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Book Review

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Revenue Sharing: Crutch or Catalyst for State and Local Governments? By Henry S. Reuss. New York: Praeger Publishers, 1970. Pp. 170. $6.50.

This short, readable, and relatively nontechnical book purports to argue for federal revenue sharing, but often the argument is obscured behind a never-ending tirade against state and local governments. The author, a Democratic Congressman from Wisconsin, engages in too much visionary reformism to present the case for revenue sharing.

Federal revenue sharing is a plan for distributing a specified portion of federal revenues (usually derived from individual income tax receipts) to state and local governments.[1] Under traditional proposals, few qualifying criteria or conditions controlling the use of funds would be attached.[2] Allocation would be on a per capita basis, modified to give credit for above-average efforts of the states in taxation and to achieve some interstate equalization through bonus payments to low-income states. Revenue-sharing funds would not be subject to the annual process of appropriation, but would be placed in trust. They would supplement, not supplant, existing and future federal categorical grants-in-aid. Some of the funds would be passed through state governments to local governments.

The legislation that Congressman Reuss has proposed in two bills[3] differs substantially from the traditional model. Unlike most revenue-sharing proposals the Reuss plan provides for a two-year federally-funded study by each of the states to determine how to modernize their governmental structures and intergovernmental relationships. At the end of the planning period, each state desiring to receive further federal funds would submit its plan to a "coordinating committee" of regional governors, who would review the proposals, suggest modifications, and recommend to the President those propositions that demonstrate "sufficient creative state initiative" for governmental reform. After consulting with the Advisory Commission on Intergovernmental Relations, the

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[1] Turnbull, *Federal Revenue Sharing*, 29 Md. L. Rev. 344 (1969).

[2] Turnbull, *Restricting the Unrestricted Grants—Analyzing a Revenue Sharing Myth*, 2 Urban Lawyer 63 (1970).

[3] H.R. 1166, 90th Cong., 1st Sess. (1967); H.R. 11764, 91st Cong., 1st Sess. (1969). The two bills are identical.

President, again applying the criterion of "creative state initiative" for governmental reform, would decide which plans are worthy of federal funding. While Mr. Reuss' proposal wisely requires two years of evaluation and study, it contains an apparently unrecognized potential for gubernatorial back-scratching or back-stabbing, as the case may be.

Funds under the Reuss proposal, again unlike traditional revenue-sharing plans, *would* be subject to the annual appropriation process for the reason, among others, that Congress should be the final arbiter of national priorities. In addition, because the Reuss plan would provide for appropriation of fixed sums (22.5 billion dollars over three years) rather than allocation of amounts based on increasing percentages of constantly growing federal income tax receipts, it probably would not be as responsive to economic growth as other revenue-sharing plans.

The major difference between the Reuss proposal and other plans lies in the requirement of federal review of state governmental modernization plans. Under both of his bills, each state must set forth plans and timetables for modernizing and revitalizing state and local governments. The plans must include such matters as:

(1) Solutions of interstate problems by compacts dealing with regional cooperation in health, education, welfare, and conservation;

(2) Programs for strengthening state governments by constitutional, statutory, and administrative changes, including recommendations concerning more effective and efficient executives and legislatures, state borrowing powers, personnel systems, and taxation (with imposition of a state income tax of at least modest progressiveness);

(3) Proposals for strengthening and modernizing rural, urban, and metropolitan governments by constitutional, statutory, and administrative changes; and

(4) Proposals for spending the federal distribution in ways calculated to effect these changes.

The proposed legislation can be read as setting forth suggested programs for reforming state governments; the list of reforms seems to be hortatory, permissive, and suggestive. However, the bills also can be read as requiring that the states' plans adopt some of the listed reforms as requisites (in practice, if not in law) for obtaining approval of the governors' regional coordinating committee, the Advisory Commission and the President. Given Mr. Reuss' advocacy of the legislation, the latter construction would seem to indicate the intention of the draftsman.

