectly possible for the State of Michigan to do what other States have done—Oregon, Wisconsin, New York, and others—to either have the State raise income taxes and distribute them and share them, or permit the city to do so?

Mayor HULCHER. Both of these are happening.

Senator PROXMIRE. They are happening?

Mayor HULCHER. Yes; they are, both.

Senator PROXMIRE. Why wouldn't that solve your problem as far as Ann Arbor is concerned?

Mayor HULCHER. This may serve our problem and revenue sharing may be an alternative, but not the only solution.

Senator PROXMIRE. Now, the Hulcher plan, as I understand it, its simplicity is the reason you are proposing it. You can do it right away as I understand it.

Mayor HULCHER. Speed.

Senator PROXMIRE. What you are suggesting is to have a head tax of $10 per person, $2 billion over the country, and to be distributed on the basis of population.

Mayor HULCHER. And, it is also to recognize a revenue-sharing principle, whether it is paid locally——

Senator PROXMIRE. Once you get into this, you might have some trouble getting out. You are a very nationally minded man. I can tell that, and I mean it. But people who represent cities such as yours might very well like that Hulcher plan and might stick to it.

I found that the hardest thing in the world, when I served in the State legislature, was to talk the cities that had a tax advantage—however inequitable and unfair—into giving it up, and I would be afraid that if you temporarily adopt this it is going to be hard to shift it because there would be Members of Congress representing particular districts, or even in some States, who might feel they want to keep it this way and, by and large, the affluent place is the place where you have articulate, forceful people.

Mayor HULCHER. Well, I would argue right with you that that should not happen, that this should be only the minor portion of the total revenue-sharing plan, and that the elements of need must govern heavily in the rest of it.

Senator PROXMIRE. Because you might have cities—Ann Arbor may not be one of them because it is a big city of 100,000—but there certainly are lots of cities, smaller cities, suburban areas, particularly, that just don't need any sharing and in my view shouldn't get any because they have ample local revenues; Maple Bluff, Wis., for instance, which is just outside of Madison, it would look kind of ridiculous in a sharing. What the State does is return 50 percent of the income taxes paid by the people of that locality into that particular locality. What it means is the rich get richer. You don't have to impose any property tax because they get so much in income taxes.

Mayor HULCHER. What you agree is happening is what is happening under the Federal programs. We received over $700,000 in our open space and parks to match funds we raised publicly.

Senator PROXMIRE. That is because you were able to raise them.

Mayor HULCHER. We were able to raise them. But, my point is, we have already Federal money coming to us even though we are a relatively high-income area, so really we are into a discussion of how it is done more than whether it is done.

Senator PROXMIRE. Right.

Now, your more advanced program intrigues me very much. You say that each level of government would levy a particular portion of the total of income taxes. Now, break that down for me. Take a simple tax like a corporation income tax. Assume that it is 50 percent; how would you do it? Would you permit the Federal Government maybe to have 30 percent, and the State 10, and the city, the local government 10, something like that?

Mayor HULCHER. This is the idea, or to speak with a personal tax there is an existing 14 to 78 percent or whatever it is, I would say that the State should have a percentage beyond that or the city a percentage beyond that, and the ability to levy that remains with the State and the local, they make their determination whether to levy it, that keeps the local initiative and responsibility for raising that revenue.

Senator PROXMIRE. I like that local responsibility, too. It is very salutary. I think it is to the taxpayers" interest and local interests; if they are just going to have a sharing and they are going to get it regardless, there is no discipline at all.

Mayor HULCHER. We are very disturbed to come to Washington for "handouts." It is an overworked word. But you feel this way. We would sooner be responsible, we want a sharing program and all of us working together on it.

Senator PROXMIRE. Of course, the other side of that coin is that we now have this in some cities that pride themselves on not having an income tax, or having a very low one and attract industry from States and other areas that are progressive and believe in a progressive system so there might be a tendency for the cities to try to continue doing this and not impose this tax.

Mayor HULCHER. So they do with less revenue.

Senator PROXMIRE. Yes.

But it still would be. I can see why there might be objections.

I would like to ask you, Did you say that the cost of some of your capital spending was 50 percent more than your 6-year projections?

Mayor HULCHER. Yes.

Senator PROXMIRE. It is very shocking and very interesting.

Mayor HULCHER. Yes.

Senator PROXMIRE. It is one of the reasons why I think there may be some artificially induced capital spending now, because of the anticipation of inflation, do it now and save 50 percent, it saves a lot of money, whether you need it or not.

Mayor HULCHER. That is right; part of it.

Senator PROXMIRE. It may not be true in some municipalities but I am sure it is true with corporations.

Mayor HULCHER. I think in our community it is true that the University of Michigan is there and has a tremendous building program going on there at the same time we are bidding and things get bid up and bid up because of insufficient labor.

Senator PROXMIRE. I have to look into it in this committee; it is very interesting. I have only one more question.

You say that "No" votes protest against all taxes, including high Federal taxes; but, particularly, in turning down some of your school referendums. I think this is true throughout the country. But revenue sharing would be one reason why we would have to maintain high Federal taxes. We have an alternative. If the Vietnam war should end, hopefully soon, we might conceivably be in a position where we could choose—we could choose to have a tax reduction and meet more Federal obligations more wisely, or perhaps not have a tax reduction, and perhaps share that revenue with the States. If we share that reduction, presumably the States would be in a much better position, and the localities would be in a much better position, to get their referendum through; there would be less feeling against taxes, less feeling that the tax burden was so heavy. Isn't that correct?

Mayor HULCHER. I think I would have to challenge that just a little bit, Senator, in this way. I referred at the beginning to Walter Heller's statement that a share in Federal revenue is a share in economic growth and prosperity. I would think that we could look at this also as a share in the increasing economy, so that you really are not necessarily taking it from something, you are sharing in this growth, and perhaps it could come out of that increment rather than waiting for the Vietnam war to end, and some of these other things.

Senator PROXMIRE. That is Walter Heller's conception, but if anything hasn't worked out, that hasn't worked out, believe me.

Mayor HULCHER. I know there is——

Senator PROXMIRE. Representative Reuss has said we have been looking around for this nice big surplus dividend we were going to get, and I am convinced, even if we didn't have Vietnam, it is doubtful we would have a surplus. It is possible, but I am certainly from Missouri on that one.

Mayor HULCHER. Could I add one thing to both—some things that you said, also Mrs. Griffiths—and affirm what I have said. I don't mean to leave the States out completely and I don't want to leave that impression in the testimony.

What I am really suggesting is that we get the States and local and the Federal together and work out something that is mutually acceptable. It seems to me we may have to let the State be in for a portion and the local be in for a portion.

But what we are doing now is not even talking to each other. We all need to get in a room together and lock the door and come out with a solution.

Senator PROXMIRE. Thank you very much.

Representative GRIFFITHS. I would like to say to you, Mr. Mayor, as I said, I believe, to Mr. Pechman, I don't really believe that people of good will are going to make this decision. I think, if you are going to fight, greedy people will make the determination and it will have to be a universal application where it really shouldn't be a universal application at all.

That is, the mayor, Mayor Cavanagh, pointed out that Hillsdale County is not paying 1 cent in taxes to the State of Michigan. They are actually being supported by it.

Now, both you and I know Hillsdale County, and, in my opinion, they are plenty able to pay.

There are States in this Union that aren't paying a penny either. I can think of one State that pays $200 million that has a billion-dollar river project going; the rest of us are paying for it.

Mayor HULCHER. Fortunately, Mrs. Griffiths, our State of Michigan pays in two and gets back one, so on that basis we are doing great.

Representative GRIFFITHS. That is where I rest. But a very large percentage of that out of the State of Michigan is coming from the city of Detroit. We are paying in and not getting back into the State of Michigan, and we are paying into the Federal Government and not getting back, either.

What we need is to have a little hilly land and a river construction and you see we don't need that in Detroit.

What I would like to have you explain—because I think it is quite interesting, and it applies to a lot of other cities in this country—is the manner in which the University of Michgan pays taxes to the city of Ann Arbor.

Mayor HULCHER. I would be happy to.

The University of Michigan has been extremely cooperative; we are proud of this record. They give 18 percent. They don't like the phrase, "in lieu of taxes," but they pay 18 percent of our city budget for police, 18 percent of our city budget for fire. They pay their fair share of all capital improvements.

If you put in a street or sidewalk or water main, they pay just as anybody else who benefits would pay. This is not true of certain other communities.

I think that in Ypsilanti, recently, another university decided not to do this.

So you could help everybody if we could get this standardized in some way.

Senator PROXMIRE. If the chairman will yield—that is very, very interesting. In Madison, at least when I was there—the legislature at least is still there—the State doesn't pay anything to the city. In fact, when it is brought up to the city the State legislators say, "Let's move the University of Wisconsin to some other place," the argument being that the university brings a whale of a lot of benefits to the locality and in all kinds of ways.

The only argument, of course, is if the University of Wisconsin owned some revenue-producing property, business property, then they would pay taxes on that, but not otherwise.

Representative GRIFFITHS. As a matter of fact, Mayor Hulcher, didn't you tell me this amounted to about one or two police officers they were paying for?

Mayor HULCHER. Much more than that.

Representative GRIFFITHS. Much more than that?

Mayor HULCHER. Oh, yes. Like a hundred police—they are paying 18 percent of that.

Representative GRIFFITHS. Eighteen percent, so they are paying for 18?

Mayor HULCHER. Yes.

Representative GRIFFITHS. But still, they are also one of the real creators of the problem, aren't they?

Mayor HULCHER. Oh, yes.

Representative GRIFFITHS. One of the reasons you need the police.

Mayor HULCHER. We are negotiating; we always like to have more.

Representative GRIFFITHS. And this is being done because they are nice about it. They don't have to do it.

Mayor HULCHER. This is correct, and we would be much more secure in our budgeting if there were some rule, but there is none.

Representative GRIFFITHS. Yes.

Then, in addition to that, if you have a city income tax, will those students in the city be forced to pay that income tax?

Mayor HULCHER. They are part of our census, and they are part of our citizenry, so they, too, will have to pay.

Now, whether they pay right there or through their family, I would think that we just haven't worked that out. I can't answer your question specifically.

Representative GRIFFITHS. But your problem with the University of Michigan, which is now beginning to pride itself on the fact that it is really a graduate school, is drawing those students from all over America and from the world.

Mayor HULCHER. It sure is.

Representative GRIFFITHS. It is not just a little local problem.

Mayor HULCHER. It certainly is not.

Representative GRIFFITHS. It is a large national group of people who are being educated there.

Mayor HULCHER. As many as 20 percent from outside the State.

And I would comment there that the census, even though it is delayed 10 years, and we have a lot more than we are getting rebates on from the State, the students are in that census, so it is helpful, to that extent, it is helpful—in the State system at least.

Representative GRIFFITHS. But the real reason is that the Board of Regents of the University of Michigan, and the president of the University of Michigan are willing to give you this much money. This does not apply, for instance, in the little towns that you know, Northville and Plymouth, where to all appearances they look about alike, and yet about half the land in the city of Northville is used by the State for State institutions, and they are paying practically nothing to the city of Northville. So that they have a dreadful problem setting up their city government, while the city of Plymouth has the highest per capita income of any city in the whole State, and does a marvelous job of education.

Mayor HULCHER. You have your finger on a very crucial problem.

Representative GRIFFITHS. This is one of the really major problems of all cities.

Mayor HULCHER. It is.

Representative GRIFFITHS. Thank you very much.

