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GUARANTEED MINIMUM INCOME PROGRAMS USED BY GOVERNMENTS OF SELECTED COUNTRIES

MATERIALS PREPARED FOR THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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LETTERS OF TRANSMITTAL

JULY 30, 1968.

To the Members of the Joint Economic Committee:

Transmitted herewith are materials on "Guaranteed Minimum Income Programs Used by Governments of Selected Countries." The study, prepared for the committee by Prof. Martin Schnitzer of the Department of Business Administration of the Virginia Polytechnic Institute, was financed in part by a foreign travel grant awarded to the author by the American Philosophical Society, Philadelphia, Pa.

It is being released by the Joint Economic Committee as Paper No. 11 of its series of study papers on "Economic Policies and Practices" in other western countries. It is particularly relevant to the committee's work at this time, supplementing as it does the intensive study now in progress by our Subcommittee on Fiscal Policy under the chairmanship of Representative Martha W. Griffiths, which is inquiring into programs and proposals for minimum income maintenance in the United States.

The views expressed in this study paper are, or course, exclusively those of the author and do not necessarily represent the views of the Joint Economic Committee or individual members thereof. The committee joins the author, however, in expressing appreciation of the cooperation given to him by the ministries which administer the welfare programs of the several countries involved, the nongovernmental experts with whom discussions were held, as well as officials of the various U.S. Embassies who helped arrange the interviews.

Sincerely yours,

WILLIAM PROXMIRE,
Chairman, Joint Economic Committee.

JULY 29, 1968.

Hon. WILLIAM PROXMIRE,
Chairman, Joint Economic Committee,
Congress of the United States,
Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith are materials examining programs used in five selected foreign countries—Canada, Denmark, France, Great Britain, and Sweden—aimed at providing a guaranteed minimum income for families and individuals in the respective jurisdictions. The study is particularly timely in view of current discussion and increasing concern in the United States over the need for governmental measures to provide a minimum floor under the income of all Americans. Most commonly, these proposals have been identified variously as programs for a guaranteed minimum income, a "negative income tax," or other supplements to existing welfare measures of family allowances, unemployment compensation, public assistance, and health insurance.

The study has been prepared for the committee by Prof. Martin Schnitzer of the Department of Business Administration of Virginia Polytechnic Institute. The paper is presented as prepared by Professor Schnitzer and is derived from the author's on-the-spot interviews with officials and individuals having special expertise and knowledge of national programs. These interviews have been supplemented, of course, by published materials available to him, or made available by these experts. The study was financed in part by a foreign travel grant awarded to the author by the American Philosophical Society, Philadelphia, Pa.

The study has a dual role in the Joint Economic Committee's research program. It is Paper No. 11 in the series issued as aids to an increased understanding of economic policies, practices, and institutions in various industrial countries. The series was undertaken several years ago in the belief that, by making data more readily available for a comparison of national policies, not only members of our committee but other Members of Congress and the general U.S. reader as well would be aided in understanding economic problems within the framework of the free enterprise "rules of the game" as practiced by leading Western industrial nations. Knowledge of what these other advanced countries are doing about contemporary problems cannot fail to be helpful in evaluating and improving our own domestic programs and proposals put forward for their improvement.

This particular paper coming at this time, moreover, fits closely with, and supplements, the current hearings and intensive study by our Subcommittee on Fiscal Policy, under the chairmanship of Representative Martha W. Griffiths, on income maintenance programs. That group has been reviewing the advantages and disadvantages of present welfare programs and weighing the merits of proposals for reform. While planned and issued as a part of the full committee study of European and Canadian institutions, the present study must thus be viewed also as an integral part of that subcommittee's investigation of the proposals for negative income tax and income maintenance programs for the United States.

As in earlier studies in this series, the views expressed are exclusively those of the author and do not necessarily represent the views of the committee or individual members thereof.

Sincerely yours,

JOHN R. STARK,
Executive Director, Joint Economic Committee.

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THE GUARANTEED INCOME

Introduction

President Johnson, in the 1967 Economic Report of the President, said that he intended to establish a commission to study proposals for a government-guaranteed minimum income for all Americans.[1] The issue at stake is whether the Federal Government, by one means or another, should take upon itself to guarantee that every individual and family in the United States receive a certain level of income each year. Presumably this income would be the difference or part of the difference between some defined break-even point and what a family actually earns.

With this as a background, it is the purpose of this study to examine guaranteed income schemes as they exist in other countries. Particular attention will be placed on the use of the family allowance, which is an outright payment of cash grants in accordance with the number of children a family has. General income maintenance programs, such as health insurance and unemployment compensation, will also be evaluated.

Rationale for the Guaranteed Income

The rationale for a guaranteed income is the insurance of a minimum floor under the incomes of all families. This can be done through the adoption of a family allowance system, social dividends, or a negative income tax, or through improvements in such existing income maintenance schemes as unemployment compensation or public assistance. Diverse groups and individuals support some sort of guaranteed income scheme for reasons that are usually associated with the eradication of poverty. These reasons, however, are diverse and are presented as follows:

1. A guaranteed income is desirable and will become more and more mandatory as more people are thrown out of work by automation. A number of prominent economists, including Robert Theobald, contend that modern advanced societies are on a threshold of abundance. An automated economy, they maintain, will be able to produce sufficient goods for everyone, while employing a smaller percentage of the work force.[2] As the demands of a modern industrial society become more and more complex, unskilled and less intelligent workers become unemployable. Sophisticated machines are then created to solve the complexities; and, as this happens, more people

[1] Economic Report of the President, January 1967, p. 17.
[2] For the development of this thesis see Robert Theobald, "Free Men and Free Markets," Anchor Books: New York, 1965. Also see "The Guaranteed Income: Next Step in Economic Evolution?" ed. by Robert Theobald: Garden City, New Jersey, Doubleday & Company, 1966; and the report of the Ad Hoc Committee on the Triple Revolution which was published in 1964. On the basis of this report, the proposal for a guaranteed income attracted nationwide attention.

are thrown out of work. These machines are capable of enormous productivity and it becomes no longer necessary for the great majority of the population to remain in the work force. When it becomes clear that the economy is headed in the direction predicted by Theobald and others, then it will be necessary to adopt some sort of a guaranteed income scheme which would place a minimum income level below those workers who are automated out of employment.

Concern about automation is not a recent phenomenon. In 1816, as an aftermath of the Napoleonic Wars, British employers, faced with falling prices, set to work to cut production costs by any means, including the introduction of new machines. Wages were reduced, and workers everywhere felt the competition of new machines. This was particularly true among the handloom weavers in the textile industry. As prices fell, more and more employers installed power looms in order to cut their costs; and the handloom weavers were compelled to accept lower and lower wages, determined by the competition of the new machines. Even so, they secured only such work as was left over after a number of power looms had been employed. Consequently, the handloom weavers found their livelihood destroyed. In protest some turned to the smashing of the power looms. They were called "Luddites," and the name has remained to this day as a protest symbol against the impersonality of the machine.[3]

Scant evidence exists however, to indicate that the masses of the labor force are in danger of being automated out of jobs. To the contrary, distinct labor shortages exist in most of the highly developed countries of the world. Such unemployment that exists can be attributed either to a lack of aggregate demand or to a structural imbalance that has occurred in certain sectors of an economy. When workers have been replaced by automation, for the most part, they have been able to secure employment in other industries. Moreover, new industries and spheres of economic activitiy have created new jobs for millions of works in the last decade, and this development can be expected to extend into the future.[4]

2. A guaranteed income is the logical concomitant of an evolutionary process which has occurred in all major countries, namely the provision of welfare measures which are designed to insure the individual against the vicissitudes of life. A society which is not only rich but moral should provide a guaranteed minimum level of income to all of its citizens.

In 1888, Edward Bellamy, a Boston journalist, published a book called *Looking Backward.* The hero of the story is put to sleep by a hypnotist and remains in a state of suspended animation until he is awakened 113 years later. He learns that a gradual transition from his old society to a new one has occurred.

In the year 2000 all industry is nationalized and all citizens between the ages of 21 and 45 are required to serve in an industrial army. This industrial army is divided into 10 departments covering all branches of industry, each department being under the control of a lieutenant

[3] The name "Luddite" comes from Ned Lud, a feeble-minded man who destroyed several textile machines in protest against unemployment which he attributed to their introduction.

[4] Nevertheless, the prophets of automation argue that the potentials of automation have yet to be realized. They reason that the rate of progress in the technological world of the near future will be so enormous it will defy comprehension. The impact of cybernation—machine systems combined with computers—on the level of employment will be considerable. It will be possible for cybernated machine systems to take over most structured tasks.

general. Each lieutenant general is elected by a vote of all of the retired members of the department he heads, thus avoiding the undesirable effects of having the workers select their own bosses. The general-in-chief of the whole army is President of the United States, and he is elected by all the men in the Nation not connected with the industrial army. No wages are paid, but all citizens, be they active or retired, receive an equal share in the national income. At the beginning of each year every American citizen is given a credit card marked off in dollars and cents, and every time he makes a purchase the amount is punched out of this card. If any surplus is left over at the end of the year, it may be used the following year, or returned to the common fund. There is no need for an individual to save any of his annual income, since the Nation guarantees care to all throughout their entire lives. The incentives which impel workers to do their best are patriotism, prizes; and if any man who is capable of working refuses to do so, he may find himself in solitary confinement until he sees the light.

Perhaps the greatest weakness in *Looking Backward*, or for that matter in any guaranteed income scheme, is the problem of incentives. Patriotism and honor are not beyond the realm of possibility as incentives for economic activity but it is doubtful that human nature could be changed sufficiently to make such incentives practical. It is certainly legitimate to ask whether or not current social welfare schemes have not led to a stultification of incentives in many countries in the world.

3. Some advocates of the guaranteed income argue that it is the best way to remedy alleged defects in the current public welfare system. A guarantee of a minimum income for all would make the Federal Government the paramount force in aiding the poor, instead of the States. Under existing public welfare programs, the States are dominant in determining who will receive welfare payments. These programs, critics argue, by no means cover everyone who is in need, nor do they adequately provide for the needs of many whom they do cover. Administrative costs are also criticized as a costly burden which diverts talent from constructive social welfare work, and wrong incentives are provided to the beneficiaries of many programs—incentives not to work, or to live in families. The self-reliance of the recipients of these benefits is weakened. The critics would either revamp the existing public welfare system and use some form of a guaranteed income as supplement, or replace it with a guaranteed income.[5]

The Negative Income Tax

Negative income taxation refers to the payment of a cash grant to families or individuals whose incomes are below a specified minimum income level—the amount of payment depending on the negative taxable income and the negative tax rate. However, any proposal for guaranteeing a certain minimum income must ultimately come to grips with what that income should be. And that, naturally, turns on a definition of "poverty" and a definition of a "decent standard of liv-

[5] Some critics see a program of income guarantees as a simple and direct solution to the problem of poverty. After all, people are poor because they lack money. Give them money and the problem of poverty is solved. Staffing of welfare agencies would be reduced, savings in administrative costs would occur, and the poor presumably would derive more satisfaction per dollar spent, if direct cash payments were used. Income guarantees, in themselves, would eventually take the place of all existing income maintenance plans such as welfare payments, minimum wages, social security, and unemployment compensation. The cost would be counterbalanced by the reduction in the cost of income maintenance programs.

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ing." In the United States, the poverty definition which is frequently used is that of the Social Security Administration, which has set the line between poverty and nonpoverty $3,130 for a family of four, $1,540 for nonfarm individuals, $2,190 for farm families, and $1,080 for farm individuals. Also commonly used as a definition of poverty is the $3,000 minimum set by the Council of Economic Advisers.

The principle of the negative income tax is not new. In 1946, the noted economist, George Stigler, stated that:

> There is a great attractiveness in the proposal that we extend the personal income tax to the lowest income brackets with negative rates in these brackets.[6]

Milton Friedman, eminent University of Chicago economist, advocates negative income taxation as a way to lower the cost of welfare statism. He would substitute it in considerable part for the whole set of existing transfer payments and subsidies, thereby achieving a less costly and more unitary welfare system, as well as preserving individual rights presumably denied under current systems.[7]

The most popular approach suggested for guaranteeing a minimum income is based on the measure of income deficiency which is the difference between what an individual or family actually makes and a specified minimum income level, such as $3,000. This difference, or gap, would be made up in total or part by cash payments by the Federal Government. To accomplish this objective via negative income taxation involves the shifting of the present tax system into reverse through the use of negative tax rates which would be applied to the amount by which actual income falls below a minimum level. This differs from the present tax system in only one respect. Under the present system, either a person owes something or he owes nothing. Under a system of negative income taxation, the Government would owe something to individuals with incomes below the specified minimum level.

FRIEDMAN PLAN

Negative income taxation can assume a variety of approaches. One approach, advocated by Milton Friedman, would utilize unused tax exemptions and deductions. Under the current tax system, a family of four has exemptions plus standard deductions equal to $3,000, and if it receives exactly this amount in income, would pay no tax.[8] Negative taxable income is $3,000. If family income is less than $3,000, a negative tax rate is applied to the difference between it and the allowable exemptions and deductions. The amount of the tax rate is set at 50 percent of the unused exemptions and deductions. If, for example, the family earned nothing for the year, it would receive 50 percent of its unused exemptions and deductions, or $1,500. Payment of 50 percent of the difference, instead of the full amount, is designed to retain incentives to earn more—incentives which would be lost if a 100-percent rate were used.[9]

The following table illustrates Friedman's negative income tax proposal.

[6] George J. Stigler, "Economics of Minimum Wage Legislation," American Economic Review, vol. XXXVI, p. 365.
[7] Milton Friedman, "Capitalism and Freedom," Chicago: University of Chicago Press, 1962, pp. 190–195.
[8] The taxpayer could use actual deductions and have a higher negative taxable income.
[9] Milton Friedman, "The Case for the Negative Income Tax: A View from the Right," Chamber of Commerce of the United States, "Proceedings of the National Symposium on the Guaranteed Income," December 1966, pp. 49–55.

	Exemptions and deductions	Taxable income	Tax rate (percent)	Tax	Income after tax
Total income before tax:					
0	$3,000	−$3,000	50	−$1,500	$1,500
$1,000	3,000	−2,000	50	−1,000	2,000
$2,000	3,000	−1,000	50	−500	2,500
$3,000	3,000	0			3,000
$4,000	3,000	+1,000	14	+140	3,860

Note: Family of 4; existing exemptions and standard deduction; existing rates on positive income.

RIPON PLAN

Another approach to negative income taxation would rely on a system of standard income allowances based on the number of persons in a family. For example, a standard income allowance of $1,500 would be given to each adult in a family, $1,500 to the first child, $1,000 to the second child, $600 to the third, $400 to the fourth child, with a limit of $6,000 for any family. The use of the standard income allowance means that a minimum income level is flexible because its depends on the number of persons in a family. If the family consists of two adults, the standard income allowance is $3,000; if the family consists of two adults and two children, the income allowance is $5,500.[10]

The difference for a family between its present income and the standard income allowance to which it would be entitled, would be called the poverty deficit for that family. The size of the deficit would depend on whether or not welfare payments would be counted as personal income. This would depend on the objective of negative income taxation—to replace or to supplement welfare payments. The negative tax would be levied on the deficit. Assuming a negative tax rate of 50 percent, a single adult would receive $750 (50 percent of the standard income allowance of $1,500). For a family of four, the following relationship would exist:

	Deficit from—standard [1]	Negative income tax	Total income		Deficit from—standard [1]	Negative income tax	Total income
Earned income:				Earned income—Continued			
0	$5,500	$2,750	$2,750	$3,000	$2,500	$1,250	$4,250
$500	5,000	2,500	3,000	$3,500	2,000	1,000	4,500
$1,000	4,500	2,250	3,250	$4,000	1,500	750	4,750
$1,500	4,000	2,000	3,500	$4,500	1,000	500	5,000
$2,000	3,500	1,750	3,750	$5,000	500	250	5,250
$2,500	3,000	1,500	4,000	$5,500	0	0	5,500

[1] The standard income allowance for a family of 4 would equal $5,500.

LAMPMAN PLAN

A third approach involves the use of decreasing negative income taxation as income rises.[11] The subsidy determinant is the income deficiency gap between earnings and a nonpoverty level of income,

[10] Ripon Society, "The Negative Income Tax," published in the Ripon Forum, vol. III. No. 4, April 1967, p. 6.

[11] This approach is the Lampman approach. For more comprehensive detail see Robert J. Lampman, "Negative Rates Income Taxation," an unpublished paper prepared for the Office of Economic Opportunity, August 1965.

instead of a base of unused exemptions and deductions (Friedman plan). The negative tax rate would also vary as the amount of earned income changes, instead of being a fixed negative rate. For example, the rate could vary from 50 percent to zero, the actual rate depending on the difference between actual income and the nonpoverty income level. For example, assume an earned income of zero and a nonpoverty income level of $3,000. The maximum negative tax rate would be 50 percent and the guaranteed income would equal $1,500. For an earned income of $2,000, which is $1,000 less than the nonpoverty income level, a lower negative tax rate would apply. Assume a negative tax rate of 25 percent. The subsidy would amount to $250.

The Lampman proposal is shown in the following example.

	Amount below nonpoverty level	Negative tax rate (percent)	Subsidy	After-tax income
Earned Income:				
0	$3,000	50	$1,500	$1,500
$500	2,500	45	1,125	1,625
$1,000	2,000	38	760	1,760
$1,500	1,500	33	495	1,995
$2,000	1,000	25	250	2,250
$2,500	500	25	125	2,625
$2,800	200	25	50	2,850
$3,000	0	0	0	3,000

TOBIN PLAN

A fourth approach would utilize the same principles as the preceding plans, but would make modifications with regard to basic allowances and tax rates. This approach starts by allowing a family head $400 for each person in the household, if the family has no income, and until family size reaches a certain level.[12] As income increases, the Government takes back a part of the subsidy. A family would be allowed to keep two-thirds of any new income, and the remainder would be used to reduce the amount of the subsidy. For example, for a family of four, the original allowance is $1,600, and if it earns no income, it keeps the entire amount. However, if the family earns $900, the subsidy is reduced by one-third, or $300, and the total income received would be $2,200 ($900 earned and $1,300 subsidy). If the family earned $2,000, the subsidy would be reduced by $667, and the total income received would be $2,933. As family income increases, the Government subsidy would decline by a fraction of every dollar of additional family income. In the example above, a family would keep two-thirds of every dollar it made, and in essence repay the remaining one-third out of the income supplement. This is tantamount to being in a 33 percent marginal income tax bracket. At some specified income level, the income supplement would cease and a family would pay taxes. The family of four, with an income supplement of $400 per head, would pay no taxes until earned income and the income supplement were equal to $4,800.[13]

[12] This approach is advocated by James Tobin. For a more comprehensive presentation see James Tobin, "The Case for an Income Guarantee," The Public Interest. No. 4 (Summer, 1966), and James Tobin, "Income Guarantees and Incentives," Chamber of Commerce of the United States, proceedings of the National Symposium on the Guaranteed Income, December 1966, pp. 45–48.

[13] Earned income would amount to $4,800. One-third of this amount is $1,600, which would eliminate the supplement.

This approach can be illustrated in tabular form by presenting a schedule of income allowances for a family with two children. The allowance is $400 per person.

	Allowance or tax	Income after allowance or tax		Allowance or tax	Income after allowance or tax
Earned income:			Earned income—Continued		
0	$1,600	$1,600	$4,000	$367	$4,367
$1,000	1,367	2,367	$4,800	0	4,800
$2,000	933	2,933	$5,000	−280	4,720
$3,000	600	3,600			

Any negative income tax plan must respond to two conflicting pressures:

1. The need to raise the poor all the way to an acceptable standard of living; and
2. The desire to maintain incentives for them to seek employment.

The latter pressure is presumably resolved through the provision in the tax system of payment of only a part of a family's deficit; that is, the difference between its actual income level and a defined minimally acceptable income level. As a result, an individual receiving negative income tax payments would have some incentive to earn additional income. Whether this would actually be the case is debatable, but a premise that most guaranteed income schemes have in common is that payment of the full deficit will stultify incentives to work, while payment of part of the deficit will not penalize incentives.

A variant of the negative income tax approach involves the use of tax credits for the payment of taxes. The 7-percent investment credit, for example, provides a credit against the current year's taxes amounting to 7 percent of the expenditures on capital goods. Such a credit was adopted by the U.S. Government in 1962, following its adoption in other countries.

A tax credit can be applied to incomes as well, and could be used to reduce the level of poverty in the United States. An approach suggested by Earl Rolph would rely on two features—a system of flat sum credits which would be given to all families, and a proportional tax with no exemptions.[14] The tax liability per family would be positive or negative depending on the amount of the credit and the size of family income. To compute the positive or negative tax liability, the formula, $T=Yr-Cu$, would be used. T represents net tax liability, Y is taxable income, r is the tax rate, C is the amount of the credit, and u is the number of credits per family.

For example, assume a proportional tax rate of 30 percent and a tax credit of $500 per person a year. To compute the tax liability, the tax credit would be multiplied by the number of persons in the family and subtracted from the tax rate applied to taxable income. A family of four with an income of $20,000 a year would pay $4,000 a year in taxes $6,000 −$2,000), whereas a family of four making $3,000 a year would be paid $1,100 ($2,000 −$900).

[14] Earl R. Rolph, "The Case for a Negative Income Tax, *Industrial Relations*, Institute for Industrial Relations, University of California, 1967.

A range of rates is illustrated as follows:

	Net tax	Disposable income		Net tax	Disposable income
Income: [1]			Income: [1]		
0	−$2,000	$2,000	$6,000	$200	$6,200
$1,000	−1,700	2,700	$10,000	1,000	9,000
$2,000	−1,400	3,400	$20,000	4,000	16,000
$3,000	−1,100	4,100	$50,000	13,000	37,000
$4,000	−800	4,800	$100,000	28,000	72,000

[1] Assumes a family of 4, a tax rate of 30 percent, and credits of $500 a person.

In order to properly appraise any negative income tax proposal, it is necessary to determine the cost involved. A prime determinant of costs lies in the nature of the present income distribution. As of March 1966, 7,998,000 families had less than $3,000 of income, and 4,731,480 individuals had less than $1,500 of income.[15] The combined income of this group would have to be $31 billion in order to reach the so-called nonpoverty level. The actual income received by the group amounted to $20 billion. The cost of filling the gap would depend on the plan and negative rate selected.[16]

The cost of a guaranteed income would depend upon the following factors:

1. The definition of a poverty line to be used in enacting a plan. Is the poverty line to be a flat amount, say $3,000, for all families, or will the poverty line range with the number of persons in a family? Also, will there be allowances for differentials in the cost of living between urban and rural families and individuals?

