NEGATIVE INCOME TAXES, CHILDRENS' ALLOWANCES AND THE FAMILY ASSISTANCE PLAN– BENEFITS TO PEOPLE WITH FARM EARNINGS

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Our society has demonstrated distaste for the poverty that exists in our midst and dissatisfaction with present welfare programs. Though numerous plans have been suggested, there is as yet no comprehensive measure to alleviate income problems and replace current welfare programs. Among suggested programs are various negative income tax plans, childrens' allowances and the Family Assistance Plan. The negative tax plans examined include variations from those originally proposed, but will be identified by the name of the original author whose plan they are most like. The Family Assistance Plan was outlined by President Nixon in August 1969.

OBJECTIVE

Our objective is to use available data to show potential payments to people with farm income under several proposed income maintenance plans. While some global estimates have been made for farm people, these estimates have generally not been available by characteristics, such as family size or age of the family head. For a discussion of probable effects of negative taxes see [1, 3]. Lynn Daft discussed the significance of the Family Assistance Plan and a plan suggested by the President's Commission on Income Maintenance Programs in a paper entitled "Recent Proposals to Reform Welfare Programs: Their Significance to Agriculture," presented at a conference sponsored by the Agricultural Policy Institute, School of Agriculture and Life Sciences, North Carolina State University. He estimated that "as much as $500 million" would go to the farm population under the Family Assistance Plan.

THE DATA AND METHOD

Much of this discussion is a simulation of expected payments from income maintenance plans using the records of individuals reporting farm earnings on their Federal income tax returns in 1966.[1] Tax records are useful because, as originally proposed, the negative income tax would be administered through Internal Revenue Service. Included in the tax data are farm operators, landlords and others with farm business income. The income concept used in tax reporting includes both farm and off-farm income, but nontaxable income is excluded. Proper accounting for all income would reduce expected payments somewhat under the negative tax plans but would leave the childrens' allowance unchanged. No accounting is possible for net worth or for capital consumption.

The results apply only to individuals with farm income. No attempt is made to extend the analysis to the rural nonfarm or urban economies. Thus, many nonfarm people who would benefit from an economy-wide income maintenance plan are not considered. Also, farm people with so little income that they are not required to report for tax purposes are excluded. Some of those with farm receipts, whose payments are included in the analysis of tax data, are not farm operators, because landlords and other nonfarmers report farm income for tax purposes [5].

Our summary of eligible families and payments under the Family Assistance Plan is based on the

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[1]Tabulations for the Friedman, Lampman, and Tobin Negative Tax Plans and the childrens' allowance were made by Internal Revenue Service from the 1966 Sole Proprietorship Tax Model, a sample of about 45,000 farm returns. The author did not have direct access to tax returns of individuals.

1967 Survey of Economic Opportunity but the estimates were made for 1971.[2] It would have been better to have tabulations that could be more easily compared with the tax data; however, it was not possible to obtain such data due to limited time. Thus, it is important to keep in mind that some differences in beneficiaries and estimated payments resulted from differences in the data. For example, the tax data included only taxable income but the Survey of Economic Opportunity included both taxable and nontaxable family income. This difference tends to make the Family Assistance Plan appear to benefit fewer families and provide lower total payments than would estimates based on tax data. Also, it should be noted that while 1.9 million, or one-fifth, of all farm people were classified as poor in 1969 the number of poor had declined by 0.8 million between 1966 and 1969 [2]. This improvement in income is, of course, not reflected in our estimates made from tax data for 1966.

SELECTED INCOME MAINTENANCE PLANS

Income maintenance is appealing in its simplicity. The idea is to identify those with low incomes and by Federal cash payments raise incomes to more adequate levels. The total payments, who would benefit, and probable success in alleviating poverty would differ among programs.

Though the populations involved are not directly comparable, it is interesting to compare numbers of families benefiting and potential payments under the selected income maintenance plans with the $842 million reported by 785,000 Census farm operator households in 1964 from social security, pensions, veteran, and welfare payments. Households of operators 65 or older accounted for about half of all Census households receiving payments and two-fifths of the total amount reported [4].

Friedman Plan

Under the Friedman Plan, a family income standard of $600 per exemption, plus personal deductions, is established. Negative taxes are the difference between this income standard and the taxpayers income, multiplied by a negative tax rate (Table 1). Thus, a family of four with personal deductions of $600 would have an income standard of ($600 x 4) + $600 = $3,000. Assuming that the family had income of $1,800, the negative tax would be $600; that is, ($3,000 – $1,800) x .50. Friedman suggested a negative tax rate of 50 percent so that each dollar of added earnings would add $.50 to income until the income standard was reached. This amounts to a work incentive for beneficiaries.

