

I conclude with the observation that in order to face up squarely to this kind of question, we need a forum that has some of the attributes, some of the freedom from political intimidation of commissions used by some of the other federal systems. Thank you.

(The prepared statement of Mr. Ecker-Racz follows:)

PREPARED STATEMENT OF L. L. ECKER-RACZ

THE FISCAL FUTURE OF AMERICAN FEDERALISM

Madam Chairman, my testimony is directed to your interest in the ideas to be gleaned for the revitalization of the fiscal foundations of our federal system from experience here and in other federal systems.

Your concern is timely, if not overdue. This federal system is in difficulty and for some years has been moving toward a crisis.

The concept of public responsibility for the social and economic well-being of the American people has been growing in scope and content at an accelerating pace and has entailed ever larger public expenditure commitments. But this responsibility and response-ability are the true measure of our greatness as a Nation and the rewards of our system. They are the essentials of America's purpose, and happily America has the resources to realize them. An \$800 billion economy can well afford the essential governmental needs of 200 million people.

We cling tenaciously to the view that primary responsibility for domestic government services is best lodged close to the people. We believe the basic obligation for fulfilling this public commitment, for financing these activities, should be largely State and local rather than National. This is why in twenty years the public service expenditures of State and local governments increased nearly 500 percent.

Simultaneously, however, the increasing interstate character of private business activity, the accelerating competition for taxpaying industry, and the growing pervasiveness of political aversion to being associated in voters' minds with the sponsorship of tax increases are combining to restrict the freedom of State and local governments to raise revenues. State and local revenue crises are becoming routine. State and local budgets continue to grow, to be sure, but at what price!

The weight of taxation varies widely, light in some places, onerous in more and more; revenue systems grow increasingly more burdensome for low income families while the national government espouses a war on poverty, and the country becomes ever more prosperous; public services critical to the realization of the social, economic, and foreign policy objectives of the Administration are woefully under-financed; and State-local tax and expenditure policies are exerting an unwholesome influence on private enterprise decisions where and how to do business.

The fiscal foundations of the federal system *are* in difficulty because the economic, social, and technological revolution has made them obsolete. The premise that the States are fiscally co-sovereign with the national government and have equal access to tax resources is obsolete. Revenue raising power is increasingly centralized in Washington. The premise that the scope and level of governmental services is the rightful prerogative of individual communities is obsolete. These services, in increasing numbers, have become vital to national policy goals. It follows that the premise that an adequate level of domestic government services can be financed by State and local governments is no longer tenable.

The panel will no doubt concur in this diagnosis, as it would have ten and perhaps even twenty years ago. The remarkably sustained national prosperity has not ameliorated the problem. It may, indeed, have aggravated it by stimulating the public's appetite for governmental services. That the problem should persist is all the more noteworthy for we have come through a period of intensive intergovernmental activity. State financial aid and Federal grant operations have doubled and tripled, and policy cooperation among governments is at an all time peak.

Why, then, is the federal system continuing to drift into progressive imbalance? If, as the evidence seems to indicate, fiscal resources are being concentrated increasingly in the central government, why has America failed to make the necessary compensating readjustments in the other components of fiscal federalism? Why has it failed to develop ways of deploying the fiscal powers of the