2. The rate of negative income taxation used, assuming that this approach is preferable to the family allowance. It is assumed that the rate would be 50 percent of the difference between actual income and the desired minimum income level. The rate, however, could be a sliding rate which diminishes as actual income approaches the minimum income level.

3. Whether present transfer payments will be maintained or eliminated. Obviously if the current system of welfare payments is eliminated, then much of the cost of a guaranteed income program will be counterbalanced by the savings in terms of welfare expenditures. However, if the guaranteed income is superimposed upon existing welfare programs, the cost will be considerable.

4. The proportion of those eligible who would take advantage of the guaranteed income plan.

Estimates of the cost of a guaranteed income vary from $8 billion to $25 billion a year based on the type of plan used, the negative income tax rate involved, and the degree to which existing welfare programs are reduced or eliminated.

Family Allowances

Family allowances are regular cash payments to families with children, and are paid in a large number of countries as a social security benefit. Payments usually cover only gainfully employed persons and

[15] U.S. Bureau of the Census, *Current Population Reports*, p. 60, No. 51, January 1967, pp. 1–2.

[16] This is computed as follows: 8 million families times $3,000 equals $24 billion, and 4.7 million individuals times $1,500 equals $7 billion.

recipients of social insurance benefits. Some countries start family allowances with the first child; others start only with the second child. Family allowances are usually financed by a tax on employers, or out of general governmental revenue. The amount of the family allowance is either the same for all children, or it increases progressively with the number of children in the family. Generally there is a cutoff point for eligible children, which ranges between 14 and 18 years; however, this cutoff point may be extended for children who are in school, or who are sick or handicapped. The family allowance is available to all families. The family allowance is usually paid to the mother, and there are variations of the family allowance which provide additional benefits for single persons with children. Also, youth allowances are often provided for older children in families.

The family allowance is a means of redistributing income in such a way as to benefit the child-rearing portion of a nation's population. It is a fact that children are more numerous in low than in high-income families, thus reducing the margin of economic security of these families, and often perpetuating poverty from one generation to the next. The family allowance, particularly in the industrial areas of France, to many families is often the difference between poverty and a minimum standard of living. It is used in Europe, but varies considerably in importance, ranging from 5.1 percent of national income in France to 0.3 percent in West Germany. It is also used by Canada and a number of other countries.

The Speenhamland system which was introduced in England in 1795 was the precursor of the modern family allowance system. A concatenation of events had happened during the latter part of the 18th century to worsen the life of the average English worker. First of all, acceleration of the enclosure system created a class of landless poor who gravitated to the cities and created an overcrowding of the labor market. Second, the introduction of power machinery in the textile industry displaced certain types of workers, and also caused the displacement of the cottage system in which agricultural workers were able to augment their incomes by spinning and weaving in their homes. Third, the Napoleonic wars and a series of bad harvests had caused a tremendous rise in the value of foodstuffs. Finally, the French Revolution and its lessons were indelibly imprinted in the minds of the more perspicacious English leaders, who were well aware of the fact that the institutions of liberty, equality, and fraternity could be readily exported across the English channel.

The Speenhamland system, introduced by the magistrates of Berkshire, was a device which was designed to ameliorate the economic plight of the English worker. A minimum income would be assured him regardless of his regular earning. This income was tied to the price of a basic commodity, such as bread. For example, when a gallon loaf of bread (8 pounds, 11 ounces) cost 1 shilling, a worker would receive an income of 3 shillings a week, 1 shilling, 6 pence for his wife, and the same amount for each additional member of his family. This system guaranteed an income floor for families, such floor varying with both the size of the family and the price of bread. However, the adoption of the Speenhamland system was not uniform throughout England. It was adopted by most, but not all, rural districts, and many manufacturing districts. The scale was fairly uniform among districts, but was reduced considerably during the postwar period—1815-30—and was discontinued by 1832.

The Speenhamland system represented a mixture of benevolence and pragmatism on the part of local magisterial authorities. Passed during a time of great economic and social distress in England and a revolution in France, it failed in its objective of amelioration of social conditions. Instead, it encouraged employers to cut wages without serious resistance on the part of the workers, for both knew that the difference between the actual wage and the guaranteed income would be made up by the public authorities. Incentives to work were also reduced. It encouraged a high birth rate, because additional children meant extra weekly allowances. It pauperized the masses of people, destroyed their spirit of independence and made them ineligible for jobs and supplemental relief unless they owned no property.

Family allowances, however, are a relatively recent phenomenon. Most of the 62 countries which currently maintain some type of family allowance program have made the adoption after the end of the Second World War. Some countries, notably France, however, have family allowance programs which date back to the 19th century. Belgium's family allowance system dates back to 1922, when some employers voluntarily extended special benefits to employees with families to tide them over financial difficulties caused by World War I.

Family allowances differ from country to country in terms of eligibility requirements, extent of coverage, and method of financing. Some countries require employment or coverage by national social insurance as criteria for eligibility; others provide allowances to all families, regardless of their status. In general, the main differences between countries are as follows:

1. *Source of revenue.*—Some countries finance the family allowance from general government revenue. This is usually done when all families are eligible for the allowance. Other countries finance the family allowance through a tax on employers, which is usually on payrolls. In France, for example, to finance family allowances, the employer pays a levy at the rate of 11.5 percent on wages paid to each worker, up to the social security ceiling of 1,140 francs per month. A few countries also require an employee contribution toward the family allowance.

2. *Eligibility requirements.*—Family allowances are usually linked to employment status or social insurance coverage. The worker must be gainfully employed for his family to be eligible for allowances; if not, he must receive social insurance benefits. In some cases, self-employed workers are also eligible for coverage. Some countries, however, provide universal coverage to all families that are resident within their boundaries.

The size of the family as a factor in determining the amount of the family allowance varies from country to country, but in general the following pattern emerges. Some countries pay allowances beginning with the first child to all families with children; others exclude the first child, but pay allowances to families with two or more children. France also has a special single-wage allowance to families with one child, provided there is only a single-wage earner in the family. Some countries limit family allowances to families with three or more children.

In most countries there is no attempt to differentiate between families on the basis of low incomes. All families, regardless of income, receive the allowance. This is done for the reason that there is extreme reluctance to base these allowances on a needs test. In some countries, however, the family allowance is a part of income which is subject to income taxation. Some countries have special family allowances for low-income families. Finland, for example, has a system of allowances for low-income families with a large number of children.

3. *Rate of allowance.*—The rate of the family allowance is usually proportional—a fixed rate per child regardless of the number in a family. Some countries pay a proportional rate for a certain number of children, and a progressive rate for additional children. Allowances also may vary depending on the age of the children, with younger children receiving a smaller allowance than older children. Belgium provides a fixed sum for the first child and payments on a rising scale according to age for the second and subsequent children. The Netherlands provides an allowance based on a step progression, with a fixed rate for the first child, an increased rate for the second and third child, a higher rate for the fourth and fifth child, and the highest rate for the sixth and subsequent children.

Family allowances, regardless of whatever form they take, have been criticized for the following reasons:

1. They tend to increase the birth rate, particularly among poorer families. This, however, is difficult to prove in that it assumes a cause and effect relationship. France is often cited as an example of where family allowances stimulated the birth rate during the period following the end of the Second World War, but it is more likely that other factors were at work. It is also necessary to point out that family allowances in most countries, even to the poor, are not all that lucrative when compared to the expense of rearing children.

2. They tend to stultify incentives on the part of the wage earners in the family. The problem here is that it is difficult to isolate the family allowance from a host of other social welfare programs which accrue to the advantage of the average worker. One can only conjecture that the family allowance, in itself, would have little effect on incentives for the reason that is a payment which has nothing to do with family wage earnings. Also, as a source of total income, it is not that important to most families.

3. They tend to depress wages for the reason that employers would compensate for the tax which is levied to finance the allowance. This would depend upon the method of financing the family allowance. If it is financed out of general revenues, it would be difficult to argue that there is a depressing effect on wages; on the other hand, if it is financed out of a payroll tax on the employer, there can be a depressing effect on wages, the extent of which depends on the amount of the tax. In France, where there is an 11.5 percent payroll tax on the employer, it is argued that the family allowance has had a depressing effect on wages.[17]

[17] This assumes that were the tax not in existence, the higher income would be devoted to wages. The payroll tax is deductible for income tax purposes under the French tax system. It is generally accepted that the burden of the payroll tax is divided. Part is borne by consumers, part by the suppliers and employees of the companies that pay the tax, and part remains on present corporate owners, notably common stockholders. The burden of the payroll tax is higher on some companies than on others. Counterbalancing the burden of the tax is the fact that an extensive list of favorable tax incentives exists in France, not the least of which are exemptions from the value-added tax, the major French tax.

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4. They are received by many families who obviously do not need them. In the United States this criticism would have particular validity. It would be a rather wasteful and superfluous way to eliminate poverty. This criticism, however, can be circumvented by varying family allowances inversely with income, or making the allowance subject to personal income taxation. It is also necessary to remember that the reason for the existence of the family allowance in most countries has little to do with the elimination of poverty.

The family allowance, however, has its supporters. Its advocates say that it would be easier to administer than a negative income tax, have less stultifying effects on incentives, be more equitable, and have the added benefit of being essentially an income-by-right program, without the poor being cast in the role of supplicants. The basic reasons for its proposed adoption in the U.S. center around the following points: [18]

1. The basic omission in our existing social security program is the provision of income for children from deprived families. Involved are children whose parents have separated and children in large families. In many cases, the family is below the poverty level. The family allowance would alleviate and improve conditions of many children in the United States by correcting an imbalance between family income and family need. The failure of industrial nations to correlate family income with family need, which is based on family size, necessitates the use of the family allowance. The family allowance would also enable children to pursue their education to a higher level.[19]

2. Adoption of a family allowance would make minimum wage legislation much more meaningful in that it would tie minimum wages to a national minimum standard of living. As it now stands, minimum wages do not take into consideration family size and family needs. If a minimum wage is sufficient only to meet the needs of a single worker, it will not provide a minimal existence for families.

3. A system of family allowance would stimulate consumption and aggregate demand, and would also help to reduce fluctuations in business activities by putting a floor under consumption.[20]

An illustration of a system of family allowances which could be applied in the United States would work as follows: A benefit of $50 a month would be payable for each child in the family under 6 years of age and $10 for each older child. Current income tax exemptions for children would be eliminated and the allowance would be subject to existing tax rates. The cost of the family allowance would be met out of general tax revenues. High-income families would have to pay more incomes taxes; low-income families would have a net gain in income. Families with taxable income between $4,000 and $8,000 a year, with school-age children, would break even under the arrangement in that

[18] It can be argued that a form of a family allowance already exists in the United States through the medium of personal exemptions and minimum standard deductions in our present income tax. These exemptions and deductions add up to $700 per child. For current income tax rates, which range fom 14 to 70 percent, an allowance ranging from $98 to $490 per child is obtainable by families. However, the allowance works in reverse in that it benefits least those families that need it the most, and benefits most those families that need it the least.

[19] The definitive work on the subject of family allowances has been done by Professor James Vadakin of the University of Miami. See James Vadakin, "Family Allowances, An Analysis of Their Development and Implications," University of Miami Press, 1958. His treatment of the family allowance is comprehensive and thorough.

[20] This, in itself, is no particular argument since the negative income tax, social dividend, or any income maintenance program in general could accomplish the same objective.

the receipt of $120 per child is counterbalanced by the loss of the $600 exemption. All low-income families, particularly those with preschool children, would register a net gain.[21]

Another approach would pay the family allowance to all families, rich or poor, and would exempt it from income taxation. This approach is typical of most countries using the family allowance. Although well-off families might benefit from tax-exempt allowances, this inequity is presumably offset by the employment of a universal system that does not separate the poor from the rest of the population.[22]

SUMMARY

Government power can be used as an instrument for income redistribution, generally with the dual objectives of greater equality in the distribution of money income, and a guarantee of some minimum standard of well-being for all citizens. Governments collect taxes and dispense various services and benefits; however, their ability to cope with the problem of income distribution is limited. This has become increasingly evident in most countries of the world, as enlargement of welfare activities has inevitably entailed a significant increase in the used of indirect taxation with price and income effects that may well counterbalance or offset policies which have aimed at income redistribution.

Subsequent chapters will analyze existing welfare schemes in several countries in the context of income guarantees. Particular attention will be placed on the method of financing various welfare programs and their income redistribution effects. It is necessary to point out, however, that well-defined programs to eliminate poverty simply do not exist for the reason that there has been no preoccupation with the subject. Defined levels of poverty do not exist. Negative income taxation is not used as a device to redistribute income, instead there is a reliance on traditional social welfare measures. The drive for more equality in the distribution of income, which was so prevalent in the postwar redevelopment of England, France, and other countries, has abated to a certain extent. More emphasis seems to be placed on measures designed to achieve economic growth.

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[21] This approach is associated with Alvin Schorr. In particular, see Alvin Schorr, "Against a Negative Income Tax," the Public Interest, No. 5.

[22] There is extreme reluctance to differentiate between income groups on the basis of need.

CHAPTER II

FRANCE

INTRODUCTION

France has one of the most comprehensive social welfare systems in the world. There are two significant characteristics of the system: (1) it is expensive, and (2) it is financed primarily by levies upon French employers. In 1965, social welfare expenditures amounted to 16.9 percent of the French gross national product and 18.8 percent of household incomes. Individually old-age and disability pensions provided 7.62 percent, and family allowances 5 percent of household incomes.[1]

There are two separate social welfare systems—a family allowance system and a general social security system. The family allowance system, which is financed by a tax on employers only, provides tax-free monthly payments for the second, third and subsequent children in a family; a special allowance for families with only one wage earner; prenatal and maternity allowances; and, in certain circumstances, a housing allowance. The general social security system provides sickness insurance, maternity benefits, pension benefits, and old-age and survivors benefits. The system is financed by a tax levied on the employer which amounts to 17 percent of the employee's wage up to a ceiling of 14,400 francs a year, and a levy on the employee of 6.5 percent up to the same ceiling, plus a rate of 2 percent on earnings above the wage ceiling on the employer and a rate of 1 percent of the employee.

Unemployment compensation to workers who are partially or entirely unemployed is paid by local government units out of public funds. Neither the employer or employee is taxed to provide the funds for compensation. However, compulsory supplemental unemployment benefits were instituted in 1958 as an adjunct to the regular employment compensation system. Under the supplementary unemployment system, benefits are financed by a levy of 0.35 percent on wages up to a ceiling of 49,500 francs a year, payable by the employer into funds which are administered by the Commercial & Industrial Employers Association.

A breakdown of social welfare expenditures for 1966 is presented in the following table:

[1] Le Budget Social de 1966, p. 50.

TABLE I.—SOCIAL WELFARE EXPENDITURES IN FRANCE, 1966

[In millions of francs]

Expenses	Amount	Percent of total
Sickness insurance	19,922	17.8
Old-age benefits	31,498	28.2
Family allowances	17,159	15.4
Work accident benefits	4,598	4.1
Other expenses	38,463	34.5
Total	111,640	100.0

Source: Le Budget Social de 1966, Ministere de L'Economie et des Finances, p. 50. The Government is required annually to submit to the Chamber of Deputies, in addition to the regular national budget a social budget. The social budget is an evaluation of all of the financial aid from which all Frenchmen benefit over and above the remuneration for their work. The aim of this aid is to give them security against the vicissitudes of life and to improve their social condition. The social budget covers both social security proper and traditional social assistance.

The bulk of French social welfare expenditures is financed by special taxes on employers and, to a minor extent, on employees. These taxes are not paid to the national treasury but to special social security funds (caisses) from which the benefits are paid. Most social security receipts and expenditures are therefore not reflected in the ordinary budget.

The Family Allowance System

France's comprehensive system of family allowances (allocations familiales) has been called the most original and important part of the French social security structure.[2] Its purpose is to insure that, whatever the amount of family wage receipts, family income will increase with additional children by an amount corresponding to the cost of maintaining the children at a minimum level.

DEVELOPMENT OF THE FAMILY ALLOWANCE

The French system of family allowances was started in 1858 at the initiative of several French public employers—the railways and the public administrative services.[3] The Val-des-Bois Works, a private company, introduced a program of family allowances in 1870, in which workers with families received an additional 60 centimes per child a day. Around 1890, several joint associations in northern France instituted the practice of paying workers a bonus upon the birth of children.

World War I accelerated the use of family allowances in France. There were two reasons for this fact which were as follows:

1. French employers, faced with an acute shortage of labor, had to offer special inducements to attract labor; and

[2] Wallace Peterson, *The Welfare State in France,* University of Nebraska Studies, No. 21, 1960, p. 2.

[3] French utopian socialists, such as Charles Fourier, refer to a guaranteed income in their schemes. In Fourier's phalanx form of economic organization, a certain percentage of the common product is set aside for each member of the phalanx, and the remainder is divided between labor, capital, and talent in the proportions of five-twelths to labor, four-twelfths to capital, and three-twelfths to talent.

The utopian socialists believed that man was perfect in his original state. However, customs and institutions established over time had altered this perfection. Since man had been rendered bad by bad customs and institutions, the thing to do was to alter society so as to give nature's forces full play, unhampered by the conventions and institutions of the existing social environment.

It is doubtful, however, that the French utopian socialists had any influence on the French family allowance system. Utopians, French or otherwise, all too often propose grandiose schemes without bothering to mention how the schemes would be financed.

2. Inflation had a deleterious effect on the standard of living of the average French worker. The family allowance was used to compensate workers for a reduction in living standards.[4]

A number of family allowance funds were created on a regional basis. After the end of the war, employers requested that the family allowance be made mandatory in France. The reason was not altruistic, but simply that other employers, operating without the added expense of the family allowance, were able to sell their products at a lower rate than those who were paying the family allowance.

In 1932 the family allowance was incorporated into the French revenue and tax systems. The primary reason for doing so was to stimulate an increase in the birthrate to compensate for the tremendous war losses sustained by the French in World War I.[5] In 1936, under the reforms of the Popular Front government of Socialist Premier Leon Blum, the family allowance system was extended to all employers.[6]

In 1946 the family allowance system was reorganized.[7] It became part of the national social security system, and contributions were placed on a uniform basis. There were several categories of coverage—wage earners, farmworkers, and self-employed. There were no differences in amounts paid on eligibility in these separate schemes. Several types of allowances were created—a family allowance proper to families with two or more children, a sole breadwinner's allowance, and a prenatal allowance. A birth allowance was also created. It was paid in two parts—at birth and 6 months later.

In 1948, a housing allowance was introduced. It was paid to compensate low-income families for housing expenses. It was financed by a tax on employers, and eligibility was based on income and the type of apartment desired.

CURRENT USE OF THE FAMILY ALLOWANCE

As mentioned previously, the basic reason for the introduction of the family allowance as a regular part of the French social welfare system was to stimulate the birthrate. The extent to which the birthrate was increased is open to debate.

However, a more current rationale for the use of the family allowance is to assure families of a minimum level of income.* The allowance is independent of individual incomes, and is based on the num-

[4] The French employers were not intending to be charitable. They felt that by granting family allowances, there would be less demand for higher wages.

[5] French war losses were indeed enormous. For the months of August and September 1914, French dead and missing amounted to 329,000 men, an amount greater than the total American deaths in World War II. Total French deaths from 1914 to 1918 amounted to 1,500,000 men. One-half of those men in the 19 to 32 age category were killed in the war.

Whether or not the family allowance increased the birthrate is a subject for debate. French authorities differ in their opinions. It would appear on an a priori basis that family allowances by themselves would have a minor effect on the birthrate. A combination of factors, including the family allowance, would be a more logical explanation.

[6] The formation of the Popular Front marked the first phase of the development of economic planning in France in that it extended the responsibility of the Government more deeply than ever before into the economy. The Popular Front nationalized the armament industry, introduced a graduated income tax, and institutionalized a Government-protected system of collective bargaining.

[7] In 1944 the National Council of the Resistance produced a plan for France's future which called for the nationalization of primary resources and energy, state control of banks and insurance, and the creation of a comprehensive social welfare system.

* The government is now studying new measures aimed at improving assistance payments to families of five or more children in hopes of stimulating the birth rate which has slackened during the past 2 years.

ber and ages of children which are in the family. The family allowance is not subject to the French personal income tax and its income redistribution effect is debatable.

The rate of the family allowance is based on a rather complicated procedure. A family with one child is not eligible for the family allowance. Families with more than one child are eligible for an allowance that is computed on the basis of a base salary which is 328 francs a month in the Paris area. This base salary represents an arbitrary determination on the part of the French Government of what the minimum income of an unskilled worker is in Paris. This base salary has been criticized by labor unions and family associations as being entirely inadequate by current economic standards.[8] The rate of the allowance is 22 percent of the base salary for the second child, or 22 percent times 328 francs, which is equal to 72.16 francs a month. For successive children through the sixth child the rate increases by 33 percent of the base salary per child. For all children over the sixth child, the rate is a flat 33 percent of the base salary.

The following table presents some idea of the amount of a family allowance which a family would receive. However, it is necessary to point out that if children are between 10 and 15 years of age, an additional increase of 9 percent of the base salary is provided, and for children who are 15 and older, an increase of 16 percent is provided.[9]

Table II.—AN ILLUSTRATION OF THE FRENCH FAMILY ALLOWANCE

[In francs]

	Percentage of base salary [2]	Amount of allowance
Number of children: [1]		
1		
2	22	72.16
3	55	180.40
4	88	288.64
5	121	396.88
6	154	505.12

[1] The children are assumed to be under 10 for the sake of simplicity in computation.
[2] The base salary is 328 francs a month. The amount of the allowance is also expressed in francs.

Source: Union Nationale des Caisses D'Allocations Familiales "Le Guide de L'Allocataire," pp. 46–47.

To finance the system, the employer is taxed at a rate of 11.5 percent of his payroll. The tax applies to wages paid to any worker only up to a ceiling, as of 1967, of 1,140 francs per employee per month. Although the employee's benefits under the family allowance system increases with the number of children he has, the burden on any particular employer is the same whether his employees have children or not. Thus, the system does not discourage employers from hiring workers with children. The employee contributes nothing to the program; the burden falls completely on the employer. All gainfully occupied persons with families, social insurance beneficiaries, and persons for whom gainful

[8] France uses a national minimum guaranteed wage (salaire minimum interprofessional garanti—SMIG), which is an hourly rate. In 1965 it was fixed at 2.0075 francs ($0.41) in the Paris area. Lower rates were fixed in the country's five other wage zones, down to a reduction of 6 percent in the lowest zone. In January 1968, two wage zones were established—Paris and elsewhere in France. The national minimum wage is now set at 2.22 francs an hour in Paris, and 2 percent lower in the other zone. The national minimum wage is also computed monthly on the basis of 40 hours a week or 173.33 hours per month.

The base salary for the determination of the family allowance is uniform throughout France.

