63-70

INSTITUTE FOR RESEARCH ON POVERTY

TRANSFER APPROACHES TO DISTRIBUTION POLICY

by

Robert J. Lampman

DISCUSSION PAPERS

THE UNIVERSITY OF WISCONSIN, MADISON, WISCONSIN

TRANSFER APPROACHES TO DISTRIBUTION POLICY

ROBERT J. LAMPMAN

Robert J. Lampman is Professor of Economics at the University of Wisconsin. This paper was prepared for meetings of the American Economics Association in New York during December, 1969.

The research reported here was supported by funds granted to the Institute for Research on Poverty at the University of Wisconsin by the Office of Economic Opportunity, pursuant to the provisions of the Economic Opportunity Act of 1964. The author was assisted in the preparation of this paper by Benton P. Gillingham. The conclusions are the sole responsibility of the author. Earlier writings by the author on this topic are, "Toward an Economics of Health, Education, and Welfare," THE JOURNAL OF HUMAN RESOURCES (Summer 1966), pp. 43-53; and "Transfer and Redistribution as Social Process," in Shirley Jenkins (ed.), SOCIAL SECURITY IN INTERNATIONAL PERSPECTIVE (New York: Columbia University Press, 1969).

January, 1970

ABSTRACT

This paper is meant to add to our understanding of the role of transfers in income distribution. It sketches an accounting framework within which to envision the process whereby "producer incomes" are transformed into "user incomes." Some estimates are offered of the benefits and losses which arise through transfers and of the role of transfers in improving the lot of the poor. Further, estimates of benefits and losses of several possible family allowance and negative income tax plans are presented.

There are two ways to alter the pattern of economic inequality among persons. One is to modify the distribution of factor income by changing the underlying distribution of factors or the prices or employment of those factors. The second is to modify the process by which factor income is redistributed away from its recipients. This paper is about the second way. We ask how the distribution to factor owners is and can be modified as income moves from its market origins to its disposition on goods and services. At the outset, we sketch an accounting framework within which to envision this process whereby "producer incomes" are transformed into "user incomes." In later sections, we review some current proposals for additional transfers to the poor.

THE PROCESS OF REDISTRIBUTION

The redistributive process involves receipts and payments of both a money and a non-money character. It occurs via private as well as public institutions, including the employer, the government agency, the private insurance carrier, the private philanthropic agency, and the family. Two types of redistributional transaction are involved, namely, transfer and what we may call distributive allocation. Table 1 (see list of items and column 1; ignore columns 2 and 3 for the moment) sketches out the elements of and offers rough estimates of the amounts involved in this process, which may be said to start with subsidy to factor incomes. It continues with public subsidies to consumers, money transfers, and distributive allocations, and with private gifts, transfers, and distributive allocations. Our accounting includes the payments for pure public goods but, in effect, excludes the benefits of those goods on the grounds that such benefits are indivisible and hence not redistributive. It also excludes those merit-want goods which are produced in the public sector but are purchased on a user-charge or benefits-received basis and hence, like most private purchases, have no important redistributive effect.

As seen in Table 1, the items which intervene between pre-redistribution income and post-redistribution income all have a positive and a negative side. Receipts by one family are cancelled out by payments made by others. Hence, items 7, 14, and 18 will be zero in value for the nation as a whole. However, an individual family may have either a positive or negative balance in any one of these items and may gain or lose in the conversion from pre-to post-redistribution income. The ranking of families and the overall inequality may be markedly different in the two distributions.

There is interest in the intermediate income concepts shown in the Table. For example, one might want to know how the pre-redistribution income is altered by the public policies reflected in items 5 and 6, and therefore look to item 8. Or, one might want to investigate the effect of private activities as indicated by items 14 and 15.

There are several conceptual issues that surround this accounting scheme. One has to do with the inclusion of non-money items. Can we say that the purchase by a public agency of health care for a citizen is not only an allocation, but also a "distributive allocation" or

TABLE 1

Public and Private Transfers and Distributional Allocations Received and Paid by all Households and by Pre-transfer Poor Households, 1967