Mayor HULCHER. Well, thank you.

Representative GRIFFITHS. I really enjoyed having you here.

Mayor HULCHER. Thank you.

Representative GRIFFITHS. We will recess until tomorrow at 10 o'clock.

(Whereupon, at 11:45 a.m., the committee recessed, to reconvene at 10 a.m., Wednesday, November 15, 1967.)

REVENUE SHARING AND ITS ALTERNATIVES: WHAT FUTURE FOR FISCAL FEDERALISM?

WEDNESDAY, NOVEMBER 15, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in the House Ways and Means Committee room, Longworth House Office Building, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representatives Griffiths and Moorhead.

Also present: John R. Stark, executive director; and Richard F. Kaufman, staff economist.

Representative GRIFFITHS. The Fiscal Policy Subcommittee of the Joint Economic Committee will come to order.

Mr. Hillenbrand, you are recognized.

STATEMENT OF BERNARD F. HILLENBRAND, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF COUNTIES; ACCOMPANIED BY C. D. WARD, GENERAL COUNSEL, NATIONAL ASSOCIATION OF COUNTIES

Mr. HILLENBRAND. Madam Chairman and members of the committee, my name is Bernard F. Hillenbrand, and I am the executive director of the National Association of Counties. I am accompanied here today by Mr. C. D. Ward, general counsel of the National Association of Counties.

We have a formal statement, but we would like to have it incorporated in the record.

If it meets with your approval, we would like to make some general comments and perhaps have an opportunity for some discussion.

Representative GRIFFITHS. Without objection the statement will be incorporated in the record. You may proceed with your oral presentation, Mr. Hillenbrand.

Mr. HILLENBRAND. First of all, let us congratulate the committee for holding these hearings. This is potentially one of the most important subjects, I think, to come before the Congress in recent times with respect to the Federal System of Government, and we are just delighted for the opportunity to be heard, and we will make our comments as brief as possible.

We would like to divide this into two parts, if we could, Madam Chairman. The first part is why we need a revenue sharing of some type, and the second part consists of our outlining about five basic principles which we believe should guide this legislation.

First of all, with respect to the need for it, our National Association of Counties has held very extensive hearings on this in our own meetings. We have devoted most of our legislative conference to it, early in the spring, and we are strongly in favor of getting underway with the revenue sharing plan.

We find that we have very basic dilemmas at the local level with the present financial arrangements.

The first problem we have is this whole question about priorities at the local level.

As you know, there are in existence now, some 466 grant-in-aid programs. By and large, our counties and cities participate in these programs on the basis of the availability of funds and not necessarily on the basis of their local priorities.

For example, the typical community, as you know, Madam Chairman, if they had their way, would be getting large amounts of Federal funds for the sewage collection and sewage treatment plants, because this is the prelude to economic development and new housing development and so on, in this program. I believe there is $100 million of Federal funds available and there is a backlog, as I understand now, of pretty close to $3 billion worth of applications. This illustrates that we are now participating in programs that are not necessarily of the highest priority in our localities.

Also, increasingly, our local governments are participating in those programs where the local share is the smallest because they have such a financial crisis. Particularly, Madam Chairman, they are participating in programs where the Federal Government allows noncash participation as part of their match—urban renewal, and some of the other programs.

The second basic dilemma we have at the local level with respect to finance is that the grants-in-aid are a very useful device and they have as one of their functions the stimulation of State and local activity, and it is this very stimulation that is causing us financial problems at the local level.

For example, if we get a grant-in-aid to build a sewage treatment plant, that plant has to be maintained, we having to hire people to operate it, and consequently our maintenance budget at the local level increases. This is the case, for example, to give you specifics, in the mental health program. We are strongly supporting, and we have supported the outpatient clinic approach to this, Federal aid to these clinics. Our people are reporting that once they start a program like this, it seems that there are great numbers of patients that the localities did not even know existed, and so the locality has to come up with money to hire the psychiatrists, specialists, and add to these facilities, and so on.

What I am merely saying, Madam Chairman, is that the grant-in-aid device does what it sets out to do; it really does stimulate local investment, but the thing we find so difficult to do is to raise the money to continue these programs onward. If you look at the whole range of the 266 programs, the great bulk of them have to do with cement. They are road construction, airport construction, and in each one of these cases we have the maintenance and operating responsibilities as a continuing responsibility. We are not suggesting that the Federal Government should make grants for maintenance or for operations, but it does illustrate that these programs are exceeding beyond the Federal Government's wildest imagination in stimulating local activities.

Representative GRIFFITHS. You are not really suggesting, either, that the cement lobby is doing very well.

Mr. HILLENBRAND. We are not against any lobby, because we often need their help.

The third point is that which has been mentioned so often and on which in our formal statement we have some extensive documentation with facts and figures. But, at the local level, Madam Chairman, we are increasingly dependent upon the property tax for our non-Federal part of this. As a matter of fact, the most recent figures that we have assembled by our counsel is that 87 percent of the locally collected money still comes from the property tax. This is no longer adequate. I think most people realize it is no longer adequate and is no longer an adequate measurement of wealth. The burden falls unequally in a community. It literally does fall upon the widow who is trying to maintain her home or the business that is trying to get started. We do not want to overdraw this, but, again, this is not a progressive and fair tax in most of our views, and, increasingly, this is the major tax available to us.

We would like to suggest, Madam Chairman—and we have studied this—that this is by all odds the most complex piece of legislation imaginable. We have been studying it for a good long time. To say that this is complex does not mean to say that the complexities cannot be ironed out. We would like to suggest for your consideration some principles that we believe ought to guide this legislation.

In the first place, we do not see revenue sharing as doing away with categorical grants. The National Association of Counties, as you know, is generally regarded as a very progressive organization, and we have supported almost all of the 44 programs. We believe that the purpose of the shared revenue is to give additional funds to a community and not do away with the categorical grants. There are other reasons for this.

For example, on treatment-plant facilities, a community that is upstream from another community, if we did not have a categorical grant program and teeth in it, they would put a low priority in building a sewage plant that actually benefits a community downstream. So, we think that it is very important if we are going to reach certain national objectives to still keep the categorical grant programs. That does not mean that we are happy with the present arrangement on categorical grants.

We are delighted that the Congress, with the support of our group and the League of Cities and others, is getting now increasingly to the point where they want to combine these grants, the health grants being a good example where we allow the combining of a whole host of public health grants in alcoholism, diseases, and so on. So the communities can adjust their expenditures to meet their current problem in this fashion.

It has always amazed us to find that the incidence of alcoholism is not uniform throughout the United States, that it literally does concentrate in certain communities. This is the kind of flexibility we believe is increasingly going to be involved, or we hope will be involved, in these grants so that we can put them together in a more meaningful package at the local level.

The second principle, Madam Chairman, is that we strongly believe that the block grant or the shared revenue should not be the transferring of the burden from the localities in the States to the Federal Government. We have heard much discussion, particularly in the early days, that this was a device to reduce taxes in these localities, and we can testify from our own positive knowledge that the needs in the United States for programs and services—educational needs, and so on—are so overwhelming that we would hate to see any discussion about the grant-in-aid being used as a substitute for local finance. I think this should be made clear in any one of these programs.

I think the third principle that should guide us is that we should award effort that has already been made. Most grants-in-aid actually penalize the community that has been most progressive, the community that went on its own and built the water treatment plant, for example, is not now eligible to have this funding. Some communities that have provided the most leadership in these various areas, when the Federal grant-in-aid program is created, actually receive the least benefit from it. They are, in some respects, almost penalized for being pioneers, and so we would like to see in any general allocation formula a recognition of local effort in those communities doing the most and, it seems to us, are deserving of receiving the most—the ones that are showing the initiative. This will stimulate others to do likewise.

We think that the fourth principle that should guide the drafting of this legislation is that it should have as a specific goal the strengthening of both State and local governments. As you very well know, from previous testimony here and of our own knowledge prior to these hearings, there is a basic dilemma as to whether or not these grants should be funneled through a State agency. Let me say that we have studied this general problem for a good long time, not just with respect to this program, but with respect to crime, OEO, and the whole host of other programs, and it is our policy that all contact between the localities and the Federal Government should be channeled through an appropriate State agency.

Now, I say that, Madam Chairman, with the full knowledge that many of our large urban counties, and even many of our rural counties are increasingly not happy with that policy of ours. They find that at least in the past the States have not been as responsive to our problems as we feel they should be, but it is still our policy, and we still strongly support the idea that these grants-in-aid should be channeled through the State.

However, we go a step further, and while it is inconsistent with the general idea that there be no strings to these grants, you will, I hope, forgive us for being inconsistent. We want some strings, to the extent of being sure that these funds actually get down to the general purpose of city and county governments, where the basic problems lie. We think that is going to depend, to a great extent, on the ability of the State associations of the cities and State associations of counties to sit down with the appropriate officials and work out a plan. Perhaps, one of the ideas we have heard advanced, Madam Chairman, is that each State would be told how much money they were going to get statewide and that that State would then have to file with an appropriate Federal agency a plan of how those funds were to be allocated within the State. We can't think of any more appropriate way for them to do this. Everybody keeps referring to the fact that the States are weak and they also say the counties are weak. But the States are never going to get stronger, and the counties are never going to get stronger, and the cities will not get stronger unless they are increasingly involved in this decisionmaking problem—unless they increasingly respond to these problems.

We think that the Congress can design a program that will stimulate this kind of participation and this kind of interest and a policy that will strengthen the States and the localities through this device.

Finally, we think the final principle on this, Madam Chairman, should be that these funds should be dependable. By that, I mean that there should be some knowledge at the local level of the extent that these funds will be made available.

Some of the reasons for this are quite obvious. We have to make our budgets well in advance of the actual spending, and in many cases we are dependent upon the State legislatures passing taxes or appropriating funds, and, as you know, unfortunately, a large number of our States still only have biennial sessions, and we have to wait 2 long years. Very often our participation in these programs is dependent on us passing a local bond issue or approving a local sales tax or some other device. So, the longest leadtime and the greatest element of certainty we can have, the better off we will be.

Let me say we understand why. We have all been very concerned by the fact that the war in Vietnam, for example, is draining off revenues and funds that many of these programs have not been allowed and could not evolve. But I think it is important to remember this, that when our officials continually tell us that if we have admitted a disturbed child to a mental health program, the fact that the Federal Government withholds funding does not mean that we can turn that child out. When a child starts in kindergarten we cannot say that we will close the class because we have run out of money.

I am trying to make the point that we have continuous, constant obligations, and we would like an element of certainty.

If the community action is going to receive $100,000 in revenue-shared funds, they should know that they can count on that $100,000 and have an element of certainty insofar as possible in planning into the future. It also, of course, makes for much wiser expenditure of the funds at the local level.

Let me just say in conclusion that this is very complex legislation and we have some doubters. However, the States are increasingly using a variant of this device to aid their localities.

I came from New York, and we had the so-called Moore plan, which returns a portion of the State-collected funds to the localities, and in that case, on a per capita basis plus an allocation formula that depends on their local assessed valuation and their tax rate, and so on.

If the States can do it with respect to their localities, we believe it will be possible for the Federal Government to also work out a similar kind of arrangement.

We would like to suggest this:

Most people will concede the complexity of this, and we are the first ones to concede it. But, we think it might be very helpful to start in this direction, no matter how small the start.

