

APPENDIX 7

TAX POLICY AND CHILDREN'S ALLOWANCES

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To many of us the awareness that something less than \$15 billion per year would suffice to eliminate poverty in the United States in a source of both impatience and challenge. The impatience arises because the sum involved looks so small—less than 2 per cent of Gross National Product, about 6 per cent of total government spending, and about half of the annual cost of pursuing the war in Viet Nam—relative to the gains to be realized. And the challenge is found in the recognition that some means must be devised for effecting the required transfers.

Given one's impatience, a reading of the recent literature on schemes to alleviate or eliminate poverty leads to a sense of frustration, for it seems that no one plan is capable of achieving the objective at a cost that is not substantially greater than the so-called "poverty gap."¹ Rather, it appears that the poverty problem must be approached from several directions by means of an integrated set of schemes, each of which can be expected to do no more than a part of the job. The difficulties involved arise, in part, from the fact that poverty stems from a wide range of causes, including prolonged unemployment, incapacity, when employed, to earn enough to bring income above the poverty line,² absence of a male head of family, and incapacity due to age of physical or mental infirmity.

But irrespective of why people are poor, their poverty tends to be transmitted from generation to generation through their children. Thus for at least a very substantial proportion of the poor our best hope for breaking the poverty cycle appears to lie in a program specifically aimed at those who suffer the misfortune of having been born to a family whose income is inadequate to provide the basic necessities of life. Without these necessities—decent shelter, adequate nutrition and clothing—provided in an atmosphere and in a manner that encourages aspirations and rewards effort and initiative, supportive programs in education and training are likely to be least helpful to those among the poor and near-poor who are most in need of help.

The needs of many of the poor may be met by expanding and improving existing programs under Social Security and categorical assistance. But the position of poor families with children, especially when there is an employed adult breadwinner present who is incapable of earning an adequate income, requires a new program. In our economic system employers are not expected to adjust workers' compensation to take into account the number of children dependent upon them. Nor should they be obliged to do so, for the obvious reason that the larger his family the more difficult would it be for the individual to find and keep a job. And yet, when earnings of the family head are low the children, unless these earnings are supplemented, are likely to be caught in the poverty trap.

It is not difficult, therefore, to make a formidable case for children's allowances and alternative programs designed to achieve the same objectives. Before examining the tax and broader fiscal policy issues associated with such programs, however, we should note that any one scheme that is designed to serve all or part of the needs of a segment of the poor population should meet several criteria. (1) It should not carry the stigma associated with a "dole" and its accompanying means test. (2) It should not discourage efforts to earn income. (3) It should be efficient, in the sense that the portion of the cost attributable to benefits realized by the non-poor is zero or as near to zero as is compatible

¹ For a fine summary of the literature see Christopher Green, *Negative Taxes and the Poverty Problem* (Washington, D.C.: The Brookings Institution, 1967).