	(1) All Households (billions of dollars)	(2) Pre-transfer (Percent of col. 1)	(3) Poor Families (billions of dollars)
1. Pre-redistribution income (factor income net of 2 and employer financed part of 9)	$644	3%	$19.3
2. Increase in factor income due to direct subsidy	1	10	0.1
3. Reduction in market price due to direct consumer subsidy	1	10	0.1
4. Benefits of social welfare expenditures under public programs	100	40	40.1
a. Social Insurance	37	55	16.5
b. Public aid	9	93	8.4
c. Veterans	7	46	3.2
d. Other welfare services and public housing	3	50	1.5
e. Health	8	50	4.0
f. Education	36	18	6.5
5. Total of 2-4	102	39	40.3
6. Taxes, user charges, fees, and public prices used to finance 5	102	9	9.2
7. Public transfers and distributional allocations net of 6	0	-	31.1
8. Income after public transfer and distributional allocation (1 + 7)	644	8	50.8
9. Privately insured benefits related to health and income maintenance	17	5	0.9
10. Direct inter-family gifts	10	50	5.0
11. Gifts via philanthropic institutions	3	33	1.0
12. Total of 9 - 11	30	23	6.9
13. Family and employer payments for insurance, gifts by family	30	5	1.5
14. Private transfers and distributional allocations less 13	0	-	- 5.4

TABLE 1 (cont'd)

		(1) All Households (billions of dollars)	(2) Pre-transfer (Percent of col. 1)	(3) Poor Families (billions of dollars)
15.	Income after public and private transfer and distributioual allocation (1 + 7 + 14)	$644	9%	$55.8
16.	Benefits of general government activity	100	8-9[a]	8-9[a]
17.	Taxes to pay for 16	100	7	7
18.	Benefits of 16 less taxes of 17	0	-	1-2
19.	Post-redistribution income, (1 + 7 + 14 + 18)	644	9	56.8 - 57.8
20.	Allocations other than 4 or 16 through government having no redistributive impact[b]	-	-	-
21.	Allocations through private sector other than 12 having no redistributive impact	-	-	-

[a]Distributed so as to not alter distribution of income. Note pre-transfer poor have 8 percent of item 8 and 9 percent of 15.

[b]Omitted on grounds that these are like private non-redistributional allocations.

"transfer-in-kind"? Does it constitute an addition to "income" for the recipient rather than (or as well as) an investment in his future productivity? My answer to these questions is yes, but I must admit that drawing the line between what is and what is not an in-kind transfer to persons is hard. The line has to do with the distinction between merit wants and social wants, which, as Musgrave puts it, turns on whether the want can be satisfied for one person exclusively. It has to do with Ida C. Merriam's definition of "social welfare expenditures" as those that are directly concerned with income security, and the health, education, and welfare of individuals and families, but exclusive of community-wide utilities and services--such as water and sewer works, urban transportation, or public recreational facilities.[1]

Another conceptual issue is: should private and social insurance for health care and income maintenance be included? Is the purchase of insurance something that should be accounted for as a simple allocation, like the purchase of postage stamps or automobiles and, hence, excluded from Table 1? In one view, the benefit is realized at the time pure insurance (disregarding cash values) is purchased. One buys protection against risk and gets his money's worth even though he never has a claim. Transfer or subsidy might be said to arise only if premiums are not correctly adjusted to variations in risk or to size of potential benefits. However, insurance is distinguishable from family saving, which we include here only if it is transferred from one family to another by gift. The insurance intermediary, whether it be a private company or a government agency, does something a family cannot do in pooling risk and thereby converting factor income into payments that respond to stated contingencies rather than to accumulated contributions. Moreover, insurance benefits often flow to persons quite remote from the purchasers, who may be employers or general revenue taxpayers. For these reasons, insurance benefits and contributions paid in the year are included in the accounting of distributive allocations of that year.

BENEFITS AND LOSSES FROM REDISTRIBUTION

Having resolved the issue of what is being redistributed and how, we turn now to the matter of who recieves how much benefit, and who loses how much, from redistribution. One may rank families by total monthly income and measure how the share of "income" received by income-bracket groups changes as we move from one concept of income to another. Thus, Gillespie[2] (see Table 2) moves from factor income (roughly the same as item 1 in Table 1) to a post-redistributional income which takes no account of private transfers and distributional allocations (this is approximately the same as the sum of items 1, 7, and 18). Note that he finds that the share going to those with money incomes under $3,000 is converted from 5 percent to 8 percent in the redistributive process.

