

**"The Case for the Negative Income Tax: A View from the Right."
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The proposal to supplement the income of the poor by a fraction of their unused income tax exemptions and deductions—a proposal that I described and labeled a negative income tax in my book *Capitalism and Freedom*¹—has been greeted with considerable (though far from unanimous) enthusiasm on the left and with considerable (though again far from unanimous) hostility on the right. Yet, in my opinion, the negative income tax is more compatible with the philosophy and aims of the proponents of limited government and maximum individual freedom than with the philosophy and aims of the proponents of the welfare state and greater government control of the economy. By exploring this paradox, I can perhaps restate in a somewhat different way the case for the negative income tax.

1. The Enthusiasm on the Left

The enthusiasm on the left arises, I believe, from three different sources: (a) the negative income tax has been confused with a superficially similar but basically very different guaranteed minimum income plan; (b) the negative income tax has been treated as another program to be added to existing welfare programs rather than as a substitute for them; (c) there has been increasing recognition that present welfare arrangements limit the personal freedom of the recipients and demean both the recipients and the administrators of welfare.

In terms of my values, I deplore the first source of enthusiasm, have mixed feelings about the second, and heartily welcome the third. Let me expand on each.

(a) *Confusion between different plans.*—A negative income tax plan does provide a guaranteed minimum income. But this guaranteed minimum income is not equal to the income at which the taxpayer neither pays taxes nor receives a subsidy. This point, simple

though it is, has been the source of much confusion. Let me illustrate. Under our current income tax, a family of four has exemptions plus standard deductions equal to \$3,000. Hence, if such a family has a total income of \$3,000, it pays no tax. This is the *break-even* income. If the family has a total pre-tax income of \$4,000 (and uses the standard deduction), it has \$1,000 positive taxable income and, at the current tax rate for that bracket of 14 per cent, pays \$140 a year in taxes, leaving it with \$3,860 in income after taxes. (See bottom line of illustrative table). If such a family had a total pre-tax income of \$2,000, it would have a *negative* taxable income of \$1,000. Under a negative income tax, it would be entitled to receive a payment, the amount depending on the tax rate. If the tax rate for negative taxable income were the same as for the first bracket of positive taxable income, or 14 per cent, it would be entitled to receive \$140, leaving it with a post-tax income of \$2,140. If the tax rate were 50 per cent, the highest rate that seems to me at all feasible and the one I used for illustrative purposes in *Capitalism and Freedom*,² it would be entitled to receive \$500, leaving it with a post-tax income of \$2,500.

If the family had a zero pre-tax income, it would have a negative taxable income of \$3,000, and, with a tax rate of 50 per cent, would be entitled to receive \$1,500, leaving it with a post-tax income of \$1,500.² This is the minimum income guaranteed by this particular negative income tax plan, whereas the break-even income is \$3,000.³

Some active proponents of plans for a guaranteed minimum income, notably Robert Theobald and E. E. Schwartz,⁴ have proposed simply “filling the gap” between a break-even level of income and the actual income of any family that receives less. This is equivalent to using a tax rate of 100 per cent on negative taxable income, which makes the guaranteed minimum income equal to the break-even level.

Though superficially similar to a negative income tax, such a plan is in fact radically different—just as a positive income tax levied at a 100 per cent rate differs radically from one levied at a fractional rate less than 100 per cent. The 100 per cent rate removes all incentives

to earn any income subject to the tax. The fractional rate reduces incentives (compared to no tax) but does not eliminate them.

Similarly a 100 per cent rate on negative taxable income is as absurd as a 100 per cent rate on positive taxable income. Not only would it eliminate any incentive for persons eligible for the subsidy to earn income, it would give them a positive incentive to dispose of any income-earning property, provided it, together with other sources of income, yielded less than the income guarantee. For example, suppose a family owns a house which it rents out, which is its sole source of income, and from which it receives an income less than the minimum guarantee. Obviously, the sensible action is to give the house to a friend who is above the minimum income and who will know how to show his gratitude for the gift. The giver would lose no income, since the foregone rent would simply be replaced by the government subsidy.

