high income States, with high tax payments, receiving the larger shares. The State governments would be left free to determine the allocation of their funds. The effects on overall tax progressivity and stability would be the same as block grants.

Tax credits would provide Federal income taxpayers a more liberal writeoff of State and local taxes by giving them an option either to deduct their State and local taxpayments from taxable income, as they can do now, or to deduct some portion of State and local taxpayments from their Federal tax bills. The major benefits would accrue to persons in the low and middle tax brackets who carry above-average State tax loads. This method could help local, as well as State, governments by softening resistance to increases in State and local taxes.

Outright reductions in Federal taxes would be an indirect way of aiding State and local governments. This would permit them to increase their tax rates without increasing the total tax bill of the average citizen, but introduces questions of interstate rivalry. The overall national tax structure would become less progressive (as well as less anticyclical), because the Nation would be placing greater reliance on frequently proportional and regressive State and local taxes. The role of the Federal Government, both in relation to State and local governments and to overall economic activity would be diminished with a reduction in its fiscal resources.

In a society with plural objectives, no single fiscal approach would satisfactorily meet more than a few of them—and might adversely affect other goals. Direct Federal expenditures might optimize income stabilization and income redistribution objectives, but bypass both State and local governments. Tax reduction decreases the size of the Federal sector, but meets State and local public needs only indirectly, if at all. Tax sharing and block grants provide for the allocation of public funds among programs to be made individually by the States, who presumably are more familiar with the needs and desires of their residents than the National Government; but questions have been raised about the adequacy of provisions for the burgeoning financial requirements of counties, school districts, cities, and towns

The Regional Distribution of Income

Another factor to consider in the allocation of Federal resources is the effect on the geographic distribution of income. As shown in table 18, some types of Federal programs have a far stronger tendency to act as "income equalizers" among the different regions than others.[22] Specifically, farm price supports and Federal aid to education demonstrate this characteristic to a very strong degree. In contrast, defense and space contract awards tend to be received by those highly industrialized States that also have above-average income levels.

The basic implication that follows from the data in table 18 is that expansion in Great Society and other domestic civilian programs results in shifts in the geographic distribution of Federal expenditures in favor of greater equality in the regional distribution of income.

[22] The data are taken from M. L. Weidenbaum, "Shifting the Composition of Government Spending: Implications for the Regional Distribution of Income," a paper presented to the annual meeting of the Regional Science Association, Nov. 14, 1965.