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The idea of a negative income tax: Past, present, and future

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Robert Lampman was a seminal figure in the history of research on poverty in general and on the negative income tax (NIT) (see box, p. 2). He was also a key figure in the development of the War on Poverty, in the founding of the Institute for Research on Poverty, and in other important poverty-related events in the 1960s and early 1970s. In this essay I discuss Lampman's writings on the NIT and, briefly, those of other early NIT advocates, and review how NIT proposals have fared in the evolving U.S. welfare system.[1] My focus will be on the design of an optimal welfare system, one of the more important questions posed by the early NIT literature.

Lampman and the other early NIT advocates

In the mid-1960s the NIT was one of the most heavily discussed antipoverty policies, and Lampman became one of its most influential advocates, if not its single most influential advocate. Although Milton Friedman is usually credited with first outlining and publicizing the idea of an NIT in 1962, Lampman nevertheless wrote the largest number of carefully considered, analytic papers on the subject.[2]

How Does the Negative Income Tax Work?

"In [the] purest form [of an] NIT,...[t]he needy would, like everyone else, simply file annual—or perhaps quarterly—income returns with the Internal Revenue Service. But unlike other filers who would make payments to the IRS, based on the amount by which their incomes exceeded the threshold for tax liability, NIT beneficiaries would receive payments ('negative taxes') from the IRS, based on how far their incomes fell below the tax threshold. The NIT would thus be a mirror image of the regular tax system. Instead of tax liabilities varying positively with income according to a tax rate schedule, benefits would vary inversely with income according to a negative tax rate (or benefit-reduction) schedule."[1] For example, a family of four with no other income might receive a $6,000 benefit—called the "guarantee" in the accompanying article—and, with a 50 percent tax rate, the benefit would be reduced by $500 for every $1,000 it earned. Hence if the family earned $1,000, its benefit would be reduced from $6,000 to $5,500.

[1]Jodie T. Allen, "Negative Income Tax," in *The Concise Encyclopedia of Economics*, ed. David R. Henderson (Indianapolis: Liberty Fund, Inc., 2002). [Online] available from <http://www.econlib.org/library/Enc/NegativeIncomeTax.html>.

Lampman's approach to the NIT was cautious; it was intended to be practical and politically feasible. His vision of the NIT was not so radical as that of many other early writers, and he was very conscious of cost considerations, although clearly favoring an increase in overall expenditure in order to reduce poverty. As many others have noted, Lampman was never as extreme in his views as many other antipoverty economists; he was in many ways a rather conservative reformer.

In Lampman's first discussion of the NIT, in 1965, he revealed many of the characteristics of his approach, which was to set the income guarantee reasonably low so that the tax rate could also be set low to provide sufficient work incentives.[3] He recognized that the poverty gap would not be completely filled by such a plan; he regarded an NIT which would completely fill the gap as far too costly.[4] He also believed that the NIT should be only one approach to poverty reduction among many; education, training, health, housing, residential relocation, antidiscrimination, and other programs should accompany it.

In a 1968 essay, Lampman provided further details. He argued that the tax rate should be set to maximize the reduction in the poverty gap per dollar of expenditure and suggested that 50 percent might be an approximately correct rate.[5] Interestingly, he also suggested that the main purpose of the NIT was not to replace welfare—then called Aid to Families with Dependent Children (AFDC)—but rather to provide benefits to two-parent families and single individuals. He even proposed leaving the AFDC program in place for single parents and viewing the NIT only as a supplement to it. He suggested that the federal government establish a minimum AFDC benefit, to ensure that its guarantees would not be less than those in the NIT. Also, and this is of interest to my discussion here, he suggested that distinctions could be made between those who can work and those who cannot (although he did not use this language) and that the former group be given lower guarantees and tax rates than the latter. He suggested that families headed by an able-bodied male and those with low wage rates, among others, be in the former group. Thus Lampman saw a form of work requirements and categorical separations as compatible with his vision. He perceived the possible marriage disincentives of NIT plans and suggested that guarantees for single individuals be kept low as a result. And he again emphasized the need to complement the NIT-AFDC system with other approaches to assisting the poor.