[9] However, if the family has two children both of which are 15 and over, the older child is excluded from the allowance.

work is not possible, are eligible for the family allowance. Residents of France or temporary nonresidence workers in the European Economic Community are covered by the allowance.

The financial significance of the family allowance can be demonstrated by several hypothetical examples. The average gross income for an unskilled worker in the Paris area in 1966 was approximately 600 francs a month, or 7,200 francs a year. Assuming a family of three children under 10, the family allowance would be computed as follows: 22 percent of base salary of 328 francs for the second child, and 33 percent of the base salary for the third child, or 55 percent of 328 francs, which is 180 francs per month. This would amount to 30 percent of the average income. If the children are between 10 and 15, an increase of 9 percent of the base salary must be added to the rate for each child, or 31 percent for the second child, and 42 percent for the third child. The family allowance would amount to 40 percent of the worker's income. The allowance is greater for children 15 years and older.

Translating the significance of the French family allowance in terms of U.S. dollars, average gross earnings for an unskilled worker in the Paris area is approximately $120 a month. The family allowance, assuming three children under 10 years of age, would amount to approximately $36.[10] It is estimated by French authorities on the family allowance, that the ratio of the allowance to gross monthly earnings of the average French production worker is 28 percent in the Paris area.

The cost of living is high in Paris and in other major French cities, and the family allowance to many families means the difference between poverty and a minimum standard of living. In the other areas of France, wages are lower, the cost of living is less, and the family allowance, since it is based on the minimum base salary in the Paris area would be greater relative to gross income.

The family allowance and its relationship to salaries and French gross national product over time is presented in the following table:

TABLE III. COMPARATIVE CHANGES IN FAMILY ALLOWANCES, GROSS NATIONAL PRODUCT AND WAGES AND SALARIES

[In percent]

Year	Gross national product	Wages and salaries	Family allowances
1954	100.	100	100
1955	107.3	109.9	107.5
1956	118.0	122.1	116.7
1957	132.4	137.7	124.1
1958	151.9	157.7	137.6
1959	166.3	171.2	144.5
1960	185.1	188.9	157.5
1961	199.0	208.1	170.4
1962	221.3	233.1	194.1
1963	245.2	265.9	223.8
1964	268.3	293.6	243.5

Note: 1954=100 percent.
Source: Rapport General de la Commission des Prestations Sociales, "Fifth Plan, 1966–70." Paris, 1967, p. 104. The family allowance includes all types of benefits of relevance to the family allowance system-prestations familiales.

In addition to the regular family allowance, there is also a single-wage allowance (allocation de salaire unique), which is paid to

[10] The exchange rate is approximately 4.85 francs to $1.

families with only one wage earner. The original intent of the salaire unique was to stimulate the birth rate by encouraging women to stay out of the labor force; its current intent is to help young families. The allowance was paid to households with or without children, but recently adopted regulations exclude the childless couple. Benefits range from 19 to 97 francs a month in the Paris area (less in other zones), depending on the size of the family. The rate of the allowance ranges from 10 to 50 percent of a base which is 194.5 francs in the Paris area, but is less in other areas of the country. For the family with no children, there was a sole salary allowance of 10 percent of the base, or 19 francs. If the family has children, the allowance is 20 percent of the base for the first child, 20 percent for the second, and 10 percent for the third. Normally the allowance is restricted to children under 5 years of age.

There is also a special allowance (allocation de la mere au foyer) for families with two or more children in which the income of the head of the household is derived from a nonsalaried source, and the other parent devotes herself to the care of the family.[11] Its rates range from 10 percent of the base of 194.5 francs in the Paris area for two children, to 50 percent of the base for six children and over. The benefits also range from 19 francs for two children to 97 francs for two or more children. For farmworkers, who are under a separate system, the rates range from 10 percent for one child to 50 percent for three or more children.

The salaire unique and mere au foyer are in addition to the regular family allowance. This means, for example, that a family with one wage earner, and with three children under 5 years of age, would receive 277.25 francs a month in the Paris area.

The number of children covered by the family allowances, including single-wage allowances, numbered 8,309,575 in 1964. Allowances were paid to 3,289,910 families. The majority of French families had either two or three children; only 10 percent had five or more children.

The family allowance system is actually divided into four categories: (1) family allowances under the basic system, which are applicable to all wage and salary earners in France; (2) family allowances for the self-employed; (3) family allowances for farmworkers; and (4) family allowances for farm operators. In 1962, 2,749,766 families received allowances under the basic system; 322,297 families received allowances under the self-employed system; 396,722 families received allowances under the farmworkers system; and 435,281 families received allowances under the farm operators system.[12] The family allowance system is administered, under national control, by separate funds (caisses) at three levels: (1) primary funds, organized on a local or occupational basis, of which there are 34, including one for Paris; (2) regional funds, organized on a regional basis, of which there are 76; and (3) national basis, of which there are three, including a fund for workers employed in deep-sea fishing, interior waterways, and the French merchant marine. There is a national fund (Union Nationale des Caisses D'Allocations Familiales) that acts as an equalization and reinsurance fund for the primary and regional funds.

[11] Union Nationale des Caisses D'Allocations Familiales, "Les Caisses D'Allocations Familiales." Paris, 1967.

[12] The figure of 3,289,910 is applicable only to families covered under the regular family allowance system, and families covered under the self-employed system.

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In addition to the regular family allowances (prestations permanentes generales) there are other types of allowances (prestations generales occasionnelles) which are available to families contingent on occasions—prenatal and maternity allowances, and convalescent allowances.

The prenatal allowance amounts to 22 percent of the base wage (328 francs in the Paris area) per month for 9 months. The maternity allowance is equal to 200 percent of the base wage in a given area. In Paris the amount would be 656 francs. The maternity allowance is paid in two equal portions—the first at the birth of the child and the second 6 months after the birth. All mothers are eligible for the prenatal and maternity allowances.[13]

Finally, there is a housing allowance, payable on a monthly basis to families who devote a certain percentage of their income to rent or to house payments. To be eligible for a housing allowance, a family must receive a family allowance, and live in an area which fulfills certain population conditions and distribution and health standards. The housing must have a minimum number of rooms, which vary according to the number of inhabitants. For example, for five occupants, there must be at least two livable rooms, and one secondary room.[14] The housing must have drinking water, a toilet, and a sewage pipe. Housing allowances for owner-occupied property depend on the age of the dwelling, with owners of newer dwellings getting a higher allowance than owners of older dwellings.

The housing allowance, like the family allowance and the prenatal and maternity allowances, are paid to all French families regardless of income.[15] Calculation of the family allowance takes into consideration the following criteria:

1. The monthly rate actually paid for rent, or for housing bought on an installment basis. This can be called factor LR.

2. A theoretical monthly minimum rent which is obtained by taking 5, 12, and 18 percent of certain portions of family income-portions which vary according to the number of children. This can be called factor LM.

3. A percentage, which varies from 45 percent to 85 percent depending on the number of children, and which, when multiplied by the difference obtained by subtracting LM from LR, gives the housing allowance. The percentage can be called Y.

The formula for the housing allowance can be expressed as follows:

$$HA=(LR-LM)Y$$

The actual housing allowance is calculated on the basis of a combination of factors—family income, number of children, and actual monthly payment for lodging. It is not based on need or level of income, and varies with each family depending on a number of circumstances. The rationale of the housing allowance is the improvement of living standards for the mass of French families. Since the allow-

[13] Unmarried mothers are eligible. The mother must be French, the child must possess French nationality, and the mother's name must appear on the civil birth certificate.

[14] Livable rooms must have a floor-space of at least 9 meters square, ceiling-height of at least 2.5 meters, and an aperture equal to at least one-tenth of the surface area of the room.

[15] The French do not attempt to discriminate on the basis of need. To do this, as one French authority on the family allowance told the author, is to advertise who is poor and who isn't. This invites trouble.

ance varies according to each family situation, an example of its use will suffice.

A French family in the Paris area consists of a husband, wife, and 4 children. The husband and oldest child work; the mother and three younger children remain at home. The three younger children entitle the family to a family allowance, which is a requisite for the housing allowance. During 1965 the father earned 950 francs a month, and the oldest child earned 500 francs from April through December. The family lives in a building which was built in 1963, and which consists of one living room, one kitchen, and four bedrooms. On January 1, 1966, the rent was 380 francs per month which included 30 francs for maintenance.

The computation of the housing allowance is as follows:

1. The actual rent paid (LR) = 350 francs. However, the figure used is 345 francs per month, the ceiling applicable in the Paris area for families with 3 children, living in the type of dwelling mentioned above.[16]

2. The minimum rent (LM) is computed by using several steps:

(*a*) The total income for the year is computed. This amounts to 15,900 francs.

(*b*) An earned income allowance of 28 percent is applied to this gross income; 15,900 francs −28 (15,900) = 11,448 francs (this is rounded off to the next lowest 500 francs, or 11,000).

(c) Taking the three children into account, the minimum annual rent is assessed as follows:

5 percent of the portion between 0 and 4,080 francs	204. 00
7 percent of the portion between 4,080 and 8,160 francs	285. 60
14 percent of the portion between 8,160 and 11,000 francs	397. 60
Minimum annual rent	887. 20
Minimum monthly rent	73. 93*

* This is rounded to the next lowest franc.

(*d*) For this family with three children, the housing allowance rate is 80 percent. Consequently, the formula HA = (LR − LM) Y can be computed as follows:

Real rent—minumum rent x 0.80 = Housing allowance
(345—73) 80 = 217.60 francs per month

The amount of the housing allowance is computed on the basis of the difference between the actual rent paid by a family and a minimum standard rent established for various classes of housing and localities. Against this difference, a percentage is applied to determine the actual amount paid: the percentage varies with the number of children in a family, ranging from 45 percent for a young family without children, to 85 percent for a family with 4 or more children.[17] There is also a ceiling on the actual rent a family may pay in order to benefit from the housing allowance, which varies with the condition of the housing and the number of children in the family. A certain minimum percentage of household income must be devoted to rent or to the repayment of building loans. The housing allowance, however, is small relative to

[16] A ceiling is placed on rent in the Paris area. A shortage of housing is an acute problem.
[17] There is a separate housing allowance for employers and independent workers, which range from 45 percent of the difference between the real rent and the minimum rent for families with 2 children, to 85 percent of the difference for families with 6 or more children.

the regular family allowance, for the reason that many houses and apartments do not meet the minimum health and sanitation standards, and also because rent controls have held down the level of rent in the French cities.

Total expenditures on the family allowance system in 1965 are presented in the following table:

TABLE IV.—*Expenditures on family allowances in 1965*

[In millions of francs]

Type of allowance:	Cost
Prenatal allowances	478
Maternity allowances	320
Family allowances	9,720
Single salary allowance [1]	3,913
Convalescent allowances [2]	55
Housing allowance	1,381
Total	15,867

[1] includes the salaire unique and mere au foyer allowances.
[2] convalescent allowance (conge de maissance) refers to payment for a convalescent holiday for the mother.

Source: Rapport General de la Comission des Prestations Sociales, "Fifth Plan, 1966–70," 1966, p. 104.

SOCIAL SECURITY

The basic social security system provides disability and old-age pensions for ordinary workers, as well as widows' and survivors' benefits. Supplementary schemes provide additional benefits for higher-paid employees and benefits for the self-employed. A medical program provides sick pay and reimbursement for a major portion of medical expenses.[18] In addition, there is workmen's compensation for industrial accidents, unemployment compensation, pensions to war veterans, local relief for poor and infirm, and miscellaneous welfare outlays.

Except for unemployment insurance, social security benefits are financed largely by taxes on employers, and to a lesser extent on employees, rather than from general tax revenues. Social security taxes are subject to Government control but are paid to Government-supervised funds (caisses) rather than directly to the Government. The social security system is complex because there does not exist a single system for the administration of all social security benefits. Much of the system was created during the economic and social reforms which occurred during the period immediately following the end of World War II. Demographic factors—the disproportionately high number of older aged widows who were a consequence of World War I, and the declining birth rate during the interwar period—were primarily responsible for the adoption of the current social security system. The system also represented a continuation of the economic and social reforms which were started by the Popular Front Government in 1936.

Social security proper is financed by a tax on an insured person which is 6.5 percent of earnings up to 1,200 francs a month, plus 1

[18] There are two exceptions to the coverage of the basic social security system: it does not apply to persons who are subject to a particular social security system: for example, coal miners and railroad workers, or to farm workers who are subject to a special farm security program.

Social security proper covers sickness, disability, and old age. Workmen's compensation is also under the system but is financed separately.

percent on any amount above this ceiling, and a tax on the employer of 17 percent of payroll, plus 2 percent on salaries above the ceiling. The total levy on wages to finance basic social security is 23.5 percent of the salary up to 1,200 francs per month, plus 3 percent of earnings above this amount. The employee's contribution is withheld at the source and paid over by the employer.

The following benefits are provided under social security proper:

1. *Old-age pension.*—This pension is paid to persons 60 and over who have had 30 years of insurance coverage (benefits are reduced if the coverage is less). The pension is 20 percent of average earnings in the last 10 years of work (40 percent if the worker has engaged in arduous work). An increment of 4 percent of average earnings is added per year for postponed retirement. Forty percent of earnings is payable at 65 and 60 percent of earnings is payable at 70. There is a reduced pension for workers who have had less than 30 years of coverage. There is also a dependents' supplement of 50 percent of the pension for the spouse, and 10 percent of the pension if three or more children are cared for. There is also a special supplement of 750 francs a year which is paid to low-income pensioners, and a special allowance of 1,450 francs a year for low-income workers who are not eligible for old-age pensions. The old-age pension is adjusted to changes in the cost of living and to annual changes in the national average wage.

There is also a pension for invalids, which amounts to 50 percent of average earnings in the last 10 years, if the worker is totally disabled. The criteria for coverage are participation in the social insurance program 12 months before incapacitation, and 480 hours of employment during this period. Special supplements of 750 francs are also available to low-income workers who are covered under the system, and 1,250 francs to low-income workers not eligible for pensions.

2. *Death and survivors' benefits.*—In the event of the death of a worker who is covered by the social security system, survivors receive a lump sum payment, or "death grant," which is equal to 3 months' salary of the deceased. Fifty percent of the old-age pension paid or payable to the insured is paid to the surviving spouse. There is also a children's supplement payable to widows or widowers with three or more children.

3. *Sickness and maternity benefits.*—These benefits cover the costs of sickness and birth. Sickness benefits compensate for loss of earnings, as well as the medical cost of being sick. There is compensation for loss of earnings which amounts to one-half of a worker's earnings payable for a period of up to 12 months for ordinary illnesses, and up to 3 years for a prolonged illness. Two-thirds of earnings are available to families with three or more children after the lapse of 30 days. Medical benefits provide cash refunds of part of expenses, and include general and medical care, dental care, hospitalization, maternity care, and laboratory services. The patient is free to choose his doctor, and the doctor is free to prescribe whatever treatment he deems appropriate. Fees are fixed between the doctor and the patient, and are paid by the patient who is then reimbursed by the government for a portion of his outlay, normally for 80 percent of the amount set by a standard scale. Patients are also reimbursed for a major portion of outlays for drugs and hospital expenses. For low-income patients, the entire outlay is reimbursed by the government.

Maternity benefits are available to all women covered by the regular social security system. This benefit is separate from maternity allowances received under the family allowance system. (The mother can receive both types of benefits.) The mother receives 50 percent of her earnings, which is payable for up to 6 weeks before, and 8 weeks after, her confinement. If she has three or more children, the allowance is raised to 66⅔ percent of earnings after a 30-day period has lapsed. A nursing benefit, or milk coupons of 5 to 20 francs a month, is also provided for 4 months. To be eligible for maternity benefits, a woman has to be covered by insurance at least 10 months before her confinement, and must have 60 hours of covered employment during the last 3 months.

Workmen's compensation is also under social security; however, the method of financing is different. The employer bears the entire cost through contributions which vary with the degree of work risk involved. The rate averages 3 percent of payroll, with maximum earnings for contribution and benefit purposes set at 970 francs a month. There is no minimum qualifying period, and benefits are of two types—temporary and permanent. For a worker who is temporarily disabled, benefits amount of 50 percent of earnings during the first 28 days, and 66⅔ percent thereafter, payable the day following disability. For the worker who is permanently disabled, benefits amount to 100 percent of earnings during the 12 months prior to disability. There is also constant attendant supplement of 40 percent of the pension. For partial disability, the worker's earnings in the 12 months prior to disablement are used as a base wage, and against this a formula is applied to determine the actual pension the worker will receive.

There is also a widow's and orphan's pension in the event that the worker is killed. The widow's pension (also available to widowers) amounts to 30 percent of the earnings of the workers—50 percent if the worker is 60 or over. The orphan's pension amounts to 15 percent of earnings for each of the first two children under 16 and 10 percent for each additional child. For full orphans (no surviving parent), the amount is 20 percent for each child, and for other dependent relatives, the amount is 10 percent of earnings for each, up to a maximum of 30 percent. The maximum amount of widow's and orphan's benefits is 85 percent of the earnings of the insured. In addition, there is a funeral grant to cover the cost of burial.

Farmers and farmworkers are not covered by the social security schemes mentioned above, but are members of special agricultural welfare schemes (mutualite sociale agricole). Basic social security benefits for farmworkers are financed by a levy of 17 percent on farm wages, of which 11.5 percent is paid by the employer and 5.5 percent by the employee. It is proposed, however, to finance the cost of the farm welfare system out of receipts from the value-added tax. Farm family allowances are financed by levies based on the minimum farm wage set in a given area.

Farm social security contributions are supplemented by revenues from other sources, including general Government revenues. The rationale for this support is the admission that industry can pass social security taxes on to the consumer in the form of higher prices, whereas farm prices are determined by market forces which are beyond the control of the individual farmer.

The social security system in France is complex and fragmented. Special systems exist for farmworkers, coal miners, railroad workers, public utility employees, seamen, and public employees, in addition to the general social security system which covers about 50 percent of the population. There is some intermingling of the general and special systems, with workers receiving benefits from both systems. The social security system is decentralized, with a number of different funds (caisses) operating at a primary, or local level. These funds are managed by boards chosen by the employer and employee contributors, and are responsible for the collection and disbursement of revenues. There are also regional funds, and a national fund which is responsible for the coordination of the activities of the regional funds, and the financial equalization of benefits between localities.

Unemployment Compensation

Unemployment compensation was formerly paid by local governments out of special public funds supported by general revenues of the National Government. There is also a supplementary unemployment benefit program for employees in commerce and industry, which is financed by a levy of 0.35 percent applicable to wages up to an annual ceiling of 49,800 francs.

To be eligible for unemployment compensation, a worker must have 150 days of paid employment in the year prior to unemployment. He is also subject to an income test in that his total income, including the family allowance, is less than a specified amount. The unemployment allowance is up to 6.3 francs a day in the Paris area, and up to 5.8 francs elsewhere, payable for 150 days. There is also a dependent's supplement which varies according to the region of the country. The unemployment allowance and dependent's supplement can approach, as a maximum, two-thirds of the average income of the household.

Separate supplementary unemployment compensation funds are administered by commercial and industrial employment associations, which are members of the National Commercial and Industrial Employment Federation (Union Nationale Interprofessionelle pour L'emploi dans L'industrie et le Commerce). The associations, under present plans, are to be given the responsibility of dispensing public unemployment compensation payments, thus having a single dispensing authority for both public and supplementary payments. Local employment exchanges are responsible for the payment of compensation allowances, which are low relative to wages. However, the family allowance and other related benefits continue for workers who are unemployed through no fault of their own. The unemployment compensation system is also fragmented, in that separate systems exist for certain classes of workers.

The Personal Income Tax

The French income tax is progressive. Rates range from 5 percent on taxable incomes from 0 to 2,500 francs to 65 percent on taxable incomes in excess of 72,000 francs.[18] However, the family quotient system reduces the progressivity of the income tax as the size of the

[18] These rates were correct as of July 1, 1966. However, modifications were made in the French tax system in 1967. These changes, however, do not affect the basic structure of the French tax system.

family increases. The family quotient system allows the individual taxpayer to split his income into shares based on the number of his dependents. The income tax is levied on each share. The system takes into account not only the amount of the taxpayer's income, but also the number of persons who live on that income. Its net effect is to reduce the operation of progression and thus the relative tax on larger families. Splitting of income into additional parts as the number of children in the family unit increases is based on the view that a family's living standard declines with each additional child.

The income tax is levied on income from wages and salaries, dividends, and interest, capital gains and profits from industrial commercial activities, and agriculture, net after deduction for social security contributions. From net income, two basic deductions are permitted—a 10-percent deduction for personal expenses (up to 30 percent is permitted for certain professions), and an additional deduction of 20 percent on the balance. Wage and salary earners are also entitled to a tax credit of 5 percent on their net taxable salary or wage.

The family quotient system works as follows: Income is divided into a certain number of shares based on the number of dependents in a family. Each adult is entitled to one share, and each dependent child is entitled to a half share. For example, a couple with four children would have four shares—one each for the two adults, and one-half for each of the dependent children. The income tax is paid on each of the four shares at a rate which is calculated for portions of each share contained in various tax brackets. This couple would pay the same tax on an income of 40,000 francs as four single persons with an income of 10,000 francs each, or two childless couples with an income of 20,000 francs each.

The rates of the personal income tax are presented in the following table:

TABLE V.—*Rates of the French personal income tax, as of July 1966*

Income in francs:	*Rate in percent*
0 to 2,500	5
2,500 to 4,500	15
4,500 to 7,600	20
7,600 to 11,250	25
11,250 to 18,000	35
18,000 to 36,000	45
36,000 to 72,000	55
72,000 and over	65

Source: World Tax Series, "Taxation in France," Chicago: Commerce Clearing House, Inc., 1966, p. 868.

There is a special surcharge on taxpayers with large incomes. This surcharge, which has been in effect since 1956, is 5 percent on taxable incomes in excess of 50,400 francs.

The above incomes would be net of deductions. As a general rule only 72 percent of wages and salaries are treated as taxable income.

To illustrate the computation of the French income tax the following example will be used:

Assume a family with four children has an annual income of 40,000 francs.[19]

To compute the income tax, gross income is converted into net taxable income by the application of several deductions, allowances, and credits, which are as follows:

[19] If the wife works, her income is aggregated with that of her husband.

1. A deduction is permitted for social security, unemployment insurance, and pension expenses. The taxpayer may deduct from his income contributions made by his employer toward his retirement pension. He may also deduct his own contributions to the social security and unemployment insurance schemes.

2. A normal standard expense deduction of 10 percent is permitted for expenses incurred in earning income. There is also a supplemental standard deduction of up to 40 percent for occupations which require unusually high expenses in earning incomes. For example, actors are allowed a 25 percent supplemental deduction, and traveling salesmen are allowed 30 percent.

3. An earned income allowance of 20 percent is permitted, and is applicable after gross income is reduced by the above deductions.

