



CONGRESSMAN'S REPORT

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"The time has come to reverse the flow of power and resources from the states and communities to Washington, and start power and resources flowing back from Washington to the states and communities and more important, to the people, all across America . . ."

Pres. Richard M. Nixon, 1971

Revenue Sharing: Trick or Treat for Taxpayers

When new Congresses gear up in the spring of odd-numbered years, one big, new idea usually takes center stage to be discussed -- or maybe just cussed, depending on who you are.

This year it's something called "revenue sharing," an idea of bipartisan ancestry which has been kicking around Washington for a decade or so. Many, including President Nixon, think it's an idea whose time has come. Many others, including Wilbur Mills -- whose Ways and Means Committee writes tax bills -- think it's a trap for the taxpayers.

The argument over revenue sharing involves fundamental questions about our tax system, federal and local responsibilities, whether cities get a fair shake from state legislatures, and the spiraling costs of welfare discussed in [my last newsletter](#). This year Congress will make basic revenue sharing decisions affecting you and your taxes for years to come. I think some careful discussion is in order.

AMERICA'S FRONTLINE SOLDIERS

Among the toughest and most thankless jobs in America these days are those held by thousands of mayors, aldermen, county supervisors and other local officials who struggle on the front lines of government. I say "front lines" because crime, drug addiction, poor education, overcrowded and inadequate schools, crippled public health facilities, garbage and sewage which can't be moved -- the problems which threaten our stability as a people are being confronted in large part on the school boards and in the court houses and city halls of America. Washington can help, but Washington will never solve these terrible problems.

Perhaps it's over-dramatic to be talking about our cities dying, but we see around us evidence that our sprawling urban conglomerates are seriously ill in more ways than one:

- * Our more prosperous taxpayers are voting with their feet by fleeing to the suburbs from under-policed, overcrowded and increasingly dirty and noisy inner cities.

- * This cuts the tax base at the very time when welfare rolls are exploding with newly arrived, untrained poor people, and when inflation has brought on strikes by transit and sanitation workers and even teachers and police.
- * Spending by local governments has simply exploded, soaring from \$11 billion in 1945 to \$132 billion in 1970.
- * As city services deteriorate the taxpayer rebels against paying more and enjoying it less. Bond issues, higher property and sales taxes -- and the politicians who propose them -- are defeated at the polls.

THE LOADED DICE OF I.R.S.

An obvious answer to this deadly spiral is more money for the cities. But, as one mayor bitterly says, "We have most of the problems and Uncle Sam has most of the money." A little exaggerated, perhaps, but any diagnosis of government points to two inescapable facts: local government costs are going up far faster than federal expenditures; and, in the contest to extract more dollars from taxpayers, the cities are coming in last.

As all of us will rediscover on April 15th the U.S. Internal Revenue Service is the most effective money raising machine in the history of mankind. With it the federal government has preempted the use of graduated income taxes as a prime means of raising revenue: *nine* of every ten personal income tax dollars are raised by the federal government, and collecting only *one* of those ten dollars are the cities and states.

Because the locals are crowded out at the income tax siphon they are left with other less productive, equitable and responsive taxing methods. Between 1964 and 1966, for instance, federal income tax collections grew a fat \$13.3 *billion* dollars. When the national economy grows by *one* per cent in a given year federal income tax revenues grow *one and one-half* per cent! But if you're the mayor of Tucson, you have no such built-in accelerator working for you. When the Tucson economy grows one per cent it may take years, new assessments by county officials and other long delays before you squeeze even one per cent more money out of the property taxes you have to pay and most mayors have to rely on. The fifty states get nearly three-quarters of their tax take from property levies and sales taxes, both of which are highly unfair and regressive.

There is a general belief that federal expenditures have risen in modern times at a fantastic rate -- and the increase has been dramatic. But the *real* spending explosion and the pinch in taxation has been in state and local spending: federal spending is less than *four* times what it was 25 years ago (\$198 billion, up from \$60 billion in 1946). But in that same quarter century state and local spending is up an incredible *twelve* times (\$132 billion versus \$11 billion).

There's an annual contest for the taxpayer's limited dollars, and in this struggle Uncle Sam writes the rules so he comes in first, and city hall will finish last. Yet it is the court house, city hall and school board which we ask to fight our most crucial social battles.

