

Moreover, the cost of an initially modest children's allowance would be much less than for NIT, because the adult poor would be excluded from eligibility and because the disincentive effects would be small. At the same time, more scarce dollars would be available for rebuilding the cities. Admittedly these are hard choices to make. But poverty is a Protean problem that has no instantaneous solution. On a long-term view of the future, measures that initially seem both modest and even cautious can well turn out to be the most humane and constructive course to follow.

Senator PROXMIRE. Thank you very much, Dr. Hildebrand.

Our next witness is Dr. Joseph A. Pechman, director, economic studies, the Brookings Institution.

STATEMENT OF JOSEPH A. PECHMAN, DIRECTOR OF ECONOMIC STUDIES, THE BROOKINGS INSTITUTION

Mr. PECHMAN. Thank you, Mr. Chairman. I have a statement which will take longer than 15 minutes to read, so I propose to summarize it.

Senator PROXMIRE. The entire statement will appear in the record.

Mr. PECHMAN. The purpose of my statement is not to argue in favor of one or another negative income tax, but to explain the general characteristics of this approach to income maintenance. I firmly believe that some of the problems we have had in explaining the negative income tax are due to the fact that a lot of people who propose it simply have different views about details and the public has been confused about the variety of programs that have been presented. I think it might be helpful, therefore, to establish the major characteristics of what this approach implies and then make judgments about the details.

I hope the committee will not be misled by these differences, because they are not nearly as important as the basic principles. Perhaps the best way to put the matter into perspective is to recall that the 16th amendment to the Constitution, which permits the Government to levy an income tax, would never have been enacted if its proponents had tried to agree on the degree of progression, the definition of a family unit, the definition of income, methods of payment, and other important features of the income tax. In fact, with a bit of research, we could probably find that, for every criticism of the negative income tax, a corresponding criticism was made at the time against the positive income tax.

There are three features to a negative income tax. These can be varied to some degree. If you take one of the features out, however, I would not regard the plan as a negative income tax.

First, the amount of the negative income tax return would be determined on the basis of income, and size and composition of the family unit.

Second, the only test to be applied in determining eligibility would be the comparison between the family's income and the "breakeven" level for that type of family. In other words, payments would be made to all the poor, and not to certain categories of the poor.

Third, the income of the family would be subject to tax, but this tax would be substantially less than 100 percent.