

use of State income taxation. The point is that the income tax remains a relatively minor source of State-local revenue because so many States don't have the tax. And if you were to simply put the choice—which CED does not do—as one between Federal tax cuts and some form of Federal transfer to the States, the first alternative would be a very bad one because State and local taxes taken as a whole are deficient on so many grounds.

Now, the specific point about the elasticity or the responsiveness to economic growth of State income taxes versus the Federal income tax is a consequence of the particular form of income taxation adopted at the State and local level. The 1.8 elasticity figure is very heavily influenced by the experience of the State of New York. Now, I think we have a good income tax in New York State. And in some respects it is superior to the Federal tax. In many respects it is the same. So it has the same disadvantages of the Federal tax, because many of the definitions are the same. It has one silly deduction that the Federal tax does not have. But it has a personal credit which the Federal tax does not have, which improves it. In many ways it is a very good tax, and it is highly responsive to economic growth.

However, there are other State-local income taxes that are much less responsive to economic growth. You can devise a State income tax that just doesn't respond any more than a sales tax. Most local income taxes, for instance, are no more responsive to economic growth than is the sales tax.

Mr. HARRISS. May I comment?

Representative GRIFFITHS. Yes, of course.

Mr. HARRISS. Professor Netzer and I are more nearly in fundamental agreement than may seem. But there are two points I would like to add. One is, in comparing the Federal tax system with any other, let us look at the margins. What does the last 10 to 20 percentage points of the corporation income tax do in terms of resource allocation, and incentive as well as imposing burden? And here I would contend that it would be very hard to say that this is not a very bad element of the overall national tax system.

The second point is that the property tax consists of two things, a tax on land and a tax on structures. And the economic effects of the two are very substantially different. I am not implying that within the next decade State and local governments are going to make radical modifications. Yet they could shift more of the burden to that part of the tax which is relatively the much better—or less bad—the tax on pure land levels. They could then reduce the portion of the tax on structures.

I would certainly like to see very serious consideration given to this alternative. As Professor Netzer says, the property tax, so far as it applies to structures, is absolutely the wrong thing for central cities. But not so far as it applies to land values. Here is a range of choice open to State and local governments. In looking at constructive alternatives, this shift of emphasis to land values would rank pretty high in what can be done in terms of the desirability of urban renewal, getting rid of the junk in the cities, and in bringing about better things. The property tax is likely to be equivalent to a 30 percent sales tax on pure housing costs. And it is the tax on the structures, not on the land, which is bad.