that they would like to have or that most people in the country would think that their residents ought to have. So, we have the low-income problem and the interstate tax competition problem.

I leave out of these problems the support to public services of national interest because those I feel, are best solved by means of categorical or functional grants. Where the program is of National, State, and local interest you need a fiscal partnership and your functional grants are well designed to achieve the desired levels of service in these areas, and so I do not regard functional grants as an alternative to revenue sharing. I will not say anything further about it.

Now, there are three ways of dealing with the two problems I have mentioned. Fractional tax credits would be one. Your revenue sharing devices that you have already talked about here would be a second. And, something in the nature of a negative tax would be a third.

Let me just say a few things about each of these.

The *fractional tax credit* approach has the attractive feature of giving aid to the recipient as the recipient helps himself by raising his own tax rates, and so tax effort is rewarded and the fears that the recipients of unconditional grants might not use the funds wisely or might use them to reduce their own tax effort are allayed by this device.

The fractional tax credit approach has two problems, I think, with it. One is that the initial aid is given directly to the taxpayer. The State and local governments can, of course, raise their rates but I am not very sure about how vigorously and how quickly they would react to this situation. The more important difficulty, I think, is that by giving aid to the jurisdiction of source it provides very little help to low-income areas. It would help solve the interstate competition problems because when they levy an additional $1 in taxes, their residents only have to pay, say, 60 cents under a 40-percent-fractional credit, and so it should mitigate that difficulty. But, it does not help the low-income areas.

Revenue sharing can do both. It helps to solve the interstate tax competition problem by giving the State and local governments additional funds which they do not have to worry about what the others are doing to raise them. They are raised nationally. And it helps the low-income areas because all of the plans that I have seen would distribute the funds either on a straight per capital basis which is mildly equalizing, or take part of the funds and distribute them to the lowest third, say, of the States by per capita income.

One of the main worries about revenue sharing of this kind is whether it would be a substitute for local tax effort, and I think you could build into the revenue sharing plan an arrangement that would increase the amount of funds distributed as the effort by the recipient in the tax field increased.

Finally, the *negative income tax.* This would, of course, give its immediate aid to poor families, and I would see it more as a substitute for existing public welfare programs than for revenue sharing, perhaps. But it certainly would assist local governments insofar as it did substitute for our present public assistance and categorical assistance programs. I recently made some calculations for the five counties in the San Francisco-Oakland metropolitan area. The welfare is handled by the county in California, and if you take the amount of money