

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, Mr. Javits.

Mr. Maxwell, you may proceed.

**STATEMENT OF JAMES A. MAXWELL, PROFESSOR OF ECONOMICS,
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Mr. MAXWELL. Thank you, Madam Chairman. The observations which I make are relevant only when the Federal budget permits Congress to consider a reduction of Federal taxes, which is not this year.

When our federal system was set up nearly 180 years ago, lines were drawn that set limits to the powers of the Federal Government, and reserved certain powers to the States by constitutional provision. The lines were not very clear cut then, and certainly they are quite blurred today. At present no area exists from which Congress and the States are barred by lack of constitutional power.

In short, the intermingling of functions of government has now gone quite far, and the separation which most people in authority once thought to be important no longer exists.

With respect to sources of government revenue, the Constitution made little prescription for separation of Federal-State sources. Yet in fact, separation existed, short of the Civil War, into the 19th century. Federal tax revenues until 1913 came from customs and a few excises. State and local revenues came from a miscellany of levies, none of which was tapped by the Federal Government.

Once again this separation has vanished. Taxes overlap. Ideally and absolutely, the present situation appears unsatisfactory. Overlapping taxes mean, at best, duplication of administrative effort and duplication of compliance effort by taxpayers. Since the best is not achieved, they bring, as additional costs, tax conflict, discrimination, and complexity. Overlapping performance of government functions often leads to friction and fumbling in administration. The difficulties of cooperative performance are great, and unified authority might seem to offer advantages. The principal cause of this intermingling of functions and sources is that the government now does so much. Each level jostles the other levels.

The principal technique by which the separation of sources of revenue and of functions of government has been eroded is the grant-in-