serve several purposes. They add a major element of progression to the income tax; avoid the administrative and compliance costs that would otherwise attach to taxing those with very low incomes; recognize that the first $600 per capita of family income represents little or no capacity to contribute to the support of government; and they permit recognition of the fact that family size, at all levels of income, is an element in the determination of taxpaying capacity. What, if anything, is suggested by the introduction of a children's allowance for the role of the presently allowed income tax exemptions?

With respect to the exemption for the taxpayer and his spouse, as well as for dependents other than children who would qualify for the children's allowance, it seems to me that no change is called for. But the children's allowance should be viewed as a substitute for the exemption presently allowed for dependent children. The effect of this substitution would be to introduce an important element of the negative income tax at low levels of income, increase after-tax income of families and heads of households with taxable incomes of less than $44,000 and $36,000, respectively, and reduce it for those with higher taxable incomes. The effect of the suggested change is illustrated, for married taxpayers with two children at selected income levels, in Table 1.

TABLE 1.—EFFECTS OF CHILDREN'S ALLOWANCE SUBJECT TO TAX AND ELIMINATION OF EXEMPTIONS FOR DEPENDENT CHILDREN, MARRIED TAXPAYER, 2 CHILDREN

Adjusted gross income	Present law		With children's allowance		Increase in after-tax income
	Tax [1]	After-tax income	Tax [1]	After-tax income	
	0	0	0	$1,200	$1,200
$1,000	0	$1,000	$56	2,144	1,144
$2,000	0	2,000	200	3,000	1,000
$3,000	0	3,000	354	3,846	849
$5,000	$290	4,710	692	5,508	79
$7,000	603	6,397	1,034	7,166	768
$10,000	1,114	8,886	1,574	9,626	749
$20,000	2,910	17,090	3,490	17,710	620
$30,000	5,372	24,628	6,135	25,065	430
$50,000	12,188	37,812	13,254	37,946	137
$100,000	34,848	65,152	36,136	65,064	−87
$200,000	88,748	111,252	90,258	110,942	−314
$400,000	207,300	192,700	208,854	192,346	−35

[1] For simplicity it is assumed that the standard deduction or minimum standard deduction is taken at incomes up to $10,000 and that itemized deductions equal to 15 percent of adjusted gross income are taken at higher levels of income. It is further assumed that all of the taxpayer's adjusted gross income is in the form of wages or salary.

As is indicated in the table, the increase in after-tax income effected by the substitution of the children's allowance of $50 per month per child for the dependents' exemptions begins at $1,200 when income is zero, is $1,144 when income is $1,000, and $1,000 when income is $2,000, declining to $740 at an income level of $10,000, and assumes negative values at the top of the income range. But the fact remains that elimination of the income tax exemption for children eligible to receive a children's allowance reduces the net cost of the allowance only to about $28 billion and the proportion of net benefits accruing to the poor is increased only from one-quarter to approximately one-third.

As we have outlined it thus far, therefore, our children's allowance plan meets three of our criteria but fails to meet the other one. Benefits would not carry any stigma; it offers simplicity in administration; and the increase in marginal tax rates on earnings is small. However, the cost of the plan is twice as high as would seem feasible and approximately two-thirds of the benefits accrue to the non-poor.

If we accept the criterion that is not met as an overriding constraint it is clear that something more is needed if the very poor are to receive children's allowances of as much as $50 per month per child. It is also clear that this "something more" must involve impinging upon full compliance with our other criteria.

I believe it desirable to retain the distribution of the allowance to all families. Otherwise it would be necessary to define and identify the poor at least at yearly intervals, thus admitting a means test and all that it implies into the scheme.