

state may have to use the available revenues (state and federal) to produce some equalizing of services and effort. Both state and local governments require a visible structure that will attract career young people and citizens to accept the challenge of public problem-solving.

No fiscal formula will solve all of the nation's ills or immediately restore state and local governments to the role in the federal system we like to believe they once had. *It is fallacious to assume, however, that fiscal discrepancies between demands and resources in given communities or among the states and the competitive disadvantage of tax leadership or unreasonable tax burdens have nothing to do with the difficulties state and City governments face today.*

Representative GRIFFITHS. Thank you, Miss Penniman. Mr. Ecker-Racz?

Mr. ECKER-RACZ. Thank you, Madam Chairman. My statement is longer than the time allotted, and I will therefore offer it for the record and brief it, if I may.

Representative GRIFFITHS. If there are no objections, it will be printed in full in the record as the other more lengthy statements.

TESTIMONY OF L. LASZLO ECKER-RACZ, FORMERLY WITH ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Mr. ECKER-RACZ. Thank you. I too am very pleased to participate in your hearings because the federal system is in difficulty, and for some years has been moving toward a crisis. The reasons, I believe, are self-evident.

On the one hand, we have been making increasing commitments publicly for social and educational expenditures, and we operate under a system in which these commitments impinge upon State-local governments, because these are the governmental entities responsible for social programs under our system.

At the same time, while the expenditure requirements have been rising, the revenue raising capabilities of State-local governments have been progressively circumscribed by such things as interstate competition, interlocal competition for taxpayers, the increasing sophistication of the electorate that is disposed to view with criticism public officials who are associated with tax increases.

Some observers, looking at the American scene, question that there is a problem because they observe expenditures of State-local governments increasing rather dramatically. I submit, Madam Chairman, that while expenditures have indeed been increasing dramatically, State-local governments have been financing this increasing activity in ways that give cause for concern.

A conspicuous development is the increasingly regressive character of State-local tax systems at the same time that the national administration worries about poverty. Despite a record level of taxation, expenditures fall short in many areas of the goals that are critical for the economic-social-foreign policy objectives of National Government.

I conclude that the federal system is in fiscal difficulty because social, economic, and political developments have outraced it and have rendered the original conception of our federal system obsolete.

For example, the assumption that the States and the Federal Government are fiscally cosovereign simply because they are free to use the same tax sources has become invalid because States are not free to do that. Or the assumption that each community has a fundamental right to determine the level of expenditures for social programs is no