

a new declaration, and either the allowance or the withholding rate could be changed to adjust for over- or under-payment in the previous quarter. A final settlement could be reached at the end of the year, at which time account would be taken of the fact that some people who started the year on one side of the poverty line ended up on the other and, hence, experienced both positive and negative rates under the income tax.⁵

INTEGRATION WITH PUBLIC ASSISTANCE

One of the more troublesome problems is integrating a new scheme of this sort with public assistance. One step in this direction would be to prescribe that the guaranteed allowances should be calculated without reference to public assistance and that public assistance benefits could be payable above the allowances as the States saw fit. At the present time, about 8 million of the total 30 million poor persons receive \$5 billion in public assistance payments. Presumably, a substantial number of the 8 million persons, namely, those in States where assistance benefits exceed the maximum allowances shown in Table 1, would continue to get assistance payments, but in diminished amounts. The great innovation would not be with regard to these people, but rather with regard to the 22 million poor persons who do not now receive assistance.

Most of the 8 million persons on assistance are in families without a worker, and most of the 22 million not on assistance (of whom 9 million are children) are in families with a worker. This suggests that one way to integrate a new scheme with assistance is to aim the negative rates plan at those categorically excluded from assistance, namely the "working poor".⁶ For the latter group, the level of the allowance in the event of no earnings would not have to be high, since they ordinarily have earnings. Setting the maximum size of the allowance far below a subsistence level would make it clear that we expect them to work and are not offering them an attractive alternative of subsistence income at no work. It is more important for these people than it is for the aged, the disabled, and the broken families that we keep the marginal tax rate low. This is based on the strong presumption that the lower the marginal rate, the less the disincentive to work and to strive for property income.

The key features of a negative income tax aimed at the working poor are reflected in Table 2's schedule of allowances for a family of four persons. Parallel tables would be established for each family size.

TABLE 2.—NET ALLOWANCES FOR 4-PERSON FAMILIES UNDER NEGATIVE RATES PLAN FOR THE WORKING POOR

Family income before allowance	Net allowance	Income after allowance
\$0.....	\$750	\$750
\$500.....	750	1,250
\$1,000.....	750	1,750
\$1,500.....	750	2,250
\$2,000.....	500	2,500
\$2,500.....	250	2,750
\$3,000.....	0	3,000

Under this plan, the allowance is unchanged as pre-allowance income rises from zero to \$1,500. In that range, in other words, the marginal tax rate is zero. From \$1,500 to \$3,000 of income, the marginal tax rate is 50 percent.

⁵There are other ways to administer such a plan. For a valuable discussion of choices that are open see James Tobin, Joseph A. Pechman, and Peter Mieszkowski, "Is a Negative Income Tax Practical?" *Yale Law Journal*, November 1967. Also see William A. Klein, "Some Basic Problems of Negative Income Taxation" *Wisconsin Law Review*, Summer 1966.

⁶This distinction between the working poor and the nonworking poor is emphasized by the Kerner Commission. At page 466 of their report, they call for providing "... for those who can work or who do work, any necessary supplements in such a way as to develop incentives for fuller employment; (and) to provide for those who cannot work and for mothers who decide to remain with their children, a system that provides a minimum standard of decent living and to aid in saving children from the prison of poverty that has held their parents."

This distinction is also discussed by the Council of Economic Advisers in their 1968 report. They point to the need for income supplements for poor families headed by men of working age and refer to the possibility of a "children's minimum income allowance." They note that "Especially difficult problems are involved in any program designed to eliminate poverty for those who can do some useful work but whose earning capacity is limited by their abilities or family responsibilities." (Pp. 147-148.)