

longer tenable because what happens at local levels is of interest to the National Government because it impinges upon important national policies ranging all the way from economic growth to foreign affairs.

I allege that the imbalance in the system, the relative deficiency in State and local revenues, has become progressively greater over the years despite the fact that intergovernmental activity has greatly accelerated. The other speakers have referred to the substantial increase in grants. I have referred to the substantial increase in State tax levels.

What has been happening is that the revenue-raising capability has been shifting increasingly to the National Government, and the devices we have employed to meet the fiscal problem have not faced up adequately to this basic problem.

Our system of functional grants with matching requirements proceeds on the premise that State and local governments have the resources but need to be induced to use those resources. I submit that the situation requires more. We need to develop methodology for utilizing the superior revenue-raising capability of the National Government for financing services which are now State and local.

Your committee, I observe, will be looking at foreign experience, and I call your attention to the fact that in some of the federal systems, federal systems that are considerably younger than ours, there have been fundamental changes in the basic Federal-State relationships. Both in Canada and in Australia there have been changes in the tax sources that are available to State and local governments. There have been changes in the role of grants. And there have been changes in expenditure responsibilities.

I inquire why our system, which is so much older, has never faced up to the need to change the basic arrangements, but rather has tried to operate within the framework of the original assumptions. And I suggest that the reason is that under our system we view these kinds of problems through the eyes of existing governmental organizations and the people who man those organizations, meaning public officials with an eye on voters. I suggest that this kind of forum is sometimes inhibited in questioning the fundamental assumptions that underlie our federal system.

I point out that in these other countries, the institution of the royal commission, composed of people who can afford to be indifferent to the voters, is freer to question the conventional wisdom about the federal system, and I suggest that this wisdom has to be questioned. We must find a way of either placing Federal resources at the disposal of State and local governments in very much larger amounts than we have talked about, or else must find a way of having the Federal Government assume the responsibility for some of the major functions that we entrust to local governments.

The devices enumerated in your press release, the shared revenue, the unconditional grant, the credit for payment of State and local taxes, are very useful, but I suggest that they do not go far enough. I suggest that what is required is not a matter of a few more billion dollars of Federal grants being made available to the States, but a massive input of nationally raised tax revenues to underpin some of the basic functions, for example, education or welfare or both, which are so critical to our national well-being, but which we persist in viewing as responsibilities of individual communities and States.