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One of the things we have suggested, particularly in our formal statement, Madam Chairman, is that we might begin that start with a broad-based program of payments in lieu of taxes. One of the greatest difficulties we have already mentioned is that we are dependent upon the local property tax. There are many cases where a large portion of the local tax base is not available to our cities and counties because of the tax-exempt status of Federal holdings, State holdings, and other tax-exempt programs. We have had a lot of study about this payment in lieu of taxes over the years, and we believe that this might be a specific start in this direction. This is due to the distribution of Federal property being fairly general throughout the United States, and this might give us a little more experience on some of these principles. The best way to develop these principles is to assure revenue sharing will do what we want it to do and what we believe it really should do, and that is to help us solve our problems at the lowest level in the Federal system as we possibly can.

We would like to conclude by saying, Madam Chairman, that we have to think of this in terms of alternatives. It is very difficult. We have heard people say that the Congress of the United States will never appropriate money and will leave it to the discretion of States and localities to spend it. We have had a lot of negative thoughts about this.

We would like to put it in this context, that unless we have some device like this we are very much afraid about the real future of meaningful local government in the United States.

We are increasingly getting to a point now—and again we have already testified that we have supported most of the grant-in-aid programs. But most of the really important decisions in American life today are increasingly being made unilaterally by the Federal Government in the form of rules and regulations in these various grants-in-aid. What we see in this device is a way of helping us with part of this financing problem. There are very few problems that we have at the local level, Madam Chairman, that we could not solve if we had the funds.

We can hire schoolteachers just as well as anyone else can. We can hire competent police officers, for example, if we could pay them the same rate of pay that an FBI agent is paid, if we could insist on the same kind of qualifications that they must be a graduate lawyer or a graduate accountant. We could hire those same people, but the main fact is that we have not got the funds. We cannot hire these people. We can't even—in the United States, with respect to police protection—insist on a high school education for police officers, because we just cannot get them at the kind of salaries we are paying. The reason we do not pay the salaries is that we cannot get the funds.

We are delighted to have had this opportunity to appear here this morning, and we are looking toward working with the committee as this idea unfolds, as the education proceeds along, and you can count on our total support.

Representative GRIFFITHS. Thank you very much.

You made a fine statement.

(Mr. Hillenbrand's prepared statement follows:)

PREPARED STATEMENT OF BERNARD F. HILLENBRAND

Madam Chairman and members of the Committee: My name is Bernard F. Hillenbrand and I am the Executive Director of the National Association of Counties. The question of revenue sharing has been a subject of increasing concern and importance to county government. From the viewpoint of the elected county official I feel it is vital to emphasize that revenue sharing is far more than a procedure of transferring monies from the federal government to the state and local governments. The title given to these hearings, i.e., "Revenue Sharing and its Alternatives: What Future for Fiscal Federalism?" very correctly describes the far deeper significance as to what is involved.

At our Association's annual conference held last July in Detroit, the following policy position on revenue sharing was adopted:

"The National Association of Counties, cognizant of the fact that state and local governments could resolve many more of their own problems if sufficient resources were available, and recognizing the current fiscal dilemma local governments face because of a lack of tax sources, urges and recommends that Congress consider and act now upon tax-sharing legislation to remedy a situation which becomes worse each year. The National Association of Counties enthusiastically supports a comprehensive tax-sharing program which would supplement the categorical specialized federal grant programs. This comprehensive program should include assurance in any federal legislation that an appropriate percentage of the funds returned to states would, in turn, be returned to local governments."

This Committee is well aware of the increased demands for governmental services that are being expected at all levels of government. There is every reason to expect these demands will not only continue but will increase at an ever expanding rate. If our local governments are to continue to meaningfully participate in the solution of these domestic problems we must devise new fiscal and tax programs. Federal categorical grant-in-aid programs financed at 100% federal contribution are not the solution. There is, of course, no single solution, but in our opinion, revenue sharing is one mechanism which offers the greatest potential in maintaining the fiscal and governmental integrity of all levels of government. Under the present situation the federal government gets stronger while the local governments are getting weaker. In fiscal year 1966 the federal debt of $327 billion was less than half our gross national product (GNP) of $712 billion, and it is diminishing yearly as a percentage of the GNP. In other words, the federal debt is now equivalent to 26 weeks of our national income.

State and local debt, however, is increasing as a percentage of the GNP. In 1950, state and local debt was one-tenth of the federal debt. Today, state and local debt is one-third of the size of federal debt. Meanwhile, the federal tax rates since 1950 have been constant and, since 1964, have diminished. At the same time, the state and local tax rates have been in a constant upswing. This is in spite of the fact that the federal return of monies to state and local government has been increasing.

Revenue derived from state and local sources has increased at a rate twice that of the federal government over the five-year period from 1957 to 1962. This included an 18% increase in revenues derived from state and local income taxes, 30% revenue increase from sales tax, a 48.1% increase in revenue from property tax, and a 30% revenue increase from other sources.

In other words, while the federal government's financial condition has been strengthened without a tax raise, state and local government financial conditions are weakening in spite of sharply rising taxes.

Meanwhile, the major source of county tax revenues (the property tax) is reaching a saturation point (87.7% of all locally derived taxes in 1962).

County government's financial position is even more critical.

We cannot avoid the observation that local goverment is overly dependent on the property tax as a source of revenue and that local government faces a crossroad.

Debts and expenditures continually mount. County government's debt doubled in the last ten years and trebled within the last fifteen years. County expenditures more than doubled in the last ten years. The direction in which local government goes must be a partnership decision made by the federal, state, and local governments, and not one made by the federal government acting alone. Federal incentive grants have been increasing and have been very successful in stimulating normally low priority programs. However, as the federal grants cease, local governments must find the funds to continue the program and must deal with the local interest groups which have formed to support each new activity. Thus, federal grants, as they now operate, often compound local financial problems.

The table on the next page illustrates the relative financial trends between national and state and local government.

NATIONAL ASSOCIATION OF COUNTIES ANALYSIS OF FEDERAL AND LOCAL FINANCIAL TRENDS

[Dollar amounts in millions]

Fiscal year	Gross national product	Federal administrative budget expenditures		County general expenditures		U.S. public debt		State and local debt		County debt		Percent of increase of county debt, 1952 base year
		Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	
1942	$140.5	$34.0	24.2	$1.6	1.1	$77.0	54.8	$19.3	13.7	$2.0	1.4	------------
1943	178.4	79.4	44.5	(1)	(1)	140.8	78.9	(1)	(1)	(1)	(1)	------------
1944	202.8	95.0	46.8	(1)	(1)	202.6	99.9	17.5	8.6	(1)	(1)	------------
1945	218.3	98.3	45.0	(1)	(1)	259.1	118.7	(1)	(1)	(1)	(1)	------------
1946	202.8	60.3	29.7	(1)	(1)	269.9	133.1	15.9	7.8	(1)	(1)	------------
1947	223.3	38.9	17.4	(1)	(1)	258.4	115.7	(1)	(1)	(1)	(1)	------------
1948	246.6	33.0	13.4	(1)	(1)	252.4	102.3	18.7	7.6	(1)	(1)	------------
1949	261.6	39.5	15.1	(1)	(1)	252.8	96.6	(1)	(1)	(1)	(1)	------------
1950	263.9	39.5	15.0	(1)	(1)	257.4	97.5	24.1	9.1	(1)	(1)	------------
1951	310.7	44.0	14.2	(1)	(1)	255.3	82.2	(1)	(1)	(1)	(1)	------------
1952	338.8	65.3	19.3	3.8	1.1	259.2	76.5	30.1	8.9	2.0	.6	0
1953	359.7	74.1	20.6	4.0	1.1	266.1	74.0	33.8	9.4	2.5	.7	$25
1954	362.0	67.5	18.7	4.2	1.2	271.3	75.0	38.9	10.7	2.7	.7	35
1955	377.0	64.4	17.1	4.6	1.2	274.4	72.8	44.3	11.8	3.1	.8	55
1956	408.4	66.2	16.2	4.9	1.2	272.8	66.8	48.9	12.0	3.5	.9	75
1957	433.0	69.0	15.9	5.5	1.3	270.6	62.5	53.0	12.2	3.5	.8	115
1958	440.1	71.4	16.2	6.2	1.4	276.4	62.8	58.2	13.2	4.3	1.0	140
1959	466.6	80.3	17.2	6.2	1.3	284.8	61.0	64.1	13.7	4.8	1.0	225
1960	494.7	76.5	15.5	6.6	1.3	286.5	57.9	70.0	14.1	5.1	1.0	255
1961	505.0	81.5	16.1	7.4	1.5	289.2	57.3	75.0	14.9	4.9	1.0	245
1962	539.3	87.8	16.3	8.1	1.5	298.6	55.4	81.3	15.1	5.4	1.0	270
1963	568.0	92.6	16.3	8.6	1.5	306.5	54.0	87.5	15.4	5.8	1.0	290
1964	604.0	97.7	16.2	[2] 9.1	1.5	312.5	51.7	[2] 94.2	15.6	[2] 6.2	1.0	310
1965 [2]	640.0	97.5	15.2	[2] 9.6	1.5	316.9	49.5	[2] 101.5	15.9	[2] 6.6	1.0	330

[1] Not available. [2] Estimated.

The complexities confronting the establishment of an equitable revenue sharing program are unusually staggering. However, we should not let this dissuade us from seeking solutions and we are extremely pleased by your Committee's efforts to meet the issue. We would suggest that the Committee consider recommending initiating a modest revenue sharing program in the very near future. It would be unwise for us to delay the enactment of revenue sharing until such time as a comprehensive program can be agreed upon. It may be well that a modest revenue sharing program would require adjustments and changes in the future just as our existing categorical grant-in-aid programs are requiring adjustment and changes at this time. We are concerned that faced with the increased needs at the local level, that the federal government will continue to expand the number of categorical programs as contrasted to the alternative of revenue sharing. This is why we feel it is vital to initiate as soon as possible, even a modest revenue sharing program so as to establish the principle, to demonstrate its workability and to have some basis on which to compare its effectiveness vis-a-vis categorical grant-in-aids. We feel that concurrently, efforts should be made to improve the existing grant programs through the consolidation of certain related ones, such as the Comprehensive Health Planning Act enacted last week.

One specific example as to how the federal government could immediately initiate a limited form of revenue sharing and in doing so correct a difficult and unfair situation suffered by many local governments, would be for Congress to adopt the recommendations of the American Bar Association on the subject of Payment in lieu of Taxes. These recommendations of the American Bar are vigorously supported by the National Association of Counties. As you know, under the intergovernmental tax immunity doctrine all Federal property is immune to ad valorem taxation, the chief source of revenue of local governments. This Federal immunity has been the source of widespread complaints from local governments and the cause of repeated and growing hardships. I will submit a copy of the special report supporting the American Bar Association's recommendations on the subject of Payment in lieu of Taxes and such report contains the five recommendations.

Representative GRIFFITHS. How many counties are there in the United States?

Mr. HILLENBRAND. There are 3,049.

Representative GRIFFITHS. Does each county have a vote in the National Association of Counties?

Mr. HILLENBRAND. Yes; they do if they go to the meetings. We have a very flexible voting procedure.

Representative GRIFFITHS. The counties in urban areas voted for the money to be returned directly to a city. Is that right?

Mr. HILLENBRAND. That is somewhat misleading. Our policy is unanimous. Our general policy is that relationships between the cities and counties should be channeled through an appropriate State agency. My comment was this policy is less sure in some of the minds of our urban counties now than it once was.

