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THE NEGATIVE INCOME TAX AND OTHER WELFARE PROPOSALS TO GUARANTEE AN ANNUAL INCOME, 1968.

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THE NEGATIVE INCOME TAX AND OTHER WELFARE PROPOSALS TO GUARANTEE AN ANNUAL INCOME

I. Introduction

Many of the recent income-maintenance proposals that guarantee a certain level of income operate through the Federal personal income tax mechanism, using what has come to be called a negative income tax. Under these proposals families and individuals with insufficient income as defined in the particular program would receive a Federal cash subsidy according to the number of persons in the family and the amount of the income deficiency regardless of the reason for their poverty.

The standard for determining the income deficiency in some proposals is the difference between the actual income of the family and the total of the unused exemptions and the standard deduction to which the non-taxpaying family would be entitled if it had sufficient income to pay a tax under the present income tax law, (referred to as a positive income tax to distinguish it from the negative income tax.) In other proposals the income deficiency is the difference between the actual income and a minimum standard of need for families of different sizes.

The amount of the income deficiency, no matter how defined, is the base for calculating the Federal subsidy, with proposals differing as to the percentage of the income deficiency to be filled by the subsidy.

This percentage may be viewed as the negative tax rate that is applied to the base.

All of the proposals contain a work-incentive feature to encourage earnings. This feature may be viewed as the degree to which a subsidy is reduced because of earnings, which, in turn, is the equivalent of a tax on or a reduction in earnings. Or, it might be viewed as the degree to which earnings are permitted to be retained, with the subsidy not being changed because of earnings. Under a strict "needs test" in public assistance, the subsidy is reduced by the total amount of earnings, and the tax or reduction in earnings is 100 percent with the result, it is held, that there is little incentive to earn. Or this situation can be described as zero retention of earnings. If, for example, the subsidy were reduced by 70 percent of the earnings, the tax on earnings is 70 percent, i.e. 30 percent of the earnings are retained. (The preparation of this paper and the proposals discussed in it were made prior to passage of the 1967 Social Security Amendments. These amendments introduced into the program of Aid for Families with Dependent Children an earnings-exclusion feature and a work incentive program in order to encourage earnings. The paper was subsequently revised to describe these features. See pages 53-54.)

The level of income at which neither a subsidy is received nor a tax is paid is called the breakeven point or the breakeven income.

Proponents of the negative income tax differ as to its purpose. Some hope that the negative income tax, if adopted, gradually will replace all public assistance programs; others view it as a program supplementary to our present public assistance programs; still others want the negative income tax to replace all present forms of income maintenance, including programs such as farm subsidies and Social Security, on the theory that the Government would then be less involved both in the market and in the lives of individuals.

This paper describes the negative income tax proposals of Messrs. Milton Friedman, James Tobin, Edward Schwartz, Robert Lampman, and the program proposed by the Ripon Society. Because the purpose is to set forth the basic concepts of the various proposals, certain details, such as methods of dealing with overpayments and underpayments, although important, are not always described. The paper also summarizes the chief reasons each author has given for supporting a negative income tax. The guaranteed income advocated by Mr. Robert Theobald also is presented. This program could operate through the tax system, but the premise on which it is based differs radically from those of the negative income tax proposals and the work-incentive is regarded as less important.

The major recommendations of the Advisory Council on Public Welfare are summarized in the brief section on alternative proposals to the negative income tax. The recommendations, like negative income tax proposals, call for a guaranteed income on the basis of a standard of need applicable throughout the nation and for the abolition of categorical assistance so that all needy persons may be helped. (Present public assistance programs are available only to specified categories of needy persons -- the needy aged, blind, disabled, or certain families with dependent children.) The Advisory Council program, unlike the negative income tax proposals, would not operate through the income tax system but through a Federal-State financial arrangement.

The next section of the paper lists a few of the tax policy issues that would have to be dealt with if a negative income tax program were introduced. The paper continues with pro and con arguments on behalf of a negative income tax and a guaranteed income. Some of the favorable arguments, of necessity, repeat those given by the authors of the proposals. Finally, some earlier proposals and philosophies which may have influenced current proposals are mentioned as are some of the persons and groups that currently are interested in varying degrees in a negative income tax program.

II. <u>Specific proposals</u>

A. Milton Friedman

1. <u>Description of proposal</u>

Mr. Milton Friedman proposes a negative income tax program based on a breakeven point equal to the total of personal exemptions and standard deductions in the Federal income tax law. Persons and families with incomes below this level would receive as a Federal cash subsidy a percentage of the difference between this total and their actual income. Mr. Friedman, for illustrative purposes, used 50 percent, which he believes is the highest rate feasible. (He suggests the possibility of a graduated rate structure.) Thus, units with no other income would be assured a minimum income equal to one-half of the exemptions and deductions to which they would have been entitled if they paid a positive income tax.

For example, under present tax law an individual taxpayer is entitled to a personal exemption of $600 and a minimum standard deduction the equivalent of $300, or a total of $900. The combined exemption and minimum standard deduction for each dependent is an additional $700. Under Mr. Friedman's scheme, an individual with no income would be entitled to a minimum guaranteed income of $450 (one-half of $900); a four-person family with no income would have a $1,500 guaranteed income (one-half of $3,000); and a family of six with deductions and exemptions totaling $4,400 would be guaranteed an income of $2,200. (Mr. Friedman believes that the exemption level in the present tax law should be much higher than it now is but, on the other hand, that exclusions and deductions should be greatly restricted.)

The following table shows, for a family of four at different income levels, the effect of a 50 percent negative income tax rate applied to unused exemptions and deductions as defined in present law.

Income before subsidy or tax liability	Guaranteed minimum income (exemptions) (and deductions)	Taxable Income	Tax rate	Amount of negative (-)or positive (+) tax	Income after subsidy or tax liability
0	$3,000	-$3,000*	50%**	-$1,500	$1,500
$1,000	3,000	- 2,000*	50%**	- 1,000	2,000
2,000	3,000	- 1,000*	50%**	- 500	2,500
3,000	3,000	0		0	3,000
4,000	3,000	+ 1,000	14%	+ 140	3,860

* Negative income tax base, i.e. difference between guaranteed minimum income and actual income.

** Negative income tax rate, i.e. percentage applied to negative income tax base to calculate subsidy.

SOURCE: Based on data in Milton Friedman, "The case for the negative income tax: A view from the right." Proceedings of the National Symposium on Guaranteed Income (Chamber of Commerce).

As shown on the table, a four-person family with a pre-tax income of $4,000 using the minimum standard deduction would have a positive taxable income of $1,000. At the current 14 percent rate for that bracket, it would pay $140 in taxes, leaving it a post-tax income of $3,860. A family of the same size but with only half the income ($2,000) would have a negative taxable income of $1,000 and at a negative tax rate of 50 percent, it would be entitled to a negative income tax of $500, bringing its total income to $2,500.

The gross cost of a 50 percent tax applied to an unused exemption and deduction base has been estimated at between $7 billion and $9 billion for 1964, if public assistance payments are excluded from the income base in calculating the subsidy.[1] Apparently the lower estimate assumes that the double exemptions in present law are not granted the aged in calculating the taxable income; the higher estimate assumes that they are.

2. Justification for proposal

Mr. Friedman supports a negative income tax because he believes that it would help the poor without interfering with the liberty of the individual, that it would not distort or impede the market mechanism, and that it would involve the Government as little as possible. He states:

> Yet, in my opinion, the negative income tax is more compatible with the philosophy and aims of the proponents of limited government and maximum individual freedom than with the philosophy and aims of the proponents of the welfare state and greater government control of the economy. 1/

Mr. Friedman acknowledges that his negative income tax proposal, like any measure to alleviate poverty, reduces the incentive to work but that it does so to a lesser degree than do the "fill-the-gap" type of negative income tax programs. At one time he was concerned about the possibility that the majority might impose taxes for its own benefit on an unwilling, wealthier minority but --

> ...I now believe that because it is general and linked to the positive income tax it is less likely than are other plans to be extended to unreasonable and dangerous limits. ... It would remove the specious excuse now offered for every newly suggested expansion of the Federal bureaucracy -- that it is "needed" to help one or another disadvantaged group. 1/

According to Mr. Friedman, with a negative income tax special hardship cases would be reduced to a minimum and could be handled by private charity which he believes is "flexible, diverse, and adaptable".

