In your June 1967, study of "Fiscal Program for a Balanced Federalism," when you get to the end of your recommendations and look at what the Federal Government can do, you weigh on the one hand Federal income tax credits for local income tax paid, and on the other, Heller plan block grants, and you come out in favor of the former, saying, let's have income tax credits.

Now, the effect of that would be, one, it would constitute a partial reduction in the Federal income tax; and secondly, it would offer excellent encouragement to 17 States which don't have income taxes, and to the others which have less graduated or progressive income taxes to use, to the full this income-tax credit device; and thirdly, and importantly, you would cut down on interstate competition for industry by one State being able to say, look, we don't have any income tax, come build your plant in our area.

My question is this: While I think that a proposal for offering inducements to the States to have income taxes as part of their tax arsenal is an excellent idea, why did you stop there? Why can't you have both inducements to the States to impose income taxes up to the Wisconsin-New York-Alaska level, and some sort of block grant?

Why did you view that as an either-or proposition?

Mr. KEGAN. We did try to state what we thought were some of the advantages, and some of the disadvantages of the block grant system.

First, we said that State governments today, many of them—not all of them—are not very well organized. But one of our problems, as Madam Chairman commented in the beginning, is the fact that there is a gap between what State governments do today and what they should do. We did come out with a new statement on modernizing State governments. We think this is desirable, and we are glad to see one of the sponsors of State legislation move on this kind of effort.

But if general grants today were to go to the States as they currently exist, we feel that a lot of this money would be wasted or dissipated. It would not achieve the objectives. If you believe, as the statement I think partly believes, that there are serious priority problems, like the problem of poverty and the problem of education, associated with urban areas, and so on, it says that that problem you can meet through expanding and making more effective the categorical aid systems rather than general grants.

And second; if you are concerned with improving, in terms of your own priority, certain kinds of national goals, the categorical grants would be the mechanism, rather than general grants.

The third issue is the fact that general grants might have the impact of maybe not reducing the tax load in some areas, although our study that was prepared for us on the poorer States, Mississippi and Georgia, indicated that if there was a general assistance program, it might reduce, literally reduce their taxes, and use the Federal money as a substitute.

But even if that weren't the case in many States, I think over the long term, if you had a general assistance grant, the pressure for increasing taxes to meet State and local responsibilities would certainly not be there, as long as they could count on a trust fund or continued grants from the Federal Government. And we are assuming here, I think at least the panel yesterday and here, that State and local government requirements are constantly increasing at a higher rate