situation where some people make money by paying State income taxes. It has the further advantage that States would be able to increase their own revenues by the amount of the credit by a simple across-the-board percentage increase in their own income taxes without leaving any taxpayer better off or worse off than he had been before the credit was instituted. For example, if the credit is 25 percent and every State increases its income tax rates by 33⅓ percent, the increase of State revenue will equal the decrease of Federal revenue, and every income taxpayer will be unaffected.

So much for the mechanics of the system. What about its consequences? Talking about the consequences that I would expect of this plan, I should say that the consequences of all these plans are very difficult to determine with great confidence, but that is really what we must try to do.

In order to illustrate the consequences of the tax credit system I shall compare them with the consequences of an unconditional per capita grant from the Federal Government to the States, which I call a bloc grant. I do not make this comparison as an enemy of bloc grants but simply because the bloc grant idea has received so much attention that it has become the standard by which other proposals must be measured. It is necessary to distinguish between two versions of the bloc grant proposal—one with and one without an effort formula. By an effort formula I mean a provision in which the grant to a State is larger, the larger are its State and local taxes relative to the income of its residents. It has never been quite clear whether the Heller-Pechman plan does or does not incorporate an effort formula. The effort formula has been described by them as something which might be incorporated. Whether they favor its incorporation or not I do not know. Also, I shall be comparing plans with equal costs to the Federal Treasury, either in reduced Federal revenue or in enlarged Federal outlays.

The first thing that should be said in comparing the consequences of these plans is that we must guard against the kind of analysis which says that the bloc grant gives benefits to States in proportion to their population and the credit gives benefits to people in proportion to their State income taxes, so that the bloc grant assists public expenditures in the poor States whereas the credit plan assists the private expenditures of wealthy individuals. This is like saying that if you run water into one end of a bathtub the water will pile up at that end whereas if you run it in at the other end it will pile up there. The situation is actually much more complex, and we cannot be sure of the results, but my opinion is that the probable results are the opposite of the intuitive expectation. What we are really interested in is what happens when all the consequences are worked out.

In a few words, I would expect the following consequences. First, the tax credit plan will result in higher State and local public expenditures than the bloc grant without an effort formula. The relative effects on expenditures of the tax credit and the bloc grant with an effort formula are impossible to judge with the existing information, but probably a reasonable guess is that they would not be very different.

Two, the tax credit plan will result in higher total income taxes—Federal, State, and local combined—and lower sales and property taxes than the bloc grant plans.