Having said this, however, we wish to add that adoption of an income tax credit would be a major advance in Federal-State fiscal relations, a very good second best to the revenue sharing approach.

Question.—Why give any money at all to the State governments. Aren't they obsolete?

Answer.—We believe that the States are an essential feature of our Federal system of government. A local government is an efficient form of government for some things, but not for many others. In taxation, for example, large local differentials in tax rates on income or sales tend to encourage people to move to other communities or to purchase elsewhere to avoid the tax. As for expenditures, only a few very large cities have the financial means to support higher education and even these few are having troubles. As a matter of fact, with the growth of population, the State governments are rapidly becoming metropolitan governments in the true sense of the word. Thus, for reasons of efficiency, the State governments cannot be permitted to wither away.

No doubt, one can find examples to fit almost any charge, but a fair appraisal of the situation is that most States have been doing a good job in recent years. The State governments have actually used most of their scarce resources for urgently needed State and local programs.

Between 1955 and 1965, general expenditures of State governments rose steeply by $23 billion, to around $40 billion. Of this increase, about 60 percent went for education, health, welfare, and housing; more than two thirds of this amount went to education—most of it through grants to local governments. This evidence suggests that, if the States were to receive unencumbered funds from the Federal Government, they would spend them on urgently needed services whether the particular service were stipulated or not. To be specific, if the Federal Government allocated $6 billion for revenue sharing, there is little doubt that about $3 billion of this money would be spent on teachers' salaries, school buildings, and other educational needs.

There is little doubt that the quality of State governments varies widely, but most observers agree that most State governors are competent and dedicated public officials. Many of them have surrounded themselves with excellent staffs, and are shaking up the old State bureaucracies and introducing new programs and policies that are sometimes ahead of thinking in Washington. As the effects of reapportionment are felt, conditions will improve even in those States where many of us have despaired of making progress in improving administration. Furthermore, there is no point in denying urgent fiscal aid to the "good" States merely because there are some "bad" States ("good" and "bad" in their attitude toward public services). As the last election demonstrated, States change complexion rapidly under the impetus of new administrations. It should also be added that the State governments do not have a monopoly on incompetence—some of the Federal agencies administering grants are something less than models of efficiency.

In conclusion, revenue sharing expresses the traditional faith most of us have in pluralism and decentralization, diversity, innovation, and experimentation. For those who lack that faith—for dyed-in-the-wool Hamiltonians and those who want the States to wither away—there can be little attraction in revenue-sharing or other instruments relying heavily on State-local discretion and decision. Yet, apart from the philosophic virtues of federalism, all of us have a direct stake in the financial health of State-local governments for the simple reason that they perform the bulk of essential civilian services in the country. Revenue sharing would help them do their jobs better:

By providing new financial elbow-room, free of fatal political penalties for innovative and expansive-minded State-local officials (i.e., by serving our federalist interest in vitality and independence at the State-local level).

By nourishing the purely local services and building up the staff and structure needed to carry out effectively the national-interest or spill-over type of services financed by categorical aid (i.e., by serving the universal interest in competence and efficiency).

By enabling the economically weaker States to provide the same scope and quality of services as their wealthier brethren without putting crushingly heavier burdens on their citizens (i.e., by serving the national interest in reducing interstate disparities in levels of services associated with any given tax effort).

Representative GRIFFITHS. Thank you, Mr. Heller.

Mr. Pechman, may we hear from you?