

would be included in the negative income tax base. On the other hand, the tax rate is lower.

Taking into account the fact that a substantial proportion of the \$5.6 billion of categorical assistance would be replaced by NIT, the net cost of H-50 would be about \$20 billion, while plan H-33 would cost at least twice that amount. The net cost of plan L-33 would be around \$10 billion, while the cost for L-50 would be less than \$5 billion.

Clearly these rough estimates do not even begin to take account of:

(1) The growth of population and income since 1962: There are more people, but the incidence of poverty has declined. How the costs of various NIT programs have been affected is hard to say.

(2) Induced responses to the program itself: Some people may work and earn more when their marginal tax rate is reduced from 100 per cent to 50 per cent or 33 per cent, while others work and earn less when the government makes them better off and raises their marginal tax rate from zero or 14-20 per cent to 33 or 50 per cent. These responses will change the tax base, but in the absence of experience or experiment it is not possible to estimate in which direction or how much.

(3) Savings in government expenditures other than income assistance: To an unknown degree NIT benefits may reduce the need for assistance in kind such as medical care, housing and food. We believe that a generous NIT program would also in time diminish expenditures now devoted to controlling and suppressing the symptoms of poverty—crime, social disorder, unsanitary environments—rather than to eliminating poverty. But budgetary savings are the smallest consideration in this anticipated consequence of the program, and they neither can be nor need to be estimated.

Although the authors believe that it is well within the fiscal capacity of this country to adopt a generous negative tax plan, there may be in the first instance a conflict between cost, the adequacy of the basic allowances, and the objective of keeping the offsetting tax rate as low as possible. The allowance levels for plan L are inadequate for many parts of the country and this plan would have to be supplemented in some way. On the other hand, if plan H were adopted for the country as a whole, the offsetting tax rate would probably have to be considerably higher than 33 per cent because of cost considerations. High tax rates unfortunately weaken one of the basic objectives of NIT, namely to improve upon the disincentive aspects of existing welfare programs.

The course of action which we think best balances these considera-