Other early ideas of an NIT

Reformers more radical than Lampman had many other reasons for favoring an NIT. A fairly comprehensive list would include the following:[6]

- increased work incentives for those then on AFDC;
- extended and universal eligibility to all families and individuals;
- eligibility based only on income and family size;
- a federalized system with no state variation in benefits;
- the replacement of all other welfare programs by an NIT;
- a simplified administration of benefits given the simplicity of the NIT benefit formula, leading to more efficient administration, and improvements resulting from the use of "rules" rather than "discretion"; and
- a reduction in welfare stigma, because no invidious personal distinctions need be made, and welfare recipients would feel that they were being treated more fairly.

Although each of these features can be separated and argued for somewhat independently from the rest, the radical NIT advocates believed that enacting them all together would create a new welfare system with a new "culture" of welfare. The effects of all enacted simultaneously would be greater than the sum of the effects of each taken individually, because of the interactions among them.

This has, of course, not happened. At best, we have experienced only partial, incremental reform in a few of the directions suggested by the NIT. Most have not come to fruition at all or the trend has been in the opposite direction. There has been some progress on the work-incentive issue, as discussed below, but no universal, NIT-like cash program for single individuals or two-parent families has been enacted (although we have an expanded Food Stamp Program that partially serves that function). Benefits are not based solely on income and family size, as also discussed below, because of work and other requirements. There has been no federalization of welfare, nor is a minimum benefit on the political agenda. Programs other than cash welfare have proliferated rather than being reduced. Since 1996, administration is more complex than ever, and the stigma of cash welfare receipt has increased rather than decreased. In the remainder of this essay, I examine in more detail the work-incentive question and the issue of multiple programs.

Work incentives

The idea of work incentives in the NIT was clear to all the early authors, but the first to provide a graphical analysis with budget constraints and indifference curves were Michael Boskin and Christopher Green.[7] Boskin and Green showed that an NIT would reduce work incentives but that the amount of the reduction depended on the levels of the guarantee and tax rate, and that work disincentives could be minimized by the choice of those parameters. Lampman agreed with this assessment and, like others, emphasized that cost had to be taken into account as well.

The major issue that has preoccupied analysts since those early discussions concerns the effect of reductions in the tax rate on the work incentives of those not initially eligible for the program; their work effort would likely fall as a result of entry. The net effect of a tax-rate reduction on average labor supply is consequently now understood to be ambiguous; it could be zero or even negative. The empirical evidence from simulations and experimental and nonexperimental econometric studies suggests that this is a real, if not likely, eventuality, especially for men and women in two-parent families.[8] The possibility that this might occur was recognized formally in the early literature but received very little emphasis. Most emphasis was instead on the cost implications of tax-rate reductions. The tradeoff between tax-rate reductions and increased cost received the most attention, but it was presumed that tax-rate reductions would necessarily increase work incentives.

This finding does not imply that tax-rate reductions are undesirable, and instead only demonstrates that distributional considerations must play a role in choosing the tax rate. It may be that increases in the labor supply of those initially on the welfare rolls, who are typically the most disadvantaged and those with the lowest work skills, may outweigh in importance any labor supply reductions from those brought onto welfare by the NIT. But there must be a limit to this, for in some situations the latter effects would be so large relative to the former that the tax-rate reduction would be undesirable.

For this reason, much of the early NIT literature on work incentives was rather misguided, because it did not address what is termed by economists the "optimal tax" problem of how to distribute taxes and transfers to maximize some social welfare function with assumed distributional weights. Indeed, redistribution of the type we are discussing here, such as reducing the tax rate in a welfare program, is necessarily non-Pareto-optimal because either taxpayers are made worse off by the increase in expenditure or other recipients are made worse off if total expenditure on welfare is held fixed (because more money must be paid to working recipients).[9] A similar result extends to labor supply, for if the problem is posed correctly, increasing work incentives for one person necessarily decreases them for someone else.