Ultimately Mr. Friedman wants the negative income tax to replace what he terms "our present grab-bag of relief and welfare measures," including programs such as urban renewal, public housing, old age and unemployment insurance, and farm price supports. He believes some of these programs help people who are not poor while actually hurting some persons who are poor, citing as examples urban renewal and farm price supports. Programs such as the minimum wage law, Mr. Friedman claims, increase the number of poor. For example, he maintains that the minimum wage law prices many unskilled out of the market. Mr. Friedman would prefer that people earn what little they can and that the Government supplement their earnings rather than they be unemployed and the Government replace earnings entirely. In short,

> The negative income tax would...concentrate public funds on supplementing the incomes of the poor -- not distribute funds broadside in the hope that some will trickle down to the poor. It would help them because they are poor, not because they were old or disabled or unemployed or farmers or tenants of public housing...
>
> Because the negative income tax is directed specifically at poverty, it would both help the indigent more and cost far less than our present collection of programs...[1]

B. James Tobin

1. Description of proposal

Mr. James Tobin proposes a negative income tax scheme in which the income deficiency is based on a minimum per capita income standard. For illustrative purposes, he uses a $400 per capita minimum, so that a family of five with no income on its own would receive an allowance of $2,000 a year. (Mr. Tobin suggests the possibility of lowering the per capita minimum after a certain number of children.) The subsidy would be reduced by a certain percentage (one-third in the example) for every dollar the family earns. In other words, the family would retain two-thirds of its earnings. At a tax rate of one-third, the breakeven point where the subsidy would cease entirely would be the point at which the family earns three times the basic subsidy ($6,000 for a family of five). Families with incomes in excess of the breakeven point would pay taxes but the less well-off among them, however, would pay less taxes than they now do. The first dollars of income above the breakeven point would be taxed at the same level as income below the point (one-third in the example) until the tax liability so computed would be the same as under the present income tax law. From then on the present income tax law would take over. Thus, the family would keep two-thirds of its earnings until it was more advantageous for it to use the regular tax schedule in computing its tax liability.

The following table illustrates Mr. Tobin's scheme of income allowances for a married couple with three children based on a per capita minimum of $400 and a negative tax rate of one-third. It also compares the after-tax income of the family under this scheme with what it would be under present law.

PROPOSED SCHEDULE						PRESENT TAX SCHEDULE	
Income before subsidy or tax liability	Guaranteed minimum income ($400 per capita)	Taxable Income	Tax rate	Amount of negative (-) or positive (+) tax	Income after subsidy or tax liability	Amount of positive (+) tax	Income after tax
0	$2,000	-$2,000*	100%**	-$2,000	$2,000	$0	$ 0
$1,000	2,000	- 1,667*	100 **	- 1,667	2,667	0	1,000
2,000	2,000	- 1,333*	100 **	- 1,333	3,333	0	2,000
2,500	2,000	- 1,167*	100 **	- 1,167	3,667	0	2,500
3,000	2,000	- 1,000*	100 **	- 1,000	4,000	0	3,000
3,700	2,000	- 767*	100 **	- 767	4,467	0	3,700
4,000	2,000	- 667*	100 **	- 667	4,667	+ 42	3,958
5,000	2,000	- 333*	100 **	- 333	5,333	+185	4,815
6,000	2,000	0*		0	6,000	+338	5,662
7,000	2,000	+ 1,000	33 1/3%	+ 333	6,667	+501	6,499
7,963***	2,000	+ 1,963 + 4,167	33 1/3% 14-19%	+ 654	7,309	+654	7,309
8,000	2,000	+ 4,200	14-19%	+ 658	7,342	+658	7,342

*Negative income tax base, i.e. difference between the guaranteed minimum income and the tax on earnings, which is 1/3 of earnings.

**Negative income tax rate, i.e. percentage applied to negative income tax base to calculate subsidy.

***Income level at which tax liability is the same under present and proposed methods of calculation (liability differs slightly due to rounding). The present tax schedule applies to income in excess of this level.

SOURCE: Based on table in James Tobin, "The Case for an Income Guarantee." The Public Interest, Summer, 1966.

In defining income for purposes of the negative income tax, Mr. Tobin would include income from assets but not the assets themselves. He also would include certain incomes that are exempted from the positive income tax, such as interest from State and municipal securities, and he would include payments such as unemployment compensation on the ground that they are based on past service or contributions and not on need.

Old people would not be included in Mr. Tobin's program. All of them would be blanketed into the Old-Age, Survivors, and Disability program, which would provide minimum benefits comparable to the income guarantees available to younger persons.

Individuals and families who expected to be entitled to an allowance would make a declaration of their expected income and tax withholdings on a schedule provided by the Internal Revenue Service, after which they would receive periodic payments. Any overpayments or underpayments would be settled annually, just as is done presently with our positive income tax. Mr. Tobin says that in order to prevent "borrowing" from the Government, an interest penalty may be imposed on estimates that greatly understate income, although, personally, he believes that such short-term credit to low-income families is desirable.

At a per capita minimum of $400 a year and with two-thirds of earnings retained, Mr. Tobin estimated the gross cost of his plan at $14 billion a year, against which, he believes, would be an eventual offset of a large part of the more than $5 billion dollars all levels of government now spend for categorical public assistance programs.[2/]

Mr. Tobin does not believe that a $400 per capita minimum is adequate, especially since, rather than have the Government provide housing and medical care through special programs, he would prefer the cash allowances to be sufficiently high so that recipients could pay rent at market rates and purchase medical insurance. Such a program, he estimates, however, might cost on a gross basis as much as $25 billion a year.[2/]

2. Comparison with Mr. Friedman's proposal

It might be of interest to note the major features that distinguish the subsidy computation and duration in Mr. Tobin's proposal from those in Mr. Friedman's scheme. Mr. Tobin uses a per capita minimum as a standard to determine the income guarantee rather than income tax exemptions and deductions. His allowance is equal to 100 percent of the difference between the income standard and the actual income instead of being equal to only a portion of the difference. Mr. Tobin does not impose the present income tax rates immediately after the cessation of the allowance. Instead, after the breakeven point he introduces what may be termed a "transitional" tax rate which operates until it yields the same tax liability as does the present tax schedule. It is only to determine this point of convergence that exemptions and deductions play a part in the Tobin scheme.

Conceivably, two families with the same income may not switch from the "transitional" to the regular positive tax at the same point. If by itemizing its deductions, one of the families has a lower tax liability, the switchover would come at an earlier point, because the regular method of computation begins when it yields a lower liability than does the "transitional" method. Also, unless a preventative provision is included, allowing taxpayers to use the "transitional" rate when it yields a lower tax liability might in some instances benefit high-income taxpayers whose average rate exceeds the "transitional" rate.

The following tabulation compares the Friedman and Tobin schemes for a family of five at different earning levels up to $4,000, the point at which the positive tax goes into effect under the Friedman plan.

