if you want to increase the scope and quality and meet some of these needs of the poor ghetto areas, and so on. We have suggested that those increases be in a direction which would mean that you have more responsive taxes by focusing on the personal income tax in State governments.

And here I would like to make one comment on Mr. Netzer's position. He says that when you compare the Federal system of taxes with the State and local systems, in every aspect the Federal is much superior. Well, this is not true. If one of the issues you are interested in is having a tax that is responsive to changes in growth, and if you assume—which I think all of us do assume—that State and local expenditures will go up faster than gross national product—the pressures there are just tremendous. And then you want to have as elastic a tax instrument as you can have. The most elastic tax instrument that exists in the United States today is the State personal income tax. The Federal personal income tax elasticity, as Professor Goode and Professor Netzer have indicated, is about 1.1 percent. You do get high receipts because of the very high tax rates. But the responsiveness, just taking the existing level of taxes, of State personal income taxes, and their existing rates, is 1 percent or 1.8 percent. That is, for every $10 of gross national product, you get about $17 more of personal income tax revenue on the part of the States. And, therefore, if you are interested in a tax which is responsive, this is the direction you would go.

We also believe that in terms of collection it is about equal to the Federal. There is not a very substantial difference.

But in terms of equity, the potential equity of the State income tax can be great, or much greater than that, according to the position of many people, of the Federal income tax. So that the potential equity involved, the responsiveness, its ease of collection, we think, that if you move in this direction you would be improving the total national tax system. This would also help on the other point you made, to the extent that State and local governments depend more and more on the income tax, the less need there is for pressure on the more regressive taxes; that is, on property taxes and sales taxes. And in addition, you have another advantage. If every State that does have the income tax wanted to decrease the regressivity, they could have a credit, both for the sales tax—as in the case of Indianapolis, where the poor get a credit of $6 per person, and those below the income tax level, over that they get a check, even though they don't file an income tax, which is roughly equivalent to their consumption of food and the sales tax they pay if the sales tax covered food. Similarly, in Wisconsin the poor who own homes get a credit on their income tax. And it seems to me that this could be expanded. So that the regressive qualities of the two taxes, sales tax and property tax, would be limited if you had an effective income tax and then tied these two to the credit.

So that in many ways I think the system would be much more effective, much more equitable, and much more responsive if you had more effective State income taxes throughout the Nation.

Mr. NETZER. I certainly don't want to indicate that I am opposed to income taxation at the State level, or the more effective use of it. Quite the contrary. And I agree quite generally that it would considerably improve State and local tax systems if there were a heavier