In asking Congress for a new program of revenue sharing President Nixon summed all this up in these words:

"This fiscal mismatch is accompanied, in turn, by an efficiency mismatch; taxes are collected most efficiently by the highly centralized federal tax system while public funds are often spent most efficiently when decisions are made by state and local authorities. . . .

"These rising state and local levies are becoming an almost intolerable burden to many of our taxpayers. Moreover, they often fall hardest on those least able to pay.

Poor and middle income consumers, for example, must pay the same sales taxes as the wealthy. The elderly -- who often own their own homes -- must pay the same property taxes as younger people who are earning a regular income. As further pressures are placed on state and local taxes, the impact is felt in every part of our society. The hard-pressed taxpayer -- quite understandably -- is calling for relief."

Thus, say the President and the proponents of revenue sharing, let's get power and public money back to the people, to the mayors and governors and supervisors and school board members who are familiar with local conditions, and then turn them loose to spend those funds as local citizens want them spent. And let's do this, they say, by having the I.R.S. simply share a portion of its "take" with the states and cities.

BUREAUCRATS' DELIGHT

It isn't as though Uncle Sam has failed to give money to local governments. We already have a massive sharing of revenue: this year about \$30 billion in federal "grants" will go from Washington to states, cities, school districts, universities and the like. But these funds flow through a crazy-quilt pattern of some 500 disconnected federal grant programs added one by one over the past 40 years: Russians send up a sputnik, we need more scientists, so we hastily pass a National Defense Education Act. Maybe next year we realize we're short of doctors so a special program to help medical schools is rushed through the Congress. Thus it has been with hospital construction, dormitories for colleges, and 500 different federal programs.

People pressing for revenue sharing are asking why educators in Arizona or Alaska, Tucson or Tulsa, should have to travel to Washington and shop among 100 different school programs to find one which fits its current need -- and, more important, which has money in its account -- for each program is funded separately.

The head of a local Arizona school district told me that in nine months he'd had to file some twenty applications, reports, surveys, questionnaires and other "red tape garbage" as a result of participating in federal programs totalling less than \$30,000 in support of his budget of \$2 million.

In urban renewal and other areas the pattern is the same. People working on one model cities project not too long ago found themselves required to file separate applications for 134 federal and 17 state programs under 153 different sets of regulations.

THE NIXON PROGRAM

To eliminate this jungle the President proposes two separate programs for sharing funds: *general* and *special*. "*General*revenue sharing" is new. Under it we'd skim \$5 billion (increasing to \$10 billion by 1980) off the top of the federal tax take and put this in a pot with specific shares for each of the fifty states. About one-half of each state's share would "pass through" directly to cities on a formula using population and "tax effort." Arizona's first year share of the Nixon program would be \$51.4 million, and as an example, Phoenix would get \$6.3 million and Tucson \$2.6 million. This would be "no strings" money to be used in just about any way and for any purpose the states or cities see fit: to meet payrolls, to build new schools, or simply to pay off debts.

But "*special* revenue sharing" really isn't new money -- or a new idea. It's just a new name the White House gives to the federal "grants" we talked about earlier. What is different about it is the suggestion that we repackage and simplify some of the 500 existing grant programs into a few broad purpose "block grants," with fewer strings attached and more local leeway in deciding where to spend them.

For example, the federal government in 1970 sent back about \$5.5 billion to local governments in some 100 different education programs. The '*special*' revenue sharing idea would eliminate about 75 of the existing programs, take perhaps \$4 billion of the \$5.5 billion education money, and earmark maybe \$40 million as Arizona's share. No longer would each Arizona university, college or school district have to race to Washington and compete against each other and the nation's thousands of schools trying to find a vocational, science, dormitory or other program with some money left in the till. Some of the existing programs consider *statewide* priorities, but most do not. Our share of the education block fund would be sent directly to Arizona to be spent as our legislature and school boards might think best. Time, red tape and bureaucratic costs would be cut.

The idea is maximum flexibility, and such block grant proposals do have much appeal. Thus, a state with severe mass transit problems but modern airports could use its block of transportation money mostly for mass transit systems, while a state with good transit but outdated airports could go in the opposite direction. Both states could take these steps without the delay and expense of massive, complicated applications for several grants in several different programs of mass transport and airport construction.