Had the Friedman Plan been in effect in 1966, about 869,000 family units with earnings from farming would have received payments (Table 2). (A family unit is defined as a taxpayer and his dependents.) Including dependents, the number of persons benefiting might have totaled 2.7 million. Payments, averaging $650, would have been about $565 million. (Total payments may alternatively be translated directly as Treasury costs.) Taxpayers and spouses in about two-thirds of the family units receiving payments would have been less that 65 years old (those 65 and older are identified by an age exemption for the taxpayer or his spouse); one-third of the family would include four or more persons, and such families would account for about 46 percent of total payments. Taxpayers 65 and older represent about 15 percent of all individuals reporting farm earnings but account for one-third of the potential beneficiaries and the same share of payments.

The disproportionate number of beneficiaries aged 65 and over, and the share of benefits that would be received by them, is partly accounted for by the lower average earnings of older people with income from farming. In 1966, half of those 65 and older reported taxable income of less than $2,500. Also Friedman would allow those older than 65 to claim two $600 exemptions. At a 50 percent negative tax rate, this means that payments to an older beneficiary may exceed those to persons less than 65 in the same income situation by as much as $300.

Allowing an extra exemption for older taxpayers also helps account for an anomaly in the tabulation of beneficiaries. Older taxpayers generally have lower incomes, but the average income of older beneficiaries before negative tax payments is greater than income of those less than 65. This occurs because the double exemption allows older people to benefit at higher income levels than beneficiaries younger than 65.

It seems reasonable to assume that low taxable earnings are often moderated by retirement income, social security, welfare, old age assistance, and other nontaxable income. Therefore, taxable income provides a less than complete picture of family income, especially at older ages. However, those 65 and older, average income of less than $1,200, including taxable

[2] These data, from an unpublished Economic Research Service report, were obtained through the cooperation of Fred K. Hines and Max F. Jordan, Economic Development Division, ERS.

TABLE 1. FORMULAS FOR ESTIMATING PAYMENTS UNDER SELECTED INCOME MAINTENANCE PROPOSALS

$$\text{Friedman Plan}^{a} = \left[\left(\$600 \times \begin{matrix}\text{Number of}\\ \text{exemptions}\end{matrix}\right) + \begin{matrix}\text{Personal}\\ \text{deductions}^{b}\end{matrix} - \begin{matrix}\text{Income excluding}\\ \text{negative tax payments}\end{matrix}\right] \times .50 \;\begin{matrix}\text{Negative}\\ \text{tax rate}\end{matrix}$$

$$\text{Lampman Plan}^{c} = \left[\text{Income standard}^{d} - \begin{matrix}\text{Income before}\\ \text{negative tax payment}\end{matrix}\right] \times \text{Rate of subsidy}^{e}$$

$$\text{Tobin Plan}^{f} = \left[\$400 \times \begin{matrix}\text{Number of}\\ \text{exemptions}\end{matrix}\right] - 1/3 \left[\begin{matrix}\text{Income excluding}\\ \text{negative tax payments}\end{matrix}\right]$$

$$\text{Childrens' Allowances} = \$200 \times \text{Number of children}$$

$$\text{Family Assistance Plan}^{g} = \left[\$500 \times \begin{matrix}\text{First two}\\ \text{family members}\end{matrix}\right] + \left[\$300 \times \begin{matrix}\text{Each additional}\\ \text{family member}\end{matrix}\right] - \left[.5\left(\begin{matrix}\text{Earned}\\ \text{income}\end{matrix} - \$720\right) + \begin{matrix}\text{Unearned}\\ \text{income}\end{matrix}\right]^{h}$$

[a] *Capitalism and Freedom,* The University of Chicago Press, p. 192, 1962.

[b] Personal deductions are the larger of: (a) 10 percent of adjusted gross income, (b) the minimum standard deduction, or (c) personal deductions actually claimed.

[c] Guaranteed minimum income programs used by Governments of selected countries, U.S. Congress, Joint Economic Committee (Paper 11), 90th Congress, 2nd Session, 1968.

[d] Variable by family size and farm versus nonfarm. Income standards were those from the Social Security Bulletin, p. 28, Table E. farm low cost level, Jan. 1965. Poverty thresholds for later years are discussed in Current Population Reports, Consumer Income, Series P-60, No. 68, Dec. 1969.

[e] Subsidy rates increase in several steps from 25 to 50 percent as the difference between the income standard and income before negative tax payments increases.

[f] For a discussion of this and other plans see: James C. Vadakin, "A Critique of the Guaranteed Annual Income", *The Public Interest,* No. 11, Spring 1968.

[g] See: The Family Assistance Act of 1970, June revision, 91st Congress, 2nd Session.

