

TABLE 38

Operation of proposed G.A.I. program for a family of four in 1969

Other income	Basic allowance	Adjusted basic allowance	Net income
\$			
0.....	3,500	3,500— 0=3,500	0+3,500=3,500
250.....	3,500	3,500— 175=3,325	250+3,325=3,575
500.....	3,500	3,500— 350=3,150	500+3,150=3,650
1,000.....	3,500	3,500— 700=2,800	1,000+2,800=3,800
1,500.....	3,500	3,500—1,050=2,450	1,500+2,450=3,950
2,000.....	3,500	3,500—1,400=2,100	2,000+2,100=4,100
2,500.....	3,500	3,500—1,750=1,750	2,500+1,750=4,250
3,000.....	3,500	3,500—2,100=1,400	3,000+1,400=4,400
3,500.....	3,500	3,500—2,450=1,050	3,500+1,050=4,550
4,000.....	3,500	3,500—2,800= 700	4,000+ 700=4,700
4,500.....	3,500	3,500—3,150= 350	4,500+ 350=4,850
5,000.....	3,500	3,500—3,500= 0	5,000+ 0=5,000

SOURCE: Staff Study.

Furthermore, while data based on experience are meagre, they do indicate support for the use of a 70-per-cent reduction rate. In the United States pilot projects have been conducted to test the effects of various G.A.I. schemes of the Negative Income Tax type. These experiments have used different combinations of income levels and allowance reduction rates of 30, 50, and 70 per cent. The latest progress report (May, 1971)² of one such project indicates that there was no significant decline in weekly earnings as a result of the income-assistance programs and that, in addition,

there was no significant differential in the number of hours worked per family among the various income maintenance programs . . . this lack of a significant differential does indicate that the various combinations of tax rates and guarantee levels have not yet affected the number of hours a family works . . .³

That is, families whose allowance was reduced at the rate of 70 cents for each dollar of other income continued to work as much as those whose allowance was reduced at the rate of 50 cents or 30 cents on the dollar.

4. *Break-Even Point.* This is the income level at which government assistance in the form of basic allowance is reduced to zero. The break-even point is determined by the level of basic allowance and the allowance reduction rate. With the allowance rate set at 70 per cent of the poverty line and an allowance reduction rate set at 70 per cent, the break-even point coincides with the poverty line—that is, \$5,000 for a family of four in 1969. For the G.A.I. to work effectively it is essential that the break-even point also represent the level of income at which positive income-tax rates are imposed. All income below the poverty lines must be exempt from income tax.