Mr. Reuss clearly believes that state and local governments are inadequate, and he is doubtful that they are capable of reforming themselves. He is profoundly distrustful of state and local governments—and he attempts to justify his attitude by frequent documentation. He argues that there is a need to reduce the number of counties; to reduce the number of (or eliminate altogether) local governments that are too small to provide efficient administration; to concentrate on a *single* responsive executive for each local unit; to reform personnel practices by basing them uniformly on merit and competence; to grant adequate home-rule powers to "reformed" counties and other local governments; to increase direct support by the state of such local activities as health, education, welfare, and housing; to revise the terms of state grants-in-aid and shared taxes in order to encourage "modern local governments" and to minimize the differences in local fiscal capacity; to ease restrictions on local property taxes and on borrowing powers of local governments; to improve local property tax administration; and to authorize local governments to impose and better utilize nonproperty taxes. Local governments in metropolitan areas should be strengthened by liberalizing methods of municipal annexation of unincorporated areas, by discouraging new incorporations not meeting minimum standards of total population and population density, by authorizing transfers of specified functions between municipalities and counties, and by permitting intergovernmental contracts for the provision of services. Local governments in metropolitan areas should be allowed to exercise extra-territorial planning and zoning in unincorporated areas, and zoning authority should be restricted to larger municipalities and counties. States should authorize local councils of government; create metropolitan planning agencies; and furnish state financial and technical assistance in areas of planning, building codes, urban renewal, consolidation, governmental structure, and governmental finance.

After crying out with alarm about "ultralocalism," about inadequacy of state and local governments, and about needed reforms, Mr. Reuss finally makes his argument. He urges the use of federal funds (block grants)—not as a crutch to prop up the states and prevent them from achieving reform, but rather as a financial catalyst that will cause them to undertake creative self-initiated reform. This is the most significant point in Mr. Reuss' proposals: he marries revenue sharing to modernization of state and local governments.

The unique characteristic of a *traditional* revenue-sharing concept is that it grants relatively unconditional aid to state and local governments.

Essentially, the traditional program is inextricably linked with concepts of "Creative Federalism"—concepts postulating that there is an imbalance in the federal-state-local partnership that can be redressed in part through revenue sharing. Mr. Reuss' variation, on the other hand, as I have argued elsewhere,[4] is extremely restrictive and non-permissive, and cuts so far into the concept of "Creative Federalism" that its wisdom is indeed open to doubt. It would involve the federal government in the morass and variety of state administration. One surely must have serious questions concerning at least the administrative feasibility of such involvement.

While I previously had serious reservations about Mr. Reuss' proposal's mutilation of the essential concepts of revenue sharing and about some of the administrative difficulties his plan posed, now, after reading this book, I conclude that Mr. Reuss, who purports to be in favor of revenue sharing and who undoubtedly is a proponent of reform of state and local governments, may have transformed himself into one of the worst enemies of revenue sharing. His book is almost too persuasive, too graphic for his cause. It reads like a Doomsday list for state and local governments. Mr. Reuss assumes that the financial catalyst of block grants will persuade and enable the states to modernize and reform themselves, but he implies, more clearly than perhaps he intended, that opponents of unrestricted grants through revenue sharing may be correct in asserting that the only way state and local governments will become stronger partners in the federal system is through federal aid conditioned on reform.

Finally, Mr. Reuss envisions such wholesale alterations in state and local governments, consistent with his enumerated catalogue of necessary reforms, that not only will proponents of reform despair because so many changes may be politically infeasible, but also advocates of revenue sharing will appear ludicrous for advancing such a scheme—ludicrous because of the many conditions affixed to the "unconditional" grants. In short, Mr. Reuss may have authored a book that will be more harmful than helpful to the cause of one of the most worthy programs of "Creative Federalism"—unrestricted sharing of federal wealth with state and local governments.

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[4] Turnbull, *supra* note 1, at 356-66 nn.94 & 96.