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When I first became interested in the negative income tax (NIT) in 1964, I had some hope of seeing it adopted but not very much. The Johnson Administration was divided, but generally unfriendly. H.E.W. was committed to gradual improvement of social insurance and existing programs of categorical assistance. The "war on poverty" was supposedly attacking the educational, economic, and social causes of poverty. The Council of Economic Advisers and Budget Bureau could not have found the money for a negative income tax even if they had been thoroughly convinced of its merits.

Nevertheless there were signs that it was an idea whose time was coming. As the press, the public, the Congress worried more and more about welfare reform, the NIT inevitably came to their attention. Although the NIT is naturally an economists' idea, it began to appeal to some professional social workers disillusioned with categorical public assistance. Two or three Congressmen actually introduced NIT bills.

President Johnson postponed decision, and presumably stilled the disagreements of his advisers, by the customary device of appointing a Commission. Chaired by Ben Heineman, the President's Commission on Income Maintenance Programs diligently studied poverty and public assistance in the United States and came out for a negative income tax. The report is excellent in all respects, but President Johnson was not on hand to receive it and his successor was not greatly interested in the findings of a lame duck commission.

President Nixon was getting advice elsewhere, notably from Pat Moynihan, his first counselor on domestic affairs. In the debate during the previous four years, Moynihan had advocated universal children's allowances and had not been deterred when I and others pointed out how costly and wasteful it was to give money indiscriminately to rich children and poor. Now in the White House, face to face with budgetary realities, he designed and sold the Family Assistance Plan, a reform of the welfare system on some of the principles of NIT.

There were many objectionable features of FAP in its several incarnations: income guarantees inadequate, marginal tax rates too high, childless couples and single adults excluded, rules and administration not integrated with income tax, excessive power left to states. The work-ethic rhetoric which the Administration used as a smokescreen to conceal the fact that it was advocating guaranteed income was disingenuous and often disgusting.

Nonetheless I would have voted for FAP as a step forward, hoping it would not be the last step. I don't know whose fault it is that FAP never got through the Senate. Probably there is blame enough for everyone, both the liberals whom Moynihan scolds and the conservatives whom the White House often appeased but never delivered. It is quite evident that with Moynihan in Cambridge or New Delhi and the lessons of the 1972 campaign learned the Administration was only too happy to drop the whole matter.

Now in 1973 the negative income tax no longer seems like an idea whose time is coming. Maybe its time is past, its tide in the affairs of men ebbed. In the United States, that is. Meanwhile the Conservative government in the U. K. is about to implement a system of cashable tax credits, against the opposition of the Labour party. Here the Presidential campaign of 1972 was, of course, a dreadful setback.

What lessons can we learn from the dismal legislative and political history of tax and welfare reform in recent years?

First, Presidential candidates, especially those challenging an incumbent, cannot write tax legislation during campaigns and should not try. They should confine themselves to critique of the status quo and to general principles of reform. Specific proposals are terribly vulnerable, and the arithmetic of taxes and redistribution is hopelessly confused in campaign rhetoric. Senator McGovern's famous thousand dollar demogrant was originally advanced in the spring of 1973 simply as one of a number of interesting possibilities. Little attention was paid to it until Senator Humphrey made it an issue in the California primary. McGovern then put himself on the defensive by embracing the idea and the specific number much more tightly than he ever had before. Unfortunately his defenses were thin. His staff had developed his ideas on tax and welfare reform with minimal technical assistance, and they improvised confusing and erroneous answers to the many specific and arithmetic questions which arose in the California campaign.

Only afterwards was serious work undertaken to design proposals to carry out the candidate's intent and to demonstrate that his basic proposal was financially feasible -- though not of course just by closing upper-income tax loopholes, as he and his staff sometimes seemed to be saying. The serious designs were too late to undo the political damage, which may have been compounded by the candidate's eventual inglorious withdrawal from the whole issue. In the process, lasting damage was done to the cause which was so inexpertly championed. It will take time and patient persuasive effort to convince people that income guarantees, demogrants, cashable tax credits, negative income taxes, and all that are not crackpot ideas.

Second, I fear one must conclude that the probabilities are against enacting in one magnificent stroke a comprehensive package of tax and welfare reform. The rhythm of American politics seems to provide legislative majorities for sweeping change and redistribution no more often than once a generation. Consider the periods of drought between the first Wilson administration and the New Deal, and between the New Deal and Johnson's Great Society Congress, whose promise was tragically ended by the escalation of the war in Vietnam.

