

Another point to be noted about the benefit scheme shown in Table 1 concerns horizontal and vertical equity. Incomes after allowance would rise with family size. For example, one-member families earning \$2,000 would have \$2,000 post-allowance earnings, four-member families would have \$2,500, and six-member families \$3,000. Incomes would rise with earnings. In no case would a family that had a lower pre-allowance income end up with a higher rank in terms of post-allowance income, among families of the same size.

We have now referred to two considerations that are important in designing a guaranteed income plan. These are (1) preserving incentives to seek pre-allowance income, and (2) maintaining horizontal and vertical equity. Three other concerns are (3) paying money out only to the poor, (4) avoiding incentives to family disorganization, and (5) integrating the plan with the existing transfer-tax system.

We began this discussion by indicating that the goal was to close a substantial part of the remaining poverty-income gap, which is now on the order of \$10 billion. In line with that, we may assert that the most efficient plan is the one that does the most to close the gap per dollar of expenditure. It is necessary to note that there is no plan that would close the \$10 billion gap with \$10 billion of expenditure. A 100 percent plan would close the gap, but would cost, as we have indicated, in the neighborhood of \$25 billion. A plan that sets the minimum allowance at the poverty line and taxes all pre-allowance income at a tax rate of 33⅓ percent would close the gap completely, but at a cost of \$50 billion, and would pay most of its benefits to people who are not poor. By contrast, the 50 percent negative rates plan would cost \$7.5 billion, less about \$2.5 billion reduction in public assistance (or a net cost of \$5 billion), would pay all of its benefits to those who are poor, and would close half of the poverty-income gap.

To make sure that all of the benefits go to the poor, we need to be careful in defining the benefit-receiving unit and the income to be counted in determining the size of benefit. Spouses should be required to file jointly, and unmarried persons under 19 years of age and students under 22 years of age should be prohibited from filing separately. A person who files under this plan could not be claimed as a dependent on any other person's positive income tax return. Income to be counted in reducing the allowance should be broadly defined to include the total money income of all members of the recipient unit. Ideally, it should include not only earnings and property income, but also public and private transfers (but excluding public assistance), and imputed income from non-cash-yielding assets. One could exclude from eligibility families with a gross business or farm income of more than a certain amount, and perhaps families with very large assets or very high incomes in the previous year. This would preclude a certain number of "horror cases," in which benefits would go to rich people who, in some cases, presently pay no income tax.

We need to be alert to the possibility that even a carefully designed plan might encourage husbands to desert their families and might discourage widows from remarrying. For example, a father with a wife and three children, who earns \$3,000, presently pays no income tax and would get no allowance. If he deserted he would pay \$394 in income tax, but, under the 50 percent rates plan, his wife might claim \$1,500. Or if a widow with two children who has no income but receives an allowance of \$1,250 marries a man earning \$3,000, which is \$2,606 after taxes, she would lose \$1,250 while he would save \$394. The penalty is \$856. While we do not know how much effect these incentives and penalties might have, they do deter us from considering rates higher than 50 percent, and urge us to recommend reducing the size of the guarantee for persons filing alone.

The other pertinent concern is to integrate the plan with the existing tax-transfer system. Consider how a negative rates plan would tie in with the income tax. In those instances in which the poverty lines are higher than the combined exemptions and deductions under the income tax, a family might have to pay a marginal tax rate of 50 percent plus a marginal rate of 14 percent on earnings. This is an argument for raising exemptions and deductions or for lowering the break-even income levels for negative rates purposes.

By the following type of arrangement, the administration of the plan could be integrated with that of the income tax. A family would declare what it thought its next quarter's income was likely to be. If the expected income were so low with reference to family size as to justify an allowance, the Internal Revenue System would do two things: (1) it would mail out allowance checks to the family each month, and (2) it would withhold tax at the source at a rate of 50 percent. At the end of the quarter the family would make