By removing from a class of people all incentive to work or even to own property, such a scheme would create a quasi-permanent class of the professionally indigent, for whom living on the dole was a way of life, not a regrettable and temporary necessity.

Proponents of such a scheme tend to estimate its cost as equal to the gap between the break-even incomes they specify and the current incomes of families with lower incomes. But this is a gross underestimate. It takes no account of the cost of replacing the current income that would disappear because families both above and below the break-even point would be tempted to stop working or to give away property.⁵

Some proponents of “gap-filling” plans have acknowledged the disincentive effects of their plans and have suggested modifications to provide some element of incentive to receive other income. However, the modifications are mostly trivial, paying only lip-service to the problem. And some proponents have even welcomed the disincentive effects, because they believe that automation threatens widespread unemployment, and hence that it is desirable to separate the receipt of income from work or property ownership.

If the confusion between these irresponsible plans and a responsible negative income tax were confined to the proponents of such plans, it would be of little moment. Unfortunately, it has not been. Many reasonable people have tended to reject the negative income tax because they have regarded it as equivalent to a filling-the-gap plan.⁶

In fairness, I should stress that filling-the-gap plans command only limited support. Most people on the left who favor a negative income tax recognize that a 100 per cent rate is absurd and favor a plan with a fractional rate much less than 100 per cent. Their enthusiasm for the plan has a different source.

(b) *An additional program.*—I have supported the negative income tax as a *substitute* for present welfare programs; as a device for accomplishing the objectives of those programs more efficiently, at lower cost to the taxpayer, and with a sharp reduction in bureaucracy. Many proponents of a negative income tax have favored simply adding it to existing programs.

I have mixed feelings about this source of support. On the one hand, in my opinion, we are now spending far too much on welfare programs of all kinds compared to their contribution to the well-being of the community (see section 2(a), below). I would not like to see the negative income tax used simply as a means of adding still more to this total. On the other hand, the addition of a negative income tax is partly being suggested instead of other additions. The political reality may be that the programs will be expanded in one way or another. If so, far better that it be in this way.

More important, we must look to the future. Whatever may be the original intent, I believe that a negative income tax will be so much more effective than current programs that, in the course of time, it would increasingly replace them, in the process diminishing the problem toward which all of the programs are directed.

(c) *Defects of present welfare arrangements.*—All responsible students of the problem, whether on the left or the right, have come increasingly to recognize that present welfare

programs have grave defects, and, in particular, that direct relief and aid to dependent children demean both the recipients and the administrators.

I was much impressed some years ago when Herbert Krosney talked to me about a study of New York welfare programs he was engaged on—and which has since been reported in a splendid book, *Beyond Welfare*.⁷

In effect, he said to me, “You classical liberals are always talking about how big government interferes with personal freedom. The examples you give are always about things that matter to people like you and me—freedom of speech, of choosing an occupation, of travelling, and so on. Yet how often do you and I come into contact with government? When we pay our taxes or get a traffic ticket, perhaps. The people whose freedom is really being interfered with are the poor in Harlem, who are on relief. A government official tells them how much they may spend for food, rent, and clothing. They have to get permission from an official to rent a different apartment or to buy second-hand furniture. Mothers receiving aid for dependent children may have their male visitors checked on by government investigators at any hour of the day or night. They are the people who are deprived of personal liberty, freedom, and dignity.”

And surely, he is right. No doubt, he who pays the piper calls the tune. No doubt, the taxpayer who pays the bill to support people on relief may feel that he has the moral as well as legal right to see to it that the money is spent for designated purposes. But whether he has the right is irrelevant. Even if he has, it seems to me neither prudent nor noble for him to exercise it. The major effect of doing so is to weaken the self-reliance of the recipients, diminish their humanity, and make them wise in the stratagems for evading the spirit of the restrictions imposed on them. And the effect on the administrators is no more salutary. Instead of welfare workers bringing counsel and assistance to the poor, they become policemen and detectives; enemies to be outwitted. That is a major reason why it is so hard for large cities to staff their welfare agencies and why they experience such high turnover.