A similar pattern of change is documented by Morgan, David, Brazer and Cohen[3] (see Table 3), who re-ranked families each time they changed income concept. They show that the degree of inequality is reduced one-fifth of the way to zero by moving from gross factor income (about the same as item 1 in Table 1) to gross disposable income (similar to item 19). They also portray a significant shift of another one-tenth of the way to zero inequality, which is associated with a re-ranking of families by welfare-ratio, that is, adjusting for family size. A welfare-ratio of unity means that a family is at the poverty-line. Similarly, they show that the inequality we measure is partly a function of whether we count families "doubled-up" in one household as one or two families. Apparently relatives tend to group together in such a way as to reduce inequality below what we would observe if each adult unit were separately accounted for. It is, of course, a key matter in the study of income redistribution to know how separate factor incomes are combined into a family-unit-income, and how persons who do not receive factor income relate themselves to others who do.

Table 4 shows the finding of Morgan and his colleagues that what they call "net transfer," which takes account of only some of the items listed in Table 1, namely, non-family transfers plus public school benefits, less income and property taxes (note that they find the latter to be non-redistributive) and non-family contributions, amounted in 1959 to 26 percent of the gross disposable income of families below the poverty-line.

By making use of the findings presented in the Morgan book and in the studies by Gillespie,[4] Orshansky,[5] McClung,[6] Lurie,[7] Bridges[8] and others, and by reference to some preliminary findings from the Survey of Economic Opportunity, we are able to put together rough estimates of the amount of redistribution to the pre-transfer poor[9] done in 1967. These estimates are reported in the right-hand columns of Table 1. They

TABLE 2

Distribution of Families and Income, Before and After Fiscal Incidence of Federal, State and Local Government Taxes and Expenditures, by Money Income, 1960, in Percents.

Item	under $2000	$2000–2999	3000–3999	4000–4999	5000–7499	7500–9999	10,000 and over	Total
	Family Money Income Brackets							
1. Families	14%	9%	9%	11%	28%	15%	14%	100%
2. "Broad income"	2	3	4	7	27	19	39	100
3. "Adjusted broad income"	3	5	5	7	26	20	33	100

Source: W. Irwin Gillespie, _supra_, n. 2. Line 1 from Table 11; lines 2, 3 from Table 13.

TABLE 3

Lorenz Coefficients of Inequality for Various Units of Analysis and Measures of Income, 1959.

Income Items	Families	Adult Units
Gross Factor Income	.419	
Less: Imputed Rent of Home Owners		
Less: Home Production		
Plus: Regular Money Transfers		
= Money Income	.385	
Less: Federal Income Taxes		
= Disposable Money Income	.355	
Plus: Imputed Rent of Home Owners		
Plus: Home Production		
Plus: Non-Money and Irregular Transfers including Food and Housing Provided by Relatives		
= Gross Disposable Income	.346	
Divided by Budget Standard		
= Welfare Ratio	.309	.346

Source: Morgan, _supra_, n. 3; derived from Table 20-2, p. 315.

show that the whole array of public and private givings and takings raised the share of pre-transfer poor families from 3 percent of pre-redistribution income to 9 percent of post-redistribution income. (See items 1 and 19.) This was accomplished by public transfers (positive and negative) and distributional allocations, which raised the share from 3 to 8 percent (item 8); by private transfers and allocations, which raised it to 9 percent (item 15); and by taxes for pure public goods, which raised it by less than one percent, so the share remains at about 9 percent (item 19). This gain in share was accomplished by an offsetting decline in share of income on the part of the pre-transfer nonpoor families.

Instead of showing how income distribution is modified by redistributive institutions with respect to those in income brackets or welfare-ratio groupings (of which poor-nonpoor is a variant) one could show income redistribution with respect to age, sex, color, region, occupation, family size, home ownership status, health status, labor force status, educational level, or other characteristics of income recipients. Another method of presentation is to show how a particular item, say the income tax, alters distribution among successive groupings of the population. This is the method advocated recently by the Treasury Department.[10]

Table 1 suggests the range of approaches for redistributing income to any of the above listed groupings. These include subsidies at the factor income level and in consumer markets; public and private transfers and distributional allocations, and, on the other side of the ledger, taxes, insurance premiums, and gifts.

TABLE 4

Specific Transfers as Percentage of Gross Disposable Income of Adult Units and Families Classified by Welfare Ratio, 1969.

Transfer Items	Welfare Ratio .0-0.8	0.9-12	1.3-1.6	1.7-22	2.3 and over	All units
Adult units						
Non-family transfers	26%	12%	9%	6%	5%	8%
Income tax	-1	-5	-9	-11	-19	-12
Non-family contributions	-4	-4	-4	-4	-7	-5
Families						
Property tax	-2	-2	-2	-2	-2	-2
Public school benefits	13	7	4	3	1	4
Net transfer	26	7	-2	-7	-18	-6

Source: Morgan, supra, n. 3. "Adult units" data derived from Table 16-23; "Families" data derived from Tables 19-5 and 19-13.