Proponents of tax reform, discouraged by reversals suffered in the horse-trading negotiations of piecemeal reform, often dream of starting over again from zero. They observe that less than half of national personal income is federally taxable, one obvious reason why tax rates are high. Let everyone toss in his privileges, exclusions, exemptions, deductions, and take his chances on a simple tax on a comprehensive base, with cashable credits for all adults and children. In theory there is a latent majority coalition for a new social financial contract of this kind; winners would be much more numerous than losers. But in practice that coalition has yet to be mobilized. It is too easily splintered by internal conflicts of interest: families versus single individuals, small families versus large; renters versus homeowners; young versus old; poor versus near-poor, and so on.

The normal rule of tax reform is that almost nobody's taxes can be increased. I say "almost" because some loopholes and privileges are so notorious that they are fair political targets. But the list is pretty short, and the revenue involved pretty small. Any major redistribution through the tax system requires cutting into some widespread tax concessions, not generally perceived as outrageous or even unfair. Examples are the favorable treatment of capital gains, philanthropic contributions, and home ownership. Even if these and other erosions of the tax base could be repaired, a major redistributional tax reform requires higher tax rates, and greater liabilities for many taxpayers. Citizens who might accept higher tax liabilities for war or some other substantive national purpose will resent them deeply when they are being openly redistributed to other citizens.

This is why Senator Humphrey's secretary was so damaging to Senator McGovern's demogrant proposal. In a nationally televised California primary debate, Humphrey pointed out that a single secretary earning $8,000 a year would pay $567 more in taxes under McGovern's proposal; the higher tax rate would more than offset her $1000 demogrant.

It was not clear how Humphrey had made this calculation, since no specific McGovern proposal had been set forth. But, although the example may have been exaggerated, it was qualitatively correct. The demogrant proposal did involve a horizontal redistribution from single individuals and couples to large families, along with a vertical redistribution from rich to poor. Never mind that the illustrative secretary was rich as single individuals go -- in the upper 17% of such persons in 1970. Never mind that she personally would, thanks to salary increases, be better off than in 1970 in after-tax income in 1974 or 1975, whether or not the McGovern reform was adopted -- though of course better better off if it was not. The normal growth of after-tax income, with constant tax rates and rules, is not regarded as fair game for additional taxes. The public image was that an ordinary working girl with an income in four figures would be unfairly burdened.

Under these political restrictions, the best that a redistributionist can hope for is to claim some share of the annual fiscal dividend -- the growth in revenues from existing taxes. This is not easy because of the intense budget competition for those funds. With the fiscal dividend, it is possible to decrease the taxes of the poor and to increase their negative taxes, without explicitly damaging Senator Humphrey's secretary or any other taxpayer. The damage to them in tax reductions foregone is a much smaller political obstacle.

The Moynihan-Nixon Family Assistance Plan is an example of incrementalist strategy. However, it was not a strategy which would lead gradually to a more fundamental reform. Even when we are confined to small steps, we should be following a path that leads somewhere. In particular, I think it is desirable to begin making reforms within the framework of the federal income tax, so that we are not forever stuck with a dual system, welfare for the poor, the income tax code for the rest of us.

In this spirit, I would suggest beginning to convert exemptions and deductions into tax credits, cashable to the extent that they exceed tax liabilities. One step, for example, would be to convert personal exemptions of $750 into cashable credits of $375; since almost no one is subject to a marginal tax rate greater than 50%, almost no one would lose. The credits for adults could then be gradually increased. In similar vein, the standard deduction and homeowners' deductions could gradually be transformed into cashable credits. Cashable credits would gradually take the place of public assistance, and in time an integrated system would evolve. Meanwhile, the working poor and near-poor, who are short-changed by our present welfare and tax systems, would be getting the better breaks they so greatly deserve.

Third, a solution must be found for the pyramiding of actual and implicit income tax rates. Benefits under a host of federal and state programs are scaled to income: public assistance, medical care, rent subsidies, food stamps, educational grants, and more. To the marginal income tax rates implicit in these programs may be added regular income taxes and the ever-increasing social security tax on earnings. As a result it is easy to display horror cases where the earning of an extra dollar of income costs a family more than a dollar in benefits lost or taxes due. These cases, or less dramatic examples damaging to work incentives, would be more frequent under any welfare reform -- whether F.A.P. or N.I.T. or demogrants--which would increase the number of families eligible for income-tested cash assistance along with various in-kind benefits. The Senate Finance Committee's ostentatious discovery of this fact was one of the nails in the coffin of F.A.P. It seemed a miscarriage of justice to place the blame on the cash assistance proposal rather than on the proliferation of uncoordinated in-kind programs. Be that as it may, the problem must be faced more squarely than in the past.