It would be far better to give the indigent money and let them spend it according to their values. True, they may spend much of it in ways we disapprove of—but they do now, and not all the red-tape in Washington will keep them from finding ways of doing so. If we spent the same amount on the poor in total, they would have more to spend—because of savings in administrative costs—and they would get more satisfaction per dollar spent—because they would waste less in circumventing the bureaucracy and would use the money for what they value most. In addition, at least some would grow in the course of making their own decisions, and would develop habits of independence and self-reliance. And surely, if social workers are hired on government funds, they should devote their energies to helping the indigent, and not spying on them.

This is the aspect of the negative income tax that I believe has appealed most strongly to the left, and properly so. Here is one area where it has become patent how detailed government intervention affects the lives of its citizens; how it corrupts both the controller and the controlled. Having learned this lesson in one area, perhaps the well-meaning people on the left will be led to look at other areas in a new light.

2. The Hostility on the Right

The hostility toward the negative income tax on the right is partly an automatic reflex to the enthusiasm for it on the left, partly, it is a valid reaction against fill-the-gap plans. But hostility arises also from two very different sources: first, the belief that a guaranteed minimum income introduces a new principle into the relationship between the government and the people that would greatly weaken the incentives on the part of the poor to help themselves; second, the political judgment that it will not be possible to keep a negative income tax within reasonable bounds.

(a) *The weakening of incentives.*—The first source of hostility confuses labels with substance. The elementary fact is that we now have a governmentally guaranteed minimum income in substance though not in name. That is what our present grab-bag of relief and

welfare measures is. In some states, it is even written into the law that anyone whose income is “inadequate” is entitled as a matter of right to have it supplemented and brought up to an “adequate” level, as judged of course by the welfare agencies. And whether explicitly specified in law or not, the same thing is true almost everywhere in the U.S.

The most obvious component of the present *de facto* guaranteed minimum income is direct relief and aid to dependent children. Aside from the interference with personal freedom and dignity already referred to, these programs have the worst possible effects on incentives. If a person on relief earns a dollar, and obeys the law, his or her relief payment is reduced by a dollar. Since working generally involves costs—if only for better or different clothes—the effect is to penalize either industry or honesty or both. The program tends to produce poor people, and a permanent class of poor people living on welfare, rather than to help the unavoidably indigent. And it does so at high cost in waste and bureaucracy.

But this is only the tip of the iceberg. We have a maze of detailed governmental programs that have been justified on welfare grounds—though typically their product is illfare: public housing, urban renewal, old age and unemployment insurance, job training, the host of assorted programs under the mislabeled “war on poverty,” farm price supports, and so on at incredible length.

Estimates of how much we are now spending on welfare programs vary widely depending on what specific programs are included. A modest estimate, which excludes entirely veteran’s benefits and educational expenditures, is that federal, state and local governments are spending roughly \$50 billion a year. Much of this money is simply wasted—as in the agricultural programs. And most of it goes to people who cannot by any stretch of the imagination be classified as poor. Indeed, from this point of view the direct public assistance programs at least have the virtue that people who receive the payments clearly have a lower average income than the people who pay the taxes. There is not another welfare program for which this is unambiguously true. For some—e.g., urban renewal and farm price supports—the people who are hurt almost certainly have a lower average income than the people who

are helped. For social security, the situation is more complex but it may well be that on net it involves transferring funds from the poor to the not-so-poor rather than the other way.