Representative GRIFFITHS. But the real truth is that the rural counties would vote for this because they are sure that the State legislature will not fare very well in comparison to an urban area.

Mr. HILLENBRAND. They would share until very recently, Madam Chairman, but now, with one man, one vote, the balance of power at the State legislature level has shifted from the rural area to the suburban area.

Representative GRIFFITHS. But it is still true that the rich suburban areas are getting more money in most State distribution formulas than the core central city that needs the money.

Mr. HILLENBRAND. That is exactly right.

Representative GRIFFITHS. And it is paid by the core central city.

Mr. HILLENBRAND. And they are also participating much more freely in these grant-in-aid programs, because they have the matching funds.

Some of the poorest communities cannot participate in the grant-in-aid programs, because they cannot raise their match.

Representative GRIFFITHS. That applies to the central city. The central city, which is the richest, cannot participate in some of these things because the State legislature refused to permit them to raise their own taxes.

Mr. HILLENBRAND. That is right.

Representative GRIFFITHS. So that the State that wants to control the thing has a group of lobbyists saying: "Ah, let it come back to the local level." But once you really start to do this, they get in and say: "But do not raise any money."

Mr. HILLENBRAND. This has always appalled us, Madam Chairman, and we think the answer is a more vigorous program on the part of the counties at the legislative level, and we are happy to report this is beginning to succeed.

Representative GRIFFITHS. I do not think vigor is going to count. The point of it is they just do not have the votes, and that is the only thing that counts in State legislatures.

Mr. HILLENBRAND. Let me just say that there is a great deal of truth in what you say, but we think that it is changing. Let me cite a specific example. In our State of Maryland where the State has passed a very progressive income tax and they have allowed the localities at their option to levy what we call a piggyback. They can levy upon the State tax—they must levy 20 percent of the State tax, and they can levy up to 50 percent.

Madam Chairman, this was sold in the State of Maryland on the basis that the primary distribution of those funds—the biggest distribution, I should say—would be in the ghettos of Baltimore and the impoverished rural areas of the State of Maryland. This was the program. Most people knew that this is exactly what the primary objective of this was. We are happy to say that that is passed, so it is a new day. Most of the things that you are saying are true, even today, but we believe that they are going to be less true in the future. We are hopeful, Madam Chairman, that the other States are going to take the lead of the State of Michigan, and, indeed, 23 of them are now revising their constitutions, giving increasing amounts of home rule to the localities and really, in effect, getting back into the business of government which has been neglected for a period of years.

Representative GRIFFITHS. You point out that many of the things the States could do they would do, except they need money. But, of course, many of the things that would create much less tension and much less problems could have been done by the States a century ago, and it does not cost them any money that way at all. The States could have been doing this, and they could have had open occupancy laws. The States could create justice within their own States. They could create equal opportunity, and, in reality, that has come not just to Congress but across the street, the Supreme Court. It was also cheap. There was no cost to it at all. Just simple justice.

Mr. HILLENBRAND. Madam Chairman, I think it is a true statement that most city and county officials would agree with, that the level of government that has been most responsive to the needs of localities has been the Federal Government and not the States.

But what we are suggesting is that, given the long range, this is not a healthy situation. We believe that increasingly the Congress is going to have to spend its time in foreign relations, space programs, overall economic considerations, the defense budget, our posture of leadership in the world. These kinds of situations are totally beyond the capability of the States and localities to participate in and to the extent that the Congress has to concern itself with our local police departments and the administration of justice, to the very extent they have to participate in these kinds of decisions which legitimately should have been ours at the State and local levels—to the extent that attention is diverted from these important international issues, the country is going to be weaker. What we are really saying, Madam Chairman, is that all of the things you have said are true. The States have failed to perform in the past, but it is to our national interest now to force the States to participate, and some of them are. You can mention a half a dozen States that are getting on the ball now. There is just no other way to say that.

Representative GRIFFITHS. It is not enough. There are 50 States, and the first problem in this country, in my opinion, is domestic. It has nothing to do with Vietnam. Peace over there is not going to bring peace over here. Something more has to be done, and we simply cannot wait.

I would like to ask you: What would you do, for instance, about the fact that there are States who have no general welfare assistance? How would you compel those States or those counties to take care of their welfare problems?

Mr. HILLENBRAND. I think this is one of the reasons, Madam Chairman, why we favored the continuation of the categorical grants, because, increasingly, the categorical grants established enforcible standards, and you could even use a supplemental grant as a tool for more vigorous enforcement of the categorical grants. Those communities that will not live up to their responsibilities would not receive either the categorical grant or the general assistance grant.

Representative GRIFFITHS. Would you write into the social security bill this year, which contains the welfare provisions, the fact that no social security or no welfare money will go into a State at all unless it has general welfare assistance?

Mr. HILLENBRAND. In our testimony on the welfare program this year, we vigorously opposed the limitations that were proposed in the bill which would cut off the aid to dependent children through arbitrary limits in that program. This is the specific provision that you are mentioning.

Mr. WARD. We did not support the provisions which would require States to meet their own standards. That was eliminated in the House bill. We also opposed the freeze on the AFDC which, of course, has been limited in the Senate bill.

Representative GRIFFITHS. I might say that I support the freeze on the AFDC. I voted for it, and I support it. The reason I support it is because the States have never done anything toward taking these people off welfare, toward giving them any training, toward helping them in any way. We called in the employment counselors from three big industrial States with a very low level of unemployment, and in spite of the requirement of the bill over a period of many years, not one of those States carried people on welfare on their employable rolls.

Nobody is going to starve under this bill. All we are asking the States, or what we are saying to them now is: "If you do not try to cure these problems now in this affluent society, then forget it, we are not going to help you any further. You can take over the burden by yourselves." They have really done nothing, and the way has been opened year after year, and they have done absolutely nothing. They came in and testified they had not done anything.

Mr. HILLENBRAND. One of the things we have been supporting is this concept as a corollary to strengthening the States. If the State gets involved, it must get involved in a meaningful way and not just be another point of contact. By involvement in a meaningful way, we mean that the State should put up some of the money, should certainly provide technical assistance, and should help the localities in administering these programs, and, again, this is beginning to happen, Madam Chairman.

In water pollution—to cite an example—where Maryland has guaranteed the communities the total sum of money for matching on water grants, water pollution control grants, and the State has said that if the Federal Government does not come up with their portion, the State will put their portion in. So, again, there is this element of certainty.

I was in the State of Massachusetts this week, and they have done the same thing.

The situation is changing very rapidly, and I might add, Madam Chairman, that the attitude of the American public is changing. One of the reasons we have not responded to some of these welfare programs is the attitude of the citizen on the street. Unfortunately, I think it is still true that many people are obsessed with the idea that there is no one there but able-bodied men who refuse to work. Our reading of it is not necessarily that. Their children benefit from this.

The point that I am making is that this has got to go hand in hand with an educational process for all of our citizens, and it is going to be faster in some States and some localities than it is in others.

Representative GRIFFITHS. I would like to point out that the real truth is that there are able-bodied women on the welfare rolls who have never been given a chance to work or have had any training. I might say that Baltimore, Md., has recently pointed out that one of the reasons their rolls are going up is because of men who are drawing $15,000 to $25,000, living in suburbia, who leave their wives and children, and those children are going on AFDC.

I would like to ask you if, under your plan, the State produces a plan for the money, would you suggest that the Federal Government would have the right to refuse to give the money if it did not approve the plan?

Mr. HILLENBRAND. That is the principle that we very well established in all the other categorical aids, and we do not understand why it would not work here. We do not envision the Federal Government as a bogeyman. I hope we have made that clear. We are as much a part of this Federal Government as anyone else is. It is all one continuum of government, as far as we are concerned. I really do not know how to answer that.

Representative GRIFFITHS. You feel that the Federal Government could refuse the money if it did not approve the plan?

Mr. HILLENBRAND. Yes.

Representative GRIFFITHS. Mr. Moorhead?

Representative MOORHEAD. Thank you, Madam Chairman.

Concerning the payment in lieu of taxes proposed—it is true that the Federal Government owns some land in every county, but would it not be true that in some counties where a national park might be located, that 80 percent of that county's land might be owned by the Federal Government; whereas, in a county in our area there might be only a couple of post offices, so that there would not be a fair distribution by making payment in lieu of taxes?

Mr. HILLENBRAND. It would surprise you. The Federal Government also has a whole lot of places that would be taxable. One category: the Federal Government does not pay assessments. When we put a sewer in front of your house as a private citizen, we assess you so much for that sewer, or we provide water and you have to pay. The Federal Government does not do this. They do not participate in special assessments, even though their property benefits. If we establish street lighting, curbs, storm drains, we assess against everyone else on the ground that it has benefited their property and they should pay their fair share, but we cannot do this against the Federal Government.

Representative MOORHEAD. I agree with you on that. Where there is a direct benefit, the Federal Government should pay. I am thinking of property taxes. I have not studied it, but in the counties surrounding Washington, there is a higher percentage of Federal property of real value than there is in my district in western Pennsylvania.

Mr. HILLENBRAND. That is right. What you are saying is true, but, again, it would give us some experience on some of these things. For example, one of the questions is: If we are going to have a payment in lieu from the Federal Government, payment in lieu of taxes, then, we ought to, by the same token provide a level of services to that property. If we get a payment in lieu of taxes on a federally owned factory, we ought to provide fire protection to that factory and all the other services. So this would at least be a start to work out some of the principles and concepts that would guide us.

One of the things that seems to frighten people about this legislation is that we do not know ultimately where it will go. There are so many of these problems of the type you are mentioning that would come up. But, again, we are able to do this at the State level. The States are coping with these kinds of problems increasingly.

Representative MOORHEAD. Have there been any State properties subject to local taxes?

Mr. HILLENBRAND. They have voluntarily made payments in lieu in some. It is like the TVA that made a payment in lieu of taxes to the properties in the Tennessee Valley which were inundated with water.

Mr. WARD. We are submitting a statement in conjunction with this relating to this subject, "Payment in Lieu of Taxes," done by the American Bar Association. (See p. 402.)

Your comment is very right, there is property throughout the country owned by the Federal Government, but the distribution is very uneven, and that further problem comes in. If it were equal throughout the country, then all the taxpayers would share in this burden. There are around 50 different separate Federal statutes which now do provide for some type of revenue sharing. The forest lands participate with the counties in the revenues received from the sale of timber. There are a number of projects in the West where they have created dams and inundated land and payment has been made there. Congress, 2 years ago, authorized a very extensive study under the auspices of the Public Land Law Review Commission which is going into this problem very extensively, and in Canada, they have met this problem with the very extensive program where they have taken each political jurisdiction, the Province, within the Province, and they have established a base of 4 percent, so that if there is assessable property within the Province which is federally owned by the Federal Government in Canada which exceeds 4 percent of the total tax base in that county, then the Federal Government makes the payment in lieu of taxes to the county, based upon their ratio of tax assessment in that particular county.

There are a lot of aspects to a pay-in-lieu-of-taxes program. Many of our communities have had the federally owned property in existence from the early 1800's, and the communities have grown up, and excepting the fact that their property is there, there is no problem.

Ever since 1939, with the wild acquisition of properties in conjunction with military installations and groups in a particular area, the problem has become particularly critical for some communities. For some, it is not critical at all. It does not even exist.

The American bar study—there are 10 different principles they outline which should be followed, and they take into account the points you are making, that there should be a cutoff date when you start considering whether the property is going to be subject to payment in lieu of taxes, say, 20 years ago.

