ditional grants to probe by political pressure for liberalization. What defense can be offered against this charge? One defense is to argue that new grant revenues will be spent as have other recent accretions of revenue, that is, for education, health and hospitals, public welfare, and roads. The same budgetary process by which these needs were appraised would be used to assign revenue from unconditional grants. If the formula is sound by which the annual amount and distribution of an unconditional grant are specified, and if the formula is held firmly, then the State-local budgetary process can be depended on to make reasonable expenditures.

What of the possibility that an unconditional grant would lead some State-local recipients to reduce their own taxes—those judged by the legislatures to be the most onerous, probably sales and/or property taxes. If a cut in taxes is in order, why should the Congress make possible a cut in State-local taxes? Congress could prevent such a step by specifying that the amount of revenue provided from their own sources by State-local governments in a State should be maintained at a level established prior to the grant. On the other hand, Congress might take the view that a modest cut in some State-local taxes would, in terms of equity, be superior to a modest cut in federal taxes.

The arguments which I have advanced do not lead to the conclusion that the principle of financial responsibility is of no consequence; they do suggest that sometimes other principles may override it. The most appropriate setting for the principle of financial responsibility is when State-local governments have, within their reach, reasonable options for raising additional revenues by their own efforts. This was their situation until the 1930's. At present, however, the revenue-raising power of State-local governments, compared with that of the Federal Government, has suffered a grave deterioration. A few State governments and a few local governments do lag behind the others in their tax efforts.

In a nation of 50 States and 19,000 local governments, some unevenness is inevitable and unavoidable. But the dominant fact is, I think, that a greater revenue effort by State-local governments in order to provide additional governmental services which appear to be needed seems a much poorer peacetime option for the Nation than adding modestly to their revenues by larger Federal grants, conditional or unconditional. It is a poorer option than a direct expansion of Federal expenditures in new directions. State-local governments can, in my opinion, handle most civilian functions more efficiently than can the Federal Government. The Federal Government is, however, much more efficient as a collector of revenue. This disparate situation suggests the increased use of grants.

Representative GRIFFITHS. Thank you very much, Mr. Maxwell. Miss Penniman?

STATEMENT OF MISS CLARA PENNIMAN, PROFESSOR OF POLITICAL SCIENCE, UNIVERSITY OF WISCONSIN

Miss PENNIMAN. Madam Chairman, it is a pleasure to have this opportunity to discuss major issues of fiscal federalism in this distinguished company. The Joint Economic Committee of the Congress has held many investigations of great worth and I am proud to participate today—however small my own contribution may be.