



Review and Reflection

BY
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U.S. CITIES ON THE DOLE

AMERICAN CITIES are going through a financial crisis that gets worse year by year. As the cities deteriorate public costs mount. Welfare is one of the biggest items that keeps rising sharply. In New York State close to \$3 billions were spent in 1970 on welfare, i.e. aid to the indigent, most of it in New York City. Police, fire, sanitation and education are also growing progressively more expensive, and the public servants involved outdo one another in clamouring for more pay and more benefits.

The finances of most big cities are close to collapse. They have turned to their states which are of but limited help. So now both states and cities are turning to the federal government and crying for financial help.

This has resulted in plans for "revenue sharing"—that is, the federal government is supposed to give back sums of money to states and cities to help ease their financial burdens. President Nixon's offer is for \$5 billions to be distributed, with no strings attached—that is, the local governments may use the funds in any way they wish. Another proposal is for the federal government to assume the entire burden of welfare payments which would be much more than \$5 billions.

Federal aid to local government is not new. Already \$28 billions are channelled to state and local governments through grants in-aid. However, these funds are generally earmarked for special purposes, such as education, urban renewal, etc., whereas the "revenue sharing" plan is supposed to be an unrestricted gift.

Enthusiasts greet this proposal as a great step toward the restoration of local government and "grass roots democracy" thus helping to reverse the trend toward centralized bureaucracy. It is claimed that with revenue sharing local governments will have more independence and balance of power than they have now.

But there is a vast difference between this kind of revenue sharing and the kind that existed when states and cities were a greater power. The federal government was a creation of the states (the United States) and the financing of the federal government was through the states. Thus the federal government had to get its revenue by calling on the states to pay their share. Now the situation is reversed; the states are begging for a share of

the federal revenue.

One of the chief factors in tipping the scales in favour of the federal government has been the income tax. This device has enabled the federal government to bypass state and local governments and to reach directly into the pockets of private citizens and corporations, thus vitiating the power of the lower levels of government. The income tax has proved to be a devastatingly effective revenue raiser. This has been reinforced by the withholding tax which takes away the tax before the wage earner ever sees it; thus he becomes accustomed to counting his earnings as his net pay after taxes.

Some states and even cities have instituted income taxes, but after the thorough job done by the federal government, they are more like scavengers who eat the leftovers after the lion has feasted on his prey.

The federal income tax has greatly weakened the balance of power of state and local governments. Now it is they who are coming hat in hand for largesse from Washington. Revenue sharing will be no restoration of local power. The hand that holds the purse strings eventually calls the tune, although it may begin as a cautious minuet full of mutual respect.

The federal Department of Housing and Urban Development (HUD) froze \$25 millions for slum clearance for New York City because it was not satisfied with the way the job was being handled. Maybe HUD should not have been satisfied, maybe the funds should not have been allocated in the first place—but the moral is there is no such thing as a free lunch. Federal grants to states and cities began with the understanding that the local government sets policy. But the federal government became impatient at the slowness with which schools in southern states were integrating black and white pupils. Maybe it was right to be impatient—but the fact remains that the initiative passed to the federal government which was giving the handout.

It is a dangerous sign that local governments are looking more and more to the federal government, and it is a pathetic fallacy to imagine that this betokens a return to decentralized government. It will only hasten the day of Big Brother, of centralized control over all facets of our living (it should not escape notice that the coming of Big

Brother is brought about by an eager and headlong rush to his protective arms and not just by his riding roughshod over us.)

Revenue sharing was commented upon editorially in the February issue of *Fortune* magazine; with good insight, the financial plight of cities was traced to the way local governments levy taxes: "For local governments, the need is not to tax more heavily, but to spread the burden more equally and in such a way as to encourage rather than inhibit healthy urban renewal. The local property tax, abused though it often is, remains an appropriate way to pay for local services that benefit local property. In many cases, however, it is based on out-of-date assessments, causing serious inequities. It falls too lightly on undeveloped land held for speculation and too heavily on built-up property, thereby contributing to the housing shortage and inner-city decay. A reformed property tax would probably be a more fruitful revenue producer, as well as a more tolerable one."

If this good advice were followed, it may be that cities would not have to run panic-stricken to the federal government but might start finding that it can solve some of its own problems. A sound local revenue system based on land value might also help reverse the trend toward centralized control and really restore power to the communities instead of through the illusory way of current "revenue sharing" schemes.

C'EST LA COMMON MARKET

ONE of the products of the Common Market's farm policy has been to give birth to a new breed of crooks, reports the *Christian Science Monitor*, March 24.

They are the Euro-smugglers who in 1970 defrauded the Six's common agricultural fund of an estimated £14 million. These crooks specialise in finding loopholes in the EEC's farm policy's several hundred implementing regulations and of course in making money out of them.

One of the early loopholes, though stopped now, provides a classic example of what the crooks can find. Two very different products, a cheap oatmeal known as gruel in English, and the more expensive ground wheat known as semolina, both go under the single French name of guau. However, before the authorities opened their eyes to this, many a ton of gruel had benefited from export rebates as though it were semolina, and many a ton of semolina had been imported subject to a much lower import levy because it was declared as gruel.

Another example of the crook's ingenious but simple manoeuvres was to exploit the fact that food for human consumption, like flour and sugar, tends to have a high import levy, whereas cattle food enters the community free of charge. Thus, enterprising traders simply mixed flour and sugar and imported it as cattle feed. Afterwards they separated the two by sieving it out again and sold it as flour and sugar.

At present there are only six sets of national customs

officers and police, ill-equipped for the complexities of this new racket. The Commission of the European Communities, which drafts all the regulations tries to stop the loopholes by getting the texts amended. But it is always one step behind. However, before long, as the income from levies and customs duties starts going straight to the community's central budget, that budget is going to have to start bearing the cost of fraud-spotters.

All the money that will have to be spent on either catching or preventing smuggling is simply the cost of a controlled market. But unfortunately the whole spectrum of the EEC's economic policy is dictated by the word "control." We can only hope that in the future the pundits who seek to bring the ideal of a united Europe into reality will eventually see and understand that the world is one unit and that only less understanding of human problems can result from groups of countries trying to cut themselves off from the rest of the world by building a wall of tariff barriers around themselves. Free trade provides that important link in the chain of human understanding between peoples of different culture and language. If mankind is to survive it is this that we must aim for.

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"GIVEN ENOUGH TIME, coffee and cognac" there is nothing that cannot be settled concerning Britain's entry into the Common Market," said Mr. Geoffrey Rippon, as reported in the *Christian Science Monitor*, March 19.

The report in which the above quote appeared was examining the current climate of opinion over Britain's possible entry into the EEC as seen by observers in Brussels. It seems that they view the arguments over technical issues such as Britain's budget contributions and the provision of markets within the EEC for certain Commonwealth products, as "pure theatre" for "both sides must give the impression to their constituents that they have bargained in vigorous defence of their national interests" and that the real issue—loss of National Sovereignty—lies ahead.

Obviously there are going to be many heated arguments over this issue. Anti-marketeers argue in favour of a national referendum to decide the issue. Pro-marketeers counter this argument with the implication that the majority of the British people are too ignorant of the facts to decide the matter and therefore the final decision should rest with the wise old men at Whitehall.

Whoever finally decides whether we go in or stay out of the EEC must remember one supreme fact. In the past people have fought and died for the right to govern themselves and they have also died preserving this right. Sovereignty is the greatest single possession a country can own. In some countries even today, the idea of self government remains a dream in the hearts of the people of those countries. Should we in England throw this supreme heritage to the winds by a single stroke of a pen?