4. A tax credit of 5 percent is applicable to net taxable income, and is deducted from the total amount of the income tax owed by the taxpayer.

The following example is used to illustrate the mechanics of the French income tax. A family with four children is used.[20] Its gross income before the deduction for social security and other welfare contributions, the standard expense deduction, and the earned income allowance is 40,000 francs.

	Francs
Gross income	40, 000
Less welfare contributions (estimated)	1, 000
Total	39, 000
Less normal 10 percent standard deduction	3, 900
Total	35, 100
Less earned income allowance of 20 percent	7, 020
Equal net taxable income	28, 080

The French taxpayer normally pays a tax on 72 percent of gross income less welfare contributions. In the example, 28,080 francs is 72 percent of 39,000 francs. The 28,080 francs is now divided into four parts—one each for the husband and wife, and one-half for each of the four children. Each part represents 7,020 francs. The tax on one part is multiplied by the total number of parts to give the tax which is owed by the taxpayer.

The personal income tax is calculated for portions of income contained in various tax brackets. The tax per part in the example would be computed as follows:

	Francs
2,500 times 5 percent	125
2,000 times 15	300
2,520 times 20	504
Total	929
Gross tax on 4 parts: 929 times 4	3, 716
Less 5 percent credit on net taxable income	1, 404
Equal amount of tax	2, 312

[20] The example is atypical rather than typical. The average French family contains 3 persons rather than 6, and the average income would be less than half of that used in the example. For the sake of simplicity, the income is assumed to be from one source—wages. Tax treatment of dividends and interest is not considered. The example, however, illustrates the basic rudiments of the French tax system.

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The same family would pay a tax of 568 francs on a gross income of 20,000 francs.[21] When the income tax is compared to net taxable income, the effective rate is 8.2 percent on the first income and 4.1 percent on the second income.

Tax preference to families is greater in France than any other country in the European Common Market. It is estimated that, at an income level of 30,000 francs, the amount of the tax on a family with two children was 52 percent less than the tax paid by a bachelor. The corresponding difference in West Germany was 14.5 percent.[22]

The family-quotient system reduces the progressiveness of the personal income tax and the relative tax on large families. In itself, however, it is of no particular value to low-income families for the reason that they would pay little or no taxes with or without income splitting. It also can be argued that the family-quotient system would stimulate larger families in the middle and upper income groups.

However, tax relief is provided to low-income taxpayers through the provision of vanishing exemptions. These exemptions are provided to taxpayers whose tax liability per part is less than a specified minimum, or is within an intermediate range, and are of two types—full exemptions and partial exemptions. The full exemption is given to a taxpayer whose tax per part, after the allowance of the 5-percent tax credit on net taxable income, is less than 80 francs; the partial exemption is given to any taxpayer whose tax per part, after application of the 5-percent credit, is between 80 and 240 francs.[23] A full exemption is also given to a taxpayer whose income is less than the guaranteed national minimum income.[24] A taxpayer whose taxable income is more than 240 francs per part (450 francs if he is more than 75 years old) has no exemption.

The vanishing exemption means that in general a single person, who is entitled to only one part, is exempted from payment of personal income taxes if his income from wages, salaries, or pensions is less than 5,000 francs. As mentioned previously, net taxable income is normally 72 percent of gross income less social welfare contributions. Seventy-two percent of 5,000 is 3,600, and the tax would amount to 110 francs.[25]

A taxpayer who is entitled to two parts, and whose earnings are less than 8,890 francs is exempt from tax payments; a taxpayer, entitled to three parts, and whose earnings are less than 13,340 francs, is exempt from payment; and a taxpayer, entitled to four parts, and whose earnings are less than 17,000 francs, is exempt from payment.

It is estimated that, because of the family-quotient system and the vanishing exemption for small taxpayers, more than 80 percent of French wage earners are exempt from the personal income tax.[26]

[21] The same 1,000 franc deduction for social welfare contributions is used.

[22] World Tax Series, "Taxation in France," Commerce Clearing House, Inc., 1966, pp. 865–866.

[23] The tax reduction is equal to one-half of the difference between (1) the figure obtained by multiplying the number of parts by 240 francs, and (2) the amount of tax before the reduction.

[24] The national minimum guaranteed wage (salaire minimum interprofessional garanti) is an hourly rate, presently fixed at 2.0075 French francs ($0.41) in the Paris area. Lower rates are fixed in the system's 5 other wage zones, down to a reduction of 6 percent in the lowest zone. The national minimum guaranteed wage is also computed monthly on the base of 40 hours a week. The national minimum income in the Paris area amounts to 3,940 francs a year.

[25] The tax per part is 2,500 times 5 percent equals 125 francs, and 1,100 times 15 percent equals 165 francs, for a total of 290 francs, less 5 percent of net taxable income of 3,600 equals 180 francs.

[26] Taxation in France, *op. cit.*, p. 70.

Income-splitting into parts reduces the burden of the tax. Net taxable income in no case is more than 72 percent of gross income; in some cases it is as low as 50 percent. Moreover, two sectors of the economy—farmers and small businessmen—are considered economically weak and are entitled to report estimated income rather than actual income.

Never let it be said however, that France is a taxpayer's paradise. According to the U.S. Treasury, French tax collections amount to 44.2 percent of the national income, the highest in the world for a developed country.[27] Greater reliance is placed on sales taxation than in other industrial countries. The value-added tax is by far the most important tax in the French revenue system, and contributes well over twice the revenue as the individual income tax. Consumption taxes, including the value-added tax, accounted for 57.3 percent of French tax revenue in 1964, compared to 30 percent for personal and corporate income taxation.[28]

However, reliance on indirect taxation does not necessarily mean that the French tax system is regressive. The value-added tax is levied at differential rates, ranging from zero percent on farm products and other essentials to 25 percent on luxury items. The standard rate is 20 percent, and there is a reduced rate of 6 percent applicable to certain widely consumed foodstuffs, such as oil, flour, sugar, margarine, and chocolate. Products which are exempt from the value-added tax include bread, milk, and dairy products. Nevertheless, the value-added tax is designed to favor exports and investment in capital goods, and is, in effect, a tax on consumption.[29]

In addition to the value-added tax, there is a tax on services rendered on a commercial basis, and a local tax on the retail sales of commodities, which is levied by the national government for the benefit of local government units. The normal rate of the service tax is 8.5 percent on commercial transactions. However, in January 1968, the service tax will be abolished and the value-added tax will be extended to services. The local tax is a single-stage retail sales tax applied, as a general rule, to the final sale on an article to the consumer. The normal rate is 2.75 percent, applicable to retailer's gross receipts.

France's very comprehensive social security and family allowance systems are financed, not out of general revenues, but by special taxes on employers and, to a lesser extent, on employees.[30] The social security and family allowance levies are paid to government-supervised funds rather than directly to the government. From the employer's point of view, social security and family allowance levies are costs which are to be shifted either to the employee in the form of lower wages, or the consumer in the form of higher prices. These levies are a significant

[27] *Ibid.*, p. 67. The French tax system, with its emphasis on indirect taxation, is far from irrational. Especially after World War II, economic growth and investment needs required great capital accumulation; the tax system contributed by facilitating saving and penalizing consumption. In few countries are tax incentives as numerous or varied as in France. Incentives, particularly under the value-added tax, are used to encourage plant modernization, housing construction, and the development of export markets.

[28] Bureau d'Etudes Fiscales et Juridiques Francis Lefebore, "Summary of Taxation in France," 4th ed., 1966, p. 4.

[29] A tax credit system prevents the value-added tax from having a cascade effect on prices. Business firms can deduct from the value-added tax due on taxable sales, the tax which accrued on all purchases from suppliers. The value-added tax is computed on the total sales and reduced by an amount equivalent to the credit for the tax paid on goods and services used in the production process.

[30] In France, 97.7 percent of the cost of the entire social welfare program—social security and family allowances—is financed by taxes on employers and employees, and less than 1 percent out of general revenues of the Government. Approximately 75 percent of the cost of the social welfare system is borne by the employer.

part of total labor cost in France. To a typical French employer, the cost of social security and family allowances would represent on the average about 28.5 percent of gross payroll costs. Legally required nonwage labor costs, including social security and family allowances, in the mechanical and electrical construction industries in April 1966, amounted to 55.5 percent of the total payroll. Estimated legally required nonwage labor costs of operating a business in Paris are about 50 percent of payrolls.[31]

Effect of Social Welfare Payments on Income Distribution

Welfare expenditures are a significant part of national income in France. In 1966 household gross income in France amounted to 400 billion francs; of this amount, earnings from employment (wages and salaries) amounted to 173 billion francs, social security and family allowances amounted to 89 billion francs, gross entrepreneurial income amounted to 101 billion francs, property income amounted to 12 billion francs, and income from other sources amounted to 25 billion francs.[32] In the same year, social security and family allowance payments equaled 29 percent of the sum spent on private consumption.

However, several salient points should be remembered in connection with the French social welfare system:

1. The family allowance is paid to all French families regardless of need, and is not subject to the French personal income tax. It represents no conscious attempt to ameliorate poverty.
2. The family allowance, as well as other social security measures, is financed by taxes on employers. This in itself, means that there is no income redistribution effect involved in the financing of social welfare measures in France, as progressive income taxation is not used.
3. The family-quotient system permits taxpayers to split their incomes into parts based on the number of members in the family. Through a system of vanishing exemptions, the low-income taxpayer is given relief. However, the personal income tax discriminates within income groups considerably more than it discriminates between income groups.
4. There is more reliance on indirect taxation in France than in other major industrial countries. The French Government, to stimulate the economy through savings and investment, has pursued tax policies which are designed to discourage consumption. A wide variety of tax incentives, particularly through the use of the value-added tax, are designed to encourage investment. The value-added tax itself, however, is not regressive; it is levied at rates which vary from 0 to 25 percent depending on the product involved.

Probably the fundamental and most important point concerning the social welfare system involves its financing. Since the social security and family allowance taxes are levied almost exclusively on the employer, there is a strong presumption that this incidence is on the French consumer. The taxes can be considered as part of business costs, and employers presumably will attempt to shift them on to the con-

[31] U.S. Department of Commerce, "Establishing a Business in France," Bureau of International Commerce, November 1966, p. 9.
[32] OEDC Economic Surveys, "France," Paris: May 1967, p. 15.

sumer in the form of higher prices.[33] The extent to which they can be shifted depends on a complex of variables, including the elasticity of demand for the employer's product, the degree of monopoly possessed in the market for the product, and the effect of the tax on consumer demand. Since aggregate demand has tended to exceed aggregate supply in France, as well as in other European countries, during the postwar period, it can be said that conditions favorable to the shifting of these taxes to the consumer exist. Higher prices mean that the beneficiaries of the social welfare system pay for most of its cost.

There is little taking from the "classes" and giving to the "masses" taxation in France. The value-added tax, rather than the personal income tax, is the single most important source of revenue. The progressiveness of the personal income tax is reduced through the use of income-splitting and through special professional allowances to certain types of workers. This means that the burden of transfer expenditures is placed on an array of indirect taxes which fall on the employer and the consumer with consequent price and income effects. The external effect could mean that French products would be priced out of competition in world markets; however, exemption of exports from the value-added tax and other factors exert a counterbalancing effect.

Wallace Peterson, in his monograph, "The Welfare State in France," makes the following conclusions about income distribution and the French welfare system: [34]

1. No evidence exists to suggest that there is any substantial vertical redistribution of incomes between income classes through social welfare transfer payments, for the reason that they are financed by indirect taxes which are borne ultimately by the beneficiaries of the payments through higher prices.

2. The proportion of French national income that is redistributed through the machinery of government transfer payments is twice as large as it is in Great Britain and almost five times larger than in the United States. Although the French worker is protected against all of the vicissitudes of life—unemployment, sickness, and old age—it cannot be said that a minimum acceptable standard of living is provided for all French citizens. However, a minimum standard of living, particularly in France where there is a large agricultural population, is hard to define.

3. Income is redistributed within social and income classes rather than between classes. The transfer payments are progressive within classes in that they are often tied to the size of the family. A single person within a given income group would pay a higher income tax than a family with the same income, but would not receive the family allowance. A horizontal redistribution of income occurs, for example, with family allowances, for they tend to redistribute income from small to large families.

4. Distribution of transfer payments between social classes favors the nonactive segment of the population over the active segment. This

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[33] Business taxes can affect individuals as consumers by changing the relative prices of the commodities they buy. In addition, such taxes may affect personal incomes, via induced changes in the demand for factor services, e.g., labor. This would depend on the elasticity of the supply curve of labor. With labor of most types in short supply in postwar France, and with the inflationary bias that has existed in the economy, the social securiy and family allowance taxes are shifted forward to the consumer instead of backward to the suppliers.

[34] Wallace C. Peterson, "The Welfare State in France," Lincoln: University of Nebraska Press, 1960, pp. 66–104.

can be attributed to the fact that pensions constitute one of the major parts of the French social security system. Farmers also benefit from transfer payments under the French social security system.[35] In 1952 farmers received 8.1 percent of their income in the form of transfer payments, while paying out 1.3 percent of their income in the form of income and social security taxes. Wage-earners are also significant beneficiaries of the social security system. In 1952 they received 18.1 percent of their income in the form of transfer payments, while paying out 6.3 percent of their income in the form of income and social security taxes. The least-favored group was the self-employed, who received 6.1 percent of their total income in the form of transfer payments, while paying out 6.5 percent of their income in the form of income and social security taxes.[36]

Social welfare policies have conflicted to a certain extent with policies designed to stimulate economic growth. Reliance on indirect taxation has resulted from a conscious effort on the part of the government to stimulate savings and investment and discourage consumption. In few countries of the world are tax incentives as numerous or as varied as in France. These incentives are used for a variety of purposes—stimulate research and development, encourage plant modernization, housing construction, and develop export markets. These incentives are primarily available under the value-added tax.

Summary

France has one of the most comprehensive and extensive social welfare systems in the world. In few countries do transfer payments from the social welfare system—social security and family allowances—account for a greater proportion of national income than in France. Total social welfare payments amount to approximately 29 percent of national income. To finance these payments, reliance is placed on special taxes on employers, and to a considerably lesser extent on employees. These taxes are paid into special social security and family allowance funds from which benefits are paid. Revenues and expenditures are carried in a special social budget, but are not reflected in the ordinary budget of the government. Outlays under the social budget are almost as large as those under the ordinary budget, reflecting the importance of social welfare expenditures to the French economy.

The family allowance system was started on a voluntary basis in the 19th century, and was put into effect on a national basis in 1932. The system consists of several parts: a family allowance (allocation familial), which is designed to provide a minimum level of support for each child in a family; special allowances for families with only one wage-earner (allocation salaire unique and allocation mere au foyer); prenatal and maternity allowances; and housing allowances (allocations de logement), which are grants paid to families that spend a certain percentage of their incomes for rent, and live in residences that meet certain minimum conditions of health and sanitation. To be eligible

[35] The French farmer gets special tax treatment. Income from agriculture is taxed under a separate category than personal income. The farmer can report actual income or estimated income; the latter is the normal method. Farmers are generally not liable for the value-added tax on their salese; and as an incentive to acquire machinery, purchases of such receive a subsidy of 10 percent of cost.

[36] Peterson, p. 69.

for family allowances, employment and coverage under the family allowance system are the basic criteria.

Social security proper covers old-age pensions, sickness and medical benefits, and maternity benefits. It is financed through taxes on employers, and to some extent on employees. The proportion of contributions which come from the employer is the highest of any industrial country in the world. Unemployment compensation is administered separately from social security, is paid by local government units out of public funds, and involves no special levies on either the employer or employee. Workmen's compensation, although under the social security, is financed by a tax on the employer only.

The French social welfare system has two objectives: assurance of a minimum living standard for all citizens; and a more equitable distribution of income. It has accomplished the first objective more successfully than the second. However, there is the question of whether the second is compatible with a high rate of economic growth. French fiscal policy during the post-World War II period has favored measures to stimulate saving and investment and discourage consumption.

Chapter III

GREAT BRITAIN

Introduction

Aid to the poor in Great Britain began with the Elizabethan poor-law system, initiated with the Act of 1598, which, with various amendments, the most significant of which was the Poor Law Amendment of 1834, remained the law of the land until 1948. The National Assistance Act of that year opened with the statement, "The existing poor law shall cease to have effect."

The modern British social welfare system began with the Beveridge Report of 1942.[1] The report was the first comprehensive survey of the British system of social insurance ever made, and it provided a carefully reasoned scheme—the Beveridge plan—for the abolition of wants, as they had been known during the interwar period. The Beveridge plan was essentially an insurance scheme, giving in return for contributions, benefits up to a subsistence level, as a right and not based on a means test.[2] In return for contributions which all would pay, a minimum income sufficient to meet basic needs, would be guaranteed for all periods of interrupted earnings, whether through sickness, disability, unemployment, or old age. In addition, there would be grants for the normal incidents of life that called for unusual expenditures; for birth-maternity grants, for children-family allowances, and for death-funeral grants.

From 1945 onward, the Labor Government enacted about as complete a system of public welfare measures as could be imagined—the phrase used to describe it, "cradle to grave," was apt. From before birth when expectant mothers were provided with medical care, special foods, and compensated vacations until death when grants toward funeral expenses were provided by the state, the individual Briton was insured against every hazard and insecurity possible. The British went in one respect far beyond what any free society had previously ventured: they gave every citizen free medical care. The National Health Service Act of 1946 provided that doctors should accept patients for whose treatment they would get paid by the state. Medicines, appliances like glasses and false teeth, and hospital treatment were all provided free to everyone in Great Britain, including foreigners.

Currently, social welfare expenditures comprise a large part of total government expenditures. The growth in this area has been rather pronounced. In 1957 expenditures on national insurance, pensions, family allowances, and other forms of social welfare assistance were less than

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[1] Sir William Beveridge, "Social Insurance and Allied Services," London: His Majesty's Stationery Office, Cmd. 6404, 1942.

[2] The greatly-despised means test, which was utilized extensively during the 1930's, is the key to the philosophy which underlies the entire British social welfare system. To attempt to differentiate between rich and poor, is to bring back memories of the means test. The British welfare system is available to all persons, whether they need it or not. There is no anti-poverty program which distinguishes between groups on the basis of income.

half of current expenditures. Financing of the British social welfare system, however, is different from the French approach in two important respects:

1. The cost is financed in part from social security contributions and in part from general revenue.
2. In France the cost of social security falls largely on the employer; in Great Britain, employers and employees contribute pretty much the same amount.

Family Allowances

Family allowances, as a percentage of gross national product and household income, are not nearly as large as in France. Also, they are of much more recent origin in Great Britain, dating back to 1946, whereas the French system dates back to the middle of last century, even though it has formally been in effect through legislative fiat since 1932. The Government finances the allowance out of general revenue; there is no tax on the employer or on the employee. In this connection, it must be emphasized that there is much greater reliance on direct taxation, specifically the personal income tax, in Great Britain than in France. Taxes on income and wealth account for approximately 54 percent of government revenue in Great Britain compared to 30 percent in France. In 1965, social security contributions amounted to 16.6 percent of gross national product in France compared to 5.4 percent in Great Britain.

Family allowances are cash payments for the benefit of the family as a whole. They are paid to families with two or more children under certain age limits.[3] No allowance is paid to a family with only one child under the age limit. The allowance is 15 shillings a week for the second child and 17 shillings a week for subsequent children.[4] For example, a family with three children would receive 32 shillings a week and a family with five children would receive 66 shillings a week. There is no income limit or means test but allowances must be declared as income for tax purposes. Allowances do not in any way depend on national insurance schemes.

Allowances can be paid to an adult member of any family in which there are two or more children. In the case of a married couple, either the wife or husband may draw the allowances, but they belong by law to the wife and it is she who must claim them. Every claimant must satisfy a residence requirement of at least 26 weeks, and there are reciprocal family allowance arrangements with other countries.

Family allowances were included in the Beveridge plan. He stated the case for them on several grounds:

1. There was a need for a national minimum income in employment, no less than in unemployment: prewar surveys had shown how much want existed, even when a wage earner was at work.
2. There was an anomalous situation by which, without additional assistance for children, wages might be no more, or even less, than unemployment benefits.

[3] To count for family allowances, a child must be either under the minimum school-leaving age, 15 years, or of over that age, under 19 and undergoing full-time education. Roughly, speaking, therefore, family allowances continue up to university entrance.

[4] The shilling is worth \$.12. There are 20 shillings to a British pound. The above rates went into effect in April 1968, marking the third time on 21 years that the family allowance has been increased. In October 1968 the allowance will be increased to 18 shillings a week for the second child and 1 pound a week for each child after the second.

3. Lastly, there was the need, with a falling birth rate, for the utmost care for children, and the greatest possible encouragement for having them.

Under the Beveridge plan, unlike other welfare benefits, family allowances were to be paid from national taxation and not based on insurance contributions. The allowances were to be essentially for the benefit of the family, and were to be paid for each child after the first. The family allowance fitted with the Beveridge policy of socializing demand rather than production, in that it helped to attach directly the central weakness of the unplanned market economy of the interwar period—failure to generate effective demand for products. Socialization of demand, according to Beveridge, would make it possible to retain the private enterprise system in England.

Family allowances became the first of the new welfare services to be introduced. The necessary bill was introduced to Parliament in 1945, in the last days of the coalition government, and actually became law during Churchill's short-lived second Ministry of May–June 1945.[5]

The average earnings of adult male workers in Great Britain in 1967 were 21 pounds, 7 shillings a week. Expressed as percentages of annual earnings, family allowances would amount to 3½ percent of earnings for the family with average earnings and with two children, 12 percent for a family with four children, and 20 percent for a family with six children. For the average wage earner's family, the allowances modify only slightly the fall in living standards resulting from an increase in family size. The lowest paid male workers, however, earn only about half the average wage. At this level of earnings, family allowances can be a significant component of family income. However, for a family with two children aged between 11 and 16 and an income of 1,100 pounds a year or more, their value (i.e., family allowances) is reduced by more than a third; and for a family who is liable to the surtax, by very much more, since family allowances are taxed at a rate applicable to earned income.

In 1966 nearly 4 million families received family allowances. The allowance applicable during this period was 8 shillings for the second child and 10 shillings for subsequent children. Of these families, 59.5 percent had two children; 24.8 percent had three children; 9.6 percent had four children; and 6.1 percent had five or more children. For the fiscal year ending March 31, 1966, 146 million pounds were paid in allowances—48 million pounds to families with two children, 45 million pounds to families with three children, 26.5 million pounds to families with four children, and 26.5 million pounds to families with five or more children.[6]

However, family allowances, when related to gross national product and personal income, have declined in importance over the last decade. They have been increased three times since they were introduced by the Family Allowance Act of 1945—in 1952, 1956, and 1968. Expenditures on family allowances as a proportion of total social service expenditures has decreased from 4.2 percent in 1948 to 2.5 percent in 1966.