THE CASE AGAINST REVENUE SHARING

All this is a simplified, general idea of what revenue sharing is about, and some of the main arguments for it. Reading it you might ask what could possibly be wrong with a program which gets local decisions back in local hands, cuts the growth of federal programs, stops overlapping jurisdiction and competition of federal agencies, cuts down the hordes of federal bureaucrats deciding local community problems, and helps to bail out our bankrupt cities.

Well, a lot of people see a lot of things wrong with it. So let's take a look at the case against revenue sharing. To begin, imagine the indignation of a new wife who is invited by her husband

to share his checking account and happily accepts, only to be told it's \$2,000 overdrawn. The critics of revenue sharing are asking with some scorn, "Where is all this money coming from and just what revenue is it we're going to share?"

In all the arguments for this program there's the false implication that somewhere in Washington there is a big fat bundle of cash which really ought to be returned to the states; that if Congress would only hurry and pass a bill all this "free" money would come rushing back to Albuquerque and Atlanta. That is a joke: last year the federal deficit was \$3 billion; this year there'll be maybe another \$20 billion red ink and next year probably at least \$15 billion more. A government about to rack up \$38 billion of deficits in three years is like the overdrawn husband.

The truth is that this new \$5 billion of no-strings, free federal cash won't come out of trees if it's authorized; it will have to come from one of three places: (1) additional federal taxes levied on the taxpayers in Albuquerque and Atlanta who would "benefit" from the money, or (2) from a reduction in on-going federally funded programs, or (3) -- which is the more likely -- from increased federal borrowing, resulting in a bigger federal deficit and more interest on the federal debt.

SLICING THE PIE

Even if the money were there to be "shared" we're faced with a long and complicated argument on the *method* and *details* of slicing the pie. Most mayors think that governors and state legislatures already short change them in the division of available state money. They are demanding strict "pass through" provisions to make sure that money goes directly to the city halls without any detour or deduction at the state capital. But cities and states aren't the only local governments in trouble. How about the school districts and counties?

To be more specific let's take an example. Greater Tucson has about one-fifth of Arizona's people. Under the Nixon plan Arizona gets perhaps 50 million "no-strings" federal dollars. But under the "pass-through" formula for our state, only about 40% of this would go to the local units of government. That's about \$20 million. Should Pima County's \$4 million share go directly from Washington to Tucson City Hall? Or should it go to the Pima County supervisors to divide among the county, Tucson, South Tucson and Ajo? How about the school districts and the University of Arizona? Do they get a part of it and if so, how much? Or should the whole bundle go to Phoenix to be distributed by your friendly local legislature? These questions are only the beginning of the argument about details: Should the distribution formula consider "tax effort," for instance, penalizing states that have no local income tax, or should it consider the amount of taxes the average individual in a state pays? And how do we deal with situations such as New Jersey, which has no state income tax but pays more federal taxes per person than does Arizona?

HE WHO SPENDS, TAXES

Even if we had the money -- and even if we could solve the practical problems of dividing it -- there are some pretty persuasive arguments about the wisdom of starting these kinds of federal-state relations. Many sensible people who know and deeply sympathize with the desperate situation of local governments can and do oppose this particular remedy.

A primary objection is illustrated by the old story about the cynical congressional veteran telling a newcomer that the way to succeed is to vote against all taxes and for all appropriation bills. Few take such advice but it illustrates why many congressmen think revenue sharing defeats a basic principle of political responsibility: in a democratic system the only hope for holding down taxes and spending is a mechanism *which forces the politicians who spend to take the burden of voting for taxes to make that spending possible*. Our system works because the governor who promises you roads and schools must propose and sign the tax bills which pay for them.

Agreeing with this, Representative Wilbur Mills, Chairman of the House Ways and Means Committee, calls revenue sharing a "trap for the taxpayers," and he makes two other fundamental objections:

"Let us assume that forces are strong enough politically to bring about the passage of a program calling for no-strings-attached revenue sharing of 5 billion dollars now. Are any of us so naive as to believe that those same forces in time cannot have the 5 billion dollars swelled to 20 billion, 30 billion, or even 40 billion?

"Then let us look at the question of turning power over to the local governments. What is there to prevent a future Congress or an administration -- either Democratic or Republican -- somewhere down the road, when the federal part of the total expenditures of the states grows to represent a sizable amount of their total spending, telling the states that they are rather backward? There are certain things that we would like for you to do -- with respect to your judiciary, with respect to your legislature, with respect to any state program you want to name -- in order for us to justify

continuing giving you this largess out of the federal treasury.

