REVENUE SHARING AND ITS ALTERNATIVES: WHAT FUTURE FOR FISCAL FEDERALISM?

THURSDAY, AUGUST 3, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room S-407, the Capitol, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representatives Griffiths, Moorhead, and Reuss.

Also present: James W. Knowles, director of research; Harley H. Hinrichs and Richard F. Kaufman, economists for the Subcommittee on Fiscal Policy.

Representative MOORHEAD (now presiding). It is now 10 o'clock. It is time for the fourth and final hearing of the Subcommittee on Fiscal Policy of the Joint Economic Committee on the subject of revenue sharing and its alternatives.

Today our witnesses are George F. Break, University of California; Lyle C. Fitch, Institute of Public Administration, New York, N.Y.; Richard P. Nathan, The Brookings Institution; and Harold M. Somers, University of California.

STATEMENT OF GEORGE F. BREAK, PROFESSOR OF ECONOMICS, UNIVERSITY OF CALIFORNIA, BERKELEY

Representative MOORHEAD. I think we will take the witnesses in that order. We will call first, then, on Mr. Break.

Mr. BREAK. Thank you very much, Mr. Chairman. I am very pleased to be invited to participate in these hearings. I do not have a prepared statement to read to you, but I would like to make just a few remarks about the alternatives to revenue sharing as I see them.

Before talking about these alternatives, let me indicate the problems which State and local governments face which these alternatives are designed to help them solve.

I think there are two basic ones. One is interstate tax competition whereby even the wealthy States and local governments may be deterred from levying the tax rates that they otherwise would like to have for fear that if their neighbors do not levy as high tax rates, that they will lose resources, business, and residents, to those other jurisdictions; and they are deterred by these fears from levying as high rates as they would like to have.

The second problem is that some, a number of States and many jurisdictions within almost, I think, every State, have income levels that are too low to permit them to afford the kinds of public services