Mr. Hillenbrand brought out as to whether or not there are other types of property which are exempt within that community. If the State has property exempt, then the Federal Government should have its property exempt. It takes into account whether or not we are providing the service—the aid to impacted schools, which is a prime example where the Federal Government has recognized these problems.

Representative MOORHEAD. That Federal aid to impacted areas, works out in my area where the wealthiest communities get the assistance and the poorest do not. And, again, I think of all of the fights that the local communities get into in trying to bring Federal establishments to the area, we succeed and they say, "Well, give us payment in lieu of taxes." Why are they fighting for it and then fighting for taxes?

Mr. HILLENBRAND. We might make the same comment. We are fighting hard to get new businesses to come to our communities, too, and then we tax them when they get there.

Mr. WARD. There is a paragraph in this study which relates to that problem. It says:

> Oftentimes the argument is advanced that the mere presence of a Federal installation, whatever its nature, is of general benefit to the community and, therefore, offsets any failure to make a tax payment on account of the property. However, general economic benefits have no relevance under the property tax system to obligations arising from the ownership of property. To recognize such offsets for the Federal property, owners would logically require a similar concession to private industrial property owners, since all industrial property generates general economic benefits.

Representative MOORHEAD. In our city we have a wage tax paid by Federal employees, so, maybe the answer is to change the taxing base for local governments so that it is not so exclusively limited to a property tax. Maybe the answer to the problem is local rather than Federal.

Mr. HILLENBRAND. Mr. Moorhead——

Representative MOORHEAD. We have not preempted the income taxes. States and local communities can impose income taxes if they choose to do so.

Mr. HILLENBRAND. One of the things, Mr. Congressman, that has been suggested is to use this revenue sharing as a device to help force the States and localities to rely increasingly on the income tax. One of the devices suggested, for example, was a tax credit against income taxes so that you could use a revenue-sharing plan as a device to force the States to live up to their responsibilities. Part of the problem, as you know, is that this is the United States of America with respect to tax policies, and the attraction of new industry. The States are very highly competitive, and this is one of the reasons why many of the States have not levied income taxes, and, I think, a great number of them would really welcome this element of helping them ease into the income tax side. So, this would be one more tool or sales point in a total tax reallocation of the type envisioned in revenue sharing, to force the States and localities into the income area. It is our opinion that the property tax simply is not a measure of wealth anymore in the United States; it simply is not a good tax for our kind of society, and that the valid tax is an income tax.

Representative MOORHEAD. One of the points you made is the importance of the dependability of the funds. I can imagine a situation, let us say, where we have had revenue sharing before Vietnam, and suddenly we are hit with Vietnam and the kind of deficit that now appears to face us. The easiest thing for me to do, as a Member of Congress, would be to cut out the revenue sharing, and this means less dependability than you would have under any other form of revenue raising.

Mr. HILLENBRAND. You have hit a very, very important point, not only just the expenditure but very often you want to discourage the States and localities from making physical construction even if they had money of their own.

One of the suggestions that has been made is that in times like these, where there are many demands on the revenue source that exceed the revenue income, there might be consideration given to something like a promissory note payable at a date certain that it could be used, say, for construction, so that we could continue to go on with the planning of this project knowing that the funds would be available in an amount at a date into the future, and that this would be very helpful. And the reverse side could very well be, as some people speculate, that if the war in Vietnam should end now and you have a slack—we are spending approximately $3 billion a month, $36 billion a year for that war—but it would be very helpful if we had a plan already in existence which we had started out to do under the 702 program at the Federal level. So, if you had these promissory notes outstanding, there would be a device to channel these funds into an appropriate solution of our domestic crisis on a carefully thoughtout basis. This has a lot of disadvantages. But the general idea was in times like these to issue promissory notes that would be payable at a future date when the emergency ended.

Representative MOORHEAD. Would these promissory notes be payable at a fixed date?

Mr. HILLENBRAND. Again, who could decide when the Vietnam trouble would be over? But, again, that was the idea, yes, that it would be helpful to the localities to know that they had a credit of $500,000 against the construction of a school at a date certain to replace an old one.

Representative MOORHEAD. Then, who can pick that date? That is the problem.

Mr. HILLENBRAND. Let me identify the program in a negative way. What happens is, when the State sets an arbitrary limit on one we have a difficulty like this, the localities still have to raise the revenue or else cut an expenditure somewhere else, because they are required by law to have a balanced budget.

It is not possible in any locality in the United States to have a deficit financed on an operating expenditure. If they do not have the money in the budget, they have to eliminate an expenditure item. It is not lawful any place to have a deficit on operating funds. So, they are really strapped very hard if they do not have this dependability.

Representative MOOREHEAD. What would you think of a revenue-sharing program that really went on a per capita formula?

Mr. HILLENBRAND. We would not think very much of it, because, unfortunately, the poor are not evenly distributed, and, to put it in a negative way, the rich are not evenly distributed in the United States. It would be grossly unfair. A State, with a million, that was rich would get the identical amount of money as the State that was poor and had a million people.

Representative MOORHEAD. There would be some degree of fairness in it, because we have the progressive income tax. For instance, the richer States would be paying probably $2 and getting $1, and the poorer States would be paying 50 cents and getting $1. So, there is a measure of fairness there.

Mr. HILLENBRAND. One of the suggestions that was made on that point, Mr. Moorhead, which we have not discussed this morning, is how you would allocate the funds between the various States. One of the suggestions is to use the device we now have. We know the per capita income, State by State, and that this would be in addition to the total number of people—that this would be an important factor. Let me give you an example of how it works in New York State, or how it did when I was there.

We gave an allocation of funds for school aid based on the school population, one pupil, whatever amount it was, $6.75. That was the basic formula. On top of that, we made a supplemental grant to those communities that had the lowest taxable tax base. In other words, the poorest community. Then, there was also a factor in there based on the amount of interest that they were making locally. Some of the localities have all kinds of money and they just will not tax themselves. If they will not measure up to the responsibility, then we should not bail them out nationally. It is possible to handle some of these factors in the allocation formulas. We do it now to some extent on health grants in some of the other areas. There is some variance in this. It recognizes the idea that the richer places are going to have to pay in more.

Representative MOORHEAD. I understand it is your idea to funnel the money through a State agency. From the State, to what? To the counties or to the cities?

Mr. HILLENBRAND. To the general-purpose governments, city governments and county governments, townships where they have them—the general-purpose governments.

Representative MOORHEAD. Including county governments?

Mr. HILLENBRAND. Yes.

Representative MOORHEAD. Thank you.

Representative GRIFFITHS. Do you think there would be a tendency, in case money were to be given back to the local governments, that taxes would not rise again locally?

You would have a whole group of people within the State who held important public positions who would say in case anything was needed, "Well, we would like to give it to you, of course, but the Congress will not let us." Would you not think this would be one of the real problems?

Mr. HILLENBRAND. I think it could be; but I think, again, we have to consider the recent past. I think, in all fairness to us as Americans, we are beginning to step up to the plate and try to solve some of these problems. This would be less of a problem in the future than it has been in the past, but it certainly has been a problem in the past and it is a problem now.

I could mention one State that levied a State sales tax and returned the money to the localities for school systems. Some of the localities reduced their property tax, and that is why we said in one of our points here that this program should be so designed that that cannot happen.

Representative GRIFFITHS. Well, I do not think they would have to reduce that. I think they could just say "You will not have to pay any more." But they would ignore the fact that you are going to have to pay more and more in a Federal tax, a Federal income tax. Now, I would think that this would be particularly true of the poorer States where they really are not paying much in the way of income taxes. For instance, there is a congressional district where the mean average income is $1,900; it is close to $8,000 in mine. Everybody is going to be taxed. You probably would not have 10 percent of the people in my district on the surtax. But where the average income was $1,900 you probably would not have 5 percent that would be hit, on the surtax, if you passed it. So that, particularly in those areas, they would be in a position to say, "Well, we will be glad to give you this." Poetically, I think it would be a nice out.

Mr. HILLENBRAND. There are those possibilities. As someone said, we are running a government of the people and we do put our leadership in political leaders. Again, the big thing that is happening in the United States and the thing that so concerned us and encouraged us is that the average American is getting very, very savvy about this thing.

Let me document it. Let me document it in the case of local political campaigns.

The man that gets up there increasingly now and says he is going to cut the taxes in half and that he is going to do all these social things and that the way he is going to finance it is by eliminating waste, we have found increasingly that man does not get elected, that the people are building quite an understanding of this thing. They are beginning, again, to return to Maryland. I think the people in my suburban area who have a higher per capita income than your district—and I am the only one who is dragging it down—it is up around $12,000 or $14,000 out in Bethesda. But they voted and generally supported this increased tax with the knowledge that is going into these areas. But I think the thing that happens is that people are beginning to understand that unless we do something about educational needs in ghettos and rural areas, that we are all threatened by this thing. We are beginning to understand that when one part of our population suffers we are going to suffer. There is no such thing in the future as being isolated from it. So, I would say that the American public as a whole is a lot wiser now than they once were on these matters. I do not think they are going to support candidates who do not stand up to their responsibilities.

Representative GRIFFITHS. I hope you are correct, but I am already worrying about what is going to happen to the poverty bill. I think the Congress is going to show exactly what it understands and what the American people understand when it passes that vote.

Why not let the Federal Government take over the welfare program, the education program completely, and pay the total bill?

Mr. HILLENBRAND. This is a very attractive proposal in some respects.

In New York State last week, their new constitution, which was turned down 2 to 1, provided that the State of New York would assume complete responsibility for the welfare function and that the counties would get out of it. Our position on that—and the two functions most often mentioned are public welfare and education.

Representative GRIFFITHS. For obvious reasons.

Mr. HILLENBRAND. For obvious reasons. They are crushingly expensive; and reason two, the localities do not have much to say about it anyway.

Representative GRIFFITHS. You are giving people an option whether to draw welfare, or you are giving the States a right now to educate their people, and they become a burden on another State.

Mr. HILLENBRAND. There is a great deal of merit in what you say. Our position, however, is that we would prefer not to do that because we believe the same kind of argument could be made about almost anything, police protection, sewage disposal, mental health—you could make the same kind of argument on these.

Representative GRIFFITHS. I am not sure I am not for the argument in sewage disposal. I live in the Great Lakes area.

Mr. HILLENBRAND. We think it can be done in a different way, Madam Chairman, than through these standards which we have vigorously supported through the research, grant-in-aid, through giving the Federal Government a right to enforce these. We think there are other ways to do it. We are getting back to the fundamental thing that bothers us so much and that is, What is the future of local government? Every popular magazine has got at least one story a month, "We should eliminate cities." "Eliminate counties." "Eliminate Congress." We are getting very concerned, and we are getting very confused about this. We wonder if it would be possible, for example, for Americans to govern themselves, casting a vote for a Congressman every 2 years, a Senator every 2 years or 4 years, and a President every 4 years. We do not think it would be. We think it is going to be increasingly important to strengthen the local government. Let us make this kind of comparison:

It concerns us that the principal aim and the appropriate aim of the pacification program in Vietnam is to create a system of State and local governments—a level of government below the Federal level, and it is significant to us, Madam Chairman, that those countries that have the strongest local government have the strongest democracy, and those governments that have the least democracy have the least local government. Local government and State government are fairly rare things in a meaningful way. They do not have it in the Soviet Union. They do not have it, apparently, in most of Africa. This is a relatively fragile flower, and it has a lot of problems. There are a lot of warts and difficulties. But, we think, from the long-range view, that this might really be an asset. It does give people an opportunity.