	Friedman	Tobin
Income standard for family of five	$3,700	$2,000
Earnings	0	0
Subsidy	1,850	2,000
Income after subsidy	1,850	2,000
Earnings	1,000	1,000
Negative tax base	2,700	1,667
Subsidy	1,350	1,667
Income after subsidy	2,350	2,667
Earnings	3,000	3,000
Negative tax base	700	1,000
Subsidy	350	1,000
Income after subsidy	3,350	4,000
Earnings	4,000	4,000
Negative tax base	0	667
Positive tax base	300	0
Subsidy	0	667
Positive tax	42	0
Income after subsidy or payment of tax liability	3,958	4,667

3. <u>Justification for proposal</u>

Mr. Tobin's support of a negative income tax is based on his belief that our present system of welfare is breaking down and must be drastically reformed. He claims that the welfare programs do not cover everyone who is in need; do not adequately meet the needs of those whom they do cover; and that they provide the wrong incentives to many of their beneficiaries. Their administration is costly and diverts resources from constructive rehabilitative social work. In fact, Mr. Tobin states that the welfare programs help to perpetuate from one generation to another the very conditions that they are intended to alleviate or eliminate.

Mr. Tobin believes that the "structural" approach to poverty, such as the war-on-poverty programs that build up the capacities of the poor to earn decent incomes, should be accompanied by the "distributive" approach to assure every family a decent standard of living regardless of its earning capacity or the cause of need.

To Mr. Tobin, the negative income tax eventually would replace categorical public assistance. Ideally, in his view, it would also replace the present public housing and medical assistance programs but Mr. Tobin apparently does not see the withdrawal of the Government from the fields of medical care and housing at present. He thinks that both public and private efforts will be needed to assure an adequate supply of housing and medical insurance policies.

C. Edward E. Schwartz

1. Description of proposal

Mr. Schwartz bases his guaranteed income on a poverty standard. The standard, initially to be determined by a Presidential Commission, would be a schedule of minimum guaranteed allowances that take into account, in addition to family size and age composition, urban-rural and regional considerations. The minimum guaranteed income standard would be adjusted periodically to changes in living costs and in standards of living.

To avoid granting allowances to persons who may be poor in terms of current income but not in terms of assets, Mr. Schwartz suggests establishing minimum income rates to be expected from capital investments and require that this income be reported even if imputed or not drawn upon. Another possibility is requiring an annual statement of net worth and denying a subsidy if the net worth is over a certain level.

In July 1964 when he introduced his proposal, Mr. Schwartz used for illustrative purposes a minimum guaranteed income of $3,000 (in 1962 prices) for a four-person, nonfarm family. This allowance would be reduced by a percentage that increased with earnings until it reached zero. However, somewhat similar to Mr. Tobin's scheme, the positive income tax would not start immediately after this breakeven point. Instead, there would be an income span in which the family would neither receive an allowance nor pay an income tax. As shown in the following example, a four-person family with an income of $4,500 would pay no tax and would receive no allowance. Under the present tax schedule the family would owe a tax on $1,500, the amount in excess of its exemptions and deductions.

Income before subsidy	Guaranteed minimum income	Taxable income	Tax rate	Amount of negative income tax (-)	Income after subsidy
0	$3,000	-$3,000*	100%**	-$3,000	$3,000
$1,000	3,000	- 2,400*	100 **	- 2,400	3,400
2,000	3,000	- 1,700*	100 **	- 1,700	3,700
4,000	3,000	0*		0	4,000
4,500	3,000	0		0	4,500

*Negative income tax base, i.e. difference between the guaranteed minimum income and the tax on earnings. Tax of 60% on earnings under $1,000; 65% on earnings between $1,000 and $2,000; 75% on earnings between $2,000 and $4,000.

**Negative income tax rate, i.e. percentage applied to negative income tax base to calculate subsidy.

SOURCE: Based on data in Guaranteed Annual Income Newsletter, Ad Hoc Committee for a Guaranteed Income, November-December 1966.

At a later date Mr. Schwartz, using the Social Security Administration's definition of poverty, assigned a minimum guaranteed income of $3,200 for a family of four and reduced it by a flat 50 percent of earnings. The allowance ceased when earnings reached $6,400, an even greater delay in the payment of a positive income tax.

In Mr. Schwartz's proposal, like in other negative income tax proposals, the adjustment between actual and estimated income would be made annually, similar to the present adjustment in the positive income tax scheme.

Mr. Schwartz made rough cost estimates based on different levels of income maintenance (presumably on the sliding scale reduction of the allowance as earnings increased rather than on the flat-rate reduction). The gross cost for a four-person, nonfarm family on the basis of the 1963 poverty line of the Council of Economic Advisers ($3,000 in 1962 prices) would be about $11 billion; at the Social Security Administration's "low-cost budget" ($3,955 in 1962 prices) the gross cost would be about $23 billion a year; at the Bureau of Labor Statistics' "modest but adequate" family budget ($5,000 in 1959 prices) the gross cost would be $38 billion. The net cost would depend, of course, on whether any existing social welfare programs could be ended.[3]

2. Justification for proposal

To Mr. Schwartz, a Federally guaranteed income allowance, which he terms a "family security benefit," is the only "proper treatment of poverty." His approach has been described as being based on a "social work philosophy."[3] The guaranteed income should be an absolute right and at a level high enough for a healthful and decent standard of living. It should be adequate to raise the individual or the family above the poverty line. Mr. Schwartz thinks that Mr. Friedman's formula sacrifices this purpose for the sake of the work-incentive principle.[4]

Like Mr. Theobald, Mr. Schwartz thinks that a work incentive might be necessary for the program to be acceptable to the public but for reasons of economy and administrative simplicity, he thinks a work incentive is not desirable unless experience proves otherwise. Unlike Mr. Theobald, he is not concerned with cybernation and the need to break the link between work and income.

D. Robert Lampman

1. Description of proposal

Robert Lampman, sometimes in cooperation with Christopher Green, has concerned himself with a variety of negative income tax proposals.

The framework for one type of proposal is like that of Mr. Friedman's in that nontaxpayers would receive an allowance equal to some percentage of their unused personal exemptions and minimum standard deductions. The unused personal exemptions and deductions would be determined by subtracting adjusted gross income from total exemptions and deductions. Applying a 14 percent rate (the lowest rate in present income tax law) to unused exemptions and deductions would have cost about $2.8 billion in 1964 but the net cost probably would be somewhat smaller because of savings on public assistance expenditures. A tax rate of 50 percent would meet a substantially larger portion of the needs of the poor but would have cost about $10 billion gross in 1964.[5]

A variation of this proposal is for the rate to decline as the base (the amount of unused exemptions and deductions) to which the rate is applied declines. For example, a 40 percent rate might be applied to a $3,700 base whereas a 14 percent rate might be used for a $500 base. In other words, the proportion of the income deficiency to be filled is determined by the size of the deficiency.

Other proposals would apply a poverty-line standard geared to a family of a given size and composition in determining the income deficiency instead of using unused exemptions and deductions. From this standard would be subtracted all presently taxable and non-taxable income of the family, except public assistance payments. Under one scheme, the allowance would be 50 percent of the resulting income deficiency. Thus, allowing a poverty-income standard of $3,000 for a family of four, the family would receive a $1,500 subsidy if it had no other income. Other income of $1,000 would reduce the poverty gap to $2,000 and the allowance to $1,000. The gross cost of this program to the Federal Government would have been an estimated $8 billion in 1964 but would have been reduced to $6.3 billion because of an estimated $1.7 billion reduction in the Federal share of public assistance payments.[5/] A suggested variation is to reduce the allowance on a sliding scale for each successive increment of $1,000 of other income.

One proposal would grant a flat allowance to a family which had income below a certain level. The allowance would be reduced by 50 cents for every dollar of income above this level. For example, if for a family of four the plan would provide an allowance of $750 so long as its income, exclusive of public assistance, was less than $1,500, the allowance would fall to zero when the family's pre-allowance income reached $3,000. The plan is intended for families which already have some income, generally the working poor or Social Security recipients, rather than for public assistance recipients. It would have cost about $4 billion in 1964.[5]

In recognition of the fact that the definition of a tax unit in the present income tax law would not always be appropriate for determining the unit for negative income tax purposes, Mr. Lampman suggests that a "basic" family unit for determining eligibility for filing for an allowance and for determining the level of the allowance include the husband, wife, and children under 19 years of age or under 22 if they are students. The present income tax rules establishing dependency status would apply to persons outside this basic family unit.