It is important to know that most of these methods have been increasing in quantitative importance over the years.[11] Social welfare expenditures under public programs (item 4 in Table 1) have been rising 10 percent or more per year and now amount to 14 percent of gross national product. The increase in national redistributional effort as indicated by this rise is not having a maximum impact on the number of people counted in poverty nor on the size of the poverty income gap, since many of the greatest rises have been in such non-money items as schooling and health care.

However, the cash benefits in this series (see the right-hand section of Table 5) have been rising in step with the total and added up to almost $50 billion in 1968. Since the latter are the only public expenditures, other than "direct subsidies to increase factor incomes" which immediately enter into total money income, and since the poverty-line is stated in terms of pre-income tax total money income adjusted for family size, they would seem to have unique relevance out of all the items listed in Table 1 to the question of poverty-reduction. It does seem ironic that cash benefits went up from under

TABLE 5

Social Welfare Expenditures Under Public Programs, for Selected Years, 1940-1968.

Year	Total Cash and Noncash Benefits (in billions of dollars)	Cash benefits under income maintenance programs, in billions of dollars					
		Total Cash Benefits	Retirements, Disability, and Survivors	Unemployment	Temporary Disability	Workman's Compensation	Public Assistance
1940	8.8	4.2	0.8	0.5	--	0.2	1.0
1950	23.5	8.7	4.3	1.5	0.1	0.4	2.4
1960	52.3	25.9	8.2	3.0	0.4	0.9	3.3
1963	66.8	32.4	24.1	2.9	0.4	1.1	3.6
1967	99.7	42.6	33.4	2.4	0.5	1.4	4.9
1968	112.0	48.2	38.0	2.4	0.5	1.6	5.7
1969	126.8						

Sources: Col. 1, Merriam and Skolnik, supra, n. 1. For 1969, *Research and Statistics Note*, Office of Research and Statistics, SSA. (November 12, 1969). All other columns, *Social Security Bulletin* Sept. 1969), Table M - 1, p. 33.

$25 billion in 1959 to $43 billion in 1967, while the poverty-income gap fell only from $13.7 billion to $9.7 billion.

Thirty-two percent of all households received a cash transfer in 1965, yet only about 8 percent of all households were kept out of, or taken out of poverty status thereby (see Table 6). We do not have a good series on the number of pre-transfer poor, but it does appear

TABLE 6

Percent of Households Receiving Selected Transfers and Number of Households Who Would Be Counted Poor But For Transfer, 1965.

Transfer item	Percent of Families Receiving	Number (in millions of families) who would be counted poor but transfer payments, out of a total of 60.4 million households.
Any payment	32.3%	4.7
Social security	21.5	3.6
Public assistance	4.8	.4
Other	11.2	1.1

Source: Orshansky, _supra._, n. 10, pp. 26-30.

that transfers have been taking gradually increasing numbers of households to post-transfer incomes above the poverty-line. We found, using 1961 Bureau of Labor Statistics' Consumer Expenditure Survey data, that transfers took 4.7 million households out of poverty in that year.[12] This is the same number counted by Orshansky (see Table 6) for government transfers only for 1965. Irene Lurie found that transfers took

6.1 million households out of poverty in 1966,[13] and we confirm that number by an independent computation of Survey of Economic Opportunity data.

The increases in money transfers have been largely directed at the pre-transfer nonpoor. Of course, the number of people counted as poor has declined dramatically, from 23 percent of the population in 1959 to 12 percent in 1968, but that is apparently due primarily to rising wage rates and improved employment opportunities for low-income people. The unemployment rate fell from a post-war high of 6.8 percent in 1959 to below 4 percent in 1966 and has stayed there since that time.

Nothing said above is meant to minimize the importance of money transfer in reducing poverty. Money transfers, public and private, added substantially to the incomes of the poor in 1967 (see Table 7). We estimate that about half of the total of $59.1 billion of such transfers went to the pre-transfer poor. They cut the pre-transfer poverty-income-gap almost in half,[14] and provided over half of the income of the post-transfer poor.

However, money transfers tend to do more for the better-off poor than for the poorest poor. They also tend to favor small families as opposed to larger families among the poor.[15] This insight into the bias of the existing set of transfer payments has led many people to advocate new kinds of transfers aimed at either children in intact families or "the working poor."

