

Under this schedule the value of the children's allowance would range from \$600 per year for each eligible child to \$60 at levels of taxable income in excess of \$12,000. At least one obvious difficulty presents itself, however. It enters in the form of extremely high marginal "notch-rates" that apply when taxable income moves from near the top of one taxable income bracket to the next higher bracket. To illustrate, suppose that a taxpayer with two children for whom he receives allowances has taxable income of \$2,499. His children's allowance recoupment rate (CARR) would be 20 per cent and he would add \$240 to his tax liability. If his taxable income rose to \$2,501 his CARR would rise to 25 per cent and his net income would actually fall by \$58 (\$300—240—2) plus any ordinary tax payable on his additional \$2 of income. This implies a marginal tax rate of more than 2,900 per cent! This problem might be solved in a number of ways. One of these is to apply a rate equal to that applicable to the next lower income bracket plus the increment in rate multiplied by the ratio of the taxpayer's taxable income falling within his bracket to the width of that bracket. Thus in the case at hand the CARR applicable to a taxpayer with taxable income of \$2,501 would be 20 percent plus $\frac{1}{600}$ of 5 per cent, or 20.01 per cent. His effective marginal CARR would be only 6 per cent (\$.12 on \$2) and his combined marginal tax rate 23 per cent (17+6). Thus there is no notch problem.

Assuming again, for illustrative purposes, families with from one to seven children eligible for the children's allowance and selected levels of adjusted gross income, Table 3 offers a ready comparison of the effects of the children's allowance on the family's net income position.

TABLE 3.—NET CHANGE IN INCOME AFTER TAX DUE TO SUBSTITUTION OF CHILDREN'S ALLOWANCE FOR EXEMPTIONS, TAXING ALLOWANCES AND APPLYING THE CARR, SELECTED INCOMES AND NUMBER OF DEPENDENT CHILDREN¹

Number of dependent children	Adjusted gross income							
	\$0	\$1,000	\$3,000	\$5,000	\$7,000	\$10,000	\$15,000	\$30,000
1.....	\$600	\$600	\$339	\$209	\$124	\$27	\$13	—\$112
2.....	1,200	1,144	618	355	218	39	—45	—211
3.....	1,800	1,674	934	483	289	42	—81	—311
4.....	2,344	2,008	1,186	590	315	36	—124	—410
5.....	2,874	2,305	1,377	684	313	21	—129	—510
6.....	3,112	2,562	1,572	832	304	—3	—226	—610
7.....	3,280	2,700	1,710	910	322	—45	—305	—709

¹ Computed as per assumptions stipulated in footnote to table 1.

The table clearly illustrates the fact that the net contribution of the children's allowance to family income declines both with income and the number of eligible children in the family. Thus, for example, with two children the benefits decline from \$1,200 when income is zero to just over \$600 at an income level of \$3,000, to \$355 when income reaches \$5,000, and to only \$39 at the \$10,000 level. Similarly, when income is, say \$3,000, the net gain begins at \$339 for the first child and decreases to less than \$200 for the sixth and seventh child.

That additional children bring declining net benefits may comfort those who are concerned with avoiding pecuniary incentives for bringing large numbers of children into the world. More important, in my view, is the fact that the plan reflects the reasonable assumption that rearing children is an enterprise with declining marginal costs.

I am not able to pretend to have a precise estimate of the net cost of the children's allowance scheme as it has been developed here. My rough estimate would place the cost at about \$12 billion, perhaps one third higher than one would like to have it. But it seems to me that the plan offers a reasonable way to achieve the desired objectives while meeting all of the criteria set forth earlier, not perfectly, but at least in very large measure. Obviously modification is possible and perhaps even desirable. One might wish, for example, to reduce