

**STATEMENT OF HAROLD M. SOMERS, PROFESSOR OF ECONOMICS,
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Mr. SOMERS. Thank you, Madam Chairman. As the last speaker in 4 day of hearings, it is not very likely that I will be able to say anything that the committee has not heard before. The sensible thing for me to do probably is to tell a joke and then be available for questions on what I have said. But I intend to be sensible and I will avail myself of the kind invitation of the committee to present my own statement of the problem.

INSTANT TAX CREDITS

A thoroughgoing tax credit scheme provides a superior alternative to a revenue-sharing plan. All State and local taxes would be credited against Federal income tax liability up to a certain percentage of State and local taxes—or other limitation. The credit could be given immediately as in the case of unemployment insurance taxes and may be called an instant tax credit. This would avoid liquidity problems for the taxpayer. And there could be inducements to achieve conformity and interstate uniformity in matters of detail. The States would not only spend the money themselves, they would raise it themselves. This puts the tax credit plan doubly on the side of the angels.

Tax credits avoid some of the defects of revenue-sharing plans. Any grants tied to a fixed percentage of the Federal income tax revenues would be procyclical and would get more money to the States in prosperity than in depression. A trust fund or a variable percentage, if used, would introduce the element of discretionary authority and its political and economic complications. At best, revenue sharing makes no contribution to the much-needed improvement of State tax structure and the elimination of multiplicity of tax forms and tax provisions, unless conditions are attached to the revenue-sharing plan in which case we no longer can call the grants “unconditional” grants.

One is reminded of the episode in the musical “Call Me Madam” in which a leading political figure in the mythical Duchy of Lichtenburg refuses to accept a large American loan because it would scuttle the basic economic reforms he had been advocating for years.

In addition to encouraging the reform of State and local tax structures and elimination of the multiplicity of tax forms and tax provisions and the multiple taxation of interstate corporations, a comprehensive tax credit scheme has three important merits:

(1) It gives help to taxpayers in the same income or property classes by the same amount whether they happen to be located in a rich State or a poor State. Under most revenue-sharing plans the poorer States are helped more than the richer States per capita but what benefit accrues to particular taxpayers in those States is unpredictable.

(2) It helps the taxpayers of the core cities directly and does not depend on the generosity of the State or the operation of a pass-through provision of the so-called unconditional revenue-sharing grant. Any help to the taxpayer of the core city strengthens the ability of the core city to raise taxes for its own needs.

(3) It can have built-in countercyclical effect by enabling State and local governments to increase tax rates in depression to maintain public services rather than contributing to and aggravating an economic decline.