Most of the poor four-person families are not on assistance and most of them have incomes from work in the $1,500 to $3,000 range.[7] If a family is literally able to gain no income in the form of earnings, property income, or social insurance, then it would, just as is true under present laws need to apply for public assistance. In other words, this plan would not govern for those in the very lowest income brackets, except for those now on assistance in a few states. However, it would supplement earnings for most poor four-person families by up to $750 per year. It would pay lesser amounts to smaller families and unrelated individuals and larger amounts to larger families. Hence, it could be called an income conditioned family allowance. While it would not take any family out of poverty, it would fill one-half the poverty-income gap for the 22 million poor persons not presently on public assistance. It would do this at a cost of $6 billion, less about $2 billion reduction in public assistance or a net cost of $4 billion.

It would not do violence to the main purpose of this plan to restrict eligibility to those who are not receiving public assistance. That would make the gross cost equal to the net cost of $4 billion. Such a move would dramatize the need for a package of reforms, including a raising of public assistance benefits in some states. In Mississippi the average AFDC benefit for a family of four is $450 per year, while in New York it is $2,990. The nation-wide average is $1,728. The 1967 amendments to the Social Security Act included changes in public assistance benefit formulas which give assistance some of the characteristics of negative taxation. The first $360 of earnings ($30 per month) are not to diminish the benefits. In other words, a zero marginal tax rate applies over this short range. Beyond that, benefits are diminished 66⅔ cents for every dollar of earnings. This means that in a state which establishes a maximum benefit of $1,500, the income level at which benefits are reduced to zero is $2,632. However, in New York, the break-even level is around $4,822 ($2,990 divided by .666 plus $350).

The key issue of how to treat the categorical or assistance poor and the non-categorical or working poor is thus entangled with the issue of what to do about the difference in assistance levels among the States. A logical first step might be for the Federal Government to under-write a minimum assistance benefit for four-person broken families with no income of, say, $1,500. A second step would be the introduction of the negative rates plan for the working poor as herein described. (See Table 2) The first of these changes would do a great deal for the poorest poor and the second would be of moderate help to those not now helped by assistance. We repeat that the latter group includes 9 million children. Differences would still remain between the treatment accorded equally poor families in the several States and, especially in States like New York, between the categorical and non-categorical poor. However, the differences would be reduced in all cases. The cost of such a package would be on the order of $5 billion.

There is no reason why this two-part package could not be combined with other changes, including the following: improved minimum benefits for OASDI and unemployment compensation, re-training and on-the-job training programs, creation of new public jobs, and subsidized private employment opportunities for the poor.

Conclusions

This paper offers two proposals in answer to the question: What should we do next in developing the American system of transfers? Both proposals are aimed at adding to the incomes of those in poverty and are made in recognition of the fact that 22 million of the 30 million poor persons are not now receiving public assistance. These 22 million people, 9 million of whom are children, are mostly outside the traditional assistance categories of the old-aged, the broken families, and the disabled. They are "the working poor", and are poor because of one or more of the following factors: low-wage-rates, irregular employment, large family-size.

One way to reach the working poor and, at the same time to supersede public assistance in the low-benefit States, is to introduce the "Welfare-Oriented Negative Rates Plan." This would assure all families of four persons a minimum income of $1,500 and offer net allowances that diminish to zero at $3,000 of other income. The $1,500 minimum would be an increase for those people on assistance in a substantial number of low-income States, but would merely replace part of the assistance benefits for some in higher-income States.

[7] Relatively few of the poor are in "the categories" and not on assistance. In 1966 only 3.3 million aged poor and 2.1 million persons in broken families were not on assistance.