Senator JAVITS. Professor Pechman.?

Mr. PECHMAN. Well, I just want to say that I do not agree with the point made that the greatest problems with the poor are with the wealthy States. I want to repeat that the average per capita income in Mississippi was $1,438 in 1965 as compared to an average in the country of $2,566, and an average in the 10 highest States of $3,125.

Now, it is true that New York and some of the other States in the top 10 have a lot of poor people, but proportionately Mississippi is in much worse shape.

Even if it taxed itself very, very substantially heavier than New York, it simply couldn't provide the welfare and educational services that New York State can provide, and regardless of how you manipulate an income tax credit you cannot do it by way of a tax credit.

The tax credit device is primarily an incentive to adopt a good tax system, which I support, but I do not see how you can argue that the distribution of the tax credit is at all acceptable in the situation we have in this country today.

Mr. HELLER. I want to underscore that point, Senator Javits, that for any given level of services the poorer States have to tax themselves twice as hard as the richer States. That is No. 1.

No. 2, Mr. Stein says that he is anxious to build into the form of Federal assistance to the States a better incentive for them to tax their higher income groups.

At the present time, under the deductibility of the State income taxes from the Federal income tax base, we excuse as much as 70 percent of the State income tax payments to the high income groups. It seems to me that is a strong incentive to state use that already exists in individual income taxation; again, I do not want to speak against the income tax credit per se, but much incentive is already there. The States are using it to some extent but not nearly as much as they might.

So, we both have this same concern for getting more money into the hands of the poor and into the services for the poor. We disagree as to which way is more effective.

Senator JAVITS. Professor Ulmer?

Mr. ULMER. There are two points made in these statements that I would like to comment on. One is the implication that the only thing that is holding back the poorer States is their financial capability. I think you would all agree that this really is not true.

Mr. PECHMAN. I do not agree, let the record show.

Mr. ULMER. Let me say there is, in fact, no correlation between the tax effort that States make and their financial capability.

Mr. PECHMAN. That is also an incorrect statement.

Mr. ULMER. Well, I can prove the contrary, but let me cite the State of Tennessee which has a very low tax effort. It is a poor State, to be sure, but it could be doing very much better than it is doing if it were to adopt the tax levels of New York State.

This is one point on which I wanted to comment.

The other has to do with the poor who are, in fact, with us everywhere, including the rich and the financially important States. We do not have any very sound basis on which to believe that money given to the poor States would necessarily go preponderantly to the