

with our first two criteria. (4) And it should be susceptible of being administered in a manner that neither involves continued or frequently repeated questioning of the right of recipients to benefits nor excessive costs.

These criteria, and the list is by no means meant to be exhaustive, impose conditions or constraints that should provide some guidance in the effort to narrow the choices among alternatives. In my examination of the alternatives I shall examine children's allowances and very briefly look into a tax credit for dependent children and the negative income tax.

CHILDREN'S ALLOWANCES

As we all know, the United States is the only major Western nation that does not have a children's allowance program. In some countries, such as Belgium, France, Germany, and Italy, the program is tied to social insurance and financed through payroll taxes imposed on the employer, whereas in Canada, Sweden, and the United Kingdom it is unrelated to social security and financed out of general funds. At current exchange rates monthly benefits per child range from about \$6 to \$10. Eligibility generally extends to all children, irrespective of family income.

Adoption in the United States of a similar program would suggest a monthly allowance per child under age 18 of about \$15, a figure that reflects our higher level of personal income. This would cost some \$12.5 billion per year, of which almost 80 per cent would go to children in non-poor families. Its net cost, were benefits to be subject to federal income tax, would be about \$10.5 billion. Financing this cost would entail such alternatives as additions of 1.8 percentage points to employer and employee social security tax rates or a 3.3 percentage point increase in all personal income tax rates.

It seems patently clear to me that a program with these dimensions has little appeal, irrespective of whether it is financed out of income or social security taxes. It would not go nearly far enough toward alleviating poverty among families with children, it is inefficient in the sense in which that term is used in our criteria, and its cost is excessively high when viewed against its limited accomplishments.

But rejection of a children's allowance plan more or less patterned after that of Canada and the major nations of Western Europe does not imply rejection of any or all such plans. A children's allowance of \$50 per month would remove an appreciable proportion of presently poor families from the ranks of the poor and, on this score, is appealing. But if it were to be paid to all families its gross cost would be, at about \$42 billion, unacceptably high. And, as in the case of the \$15 allowance, some four-fifths of this cost would be attributable to allowances paid to non-poor families. The problem, then, is to attach to it provisions that will serve to concentrate benefits primarily on the poor and near-poor and bring the net cost down to a feasible level, certainly below \$15 billion, while at the same time not imposing excessively high effective marginal tax rates on earnings of low-income families.

One means of reducing both the net cost of the plan and reducing the benefits accruing to middle and higher-income families is the inclusion of family allowances received in taxable income. Although other forms of public transfer payments, whether or not they are income-conditioned, are now generally tax exempt, this appears to be the result of a lack of overt policy rather than a part of an overall plan designed to achieve horizontal and vertical equity under the personal income tax. Exemption of children's allowances would be inconsistent with horizontal equity, for it would favor this source of income relative to others. Vertical equity, or equity among people receiving different amounts of income is, at best, a murky concept, but whatever it may mean it is hardly likely to be advanced by exemption of this form of income. Thus taxing children's allowances would appear to be consistent with tax policy aimed at greater equity under the personal income tax.

Subjecting a \$50 per month children allowance to income taxation would recoup approximately \$7 billion of its gross cost of \$42 billion, to bring the net cost to \$35 billion. Its further effect would be to increase the proportion of net benefits accruing to poor families from 20 per cent to over 25 per cent.

Under present income tax law the taxpayer is permitted an exemption of \$600 for himself and a like amount for his spouse (plus an additional \$600 if either is over 65 and/or blind) and each of his dependents. These exemptions