The welfare iceberg includes also measures that impose restrictions on private transactions, and do not require direct government expenditures, except for enforcement. The most obvious is minimum wage rate legislation. Other items are the Walsh-Healy and Davis-Bacon Acts, and the whole range of legislation conferring special immunities on labor unions. The effect of most such legislation is to increase the number of indigent people. The minimum wage rate, for example, prices many unskilled workers out of the market and is the major explanation, in my judgment, for the tragically high unemployment rates among teenagers, especially Negro teenagers.⁸ These measures involve a confusion between *wage-rate* and *family-income*. Persons who are capable of earning only low wage-rates are for the most part youngsters or extra family members whose earnings supplement those of the main breadwinner. But even where the worker is the main breadwinner, it is surely better that he be free to earn what little he can than that he be unemployed, and better that if government funds are to be used to aid him, they be used to supplement his earnings, not to replace them.

The negative income tax would be vastly superior to this collection of welfare measures. It would concentrate public funds on supplementing the incomes of the poor—not distribute funds broadside in the hope that some will trickle down to the poor. It would help them because they were poor, not because they were old or disabled or unemployed or farmers or tenants of public housing. These characteristics are no doubt associated with poverty, but the association is very far from perfect.

Because the negative income tax is directed specifically at poverty, it would both help the indigent more and cost far less than our present collection of programs. One careful estimate, by Christopher Green, sets the cost of the 50 per cent plan outlined above at \$7 to \$9 billion for 1964 (if public assistance payments are excluded from the income base used in calculating taxable income).⁹ In that year, public assistance expenditures alone totaled \$5.1 billion. Clearly, the elimination of public assistance plus only a modest reduction in other programs

would be enough to finance that particular negative income tax with no net cost.¹⁰ And yet this 50 per cent plan would provide more assistance to the bulk of the indigent than they are now receiving.¹¹

Moreover, by substituting a fractional rate for the present 100 per cent rate, the negative income tax would give the indigent *more* incentive to add to their income by their own activity than they now have. Hence the above estimates overstate, and in my view significantly overstate, the net cost. Furthermore, these estimates make no allowance for a number of indirect benefits. Integrating the payment of assistance with the tax system would improve collection and reduce evasion under the income tax, reduce the concealment of income that takes place under our present relief programs, and permit elimination of most of the present bureaucracy administering the welfare programs.

Of course, the negative income tax at any reasonable level would not meet the specific needs of every indigent family. Being general and impersonal, it cannot be adapted to cases of special hardship, and no doubt such cases would exist. However, by providing a basic minimum, it would reduce such cases to a manageable number, which could be taken care of by private charity. In my opinion, one of the great costs of the proliferation of governmental welfare programs is the elimination of a basic role for private charity, with its flexibility, diversity, and adaptability. An indirect virtue of the negative income tax is that it would provide an important place for private charity to serve precisely that function which private agencies can serve best—handling the special case.

If we lived in a hypothetical world in which there were no governmental welfare programs at all and in which all assistance to the destitute was by private charity, the case for introducing a negative income tax would be far weaker than the case for substituting it for present programs. In such a world, the negative income tax would indeed weaken incentives to work. For such a world, I do not know whether I would favor a negative income tax—that would depend on how effectively private charity was in fact providing for the destitute. But, whether desirable or not, that is not our world and there is not the remotest chance that it will

be in the foreseeable future. Those, like myself, who would like to see the role of government reduced, only harm our own cause by evaluating a program by an unreal standard.

(b) *The Political Problem.*—A second major source of hostility from the right to the negative income tax is concern about its political effect. If we adopt an open and above board program for supplementing the incomes of people below some specified level, will there not be continued political pressure for higher and higher break-even incomes, for higher and higher rates on negative income? Will the demagogue not have a field day appealing to the have-nots to legislate taxes on the haves for transfer to them? Will not the first sign of this process be the adoption of the negative income tax as an addition to all other programs rather than as a substitute?

These are all important questions. Clearly the dangers exist. But, like the incentive question, they must be evaluated in terms of the world as it is, not in terms of a dream world in which there are no governmental welfare measures. The relevant political question is whether the negative income tax is more susceptible or less susceptible to these dangers than alternative programs of the kind we now have or are likely to get. To this question, the answer seems to me clear: the negative income tax is less susceptible.

