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 intrusion 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, 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 opportunties 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 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 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,