

Assuming three dependents for each of these adult male members of the labor force, we have at least 13.5 million poor people who were unlikely to have had protection under either system of public income maintenance involving Federal participation. For the same reason, they are the principal target for any major extension of the transfer approach to improving poverty incomes.<sup>6</sup>

The chief advantage of the two proposed new transfer proposals—a negative income tax or a children’s allowance—is that both are ways to get more money promptly into the hands of the poor. Even more, these funds would reach the many who are now excluded from significant income protection. If, also, the necessary legislation is passed, it may be possible to treat payments under either method as supplements to existing provisions under PA, without a dollar-for-dollar reduction—a real benefit to those of the poor who are unable to work and who now must depend upon very low levels of welfare support.

At the same time, however, it should be borne in mind clearly that neither form of new transfer program will do much to train the poor for better jobs, to increase the number and quality of jobs available to poor youngsters, to rehouse the urban poor, or to provide them with adequate public transportation and other badly needed improvements in their environment. More than this, except for manpower programs the need for additional Federal funds for these purposes is very great.

Looking now at the negative income tax in particular, any such proposal figuratively involves an “uneasy triangle” whose vertices contain goals that are competing and that can only be compromised, not reconciled. One involves the adequacy of the payment to be guaranteed when there is no other income. Ideally this level should be high enough to replace PA payments in the highest paying states, if not high enough to take the recipients out of poverty. A second goal is that the new transfer payments should not substantially reduce the incentive to work. This turns upon the “tax rate” at which other income from property and work is to be deducted from the guaranteed minimum. Not to provide such an offset, of course, is to say that every tax reporting unit in the country, rich and poor alike, would have full entitlement to the minimum guarantee. Thus this rate of “tax” is of the utmost importance: it can strongly affect incentive and it also determines the point of maximum adjusted gross income at which the net subsidy becomes zero. And through both it affects the total net cost of the transfer program. Finally, there is the third goal of holding down total net cost, which must be done if enough funds are to be had to finance equally important competing aspects of the war on poverty.

Generally speaking, the higher the level of minimum guarantee, the higher will be total cost to the Treasury. To restrain cost it is necessary to check leakage of the transfers upward to the near-poor and the not-so-poor. But to do this requires a high “tax” offset rate on other income, and this curbs the incentive to work. This is the problem of compromising the three conflicting goals.

Time allows me only an example or two to demonstrate the triangle problem. Suppose that the plan is designed to eliminate AFDC

<sup>6</sup> However, of the 4.5 million adult males, some undoubtedly did receive unemployment compensation. In 1966, an estimated 272,000 males of ages 20 and over were unemployed 15 weeks or more.