TABLE 7

Distribution of Pre-transfer Income, Money Transfer Benefits, and Post-transfer Money Income, by Household Poverty Status, 1967.[a]

	Total Population (billions of dollars)	Pre-Transfer Poor (percent of total)	Pre-Transfer Poor (billions of dollars)	Post transfer Poor (billions of dollars)
Pre-transfer money income	$520.	3%	$15.6	$ 7.8
2. Increase in factor income due to subsidy	1.0	10	0.1	--
4. Benefits under social welfare expenditure programs (money only)	42.6	57	24.3	8.1
a) Social insurance	33.2	53	17.7	4.4
b) Public aid	4.9	93	4.5	3.0
c) Veterans	4.5	46	2.1	0.7
9. Private insurance (money only)	10.0	5	0.5	0.2
10. Direct inter-family gifts (money only)	6.0	33	2.0	1.0
11. Gifts via philanthropic institutions (money only)	0.5	33	0.1	0.1
Sub-total of 2, 4, 9, 10, 11	59.1	46	27.0	9.4
Post-transfer money income)pre-transfer money income plus sub-total above)	579.1	7	42.6	17.2

[a]Item numbers correspond to items in Table 1.

Discussion of New Transfer Plans

The question is persistent--why, in a rich country, having a large and rapidly growing redistributive system, can we not make some adjustment that will simply eliminate the poverty that remains? The dimensions of the problem seem small--only about 23 million people are poor and their poverty-income gap of under $10 billion is only one percent of gross national product. The most direct way to eliminate poverty would be to introduce a negative income tax with guarantees at the poverty lines. If all other income were subject to a special offset tax of 50 percent up to breakeven points equal to twice the poverty lines for each family size, this would cost $27 billion in benefits and income tax forgiveness over and above what we are now spending on transfers.[16] These net benefits would go to some 88 million people, leaving the upper 120 million to pay the $27 billion on top of the taxes they are now paying.[17] Worry about subjecting working people to a 50 percent marginal tax rate--and note that we are talking not about a few categorical poor, but about 40 percent of the population--leads some to advocate lowering the offset tax-rate to, say, 33 1/3 percent, thereby raising the breakeven points to three times the poverty lines, and placing the whole tax load, which would then be expanded to cover about $50 billion of net new transfers to the lower two-thirds of the population, on the upper one-third. That amount would require a near doubling of the money-transfer now being done by all public and private sources. In any event, what may look at the outset like an easy problem takes on greater scope as one surveys the alternatives. Certainly, it is a major disservice to rational discourse to suggest, as many have done, that the United States could eliminate poverty if we were only willing to transfer an additional $10 billion to the poor. There is no way to get that $10 billion into the hands of the poor without spending far more than that.

Realization of this--and some sense of the gradualness of change--has prompted many to offer less radical departures. Perhaps the least radical would modify existing programs. The transfer program now paying out the most cash to the poor is Old Age, Survivors, and Disability Insurance. This could be, and likely will be, expanded, but each extra dollar in benefits tends to yield only 10 to 20 cents for the poor; these benefits do not reach the non-categorical poor; and the payroll tax puts a heavy burden on the working poor. The second largest source of public transfer funds for the poor is the categorical public assistance programs dominated by Aid to Families with Dependent Children (AFDC). We could improve the status of many of the categorical poor by setting a federal floor under the benefits, now determined by the several states. This would cost relatively little, but it would not reach many of the poor--most of the poor are not in the categories--and would exacerbate the inequity between the working poor at low earned incomes and the categorical poor at relatively high benefit levels. The only way, via transfers, to remedy that inequity, is to drop the age-old principle that receipt of transfers and employability must be mutually exclusive. And one way to broach the contrary principle is to pay benefits to all children. Since most of the nonwelfare poor are in families with children, a child allowance, which is a common type of transfer in other nations, would seem to have time and place utility for the United States.