[5] Churchill, himself, opposed the Beveridge plan. "It is because I do not want to deceive the people by false hopes and airy visions of El Dorado and Utopia," he observed, "that I have refrained so far from making promises about the future."

[6] Ministry of Social Security, Annual Report for 1966, London: Her Majesty's Stationery Office, Cmnd., 3338, p. 15.

The family allowance, when compared to the French family allowance, is of considerably less importance as a source of financial support to families with children. For the average French family with three children of less than 6 years of age, the family allowance represented 31.3 percent of income; in Great Britain for a family in the same situation, the family allowance represented 6.2 percent of income.[7]

Supplementary Benefits

A convenient measure of the extent of poverty in Great Britain was provided by the National Assistance Board scales which were laid down and periodically revised by the Minister of Pensions and National Insurance with the approval of Parliament. These scales listed the amounts necessary to meet the essential needs of adults and children, and the National Assistance Board allowances actually paid were calculated wth reference to them. National assistance benefits were paid to certain categories of persons not in full-time work, such as the aged, infirm, and unemployed, whose incomes did not come up to a prescribed level which, expressed in terms of a weekly rate, ranged from 3 pounds, 16 shillings for a single person, to 6 pounds, 5 shillings for a married couple. If children were included, the rate ranged from 1 pound, 2 shillings, 6 pence per child for children under 5, to 2 pounds, 11 shillings per child for dependent children over 18.

The following example gives an indication of the level of national assistance payments. A family with two children aged between 5 and 11 and with no income of their own except the family allowance of 8 shillings would have received a national assistance grant sufficient to bring their income, including family allowance, up to 8 pounds, 19 shillings, 6 pence plus an addition to meet the cost of rent.

In June and July 1966, the Ministry of Pensions and the National Assistance Board carried out a survey of families with two or more children. The report, "Circumstances of Families," indicated that out of 3,900,000 families with two or more children, 280,000 had resources which were less than their basic requirements as measured by reference to the national assistance scales which were current at the time of the survey.[8] The 280,000 families had 910,000 children.

The Ministry of Social Security Act of 1966 established a new scheme to provide noncontributory benefits for people whose resources are less than minimum standard requirements established by the act. This scheme of supplementary benefits replaced as of November 1966 the benefits that were available under the national assistance scheme.

Supplementary benefits are of two types: supplementary pensions for persons over pension age who have ceased full-time work and need to have their incomes brought up to a guaranteed weekly level; and supplementary allowances for the sick, disabled, unemployed, widows, mothers left alone with young children, and others aged 16 or more but under pension age who are not in full-time employment, and whose resources fall short of income requirements. The rationale of supplementary benefits is the provision of a minimum income stand-

[7] British family allowances relative to personal income are far lower than any of the Common Market countries. The 6.2 percent for the family with three children can be compared with 26.5 percent in Belgium, 15.2 percent in Holland, and 10.9 percent in West Germany.

[8] Ministry of Social Security, "Circumstances of Families," London: Her Majesty's Stationery Office, 1967.

ard to persons who, even after family allowances and other social welfare benefits, do not have enough income to cover essential requirements for an adequate standard of living.

The supplementary benefit scheme provides a set of income requirements which are considered necessary to the provision of a basic living standard. These requirements for supplementary allowances are 4 pounds, 6 shillings for a single person; and 7 pounds, 1 shilling for married couples. Other rates range from 3 pounds, 11 shillings for a nonhouseholder recipient aged 21 or over, to 1 pound, 5 shillings for a child under 5 years of age. For supplementary pensioners and for recipients (other than the unemployed) who have been getting supplementary allowance (or national assistance) continuously for 2 years, an addition of 9 shillings a week is made to the requirements to provide a margin for special expenses. When special expenses exceed 9 shillings, or the standard addition is not payable, the supplementary pension or supplementary allowance may be increased. An allowance for rent is also added to these basic income requirements.

The supplementary pension or allowance is the difference between the income taken into account and the income requirements of the family calculated in accordance with the rates laid down in the act. National insurance benefits and family allowances are taken into account, but part of most other forms of income can be ignored; for example, up to 2 pounds a week of disability pensions and part-time earnings can be ignored.[9]

An example of the computation of supplementary pensions is as follows: A person who is over 65 and who receives a pension of 4 pounds, 10 shillings a week and pays 30 shillings a week rent would be entitled to a supplementary pension of 1 pound, 15 shillings per week. This is obtained by subtracting the pension of 4 pounds, 10 shillings from the total weekly minimum requirement of 4 pounds, 15 shillings and the rent of 30 shillings. A further 500 pounds of capital may also be ignored in certain cases.

Several attempts have been made to estimate the degree of poverty that exists in the United Kingdom. Brian Abel-Smith and Peter Townsend in their book, *The Poor and the Poorest*, used Ministry of Labor Family Expenditure Surveys for 1953–54 and 1960 as basic data on family income and expenditures.[10] The National Assistance Board basic scales were taken as a measure of poverty. The use of national assistance or supplementary benefit levels for the purpose of this analysis has the drawback that every time the basic scales are increased, there is an increase in the number of people apparently living in poverty. Households with expenditures of less than 40 percent above the 1953–54 assistance scales were called low-expenditure households. Using the 1953–54 scales as a criterion of poverty, Abel-Smith and Townsend estimated that 1,150,000 children lived in such households. The 1960 analysis was based on income, not expenditures, and there was an estimated 2,250,000 children in low-income households. This analysis also shows that between 7 million and 8 million persons—about 14 percent of the population of the United Kingdom—were living below a scale 40 percent above the then national assistance scale.

[9] The capital value of a house which is owned by a claimant for assistance is ignored in working out the amount of supplementary pensions and allowances. Also, if a claimant has capital of less than 325 pounds, it is ignored as income together with any income it produces.
[10] Brian Abel-Smith and Peter Townsend, *The Poor and the Poorest*, London: G. Bell & Sons Ltd., 1965.

In the report, "Circumstances of Families," which was published by the Ministry of Social Security, it is estimated that in 1966 out of a total of 3.9 million families with two or more children in Great Britain, 280,000 had initial resources—i.e., their incomes excluding any assistance allowances—which were less than their requirements, as measured by reference to the national assistance scales which were then current.[11] The number of children amounted to 910,000. If supplementary benefits are used, the number of families would amount to 345,000 and the number of children to 1.1 million.[12]

The incidence of poverty in Great Britain occurs most frequently among several segments of the population—old people, families with four or more children, disabled people, unemployed workers, and families where there are no fathers. Full-time workers earning less than 10 pounds per week can in general be considered as living at a poverty level.[13] Minimum incomes required by families with two or more children, according to supplementary benefits scales, can easily equal or exceed a family's normal income from the father's full-time earnings and family allowances. However, supplementary benefits cannot be used to assist the family while the father is working full time. Also, if supplementary benefits were paid at the normal rate when the father was out of work, it would provide a direct financial incentive for him to remain out of work. To prevent this, a rule known as the "wage stop" provides that the supplementary benefit payable in such cases must be restricted so that the family's total income does not exceed what it would be if the father were in full-time work.

National Health and National Insurance Programs

Social welfare expenditures comprise a large part of total Government expenditures. The growth in expenditures in this area is rather pronounced. In 1957 expenditures on national insurance, pensions, and other forms of assistance were less than half of current expenditures.

The best known social welfare program is medical care which is provided in Great Britain under the National Health Service as a free public service and is not a part of the regular social insurance program. All residents are eligible for health services. General practitioner care, specialist services, hospitalization, maternity care, and treatment in the event of industrial injuries are provided by the National Health Service.

The British Government pays for about 80 percent of the cost of the National Health Service from general revenue. The employee and employer pay weekly contributions that meet about four-fifths and one-fifth, respectively, of the remaining 20 percent of the cost.

National Health Service hospitals count for the great majority of hospitals in the country and are vested in the Government. Medical staffs are paid on nationally agreed scales. For general practice, nearly all doctors participate in the National Health Service. Unlike hospital

[11] Ministry of Social Security, "Circumstances of Families," London: Her Majesty's Stationery Office, 1967. Poverty is applied to families who live at or below the supplementary benefit scale. The Abel-Smith, Townsend study defined poverty as applicable to families who lived on less than 140 percent of the national assistance scale. Both measures are open to the criticism that benefits are more related to political expediency rather than human needs. Also, the markup of 40 percent is open to question.

[12] *Ibid.*, p. 9.

[13] Poverty is a difficult concept to define. The minimum income scale for supplementary allowances is 7 pounds, 1 shilling a week for a married couple. Ten pounds a week for a worker with two children would be below the minimum.

doctors, who are paid by salary, their remuneration is based on a system of fees and allowances which are designed to relate pay to the workload, expenses, and experiences of each individual doctor.[14] Patients are free to select any doctor within their home area.

Prescribed medicines are free.[15] Dental services and false teeth, eyeglasses, hearing aids, and other appliances are supplied through the National Health Service, but with some cost sharing on the part of the patient. There is no charge for dental services to children or to expectant or recent mothers.

Expenditures in 1964 on the National Health Service program amounted to 1.5 billion pounds.[16] This outlay represented 4 percent of national income.

Separate and apart from the National Health Service, there exists a comprehensive program of social security which includes family allowances, unemployment and sickness benefits, maternity benefits, retirement pensions, death grants, widow's benefits, and industrial injuries benefits.

The national insurance programs operate separately from the family allowance. Every person of working age, regardless of income, is legally bound to participate in the programs. For a flat-rate contribution by worker and employer, the worker is entitled to a weekly flat-rate benefit during unemployment and sickness, and a pension on retirement from work. Additional benefits are provided in return for the graduated contributions payable by employed workers. There are also payments for maternity and death. Contributions by workers and employers account for part of the cost of the national insurance scheme, but a sizable part is borne by the treasury.[17]

There are three classes of insured workers: employed, self-employed, and nonemployed. Contributions are paid according to the class of contributors. Separate flat rates are also payable for men and women. For example, as from May 6, 1968, flat-rate contributions on the part of employed males of 18 or over will amount to 12s. 8d., to be matched by an employer contribution of 14s. 1d.; and for females, 18 and over, the contribution will be 11s., to be matched by an employer contribution of 12s. 3d. To these contributions (which are applicable where the insured employees have not been contracted out of the graduated scheme—see below), there is added a small contribution for industrial injuries.

Flat-rate contributions and flat-rate benefits characterized the beginning of the scheme, but developments in recent years have changed the scheme in the direction of earnings-related benefits. In 1961, a graduated pension scheme was introduced. This gave a graduated addition to retirement pension based on the amount of graduated contributions actually paid. A man retiring at age 65 in mid-1968 would get 9s. graduated addition to pension if he had paid the maximum

[14] There is an acknowledged shortage of doctors in Britain. A factor in the manpower situation is the emigration of British doctors to North America and elsewhere, though its effects have been mitigated by the immigration of doctors from overseas. The factors underlying emigration are not fully established, but the principal ones seem to be a desire for better facilities, higher pay, and greater professional freedom.

[15] However, on June 10, 1968, changes were made and some prescriptions are no longer free.

[16] Central Statistical Office, "Annual Abstract of Statistics," No. 102, 1965, p. 102.

[17] Treasury expenditure on national insurance programs amounted to £1.8 billion in 1965. This does not include family allowances, war pension and service grants, and assistance grants.

possible contributions. In 1966, an earnings-related supplement to short-term benefits was introduced, and this was financed by a higher percentage of contributions related to earnings.

In 1968, the standard flat-rate benefit for sickness, unemployment, widow's, and retirement benefit will be £4 10s. for the single person and £7 6s. for married couples. National insurance beneficiaries can also receive increases for dependent children. For all, excepting the children of widows, the rate will be £1 8s. a week, including family allowances (where appropriate), for each child. The earnings-related supplement is usually one-third of average weekly earnings between £9 and £30. Thus, a married man with two children, on average weekly earnings of £21, would receive £14 3s. a week (made up of £4 10s. for self, £2 16s. for wife, £1 8s. for first child, £1 8s. (including family allowances) for second child, and £4 1s. earnings-related supplement) sickness benefit or unemployment benefit for the first 6 months (Extra retirement pension can be earned by people who continue working and paying contributions after age 65 (60 for women). The maximum amount which can be so earned is £1 9s. a week.)

There are also other benefits payable under the national insurance scheme. A maternity allowance of £4 10s. a week is paid, on their own insurance, to women who give up paid employment to have a baby. The benefit is usually paid for 18 weeks, beginning with the 11th week before the expected week of confinement. In addition to the allowance, there is a lump sum maternity grant of £22 which is paid to most mothers, either on their own insurance or on their husband's insurance.

There is also a death grant of £30 which is payable on the death of an insured person or the wife, husband, or child of an insured person. There is a widow's allowance, which is separate from the widow's pension, which is payable for 26 weeks after the husband's death at a rate of £6 7s. a week, plus a graduated addition of up to £7. In addition, there are allowances for children which are also payable for 26 weeks. There is a widowed mother's allowance wshich is payable when the widow's allowance ends, provided there are dependent children. This allowance is £4 10s. a week, plus an allowance of £2 5s. 6d. a week, including family allowances (where appropriate) for each dependent child.

Personal Income Tax

The most important tax in Great Britain is the personal income tax. It was first introduced during the Napoleonic wars when the Income Tax Act of 1799 was passed. The tax was levied at a flat rate per pound without regard to a taxpayer's income. However, a measure of graduation was achieved through the operation of exemptions for small incomes.

The current income tax structure includes an income tax and a surtax. The income tax is charged, in principle, at a standard rate; progressivity, however, is obtained by providing a number of personal allowances and reliefs and by charging the first slices of income at reduced rates and incomes above £2,000 at progressive rates (surtax). All individuals whose incomes exceed £284 in the tax year are liable for the income tax. There is a special exemption limit for elderly people—for 1968–69 an elderly person is exempt from tax so long as his income does not exceed £415 (single) and £665 (married). In addition, there are special reliefs for the investment income of persons with small incomes and for those who are 65 and older. Where the income of such an individual does not exceed £450 for the year, a tax allowance of two-ninths of the income is permitted, whether the income is earned or unearned. For persons 65 and over, a deduction of two-ninths for unearned income may be claimed when total income does not exceed £900. For all these reliefs there are marginal provisions which give relief on incomes which only slightly exceed the limits.

The income tax is partly graduated by means of certain types of allowances. First earned income relief allows a deduction of two-ninths of earned income up to £4,005, and one-ninth on the next £5,940. Then there are personal allowances of £220 for a single person and £340 for a married couple. Allowances in respect to dependents vary with the age of the child; thus for children under 11 an allowance is given of £115, for children between 11 and 16 the allowance is £140, and for children who are 16 years or over the allowance is £165 so long as they are in full-time education. There are also special reliefs for married women which in effect tax them as single persons, while the husband retains the higher allowance; and there are additional miscellaneous allowances which are applicable to special situations—blindness, dependent relatives, and so forth.

There are three income tax rates in effect on assessable incomes: a rate of 4s. a pound on the first £100 of assessable income; a rate of 6s. a pound on the next £200, and a standard rate of 8s. 3d. on the balance above £300.

The surtax is assessed and collected separately. It is levied on total income in excess of £2,000, after allowances for certain deductions such as earned income relief and certain personal allowances, which reduce the effective rate of the surtax considerably. The effect of these is in general that no surtax is paid on wholly earned income until a figure of £5,000 is reached. The surtax is imposed at rates which rise in progression from 10 to 50 percent.

Although the income tax and the surtax are assessed and collected separately, they are part of the same scale of progression. The top marginal rate of 91.25 percent will, however, not be reached in the case of earned incomes until an income approaching £20,000 is reached. The effective rate of tax on an income of this size is, of course, much lower.

The estate duty, which is payable on the passing of property on death, is also charged at progressive rates: since the end of the war the minimum exemption limit for estates on which no duty is payable has been raised a number of times; and the higher rates of duty have been increased also, principally in 1946 and 1949. Thus, in 1945 estate duty rates ranged from 1 percent on estates to £100–500 up to 65 percent on estates exceeding £2 million. In 1967 the rates of duty ranged from 1 percent on estates of £5,000–6,000 to 80 percent on estates exceeding £2 million.

The British income tax system takes account of a variety of factors which are assumed to affect the taxpaying capacity of the individual taxpayer. It does so by means of allowances against taxable children: £115 for a child under 11; £140 for a child from 11 to 16; and £165 for a child who is over 16 and undergoing a full-time education. There is no age limit but the allowance is affected by the amount of the child's own income. A deduction can be claimed for a university student, even though he is receiving a grant from the State which covers the full cost of maintenance, since the grant of scholarship is not regarded as income.

The tax allowance for children is more valuable than the family allowance. To a British family with an income of £1,000 a years, and with three children under 11 years of age, the family allowance in 1967, as a percentage of earned income (before tax) amounted to 4.7 percent and the value of the tax allowance for children in reducing their tax bill amounted to 12.3 percent of earned income (before tax). To a family with an income of £2,000, and with three children under 11, the value of the family allowance on the same basis amounted to 2.3 percent of earned income (before tax), and the value of the tax allowance amounted to 7.1 percent of earned income (before tax). The value of both family allowances and children tax allowances has fallen in relation to income for unskilled workers.

The idea of using a negative income tax in the relief of poverty has been advocated in Britain on much the same lines as in the United States. Under the British system of taxation, income tax is payable on income in excess of the taxpayer's personal allowances and reliefs. Under a system of negative income tax, it is conceived that those whose incomes fall short of their personal allowances would receive negative tax payments of part or all of the difference.

One such proposal for a negative income tax has been suggested by Dennis Lees.[18] Its approach is similar to the Friedman plan. A negative income tax of 50 percent of the difference between tax allowances and income is used to mitigate the effect on incentives to work. This means that an extra pound earned would net 10 shillings to income. The negative tax rate would be applied to the difference between personal and child tax allowances and earned incomes. For example, a family with three children would receive personal and child tax allowances equal to 685 pounds.[19] To these allowances, the two-ninths earned income allowance must be added. There are, of course, other allowances, but these are applicable to specific situations—guardian allowances, housekeeping allowances. For a family with earned income of 400 pounds, total allowances would amount to 773 pounds, providing an income deficiency gap of 373 pounds. Applying a negative tax rate of 50 percent would provide a payment to the family of 187 pounds. The break even point at which neither benefits nor taxes would be paid is approximately 881 pounds.[20] The effect of the negative income tax would be to narrow disposable income between families.

By using a family with three children under 11 years of age, an example of negative income taxation as it would be applied to the British tax system is as follows: [21]

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[18] Dennis Lees, "Poor Families and Fiscal Reform," Lloyds Bank Review, October 1967. pp. 1–15.

[19] The children are under 11. The allowances for the children would amount to 345 pounds (115 per child). There is also an allowance of 340 pounds for a married couple. The earned income allowance would depend on the amount of earned income.

[20] Lees, p. 11.

[21] The tax allowances amount to 340 pounds for the married couple, 115 pounds for each of the three children, and the allowance of two-ninths of earned income.

Earned income	Tax allowances	Negative income tax[1]	Disposable income
300	752	226	526
400	773	187	587
500	796	148	648
600	818	109	709
700	850	75	775
800	862	31	831
881	881	-------------------------	881
1,000	907	19	981
1,100	929	41	1,059
1,200	951	65	1,135

[1] Assumes a negative tax rate of 50 percent.

The negative income tax would vary according to the number of children in the family. A family with two children earning an income of 500 pounds would receive a negative income tax payment of 90 pounds compared to the current family allowance of 21 pounds to which it is entitled. If the family allowance is replaced by a negative income tax, the cost of the negative income tax would be counterbalanced by the elimination of the family allowance. In 1966 family allowances cost 146 million pounds. Assuming that between 1,100,000 to 1,600,000 families would benefit by negative income taxation, it has been estimated that the cost would be between 75 million and 188 million pounds.[22]

Public Assistance

Several measures designed to help low-income groups specifically have already been mentioned. Supplementary benefits are used to supplement a family's income from national insurance benefits and family allowances, bringing the total income up to a minimum level prescribed by Parliament. Rental supplements are included. Small income relief of two-ninths of unearned income is provided when the income of an individual does not exceed 450 pounds a year.

For low-income families, there is a rebate of local taxes on the occupation of residential premises. These rates are calculated as a percentage of the net annual value of the premises. The percentage varies according to the needs and resources of the local community. Thus, a predominantly residential area will have high rates. The impact of these rates were regressive and placed a burden on pensioners and low-income households in general. The objective of the tax rebate is to reduce this regressive effect by returning to low-income households two-thirds of their annual tax in excess of 7 pounds, 10 shillings. The income limit below which the rebate can be claimed is 10 pounds a week (shortly to be increased to 11 pounds a week) for a married couple plus 1 pound, 10 shillings for each child.

Educational maintenance allowances are paid for children of low-income families continuing their full-time education beyond the minimum school-leaving age of 15. The allowances are paid by the local education authorities and continue until the child leaves secondary school. Income limits for eligibility are also determined by local authorities and vary between localities.

Allowances are also paid for students who proceed from secondary schools to universities at rates which are determined nationally. For example, a university student living with his parents receives, in addi-

[22] Lees, p. 15.

tion to tuition fees, a grant of 8 pounds a week during the university term, which is intended to cover the full cost of maintenance plus an allowance for books. Although student allowances are subject to a means test, it is so liberal that even the sons and daughters of wealthy parents qualify for a minimum grant of 50 pounds per year.

Income Redistribution

The British income tax system is progressive. There is a redistribution of income in the direction of greater equality because the proportionate share of the upper income groups in the total income is reduced and the proportionate share of the lower income groups is raised. This result occurs because the effective rate of taxation—the ratio of total taxes paid to income received after taxes—increases with the size of the income. The proportionate share of the total tax burden is greater for the upper income groups, hence there is a redistribution in the direction of greater equality.

A great deal has been written in recent years concerning the strong influence of egalitarian considerations upon economic policy pursued by the British Government since the end of the Second World War. Studies indicated that the concentration of personal income, both before and after the income tax, in the hands of the top 5 percent of income recipients was reduced after the war compared with 1938, and this tendency toward greater equality continued during the post-war years.[23]

However, recent studies tend to dispute the idea that there is a trend toward greater income equality.[24] It appears that the trend was arrested during the period following 1957, reflecting several factors which have occurred since that time. First, the growth of employment income has slowed relative to self-employed income. Rent, interest, and dividends have increased at an accelerating rate since 1957. Salaries of professional people have risen faster than the wages of wage earners. Increased purchases of equities and investment trust funds have added to income and capital gains.

There has also been a general reduction in the rates of direct taxation, particularly on earned income up to 5,000 pounds a year. On earnings of 1,000 pounds, a married couple with three children (two under 11 and one under 16) paid tax in 1960 which was less than three-quarters the amount paid on the same income in 1956. By 1963, the tax on that income had fallen to one-third of the 1956 figure (because of increased marriage and child allowances and lower rates of tax). On earnings of 5,000 pounds a year, the same family paid tax in 1960, which was about 80 percent of the amount in 1956. By 1963, the amount had fallen to about 60 percent of the 1965 level.