Why have the present grab-bag of programs been adopted? Because each appeals to a special interest that is willing to fight strongly for it, while few are willing to fight strongly against it; because the disinterested who seek to promote the general interest have been persuaded that each measure will contribute to helping a group that is disadvantaged; because, for many of the measures, there was no clear price tag, and the program could be voted without the simultaneous imposition of taxes to pay for it; because for still others, there are no direct costs at all—minimum wages are perhaps the clearest example; because, finally, no one who opposed the programs had an effective alternative to offer that would meet the real problems.

Politically, the right solution is to have a comprehensive program whose cost is open and clear. That is precisely what the negative income tax is. By linking it intimately with the

general income tax structure, there is no way to raise the break-even incomes without raising the exemption for tax purposes, which clearly requires a higher rate on incomes above the exemption. The cost of the payments is in one lump sum that can be calculated and will be painfully visible to every taxpayer. It will be obvious that every rise in the rate applied to negative taxable income raises the cost. It may still be that the lower income groups will form a coalition to despoil the upper income groups for their benefit—but that danger will be less than now, when we are in the position of having the dog's tail cut off by inches, on the specious plea of benefiting the disadvantaged. Once the issue is open and clear, we must rely on the good sense and responsibility of the electorate. And I for one believe that experience has shown that we can rely on it; that in every Western country, the electorate has shown that it is proof—though clearly not 200 proof—against demagogic appeals simply to share the wealth.

The present problem is to halt the proliferation of the bad programs we now have and ultimately to dismantle them. But while these programs are on the whole bad, more or less incidentally they do help some people who are disadvantaged. Can we in good conscience mount a political attack on them unless we can provide an alternative way to achieve their good results? Can we be effective, unless we have a satisfactory answer to the inevitable charge that we are heartless and want to let the poor starve? And would we not deserve that charge, if we had no alternative? Most of these programs should never have been enacted. But they have been and they must be dismantled gradually, both for the sake of social stability and because the government has the moral responsibility to meet commitments it has entered into. The negative income tax is a way to replace existing programs gradually.

An additional enormous political advantage of a negative income tax compared with our present programs is that it does not generate a large bureaucracy to provide political patronage to the powers that be. It cannot be used as a political slush fund, as so many current programs—notably in the war on poverty—can be and have been used.

There is no way whereby the bulk of us can tax ourselves to help the less fortunate that does not have political dangers. The negative income tax comes closer, in my opinion, to being politically consistent with a limited government and a free economy than any other method I have heard of.

3. The Income Tax as a Whole

Converting the general idea of a negative income tax into a concrete proposal raises many specific issues. These are identical with those that arise in constructing a positive income tax: the unit to be taxed, the receipts to be treated as income, the deductions and exclusions to be permitted from income, the break-even points for families of different size, the rate schedule for negative taxable income. So far I have implicitly accepted the specifications for these items embodied in our current income tax, adding only a single flat rate of 50 per cent for negative taxable incomes to have a specific illustrative plan.

But our current income tax clearly has many deficiencies, some of which are highlighted by considering extending the tax below the present exemptions. For example, consider a taxpayer all of whose income is in the form of interest from tax-exempt state and local securities. For tax purposes, he has a zero income before exemptions and deductions, hence would qualify for a negative tax payment of \$1,500 (for a family of four), even though he may have a million dollars of income.

Or again, the tax rate of 50 per cent I have used is much too high. I should prefer a lower rate. Yet, with current exemptions, a lower rate would produce guaranteed minimum incomes so low compared to our present standards of indigence that the negative income tax could not be regarded as a satisfactory alternative to present programs. The reason is that current exemptions are far too low. They are a relic of wartime experience and have not been raised even to allow for the price rise since then. In real terms, they are far lower than at any prior date.

One advantage of looking at the problem of helping the poor in terms of negative taxes is that it forces us to look at our tax structure in a new light. Clearly, this is not the occasion for a comprehensive discussion. It may, however, serve to give some perspective if I outline the kind of personal income tax that seems to make most sense as an efficient structure both for raising governmental funds and for helping the poor.