Mr. Lampman in his proposals excludes public assistance payments from the income definition because these payments are conditioned upon a family's income and would depend, in part, upon the level of the negative tax allowances a family receives. Also, he believes that public assistance payments would be minimized if they were excluded.

2. Justification for proposal

To Mr. Lampman the purpose of a negative income tax is to improve tax equity, to narrow the poverty-income gap, and to reduce the importance of public assistance as a method of providing income to the poor. These objectives are present in all of his several proposals but the emphasis differs.

The proposals based upon unused exemptions and deductions place emphasis on tax equity. Persons and families with no income or with income less than the total of their exemptions and minimum standard deduction are not now getting the full benefit of these provisions; nor do they benefit from reductions in tax rates. Moreover, among the poor families an inequity may be said to exist in that families of different sizes and the same income pay the same tax, namely a tax of zero dollars. An allowance based on exemptions and deductions, therefore, he holds, would help to reduce the "inequities" between tax-paying and nontaxpaying families as well as among the nontaxpaying families themselves.

The negative income allowance proposals determined on some poverty-line standard are designed primarily to raise the income of the poor by narrowing the poverty gap. Mr. Lampman believes that use of exemptions and deductions as a standard to determine eligibility for allowances tends to cause major variations in the proportion by which the poverty gap is closed for different families, with small families tending to be short-changed and very large families being favored. For this and other reasons, Mr. Lampman apparently believes that a family's poverty-income gap is a better guide for determining eligibility for allowances than are unused exemptions and the minimum standard deduction. However, in his view, the gap should not be filled 100 percent not only because of the cost factor but because it would be a disincentive to work. Mr. Lampman believes that social insurance should continue along with the negative income tax.

E. Ripon Society

1. Description of proposal

The Ripon Society, an organization of young Republicans, proposes a negative income tax allowance equal to 50 percent of the difference between the family income and an income standard which would allow $1,500 for each adult and for the first child; $1,000 for the second child; $600 for the third; and $400 for the fourth, with a $6,000 limit per family. The income deficit, the amount of the subsidy, and total income for a family of four at different levels of income are given below.

Income before subsidy	Guaranteed income	Taxable income*	Tax rate**	Amount of negative (-) tax	Income after subsidy
0	$5,500	-$5,500	50%	-$2,750	$2,750
500	5,500	- 5,000	50	- 2,500	3,000
$1,000	5,500	- 4,500	50	- 2,250	3,250
1,500	5,500	- 4,000	50	- 2,000	3,500
2,000	5,500	- 3,500	50	- 1,750	3,750
2,500	5,500	- 3,000	50	- 1,500	4,000
3,000	5,500	- 2,500	50	- 1,250	4,250
3,500	5,500	- 2,000	50	- 1,000	4,500
4,000	5,500	- 1,500	50	- 750	4,750
4,500	5,500	- 1,000	50	- 500	5,000
5,000	5,500	- 500	50	- 250	5,250
5,500	5,500	0		0	5,500

*Negative income tax base, i.e.difference between guaranteed minimum income and actual earnings. Guaranteed income is $1,500 for each adult and 1st child and $1,000 for second child.

**Negative income tax rate, i.e. percentage applied to negative income tax base to calculate subsidy.

SOURCE: Based on report of Ripon Society, Congressional Record, May 4, 1967, pp. H. 5098-H. 5102.

Every American over 18 years of age or the head of a family would be eligible for a negative income tax except it is recommended that persons over 65 be eligible only if they are not adequately covered by Social Security. The same restriction is recommended for recipients of veterans' pensions and similar government transfers.

Included in the definition of income for negative income tax purposes would be scholarships, gifts, transfers among members of a family, alimony, interest on tax-free securities, and realized capital gains. The proposal calls for deductions from income to be very limited for negative tax recipients, with some account taken for unusually large medical expenses.

To prevent allowances from being paid to wealthy people who have substantial assets but low incomes, limits would be placed upon the amount of assets a recipient may own. Legal limits would be set on the the percentage of total income a negative tax recipient may pay as interest or principle on debt in order to prevent installment debt payments from "eating up" the subsidy. To help detect fraud, it is suggested that perhaps recipients should be required to list their purchases of durable goods.

The program would be put into effect gradually, perhaps starting with subsidies equal to 10 percent of the deficit and raised 10 percent a year until it reaches the 50 percent level. The cost the first year is an estimated $3 billion and will increase $2 billion annually until at the 50 percent level the annual cost will be $10 to $12 billion.[6/]

Persons eligible for a negative income tax payment who work will have their positive income tax withheld but presumably it would be taken into account in computing their negative income payment. To preclude the possibility of the after-tax income of a family with an income above the income standard from being less than that of a family whose income is below this standard, the Ripon Society suggests that the present level of exemptions and standard deductions be increased to conform to the standards in the negative tax and that the lower bracket rates be raised slightly. This, it is claimed, eliminates the disincentive to move above the standard income and does not change the tax burden on families just above the standard.

2. Justification for proposal

According to the Ripon Forum, a research paper published in April 1967, the Ripon Society supports a negative income tax because --

> The Negative Income Tax emphasizes individual incentives to find and create jobs, and the natural efficiency of free markets in eliminating poverty.[6]

Like other proponents of a negative income tax, the Ripon Society believes that the negative income tax would be an improvement over our present public assistance programs.

> Present welfare systems, because of their effects on incentives, freedom, equality and the efficiency of the economy perpetuate poverty. The Negative Income Tax will change the economic environment of the poor in ways that encourage poor people to help themselves. It will create incentives to find work; it will end the debilitating dependence on bureaucratic administrators of present programs; and it will eliminate the use of poverty money for political ends. Most importantly, it will reach many of our poorest citizens who are not being helped by the inefficient and inadequate programs now in existence. In all these ways the Negative Income Tax is superior to present welfare and poverty programs. [6]

F. Robert Theobald

1. Description of proposal

A guaranteed income, which Mr. Theobald calls "Basic Economic Security," would be made available to every citizen of the United States and to everyone who has lived in the United States for five consecutive years. The mechanism through which it is to operate does not have to be the income tax system, but apparently Mr. Theobald believes that to be a practical means.

Mr. Theobald employs an exemption approach to determine the income deficiency and proposes that the Government fill the deficiency entirely. He maintains, however, that the present level of exemptions must be increased to restore their original purpose, namely to insure that taxes are not paid on that portion of income required for a reasonable standard of living. Exemptions ceased to fulfill this purpose when heavy taxes were imposed to finance World War II and since then have declined further in value because of inflation, according to Mr. Theobald. Initially Mr. Theobald has proposed an exemption level of $1,000 for each adult and $600 for each child. He later raised it to $1,050 for adults and $650 for each child and suggested that these allowances be increased at least 5 percent annually to take care of long-run inflationary trends and increases in productivity. Mr. Theobald views this allowance rate as allowing only minimum subsistence. When it reaches a level to allow more than subsistence, he suggests as possibilities introducing a declining level of exemptions for families with more than two or three children and different patterns of exemptions based on age of children and on residence. He opposes, however, a high level of exemptions or a complex exemption pattern until the system is in operation and working efficiently.

To encourage acceptance of the scheme and for the sake of equity, persons who have income from market-supported work or from assets (described as private income) would receive a premium which, for illustrative purposes, is equal to 10 percent of such income, or the equivalent of a 90 percent tax on earnings. (A strong work incentive would be of little value in an economy where there are few jobs available because of cybernation, which is a basic premise of Mr. Theobald).