Incomes after taxes showed a trend toward equality from 1949 to 1957. This trend was arrested between 1957 and 1959, when higher post-tax incomes began to increase more than lower incomes. This pattern is confirmed in the following table:

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[23] See F. W. Paish, "The Real Incidence of Personal Taxation," Lloyds Bank Review, January 1957 and H. F. Lydall, "The Long-Term Trend in the Size Distribution of Income," Journal of the Royal Statistical Society, Series A, 122, p. 1, 1959.

[24] See John A. Brittain, "Some Neglected Features of Britain's Income Levelling," American Economic Review, May 1960; and Richard M. Titmuss, "Income Distribution and Social Change," London: Simson Shand Ltd. 1962.

For a more recent study, see R. J. Nicholson, "The Distribution of Personal Income," Lloyds Bank Review, January 1967.

TABLE VI.—PERCENTAGE DISTRIBUTION OF INCOMES IN GREAT BRITAIN AFTER TAXES

Group of income recipients	1949	1957	1959	1960
Top 1 percent	6.4	5.0	5.2	5.2
2 to 5 percent	11.3	9.9	10.6	10.5
6 to 10 percent	9.4	9.1	9.4	9.5
11 to 40 percent	37.0	38.5	39.8	39.5
41 to 70 percent	21.3	24.0	23.7	23.5
Bottom 30 percent	14.6	13.4	11.2	11.8

Source: R. J. Nicholson, "The Distribution of Personal Income," Lloyds Bank Review, January 1967, p. 16.

Government assistance to individuals and families is provided in many forms. For the family with children, family allowances, income tax allowances, and general social welfare measures are provided, irrespective of need. Supplementary benefits are paid to individuals and families whose incomes are below a defined scale. Other benefits, such as educational grants, are also available to low-income families. There are other approaches to the problem of relieving poverty which are the subject of consideration in Great Britain, including the use of some form of negative income taxation.

Social welfare measures are financed from general revenue through employer-employee contributions into social security funds. There is much less reliance on employer taxes than in France. On the other hand, social welfare expenditures as a percentage of national income are lower in Great Britain. There is also less reliance on indirect taxation in Great Britain than in France to finance general expenditures, though the position in the two countries is much the same if local taxation is included.

SUMMARY

The two most important ways in which the British Government provides direct financial assistance to families are through income tax child allowances and family allowances. The first assists only families who pay taxes, and rises in value as the marginal tax rate paid by the family increases. The second is paid from general revenue to all families with more than one child and decreases in value as the marginal tax rate of the family increases.

The family allowance was introduced by the Family Allowance Act of 1945, and has been increased only three times since then. In relative terms, the family allowance when expressed in terms of a percentage of earned income, has declined in importance since 1948. Family allowances are taxable as earned income and are currently paid to all families regardless of income. Moreover, in his 1968 budget statement, the Chancellor of the Exchequer announced measures to restrict the net value of increased family allowances to those with higher incomes.

The family allowances, expressed in terms of personal income, is far less important in Great Britain than in Sweden and the Common Market countries. Expressed in terms of average earnings, family allowances amount to about 3½ percent for a family with two children, 12 percent for a family with four children, and 20 percent for a family with six children. However, for the lowest paid manual workers who average about 10 pounds a week in earnings, the family allowance can be a significant component in family income. For example, a family with six children would receive 83 shillings, amounting to 48 percent of earned income. This, however, is not comparable to allowances paid to a French family in the same situation.

Recent attempts have been made to quantify the extent of poverty in Great Britain. Brian Abel-Smith and Peter Townsend, utilizing income and expenditure data collected for the Ministry of Labor's Family Expenditure Survey, showed that the incomes of 7.5 million persons—about 14.2 percent of the population—were below 140 percent of the basic national assistance scale. Although the choice of 140 percent was criticized as being arbitrary, the survey revealed that about 700,000 children lived in households with incomes below the basic national assistance level.

Poverty in Great Britain, using the Abel-Smith-Townsend and Ministry of Social Security studies as criteria, is primarily confined to certain classes of people—full-time workers whose earnings are below the supplementary benefit scale, widows with dependent children, pensioners, the infirm, and unemployed workers. Also, the incidence of poverty is far greater among large families than small families.

Chapter IV

THE SCANDINAVIAN COUNTRIES

Introduction

The Scandinavian countries—Denmark, Finland, Norway, and Sweden—have higher living standards than the great majority of countries.* Social welfare programs are comprehensive and are designed to benefit all groups, regardless of income. Attempts at income leveling have been expressed through tax financed social security and other welfare measures as well as through the income tax structure itself. Despite antagonism from various groups toward allegedly regressive indirect taxation, governments in Scandinavia have pursued tax programs which have placed emphasis upon indirect taxation and compensatory relief of income taxes to low-income groups.

An important factor to be noted about the Scandinavian countries is that government policies have stressed full employment. During most of the postwar period, there has been an almost constant pressure of excess demand on the economies of these countries. Work has been available to all who want it, and workers have been imported from other countries. There is a commitment to a wide variety of approaches which are designed to maintain employment. One approach has been to encourage labor mobility—occupational and geographical—as a solution to the problem of regional unemployment. Another approach is through the use of public works to reduce seasonal unemployment. Tax measures, such as the Swedish investment reserve, are also used to stimulate employment. There is, then, in the Scandinavian countries a policy mix of measures that are designed to create employment.

Two countries—Denmark and Sweden—are used in the chapter. The social welfare programs used by each can be considered typical for Scandinavia as a whole. Both countries enjoy high living standards and overt manifestations of poverty do not exist. Nevertheless, certain groups in the population of each country do possess low incomes and if a mechanical dividing line of income is used to differentiate between poor and nonpoor individuals and families, it is apparent that poverty in some disguised form may well exist in both countries. There is recognition of this fact in each country.

DENMARK

The comprehensive system of social legislation and services in effect in Denmark includes health insurance, old-age and disability pensions, employee's supplemental pensions, workmen's compensation, unemployment insurance, family allowances, care of the physically and men-

*Technically Finland cannot be considered as a Scandinavian country, although it was once a part of Sweden. Scandinavia includes Sweden, Norway, Denmark, and Iceland.

tally handicapped, allowances to orphans and to single persons with dependents, and general public assistance to needy persons.

The cost of most of these programs is borne by the Danish Government out of general revenues. Total expenditures on health, housing, and general welfare measures amounted to 40 percent of budgetary expenditures for the current fiscal year. The cost of employee's supplemental pensions is borne entirely by the employers through insurance with Government-approved companies, while the Government, localities, insured persons and employers all contribute to the unemployment insurance funds. The Government also subsidizes most of the hospitals in Denmark as well as various types of institutions for children and the handicapped. Government expenditures for this purpose, which are not reflected in general welfare expenditures, amounted to 14 percent of expenditures in the current 1967–68 budget.

FAMILY ALLOWANCES

Probably the most important facet of the Danish social welfare system is the family allowance, which, unlike family allowance arrangements in France and Great Britain, does discriminate between families on the basis of need. The family allowance was adopted in 1949, and has been varied on a number of occasions. In 1960 tax exemptions of 600 to 800 kroner per child were abolished for income tax purposes, and the family allowance was used as a replacement.[1] The family allowance was increased from 162 kroner per child per annum to 400 kroner per child per annum. The allowances were tax free. In 1963 the family allowance was increased to a range of 480 to 530 kroner per child per annum. A special allowance for low-income families was introduced for the first time, with the cutoff point, or income level, set as 10,000 kroner. In 1965, the family allowance was increased to a range of 630 to 680 kroner per child. The family allowance increases were tied to changes in the wholesale tax. In other words, when the rate of wholesale tax was increased, the family allowance was increased as a form of compensatory relief.

In 1967, the wholesale tax was replaced by a tax on total value added, which is levied at a standard 10-percent rate on everything including foodstuffs and services which were exempt from the wholesale tax. The burden of this increase in indirect taxation has been counterbalanced by an adjustment in the family allowance, and the introduction of a general allowance to be offset against the income tax or paid in cash to low-income families.

The current family allowance arrangement entails the payment of 780 kroner per child per year for the first 4 children in a family, and payment of 830 kroner per child for the fifth and subsequent children. There is an additional allowance of 350 kroner per child for families in which there is a single mother or father. In terms of U.S. currency, the family allowance amounts to approximately $110 a year per child.

Payment of the family allowance can be illustrated as follows: Families with one child, 780 kroner; families with two children, 1,560 kroner; families with three children, 2,340 kroner; families with four children, 3,120 kroner; families with five or more children, 3,120 kroner, plus 830 kroner for the fifth, sixth, seventh child, and so forth.

[1] The Danish currency unit is the krone. One krone is worth $0.145.

The average gross income in Denmark is 30,000 kroner a year, and the average net taxable income is 23,000 kroner a year.[2] An average Danish family consists of three persons. In terms of ratios, the family allowance would constitute about 3 percent of gross income and about 4 percent of net income to the average family. The allowance, as previously mentioned, is tax free and is not added to total income for tax purposes.

For a family with five children, and an average income of 30,000 kroner a year, the family allowance would amount to approximately 13 percent of gross income, and approximately 18 percent of net income.

For families or single persons with low incomes, there is an additional allowance which is tied to a given level of income. If net taxable income is less than 8,200 kroner ($1,100) a year, a general allowance of 350 kroner a year is paid. If net taxable income is between 8,200 and 8,800 kroner a year, the general allowance is 200 kroner a year, and if net taxable income is between 8,800 and 9,600 kroner, the general allowance is 100 kroner a year. The break-even level, or cutoff point between low income and what is considered adequate income, is 9,600 kroner a year for families. This is about 32 percent of average gross family income and 41 percent of average net family income. However, it is necessary to remember that this average income excludes transfer payments which redound more to the advantage of low-income families than middle-income families.

For single persons with net taxable income of less than 8,500 kroner a year, compensation amounting to 200 kroner a year is paid. There is no compensation for income above the level of 8,500 kroner.

The family allowance contains elements of negative income tax and the general allowances even more so, but the system has not been developed to approach the level of a guaranteed annual income scheme. It has been used more to modify the burden of increased indirect taxation than as a conscious device to provide an income guarantee. As indirect taxation has increased, the family allowance has increased.

A measure of the importance of the family allowance in Denmark is provided by a comparison of allowances to income tax revenues against which they are offset in the Danish budget. In the fiscal year 1950–51, personal income tax revenues amounted to 727 million kroner and family allowances 89 million kroner. The allowance amounted to approximately 12.5 percent of gross income tax revenue against which it was offset. By the fiscal year 1960–61, this ratio had dropped to 6 percent. For the current fiscal year (1967–68), however, the ratio has increased to 17 percent, with 960 million kroner allocated from the national budget to family allowances and 210 million kroner budgeted for general allowances.[3]

HOUSING ALLOWANCES

Housing allowances for low-income families were started in 1955 under the provisions of the Housing Act. Government subsidies were granted for housing built for families in the lowest income groups. This subsidy was interest free and amounted to 35 percent of construc-

[2] Information furnished by the Ministry of Finance to the author.
[3] Information provided by the Ministry of Finance to the author.

tion costs. Rental allowances were also provided for low-income families, the aged, and the disabled.

A rent guarantee system has been introduced in Denmark, which is based on the rent-income ratio of the individual household. For every type of household a maximum percentage of the household income is fixed which the household should be able to afford for rent. This percentage varies with the income level and the number of children, and two-thirds of the part of the actual rent exceeding this percentage will be paid by the Government up to specified maximum limits. This system is designed to help families with limited incomes cope with high rents in the Danish cities and towns. For example, assume a Danish family has an income of 10,000 kroner (30,000 is the average family income). Presumably on this income it should not allocate more than 20 percent of its income to rent. If rent is above this percentage, then two-thirds of the amount will be paid by the Government.

OLD-AGE AND SURVIVORS PENSIONS

Danish social legislation has provided compensation to certain groups, that is, families with children, and the aged—in the form of increased benefits to offset increases in various indirect taxes. In 1962 recipients of old-age and widows' pensions and family allowances received an increase in compensation to counterbalance the introduction of a 10-percent wholesale tax. In 1965, additional compensation was granted to offset an increase in the wholesale tax to 12½ percent. When the value-added tax was introduced in 1967, social security beneficiaries and low-income families received compensation amounting to 350 kroner annually. When the value-added tax was increased in 1968 from 10 percent to 12½ percent on all commodities, additional compensation was given to social security beneficiaries and families.

There are two types of old-age pensions—national and supplementary. The former is financed by a tax of 3 percent of income subject to income taxation payable by all taxpayers except low-income persons, and by contributions by the national and local governments out of general revenues; the latter is financed by a contribution of 1.8 kroner a week from all insured persons and 3.6 kroner a week from employers. Pensions are payable at the age of 67 for men and 62 for women, with rates decreasing for earlier retirements. The amount of the national pension ranges from 110 to 517 kroner ($15 to $70) a month plus a supplement of 89 kroner ($12) a month. The supplementary pension amounts to 60 kroner a year multiplied by the number of years of contribution. The old-age pension is tied to the cost of living with an automatic adjustment occurring every time the price index changes 3 percent.

Invalidity and survivor pensions are similar to old-age benefits. The invalidity pension includes a basic pension plus supplements for wives and children. The survivor or widow's pension also includes a basic pension which ranges up to 517 kroner a month plus a supplement for children. All pensions are based on an income test and range from minimums to maximums based on the amount of income a person has.

UNEMPLOYMENT COMPENSATION

Unemployment compensation is financed out of various funds which are supported by contributions from workers which average about 2 percent of earnings per year, a flat rate contribution of 45 kroner per worker a year from employers, and grants out of general revenues which are contributed by the national government. Benefits vary among funds but with supplements which are paid to children can reach a maximum of 80 percent of average wages. The benefits are payable for 90 days but can be extended for 160 additional days from continuation funds provided from a separate extended-benefit program.

DISABILITY COMPENSATION

Work injury compensation is financed by employers through insurance premiums which vary according to the employment risk involved. Benefits are of two types—temporary benefits which amount to 75 percent of earnings up to a maximum of 19,300 kroner ($2,700) a year, and payable for a period of up to 3 years; and permanent benefits which amount to 66⅔ percent of average income. There is also a partial disability pension which is proportional to the loss of earnings capacity. All pensions are tied to the price index.

SICKNESS AND MATERNITY BENEFITS

Sickness and maternity benefits are financed by contributions from insured persons which range from 200 to 265 kroner a year based on the sickness fund to which the insured belongs; contributions from employers; and subsidies by the national government which cover a part of cash sickness benefits, medical and dental costs, hospital costs, and permanent care costs, and all of the costs of vital medicines. Sickness benefits vary based on the number of dependents but can approach a maximum of 80 percent of earnings, and are payable for a period of up to 26 weeks in any one year. Maternity benefits include a payment of 26 kroner a day ($3.50), plus 7 kroner for 1 dependent, payable for 14 weeks. In general, all medical costs, with the exception of medicine, are paid by the sickness funds.[4]

INCOME TAXATION

There is a national and local income tax in Denmark. The national income tax is levied on taxable incomes of single persons exceeding 5,000 kroner ($700) a year, and on taxable incomes of families exceeding 10,000 kroner ($1,400), a year. On incomes above the tax exempt level, the income tax is levied at the rate of 18 percent on the first 17,000 kroner, and 30 percent on the next 13,000 kroner, after which the rate increases to a maximum of 45 percent.

The local income tax varies from one municipality to another. This tax is levied on taxable incomes after a deduction of 3,000 kroner for single persons and 6,000 kroner for families. There are no deductions for children; however, the family allowance of 780 kroner per child (830 for families with more than 4 children) is tantamount to a deduction.

To compensate for value-added tax, family providers with taxable income of less than 8,200 kroner receive a supplement of 350 kroner annually, family providers with incomes between 8,200 and 8,800

[4] A person who has an income above the level of that for a skilled worker has to pay part of the cost of doctors' fees. Also wives and other adult dependents are not eligible for benefits, but must provide their own insurance.

kroner receive a supplement of 200 kroner a year, and family providers with incomes between 8,800 and 9,600 kroner receive a supplement of 100 kroner a year.

Older impecunious taxpayers with taxable incomes of less than 18,000 kroner are granted a special deduction in their taxable incomes. This deduction corresponds to the difference between 18,000 kroner, and net taxable income, but cannot exceed 7,000 kroner. Any person who has reached the age at which he is entitled to an old-age pension qualifies for this deduction. Taxpayers who receive disablement pensions are granted a fixed deduction of 3,000 kroner in their taxable income.

Cost of Social Welfare in Denmark

Using the receipts and expenditures of the public sector of the Danish economy, an analysis of the cost of social welfare programs can be made. Total direct and indirect taxes at all levels of government amounted to 24.8 billion kroner in the fiscal year 1966–67. Personal income taxes and national pension contributions amounted to 10.6 billion kroner and excise taxes amounted to 10.2 billion kroner. Direct and indirect taxes amounted to 36.1 percent of national income.[5]

Expenditures on social security amounted to 9.2 billion kroner in the fiscal year 1966–67. Old-age pensions and family allowances, the two major transfer payments, amounted to 5.2 billion kroner, or 8 percent of national income.[6]

SWEDEN

Sweden has one of the highest living standards of any country in the world. In 1966 it ranked third in terms of per capita income among all countries, trailing only the United States and Canada, but leading all of the European countries. The central objective of Swedish economic policy since the end of the Second World War has been the maintenance of full employment, and monetary and fiscal policy have been supported to this end. Swedish labor market policy also reflects a commitment to full employment. Its approach has stressed labor mobility—occupational and geographical—as a solution to the problem of regional unemployment. During the postwar period, the unemployment rate has been low, averaging less than 2 percent for most years. However, a set of fortuitous circumstances have benefited the economy, not the least of which was freedom from participation in the war.

The Swedish social welfare program is one of the most comprehensive in the world. It is financed out of general government revenues and by levies on employees and employers. In 1964 total social welfare expenditures amounted to 16.5 percent of net national product. The main part of expenditures is not carried in the national budget, but in autonomous budgets not presented as such to Parliament. The basic pension scheme is the only part of the social security system that is incorporated in the national budget, but other public transfer payments defrayed out of the budget include family allowances, housing subsidies, and grants for education.

Does poverty exist in Sweden? This is indeed a difficult question to answer. If we use a mechanical dividing line to differentiate be-

[5] Danish budget for 1966–67.
[6] Information provided by the Ministry of Finance. The family allowance is not lumped in with general social security expenditures for the reason that it is not consdered to be a social security measure.

tween income groups on the basis of poor versus nonpoor, a case may be made that poverty, although it may be disguised, may well exist, particularly among certain segments of the economy, and in certain geographic areas.

In 1965 there were 4,562,055 income earners in Sweden. The mean income of individuals was 11,945 kronor ($2,200) and the median income amounted to 10,726 kronor ($2,100).[7] The mean income for families amounted to approximately 27,500 kronor ($5,300) and the median income amounted to approximately 26,000 kronor ($5,200).[8] The mean income of all income earners in Sweden was 14,800 kronor ($2,800) and the median income was 12,960 kronor ($2,500). Variations existed between cities and country, and regions within the country. In the cities the average income for all income earners was 16,084 kronor ($3,200) and in the country the average income was 13,087 kronor ($2,600). In the cities the median income was 13,855 kronor ($2,700) and in the country the median income was 11,237 kronor ($2,200).

If we use 10,000 kronor ($2,000) as a dividing line between poor and nonpoor families—and this is arbitrary indeed—we find that approximately 10 percent of all Swedish families made less than this amount in 1965.[9] Using a classification of families with children and single persons with children, in 1964, 5 percent of families with children made less than 12,000 kronor a year ($2,400) and 54 percent of single persons with children made less than 12,000 kronor.[10] For married income earners without children, 20.3 percent made less than 12,000 kronor.[11]

However, this data does not include transfer payments which can and do make a substantial contribution to low-income individuals and families. The family allowance, for example, is free from the personal income tax, and to low-income families with several children, could add several thousand additional kronor to family income. There are also additional welfare benefits which also put a floor under low-income families, and poverty in terms of malnutrition and substandard housing and health facilities has been eliminated through the provision of medical care to all children.

Nevertheless, based on Swedish income tax data, it is apparent that many individuals, and families do have incomes well below the national average. This, in itself, does not prove poverty, but it is possible to identify areas where poverty could well exist. From income data, and ignoring transfer payments, low income families and individuals fall into several distinct groups which are as follows:

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[7] The krona (crown) is worth $.19.

[8] Sveriges Officiella Statistik, "Skattetaxeringarna Samt Fordelningen Av Inkomst Oct Formogenhet," Stockholm: Statistiska Centralbyran, 1967, pp. 11, 42, 56, and 127.

These incomes are before taxes and before deductions for individuals and married couples. They would correspond to net taxable income in the United States, or income before itemized or standard deductions and exemptions.

To convert kronor into dollars, an approximation is obtained by dividing by 5 as the exchange rate is a little more than 5 to 1.

If family income appears high, it is necessary to remember that Sweden's per capita income was $2,200 in 1965, third highest in the world.

[9] This dividing line of 10,000 kronor is less than 40 percent of average family income of 27,500 kronor. Transfer payments are not included in this 10,000 kronor amount.

A frame of reference is the dividing line between poverty and nonpoverty in the United States of $3,130 for a family of four, $1,540 for nonfarm individuals, $2,190 for farm families, and $1,080 for farm individuals. Swedish per capita and per family income is approximately 70 percent of the corresponding values for the United States. On the basis of 27,500 kronor. Transfer payments are not included in this 10,000 kronor amount.

[10] The income of married people are as a rule aggregated for tax purposes.

[11] Statens Offentliga Utredningar, Barnbedrag Och Familjetillägg," Familjepolitiska Kommitten, Stockholm: 1967, pp. 66–67.

1. Single persons with children. In 1964 there were 100,000 single persons with children in Sweden, and 54 percent made less than 12,000 kronor ($2,400) a year.[12]

2. Married persons with four or more children. In 1964, 10 percent of this group made less than 12,000 kronor a year.

3. Single persons at opposite ends of the age spectrum. In 1965, out of 1,298,210 income earners who were single, 239,300 made less than 5,000 kronor ($1,000) a year. Of this group, 50,220 were aged 60 and over, and 102,000 were less than 24 years old. It may be assumed, however, that the vast majority of the latter group were students.

4. Income varies by regions. In 1965, in the northernmost Province of Norrbottens which is rural and heavily forested, and which has had an unemployment rate well above the national average, 35,140 income earners out of a total of 142,000, made less than 5,000 kronor ($1,000) a year. The ratio is 25 percent which can be compared to 11 percent for Stockholm and the national total of 19 percent.

