had authorized taxpayers to credit a portion of their state income taxes against their federal income tax bill, state tax systems today would reflect much less regressivity than they do. They would also be more productive in their responsiveness to economic advances. At an earlier date every state legislature would probably have enacted an income tax, some would have repealed their sales taxes, and it is unlikely that any state without a sales tax would have adopted one. All of the argument in state legislative halls against any state income taxes or increased income taxes on grounds of interstate competition would have evaporated over night. Encouragement to the states to adopt personal income taxes, with all of its merit, was feasible politically only when few states had sales taxes.

The opportunity of the past no longer exists. It is a mirage in my judgment to believe that the Congress would not now be inundated with cries of infringement of state's rights and pressures from taxpayers and states to permit the same credit treatment for state sales taxes and perhaps property taxes. I do not agree with the policy wisdom of the CED minority who argued for equal treatment of all three major taxes, but I believe they are accurate as a practical matter.[3] The present 12 states without an individual income tax and with sales or property taxes or both have the political power, especially when supported by numerous taxpayers in the other states, to prevent enactment of a tax credit proposal for state income taxes alone.

If the price for a state income tax credit today is substantially equal credit for all state taxes, that price is too high. The special argument that the high federal income tax rates usurp the whole income tax field has limited validity. The states have never used fully the potential of the current deductibility feature of the federal income tax that in effect permits very high rates in the higher income tax brackets with most of the cost being borne by the national treasury and not the taxpayer.

No formulas to restrict the tax credit in a manner that would reduce the manifest inequality among taxpayers would have substantial import for improving the equality of resources among the states or enlarging the available tax resources in the states. The subtleties of tax credits have frequently proved too great for the general give and take of political understanding. Interstate tax competition would continue to stalk state capitals, as governors and legislators attempted to recapture the substantial revenue losses to the national treasury. Whatever the amount of recapture, it almost certainly would be in the form of taxes far more regressive than the federal income tax.

3. NEGATIVE INCOME TAX

A few important economic scholars are supporting some form of negative income tax to replace many of our categorical welfare aids—aid to dependent children, old age assistance, aid to the blind, aid to the disabled.[4] Their proposal would also aid individuals and families on no welfare program but with income below the poverty line. (It is estimated this latter group would constitute 75% of the total.) What would such a step accomplish? Its supporters argue: depersonalize support; remove morality issues from poverty; eliminate the possibility of much of the present corruption problem that is argued to arise especially in aid to dependent children (in contrast to social security where such issues appear rare); eliminate the present possibility of needy individuals failing to qualify under any specified program; encourage work by the able rather than penalizing them as is the outcome at times under present programs where money earned reduces assistance in the same amount.

The negative income tax has significant implications for government. It would transfer much of the burden of welfare administration to the Internal Revenue Service. The experience and generally good record of IRS in collecting taxes would be applied to verifying the accuracy of low income reports and paying out funds according to the established schedule. (Do we need to worry about the psychological hazards to tax agents paying out money?) Welfare social

---

[3] The Intergovernmental Relations Commission and CED have both made such a recommendation. Advisory Commission in Intergovernmental Relations, *Federal-State Coordination of Personal Income Taxes* (Washington, D.C.: Government Printing Office, 1965). A statement by the Research and Policy Committee, Committee for Economic Development, *A Fiscal Program for a Balanced Federalism*, June 1967.

[4] Milton Friedman, University of Chicago economist, would go farther and eliminate most of the insurance plans; unemployment compensation; workmen's compensation: OASDI.