The optimal tax formulation of the problem seems to be the obviously correct one—I say "seems" because in a moment I will argue that it is not—and early work on the optimal tax, including that of James Mirrlees, showed that an NIT can be generated as optimal by a utilitarian-type welfare function.[10] A less general approach to the distributional question holds expenditure on the NIT fixed and asks how the guarantee and tax rate should be set to maximize some social welfare function, *conditional on a given level of expenditure*. This approach may be narrower but it is more workable. Indeed, much of the literature on the NIT (and many other transfer programs) is flawed by not holding expenditure fixed. Politically, this has led to a situation where proposed structural welfare reforms have been opposed not because of their merits in changing the structure of the system but because of their expenditure implications. Conservatives opposed expenditure-increasing NIT plans, for example, and liberals opposed expenditure-reducing work requirements and time limits in more recent times.

Here Lampman, alone among the early NIT advocates, proposed the defensible criterion of choosing the guarantee and tax rate to maximize the reduction in the poverty gap per dollar of expenditure. He did favor increases in expenditure but, by using this criterion, allowed a clear separation between preferences for the level of expenditure and preferences for how to allocate a given level. One may, of course, quarrel with the poverty gap as a good measure—it ignores the endogenous labor supply problem, for example, and has a particular distributional weighting function—but other objectives could be substituted and the per-dollar expenditure criterion could still be maintained.

In summary, then, from today's standpoint the labor supply effects of the NIT are not at all so clear as they were in the days of its original development. This is not just a historical issue; it is highly relevant to current welfare policy. Since 1996 the tax rate in programs under Temporary Assistance for Needy Families (TANF, the successor to AFDC) has been reduced tremendously across the states, from 100 percent down to 50 percent and even down to 0 percent occasionally (accompanied by a maximum income limit, or notch).[11] It is not clear that the average labor supply effects of these reductions are positive, nor what their social welfare implications are.

Work requirements

An optimal-tax or expenditure-fixed approach to choosing the guarantee and tax rate is attractive—it is a conceptually simple way of weighting the gains of winners and losses of losers from any change in social policy and hence is comprehensive in its scope. However, I would argue that it has been rejected by the American public and, for that reason, should be discarded by researchers as well. It portrays the problem of setting NIT parameters

Robert J. Lampman and the Negative Income Tax Experiment

Robert J. Lampman was born in 1920 in Plover, Wisconsin. He received his B.A. degree and, in 1950, his Ph.D degree in economics from the University of Wisconsin. After faculty appointments at the University of Washington, he returned to the Department of Economics at Wisconsin as a professor in 1958. He served two periods as chair of the department, and was named John Bascom Professor of Economics in 1967 and William F. Vilas Research Professor of Economics in 1972.

Robert Lampman had a distinguished career of research in the areas of labor relations, income distribution, and social welfare policy. He served as a consultant to or member of many state, federal, and international agencies, most notably the President's Council of Economic Advisers (1961–65), and was a member of many task forces, including the Task Force on Poverty (1964) under President Lyndon B. Johnson.

In 1981 and again in 1985, Professor Lampman was extensively interviewed as part of the Oral History Project of the University of Wisconsin–Madison Archives. In the following brief extracts he discusses his own involvement and that of IRP in the Negative Income Tax Experiment. The design, conduct, and analysis of this experiment (its two main segments are the New Jersey Income Maintenance Experiment and the Rural Income Maintenance Experiment) were important to the evolution of IRP and to poverty research in general. The New Jersey experiment is regarded as an outstanding example of interdisciplinary research in close cooperation with government planners.

During that period of '65 in the winter and spring, I was a consultant with OEO [the Office of Economic Opportunity]. And I had drafted a paper on negative income taxation, which was part of their preparation for what I think was an historically important document called the "Antipoverty Budget," which [Sargent] Shriver [then head of OEO] presented to President Johnson. In the "Antipoverty Budget" they recommended a very substantial negative income tax. And that was never released. It was never released during that Johnson presidency. Because he, himself, rejected the negative income tax. But that shows how far they had gone inside OEO in firming up a strategy against poverty. . . . They were fine people, and very able. They were a very different cut of people from the traditional specialists in social welfare programs. . . .these were a new bunch of people brought into the poverty field. So they were not without their critics, especially from the old line establishment. New Dealers, I guess you'd call them. And that is where they also ran into trouble with Johnson. They were radicals, in a sense. . . .