5. Income also varies by occupations. In 1965, one-fourth of the income earners in the occupational classification agriculture, forestry, and fishing made less than 5,000 kronor ($1,000) a year. In domestic service, one-half of income earners made less than 5,000 kronor ($1,000) and 24 percent made less than 3,000 kronor ($600).

6. Using relief recipients as an a priori indicator of poverty shows that in 1964, 266,783 persons were receiving some kind of assistance. This represents 3 percent of the population. Relief assistance is based on a means test and is administered by local governments.

There is official recognition of the fact that low-income groups exist in Sweden. In 1966, the Government created a Commission of Inquiry Into Low-Income Groups in Sweden. The purposes of the Commission are as follows:

1. To find out why particular groups in Swedish society have low incomes;
2. To define what is meant by low income; and
3. To collect data on the extent of low-income groups.

The concept of low income will be explored on the basis of surveys of income and wages, the standard on consumption, and the economic and social situation of certain social groups. Occupational and labor market factors will be considered with reference to their effect on income and with reference to the effectiveness and degree of taxation and social policies.

The Family Politic Committee (Familjepolitiska Kommitten) has also been formed to study the position of low income families with children to ascertain whether or not this group was keeping pace with other groups in the economy. Based on preliminary findings of the Committee, changes in housing allowances, reflecting increased support for low-income families, were introduced in Parliament in the spring of 1968.

THE FAMILY ALLOWANCE

The family allowance was first introduced in Sweden in 1948. In that year an allowance of 260 kronor ($50) a year was paid to

[12] The average and median incomes for families were 27,500 and 26,000 kronor respectively. The average and median incomes for individuals were 11,945 and 10,726 kronor respectively. These were 1965 values and provide a basis of comparison. It is to be noticed that persons in the various groups make less than half the national average.

families with children under 16. Since that time the allowance has been raised to the current rate of 900 kronor ($175) per child a year. Unlike most countries with family allowances, Sweden does not exclude the first child from receiving assistance. The family allowance is not subject to a means test—although this may change before long—nor is it subject to personal income tax. It is paid in quarterly installments of 225 kronor to the mother. It is the second largest expenditure item in the Swedish budget after the basic old age pension scheme. Like family allowances in France and in other countries, the family allowance includes more than just payments based on the number of children in a family. There is also a housing allowance which is subject to a means test, and various allowances which are payable in special circumstances, such as maternity grants.

The family allowance is financed out of general Government revenues. There are no contributions from employers and employees. In 1967 allowances were paid for 1,770,000 children under 16 at a cost of 1.6 billion kronor. This amounted to 1.3 percent of the Swedish gross national product for 1967, 5 percent of the national budget, and 14 percent of total social welfare expenditures on the part of the National Government.[13] In addition to the regular family allowance, special allowances are paid to single persons with children, and to orphaned children living with relatives. These allowances covered 169,000 children in 1967 and cost 167 million kronor. Added to these allowances are free holiday grants to children under 14 who come from families with taxable incomes of less than 5,700 kronor ($1,100) a year. There is an educational allowance for students over 16 which is based on a means test, with 75 kronor a month being the maximum amount.

As a source of revenue to Swedish families, the family allowance varies in importance. For example, a family with five children would get 4,500 kronor in family allowances. In 1966, 11 percent of Swedish families with five children made less than 12,000 kronor a year, while 63 percent of single persons with three children made less than 12,000 kronor. The family allowance could conceivably amount to one-half or more of total income to low-income families.

The family allowance results in lateral income distribution between families in the same income group. For example, a couple with no children and a taxable income of 12,000 kronor, would have a disposable income of 9,980 kronor. But a family with two children would have a disposable income of 11,780 kronor after taxes, and a family with five children would have an income of 14,480 kronor. Two families with identical incomes of 12,000 kronor would have different disposable incomes based on the number of children each had. A family with no children would have a disposable income of 9,980 kronor; a family with five children would have a disposable income of 14,480 kronor—a difference of 45 percent. On the other hand, a family with an income of 48,000 kronor and no children would have a disposable income of 30,139 kronor compared to a disposable income of 34,639 kronor for a family with the same income but with five children.[14]

Swedish social welfare critics feel that the current family allowance is inadequate as a means of support of children, particularly for low-

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[13] *Ibid.*, p. 38.
[14] "Statens Offentliga Utretningar, Barnbidrag Och Familjetillagg," Familjepolitiska Kommitten Stockholm, 1967, p. 72.

income families. They argue that cost-of-living increases over the last 20 years have offset to a considerable degree increases in the family allowance. Their point is verified by a comparison of the cost-of-living index to the allowance. In 1948 the consumer price index was 100 percent; in 1966 it had increased to 215 percent. The family allowance amounted to 260 kronor per child in 1948 (the first year of the allowance) and 900 kronor in 1966. Using the consumer price index to deflate the family allowance in terms of real income, results in an allowance of 559 kronor per child in terms of 1947 prices.[15] This reduction in terms of real income has led to recommendations that the allowance be increased by a maximum of 420 kronor and based on a sliding scale relative to gross income, with lower income families receiving a greater allowance than middle income families.[16]

It is important to note that the Swedish income tax does not permit deductions for children, since these were replaced in 1948 by the family allowance. It can be said in comparing the United States and Swedish tax systems, that a family allowance is built into the U.S. system through the use of personal exemptions and deductions which amount to $700 per child. This means that families in the United States receive a children's allowance which, when based on current income tax rates ranging from 14 to 70 percent, varies from $98 to $490. This is a savings to the taxpayer rather than a direct government outlay. The Swedish family allowance, on the other hand, represents a direct outlay out of government revenues of 900 kronor ($180) a year per child to rich and poor alike. The U.S. allowance, however, is progressive and presumably benefits upper income families more than lower income families.[17] The Swedish family allowance is a flat-rate grant payable to all families with children, regardless of income status. Family needs are not involved, and the allowance reflects partial compensation for the imposition of excise taxes. It also reflects compensation for the fact that there is no correlation between wages and family responsibility in a modern industrial society.

HOUSING ALLOWANCES

The provision of adequate housing for all persons is a paramount socioeconomic objective in Sweden. Much emphasis has been placed on housing construction and Swedish credit policies have been subverted to this end as more than 90 percent of total housing construction in Sweden has been financed with Government loans. Government housing credits are designed to have priority on credit available in the open market. Subsidies in the form of low-interest loans, which are set at 4 percent and amortized over a period of 30 years, are designed to stimulate housing construction. The government pays the difference between this 4 percent and the current market rate of interest, which averaged 7½ percent in 1967.

Rental allowances based on a means test are payable to Swedish families. Families with one child and with joint taxable income of less than 7,000 kronor ($1,400), receive an allowance of 395 to 425 kronor a year depending upon the part of Sweden in which they are living.

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[15] *Ibid*, p. 36.
[16] *Ibid*, p. 153.
[17] This assumes that an additional money income has less utility or satisfaction to a family making $25,000 a year than to a family making $4,000 a year. On an a priori basis we can perhaps reason this way. However, it may well be that the marginal utilities of additional money would be similar to both families.

Families with more than one child and with a joint taxable income of less than 12,000 kronor ($2,400) receive an allowance ranging from 330 to 390 kronor a year depending upon the part of Sweden in which they are living plus an additional 180 kronor a year for each child under 16.

However, for families with exceptionally low incomes by Swedish standards, additional rental allowances are available. If joint taxable income is between 6,000 and 8,000 kronor, and a family has more than one child, a rental allowance ranging from 660 to 780 kronor a year, plus 230 kronor per child, is paid. If joint taxable income is less than 6,000 kronor a year, the rental allowance is increased to 330 kronor for each child. Families with one child and with a joint taxable income of less than 6,000 kronor, receive an allowance ranging from 490 to 525 kronor a year.

The rental allowance is subject to revision by the Swedish Parliament in 1968. It is proposed to raise the allowance and the eligibility level. A family with one child and joint gross income of less than 20,000 kronor ($4,000) would receive 720 kronor a year as an allowance. A family with two children and a gross income of less than 25,000 kronor would receive 1,680 kronor a year, a family with three children and a gross income of less than 30,000 kronor would receive 2,680 kronor a year, and a family with four or more children and a gross income of less than 35,000 kronor would receive 2,880 kronor a year.

PENSIONS

If family and housing allowances are designed to improve the economic status of the family, pensions are designed to improve the economic position of the aged and disabled. There is a basic old-age pension for everyone who reaches 67, as well as a supplementary old-age pension. The basic old-age pension amounts to 420 kronor ($84) a month for a single person and 630 kronor ($106) a month for a married couple. However, at his discretion a Swedish citizen can apply for his old-age pension at the age of 63 or defer it until 70 by accepting a reduction or premium in the amount of the pension. The pension is financed by a tax on the employee of 4 percent of income, with a maximum payment of 1,200 kronor a year. The employer contributes nothing and the government finances 70 percent of the cost of the basic pension out of general revenues.

The supplementary old-age pension is also payable at 67. The benefits under this pension program depend upon a person's earned income during the time he has been actively employed. The pension amounts to 3 percent of average annual covered earnings between 5,600 and 42,000 kronor times the years of coverage with the maximum set at 60 percent of earnings. The pension is tied to the cost of living. It is financed by a tax on the employer of 9 percent of the wages of each employee between 5,600 and 42,000 kronor.

The general level of total old-age pensions—basic national pensions plus supplementary pensions—amount to approximately two-thirds of the average annual earnings of the pensioner during his or her 15 best years of income.

There are also basic and supplementary invalidity pensions which provide the same amounts as the regular old-age pensions and are financed out of the same taxes. Both types of pensions provide for children's and housing supplements, as well as for a widow's pension which amounts to 90 percent of the basic pension and 40 percent of the supplementary pension.

UNEMPLOYMENT COMPENSATION

Unemployment insurance, which is voluntary, covers the majority of persons who are exposed to the risk of unemployment. There are 47 unemployment insurance societies, each representing a particular union, but administered separately from the union to which the worker belongs. Benefits, which range between certain maximums and minimums, are paid on a daily basis and currently can amount to a maximum of 40 kronor ($8) a day, payable up to 200 days. There is also a dependent's supplement of 2 kronor a day for the spouse and all children under 16. The compensation is financed by a levy on all insured persons, which ranges from 1 to 12 kronor a month according to the society, and Government subsidies to the various funds which range from 2 to 5 kronor per day of unemployment, the actual amount varying with each society's incidence of unemployment.

Approximately one-third of the cost of unemployment compensation is met by worker contributions, and two-thirds by National Government contributions.[18] The employer contributes nothing.

DISABILITY COMPENSATION

Disability benefits are financed entirely by employer contributions which are based on payroll and range up to a maximum of 1.2 percent. Benefits are of two types—temporary and permanent. Temporary benefits range from 6 to 52 kronor a day, based on income classes and payable for 90 days. There are supplements for children which range from 1 to 3 kronor a day based on the number of children. Permanent disability benefits amount to eleven-twelfths of earnings with a maximum benefit of 12,000 kronor a year. There is also a coterie of ancillary benefits including a constant attendant supplement of 1,200 kronor a year and a funeral grant of 600 kronor.

SICKNESS AND MATERNITY BENEFITS

A compulsory health program covers all of the population. It is financed by contributions from the insured which are based on income. If a person makes less than 2,400 kronor a year, he pays nothing. On incomes above this amount, the insured pays an amount for both cash and medical benefits which is based on income and the region in which the insured lives. The employer contributes to the health program through payment of a 2.6 percent tax on payrolls up to 42,000 kronor a year. The National Government contributes to the cost out of its general revenues.

There is a guarantee of income for loss of work caused by illness. A standard sickness benefit of 6 kronor a day is payable to all insured persons. In addition there is a supplement, which ranges from 1 to 46 kronor a day, and which varies directly with income, payable to all persons earning more than 2,600 kronor a year. In addition, there are children's supplements which range from 1 kronor a day for one to

[18] The Swedish Budget for 1967–68, p. 52.

two children to 3 kronor a day for five or more. A worker with two children, hospitalized for 2 weeks, would receive two-thirds of his income in sickness benefits.

Maternity allowances, which also range from 1 to 46 kronor a day, depending on income, are payable for a period of 180 days. There is also a lump-sum maternity grant of 1,000 kronor. There is also the free service of a trained midwife before, during, and after childbirth and free maternity care in a hospital.

The compulsory health program covers all of the population. It pays three-fourths of medical fees and travel expenses, part of the cost of medicines (vitally important medicines—that is, insulin—are free), and the total cost of hospital treatment is free.

The Swedish Tax System

Sweden has the most comprehensive income tax system in the world. The income tax is the major source of revenue for the National Government and virtually the only source of revenue for local governments. It is interesting to note that Sweden has more than 4 million taxpayers out of a population of 7.5 million. Corporations, as well as individuals, are subject to both national and local income taxes.

The personal income tax is the most important of all of the taxes levied by the Government. The tax rate varies from 10 percent on incomes of 6,000 kronor or less to 65 percent on incomes of 150,000 kronor and over. There are various standard deductions. Among these are a basic deduction of 2,250 kronor for a single person (4,500 kronor for a married couple), the local income tax incurred during the preceding year, and a maximum deduction of 3,000 kronor for a wife's earned income. There are no deductions for children. These were replaced in 1948 by cash grants currently amounting to 900 kronor.

In addition, there is a special tax designed to finance in part the basic pension system, called the basic pension fee. This is levied at a flat rate of 4 percent on assessable income up to 30,000 kronor before the deduction of the 2,250 kronor (4,500 kronor for a married couple).

The personal income tax is also the single most important source of revenue to local governments. It is a proportional tax levied at a rate fixed by the local authority toward the end of each year. The rate varies among local governments. The average rate on all local incomes taxes for the whole of Sweden is 18.70 percent of taxable income. On incomes up to 30,000 kronor the local income tax takes a greater share of income than the national income tax.

TABLE VII.—A COMPARISON OF SWEDISH AND AMERICAN INCOME TAX BURDENS

Gross income	Swedish tax	Percent of income	American tax [1]	Percent of income
$1,200	[2] –$320	–26	0	0
2,000	–156	–8	0	0
3,000	165	5	4	0
4,000	500	12	144	4
6,000	1,300	22	450	7
10,000	3,200	32	1,135	11
20,000	9,200	46	3,428	17

[1] The American tax is the Federal income tax. State income taxes, which vary considerably, are not included. The Swedish tax is the combined national-local income taxes.

[2] The family allowance, which in the example would be 1,800 kronor ($360) is used as an offset against the tax. The Swedish couple making $1,200 a year would actually pay national-local income taxes of $40. The allowance for the 2 children is not subject to the tax.

It is apparent that an element of negative income taxation exists in the Swedish tax system. At low-levels of income, the family allowance more than counterbalances the income tax. At a level of income of $1,200 the family allowance produces a negative tax of $320 for the Swedish family, while the exemptions of $1,200 for the children of the American family are wasted. At an income level of $2,000, the Swedish family allowance produces a net gain, or negative tax of $156, while the exemptions for the children of the American family are mostly unused. At an income level of $3,000 the Swedish family pays an income tax of $165 and the American family pays a tax of $4. As incomes rise, the family allowance means less to the Swedish family and the exemptions for children means more to the American family. At an income level of $20,000, the family allowance is still worth $320 to the Swedish family (the same amount as for $1,200) while the exemptions for children are worth $336 to the American family.[19]

There is increasing reliance on indirect taxation in Sweden, partially attributable to the fact that the income tax probably is extended to its maximum possible effectiveness. In 1960 a general sales tax was introduced, and it is currently the second most important source of revenue to the Government. It is levied on the turnover of consumer goods—domestic and imported—and the supply of certain services. It is a single-stage tax, collected at the retail level at a rate of 10 percent. There are also taxes on alcohol and tobacco which amount to a flat rate plus an ad valorem surcharge.

It can be said that a strong element of regressiveness has been introduced into the Swedish tax system through the use of the general certain counterbalancing effect for the lower income groups.

The following table presents the relationship of the major components of the Swedish tax system to the gross national product.

TABLE VIII.—*Swedish taxes in relation to gross national product*

	Amount (millions of kronor)
Gross national product	99, 871
Direct taxes on households	23, 857
Social security	6, 174
Income	17, 683
Direct taxes on corporations	2, 306
Indirect taxes	12, 793
Total taxes	38, 956
Taxes expressed as a percentage of gross national product (in percent)	39

Source: OECD, "National Income Statistics, 1956–1965," p. 242–248.

TRANSFER PAYMENTS AND INCOME REDISTRIBUTION IN SWEDEN

Extremely large sums of money are distributed by the national Government and local Governments through various transfer payments. First of all, there are those payments—old age pensions, family allowances, sickness and social benefits, and housing allowances—which directly benefit certain sectors of society. Then there are grants, such as agricultural and housing subsidies, which are paid to various

[19] This computation is based on a tax rate of 28 percent.

branches of the economy and which result in lower prices for goods and services.

These direct transfer payments are not the only means of redistributing income. A large proportion of tax revenues are repaid in the form of free school meals, free education, free hospital care, and free library services. Since these services are financed by taxation, even those who do not benefit contribute to their cost, which results in an indirect redistribution of income.

In 1964 the gross national product of Sweden was 91.1 billion kronor. Taxes amounted to 33 billion kronor, and transfer payments amounted to 8.9 billion kronor. The two basic income transfers—old age pensions and family allowances—amounted to 6.7 billion kronor, which represented 8 percent of personal income and 12 percent of disposable income in Sweden.[20] Transfer payments expressed as a percentage of gross national product amounted to 9.8 percent in Sweden compared to 5.1 percent in the United States.

In contrast to the system of progressive taxation, the impact of which is greatly overrated for the reason that the local income tax is proportional, government expenditures through transfer payments has had a much greater effect on income redistribution in Sweden. The transfer of income by an extensive system of allowances and subsidies does not require progressive taxation; it can be financed just as well by a proportional income tax or by sales taxes, and the limit to the amount of incomes that can be distributed in this manner is set by the maximum tax pressure the economy can stand without undue disturbances or at the expense of a reduction in the standard of living for society as a whole.

The extent to which incomes are increased through transfer payments depends on a taxpayer's position on the income ladder. Since public welfare measures are available to all, irrespective of the level of income, and since there is no means test for most of the direct and indirect transfer payments, it is hard to estimate the effect of transfer payments as a supplement to income at various income levels. However, a comparison of transfer payments and taxes is presented in the following table:

TABLE IX.—A COMPARISON OF TAX PAYMENTS AND INCOME TRANSFERS IN SWEDEN BY INCOME CLASSES FOR 1960

Income group	Transfer payments to group (millions of kronor)	Tax payments by group (millions of kronor)
4,000 kronor	2,867	425
4,000 to 6,000 kronor	1,099	631
6,000 to 8,000 kronor	761	787
8,000 to 10,000 kronor	774	1,083
10,000 to 12,000 kronor	830	1,379
12,000 to 15,000 kronor	1,225	2,381
15,000 to 20,000 kronor	1,469	3,031
20,000 to 30,000 kronor	1,193	3,431
30,000 to 50,000 kronor	453	2,044
50,000 kronor	83	1,166
Total	10,754	16,528

Source: Swedish Taxpayers Association, "The Role of Taxation in the Redistribution of Income in Sweden," Stockholm, 1962, p. 21.

[20] Sveriges Officiella Statistik, "Socialvarden 1964," Statistiska Centralbran, 1966, p. 104.

A frame of reference can be developed by comparing transfer payments from the Government to the private sector of the economy in Sweden and the United States. In 1965 personal income in Sweden amounted to 88.7 billion kronor and disposable income amounted to 64.9 billion kronor. Transfer payments from Government to the private sector amounted to 10.7 billion kronor. The ratio is approximately 12 percent of personal income and 17 percent of disposable income. Gross national product in 1965 amounted to 99.9 billion kronor, thus transfer payments amounted to approximately 10 percent of gross national product.

In 1965 personal income in the United States amounted to $553.2 billion and disposable income amounted to $459.8 billion. Transfer payments to households amounted to $35.8 billion. The ratio of transfer payments to personal income is approximately 6 percent, the ratio of transfer payments to disposable income is approximately 8 percent. The ratio of transfer payments to gross national product is 5.1 percent.[21]

Several salient points need to be remembered concerning the tax-transfer payment relationship.

1. The local income tax, which is proportional, plays a very important role in the Swedish fiscal structure. As the progressive rates for the national tax apply primarily to the upper income brackets, the local income tax puts the heaviest burden on single taxpayers up to an income of 30,000 kronor ($6,000) and on married taxpayers up to an income of 48,000 kronor ($9,600).

2. The national income tax introduces an element of progression into the tax system but only accounts for 1 percent of all income redistributed by taxation and transfers. There is only a negligible shift of the tax burden to upper income groups.

3. Indirect taxes accomplish a regressive counterbalancing of the progressive income tax. As a source of revenue to the National Government, indirect taxes accounted for 46 percent of budgetary revenues for the fiscal year 1966–67, and direct taxes accounted for 44 percent.

Summary

Denmark and Sweden redistribute a considerable proportion of their national income through social welfare expenditures. The standard of living in both countries is high and the vicissitudes of life are insured against through the provisions of various income maintenance programs. The family allowance is designed to compensate for the fact that children increase the economic burden of the family without providing compensatory income by which the burden can be offset. In neither country is it subject to the income tax; from this standpoint it amounts to the deductions for children under the U.S. tax system. However, it is progressive downward in that it amounts to a greater percentage of income to families in the lower income groups than to families in the upper income groups.

There are low-income groups in both countries which are easy to identify—single persons with children, unskilled workers, pensioners, small farmers, and disabled persons. Transfer payments buttress incomes in these groups and put an income floor beneath them. However,

[21] OEDC, "National Accounts Statistics," pp. 46–52 and 242–248.

the social welfare expenditures are available to all income groups, rich or poor, and there is little reliance on a means test to differentiate between incomes.

As a percentage of gross national product, revenues from social security contributions and direct and indirect taxes amounted to 39 percent of the gross national product in Sweden and 29.7 percent in Denmark. The economic significance of this relationship is simply that taxes measure the degree to which the public sector is a supplier of social goods, and also the degree to which the Governments of the two countries have become instruments for the redistribution of income.

CHAPTER V

CANADA

INTRODUCTION

Except for the language dichotomy between English and French, there is a strong similarity between the United States and Canada. Both have a federal form of government. In Canada, the Provinces enjoy a considerable degree of autonomy. In fact, many of the social welfare programs, which are normally regarded as functions of national governments, are undertaken by Provincial governments in Canada. For example, the Province of Quebec has its own program of family allowances which is separate and apart from the national family allowance program. The Province of Saskatchewan has had a program of state health care for several years. Provincial governments may augment national programs with programs of their own.