There are numerous varieties of child allowance plans, but like all transfers, they take from some and give to others, most obviously transferring income from households without children to those with children. They also tend to alter the distribution of income among families with and without children. Benefits can be conditioned in various ways and can be financed, at least in part, by offsetting reductions in existing ways of changing disposable income such as cash transfers and the exemptions for children in the income tax. In order to see how plans differ from one another it is useful to do, as Dorothy S. Projector[18] has done, a calculation of how disposable income would change for the average family in each income bracket. Table 8 shows some of her calculations for 1967 for four plans, namely, two suggested by Vadakin,[19] one by Brazer,[20] and the Family Assistance Plan (FAP) recommended this fall by President Nixon and introduced by Congressman John Byrnes as H.R. 14173. We have added parallel calculations for 1966 for the plan recommended in November by the Presidential Commission on Income Maintenance Programs (the Heineman Commission),[21] even though their plan would pay benefits to unrelated individuals and families with and without children and hence is not a child allowance.

We would like to include a wage-subsidy in this comparison, but do not know of a carefully spelled out plan of that type.[22]

The several plans, briefly sketched, are as follows. To achieve comparability, we assume, following Projector, that each plan is to be financed, to the extent new tax revenue is needed, by a surtax on personal and corporate income.

Vadakin 1: $120 per year allowance per child; retain child exemption in the income tax; finance by making allowance taxable and adding a 7.4 percent surtax on personal and corporate income.

Vadakin 2: $120 per year allowance per child; finance by eliminating child exemption and making allowance taxable. (No surtax needed.)

Brazer: $1400 per year allowance for first child, $900 for second, $600 for third, $400 for each added child; finance by eliminating child exemptions, taxing adjusted gross income by a special child allowance tax at marginal rates around 33 percent but varying both by income and family size, reducing federal contribution to AFDC, and adding a surtax of about 6 percent on personal and corporate income.

Family Assistance Plan: Benefits restricted to families with children; $500 per year for first two persons, $300 for each additional person, finance by taxing other income by a special offset tax at a zero rate on first $720 of earnings and at a 50 percent rate beyond that, eliminating federal contribution to AFDC, adding a surtax of about 2.5 percent on personal and corporate income.

Heineman: Benefits not restricted to families with children; $750 per year for each of first two adults, $450 for each other person; finance by taxing other income by a special offset tax at a 50 percent rate, eliminating federal contribution to food stamps and to all categorical assistance programs, adding a surtax of about 12 percent on personal and corporate income. (The latter surtax is equivalent to a surtax of 18 percent on personal income only. These surtax rates are for 1966 and would be lower for 1967.)

TABLE 8

Average Amount of Change in Disposable Income for Families and Unrelated Individuals, by Total Money Income, Four Children's Benefit Plans, 1967, and Heineman Plan, 1966.

Total Money Income	Vadakin 1	Vadakin 2	Brazer	Family Assistance Plan	Heineman
under $3,000	$ 49	$ 47	$260	$127	$417
3,000-4,999	78	30	345	75	184
5,000-6,999	78	2	139	-9	-7
7,000-9,999	63	-15	-132	-29	-151
10,000-14,999	3	-30	-211	-49	-246
15,000-24,999	-159	-59	-346	-102	-457
25,000 and over	-845	-147	-949	-347	-1517

Sources: Columns 1-4, Projector, supra, n. 18, Table 5. Column 5, McClung, supra, n.6.

TABLE 9

Comparison of Four Children's Benefit Plans, Based on 1967 Income and the Heineman Plan, Based on 1966 Income

Characteristic	Vadakin 1	Vadakin 2	Brazer	Family Assistance Plan	1966 Heineman
1. Amount "Transferred"[a] (billions of dollars)	$2.5	$1.1	$7.5	$2.5	$8.6
2. Income level above which average change in disposable income is negative (see Table 8)	$15,000	$7,000	$8,000	$5,000	$6,000
3. Effect on those without children					
a) Receive benefit?	No	No	No	No	Yes
b) Pay tax?	Yes	No	Yes	Yes	Yes
4. Net benefit to households with under $3,000 income (billions of dollars)	$0.6	$0.6	$3.6	$1.8	$5.6
5. Increase in share (was 4.1 percent) of income going to lowest fifth of households (percent)	0.1%	0.1%	0.4%	0.3%	1.2%
6. Marginal tax rates below breakeven income (percent)	b	b	30-40%	0-50%	50%

Source: On the Heineman Plan, see Robert Harris, "Role of Taxes and Grants in Income Maintenance," paper prepared for meeting of the National Tax Association, (October 2, 1969) mimeo; see also *supra*, n. 6 and *supra*, n. 16. On the other plans, calculated data in *supra*, n. 18.

[a]In this case, "transfer" means change in disposable income. The total amount of such change below the levels shown in line 2 is matched by an offsetting amount above the line.

[b]Surtax only.

