There is a fixed relationship among three variables in any negative income tax—one is the basic allowance, the second is the breakeven level, and the third is the tax rate on the family income—and it is impossible to vary one variable without affecting at least one of the other two.

The relation, of course, is very simple; the basic allowance is the product of the tax rate and the breakeven level. I have a table in my prepared statement which compares various combinations of basic allowances, tax rates, and breakeven levels. For example, if you have a breakeven level of $3,000 and the tax rate is 50 percent, the basic allowance must be $1,500. On the other hand, if you raise the tax rate to 66⅔ percent, the basic allowance is $2,000. Conversely, if you start out with a basic allowance of $2,000 and a tax rate of 50 percent, you must have a breakeven level of $4,000.

Because of these relationships, the negative income tax can be thought of in one of two ways, but they come to the same thing. First, you might regard it as a method of paying people the basic allowance, then taxing them on all of their income at the stipulated rate—say 25 percent, or 50 percent.

The second method is to take the breakeven level, subtract the family's income and apply the tax rate against the difference. Both methods will come out to the same thing.

Note that I have included in table 1 of my prepared statement one type of system that has a 100-percent tax rate. That is, with a basic allowances of $3,000 and a 100-percent tax rate, the break-even level is $3,000. That is similar to what we had in the welfare system before the 1967 amendments to the Social Security Act. In other words, the welfare payment is reduced dollar for dollar by any earnings that the individual may have earned.

I am happy to see that the welfare system has now been radically modified in this respect by the 1967 amendments that require the States to permit the recipients to keep some part of what they earn. We have come part way already toward a negative income tax.

The major remaining difference between what I have outlined as a negative income tax and what we have in the welfare system today is that we deny certain types of poor people the privilege of obtaining welfare assistance. If you simply universalize the welfare system according to present law, you would have a negative income tax. My own feeling is that I would like to improve some of the fringes, but basically, that is what the problem is, that you do not have a universal system of providing payments to all the poor.

It might also be noted—and this is another confusing problem—that there is essentially no difference between what I have called the negative income tax and what many people call the guaranteed income plan. Under the negative income tax, many people would receive a basic allowance even if they had no income.

Some guaranteed minimum income plans implicitly impose a tax rate of 100 percent, but this is not an essential feature of such plans. I think that, in its questioning of individuals, the committee ought to be careful in ferreting out the differences between the theory of the plan and what they are actually proposing. If they are proposing a simple guarantee, they may be proposing a method of universalizing the present welfare system with a 100-percent tax rate.