I said earlier that I could pick out a problem in the positive income tax for every problem in the negative income tax. Let me give you several examples. I think they are rather interesting.

Take the definition of income. We do not have a comprehensive definition of income under the positive income tax. As you know, I have tried to persuade many administrations and many Congresses to move in the direction of a comprehensive definition of income. Professor Rolph will talk about this aspect of the tax problem in more detail. But I am sure that, with respect to the negative income tax, the Congress would immediately decide that it would want to approach comprehensiveness as nearly as possible, simply because I cannot conceive of anybody arranging a negative income tax or a universalized welfare system and permitting, for example, the recipient of $10,000 of taxable interest annually to receive a negative income tax.

You will find, therefore, that you would have a double standard. Your standard is comprehensiveness in the negative income tax, even though the positive income tax lacks comprehensiveness. This may perhaps demonstrate how bad the positive income tax is in these respects.

My own position is that you can move ahead on the negative income tax without solving all of your positive income tax problems. But there is one major problem of exclusion that you will have to pay attention to and make some decision about. That is the question of treating homeowners and renters alike under the negative income tax. As you know, under the positive income tax, we exclude the value of the services provided by a home, so that a homeowner in effect pays less tax with the same total income as the renter. Now, this apparently is tolerable under the positive income tax. I am not sure it would be under the negative income tax.

Consider two people with identical cash incomes, one of them owning his home and the other one renting. The one who owns his home owns it outright. It is clear that the man who owns his home really is better off than the man who has to pay rent. I suspect you would want to take this into account. It is not easy to do it, but I would think the simplest way would to be to apply a flat rate of return, say 4 or 5 percent to the net equity of the home, which is its market value less the outstanding principal of the mortgage.

You may want to modify the definition of income for the negative income tax in still another respect, which you may think does not have a counterpart in the positive income tax, but really does. A lot of people have argued that the income tax itself is not equitable because you do not take into account the capital of an individual in deciding his ability to pay. Well, this would present itself forcibly if you were designing a negative income tax in the following situation.

Suppose you have a man with $100,000 of IBM stock. This man will receive only $1,000 of dividends per year, and might be eligible for the negative income tax. My guess is that most people would agree that the man with such a large holding of stock ought to at least begin to liquidate some of his securities before the Federal Government helped him out. And it would be very simple to do it by requiring a capital offset which would be, say, 10 percent or 20 percent of the value of any capital in excess of a generous exemption. This would automatically eliminate the negative income tax payments for wealthy individuals.