California, alone, according to the newspapers, increased its taxes by $1 billion—just one State. So this does not suggest to me that there is any letup in the increased pressure for new financial resources at the State level at least. And looking at what has happened in the cities during the last 2 weeks, there is no reason for being sanguine about their financial resources either.

I want to end by repeating one other point that Professor Heller has mentioned. I would like to make it quite clear that, at least for the Heller-Pechman part of the revenue-sharing plan, we do not intend revenue sharing to be a substitute for the categorical grant-in-aid program. These two types of assistance perform different functions in a Federal system. The categorical grants are intended to stimulate activity in areas in which the Federal Government has an interest, for example, education, welfare, and so on. To be sure that these activities are supported adequately, the Federal Government requires that the money be used for specific purposes. The Federal Government has every right and responsibility to provide for minimum standards and to require the expenditure of funds in certain ways. But over and above these particular areas, as we have seen in the past few weeks, there are needs for purely State-local activities that will not be covered by the categorical grant system.

Now, if every State in the Union were affluent, if every State in the Union could afford to provide adequate State-local services, there would be no need for revenue sharing.

But, the fact of the matter is, when you do have 50 States, you do need equalization of fiscal resources. In addition, we have a system in which the Federal Government has made major use of the best tax sources, the income taxes. This means that the State governments can't use these taxes as much as they might want to otherwise, because the rates are already high and also because of the competitive factor. They don't want to get out of line. To use a technical term, State-local taxes are below the "optimum." The Federal Government, therefore, is justified in stepping in and helping even the richer States to some extent.

We do not regard the revenue-sharing part of the Federal grant program, at least for the time being, as being larger than the categorical grant system. It may be that as the system develops the relationship between the two will change.

At the present time, I think it would be well to start with a modest amount like 2 percent of the income tax, which is about $6 billion, and see how it works.

The intemperate reaction to revenue sharing as if it were a substitute for categorical grants is simply misrepresenting the plan. Thank you very much.

Representative GRIFFITHS. Thank you very much, Mr. Pechman.

Senator Javits, who is a member of this committee, has to leave and he would like to make a few remarks, and if it is all right with Mr. Rumsfeld we will permit him to do so now.

Representative RUMSFELD. Yes, of course.

Senator JAVITS. Thank you very much, Madam Chairman, I wish to apologize to this distinguished panel. I am the ranking member of the Labor and Public Welfare Committee and we are dealing with a poverty bill. We must mark it up this morning. I am sure you would not want me to omit that duty. But I would like to state, Madam