A husband, wife, and two children at an exemption level of $1,050 for each adult and $650 for each child would be entitled to an allowance of $3,400 if they had no other income. If they had other income of $2,000, total family income would be as follows:

Private income	$2,000
Government payments	1,400
Total entitlement	3,400
Plus 10 percent of $2,000	200
Total income	$3,600

Mr. Theobald now believes that some of the negative income tax proposals have used less clumsy methods of attaining the purpose of the premiums.

Recalculations for entitlement to a guaranteed income would be based on the individual's total income for the year and would be made annually; payments would be made weekly.

2. Justification for proposal

Like the advocates of a negative income tax, Mr. Theobald believes that our present welfare measures are inefficient. Further, he believes that the initial step to eliminate poverty is to supply money and that the prime criterion for the distribution of funds should be the poverty of the individual rather than whether Congress is willing to pass legislation for a special group. He envisions guaranteed income payments progressively taking the place of Social Security, unemployment compensation, public assistance, stamp plans, and housing subsidies.

Mr. Theobald's advocacy of a guaranteed income, however, rests on a much broader base than merely public welfare. His approach is socio-economic. He sees the guaranteed income as a central feature of an emerging society while in the negative income proposals it is a method of helping a minority of the population. Mr. Theobald maintains that new ideas of income distribution are needed because of the growing threat of unemployment due to advanced technology, the growing abundance made possible by this technology, and the inapplicability of the traditional theory of income distribution based on the scarcity of resources. While automation is creating an abundant society, it also is eliminating jobs, according to Mr. Theobald. He believes that eventually cybernation will replace people so that for many of us jobs will no longer be available as a means of distributing income. Therefore, according to Mr. Theobald, income eventually will be divorced from jobs and a guaranteed income must be provided as an absolute right. Unless it is a right, Mr. Theobald believes the Government could become tyrannical.

> "...This book proposes the establishment of new principles specifically designed to break the link between jobs and income. Implementation of these principles must necessarily be carried out by the government as the sole body concerned with every member of society and with the adequate functioning of the total socioeconomic system....
>
> "...The need is clear: the principle of an economic floor under each individual must be established. This principle would apply equally to every member of society and carry with it no connotation of personal inadequacy or implication that an undeserved income was being received from an over-generous government....
>
> "We will need to adopt the concept of an absolute constitutional right to an income...No government agency, judicial body, or other organization whatsoever would have the power to suspend or limit any payments ensured by these guarantees."

Mr. Theobald maintains that we already are witnessing the short-run consequences of cybernation. He believes that we can have full employment only at the expense of monetary stability. Moreover, pointing to the unemployment on the one hand and unfilled jobs on the other, he maintains the problem is not that of unemployment but of unemployability at any socially acceptable wage. These developments, he argues, can only lead to more government control unless we are willing to accept that a man is entitled to a decent income even if he does not hold a job. He differentiates himself from Mr. Friedman, who also is against intervention by the Government, in that his objective in providing a guaranteed income "is not to move back to unrestricted economic competition but rather to move forward into a new societal order."

To support the thesis that "work" and "pay" need not be closely related, advocates of Mr. Theobald's proposal point to the already existing body of transfer payments such as social security in which income is transferred from productive members to those no longer productive in order to maintain the income of families whose livelihood is cut off for one reason or another.

III. Tax issues involved in a negative income tax

There is general agreement among those who favor a negative income tax, as well as among those who do not, that technical problems and tax policy issues would arise in integrating such a program into the present Federal income tax system. Proponents, as a rule, believe that many of these problems and issues already are present in the tax system and that consideration of the negative income tax serves merely to highlight them. To them the problems are not insoluble. In fact, if the solutions, where applicable, were extended to the positive income tax structure, tax equity would be improved, it is maintained.

Opponents of the negative income tax, on the other hand, do not think the solutions to the problems are simple. They believe that, in effect, there would be two tax setups so that the claim for the negative income tax of administrative simplicity is not valid.

This section enumerates some of the problems connected with putting into effect a negative income tax.

The definition of the tax unit for the filing and payment of the personal income tax is not necessarily appropriate as the unit eligible to apply for a subsidy. The unit for negative income tax purposes should be defined to prevent an individual from being a member of more than one allowance-receiving unit and to guard against "family-splitting" and the artificial creation of a unit just for the purpose of claiming an allowance.

In order to avoid paying a subsidy to people who are not poor in terms of total income but only in terms of taxable income, income for negative income tax purposes would include income now exempted in computing the positive income tax. Social Security benefits, scholarships, unemployment and workmen's compensation benefits, interest on tax-free securities, and public assistance payments are among the presently tax-exempt income. Not all of the proposals would include in the computation of the negative income tax all or the same incomes exempted from the positive income tax.

Another type of problem concerns individuals or families which have small current incomes but substantial low-income producing or non-income producing assets. Should only the money income from wealth be included or should imputed income from wealth be considered as well?

Other questions that have arisen are how to handle the fairly well-to-do family that falls below the poverty line because of an extraordinary casualty loss or medical expense? How will the negative income tax system tie into the present tax-averaging scheme for families with highly variable incomes? If the income deficiency is determined on the basis of exemptions and the standard deduction, should the extra exemption for blindness and for age be taken into account? Should persons be permitted to itemize their deductions rather than take the standard deduction if it is more advantageous for them to do so? Should the standard deduction for all taxpayers be increased to reflect rising living costs, a step that would give the poor a more adequate negative income tax program if it were based on this deduction? What, if anything, should be done to smooth the transition from being an allowance recipient to becoming a positive income taxpayer, particularly in view of the abrupt change in "tax rates" and the leakage to the non-poor in some of the proposals?

IV. Arguments in favor of a negative income tax

Arguments in favor of a negative income tax can be broadly classified into those that are concerned primarily with the claim that our tax system is inequitable as it affects the poor and those that claim that our present welfare programs are grossly deficient and that the negative income tax would be superior to them.

A. Tax equity arguments

Because the poor do not pay income taxes, they do not benefit from a reduction in tax rates and they can not take advantage of the exemptions and deductions that the tax system grants taxpaying individuals and families. To the taxpayer, the $700 personal exemption and minimum standard deduction allowed for each child is equal to a Government subsidy of $98 to $490, depending on the taxpayer's income bracket. It was estimated that the excess of exemptions and minimum standard deductions over income (the unused base) amounted to $10 billion for those filing tax returns for 1961-62 and totaled $21 billion if account is taken of those not required to file returns. Families with dependent children accounted for $8.5 billion.[8/]

While the poor may not pay income taxes, they must pay sales and excise taxes which are flat-rate taxes and, therefore, regressive, it is argued. Moreover, tax inequity exists not only between the income taxpayer and the poor nontaxpayer, but also among the poor nontaxpayers themselves. From the standpoint of the Federal income tax, the family of eight with a $3,000 annual income is in no better position than the family half this size with the same income. Neither pays an income tax. Further, the burden of the consumption taxes is heavier on the larger family. In summary, it is argued that a negative income tax would be equal to a transfer of income from taxpayers to nontaxpayers and would help counteract the regressivity of the tax system as a whole. It might be noted that Hawaii in 1965 adopted a program, the purpose of which, it seems, is to counteract the regressive impact of the sales tax on the poor. Under it, a family of four with an income of less than $1,100 receives a payment of $72 a year.[9/]

B. Poverty alleviation arguments

Negative income tax proponents for varying reasons and in varying degrees are critical of our present methods for helping the poor. One of the undesirable features of our present welfare system and one that would be absent from a negative income tax program, according to advocates of such a program, is that the poor now are denied aid for reasons unrelated to need. They are not helped if they do not fit into a category for which aid is granted or if they do not meet requirements such as the durational residence requirement.