[h] Small amounts of irregular income, student income including scholarships and fellowships, certain child care costs, training incentives and allowances, home produced and consumed goods, and food stamps are excluded.

Families whose resources, other than their home, household goods, personal effects and resources essential to the family's self-support, exceed $1,500 would not be eligible. Nor are certain individuals already receiving aid to the aged, blind and disabled. There are also requirements that adult individuals register for training and employment, with exceptions for mothers of young children, the ill, incapacitated or aged.

TABLE 2. NUMBER OF FAMILY UNITS WITH FARM INCOME POTENTIALLY BENEFITING FROM SELECTED INCOME MAINTENANCE PLANS AND AMOUNT OF BENEFITS, BY SIZE OF FAMILY AND AGE, 1966[a]

Family unit size	Income Maintenance Plan							
	Friedman		Lampman		Tobin		Childrens' Allowance	
	Number	Benefit	Number	Benefit	Number	Benefit	Number	Benefit
	Thous.	Mil. Dol.	Thous.	Mil. Dol.	Thous.	Mil. Dol.	Thous.	Mil. Dol.
Less than 65 years old								
1	75	15	78	13	98	20	–	–
2	139	54	117	32	189	78	47	9
3	85	45	56	19	140	76	438	91
4-5	163	119	101	54	299	234	737	360
6 or more	127	142	67	52	231	315	348	349
Total	589	375	419	170	957	723	1,570	809
65 years and older								
1	64	26	30	5	46	10	–	–
2	198	148	112	25	175	80	22	4
3 or more	18	16	10	4	17	14	31	10
Total	280	190	152	34	238	104	53	14
All	869	565	571	204	1,195	827	1,623	823

[a]Based on special tabulations by Internal Revenue Service from the 1966 Sole Proprietorship Tax Model.

income and Friedman negative tax payments. Thus, many would continue to have low incomes even after receiving payments.

The Friedman Plan would by no means cure poverty among those with farm income. For example, 75 percent of the families of beneficiaries less than 65, and 95 percent of those 65 and older, would have less than $3,000 after combining taxable income and negative tax payments. The adequacy of the Friedman Plan would be particularly questionable if, as Friedman suggested, the negative tax were substituted for all other income transfer programs.[3] Of course, if beneficiaries receive income from some nontaxable sources, this income should be accounted for in estimating the actual welfare situation of the beneficiary families.

A question arises on the appropriateness of the built-in work incentive for taxpayers 65 or older. Most needy people at that age level are unlikely to have the physical stamina, the training or the skills required to improve their own economic situations regardless of the work incentive. Thus, it may be that different rules are needed to alleviate income problems at older ages.

A relatively simple method of taking into account the limited income opportunities of those 65 and older would be to increase the negative tax rate at the age level to 100 percent. In effect this would eliminate the work incentive. It would leave the number of benefiting family units unchanged but would increase total payments to those with income from farming by $104 million or about $370 per family with a taxpayer over 65. It seems doubtful that older people with substantial earnings would forego better opportunities for this relatively small marginal benefit.

How well the Friedman Plan deals with severe income problems is probably most questionable for single individuals less than 65. For example, about 75,000 single persons less than 65 would average benefits of only $200. These benefits, added to other income, would total less than $700, an amount that is surely less than needs, even for single individuals. Also, those less than 65 would be less likely to have social security coverage or retirement income, and would presumably depend heavily on their negative tax payments. Many of these people probably have special problems, such as poor health, disabilities, and inadequate training, that have caused their income problems.

The percentage of individuals benefiting from negative taxation could be expected to vary greatly by region (farm production regions used by Economic Research Service). Relatively fewer (less than 20 percent) would benefit in the Mountain and Pacific regions, where incomes are generally more adequate than in the Appalachian region where 37 percent would receive payments. Other regions with large percentages benefiting (34 and 36 percent, respectively) would be the Southeast and Delta. In the Corn Belt and Southern Plains, about one-fourth of those with farm earnings would be eligible. Of course, in absolute terms, the Corn Belt would have the largest number of farm families receiving payments, because such a high proportion of those involved in farming are in that region.

Nationally, nearly three-fifths of family units with farm income and taxpayers 65 or older would be eligible to receive payments. However, this percentage varies from 37 percent in the Mountain region to more than 75 percent in the Appalachian region. The Southeast, Delta, Northeast and Lake States would all have high percentages of older people benefiting.

Lampman Plan

The version of the Lampman negative income tax plan, used in this analysis, is based on a somewhat more complicated formula than the Friedman Plan (Table 1) but the net result is that nearly 300,000 fewer families with farm income would receive payments, and payments would be reduced by $361 million to $204 million (Table 2). Thus, in most cases, the Lampman Plan would be less generous than the Friedman Plan. Payments would average only $360–nearly $300 less than the average under the Friedman Plan. However, a larger percentage of Lampman Plan benefits would go to families of taxpayers less than 65. The Lampman Plan as outlined here would need to be modified greatly before it could be considered an adequate program.

