larger than proportionate increase in the incomes of the poorer States. However, if you think the problem is that States are inhibited from providing the public services they should provide and from relying on income taxes as much as they should, then the income tax credit seems to me a reasonable solution.

(Exhibits supplied with statement of Herbert Stein follow:)

EXHIBIT A.—COMPUTATION OF CREDIT FOR STATE INCOME TAX (MARRIED COUPLE, NO DEPENDENTS)

	Present system	Income tax credit plan
1. Total income	$20,000	$20,000
2. State income tax (assumed to be taxpayer's only deduction)	1,000	1,000
3. Personal exemptions	1,200	1,200
4. Income after deductions and exemptions	17,800	17,800
5. Tax before credit	3,764	3,764
COMPUTATION OF CREDIT		
6. Taxpayer's marginal rate (percent)		28
7. 100 percent minus marginal rate (percent)		72
8. Net State income tax (line 2 times line 7)		720
9. Credit (25 percent of line 8)		180
10. Tax after credit (line 5 minus line 9)		3,584

EXHIBIT B.—COST TO FEDERAL INCOME TAXPAYER OF $1 OF STATE INCOME TAX

Federal marginal tax rate (percent)	State income tax (a)	Value of deduction (b)	Net cost before credit (c)	Proposed credit at 25 percent of (c) (d)	Net cost after proposed credit (e)
14	$1	$0.14	$0.36	$0.215	$0.645
22	1	.22	.78	.195	.585
28	1	.28	.72	.18	.54
32	1	.32	.68	.17	.51
42	1	.42	.58	.145	.435
50	1	.50	.50	.125	.375
60	1	.60	.40	.10	.30
70	1	.70	.30	.075	.225

Representative GRIFFITHS. Thank you very much, Mr. Stein, and now I am going to answer Mr. Pechman's question. The seating arrangement is in order of the palatability of the plans and I have saved the best for the last.

STATEMENT OF MELVILLE J. ULMER, PROFESSOR OF ECONOMICS, UNIVERSITY OF MARYLAND

Mr. ULMER. I wonder, Madam Chairman, if I might depart briefly from my prepared statement to comment on a statement of Messrs. Pechman and Heller, that bears on my own central position and so I would like to say a word, just a word, about it at once.

And that is the statement made and reiterated that tax sharing must be considered as a supplement rather than as a substitute for Federal grants-in-aid or other specific Federal grants made for particular purposes.

This could easily be misleading or certainly easily misunderstood, because we must, I think, recognize the fact that any money we spend, or any purchase we make, is necessarily a substitute for what we otherwise might have done with the money. And tax sharing, hence, must be considered as a substitute for appropriations that otherwise