I have heard the Vice President make a speech on a number of occasions to elected officials in counties. These are 69,000 elected officials at the county level. That is all we cited as a negative case. Here are 69,000 people participating in a meaningful way and 69,000 others they beat for the job, plus their supporters, and so on. This is an important training ground, an important source of participation, an important source of involvement.

It is significant to know, Madam Chairman, that the Government of the United States seems to be going in two directions, one toward bigness, the need for regionalism, need for the solutions, and it also seems to be going toward smallness, the need for a neighborhood health center, the decentralized courthouse. So, there are two contrary trends going on in the United States.

Representative GRIFFITHS. Let me assure you, I am not for doing away with local government at all. I could not agree with you more. We need more people in power. But the question is whether or not you send back to a local government, to spend as it chooses, money that it has not raised, and that you put upon the National Government the problem of raising that money and yet not being able to spend it for a national purpose. This, I think, is the problem.

Mr. HILLENBRAND. Again, if you continue the categorical grants, you will accomplish these national purposes.

Let me just answer the question by saying that the States—and again we have observatories there—most States collect and return 60, 70, 80 percent of their money. The State-collected money is returned back for actual expenditure by the cities and counties. That is the pattern, and it has already been established in most of the States, and it does work better, and it has a lot of imperfections. These have already been mentioned. But it still has its strength, and it still is workable, and people still do understand it, and it does work, and it does meet the responsibility at the local level; and the other thing we are talking about here: We want the localities to participate and they have to participate under any plan we would suggest where they have to raise local money and stand up and be counted for the expenditure.

Again, the Maryland "piggyback" tax. My county officials have to stand up and say "We are levying 20 percent tax on your State income tax." This is not the State doing it; it is this county council doing it, and I think there are cases like this that fix the responsibility.

Representative GRIFFITHS. Thank you.

I would like to thank you, Mr. Hillenbrand and Mr. Ward for being here. We are happy to have the information that you have given us.

Included in the record of these hearings at this point will be the statement of Hon. Clifford P. Hansen, a U.S. Senator from the State of Wyoming.

STATEMENT OF HON. CLIFFORD P. HANSEN, A U.S. SENATOR FROM THE STATE OF WYOMING

Senator HANSEN. Madam Chairman and members of the subcommittee, I welcome this opportunity to testify before your subcommittee on the question of tax sharing.

I support the concept of tax sharing and urge that the Congress move with dispatch to implement Federal revenue sharing. I am a cosponsor of a revenue-sharing plan, introduced in this session of Congress by Senator Baker. Many others have offered similar plans which differ only in the details of their application.

Perhaps at no other time in our Nation's history have the American people been so acutely aware of the problems which face our country. Perhaps it has been the tremendous expenditures in Vietnam that have helped to put our own "domestic crisis" in better perspective. Perhaps it has been the rioting in the streets and the now-better-known causes for these riots in our metropolitan areas that have caused many shocked and deeply disturbed Americans to come to expect as much revolutionary action at home as we seem committed to accomplish abroad.

But then again, perhaps it is merely the nature of Americans, upon reaching an unprecedented degree of economic development, to look back on what has been left behind. Such was the case in the early days of this century when our country, after a great industrial surge forward, glanced back at those who had been left behind. It was the writers and public speakers of that day who alerted Americans to the problems of their age and thus opened the way for the great progressive movement.

Today, we stand at much the same type of threshold—now newly alerted to the problems that must be solved. Urban renewal, water and air pollution, education, crime control, transportation systems, welfare programs, and natural resource development are all areas in which much remains to be done. This fact we have admitted. The need for action, the need for positive solutions, we have quickly acknowledged.

Yet the exact nature of those solutions is still in doubt. For these problems are basically problems of our State and local governments. They are problems which must be met below the Federal level. In the day-to-day governmental process, it is unquestionably the Governors and mayors who stand on the front lines. Certainly, the highly competitive nature of last week's elections indicates the extremely high stakes involved in the battle for these offices. These offices must be more than empty political titles; they must be offices where the decisions are made and implemented for the great social programs of the future. Indeed, it is from the States that many of the policies adopted by the Federal Government have come. The history of our State and local governments has been one of experimentation and adjustment. It was my own State of Wyoming which first granted women the right to vote, long before the passage of the 19th amendment.

But while our State and local governments attempt to solve the many problems facing them, their ability to continue to do so is in grave doubt. In our Nation's large metropolitan areas, as the need for solutions increases, as the demand for funds to solve them continues to grow, the sources of revenue slowly dry up.

Heavy industry has increasingly moved out of the city and thus, out from under its taxing powers. The middle-class and upper-class populace on which our taxing system depends so heavily no longer lives in the city; the suburbs are their home—but the city still their place of work. And thus, our Nation's mayors rush to Washington in search of assistance—placing a price tag of over $200 billion on revitalization of our urban centers.

But the cities are not alone. From 1956 to 1965, State and local expenditures increased by more than 100 percent, from $36.7 to $75 billion, while the disbursements of the Federal Government increased by only 60 percent, from $68.8 to $110 billion. State and local debt burdens in the same period shot up over 100 percent, from $48.9 to $99.5 billion, as the Federal debt increased by a relatively slight 17 percent, from $272.8 to $317.9 billion.

Dr. Joseph Pechman, formerly on the staff of the President's Council of Economic Advisers, and now with Brookings Institution, in his recent book, "Financing State and Local Governments," estimates that by 1970, expenditures at the State and local level will exceed general revenues (including Federal grants) by $15 billion.

This point has recently been disputed by the Tax Foundation, a nonprofit research group, which predicted that most State and local governments will be enjoying a surplus in the year 1970. The major reason for this improved outlook, states the Foundation, is that population growth in the United States has been tapering off. Yet this study ignores a major point—that of the increasing role that State and local governments are beginning to play. There is a great desire among our State and local areas today to catch up on numerous programs, postponed first because of the depression and then because of World War II. The Tax Foundation's assumption that State and local expenditures will increase only insofar as population increases is unrealistic, in light of the improvement that is continually demanded in Government-provided services.

The inability of State revenues to keep pace with the States increasing expenditures in meeting their service responsibilities is due in large measure to the nature of the tax system itself. The most lucrative area of taxation—that of an income tax—has been taken over by the Federal Government, leaving to the State and local governments the more regressive property and sales taxes, which are increasingly unable to yield the necessary revenues. Even if a State does enact an income tax, the degree of progression is extremely limited by the already heavy load that the taxpayer owes to the Federal Treasury.

The progressive nature of the Federal income tax allows it to expand with the ever-growing GNP at the rate of $6 billion a year. Thus, there develops what has been called an "affluence gap" between the Federal and State Governments. The Federal Government has the funds, while the States, to a great extent, have the problems.

The grants-in-aid programs, once considered to be a manner of alleviating the financial problems of our State governments, are yet another vivid indication of the continuing economic difficulties facing State and local governments. Grants-in-aid have increased from $4.7 billion in 1958 to $17.4 billion in 1967—an increase of nearly $1 billion a year, with no end in sight. Yet the original design of such legislation has not taken place. The original concept of grants-in-aid was to offer Federal financial assistance to State and local governments in an effort to identify problems of national importance, and then to allow the State or local area to take over management of the problem, using their own creative concepts of government in implementing their own solutions.

In fact, increasingly the inclination of the Federal Government is to limit the scope of these grants—necessitating their use for certain very specific programs. The trend is unquestionably toward flat national standards and the ensuing curtailment of alternatives available to the local area. It is this trend which is helping to destroy the role of the States as proving grounds for what Justice Brandeis called novel social and economic experiments.

A further point should be made. Many of the States have wasted their own limited resources because of these Federal grants. Some States have seen them not as grants, or stimulating funds, but rather as "free money" to be obtained at all costs. Thus, some States have felt compelled to put up their "matching share" in order to qualify for grant-in-aid programs which do little or nothing to meet the actual problems of the particular State or locality.

The attempts at administration of these programs have caused an increase in the bureaucratic machinery, thus stacking additional weight on the Federal side of the governmental scale. And as these funds become increasingly centered in Washington, the States lose out. Their cities, recognizing the real source of power, bypass the State houses and come straight to Washington to establish their own independent lobbying forces. It would be interesting for this subcommittee to investigate the cost which city governments are now compelled to bear for the privilege of maintaining the "grantsmen" who have become such a familiar part of the Washington scene.

The Federal Government cannot do all that must be done, but if we continue to weaken the system by allowing the States to be bypassed, then certainly there will be nothing left but the Federal Government. State lines and county boundaries would, for all practical purposes, disappear.

A report by the Senate Subcommittee on Intergovernmental Relations states the problem well:

> The Federal, State and local governments are interrelated parts of a single governmental system; each level, however, must effectively discharge its mandated responsibility if all of its rights as a member of this partnership are to be preserved.

By acquiescing in the weakening of the State governments, we are all aiding in the downfall of our traditional Federal system. It is our responsibility to see that the State governments remain strong so they can continue to do what we, at the Federal level, cannot and should not attempt to do. I believe most strongly that the best manner of achieving this end is by means of a tax-sharing program.

Some would accuse our State governments of an intrinsic inability to deal with their problems effectively. Some would say that the States ignore the needs of their citizens and spend State funds unwisely.

How true is such an accusation? We need turn to no greater authority than the people of these States for our answer. In their view, which government serves them best, which government spends their tax dollars most wisely?

According to a recent Gallup poll, 18 percent of the people answered the Federal Government, while an astounding 49 percent said their own State governments are the wiser spenders of their tax dollars. And the facts uphold their convictions. It can be easily demonstrated that a large proportion of State expenditures have been in the areas of education, health, and welfare. The people's needs have definitely not been ignored.

To the argument that a funneling of funds through the statehouse will be at the expense of the urban areas of the State, we can only reiterate Congressman Goodell's statement before the House of Representatives, that "The twin facts that States devote over one-third of their own revenues to State aid for localities and provide 30 percent of total local revenues certainly indicate that cooperative federalism is a working reality at the State-local level."

This, plus the application of the Supreme Court's "one man, one vote" rulings, shows, I believe, that no locality will long suffer at the hands of its State legislature.

Our State and local governments are up against the wall. Their vital need is evident. Last summer's tragic events demonstrate that the Federal Government has proven itself incapable of meeting the demands of the American people. It is now up to the States.

As Dr. Daniel P. Moynihan, former Assistant Secretary of Labor and now director of the Joint Center for Urban Studies of the Massachusetts Institute of Technology and Harvard University Graduate School of Education, pointed out recently:

> The Federal Government is good at collecting revenues, and rather bad at disbursing services. . . . If State and local government is to assume an effective role as an innovative and creative agent, it simply must begin to receive a share of Federal revenues on a permanent, ongoing basis.

Madam Chairman, I could not agree more with Dr. Moynihan. Tax sharing is a necessity. Thank you.

Representative GRIFFITHS. Thank you very much.

(The special report, submitted by Mr. Hillenbrand and Mr. Ward, for inclusion in the record, entitled "Payment in Lieu of Taxes," by the American Bar Association Section on Local Law, follows:)

PAYMENT IN LIEU OF TAXES[1]

The Federal Government's ownership of vast and varied holdings of property, covering one fourth of the country including personal as well as real estate, has created among other things a grave problem to local government. Under the intergovernmental tax immunity doctrine all Federal property is immune to ad valorem taxation, the chief source of revenue of State and local governments. This Federal immunity has been the source of widespread complaints from local governments and the cause of repeated and growing hardships.