They were young people, coming brand new into the [poverty] field. This was part of the whiz kid approach, that economists could do anything, given a little time. They could catch up and surpass anybody else in understanding a problem, and in relating it to government, and in evaluating. And this was sort of a peak experience for people in this profession. As I say, it kind of reached its peak in the Defense Department in that period. And in the Office of Management and Budget, where Charlie Schulz was the leading exponent of this application of economists to government problems. . . .

They were, in some sense, closer to engineering than to economics. The whole systems analyst approach is at some tangent to the mainline of economics....It is much more like a mechanistic, I guess I would put it, a mechanistic approach to economic phenomena. . . .And one of the things that of course was involved was the use of the computer. The use of mass data bases, of highly quantitative interpretations, and relatively little interest in what you might call central economic theory. . . . [from pp. 45–47]

In the period, 1965, the OEO people began to talk about an experiment. The thing that was surprising was that they suddenly turned around and said, "We don't want to turn this experiment over to an outside agency entirely. We would like the Poverty Institute to be a pass-through agency, or a participating member of the experiment.". . .

as one of balancing the desire to provide a minimum income to those not working by means of the guarantee against the desire to retain work incentives by means of a sufficiently low tax rate. This way of viewing the problem has failed with the American public, which does not believe that payments should be made to those who do not work unless strings are attached, i.e., unless work is required. Part of the idea of the NIT (appearing most explicitly in Friedman's work) was that payments should be made solely on the basis of income and family size; this would not only simplify administration but reduce invidious distinctions. Once those distinctions are allowed, the NIT, as understood by many economists and policy analysts, is much more restricted. Categorical distinctions are allowed between families and individuals, between two-parent and single-parent families, and between those in each family-structure category who "can" and "cannot" work. Individuals are treated quite differently within each category and the number of boxes into which individuals can be placed multiplies. The idea of providing work incentives with a single universal benefit formula disappears.

[F]or various reasons which were best known to Sargent Shriver, I guess, they did ask the Institute to take a role. There was a lot of discussion . . . about whether the University should accept the role, whether the Institute for Research on Poverty should do that. If it didn't have a lot of decision-making power, it would become merely a pass-through agency, where you have liability but no responsibility, no authority. And that was worked out. . . .

And so when I got back [from Indonesia, where he had been working on a Ford Foundation project] at the end of the summer in '67, it appeared the Institute was going to be active, and the thing I got involved in—one of the things I got involved in—was helping to work out the model of the negative income tax to be administered in this pretend situation of an experiment. And I think one of the most satisfying periods in my life was dealing with an interdisciplinary group in writing a statute, if you want to call it that; a law which would be applied, of course, only to the experimental families. But it would be a prototype, perhaps, of a federal law that might some day exist, which would be nationwide in scope, and so on. . . .

We were developing, I guess you could call it the formula for determining benefits, and the eligibility conditions and the reporting conditions that would be established in paying out the benefits through the three-year period when experimental behavior was being observed.

Now this negative income tax experiment was—we were quite conscious—a first of its kind. And we thought it was terribly interesting for economic theory, for social policymaking generally, for econometrics. It was going to develop a mass data base useful for many kinds of research. And so there was a high level of enthusiasm. And this was sustained for quite a long time. And the Institute was one of the central points where things were happening and decisions were being made. . . .