"Now, to me, that is just the reverse of what the proponents say it is. It may give temporary vitality to the state governments, but, in the long run, it makes them dependent entirely on the federal treasury and on whatever controls Congress subsequently wants to impose."

FEDERAL CARROT, FEDERAL STICK

Indeed some liberals who want massive federal expenditures for city and state needs oppose revenue sharing *unless* it is specifically designed to force local governments to modernize their structures and change their tax practices. One of the most debated alternatives to the Nixon revenue sharing program is the Humphrey-Reuss revenue sharing plan, a constructive proposal of Senator Hubert Humphrey of Minnesota and Representative Henry Reuss of Wisconsin. Somewhat like the Nixon plan in amount and distribution formulas, it would give state and local governments up to \$9 billion by 1975. But Humphrey-Reuss holds two big clubs over the heads of the states:

- * States which do not levy income taxes would lose heavily in the allocation of federal revenue sharing funds, and
- * Unless the state devised and adopted an "acceptable" master plan for governmental reorganization that state would be cut out of the revenue sharing pie altogether.

I'm convinced that state and local governments, including Arizona's, badly need restructuring and modernization. No sane person would argue that the 1 million people jammed in the Salt River Valley can be most effectively governed through 16 separate city governments with dozens of overlapping county, school district and irrigation district boundaries. Our state government is badly organized and unresponsive. And, it's clear to most people also that the fairest practice would be for every state to do as Arizona does and raise a good chunk of its revenue from income taxes. But conceding these points, I can't help asking: should the federal government force these changes on local governments through this carrot and stick approach? If we start down the revenue sharing road, won't this eventually be the outcome, as Representative Mills suggests?

OLD PROBLEMS, NEW PRIORITIES

There are other serious arguments against the President's kind of revenue sharing:

1. State and local governments spent \$132 billion last year. In two years that figure has jumped \$24 billion. Does it make any sense to go through a long, bitter and inconclusive battle when the total result if *all goes well* is only \$5 billion of new money? At last year's rate of inflation the most this big fuss could accomplish is to hold the line at city hall for six months. This amount of money, or even the \$10 billion the President wants by 1980, won't really make a dent in the expensive, long-range solutions cities must find. This fact is recognized by some of our best and most intelligent mayors. Thus John Driggs of Phoenix warns us not to expect very much: "If the city gets the money from the federal government under the plan, it will only prolong the time before the city will have to resort to increases in its regressive taxes."
2. Other opponents sharply challenge the underlying premise of revenue sharing: that state houses, school boards, court houses and city halls are responsive and efficient and will actually direct the shared dollars to purposes needed most, and argue that the 500 federal grant programs were passed in the first place because state legislatures had left problems unattended, because state governments were less efficient, more corrupt and more dominated by special interests. Should we scrap the successful Hill-Burton hospital construction program in the vain hope that somehow legislatures will suddenly appropriate even more money for hospitals?

3 What we really need, say opponents, is not some new way to divide the inadequate money now available for our needs at home. We need a whole new set of priorities which will give us \$20 or \$40 billion more a year for hospitals and clean water and housing -- money we won't have until we stop the war, cut back our troops in Europe, end the SST and ABM boondoggles. And the anti-revenue sharers hit hard at recent Nixon vetoes. Congress voted \$305 million last year for more hospital funds; it was vetoed. *That* was revenue which should have been shared. Other Nixon vetoes hurt education (\$453 million), housing, urban renewal, water and sewage facilities (\$541 million), education and health appropriations (\$1.3 billion), medical schools (\$225 million). On top of all this they point to cuts of some \$2 billion the President proposes from successful domestic programs in his new budget.

THE GOSPEL ACCORDING TO ST. MATTHEW

At the beginning of this debate I was inclined to support some kind of revenue sharing scheme. I'm deeply sympathetic with the terrible problems faced by cities, by educators, by governors and county supervisors. And, I know and believe that people in Yuma know a lot more than someone in Washington where to put \$1 million to do the most good in Yuma.

