

that they need? I would like to ask each member of the panel to reply to that.

Mr. MAXWELL. Well, Senator, I don't mean to downgrade the principle of financial responsibility. I believe in it very much. I simply tried to say in my statement that there are circumstances I think we have now which lead you to emphasize other principles, and that perhaps this principle, while never completely out of sight, has to be somewhat overridden.

Now how the States can help themselves I am not sure what you have in mind. The thing that pops into my mind as a possibility is something which has been talked about a good deal, and that is an income tax credit or a tax credit against Federal income tax for State income taxes or maybe for State sales taxes as well.

Senator PROXMIRE. Something like that particularly with regard to the income taxes. I am not sure it is a general consensus, but one or two panel members emphasized the desirability of income-producing tax or an income-based tax, I should say, rather than a property tax or even a sales tax.

Mr. MAXWELL. I am not going to endorse that one. Personally I see no reason in the world why the States shouldn't continue to raise, in the future, most of their money from sales taxes as they do now. I see no objection in the world. If I had my ideal world, I think I would have the income tax wholly a Federal tax, and I would probably have commodity taxes wholly State and local plus property as well.

Senator PROXMIRE. I don't want to get into that argument.

Mr. MAXWELL. No, that is irrelevant.

Senator PROXMIRE. I disagree, yes.

Mr. MAXWELL. With respect to a credit of Federal income tax I confess to be completely unenthusiastic, and I can elaborate on that if you wish. To say it very briefly, in the first place, if it were an income tax credit for State income tax, you would have to get 16 or 17 States which haven't presently got such a tax by Federal legislation to impose a tax in order to get the credit.

Senator PROXMIRE. Let me interrupt, Dr. Maxwell, to say where do we have an opportunity to do this? We did reduce some of our excise taxes. We still have some.

Mr. MAXWELL. Yes.

Senator PROXMIRE. Does that open up an area?

Mr. MAXWELL. Yes, sir, I think a good many of our excises, including the big revenue producers, tobacco and liquor, could in my opinion be well administered by the State governments, and would be a good revenue source.

Now I have one other major objection against the income tax credit. I don't think that the 16 States that haven't an income tax ought to be pushed by Federal legislation in this direction. The other thing is that I have never seen an income tax credit, a credit against Federal income tax yet that did not provide most of the money for the fairly well-to-do States which are therefore less in need.

Senator PROXMIRE. Well, as I say, you would have to supplement this with equalization in my view.

Mr. MAXWELL. Equalization can't be done by the credit, that is what I am saying.