This experiment, I suppose, has been criticized and sometimes praised because of what it did do and didn't do, what it found and didn't find. I suppose the harshest criticism that had the most meaning to me, at least, is that it was designed especially to find out how much change in work effort would flow from modification or variation of a marginal tax rate on wages. We never found that out. We found out other things that were somewhat related. We found the combined effects of guarantees and marginal tax rates on earnings. And we found there was some modest change in work effort by intact family members, heads, and that men reduced their work effort at a certain rate, and that wives or secondary earners reduced their work effort at a different rate. But we didn't actually isolate the wage rate effect from the guarantee effect. And so that's a criticism. And I think it's a valid criticism, and an important one. This particular experiment has its true believers and it has people who say, "We can't really believe what they found." And it is true that all we can say is that in this particular controlled environment with a sample, scattered as it was, and so on, this appears to be what would happen. But if we were to actually enact a nationwide law with full glare of publicity and everybody knowing everything about it, and so on, then you might get different effects. And that's what we can't know. But we can say it offers *some* evidence for belief of what would follow if there were, in fact, such a program. So one can say it was a modest and innovative step in social science research and that it taught us all a lot. . . .

At this time, in 1981, it stands as one of the rather long series of social experiments in semi-controlled frame and people. . . .We are now in a position, probably, in this country to reflect on the broader aspect of experimentation in making social policy—policy about housing, policy about health insurance, policy about all types of cash benefit programs, perhaps even of some tax changes, where we would bring to bear evidence collected in the field, you might say, under the title of experimentation. So that the New Jersey Experiment takes its place in that history, and the evaluations are now, not about that experiment but about experimentation in a broader sense, involving a whole range of behavior patterns that can be identified. [from pp. 85–90]

The complete tapes of the interviews with Robert Lampman, conducted by UW oral historian Laura Smail, are available through the University of Wisconsin-Madison Archives Oral History Project <http://archives.library.wisc.edu/oral/oral.htm>.

Work requirements can instead generally be rationalized only if the social welfare function contains work as an explicit argument, instead of the utility or the income of the poor. Another way of saying this is to note that the American public is not willing to accept the preferences for work held by the poor themselves. To be sure, one can assign different guarantees and tax rates within each group in each categorical box. Indeed, this has been proposed many times by those who take work requirements seriously and are willing to discuss how to make them work. This includes Lampman himself, who, as I mentioned earlier, was willing to accept these distinctions and to assign lower guarantees both to single individuals and two-parent families with an able-bodied male. It includes analysts of the Social Security Disability Insurance Program like Donald Parsons, who proposed such a two-tier system for recipients of that program. And it includes theorists like George Akerlof, who noted that if individuals can be "tagged" with some characteristic correlated with unobserved work ability then it is possible—though not assured—that different guarantees and tax rates can be assigned to each group, with a resulting increase in social welfare.[12]

The welfare research community, both liberal and conservative, has failed to take the problem of work requirements seriously. Work requirements pose a complex screening problem in several dimensions; theorists such as Akerlof, Besley and Coate, Beaudry and Blackorby, and others have confronted this problem theoretically and have shown how difficult it is.[13] Clearly everything depends on the accuracy of the screening mechanism, the distribution of gainers and losers from any particular mechanism, and the selection of individuals into different categories. Yet in the entire body of research on welfare reform since the early 1990s, much less before, one can find almost no research on who is affected by work requirements, on the kinds of screening mechanisms actually used in various localities across the country, or on who the gainers and losers from different mechanisms might be.

In the absence of any evidence, it seems entirely possible that a system of work requirements could be developed which is reasonably fair, which balances both Type I and Type II errors (that is, the errors from incorrectly classifying those who can work as being unable to work and from incorrectly classifying those who cannot work as being able to work), which has an adequate appeals process, and which ultimately succeeds in treating different families differently by some characteristic other than income and family size.

Multiple programs and universal eligibility

It is clear from the historical evidence that the idea of collapsing multiple programs into a single program, another feature of many NIT plans proposed by early advocates, has so far failed. Indeed, the opposite has occurred, as programs for different target groups have proliferated. Once again, as with work requirements, the early NIT advocates failed to recognize that the social welfare function or the preferences of voters relate to *goods consumed by the poor*, not to their utilities or incomes; and that voters have ideas about who is needy and who is not that also enter their preference functions.