Table 8 demonstrates the similarity in basic design of all child allowance and negative income tax plans in changing disposable income by income bracket. The breakeven points differ, ranging from around \$15,000 in the Vadakin 1 plan to \$5,000 in the Family Assistance Plan. The amount of gain and the distribution of that gain, as well as the amount and distribution of loss, vary among the several plans. Furthere insight into the variations of the plans is offered by Table 9, which shows the total increases in disposable income occasioned by the introduction of the plans. It should be noted that these estimates take no account of possible reductions in work effort nor of changes in family size or composition which might result from the plan. These increases in income, which are matched by decreases above the line, vary from a low of \$1.1 billion for Vadakin 2 to a high of \$8.6 billion for the Heineman plan. The net benefit to the poor also is different among the plans. The Family Assistance Plan does the most for the poor per dollar transferred and in that sense may be said to be the most intensively anti-poverty plan. A proponent of child allowances has commented on this point as follows. "It will be said that a child allowance wastes money on children who are not poor.... A child allowance designed carefully in relation to the income tax system would waste little money. In any event, that money is well wasted that purchases a sense of its rightness.... [Moreover] because it is not related to income it quite avoids interfering with the incentive to work."[23] (Note, however, the high guarantee and high marginal tax rates in the Brazer plan.) None of these plans would confine its benefits to the 23 million persons who are poor. FAP would add 14 million persons to those in benefit status, some of whom already have incomes above the poverty lines. The Heineman plan would reach 36.8 million persons in 1971, almost half of whom would not be poor in the absence of the benefits.

Deciding on how to rank these plans in terms of desirability may well turn, for each citizen, on a complex set of considerations. It may lend perspective to relate the amount that would be transferred under these plans to the amount now transferred. According to Table 7, the total amount of money transfers in 1967 was $59.1 billion. So, the largest amount listed here, the Heineman plan's cost for 1966 of $8.6 billion, is about one-seventh of that total. (The amount needed to finance that plan in 1971 is estimated to be only $6 billion.) A similar consideration is suggested by the question: how much change in the share of income going to the lowest fifth of households would follow from each plan? The most redistributive of the plans by this measure is the Heineman plan, which would change that share from 4.1 to 5.3 percent, i.e., a 30 percent increase (see Table 9, line 5).

There are, then, certain broad issues to be weighed. How much total transfer, how to divide transfers between cash and in-kind, how much emphasis on children, how intensely to concentrate on poverty-reduction, how high a marginal tax rate, what existing transfers should be reduced to help finance any new benefit? But, even after those issues are resolved, there are numerous, somewhat more technical issues to be settled. A simple family allowance plan, such as Vadakin 1 or 2, does not have to contend with some of these issues, but the other three plans discussed do. We have space here only to list some of them. (1) Should the plan have a work-test associated with it, as does FAP? Should the work-test apply to all adults? Should the penalty for failing to work less than full time be severe? (2) Should the income subject to the special offset tax be defined broadly (as in FAP) or narrowly (as in the Brazer plan)? Should social security benefits be included and taxed? Should work expenses and child care expenses be deductible? (3) Should the family be defined so as to leave choice as to what persons, and hence whose incomes, are to be included in calculating a family's benefits? (4) What income period should be used in determining benefits? Most negative income tax analysts have assumed a year would be the period, but public assistance administrators use a month. (5) How should a new benefit be articulated with existing public assistance programs? The Heineman proposal is silent on this point, but FAP has a complicated scheme to assure maintenance of effort while discouraging increases of relatively high benefits by the states for those in the dependent children categories. It also enforces conformity with FAP upon the states in defining income and income period, family, and resource and work tests for eligibility. It also sets maximum combined tax rates for those families simultaneously on FAP and a state benefit program. (6) How should the new cash benefit be related to in-kind benefits such as food stamps and medicaid? If food stamps are priced inversely to income, they take on the basic characteristic of a negative tax and hence have a marginal tax rate associated with them. That marginal tax rate could combine with other tax rates to raise the overall tax rate on some families to very high levels. Should the food stamp bonus be calculated after the FAP benefit, but before the state supplementary payment, or after both? The Heineman Commission urges that all food stamps be dropped and that the funds be diverted to financing their more generous negative income tax. (7) How should the plan be administered and by whom? Should it be handled by the states or by the federal government? If the latter, should it be done by the Internal Revenue Service, the Social Security Administration, or a new agency? Brazer nominates the Internal Revenue Service, and FAP points to the Social Security Administration.

