

dependency entirely, but without reducing the income of any AFDC family by a penny. To do so the minimum guarantee cannot be set at the national average, but must be fixed at the level of the highest State—for a family of four this would have required \$2,700 in 1967. Under Professor Friedman's exemptions plus deductions plan, to hold the zero-subsidy point at \$3,000 would require an offset "tax" rate of 90 percent on other income if the \$2,700 minimum is also to be achieved. This exceeds by far the highest marginal rate of positive taxation.

If, to avoid disincentive effects, the "tax" rate were held at his proposed 50 percent, then the zero-point must rise all the way to \$5,400 for families of this size, with accompanying large increase of cost. Even at a guarantee level of only \$1,500 for a family of four, the cost of the Friedman plan could run between \$4 billion and \$11.5 billion, depending upon its effect upon the incentive to work. Also it would not be feasible to reduce PA payments at all on his version of the plan. By contrast, with a \$2,700 guarantee and a 90 percent "tax" rate, the plan could cost well over \$25 billion, and much more because of leakages if the work-destroying offset rate were cut to 50 percent.

The other versions of the negative income tax are subject to the same difficulties. There are others as well. Any appropriate and humane welfare system must provide for adequacy, frequency, and flexibility of payments. For such objectives, a negative income tax is an awkward and relatively rigid instrument, depending as it must upon predictions of other income, and upon long lags between changes of need and adjustment of payments. Finally, it is not possible to escape the need for a type of means test—the tax return—or for a large bureaucracy to pay out benefits, to audit claims, and to deal with fraud.

Consider next a children's allowance. Like the negative income tax it can reach the substantial number of poor who are now excluded from income maintenance. Unlike NIT, it could be made universal, to become a uniform "social dividend" whose amount need in no way depend upon other income. Furthermore, in such form it would require no means test whatever. But this would make it payable to rich and poor alike—at a very high cost. In 1966 there were approximately 71 million children under the age of 18: if each were granted \$100 yearly, the gross cost would have exceeded \$7 billion. If instead the allowance were made income-conditioned to confine it to the poor, the cost would drop to below \$1.5 billion. However, tax returns would then have to be filed and audited, the level of support would be much lower than even under the very modest Friedman NIT plan, and, of course, programs such as AFDC and general assistance—while they could be made more uniform and less harsh—would have to be retained.⁷

Professor Tobin's tax allowance scheme provides for an attractive combination of a family allowance and a form of negative income tax. To hold down cost, reckoned by him at about \$14 billion at the time, the plan is income conditioned, in that about \$4.2 billion represents upward leakage—that is, payment to those above poverty limits.

⁷ For an AFDC family with a mother under 65 and three small children and without other income, the Friedman plan would yield \$375 annually per head, or \$1,500 as against \$300 under a \$100 children's allowance.