Real per capita expenditures on means-tested programs have grown tremendously over the last 40 years, and the growth in expenditures was most rapid in the late 1980s and early 1990s.[14] The growth, on average, has been mostly a result of growth in Medicaid, the Earned Income Tax Credit (EITC), Food Stamps, and Supplemental Security Income, that is, in programs for specialized needs. Per capita expenditures in the AFDC-TANF program, on the other hand, have fallen. Thus there has been a marked redistribution of expenditure away from single, nonworking mothers and toward (1) workers, (2) those in need of medical care, (3) the aged, blind, and disabled, and (4) those in need of food expenditure. The only real exception is the Food Stamp Program, which, as I noted earlier, is effectively the closest thing to an NIT in the United States. But it is also the case that the research community has failed to take categorization seriously, just as it has failed to take work requirements seriously, and there is relatively little work on better ways of categorization or the effects of the categorization that we have.

It should immediately be said that a Panglossian view that the current panoply of categorical programs is optimal and simply to be accepted as the revealed preferences of the voters should be rejected. There remain both pockets of uncovered poor—particularly childless individuals, single black males, and two-parent households, all of whom still receive short shrift from the system—as well as irrational overlaps in eligibility for some programs and lack of integration of benefit schedules. Since 1996 local, special-purpose programs have proliferated even more, without coordination and rationalization and with even heavier overlap.

The goal of universal eligibility, though partly addressed by the expanding multiplicity of programs covering yet more groups, is also far from being achieved. Here, again, developments have not followed the lines suggested by the early NIT advocates.

Earnings subsidies and the NIT

Many current discussions of an NIT arise tangentially in discussions of earnings subsidies, a policy with a long history but which has regained currency in recent years.[15] In the last decade, some analysts have taken a strong position advocating earnings and wage subsidies in preference to an NIT. As examples they hold up the EITC, many programs like the Canadian Self-Sufficiency

Project, New Hope, and other welfare-to-work experiments, and some British earnings subsidies like the Working Families Tax Credit. The advocates of these programs often contrast them favorably with an NIT, arguing that these programs provide work incentives whereas the NIT provides work disincentives, and that these programs avoid the "unintended consequences" of an NIT.[16] Many of these new programs not only provide earnings subsidies instead of an NIT, they restrict their subsidies to full-time workers, thereby generating even greater work incentives, according to the advocates. The economist Emmanuel Saez has provided theoretical support for this argument by showing that a modified optimal tax framework can lead to the conclusion that an earnings subsidy rather than an NIT is optimal at low levels of earnings.[17]

The argument that these types of programs are superior to an NIT simply because of their effects on work incentives is fallacious, for several reasons. The most important is that earnings subsidies provide no income to those who do not work, yet the main innovation of the NIT was that it was a way to provide income to both nonworkers and workers, while preserving some work incentives. If an NIT-based welfare system were replaced by an earnings-subsidy-based one, work requirements would have to be introduced. Those who can work would receive the earnings subsidy but a zero (or low) guarantee if they did not work. Those who cannot work would receive a positive, or much higher, guarantee. Further, one can imagine doing this while holding total expenditure fixed, since there would be expenditure savings obtained from cutting off those individuals who can work but do not. Thus the proper comparison is between an NIT, on the one hand, and an earnings subsidy *plus* a work requirement system on the other. But given the problems with work requirement systems and the lack of evidence that they are, at least as currently constituted, welfare-improving, the superiority of the earnings subsidy approach is entirely unclear.

Some earnings subsidy advocates suggest that such subsidies could be introduced on top of an existing NIT system, without work requirements and with guarantees continuing to be paid to all nonworkers. In this way, work levels could be unambiguously increased without making anyone worse off. The flaw in this argument is that total expenditure is not held fixed. If it were, guarantees would have to be lowered at the same time as earnings subsidies are introduced, thereby making one group worse off. Alternatively, one could view the problem as a choice of how to spend a given level of additional funds. It could be spent on an earnings subsidy or on increased guarantee levels; in the former case, nonworkers are made *relatively* worse off. This choice is particularly germane for poor two-parent families, who currently receive almost no support from our system if they do not work. Is it optimal to spend more money on that group only if they work, or to boost their guarantees by some amount? If maximization of work effort is the sole objective, one should always spend funds on workers, but no reasonable social welfare function would ignore the relative incomes of workers and nonworkers and the relative distributional weights attached to those groups and focus only on labor supply.