It is argued that only about one-third of the poor families and one-quarter of the poor persons received public assistance in 1965 because either they did not meet the means test or the residence requirement, they were ignorant of their possible eligibility for aid, they were frightened by the stigma attached to the system, or they did not fit into the prescribed categories.[5/]

Moreover, the public assistance programs have limited applicability to the working poor who may have full-time jobs but who receive insufficient earnings to raise them above the poverty level. Thus, it is argued, that full employment, one of our most important goals to eliminate poverty, would do little to help many of the poor. The negative income tax, on the other hand, is directed specifically at the problem of poverty regardless of its cause, proponents maintain. At the same time, it is argued, some of our programs such as old-age and unemployment insurance and farm price supports assist persons who are not poor by any definition of poverty. (The degree to which payments to the nonpoor would be eliminated by a negative income depends, among other things, upon the particular negative income tax program adopted and the scope of present programs it would replace).

Proponents suggest that if people were assured of a minimum income they might be more enterprising and might assume more social responsibility in ways that they can not do under public assistance, which takes away assets as a condition for help. This, of course, has reference to the provisions of the means test that limits property holdings, as well as earnings, thus reducing the incentive to save. The means test and other investigatory activities under the present welfare programs, it is argued further, not only are cumbersome and costly, but constitute an invasion of personal privacy. It is maintained that the paternalism of welfare does not develop in recipients confidence in their ability to direct their lives. They are denied the sense of self-reliance and trustworthiness granted to taxpayers who, except for spot checks, are relied upon to assess their own tax liability. The negative income tax, in this view, would be self-administering in the same manner as the positive income tax system now is.

Another criticism of our welfare system is that the program of Aid to Families with Dependent Children encourages the disintegration of the family, because in some States aid is not given if there is an employable parent in the house.

The frequent argument that a guaranteed minimum income would weaken the incentive to work on the part of the poor is rebutted with the counter argument that our existing public assistance programs, in effect, guarantee an income to those who qualify but, at the same time, incorporate a much greater disincentive to work than would a negative income tax. Money earned by a recipient of direct relief is taxed at a 100 percent rate because his relief payment is reduced dollar for dollar of earned income, with few exceptions. The proponents argue that it is unrealistic to assume that many of the relief recipients could earn sufficient income to get off of relief entirely. Many of them can earn a little but not adequately. The present system encourages them to withdraw from the labor force and be on relief rather than to work and be on relief. The system, it is stated, thus penalizes industry, honesty, or both.

Supporters of the negative income tax, in general, do not believe that the threat of poverty is needed to induce work and sobriety. Rather, they believe that people are poor because of factors external to them, such as the chance of birth, because of social barriers, or because of their own limited ability or motivation. About one-third of the poor are children; among the poor adults about one-third suffered either a disability, the premature death of a breadwinner, or a family dissolution.[10/]

A guaranteed income through a negative income tax would permit social services to attack the social and psychological causes of poverty and to turn their resources to constructive rehabilitative social work instead of being concerned with police and detective types of activity, it is said. Except possibly for regional differences due to factors such as differences in living costs, a guaranteed income would be uniform throughout the country, and monetary assistance to the poor would not be dependent upon the caprice or financial ability of the State of residence. On the other hand, to the extent present Federal-State welfare programs were reduced or eliminated entirely, States and their localities could devote their funds to other purposes, purposes which might now be neglected, because they can not compete with the inducement of matching Federal funds offered in the public assistance programs.

It is believed that the negative income tax would be impartially administered. Its supporters think it would be no more susceptible than the present welfare and poverty programs are to the danger of political pressure for expansion and for providing political patronage, and that it probably would be less susceptible.

From the point of view of the national economy, a guaranteed income would, they maintain, not only be a quick and all-inclusive way to get cash into the hands of those who need it but, by boosting consumer demand, it would be an automatic income stabilizer as well. The claim also has been made that it would promote a better market economy.

> The experience of buying freely in a money economy is an important factor in developing the self-reliance and confidence that many poor people lack....[6]

V. Arguments against a negative income tax

Grounds for opposing a guaranteed income or negative income tax range from the general and ideological to the detailed and pragmatic. Certain characteristics of a negative income tax -- such as the elimination of categorical aid -- which are lauded as virtues by advocates of a negative income tax are viewed as deficiencies by its opponents. Some of the arguments, of course, are more applicable to certain of the proposed programs than to others. For example, the argument that there is no compelling evidence that computers and automatic equipment are rapidly making man's work obsolete is in refutation to Robert Theobald and has little relevance to the other schemes.

maintained. In this view, the causes of poverty are not just economic. Conceivably, efforts to attack the cause of poverty rather than merely the effect of poverty might be reduced if a guaranteed income program is adopted. Attempts to improve the earning power of the poor by education and training and to break down discriminatory hiring practices might cease to be major concerns of society. From the point of view of the individual, it is stated that the receipt of a guaranteed income would weaken individual dignity and deny the capacity for growth and self-sufficiency, (conversely, as we have seen, advocates of a guaranteed income argue that it would encourage growth and self-sufficiency).

It is feared by some that a guaranteed income might create distortions in the economy. Its inherent disincentive to work could cause severe manpower shortages, particularly in the low-paying and menial jobs. To attract workers, employers will have to offer higher wages, which would intensify inflationary pressures, as would the cash subsidy payments themselves. The result, in this view, could be greater Government control over the operations of the economy. The guarantee of an income to their workers, it is argued, also will reduce pressure on business to provide pensions for employees. Finally, it is stated that not only can cash payments be squandered, but recipients of the payments can fall easy prey to fraudulent schemes of promoters and con men.

B. Detailed and pragmatic grounds

Critics of a negative income tax, including some who admit a theoretical attractiveness of such a program, do not believe that it is a feasible method to help the poor. They maintain that when viewed in practical terms, the program would not provide decent payments to those who need them and at the same time it might benefit persons who are not poor.

The difficulty, it is explained, arises out of the need to reconcile several goals, (a need recognized by proponents as well). There is the need to provide an adequate subsidy to families with little or no earnings; to offer a strong work incentive; to minimize payments to those who do not need them; and to limit the budgetary cost of the scheme. Subsidies that cover the entire poverty gap remove the incentive for low-paid workers to continue to work, it is argued, because the subsidy is reduced by the amount of the earnings. None of the proposals presented would tax earnings 100 percent but, at least for illustrative purposes, Mr. Theobald by allowing only 10 percent of earnings to be retained, imposes a 90 percent tax on earnings. The situation has been described as one in which a person, in effect, is told that if he does not work, the Government will pay him enough to get him out of poverty; if he does work, he will be taxed at rates higher than applied to multimillionaires. 12/

The larger the proportion of earnings that may be retained, of course, the greater the incentive to work, but the greater the cost. The critics agree that work-incentive plays a more important role in the programs proposed by Mr. Friedman and Mr. Tobin because persons would be permitted to retain a substantial part of their earnings. However, because the minimum guarantee -- the amount of the subsidy paid if there is no income -- is low, it is claimed that persons who are too old, too young, or otherwise unable to work might be worse off than they now are under public assistance, as indicated in the following table comparing the average benefit under the public assistance programs with the per capita subsidy under various negative income proposals. A higher minimum guarantee would improve the situation but, again, it would increase costs accordingly.