The most important desideratum is a drastic lowering of the graduated rates combined with a drastic broadening of the base by eliminating existing exclusions and deductions. My own preference is for a single flat rate above and below much higher exemptions than now, with no exclusions or deductions except for strictly defined business and occupational expenses and perhaps medical expenses beyond some minimum. The present graduated rates are a fake. In practice, the loopholes mean that little revenue is produced by the higher rates and that the actual incidence of the tax is heaviest in middle income groups. Yet so long as the rates are highly graduated, the loopholes are necessary if the tax system is not seriously to weaken incentive and productive efficiency.

The solution is simultaneously to introduce a flat rate at a moderate level and to eliminate the loopholes. To be specific, I would eliminate the present exclusion of interest on state and local securities, as well as the present deductions for percentage depletion, interest, contributions, and taxes (except as they may be business expenses): integrate the corporate with the individual tax, and include capital gains in full, preferably on an accrual basis, and possibly with an adjustment to eliminate the effect of changes in the general price level.

This may seem a long way off from negative income taxes, yet it is closely linked. With a broadened base, current exemptions could be raised drastically and rates lowered for both positive and negative taxable income, yet the total revenue yielded by the income tax kept unchanged. To be specific, suppose that the exemptions (and standard deductions) were doubled—to \$6,000 for a family of four—and that the single rate of 25 per cent were imposed on all income below and above the exemption. This would yield the same minimum income guarantee of \$1500 for a family of four as the plan discussed above and higher incomes for

people with some other income. It would provide a greater incentive to the poor since they would keep 75 cents out of every additional dollar. It would raise taxes for few, if any, of those people who now pay taxes on all their income and who take the standard deduction. Yet some rough calculations suggest that it would probably yield as much as our present income tax.

If this is anywhere near right, the actual yield would be much higher since such a tax structure would greatly reduce the incentive to engage in costly schemes to avoid income taxes and would greatly increase the incentive to add to income, raising the tax base on both counts.

4. Summary

In *Capitalism and Freedom*, I summarized the advantages of the negative income tax as follows:

It is directed specifically at the problem of poverty. It gives help in the form most useful to the individual, namely, cash. It is general and could be substituted for the host of special measures now in effect. It makes explicit the cost borne by society. It operates outside the market. Like any other measures to alleviate poverty, it reduces the incentives of those helped to help themselves, but it does not eliminate the incentive entirely, as a system of supplementing incomes up to some fixed minimum would.¹²

I described “The major disadvantage of the proposed negative income tax” as “its political implications.” I went on,

It establishes a system under which taxes are imposed on some to pay subsidies to others. And presumably, these others have a vote. There is always the danger that instead of being an arrangement under which the great majority tax themselves willingly to help an fortunate minority, it will be converted into one under which a majority imposes taxes for its own benefit on an unwilling minority. Because this proposal makes the process so explicit, the danger is perhaps greater than with other measures.

As I have thought further about the subject, and have participated in the widening discussion of the proposal, I have seen no reason to change my opinion that the advantages I

listed are indeed advantages. I have, however, been led to add a number of others, in particular, that the negative income tax does not interfere with the personal freedom or undermine the dignity of those helped, and that it does not demean and degrade the people who administer it, as other methods of giving assistance do.

I have also changed my opinion about the political implications I listed as a disadvantage. I now believe that because it is general and linked to the positive income tax it is less likely than are other plans to be extended to unreasonable and dangerous limits. And I would now list as one of the major advantages of the negative income tax that, as a proposal, it offers a platform from which an effective political attack can be launched on existing undesirable programs, and, if enacted, it would remove the specious excuse now offered for every newly suggested expansion of the Federal bureaucracy—that it is “needed” to help one or another disadvantaged group.

