a $2 billion increase in State expenditures and a $2 billion reduction in States taxes other than income taxes.

By contrast, I would expect a $2 billion bloc grant without an effort formula to result in an increase of State expenditures of about $400 million and a reduction of State taxes, mainly other than income taxes, of about $1,600 million. The effects of the effort formula are more difficult to guess, but it might result in as large an increase of State expenditures as the tax credit plan but would provide no incentive to shift from other taxes to income taxes.

My final conclusion about equalization follows from what I have already said. Poor people have more to gain from an increase of State and local expenditures than from an equal reduction of State and local taxes, because the proportion of the benefits of such expenditures which accrues to poor people is larger than the proportion of the taxes they bear. Poor people also gain from an increase in the proportion of the total revenue that is raised by personal income taxation, because they pay a smaller proportion of the personal income tax. Because I think that the income tax credit will result in more State and local expenditures than the bloc grant without effort formula, and in more use of personal income taxes than either version of the bloc grant, I think that the income tax credit will be more beneficial to poor people.

Economists who talk about these plans give a great deal of attention to the distribution of benefits among richer and poorer States. We are like the man who searched for his lost watch under the lamppost, not because he lost it there but because the light was there. Similarly, we talk about distribution of the benefits by States, not because that is the interesting question but because we have statistics about States. I believe we are interested in poor people, and that the poor people, even of the poor States and certainly of the average and rich States, have more to gain from the income tax credit. I think one thing we have learned in recent years is that the division of the country between poor States and rich States is not very relevant to our problems. The country seems to consist of poor States and rich States with lots of poor people in them.

Essentially, the problem comes down to this: The choice of one or another of these plans will not affect the resources available to the States. The resources available will be determined by the national income and by the total amount of direct Federal expenditure. These plans can do either of two things, or both in some combination. One thing they can do is affect the distribution of those resources among the States. That is what the unconditional bloc grant does. The other thing they can do is influence the terms on which the people of the States make the big general decisions about using their resources, about the division between public and private expenditure and the division among kinds of taxes. That is what the income tax credit plan does. It tilts the scales of decision in favor of more State expenditure and more State income tax.

If you think that the big problem is the unequal distribution of resources among States, the unconditional bloc grant is one way of reducing that problem. It is not the only way, of course. Elimination of the Federal excise tax on cigarettes would have very similar effects, for example. That is, it would increase the resources of the citizens of the various States in proportion to their cigarette consumption, which is probably roughly equal per capita in all States, and thus cause a