PER CAPITA BENEFITS UNDER EXISTING PUBLIC ASSISTANCE PROGRAMS COMPARED WITH THOSE PAYABLE UNDER VARIOUS FRACTIONAL GUARANTEE PLANS a/
(ANNUAL VALUE)

Existing programs	Current average per head	payment per head under negative income tax for those with no other income						
				Lampman d/				
		Friedman b/	Tobin c/	I	II-A	II-B	11-C	11-D
Old Age Assistance (OAA)	$941	$800	$400	$224	$375	$375	$188	$500
Aid to the Permanently and Totally Disabled (APTD)	1,012	450-800	400	126	375	375	188	500
Aid to the Blind (AB)	1,105	450-800	400	126	375	375	188	500
Aid to Families with Dependent Children (ADC)	420	375	400	105	375	375	188	500
General Assistance (GA)	364	375	400	105	375	375	188	500

Sources: Figures for payments under assistance programs from Welfare in Review, U.S. Department of Health, Education, and Welfare, Vol. IV (April 1966); values for subsidies estimated by the author.

a/ For OAA subsidy under negative income tax assumes a single-person reporting unit. For ADC and GA, subsidy is based on a four-person family reporting as a unit. All cases assume no other income besides subsidy, except, where applicable, OASDHI benefits. All assistance figures based on national averages.

b/ Assumes double exemption privilege is retained; OASDHI benefits excluded. Range shown for APTD and A.B. reflects possibility that recipient is under 65 or 65 and over.

c/ Tobin would exempt OASDHI beneficiaries from his plan, save that where such benefits fall below $400 the latter figure would become the minimum.

d/ Lampman would retain all OASDHI benefits; his Plan I retains double exemptions, meaning that subsidies would be added to OASDHI benefits, which are now excluded from other income. For versions II-A through II-D, his figures all apply to a family of four, converted here to per head equivalent.

SOURCE: Hildebrand, George H. "Second thoughts on the Negative Income Tax." Industrial Relations -- A Journal of Economy and Society -- Feb. 1967.

In summary, the argument is that if the incentive to work is to be preserved for those who are presently employed, the program will be extremely expensive or it will have a level of benefits below that which is currently regarded as adequate. It follows, the argument continues, that the negative income tax is not a suitable substitute for public assistance but instead would be an addition to these programs. As an additional welfare program, it might divert resources from the already existing welfare and poverty programs.

Although the negative income tax would assist poor families that are now excluded from public assistance, it also will benefit those who are not poor by official standards, as already mentioned. The leakage can occur in the income range between the discontinuance of the subsidy and the commencement of the regular positive tax. For example, for a four-person family Mr. Schwartz sets the poverty level at $3,000 and discontinues allowances when income reaches this level. However, under his plan the positive tax does not begin until the income for such a unit reaches $4,500. Mr. Tobin calls for a minimum income guarantee of $1,600 for a family of four but subsidies are paid up to $4,800 of other income and the tax rate on income between $4,800 and $6,289 is lower than it would be under the regular positive schedule.

The estimated leakage to the non-poor under Mr. Tobin's scheme is $3.2 billion.[2]

It is argued that because of the many technical problems connected with a negative income tax, there would be, in effect, two Federal income tax laws -- one for the poor and one for the non-poor. New and complicated machinery would thus be required to administer the negative tax. One criticism against tying the poverty program to the present tax system is that an annual settlement with the Government as is done under the regular system is not practical for the negative tax. The poor need money currently for maintenance and the money must reflect current need and not need at the time applications are filed. If the family overstates its income, it will receive a lump sum at the end of the period rather than at the time the money was needed; if it understates its income, it will have to settle up with the Government or receive less in the next period. In either case, the subsidy ceases to bear a relationship to its continuing current need. The ability of the poor to estimate their income also is questioned, particularly because it is said that the poor have larger and more unpredictable fluctuations in income than do regularly employed persons.

VI. Alternatives to a negative income tax

The recent attention that has been focused on a negative income tax has stimulated interest in other programs that might serve as an alternative or supplement to the negative income tax, or perhaps as merely another variation of a negative income tax program.

A. Recommendations of the Advisory Council on Public Welfare

Some persons who conclude that any politically and fiscally feasible negative income tax program would not eliminate the need for public assistance suggest as an alternative the renovation and improvement of the existing public assistance system. The Advisory Council on Public Welfare, after a two-year study of the welfare problem, made such recommendations in its report issued in June 1966. The Council declared:

> On all counts and from all sources the weight of the evidence is incontestable: a major updating of our public welfare system is essential if it is to fulfill its assigned task of assuring a basic floor of economic and social security for all Americans...
>
> Neither the war on poverty nor achievement of the long-range goals implicit in a Great Society concept can succeed so long as the basic guarantees of a practical minimum level of income and social protection are not assured for all.

The principal recommendations of the Council are: (a) a national minimum standard for public assistance payments below which no State may fall; (b) a nationwide comprehensive program of public assistance based upon a single criterion -- need; (c) a uniform, simple plan for Federal-State financial sharing in costs of all public assistance programs. The plan should provide for equitable and reasonable fiscal effort among States and recognize the relative fiscal capacity of the Federal and State Governments; (d) comprehensive social services readily accessible, as a right, at all times to all who need them; (e) all welfare programs receiving Federal funds administered consistent with the principle of public welfare as a right.[13]

The Advisory Council's recommendations do not seem to put major emphasis on work incentive, a feature generally missing from current public assistance programs. The Council does recommend as an interim measure, however, that States be required to exempt from the definition of income in determining need under the program of Aid to Families with Dependent Children (AFDC) a reasonable portion of the earnings of the children and of the relatives caring for them. It also recommends as an interim measure that existing exemptions of earnings of public assistance recipients be made consistent for all the assistance programs.

The Social Security Amendments of 1967 (PL 90-248) introduced into the AFDC program a mandatory earnings-exclusion provision as a work incentive. Effective July 1, 1969 (optional beginning January 1, 1968) States must exclude in determining need for any given month the first $30 of earned income in that month plus one-third of the remainder of such income earned by adult AFDC recipients and by child recipients not eligible for their total earnings to be exempted. The earnings exemption, in effect, is larger than the amount specified in PL 90-248, at least on a gross basis, because of the provision in the Social Security Act that requires States to take into account expenses reasonably attributable to the earning of income in determining net income for public welfare purposes.

PL 90-248 makes it mandatory that total earnings be excluded in the case of full-time students and part-time students not working full time. This exclusion, however, as well as the existing optional exclusion of a certain amount of income in the determination of need for the aged and the disabled and the mandatory exclusion level for the blind probably are more in the nature of an income supplement rather than a work incentive.

PL 90-248 also establishes a 3-priority work incentive program for AFDC adults and for children 16 and over not in school. Persons placed in Priority I will be assisted in finding regular employment. The earnings exemption will apply to their wage and if their earnings are high enough, the family will be removed from AFDC rolls.

Persons in Priority II will receive some form of training or work experience with public or non-profit employers. During this time they will receive their public assistance grant plus up to $30 a month as a training incentive.

Priority III is for persons for whom work can not be found in the regular economy or for whom training is not appropriate. The U.S. employment offices, through negotiations with public and non-profit employers, will try to find work for such persons in special work projects. Workers will receive wages from the employer at the negotiated wage level. The wage will be composed of the employer's contribution plus a subsidy transferred from the pooled grants of the welfare recipients if the employer's contribution is not sufficient to meet the negotiated wage level. The amount to be transferred by the State Welfare Agency will be the sum of the assistance grants of each individual in the project or 80 percent of their negotiated wages, whichever is less. An individual is assured that his total income will be at least equal to the amount of his assistance grant were he not a participant in the special work project program plus 20 percent of his negotiated wage. The total negotiated wage (employer's contribution plus subsidy) will be subject to all taxes just as if it were a wage in regular private employment.

The Work Incentive program will become effective July 1, 1968 unless presently precluded by State law, in which case the effective date will be July 1, 1969. States may put the program into operation as early as April 1, 1968.

B. Other proposals

Various types of programs that would give an allowance or the equivalent to all persons regardless of income or status have been proposed (called demogrants). For example, on the ground that negative income tax programs such as have been discussed in this paper would result in two Federal individual income tax systems, a program has been suggested that, it is claimed, would better integrate the taxes and allowances in a single system. This "credit tax approach" calls for a system of flat-sum credits to all residents without regard to income or status and a single income tax with no exemptions. In other words, the tax liability would be income (with zero exemptions) taxed at a single rate minus a credit for each member of the family.