The imposition of minimum full-time hours requirements in order to qualify for earnings subsidies raises the same issue. Such a policy would increase work but would penalize part-time working mothers either in absolute or relative terms. In all the earnings subsidies scenarios we have depicted, the fact that work effort is increased by the policy is not sufficient to argue in their favor; one has to make a distributional argument as well. Generally this will mean making the argument that the positive work incentives outweigh their regressive character—they redistribute funds from the most disadvantaged to those who are better off, unlike the NIT.

Conclusions

Where are we left with the NIT at the end of this exposition? The broadest vision portrayed by some early advocates—though not Robert Lampman—has fared very poorly indeed. Almost none of its proposed features have been adopted, many have been openly rejected, and often the trend has been in the opposite direction. Faring better is Lampman's vision of the NIT, which allowed for categorical divisions, the assignment of different guarantees and taxes to different groups, and multiple programs. In addition, the one area in which policy developments have been most favorable to the NIT—the reduction of tax rates in the TANF program—is now understood to be a policy with ambiguous effects.

Despite this rather gloomy picture, it is clear that the early discussions of the NIT were the first time in modern U.S. conversations about welfare reform that monetary work incentives were proposed and taken seriously in a very public and highly visible way. The proposals and discussions of an NIT have greatly deepened our understanding of the incentive effects of alternative benefit formulas and welfare policies, and we now evaluate the work incentives of virtually all programs within the framework developed for the analysis of the NIT. If the prominence in welfare reform policy of monetary incentives today is a legacy of the early NIT advocates, that legacy is unquestionably immense, and its influence will surely continue into the future.

I thank Robert Haveman and Glen Cain for their perceptive and helpful comments on the original draft. ■

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[1]Lampman's reminiscences about his work on the NIT, drawn from a University of Wisconsin–Madison oral history, appear in this *Focus*, pp. 4–5.

[2]M. Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962). The NIT had been briefly mentioned by George Stigler in 1946 ("The Economics of Minimum Wage Legislation," *American Economic Review* 36 [1946]: 358–65) and had been discussed in the 1940s and 1950s; see Christopher Green, *Negative Taxes and the Poverty Problem* (Washington: Brookings Institution, 1967). In the 1960s, James Tobin wrote important articles also; see "On the Economic Status of the Negro," *Daedalus* (Fall 1965): 878–95, and Tobin, J. Pechman, and P. Mieszkowski, "Is a Negative Income Tax Practical?" *Yale Law Journal* 77 (November 1967): 1–27. For references to other early NIT proposals, see Robert Haveman, *Poverty Policy and Poverty Research* (Madison: University of Wisconsin Press, 1987), Chapter 5.

[3]R. Lampman, "Approaches to the Reduction of Poverty." *American Economic Review* 55 (May 1965): 521–29.

[4]The poverty gap is the total amount of dollars that would be needed to bring the income of every poor family in the country up to the poverty line, thereby eliminating poverty.

[5]R. Lampman, *Expanding the American System of Transfers to Do More for the Poor*, U.S. Congress, Joint Economic Committee (Washington: Government Printing Office, 1968). This paper was published in almost identical form and under the same title in the *Wisconsin Law Review* 2 (1969): 541–49.

[6]See Michael C. Barth, George J. Carcagno, and John L. Palmer, *Toward an Effective Income Support System: Problems, Prospects, and Choices* (Madison: Institute for Research on Poverty, 1974), and Haveman, *Poverty Policy*.

