What do you say to the fact that one of the reasons for the tax-sharing idea was to afford an opportunity for this kind of general purpose sharing, rather than to bottle all this sentiment up in the other programs and, therefore, to tend to break them down?

Professor Heller, would you like to respond to that?

Mr. HELLER. In part, I think the move to broaden the categories somewhat to cut down the proliferation of separate programs, is a move in the right direction.

What I think you are suggesting in your question is that it can be pushed so far that some of the purposes of the Federal grants-in-aid, some of the zeroing in on specific problems in which there is this direct national interest, these spillover benefits, will be thwarted. The danger exists that the broadening could be carried too far. The general purpose or revenue-sharing or general assistance approach would relieve some of that pressure.

Senator JAVITS. Any other comments on it?

Mr. STEIN. Well, the Committee for Economic Development in its statement indicated its support for continued categorical grants-in-aid to serve a number of important purposes and, particularly for the revision of many of these programs to emphasize their contributions to poor people and to poor jurisdictions, thinking that was one of the basic functions of a grant-in-aid system.

It did believe, however, that it was desirable to provide some further encouragement and incentive and ability for the States to raise unrestricted funds, partly as an alternative to the continued proliferation of categorical grant programs. That is, the committee would not be happy to see all these problems solved by means of the categorical grants, and believes that the pressure for categorical grants would be relieved to the extent that more resources were made generally available at the State level.

Senator JAVITS. It has been said by various witnesses before the committee that the States, gentlemen, having the biggest problems with the poor are at the same time the richest States—that is, on a per capita income basis—in the Union.

These include Michigan, for example, Illinois, Wisconsin; States which have a relatively better position than other States.

If you agree with that proposition how will the various plans which have been suggested across the board here best deal with it? Mr. Stein?

Mr. STEIN. Well, I think with that view of the problem there is a great advantage to the income tax credit because the income tax credit then does precisely what is needed. It greatly increases the ability of the State to tax its own wealthier citizens, makes it easier and cheaper for it to tax its own wealthier citizens; reduces the interstate competition disadvantage of taxing its own wealthier citizens, to provide these resources for the poorer residents of that State, and I think this is a very important aspect of the problem and an important reason for emphasizing this credit.

It recognizes the basic fact that the Federal Government really cannot put money into the States. The only way the Federal Government can put money into the States is by restraining its own expenditures. Everything else is available for the States.

What the Federal Government can do is induce the State to use its resources more fully for the benefit of its poor people, and I think that is what the income tax credit does.