EXAMPLE OF INCOME TAX INCORPORATING 50 PER CENT RATE ON NEGATIVE TAXABLE INCOME

(Family of four; existing exemptions and standard deduction; existing rates on positive income)

Total Income Before Tax	Exemptions and Deductions	Taxable Income	Tax Rate	Tax	Income After Tax
0	\$3,000	\$-3,000	50%	\$-1,500	\$1,500
1,000	3,000	-2,000	50%	-1,000	2,000
2,000	3,000	-1,000	50%	-500	2,500
3,000	3,000	0			3,000
4,000	3,000	+1,000	14%	+140	3,860

Notes

¹ University of Chicago Press, 1963, pp. 190–95.

² Note that under present laws, negative taxable income could be more than \$3,000, since a taxpayer who uses actual rather than standard deductions could have exemptions plus

deductions of more than \$3,000. This is a point that deserves much more attention than it has received. On the one hand, it offers the possibility of introducing a desirable flexibility into the program. For example, it would offer a far better way than medicare or socialized medicine to finance by tax funds abnormal medical costs: simply permit such costs to continue, as now, to be a deduction in computing income. On the other hand, this point gives still more importance to undesirable deductions and exclusions under the present income tax. Such deductions and exclusions mean that a family with high income from tax-exempt sources or with large deductions could not only avoid tax as it now does but could also qualify for subsidies. See section 3.

³ For other sizes of families (tax-paying units), the guaranteed minimum income and break-even income vary. With a 50 per cent rate on negative taxable income, and present law with respect to exemptions and standard deductions, those are as follows:

Family Size	Guaranteed Minimum Income	Break-even Income
1	\$ 450	\$ 900
2	800	1,600
3	1,150	2,300
4	1,500	3,000
5	1,850	3,700
6	2,200	4,400

⁴ Edward E. Schwartz, "A Way to End the Means Test," *Social Work*, IX (July, 1964), 5–12; Robert Theobald, *Free Men and Free Markets* (New York: C. N. Potts, 1963), pp. 192–97, and Robert Theobald, ed., *The Guaranteed Income*, Doubleday, New York, 1966.

⁵ To add to the cost of the proposals, most proponents of gap-filling schemes have proposed guarantees much higher than the break-even incomes in footnote 3, above.

⁶ See, for example, *The Wall Street Journal*, editorial "The Guaranteed Nightmare," January 31, 1966, and my letter to the editor, February 15, 1966.

⁷Holt, Rinehart, and Winston, New York, 1966.

⁸ See *The Minimum Wage Rate, Who Really Pays*, an interview with Yale Brozen and Milton Friedman, Free Society Association, Washington, 1966.

⁹ Christopher Green, *Transfer-by-Taxation: An Approach to Improved Income Maintenance*, Background paper prepared for a conference at The Brookings Institution (The Brookings Institution, Washington, D. C., April, 1966), p. 277.

The lower estimate (\$7.1 billion) assumes that double exemptions are not granted the aged in calculating taxable income, the higher estimate (\$8.8 billion) assumes that they are.

¹⁰ Precise calculations require taking into account the fact that some part of other transfer funds go to persons with low incomes, so the reduction or elimination of such programs would increase the amount of negative income reported. There is not therefore a dollar for dollar saving. Because the above estimates exclude assistance payments from the tax base, this does not apply to the elimination of public assistance.

¹¹ Green (*Ibid.*, pp. 163–65), compares present Aid to Families with Dependent Children (AFDC) with payments under this 50 per cent plan, on the assumption that the negative income tax payment would be the only income of the recipients. Even under this extreme assumption, he finds that only three states (New York, New Jersey, and Pennsylvania) are now paying under AFDC more than the recipients would get under the negative income tax. For Old Age Assistance (OAA), the problem is more complicated because of the need to allow for OASDI benefits. Green estimates that, under the 50 per cent plan, “the elderly poor receiving public assistance would not receive as much income ... as they are presently receiving through PA (public assistance) or a combination of PA and OASDI. However, the difference is not absolutely very great” (p. 165).

¹² Page 192.