can be recognized only in Federal support. But coupled with that in logic, it seems to me, there has to be a free flow of funds that the States and local governments can use for whatever purposes seem appropriate—that is, for supporting the general structure of State and local government, for strengthening the fabric of State-local government, for strengthening those functions which are not tied into the matching Federal grants.

Very often the matching grant sucks money away from nonsupported functions. Senator Metcalf was telling me last night of a school in Montana, in a federally impacted area, that has a lovely library—a lovely library with no books in it. Why? Because the money that would have gone for books was absorbed into the 50-percent matching requirement for equipment for the physics and chemistry labs. We urgently need some flow of funds that will also help get those books into that library of that school.

This specific example vividly illustrates the general principle of the relationship of a free grant to the tied categorical aids. Thank you.

(Prepared statement of Professors Heller and Pechman follows:)

PREPARED STATEMENT OF WALTER W. HELLER AND JOSEPH A PECHMAN

Questions and Answers on Revenue Sharing

We were very pleased to receive this invitation to present our views on revenue sharing to this committee. First broached in 1964, the idea that the Federal Government should share some of its revenues with State-local government with few strings attached has an unusual degree of support from elected public officials and legislators in both political parties, scholars, businessmen, and other opinion leaders. It also has evoked a great deal of criticism from similar groups. The compendium which this committee has assembled and these hearings will perform an extremely valuable service in identifying the major issues and in evaluating alternative solutions.

Like everything else in politics, there seem to be about as many different versions of the revenue sharing plan as there are supporters. In this statement, we should like to outline in the form of questions and answers the major elements of our plan, to explain its rationale, and to evaluate some of the more important suggestions for modifying it.

Question.—What are the major purposes of revenue sharing?

Answer.—Revenue sharing is intended to allocate to the States and local governments, *on a permanent basis*, a portion of the very productive and highly "growth-elastic" receipts of the Federal Government. The bulk of Federal revenues is derived from income taxes, which rise at a faster rate than income as income grows. By contrast, State-local revenues barely keep pace with income. State-local needs have outstripped the potentialities of their revenue system at constant tax rates, with the result that tax rates have been pushed steadily upward throughout the postwar period and many new taxes have been added. Since State-local taxes are on balance regressive, the higher State-local taxes impose unnecessarily harsh burdens on low-income recipients. In addition, essential public services are not adequately supported in many, if not most, communities because they do not have the means to finance them.

Although there is no room for revenue sharing in the Federal budget this year, it is not too soon to plan for using the Nation's fiscal resources productively once Vietnam relaxes its fiscal grip. In view of their large unmet needs, the States and local governments should receive a generous share of the huge Federal revenue potential in the post-Vietnam economy. Revenue sharing clearly deserves to be considered among the major competing alternatives, certainly before tax reduction is carried too far.

Question.—What are the essential features of the revenue-sharing plan?

Answer.—The core of the revenue-sharing plan is the regular distribution of a specified portion of the Federal individual income tax to the States primarily on