Tobin Plan

Briefly, the Tobin Plan would provide $400 per year in monthly payments to each person. Payments would be reduced by one-third of current income (Table 1). Thus, no payments would be made to families averaging income of $1,200 or more per person. For example, a four person family with $1,800 income would receive $1,000. That is, ($400 x 4) – ($1,800 x 33-1/3 percent).

[3]Friedman originally suggested that his negative income tax should be substituted for social security, welfare, aid to dependent children, old age assistance, and farm price and income programs. However, this idea has not gained much favor.

This plan would benefit about one-third more family units and 2 million more people involved in farming than the Friedman Plan; total benefits of $827 million would be about $262 million greater (Table 2).

Unlike the Friedman Plan, those 65 and older would receive no special allowance. Payments would be based solely on family size and income. Families of taxpayers less than 65 would account for four-fifths of the 1.2 million receiving payments. Thus, the percentage of older family units receiving benefits would be only slightly greater than the percentage of older people in the general population.

Younger families would average nearly one-fifth more under the Tobin Plan than the Friedman Plan, but older families would receive only two-thirds as much, and 42,000 fewer would qualify. Stated another way, family units with taxpayers 65 and older would receive one-eighth of the total Tobin Plan payments compared with one-third of payments from the Friedman Plan.

Childrens' Allowances

Childrens' allowances have received relatively little attention in the United States, though they are used in other Western nations. The allowance, tested in this study, provides a benefit of $200 for each child regardless of family income (Table 1). Larger or smaller childrens' allowances leave the number of beneficiaries unchanged, but total benefits would be multiples of those shown. For example, a $400 childrens' allowance would double the total and average benefits of each family size or age group.

The lack of an income limit means that relatively less of total benefits (which would be about the same as under the Tobin Plan) go to those in need of help. Although the average beneficiary family would receive less than under the Friedman or Tobin Plans, average after benefit income per family unit would be more than $8,000, compared with about $2,400 and $1,900, respectively, under the Friedman and Tobin Plans.

As expected, nearly all of the childrens' allownace would accrue to families of taxpayers less than 65 years old and only those with children (Table 2). Thus, this program although providing benefits to more than half of the family units with farm income, would be an incomplete means of improving incomes of all disadvantaged. Higher social security benefits or other special income supplements for the aged would be even more necessary than with the Tobin Plan.

Family Assistance Plan

The Family Assistance Plan would provide income support to families with children whose nonexcluded income totaled less than $500 per year for each of the first two family members plus $300 for each additional member (Table 1).

Young families with children would generally receive greater benefits under the Family Assistance Plan than the Friedman Plan. For a family of four, the basic allowance is $1,600, but benefits would be made to such families until earned income exceeded $3,920. Assuming earned income of $1,800 total benefits would be $1,060.

If in effect in 1971, the Family Assistance Plan could be expected to benefit about 475,000 rural farm families. Benefits would probably be about $484 million. In addition, about 49,000 of the benefiting families would receive about 24 million in State Supplementary Payments. States are required to make up any difference between current programs and the basic Family Assistance Program.

Payments under the Family Assistance Plan to families younger than 65 would exceed those under the Friedman and Lampman Plans. This seems clear, even without adjusting for differences in the data or the year for which benefits are estimated. It seems doubtful that the total Family Assistance Plan payments would be greater than those under either the Tobin Plan or a $200 family allowance. However, 80 percent of the payments would be expected to accrue to families meeting current poverty definitions.

Basic Family Assistance Plan payments are limited to families with children but there are special provisions requiring payments sufficient to bring other individuals to $110 per month. Payments under this provision might amount to $84 million.

SUMMARY AND CONCLUSIONS

Each of the three negative income tax plans, the childrens' allowance, and the Family Assistance Plan would aid in improving incomes. However, the number of families benefiting and the amount and distribution of payments would differ greatly under the five plans.

It seems that none of the plans are a panacea for all farm income problems. The Friedman Plan would especially benefit families of taxpayers 65 and older. It would do relatively little for single needy people at younger ages. The Lampman Plan tends to benefit older people less and total benefits would be small. Under the Tobin Plan, younger families would receive greater benefits and total payments would be substantially larger than with the other two negative tax plans. Childrens' allowances would be most beneficial to larger families, most of whom have family heads less than 65. The Family Assistance Plan is most beneficial to poor families with children. It would do relatively little for older people. If such a program were adopted, additional study of programs for the aged would appear to be warranted.

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