Programs of family or children's allowances calling for some sort of uniform national allowances for children have been proposed. Some proposals would give it to all children (a partial demogrant, i.e. payment to a specific population group without any qualifying test other than age); other proposals would restrict it to poor children. A variation of the family allowance is a "fatherless child insurance" program which would give an allowance to children in broken homes. Hawaii in 1965 voted a program under which tax credits or negative tax payments are granted on a sliding income scale to families with children in school. 9/

The proposition has been made that the Government guarantee jobs rather than income. It would assume the role of a residual employer and would provide employment to all persons willing and able to work but unable to find work elsewhere.

Representative Thomas Curtis supports guaranteeing opportunity rather than guaranteeing income and with this end in view he would review our economic policies and abolish discrimination in employment and education. Mr. Curtis would abolish categorical assistance and provide "aid on the basis of demonstrated and specific need to the unemployed or underemployed poor whose income falls below the minimum standards established by the state itself, geared to programs designed wherever possible to getting them on to or back on to their own feet."[15]

VII. Antecedent and current interest in the guaranteed income and the negative income tax

The idea of a guaranteed income or a negative income tax can not be traced to any one proposal or force, of course. The 19th Century utopian novel "Looking Backward" by Edward Bellamy is cited by some as an early philosophical expression of a guaranteed income. Thomas Jefferson's philosophy that man could not be free unless he could support himself from his own land is cited by Robert Theobald as one of the antecedents to his view of a guaranteed income. Since land is not now available to all, men today can only be free if he has the right to the production of the machine system, Mr. Theobald claims.[7]

The Beveridge Plan and Lady Juliet Rhys-Williams' proposal in her book "Something to Look Forward To," which appeared about the same time are among the more recent influences that are cited. Although the Beveridge Plan is concerned primarily with social insurance, it did recommend a universal system of children's allowances in order to raise income without affecting the wage structure and it contained a residual program to cover those who for any reason would not be eligible for social insurance.

Lady Rhys-Williams' proposal was to establish a new social contract between citizen and state whereby it would be the duty of the state to assure an individual and his family a decent living; it would be the duty of the individual to divert his best efforts to the production of wealth. A demogrant would be paid to everyone who is employed, unemployable, or, if unemployed, is willing to accept suitable employment. Benefits, to be paid through the national agency responsible for the income tax, would be in addition to earnings and income from other sources. They would be financed through a flat-rate income tax, which, together with the per capita benefit, would have the effect of a progressive income tax. Through the use of the demogrant, all citizens would be covered under the same program, the opposition between taxpayers and recipients would be removed and the means test would be abolished, it was maintained.

In America Lewis Meriam proposed in 1946 that the tax return be a substitute for the means test in establishing eligibility for public assistance.[16] The same year George Stigler wrote in the American Economic Review: "There is a great attractiveness in the proposal that we extend the personal income tax to the lowest income brackets with negative rates in these brackets."[7] Senator Hugh Butler suggested in 1951 a basic Federal pension of $50 a month payable through the income tax return to all persons with incomes under $600 a year. Byron L. Johnson, later to become a Congressman from Colorado, argued that the United States was providing family allowances in the form of income tax deductions and that benefits should be extended downward to those who pay no tax as a form of a family allowance within the United States framework.[16]

The proposals described in this paper were made in the 1960's. The following are some of the other persons or groups who recently have shown varying degrees of interest in the concept of guaranteeing an income.

In March 1964 a group called the Ad Hoc Committee on the Triple Revolution sent a memorandum to President Johnson which urged, among other things, the adoption of a guaranteed income to meet the impact of new technology. In late 1965 Director Sargent Shriver of the Office of Economic Opportunity recommended a negative income tax as part of a comprehensive five-year attack on poverty.

The President's 1966 Economic Report stated:

> ...Another approach is the institution of uniformly determined payments to families based only on the amount by which their

> incomes fall short of minimum subsistence levels. Such a system could be integrated with the existing income tax system. This plan is now receiving intensive study by many scholars. It could be administered on a universal basis for all the poor and would be the most direct approach to reducing poverty. In future years, these and other proposals deserve further exploration.

In his 1967 Economic Report, the President said:

> Completely new proposals for guaranteeing minimum incomes are now under discussion... I intend to establish a commission of leading Americans to examine the many proposals that have been put forward, reviewing their merits and disadvantages, and reporting in 2 years to me and the American people.

In February, 1966 the National Commission on Technology, Automation and Economic Progress suggested that Congress give serious study to:

> "a minimum income allowance" or "negative income tax" program. If found feasible, the program should be designed to approach by stages the goal of eliminating the need for means test public assistance programs by providing a floor of adequate minimum incomes...

In January 1966 a report issued by the Democratic Study Group Full Employment Steering Committee stated:

> The time has come when we must begin to provide a minimum income for everyone...
>
> this goal could be implemented in two ways. First a floor could be provided through a negative tax on income. A scheme which could make an important contribution to the assurance of a living income can easily be devised...

The United States Chamber of Commerce held a National Symposium on Guaranteed Income in 1966 at which papers were delivered by Robert Theobald, James Tobin, and Milton Friedman in support of their respective proposals. Mr. Henry Hazlitt and Representative Thomas Curtis spoke against a negative income tax.

John Galbraith, speaking to a conference on problems of cities in September 1966, said that the guaranteed income is "the one prompt and effective solution for poverty." According to him, present income maintenance programs present "an appalling contrast between private affluence and public squalor."17/

The President's Commission on Law Enforcement and Administration of Justice in its February 1967 report "The Challenge of Crime in a Free Society" listed among its recommendations:

> Reduce unemployment and devise methods of providing minimum family income.
>
> Reexamine and revise welfare regulations so that they contribute to keeping the family together.

Footnotes

1/ Friedman, Milton. "The Case for the Negative Income Tax: A View from the Right," In the U.S. Chamber of Commerce, Proceedings of the National Symposium on Guaranteed Income.

2/ Tobin, James. "Income Guarantees and Incentives," In the U.S. Chamber of Commerce, Proceedings of the National Symposium on Guaranteed Income.

3/ Nicol, Helen O. "Guaranteed Income Maintenance," Welfare in Review, April 1966.

4/ Schwartz, E.Edward. "An End to the Means Test," The Guaranteed Income, ed. by Robert Theobald.

5/ Green and Lampman. "Schemes for Transferring Income to the Poor," Industrial Relations -- A Journal of Economy and Society, February 1967.

6/ Ripon Forum. Congressional Record, May 4, 1967, pp. H. 5098-H. 5102.

7/ Theobald, Robert. "The Guaranteed Income: What and Why," In the U.S. Chamber of Commerce, Proceedings of the National Symposium on Guaranteed Income.

8/ Burns, Eveline M. "Social Security ~~in Evolution~~," Social Service Review. June 1965.

9/ Hitch, Thomas K. "Why the Negative Income Tax Won't Work," Challenge, July-August 1966.

10/ Lampman, Robert J. "Approaches to the Reduction of Poverty," American Economic Review, May 1965.

11/ Hazlitt, Henry. "Income Without Work," In the U.S. Chamber of Commerce, Proceedings of the National Symposium on Guaranteed Income.

12/ Hildebrand, George H. "Second Thoughts on the Negative Income Tax," Industrial Relations -- Journal of Economy and Society, February 1967.

13/ Martz, Helen E. "National Blueprint for Public Welfare," Health, Education, and Welfare Indicators, November 1966.

14/ Nicol, Helen O. "Guaranteed Income Maintenance, A Comparison of Two Approaches," Welfare in Review, January 1967.

15/ Curtis, Thomas B. "The Guaranteed Opportunity to Earn an Annual Income," In the Chamber of Commerce, Proceedings of the National Symposium on Guaranteed Income.

16/ Schorr, Alvin L. Poor Kids. New York, Basic Books, Inc., 1966.

17/ Ad Hoc Committee for a Guaranteed Income, Guaranteed Annual Income Newsletter, September 1966.

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