INCOME MAINTENANCE BY TRANSFERS THROUGH THE FEDERAL TAX SYSTEM

1. Surveys and Background Material


Not only the best single survey of the subject and guide to the literature, but also a useful empirical study. The focus is on mechanisms known as negative income taxes for transferring income to the poor through the federal tax system. Eligibility under such schemes is determined solely by whether the recipient's income meets some minimum family income requirement. Such schemes also provide work incentives to the poor by permitting recipients to keep some portion of additional earnings from employment. The relation under negative income tax schemes between the minimum guaranteed income (Y₂) provided by the federal government, the rate of transfer or the negative income tax rate (T₁), and the break-even level of income or the level of income at which government subsidies stop (R) can be expressed: Y₂/T₁ = R. The amount of the government subsidy to any family equals L(R - Y₂) where Y₂ is pre-tax or earned income. The author provides a careful statistical analysis of the poverty population in the U. S. and examines the likely costs and incidence of various negative taxation plans.


The most readable survey and analysis of negative income tax plans.


A useful model for analyzing present and potential welfare programs.


* Prepared by Daniel H. Saks, Department of Economics, Princeton University.

** Items from this list should be ordered directly from the publisher. Addresses are given in connection with each reference.
Five empirical studies by Henry Aaron, Charles Warden, Jr., Lora S. Collins, and John W. Dorsey of present welfare systems which are perhaps more significant for the questions asked than the answers given. Aaron uses international cross-section data to find out what determines the goals of welfare programs. Collins uses multiple regression techniques to see whether variation in payment levels and numbers of recipients corrected for population can be explained by assorted economic variables.¹

2. Proposals


A natural law approach to income maintenance. In return for receiving a minimum weekly income, each individual signs a new social contract with the state indicating his willingness to work. State revenues are derived from a proportional income tax which, in combination with the guaranteed income, amounts to a progressive tax system. The unemployed would fulfill their part of the social contract by accepting suitable jobs when offered by the public employment agency. The plan has the advantage of helping the poor without singling them out for receipt of welfare payments. It would also avoid the technical problems associated with the timing of payments under other negative income tax proposals.²


Earliest formal presentation of a negative income tax scheme by a well-known conservative economist who advocates such a tax to completely replace the present cumbersome welfare system. The breakeven income (R) is equal, under his proposal, to the personal exemptions plus deductions allowed under the federal income tax. The guaranteed income is thus low and designed to prevent starvation rather than to eliminate the poverty gap and redistribute income.


The basic theme of this collection of essays is that "cybernation" will ultimately remove labor from the production process. The poor are held to

¹ Eckstein interprets the poor results for these equations as evidence that "local fiscal capacity and local attitudes play a very large role" (p. 10). Although probably correct, Eckstein's conclusions do not follow from the statistics. A poor (low) R² reflects upon the inadequacy of the model being tested and not upon the adequacy of any other model one might think up.

² Readers wishing to pursue further the question of redistribution in political philosophy should consult Sanford Lakoff's *Equality in political philosophy*, Harvard University Press, 1964, 170 pp.
be the first casualties of automation and therefore the ones presently in need of a guaranteed income. Contributors include Conrad M. Arensberg, Clarence E. Ayres, Robert H. Davis, Erich Fromm, Meno Lovenstein, Marshall McLuhan, Edward E. Schwartz, Ben B. Seligman, and William Vogt. Schwartz proposes a highly progressive t. to allow an ade-
quately. This would produce strong work disincentives.


An extraordinary collection of articles on the Negro in modern America. Moynihan (pp. 136-159) presents a less flamboyant version of the so-called “Moynihan Report” in which he describes the relations between the economy and the breakdown of Negro family structure which became the rationale for his advocacy of family allowance. Tobin (pp. 451-471) presents his proposal for a negative income tax which is designed to fit in with present tax rates. Manpower programs and a tight labor market are also necessary, though Tobin shows why they are not sufficient.

3. Analysis and Criticism


Includes contributions by Christopher Green and Robert J. Lampman, George Hildebrand, and Earl R. Rolph. Hildebrand’s piece, “Second Thoughts on the Negative Income Tax,” raises some technical problems in timing of payments and definition of income and concludes that our first priority, given the political situation and the fact that the negative income tax cannot completely replace the present welfare system, should be to improve the present system.


Schorr’s reply to Tobin’s excellent article in the Summer, 1966 issue of *The Public Interest* (pp. 31-41). Both Tobin and Schorr take pragmatic approaches to the alleviation of poverty. Schorr is worried that by getting rid of the categorical approach to welfare, hostility directed at what the public regards as the unworthy poor will also cause reductions in payments to the worthy poor. He would expand the present system’s benefits and include family allowances for all children.®

® Readers wishing a more balanced approach to social policy in an age of abundance should see Harry G. Johnson’s excellent essays in *Money, trade, and economic growth*, Harvard University Press, 1961, pp. 164-195.


® Tobin’s views on family allowances are elaborated in *The New Republic*, November 25, 1965, pp. 16-18.

A legal view of the negative income tax. Anomalies of income definitions under the present tax system will have to be modified to prevent not only erosion of the tax base (the usual argument for such reforms), but also to avoid the occasional receipt of government subsidies by the wealthy under a negative income tax scheme. He suggests that the substitution of a precise and universal rule for the present system may not be entirely a virtue.


Criticism of two major attempts to derive information about the incentives question from cross-section econometric analysis of present welfare programs. The econometric work so far done has failed to show adequate appreciation of the institutional mechanisms which generate public assistance data.


Fundamental to any understanding of the political issues involved in major revisions of income maintenance in the United States.


A review of evidence about the relationship between birth rate and guaranteed incomes.


Would set the minimum guaranteed income \((G_2)\) equal to one-half the median income in the U.S. rather than picking some arbitrary poverty line.\(^6\)

\(^6\) For a non-relativistic approach to the definition of poverty, see the work of Mollie Orshansky in the *Social Security Bulletin*, January and June, 1964.