Yet, saying all this, I've had in recent weeks more and more doubts -- and they center on these main questions:

- * Isn't it sound government to force the people who spend money to levy the taxes to raise it?
- * Are we wise to start down a road in which the federal government will permanently finance a large part of the activities of local governments?
- * The details of revenue sharing are such a big and complicated problem that a decision can't be reached this year or next, while local governments sink further into the mud. Big new decisions take time in Congress (i.e., 10 years for Medicare). Despite much careful work on the Nixon program, serious bugs remain to be worked out. How long can local government afford to wait?
- * And there is a very basic question we have to ask ourselves about all of this. These are *general* tax funds, collected from all of us. An \$8,000 wage earner in Nogales pays the same tax as an \$8,000 wage earner in Tucson or Phoenix or Scottsdale or Yuma. But they aren't returned at the same rate, for the local "pass-through" formula considers the *amount* of tax revenue raised in a community. That means the rich get richer and the poor get poorer. Example: Santa Cruz County will receive \$7.40 per person as its share of the general revenue fund -- Pima County receives \$12.56 a head under the same formula. The Phoenix city fathers are due to receive \$10.93 for every resident of their city while in Douglas the rate of return is \$8.37, and in Casa Grande it's only \$6.53. Why should the return on a worker be twice as much just because he moves the 60 miles northward from Nogales to Tucson? Once again the gospel according to St.

Matthew is fulfilled: "*For unto everyone that hath shall be given; but from him that hath not, shall be taken even that which he hath.*"

In addition, I really don't know whether one of the other revenue sharing mechanisms would work more simply. Besides the Humphrey-Reuss proposal, at least two other ideas are being seriously advanced:

Senator Edmund Muskie and the prestigious Advisory Commission on Intergovernmental Relations have a sharing plan based largely on giving *federal tax credits* for state income taxes paid. Thus if your federal income tax was \$1,000 and you owed the state another \$300, you could treat maybe \$100 of that state tax as a payment on your federal tax bill, and send only \$900 to the I.R.S. This plan has some bugs, too, but it is a very direct way of taking some money which would have gone to Washington and sending it to Phoenix instead.

Another simple alternative is the "*piggy back*" plan to put the federal tax collecting machine at the service of the states. Under it, when you complete Form 1040 for President Nixon and the I.R.S., you'd look at a table and add maybe 10% for Governor Williams. The I.R.S. would collect both federal and state shares and send Arizona's slice of the pie back to Phoenix.

But study of all of these options will take much time -- time the cities don't have.

FAP: REVENUE SHARING NOW

My best judgment is that none of the revenue sharing plans will pass this year or next. But there is an alternative which could start pouring *new* federal money into cities and states right now, in 1971. It isn't quite as politically sexy but I'm inclined to believe it's more practical and I know it has broad support for immediate action.

In [my last newsletter](#) I suggested that we might have to solve the welfare and revenue sharing disputes together. This year state and local governments will be forced to spend in local funds \$7.5 billion to support the welfare monster. With the explosive growth of this program the state and local bill might come to \$9.7 billion next year. Perhaps the best way to help the states and localities is to act now on the President's Family Assistance Plan and put it into operation immediately. Simultaneously we'd "federalize" the system so that Uncle Sam pays the cost up to a national level all across the country. This program could save the states a total of \$7.5 billion this year, \$27 million of which would be in Arizona. The legislature could put that \$27 million to pressing local needs if it wanted to -- just as our state government could start right now to solve some of the local problems by sharing that budget surplus it is enjoying this year. It could start sending money right now to city halls in Tucson, Coolidge, Flagstaff -- everywhere it's needed now.

In a very real sense welfare *is* a federal problem. Its staggering size and human wreckage are in large part the unintended result of the changeover since World War II to a highly centralized, computerized, mechanized American economy. It turns out fantastic products but moves millions of people off farms and out of small towns into metropolitan concentrations. New York and Los

Angeles taxpayers didn't cause this change, but it's in their cities and others like them that the bills come due.

It should follow, it seems to me, that we ought to have one set of welfare standards. A poor child in Arkansas deserves the same level of nutrition and clothing as one in Arizona or Ohio. If we federalize the welfare system we would insure a complete overhaul and end state by state variations which make possible the strange exceptions and isolated quirks that outrage so many taxpayers. If we went this route we could be sure that right now, *this year*, we would take one of our most pressing social problems and devote a large amount of federal funds directly to its solution. We might get immediate and badly needed relief, and some breathing room to sort out the pros and cons of revenue sharing. It may not be the best answer, but maybe it's the best answer *available*.

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There should be several weeks before this all comes to a head, and I'm keeping my options open while searching for the right answers. Your opinions will help, and I solicit them.

Mo Udall