Those seven questions indicate the complexity of introducing a new type of income-conditioned benefit into the existing system of transfers. Economists, tax lawyers, welfare administrators, and other scholars and experts can help to inform the debate now going on concerning President Nixon's Family Assistance Plan and alternatives to it.

Regardless of how that debate comes out, economists have more to do before we fully understand the set of changing institutions by which we can and do modify the pre-redistribution income, the goals of redistribution (of which poverty reduction is only one), and the consequences, costs, and benefits of such redistribution.

FOOTNOTES

[1]Ida C. Merriam and Alfred M. Skolnik, "Social Welfare Expenditures under Public Programs in the United States (1929-1966)," Research Report No. 25, Office of Research and Statistics, Social Security Administration (Washington, 1968), p. iii.

[2]W. Irwin Gillespie, "Effects of Public Expenditures on the Distribution of Income," in *Essays in Fiscal Federalism*, Richard A. Musgrave, (ed.) (Washington, 1965), pp. 122-186.

[3]James N. Morgan, Martin H. David, Wilbur J. Cohen, and Harvey E. Brazer, *Income and Welfare in the United States* (New York, 1962).

[4]*Supra*, n. 2.

[5]Mollie Orshansky, "The Shape of Poverty in 1966," *Social Security Bulletin* (March, 1968), pp. 3-32.

[6]Nelson D. McClung, "Problems in the Development of Data Bases for the Static Microsimulation of Income Transfer Program Direct Effects," mimeographed Staff Paper for the President's Commission on Income Maintenance Programs (1969).

[7]Irene Lurie, "Transfer Payments and Income Maintenance," mimeographed Staff Paper for the President's Commission on Income Maintenance Programs, (1969).

[8]Benjamin Bridges, Jr., "Current Redistributional Effects of Old Age Income Assurance Programs," Old Age Income Assurance, Part II, U.S. Congress Joint Economic Committee (December, 1967).

[9]This means those who have money incomes below the Social Security Administration poverty guidelines before the receipt of money transfers.

[10]Joseph W. Barr, Secretary of the Treasury, Statement Before Joint Economic Committee of the Congress (January 17, 1969). See especially supplementary statement on "Tax Expenditure: Government Expenditures Made Through the Income Tax System."

[11]Solomon Fabricant discusses reasons for this in, "Philanthrophy in the American Economy," *Foundation News*, Vol. X, No. 5 (September - October, 1969), pp. 173-186.

[12] Robert J. Lampman, "How Much Does the American System of Transfers Benefit the Poor?," in *Economic Progress and Social Welfare*, Leonard H. Goodman (ed.) (New York, 1966), pp. 125-157. Also available as Reprint No. 6, Institute for Research on Poverty.

[13] *Supra*, n. 7.

[14] Note that no accounting is made for the possibility that transfers may have induced a reduction in the pre-transfer income of some households.

[15] To be fair about this we need to mention that public school benefits and the income tax exemption system modify this bias in money transfers. See Lampman, *supra*, n. 12, pp. 143ff.

[16] The President's Commission on Income Maintenance Programs, Report, of *Poverty Amid Plenty: The American Paradox*, preliminary copy, mimeo. (November 12, 1969), p. 18.

[17] It is interesting to recall Harry G. Johnson's 1964 comments on a transfer of this amount. He said that it". . . may well be politically unacceptable; but it is really small potatoes as war finance goes, if war on poverty is really what has been declared." Harry G. Johnson, "Discussion on the Economics of Poverty," Proceedings of the American Economic Association, *American Economic Review* (May, 1965), p. 545.

[18] Dorothy S. Projector, "Children's Allowance and Welfare Reform Proposals: Costs and Redistributive Effects," mimeographed paper prepared for meeting of the National Tax Association (October 2, 1969).

[19] James C. Vadakin, *Children, Poverty, and Family Allowances* (New York, 1968).

[20] Harvey E. Brazer, "The Federal Income Tax and the Poor: Where Do We Go From Here?," *California Law Review* (March, 1969), pp. 422-449.

[21] *Supra*, n. 16.

[22] For a discussion of the issues see, Jonathan Kesselman, "Labor Supply Effects of Income, Income-Work, and Wage Subsidies," *The Journal of Human Resources* (Summer, 1969).

[23] Alvin L. Schorr, "Alternatives in Income Maintenance," *Social Work* (July, 1966), pp. 22-29.