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[1] A special report submitted by Section on Local Government Law. Committee on Liaison. National Institute of Municipal Law Officers, to the American Bar Association, 85th Annual Meeting, San Francisco, Calif.

SUMMARY

This committee has undertaken to review the situation relating to the Federal immunity to property taxation and to recommend to the American Bar, policy and implementing action it could endorse and in turn recommend to the Federal Government as a method of meeting their problems. A review of these problems is not a novel undertaking; however, to our knowledge it is not a subject that has ever formally been considered by the American Bar Association. The search for satisfactory answers has been going on for years. In 1935 a Presidential Committee (Secretary of the Treasury, Attorney General and Acting Director of the Bureau of the Budget) was appointed to study the problem. In 1939 the Federal Real Estate Board was established to investigate the situation; and in 1941, a special committee of the Treasury Department examined the question. All these groups filed reports with recommendations for action. In a 1949 Conference of Federal, State, and Local Officials concerned with Intergovernmental Fiscal Relations it was agreed that the Bureau of the Budget should develop comprehensive recommendations for dealing with the problem. The result was a draft bill designed to establish a more uniform treatment of similar Federal properties according to certain basic principles.

In 1955 a Study Committee on Payment-in-Lieu-of-Taxes of the Commission on Intergovernmental Relations, often referred to as the "Kastenbaum Commission" was submitted to the President. This is perhaps the most complete report ever prepared on this subject. Its comprehensive treatment of the subject combined with limitation imposed in the preparation of a report such as this has produced in effect *a distillation of the above referred to document.*

The basic object of this undertaking is to secure substantial equity as between Federal and local taxpayers.

A guiding consideration, among others, is that the cost of local government allocable under the property tax system to an item of federally owned property should be borne by the Federal taxpayer if the property serves primarily a national or broad regional purpose and conversely, by the local taxpayer if the property serves primarily a local purpose.

Federal properties devoted to uses comparable to those made of private properties appear, in general, to deserve the same obligation of supporting local government and the same exemptions from this obligation as similar privately owned properties. Furthermore, practical considerations suggest both that property long in Federal ownership and immune from payment requirements should not now be obliged to contribute to the costs of local government and that existing arrangements for Federal payments which have been operating to general satisfaction should be left largely undisturbed.

Although for most Federal properties the Federal Government makes no contribution to the support of local government; it does under existing statutes, make payment for some of its properties. These payments variously take the form of tax payments, administratively determined payments in lieu of taxes, and a sharing of income receipts from operations on Federal properties.

It is concluded that the solution best suited to this problem can best be found within the framework of the considerations germane to the property tax. This, however, is subject to some limitations. These limitations spring from several factors: *The diverse character of Federal properties and the variety of uses to which they may be put, some serving primarily national and other primarily local purposes; the varying service burdens of different Federal properties on State and local governments and, conversely, the varying service benefits which they confer on those governments to lighten the costs of supplying local public services;* the similarity and contrasts in uses made of Federal properties to uses made of private properties, with some Federal properties resembling and others differing from properties comprising the property tax bases of most local governments: and the varying effects of Federal acquisition of different properties upon local tax bases, with some properties predating the Republic itself and others acquired intermittently during the intervening years with the consequence that different communities and the owners of taxable properties within their borders have had varying times to adjust, insofar as this is possible, to the presence of Federal properties.

The twin doctrines that the Federal Government may not tax State and local governments and that State and local governments may not tax the Federal Government and its instrumentalities, developed in the wake of Chief Justice Marshall's opinion in McCulloch v. Maryland. The problems in this area of major importance today may conveniently be grouped into several categories:

1. The status of Federal property under State and local property tax laws;
2. The status of Federal contractors under State and local tax laws;
3. The status of private persons and activities in Federal areas under State and local tax laws;
4. The status of State and local activities under Federal tax laws; and,
5. The status of State and local securities under Federal tax laws and of Federal securities under State and local tax laws.

This report is confined to the first of these, the tax status of Federal property.

BACKGROUND OF PROBLEM

The property tax has traditionally been the chief source of revenue for most local governments in the United States. Diminution of the property tax base by the accretions to the category of tax-exempt properties poses a serious problem to the public finance capabilities of many communities. The Federal Government owns almost one-quarter of the total land in the country. However, the value of neither realty nor personalty owned by the Federal Government is known. The crux of the problem is the distribution of the Federal holdings rather than the mere totality.

If Federal properties represented a reasonably uniform proportion of taxable property in each of the thousands of local taxing units throughout the country, no urgent problem would arise out of the immunity of Federal property to local taxation. To be sure, payment of the costs of local government fairly allocable under the property tax system to the Federal property would be borne by local taxpayers rather than by Federal taxpayers. But the equality of Federal load on all communities and the general distribution of Federal taxpayers would presumably mute local dissatisfaction and agitation for change in the tax status of Federal property.

Actually, however, Federal holdings are very unevenly distributed. Areawise, 11 States have within their boundaries more than four-fifths of the Federally owned lands; each of 5 States has less than 1 percent. Within the States distribution of Federal property among taxing districts is probably even more disparate. Distribution statistics reflecting values of Federal properties do not exist. However, the effects of the uneven distribution of Federal properties are, no doubt, compounded when consideration is given to the scattered locations among local government areas of highly developed Federal industrial plants with their valuable machinery, equipment, and inventories of goods.

Although information regarding the total revenues which States and localities would receive by taxing all Federal property is not an accurate gauge of the problems involved in the immunity of Federal property to taxation inasmuch as it does not show the impact of Federal holdings upon individual communities, it would nevertheless be helpful. Specifically it would provide the answer that Congress invariably and justifiably asks when it considered any problem the cost. It would require on a nationwide basis an inventory of Federal property, comparable data on the relationship of assessed to true value for tax purposes, and data on tax rates—none of which exist to any extent.

It may be observed in passing that the highest estimates of the potential yield to localities from taxing Federal properties indicate sums which are only a fraction of the total financial grants and other payments now being made by the Federal government to states and localities. Federal grants-in-aid alone totaled an estimated $7,905,000,000 for the continental United States during fiscal 1962. These payments, of course, are not made as substitutes for property taxes. They rest upon a national interest in promoting or facilitating specific types of activities by States throughout the nation rather than upon Federal responsibility as a local property owner. Indeed, in most cases the Federal grants-in-aid are distributed to states and communities without reference to the location of Federal property, and the financial assistance is available to communities where Federal property may be negligible or nonexistent.

GROWTH OF FEDERAL PROPERTIES AND LOCAL DISSATISFACTION

Historically, the problem of whether the Federal Government should contribute to the support of local or state governments because of its property holdings arose primarily in the Western States containing most of the public domain. Most of these lands, however, had never been part of the local taxing jurisdiction, and communities, along with their land values and public financing arrangements, had grown up around the fact that the Federal lands were not subject to taxation. The problem of Federal immunity acquired a new aspect, however, through the enormous growth of Federal property ownership in the past 20 years out of programs involving housing and resettlement, expansion of national parks and forests, and vast land acquisitions for irrigation, flood control, reclamation and power developments. Much of this growth enveloped lands previously on local tax rolls resulting in a depletion of the property tax base, however, in many instances raising the value of the surrounding property that was still on the tax role.

Finally, the national defense program, starting in 1939, greatly increased the value of Federal property holdings through new acquisitions for military camps, training areas, forts, airfields, and especially for industrial plants and facilities. A new and wider geographical concern with the tax-immune status of Federal property developed. Even more significantly the problem assumed an urban as well as a rural complexion. Industrial plant acquisitions were concentrated in urban areas and often reduced the local property tax base. In addition to acquisitions the Federal government constructed many new industrial plants and facilities. Notwithstanding the desirability of varied economic benefits that accompany an industrial facility, these installations constitute a type of property traditionally subject to local taxation. They are in fact, a vital part of the property tax base in most communities since the revenues derived from taxation of industrial plants greatly exceed the cost of providing local public services to them as compared with taxes upon and services rendered to residential property.

Often times the argument is advanced that the mere presence of a Federal installation whatever its nature is of a general economic benefit to the community and therefore, offsets any failure to make a tax payment on account of the property. However, general economic benefits have no relevance under the property tax system to obligations arising from the ownership of property. To recognize such offset for the Federal property owners would logically require a similar concession to private industrial property owners, since all industrial property generates general economic benefits.

With respect to plants producing goods for the Federal Government, a variety of situations may exist in any community. (1) A privately owned and operated plant might be producing such goods; (2) the Federal government might own a plant which, under the control of the Defense Department, is leased to a private operator who produces goods for the government; or, (3) a Federally owned plant operated directly by the Federal government or its contractor-agent might be producing goods for the government. All of these plants could be physically and value-wise identical, all producing the same goods in the same general way and for the same ultimate use. They could all employ laborers residing in the same community. All the plants and all the laborers working in each plant could receive the same public services provided by the local government. Plants of the first two types could be in competition with each other in producing goods for the normal civilian market, as well as for the Federal Government. Yet despite the similarities in operations and economic effects, the tax liabilities of these plants would be completely diverse. Under present law the first plant would be subject to full property taxation; the second plant would be subject to taxation of its real property, but not of its personal property (machinery, equipment, and inventories); and the third plant would be completely tax immune.

Lack of uniform tax requirements respecting all these plants has strained both logic and fairness. This opinion is reinforced by the fact that in some of these plants there are both private and Federal realty, as well as an intermingling of privately owned and Federally owned machinery and equipment, all engaged in a single, integrated production process. Here taxation of some of the property and exemption of the rest not only seems illogical, but in the case of the intermingled tangible personalty, operation of the Federal tax immunity has imposed the onerous obligation upon local tax assessors of separating the taxable goods from the nontaxable and has increased opportunities for private owners to escape taxation of some of their tangible personalty.

PRESENT FEDERAL CONTRIBUTIONS

There is precedent for the Federal government assuming some financial responsibility by reason of its property holding. This has taken these general forms:

1. Revenue Sharing—This is an arrangement under which a specified percentage of income received from operations on certain Federal properties is paid to states or localities and has been applied to a variety of holdings, such as oil and gas lands and national forests. Authorizations to share revenues are derived from numerous individual statutes and percentages paid range from 5 percent to 50 percent (and possibly 75 percent).
2. Payments in Lieu of Taxes—In some cases statutes authorize payments to states or local units based on the value of the Federal property or the cost of local public services rendered to it or to persons occupying it. In others, they are based on tax equivalents with adjustments for burdens and benefits conferred on the community by the Federal property, the amount of such services supplied by the property to the community, and other factors. Specific statutory provisions are variable. Some require payments; some merely permit payments. Generally, the amounts paid are established by negotiation and agreement between the Federal property-owning agency and the state or local government, but the final authority is the Federal agency. This type of Federal payment has been utilized especially for housing properties of the Housing and Home Finance Agency, but has also been employed for certain national forests, Atomic Energy Commission properties, surplus properties, and certain reclamation properties.
3. Consent to Ad Valorem Tax Liability—The properties affected have been principally those acquired by foreclosure or other processes to protect the Federal financial interest in them arising out of Federal lending operations. Such property is generally intended to be held by the Federal agencies temporarily pending disposition to private persons. The Federal ownership is usually a mere interlude between ownership of the property by private persons. The Federal consent to taxation of this property recognizes the undesirability of a temporary removal of the property from the tax rolls.