[7]M. Boskin, "The Negative Income Tax and the Supply of Work Effort," *National Tax Journal* (December 1967): 353–67; C. Green, "Negative Taxes and Monetary Incentives to Work: The Static Theory," *Journal of Human Resources* 3 (Summer 1968): 280–88.

[8]M. Keane and R. Moffitt, "A Structural Model of Multiple Welfare Program Participation and Labor Supply," *International Economic Review* 39 (August 1998): 553–89; F. Levy, "The Labor Supply Effects of Female Heads, or AFDC Work Incentives Don't Work Too Well," *Journal of Human Resources* 14 (Winter 1979): 76–97; R. Moffitt, "An Economic Model of Welfare Stigma," *American Economic Review* 73 (December 1983): 1023–35; R. Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," *Journal of Economic Literature* 30 (March 1992): 1–61; SRI International, Inc., *Final Report of the Seattle/Denver Income Maintenance Experiment: Volume I*, Menlo Park, California, 1983, and others.

[9]A Pareto-optimal outcome is one that cannot be improved upon without hurting at least one player. It is a measure of efficiency.

[10]J. Mirrlees, "An Exploration in the Theory of Optimum Income Taxation," *Review of Economic Studies* 38 (April 1971): 175–208.

[11]L. Gallagher, M. Gallagher, K. Perese, S. Schreiber, and K. Watson, "One Year after Federal Welfare Reform: A Description of State Temporary Assistance for Needy Families (TANF) Decisions as of October 1997," Urban Institute, Washington DC, 1998.

[12]D. Parsons, "Imperfect 'Tagging' in Social Insurance Programs," *Journal of Public Economics* 62 (October 1996): 183–208; G. Akerlof, "The Economics of 'Tagging' as Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning," *American Economic Review* 68 (March 1978): 8–19. It should be noted that the Carter Administration welfare reform proposal, the Program for Better Jobs and Income, indeed proposed a two-tier system with higher guarantees for those who could not work and lower guarantees for those who could.

[13]T. Besley and S. Coate, "Workfare Versus Welfare: Incentive Arguments for Work Requirements in Poverty-Alleviation Programs," *American Economic Review* 82 (March 1992): 249–61; P. Beaudry and C. Blackorby, "Taxes and Employment Subsidies in Optimal Redistribution Programs," Working Paper 6355, National Bureau of Economic Research, Cambridge, MA, 1998.

[14]R. Moffitt, "Introduction," in *Means-Tested Transfer Programs in the United States*, ed. R. Moffitt (Chicago: University of Chicago Press, 2003).

[15] There is an early literature in the 1970s on these comparisons, with many contributions. See M. Barth and D. Greenberg, "Incentive Effects of Some Pure and Mixed Transfer Systems," *Journal of Human Resources* 6 (Spring 1971): 149–70; I. Garfinkel, "A Skeptical Note on 'The Optimality' of Wage Subsidy Programs," *American Economic Review* 63 (June 1973): 447–53; R. Haveman, I. Lurie, and T. Mirer, "Earnings Supplementation Plans for 'Working Poor' Families: An Evaluation of Alternatives," *Benefit-Cost and Policy Analysis: 1973* (Chicago: Aldine, 1974); J. R. Kesselman, "Labor-Supply Effects of Income, Income-Work, and Wage Subsidies," *Journal of Human Resources* 4 (Summer 1969): 275–92; and R. Zeckhauser, "Optimal Mechanisms for Income Transfer," *American Economic Review* 61 (June 1971): 324–34. There is also a larger later literature.

[16]G. Berlin, *Encouraging Work, Reducing Poverty: The Impact of Work Incentive Programs*, Manpower Demonstration Research Corporation, New York, 2000; R. Blank, D. Card, and P. Robins, "Financial Incentives for Increasing Work and Income Among Low-Income Families," in *Finding Jobs: Work and Welfare Reform*, ed. D. Card and R. Blank (New York: Russell Sage Foundation, 2000).

[17]E. Saez, "Optimal Income Transfer Programs: Intensive Versus Extensive Labor Supply Responses," *Quarterly Journal of Economics* 117 (August 2002): 1039–73.