The sweeping solution is to supersede in-kind programs with the cash program. In-kind programs like rent subsidies might continue, but the value of the housing benefits would be subtracted from cash benefits due, even if the net result was that the family owed tax. A less drastic solution would charge less than 100% of in-kind benefits against entitlement under the cash program. If 80% of an in-kind program were charged, that program would add only 20% of its implicit tax rate to the overall marginal tax. Escalation of disincentive rates can also be mitigated by treating various assistance programs sequentially, including in the income that determines entitlement to the 3rd kind of assistance all the net benefits received from assistance programs numbers 1 and 2.

Fourth, no new system of federal income guarantees can be expected to finance the benefits which some recipients of public assistance receive in the most generous states and localities. Let the best not be the enemy of the good. It is just not economically or fiscally feasible for New York or Connecticut AFDC benefit levels to be universalized across the whole nation to all categories of families. Sometimes a negative income tax is dismissed on this account -- if it can't even provide income guarantees equal to the best current welfare benefits, what good is it? The answer, of course, is that the income guarantees would benefit millions throughout the country who are not eligible for those higher welfare benefits.

It can be argued that there is in equity an obligation not to reduce the benefits of existing welfare clients. Recognizing this obligation, the federal government should meet the costs. But equity in this sense dictates a grandfather or grandmother clause for individuals, not for categories of individuals or for states and cities. There is no federal obligation to perpetuate existing geographical inequities in welfare benefits, which are in any case an incentive for uneconomic migration and location. Of course any state or city can in its own discretion finance its own cash assistance program or negative income tax.

Fifth, the public's fears that their hard-earned tax dollars may support malingerers and loafers must be allayed if any national system of income guarantees is to be acceptable. It is not enough to build work incentives into the system, in the form of income "disregards" and tolerable marginal tax rates. It is not enough to cite the New Jersey experiment and the other voluminous evidence that there are precious few people who enjoy living idly on handouts. It is not enough to point out that the hard pressed middle income taxpayer should direct his outrage to the idle rich who pay less taxes than they should rather than to the idle poor. Public opinion just won't accept a system under which ablebodied adults may loaf at government expense, and there are bound to be a few examples of some who do.

Various devices -- e.g., registration for work at a local public employment office -- have been suggested and debated. I believe a suggestion by Harold Watts has merit. Let part of the income guarantee (or tax credit) available on account of an adult of working age be contingent on a declaration, under the usual penalties for false statements on tax returns, that he or she was engaged in one or more of the following activities: gainful employment or self-employment, job-seeking, child care and housekeeping, schooling, unpaid volunteer public service. This requirement would not discriminate against the poor; everyone who claims this tax credit, whether he takes it in cash or in reduction of his tax liability, would have to meet the requirements. Nor would a whole family be penalized for the delinquency of one of its adult members; the benefits or tax credits due to the other adults and children would continue.

Sixth, the general public also resents supporting the children of fathers who have deserted them. Men and women who fulfill their own responsibilities as parents don't wish to be burdened with expenses left behind by parents who have abandoned these responsibilities. Worries on this point have some foundation, as indicated by the continuing growth in the number of dependent female-headed households. Current welfare programs contain provisions for seeking out absent fathers and requiring them to contribute to the support of their deserted children. But these provisions have never been very effective. It is fair to say that they have not been popular with social workers, who have seen them as an authoritarian and punitive attempt to impose bourgeois values on the poor. There is justice in the suspicion, but it is unfortunately no trivial matter if the society ends up supporting millions of deserted mothers and children whose fathers are earning comfortable incomes elsewhere.

A possible answer is to assess an extra tax on the income of an absent father or mother for every child he or she is not supporting -- unless of course the obligation has been undertaken by a step-parent or foster parent. To enforce this penalty it would be necessary to assign children social security numbers at birth and to associate them with the numbers of their parents. These social security numbers would also be the basis for claiming NIT benefits, tax credits, or dependents' exemptions on account of children; they would prevent the same child from being claimed as dependent in more than one family.