These present arrangements for Federal payments have developed in a more or less unrelated way out of the provisions of fifty or more separate statutes. They are the result of compromise and expediency and are lacking in a common principle and to a certain degree expand the unequal burden on different local governments.

GUIDING CONSIDERATIONS

The basic premise of this report is that Congress should consent to make a contribution of some type to the cost of State and local government because of the presence of Federal property.

The objective is to find a solution to the financial difficulties experienced by local governments arising out of the tax-immune character of Federal properties, which would be both appropriate to all the diverse situations in existence and compatible with basic concepts which have been a part of our constitutional fabric, i.e. the doctrine of intergovernmental tax immunities.

Any solution must be guided by a statement issued by the Federal Real Estate Board in its report on this subject.

"The cost of national functions and programs should not impose an undue burden on local taxpayers through Federal tax exemptions; neither should the Federal taxpayer be required to support unjustified subsidies to the localities containing Federal lands."

This objective is consonant with another of prime importance, namely, the maintenance of sound governments at all levels of our Federal system. Cognizant that it is primarily the local governments which have protested the existing situation, the Committee proceeds from the compelling need to maintain robust local governments.

The following considerations provide what is seemed fair and reasonable guides to an equitable solution. They are neither immutable nor dogmatic. All of them should be considered in their general context and relationship with each other:

1. The diverse characteristics and contrasting uses of Federal properties and their varying burdens on local governments preclude a single uniform rule for determining the extent to which Federal property should contribute to the support of local government. It appears that for some types of properties payment is desirable; for others payment is inappropriate.

2. The principal basis for distinguishing between Federal properties which should contribute to the costs of local government and those which should not is the use made of the property.

3. It is generally fair that the costs of local government allocable under the property tax system to an item of federally owned property should be borne by the Federal taxpayer if the property serves primarily a national or broad regional purpose and conversely by the local taxpayer if the property serves primarily a local purpose.

4. Federal properties devoted to purposes which are of a type customarily the subject of private activity or concern should pay their fair share of local government costs without reference to whether they serve a national, regional or local purpose.

5. Practical considerations suggest that property long in Federal ownership and immune from payment should not now be required to contribute to the costs of local government. Some general cutoff date is appropriate.

6. Practical considerations suggest also that existing arrangements for Federal payments which have been operating to general satisfaction should not be disturbed.

7. Property used or held primarily for purposes for which property is generally exempt from taxation under the laws applicable in the taxing jurisdiction should likewise be exempt from any payment obligation in Federal ownership.

8. With respect to special assessments to finance improvements for the benefit of adjoining Federal and private property, Federal property should be treated on the same basis as private property and accorded the same safeguards and exemptions.

9. Generally, the foregoing considerations contemplate no distinction between real and tangible personal property.

10. Federal property and persons either living or working thereon should receive local public services on the same basis as those generally provided to other properties and persons in the community.

GENERAL APPROACH TO SOLUTION OF PROBLEM

With the foregoing considerations in mind, we considered various approaches by which the Federal Government might, on account of its property holdings, contribute to the support of local government.

1. Payment of taxes on Federal property as determined by local tax officials according to local tax laws.
2. Payments in lieu of taxes based upon tax equivalents with or without offsets or other payment limiting factors.
3. Payment of taxes or tax equivalents on that portion of Federal properties in a community exceeding a specified percentage of all property in the community.
4. Service payments, or payments for local public services received by the Federal property or persons living or employed on it.
5. Per capita payments, or payments of a fixed or calculable sum for each person living or working on the Federal property within the area of the local government.

All approaches not involving submission of Federal property to direct local taxation may be considered as payments in substitution of or in place of taxes. However, only the second of the above-enumerated possibilities is designated in this report as a "payment-in-lieu" of taxes.

The arguments pro and con for the various approaches are not presented, herein, however, they are considered in the recommendations made by the committee. They are also set forth in considerable detail in the full "Study Committee Report." Briefly the essence of the approaches are as follows:

1. Tax Approach—Select those types of federally owned properties which should share in the costs of supporting local government and consent to their taxation by local governments in accordance with the tax laws of each community.
2. Payment-in-Lieu—This is a modified tax approach. It concedes the propriety of determining the Federal share of local government costs by reference to the value of the Federal property in the locality, but would employ machinery other than the local taxing authority for fixing the Fed-

eral share. Such payments could fall into either of two categories: (1) Payments of amounts equivalent to taxes and, (2) payment of tax equivalents reduced by certain offsets and/or the operation of certain formulas.

3. Payments on Excess Federal Properties—The central idea of this approach is that a system of Federal payments should be coupled with recognition that every local community should bear without claims on other communities (via a Federal payment) the costs of local government attributable under the property tax system to that amount of Federal property in the community which is equal to the average amount of Federal property contained in all communities throughout the Nation. The system thus avoids what might appear as the mere transfer of funds among communities. Federal payments would be made only on Federal property valuations exceeding the average community load.

This approach is best illustrated by the method used in Canada. There all national property (with certain exclusions) exceeding in value 4 percent of the total property valuation in any municipality is subject to a payment-in-lieu at the discretion of the National Minister of Finance not to exceed roughly three-fourths of what the local tax on the properties would be. The specifics of this plan could be altered. The system could be coupled with tax liability on the excess property or with a payment-in-lieu obligation. If a payment-in-lieu technique were designated, it could be made either mandatory or permissive, either subject to offset or not, and subject to appeal just as any other payment-in-lieu.

4. Payments for Specific Services—This approach would identify certain services to the Federal property or to persons living or working on it and make corresponding payments to local governments. This approach avoids Federal responsibility for payments within the framework of the property tax system and concentrates upon Federal support of services, which merit Federal encouragement or have a special value or relevance to the Federal property and its operation.

CONCLUSIONS

The Committee endorses and recommends many of the solutions and recommendations proposed by the "Study Committee Report," and its basic premise that the solution must be found within the framework of considerations germane to the property tax system.

The problem is one created by the immunity of Federal properties to State and local taxation and its solution should be one bearing a rational and explainable relationship to the results which would follow if Federal properties were subject to these taxes.

The committee would require centralization of responsibility for all Federal payments in a single Federal agency. The committee would prefer that each Federal property-holding agency be required to make payments for its properties from its funds so that each agency in budget requests to Congress would be under a continuing duty to justify its holdings and under a continuous pressure to keep them at a minimum.

Although the committee's basic conclusion is that the solution to the problem may be found only within the framework of property tax consideration, it is nevertheless aware that the property tax criterion as a measure of the amount of the Federal property owner's responsibility to contribute to local government support is subject to some limitations. These limitations spring from the diverse character of Federal properties, the variety of uses to which they may be put in serving primarily national or local purposes, the similarity or contrast of these uses to uses made of private property, the differing service burdens of different properties on State and local governments arising partly from the self-service of certain Federal properties, the varying effects of Federal acquisition of different properties upon local tax bases, and from other factors. The effect of these limitations is to suggest, for some types of properties, the impropriety of requiring any Federal payment whatsoever. For others, they suggest the propriety of modifying any tax equivalent amount in order to give effect to historical, practical, and theoretical considerations irrelevant to private property, but intimately bound up in Federal property.

RECOMMENDATIONS

Documentation of individual cases of hardship are legion and have not been one of the facets of this report. It has been primarily to state the case in rather broad and general terms, setting forth not only background material, but guiding principles, various approaches, and finally recommended action. Certainly the proposed following recommendations are not the only route that could be taken. These specific recommendations have been previously proposed in one form or another and have formed the basis of legislation that successfully cleared one body of Congress. This was Senate Bill S. 910 which passed the Senate May 12, 1962. However, they do embody what in the opinion of the Committee is the most realistic, practical and basically equitable approach that has yet to be formulated.

Recommendation 1.—It is first recommended that Congress enact a Joint Resolution declaring that it was Congress' intent to prevent hardship upon local government resulting from the tax immunity of Federal property.

Recommendation 2.—The Federal Government should consent to the payment of special assessments to finance local improvements where both non-Federal and Federal properties are included in the benefited district and subjected to the assessment, provided that Federal property is treated on the same basis and accorded the same safeguards and exemptions as non-Federal properties.

Such special assessments are essentially land service charges for particular improvements which enhance the value of the property.

Recommendation 3.—In pursuance of Recommendation Number One, it is recommended that Congress authorize a program undertaking a systematic appraisal and study of the cost involved in making payments-in-lieu of taxes of the following category of Federally-owned property with the view in mind of initiating such payments, (a) property leased to a taxable third party that is being used in a commercial or industrial capacity, including properties employed by private contractors or sub-contractors in the performance of contracts with the Federal government, title to which has passed to the Federal government pursuant to any partial or advance payment contract clause; (b) properties being utilized by the Federal government itself in a commercial or industrial capacity; (c) properties used or held for activities which serve primarily national or broad regional interests rather than those of the local public; and (d) rental housing other than low-rent housing.

Such a study should be guided by the following restrictions and principles. The payments in lieu of taxes should be equivalent to the amount of taxes which would be assessable against the property if taxable according to its value as determined by the established tax procedures of the taxing jurisdiction, including all provisions for administrative and/or judicial review of assessments, tax rates, or levies in accordance with applicable laws governing assessments and taxation, provided that Federal property is treated on the same basis and accorded the same safeguards as non-Federal properties. Payments thus established should be adjusted as follows:

(1) Reduced for the local cost of specific and customary state or local governmental services provided at Federal expense to the taxing jurisdiction or its residents, or the Federal property, or Federal employees and their families who reside within the taxing jurisdiction. The amount of this reduction should be based on the unit cost of the particular services to the taxing jurisdiction, or in the absence of such unit cost data should be based on the unit cost in comparable nearby taxing jurisdictions.

(2) Increased by the amount of the expenditures incurred by the taxing jurisdiction in providing specific services to the Federal property which it does not customarily provide to non-Federal properties.

(3) Where property of more than one Federal owning agency is located within the taxing district adjustment should be made.

(4) And the previous listed 10 considerations that are to a great extent embodied in the foregoing three principles.

Upon completion of the study (not more than 2½ years should be allowed for its completion) the findings will serve several useful purposes. It will initially demonstrate Congress' concern and interest in the increasing Federal ownership of property and the accompanying problem. It would provide the rather specific financial estimate as to how much a program would cost, something that is almost mandatory before Congress would act.

Lastly, it could also provide the case files for the actual payment to local government once a program was inaugurated.

Recommendation 4.—Payment should not apply to properties acquired by the Federal government before a certain date (September 8, 1939) or (July 1, 1950) unless Congress has specifically authorized the payments of property tax or payment-in-lieu of taxes on account of such properties. This factor of course should be considered in carrying out Recommendation Number Three.

Not only equity but practical consideration prevents payments on properties whose non-contributory status has become integrated into the economic and fiscal life of the community on properties long in Federal ownership local tax rates and land values have grown up around the Federal tax immunity. Adjustments have been made. Equity requires no molestation of such cases.

The alternative of "cut-off dates" of September 8, 1939 or July 1, 1950 are recommended as dates coinciding with the commencements of national emergencies, and in both cases may be taken as the starting time of an enormous expansion of Federal property ownership accompanying the national defense program.

Recommendation 5.—That the American Bar Association make known its vital interest in this problem by endorsing the previously stated recommendations and relay them to Congress and to the President of the United States. In doing so, the American Bar Association would offer its services and that of its various sections in assisting in carrying out these recommendations.

Representative GRIFFITHS. This committee will adjourn.

(Whereupon, at 11:10 a.m., the subcommittee adjourned.)

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