income target were $2,000, it could attain that by working less and earning only $1,000 (choice point C). Or, if it decided to earn $2,500, the after-allowance income would rise to $2,750 (choice point D).

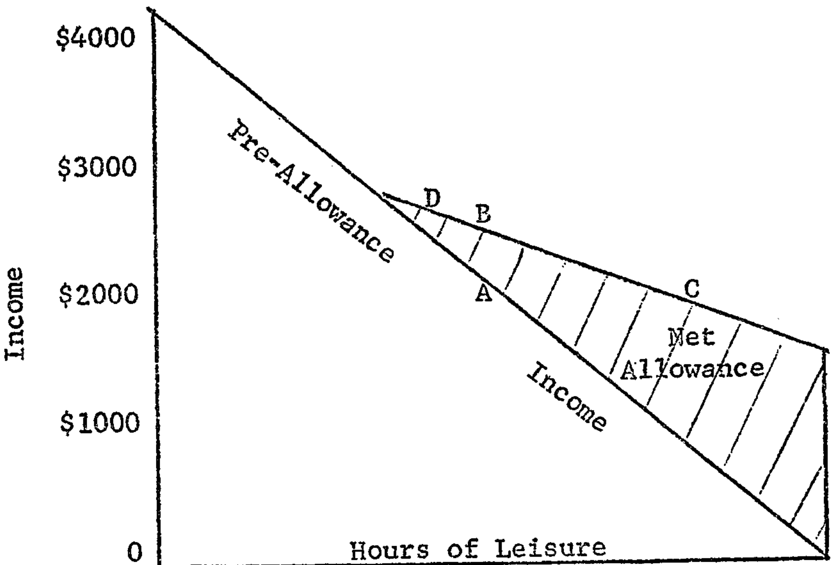

Figure 1

Income-Leisure Choice with Negative Rates Plan

CONSIDERATION IN DESIGNING A GUARANTEED INCOME PLAN

For purposes of calculating costs, we can assume that the typical family in this situation would elect choice point B, that is, the family members would do neither more nor less work because of the introduction of the 50 percent negative rates plan. However, it should be noted that there is a lively controversy among economists about what would actually happen, some maintaining that people would take more leisure, some that they would take less.[4] There is very little controversy about the effect of a 100 percent rates plan, i.e., one that would fill 100 percent of each family's poverty-income gap. Such a plan would take away all monetary incentive for a low-income family to earn or receive income from property or transfer sources, and would thus make the pre-allowance poverty-income gap much larger than it now is and result in a greater than proportional increase in the cost of the plan. A 50 percent rates plan would cost an estimated $7.5 billion in 1969 without any correction for savings on public assistance. Doubling the rate to 100 percent of the poverty-income gap would more than double the cost. Indeed, in the opinion of this writer, it would more than triple the cost. For this reason, and because we don't want to penalize more severely than necessary work effort by either poor or non-poor people, it seems desirable to avoid tax rates on the poor of higher than 50 percent. That is, we would like to avoid allowances that amount to more than half the difference between pre-allowance income and the income level at which allowances are to fall to zero.

[4] An experiment involving one thousand families and designed to last for three years is now proceeding to investigate how people respond to different levels of guarantee and different tax rates. This experiment is financed by the Office of Economic Opportunity and managed by the Institute for Research on Poverty and Mathematica Corporation. For a description of it, see the unpublished paper by Harold Watts entitled "Graduated Work Incentives: Progress Toward an Experiment in Negative Taxation," available from the Institute for Research on Poverty.