In 1965, based on taxable and nontaxable returns, the average income for Canada was $4,200 per return.[1] Average family income amounted to $6,400 and median family income amounted to $5,820. There is a distinct variation in terms of income for the 10 Canadian Provinces, with Ontario, British Columbia, and Quebec having the highest per capita and per family incomes and Newfoundland, Prince Edward Island, and New Brunswick having the lowest per capita and per family incomes.

The following table presents a breakdown of average income per Province based on the number of taxable and nontaxable returns for 1965:

TABLE X.—*Average income in Canada by province for 1965*

[Average income per return]

Newfoundland	$3, 270
Prince Edward Island	3, 200
Nova Scotia	3, 506
New Brunswick	3, 330
Quebec	4, 110
Ontario	4, 450
Manitoba	3, 850
Saskatchewan	3, 900
Alberta	4, 000
British Columbia	4, 510
Yukon and Northwest Territories	3, 900

Source: Department of National Revenue, "Taxation Statistics, 1967 Edition," p. 15.

LOW INCOME INDIVIDUALS AND FAMILIES

The presence of Canadian income data and the availability of several Canadian studies on low-income families provide a frame of reference for an analysis of the Canadian social welfare system. Canada

[1] DBS Catalog 13-528, Distribution of Income in Canada by Size, 1965, and Department of National Revenue, Taxation Division, "Taxation Statistics, 1967 Edition," pp. 15, 65-68.

has a high standard of living with an average income which is around 85 percent of that for the United States.

TABLE XI.—PERCENTAGE DISTRIBUTION OF CANADIAN FAMILIES (INCLUDING FARM FAMILIES) BY INCOME GROUPS AND BY NUMBER OF CHILDREN UNDER 16 YEARS, 1965

Income group	No children	1 child	2 children	3 children	4 or more children
All families:					
Under $1,000	3.5	2.6	1.9	2.2	2.5
$1,000 to $1,499	3.3	2.3	1.5	.9	1.8
$1,500 to $1,999	6.5	2.7	2.5	1.6	1.7
$2,000 to $2,499	5.9	4.0	1.7	2.0	3.3
$2,500 to $2,999	4.8	3.4	3.5	3.6	2.6
$3,000 to $3,499	6.4	3.8	3.7	4.2	5.1
$3,500 to $3,999	4.7	6.4	4.4	3.6	6.3
$4,000 to $4,499	4.6	4.2	5.1	6.9	6.0
$4,500 to $4,999	5.2	5.9	6.5	6.6	7.1
$5,000 to $5,499	6.0	6.9	8.5	7.8	8.1
$5,500 to $5,999	4.8	6.3	8.1	6.2	6.8
$6,000 to $6,499	5.1	5.8	8.7	8.4	7.7
$6,500 to $6.999	4.9	6.4	5.4	6.8	6.7
$7,000 to $7,999	8.3	9.0	9.2	11.6	9.1
$8.000 to $9.999	11.9	15.8	15.3	13.3	12.1
$10,000 to $14,999	10.7	11.3	10.5	10.4	10.0
$15,000 and over	3.4	3.3	3.7	4.0	3.2
Total	100.0	100.0	100.0	100.0	100.0
Average income	$6,096	$6,721	$7,031	$6,859	$6,562
Median income	$5,424	$6,129	$6,149	$6,261	$5,903

Source: DBS Cat. 13-528, Distribution of Incomes in Canada by Size, 1965.

Since Canadian incomes average around 85 percent of U.S. incomes, it is possible to adapt U.S. poverty criteria to Canadian standards. The Council of Economic Advisers uses a poverty line income of $3,000 for a family of four. This would amount to a poverty line income of $2,550 (85 percent of $3,000) for a Canadian family of the same size. In 1965 aproximately 8 percent of Canadian families in this category made less than $2,500 and approximately 10 percent of Canadian families with four or more children made less than $2,500.[2]

When Canada is subdivided on a regional basis, significant differences in family incomes exist. In 1965, 7.8 percent of all Canadian nonfarm families residing in metropolitan areas made less than $2,500 a year and 18.1 percent of nonfarm families residing in rural areas made less than $2,500 a year.[3] For the Atlantic, or Maritime, Provinces, the ratios were 7.1 percent and 23.5 percent respectively, and for the Prairie Provinces the ratios were 7.5 percent and 22.2 percent respectively.[4] In Quebec, the ratios were 9.3 percent and 18 percent; and in Ontario, the most affluent region, the ratios were 6.6 percent and 13.7 percent. In British Columbia the ratios were 9.7 percent and 11.7 percent.

In 1965 the average nonfarm family income for Canada was $6,669 and the median nonfarm family income was $6,044.[5] Approximately 12 percent of all nonfarm families made less than $2,500 a year. For families whose incomes are derived from wages and salaries rather than transfer payments, the average family income was $7,107 and

[2] The Council of Economic Advisers' poverty line stndard is for 1962, and the Canadian data is for 1965. The figure of $2,500 conforms to the Canadian income category.

[3] Information provided by the Social Security Research Division, Department of National Health & Welfare at request of the author.

[4] The Atlantic Provinces are Newfoundland, Prince Edward Island, Nova Scotia, and New Brunswick. The Prairie Provinces are Manitoba, Saskatchewan, and Alberta.

[5] Information provided by the Social Security Research Division.

the median family income was $6,436. Five percent of Canadian families had incomes of less than $2,500 from wages and salaries.

The Council of Economic Advisers set a poverty line income of $1,500 for single individuals in the United States. In 1965 the average income of all unattached individuals in Canada was $2,884 and the median income was $2,483. Twenty-four percent of all individuals made less than $1,000 and 37 percent made less than $1,500. For individuals whose major source of income was wages and salaries, the average income was $3,675 and the median income $3,485. In 1965, 9 percent of unattached individuals made less than $1,000 and 12.8 percent made less than $1,500.

It is necessary to remember that the Council of Economic Advisers set poverty income lines at approximately one-half of median family and individual incomes. If one-half of the median nonfarm family income is used as a poverty line for Canada, then in 1965, 15.3 percent of nonfarm families made less than half the median income. For unattached individuals, the percentage is 15.5 percent.

If this standard of one-half the median income is applied on a regional basis, the results would be as follows for nonfarm families:

TABLE XII.—INCOME DISTRIBUTION IN CANADA USING ½ OF MEDIAN INCOME AS THE POVERTY LINE FOR NONFARM FAMILIES

[In percent]

Region	Metropolitan	Rural
Atlantic Provinces	[1] 15.7	35.2
Quebec	15.0	29.2
Ontario	11.0	19.4
Prairie Provinces	12.8	32.5
British Columbia	15.5	20.1
Canada	14.5	27.7

[1] ½ the median income for metropolitan areas is $3,330 and for rural areas, $2,471. The percentages are based on income distribution data provided by the Social Security Research Division and are approximations for the reason that $3,300 falls in the income group $3,000 to $3,500. To estimate the percentage of families making between $3,000 and $3,300 the actual percentage of families in the $3,000 to $3,500 category was divided by ⅗.

The criteria used so far ignore the fact that differences in family needs exist since family size differs. Obviously, a dividing line of half the median family income is more unrealistic for a family of seven that it is for a family of two. There is also a difference in living costs in urban areas as opposed to rural areas and differences in need based on age.

Based on budget data devised by the Dominion Bureau of Statistics, an attempt has been made to quantify the number of low income families in Canada. The basic criterion used to measure low incomes was the use of expenditures on food, clothing, and shelter which amounted to 70 percent of family incomes. On the basis of a sample of families living in population centers of 15,000 or more, it was found that on the average families of different sizes tended to spend 50 percent of their income on the basic necessities of life—food, clothing, and shelter.[6] The use of 70 percent meant that families had little left to spend on other needs, once the basic necessities were satisfied. In other words, discretionary income was small, and families enjoyed little better than a subsistence level of living.

[6] This was based on 1959 budget data.

This 70-percent expenditure on necessities resulted in the selection of the following income criteria: [7]

1. $1,500 for a single person.
2. $2,500 for a family of two.
3. $3,000 for a family of three.
4. $3,500 for a family of four.
5. $4,000 for a family of five.

Individuals and families with incomes below these levels were assumed to follow the 70-percent expenditure pattern. The above income criteria were applied to urban and rural non-farm families.

In 1961, 25.3 percent of all Canadian non-farm families and 43.5 percent of all individuals had incomes that fell below the above standards. The families contained 4,163,000 persons or approximately 27 percent of the population. This, however, denotes low income, but not necessarily poverty.

The number of low-income non-farm family units in 1961 varied considerably by Provinces as the following table indicates:

TABLE XIII.—*Percentage of low-income families by Canadian Provinces, 1961*

[Percentage of low income families to total number of families]

Newfoundland	55.7
Prince Edward Island	49.2
Nova Scotia	40.3
New Brunswick	43.5
Quebec	27.9
Ontario	18.6
Manitoba	26.1
Saskatchewan	34.8
Alberta	22.9
British Columbia	21.3
CANADA	25.3

Source: Central Research and Development Staff, Dominion Bureau of Statistics, Ottawa, 1965, unpublished paper by J. R. Podoluk.

If the same low-income criteria—$1,500 for a single person; $2,500 for a family of two; $3,000 for a family of three; $3,500 for a family of four; and $4,000 for a family of five or more—are applied to 1965 income data for nonfarm families and individuals, the following breakdown would occur: [8]

1. 37 percent of all individuals made less than $1,500;
2. 23.7 percent of families with two persons made less than $2,500;
3. 14.8 percent of all families with three persons made less than $3,000;
4. 11.8 percent of families with four persons made less than $3,500; and
5. 15.4 percent of families with five or more persons made less than $4,000.

By applying the following criteria to 1961 census data, Nariman K. Dhalla has classified Canadian families on the basis of poor versus non-poor.[9]

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[7] These incomes are relatively higher than for incomes suggested for the United States since Canadian income averages about 85 percent of U.S. incomes.

[8] Dominion Bureau of Statistics, Bulletin 13–528.

[9] Nariman K. Dhalla, *These Canadians*, Montreal: McGraw-Hill Co. of Canada Ltd., 1966, pp. 201–203.

The annual incomes of $3,000 and $1,500 are those set by the U.S. Council of Economic Advisers.

1. An annual income of $3,000 for nonfarm families.
2. An annual income of $1,500 for nonfarm individuals not in families.
3. An annual gross farm income of $2,500.
4. An annual income of $1,200 for farmworkers.

On the basis of these criteria, in 1961, 847,940 families with 2,915,672 persons, 687,857 persons not in families, and 221,866 farm households with 1,020,584 persons—a total of 4,624,113 persons, or 25.4 percent of the Canadian population—were classified as poor.[10] The percentage of families making less than $3,000 a year ranged from 51.2 percent in Newfoundland to 17.8 percent in Ontario, and the percentage of individuals not in families making less than $1,500 a year ranged from 73.8 percent in Newfoundland to 44.9 percent in Ontario. Based on urban-rural residence, the percentage of families making less than $3,000 a year ranged from 18.9 percent for metropolitan areas to 42.5 percent for rural nonfarm areas.[11]

The characteristics of families with incomes of less than $3,000 and individuals with incomes of less than $1,500 are easy to identify:

1. Sex is an important determinant—53.7 percent of all families with income of less than $3,000 were headed by females; and females comprised 57.2 percent of all individuals making less than $1,500.
2. Education, or lack of it, is also an important determinant. Two-thirds of the 847,940 families had an elementary school education or less.
3. Occupation is a determinant. In 1961, 34.9 percent of families headed by an unskilled laborer made less than $3,000 a year, compared to 13.7 percent for skilled and semiskilled workers.
4. Age is a factor. In 1961, 53 percent of family heads 65 or over and 32.3 percent of family heads under 25 made less than $3,000 a year.
5. Race is also apparently a factor. In 1961, 17,230 out of 26,977 Indian families made less than $2,500 a year.
6. Low incomes are also prevalent among farmers. In 1961, 46.1 percent of commercial and noncommercial farms had gross incomes of $2,500 or less. The percentage ranged from 84 percent in Newfoundland to 32.3 percent in Saskatchewan.
7. Regional variations also exist among low-income families. In 1961, 51.2 percent of families and 73.8 percent of individuals made less than $3,000 and $1,500 respectively in Newfoundland, and from 44.8 percent and 67.1 percent in Prince Edward Island to 17.8 percent and 44.9 percent for Ontario and 20.7 percent and 43.9 percent for Alberta.

It is significant that these characteristics for Canadian low-income families and individuals are similar to those for Swedish low-income families. Although the word "poverty" was used by Dhalla to classify the Canadian poor, it certainly is not applicable to many of the 4,624,113 persons classified in the poverty range. As was pointed out in the section on Sweden, it is obvious that there are a number of low-income families in Sweden that would be classified as poor if some dividing line of $3,000 or $2,500 a year is used. This, however, as was also pointed out with respect to Sweden, neglects the role of transfer payments in

[10] Ibid., p. 208.
[11] Ibid., pp. 209–213.

redistributing income. However, the growth in welfare expenditures in both countries has brought increased dependence on indirect taxation as a revenue source. The implication of indirect taxation is clear—it means that a considerable part of the real cost of welfare expenditures are borne, in the final analysis, by the beneficiaries. It would also imply that there does exist some limit to the extent to which any government can resort to direct taxation for all of its needs.

The Family Allowance

The Canadian family allowance was introduced in 1944. There were several reasons for its adoption.

1. The Province of Quebec amended its Collective Agreement Act of 1943 to add family allowances to the provision of a collective bargaining agreement between the Catholic Confederation of Labor and employers.[12]
2. The Marsh report, which was Canada's counterpart of Britain's Beveridge report, appeared in 1943.[13] In this report, a proposal for a family allowance system was presented. The Beveridge report had recommended the adoption of a system of family allowances as part of a postwar social security system for Great Britain. The Marsh report visualized the same purpose for family allowances in Canada. The fundamental rationale of the report was the recognition that children increase the financial burden of families without providing compensating financial offsets.
3. There was concern in Canada over the problem of maintaining full employment after the end of the Second World War. The influence of John Maynard Keynes on Canadian fiscal thought was strong. Keynes had suggested in the General Theory of Employment, Interest, and Money that measures which would stimulate the propensity to consume would have a favorable effect on total demand.[14] Transfer payments would redistribute income to those in the lower income brackets which have a high marginal propensity to consume, thus stimulating the growth of capital. It was also Keynes who incorporated the idea of a family allowance as a wartime measure in his program for financing the war. Within the Keynesian context, it was felt by the Canadians that the family allowance would create a demand for goods, thereby stimulating a demand for labor to create these goods.[15]

Family allowances are currently paid to every child under the age of 16. Allowances are paid at the monthly rate of $6 for every child under 10 years of age, and $8 for each child from age 10 to 16. Payment is normally to the mother, and the family allowance is administered by regional offices situated in the capital city of each Province. They allowance is not subject to a means test and is paid from the consolidated

[12] Quebec has several supplementary welfare schemes which are independent of those provided by the National government.

[13] The Marsh report was presented to the Canadian House of Commons in 1943. Dr. L. C. Marsh was commissioned to prepare a study of postwar Canadian welfare needs.

[14] John Maynard Keynes, General Theory of Employment, Interest, and the Price Level, Harcourt, Brace & Co., 1936, p. 373.

[15] See the statements of Prime Minister Mackenzie King in Debates, House of Commons, Canada, 1944 session, vol. 5, p. 5333.

revenue fund of the Canadian Government. It does not constitute taxable income, but there is a smaller tax exemptions for children eligible for the allowance.

During the fiscal year 1966–67 payments of family allowance amounted to $555,794,797. The average monthly payment per family was $16.82, or approximately $200 a year. This constituted about 3 percent of gross income for the average Canadian family. However, this is only an average percentage, and the family allowance varies in inverse proportion to the level of income.

A breakdown of the Canadian family allowance based on the number of children is presented in the following table:

TABLE XIV.—DISTRIBUTION OF CANADIAN FAMILY ALLOWANCES BASED ON NUMBER OF CHILDREN PER FAMILY

Number of children per family	Number of families	Percent
1	934,553	32.9
2	826,183	29.1
3	520,691	18.4
4	283,501	10.1
5	136,157	4.8
6	67,355	2.4
7	33,385	1.2
8	17,317	.6
9 or more	14,799	.5

Source: Information provided by the Research and Statistics Division, Department of National Health and Welfare, Ottawa.

YOUTH ALLOWANCES

In addition to the family allowance, there is a program of youth allowance that has been in effect for a period of 2 years. This allowance of $10 a month is paid for any youth between 16 and 17 years of age who resides in Canada and lives with his parents or attends school.[16] The administration of the youth allowance is handled through the family allowance offices in the Provinces. During the fiscal year, 1966–67, total youth allowances amounted to $47,395,633 and were paid for 412,121 youths. Allowances begin during the month following that in which family allowances terminate and continue to the end of the month in which the youth reaches 18. If the youth drops out of school, the allowance terminates.

OTHER ALLOWANCES

Orphan's allowances are payable at the rate of $25 a month for the first four children and $12.50 a month for each additional child. Benefits cease at age 18 and eligibility is determined by coverage under the Canada Pension Plan. Payments are also made to mothers with children under the Provincial Mothers' Allowance programs. However, eligibility for allowances are based on a means test. The rates of the allowance vary provincially.

[16] The Province of Quebec does not provide youth allowances. Instead it provides tax abatement compensation. Quebec, of course, is essentially an autonomous province. The heaviest concentration of French-speaking Canadians is in Quebec, and separatism from the remainder of Canada is a goal pursued by many of its inhabitants.

REDISTRIBUTIONAL EFFECTS OF THE FAMILY ALLOWANCE

The family allowance is based on the age of children. For children under 10 the allowance is $6 a month; for children 10 to 16, the allowance is $8 a month, and for youths 16 to 18, the allowance is $10 a month. The total cost of children and youth allowances in the fiscal year, 1966–67, was $603,190,430. Expressed in terms of averages, total allowances amounted to approximately $20 a month per family. These payments are low for such a high income country. In 1965, the average income for families with one child under 16 was $6,721. The family allowance would amount to $72 a year if the child is less than 10, and $96 a year if the child is between 10 and 16. This would amount to a little more than 1 percent of the average income. For families with three children, the average family income was $6,859 in 1965. The family allowance would range from a minimum of $216 a year if the three children were all under 10 to a maximum of $288 a year if all the children were between the ages of 10 and 16. On a percentage basis, this would amount to, at best, 4 percent of average income.

However, the family allowance can represent a sizable percentage of income to a low-income family. A family with one child making $1,500 a year would receive either $72 or $96 a year depending on the age of the child. This payment would amount to around 5 to 6 percent of total income. A family with three children making the same income would receive anywhere from $216 to $288 a year depending on the ages of the children. In terms of percentages, the allowance would range from 14 to 19 percent of total income. A family with seven children and the same income would receive a maximum of $672 a year, assuming that all of the children are between the ages of 10 and 16. In terms of closing the poverty gap, the family allowance does not make a major contribution. For example, if the Council of Economic Advisers poverty line income of $3,000 for a family is used, the Canadian family with three children and an income of $1,500 would receive from $216 to $288 a year. This would work out to a maximum of $1,788 a year, far short of the poverty line.

When the Canadian criteria for low income families are used, in 1961 the family allowance constituted 6.6 percent of total family income compared to the national average of 3.1 percent. Low income families received 29.3 percent of all family allowances paid during that year, 44 percent of old-age pensions, and 38 percent of other Government transfer payments.

The family allowance is one method by which Government payments are channeled into low income areas for the purpose of improving living standards. An estimate of the variation in the importance of the family allowance can be obtained by comparing average family income per province to family allowance payments per province.

TABLE XV.—COMPARISON OF FAMILY ALLOWANCE PAYMENTS TO AVERAGE FAMILY INCOME FOR CANADIAN PROVINCES FOR 1961

Province	Average family income [1]	Family allowance [2]
Newfoundland	$3,673	$242
Prince Edward Island	3,919	228
Nova Scotia	4,260	204
New Brunswick	4,155	228
Quebec	5,387	209
Ontario	5,868	187
Manitoba	5,260	195
Saskatchewan	4,803	205
Alberta	5,602	199
British Columbia	5,618	187
Canada	5,449	197

[1] Source: D.B.S., Census of Canada, 1961. Bulletin 98-503.

[2] Estimate based on average monthly family allowance payments by prvince for 1967. Actually, there is little difference in average monthly family allowance. In 1961 the family allowance averaged $16.50 a month per family, compared to $16.42 in 1967. Average family income is nonfarm and covers families with and without children.

This percentage relationship can only be considered an approximation of the actual relationship that exists between family allowances and average family income for each province. However, it tends to confirm a study by Joseph W. Willard which compared family allowances to personal income in 1951. In that year family allowances as a percentage of personal income ranged from 4.63 percent in Newfoundland to 1.37 percent in Ontario.[17]

Antal Deutsch in a recent study of income redistribution through the family allowance and old-age benefits arrived at the following conclusions concerning the income redistribution effects of the family allowance in Canada:[18]

1. Most of the income redistribution effect of the family allowance is among units in the same income class. Individuals and families with no children subsidize families with children. The redistribution effect is horizontal rather than vertical.

2. There is regional redistribution of income through family allowances. Beneficiaries are Quebec, Newfoundland, New Brunswick, Prince Edward Island, and Nova Scotia in terms of benefits received to taxes paid. Losers are Ontario and British Columbia.

3. There is some vertical income redistribution in that low-income groups gain and high-income groups lose in terms of benefits and costs. The redistribution favors those with incomes below $4,999 with the burden confined to those with incomes above $5,000. The overall vertical income redistribution effect is small.

4. If the sole desideratum of family allowances is to accomplish progressive income redistribution, this can be best accomplished by subjecting family allowances to the personal income tax.

EXPENDITURES ON FAMILY ALLOWANCES

The following tables present the cost of the family allowance and comparisons of it over time to such economic factors as national income. In the first table, expenditures on the family allowance are presented for the last 12 fiscal years.

[17] Joseph W. Willard, "Some Aspects of Family Allowances and Income Redistribution in Canada," Public Policy, Volume V, 1954, p. 217.

[18] Antal Deutsch, "Income Redistribution Through Canadian Federal Family Allowances and Old-Age Benefits," Canadian Tax Foundation, 1968, pp. 46–47.

TABLE XVI.—*Family Allowance Payments in Canada—Comparison by Fiscal Years*

[In thousands]

1955–56	$382, 535
1956–57	397, 518
1957–58	437, 887
1958–59	474, 787
1959–60	491, 214
1960–61	506, 192
1961–62	520, 781
1962–63	531, 566
1963–64	538, 312
1964–65	545, 775
1965–66	551, 735
1966–67	555, 795

Source: Department of National Health and Welfare, Report on the Administration of the Family Allowance for the Fiscal Year 1966–67.

The family allowance, when compared to national income and to total social security expenditures, shows a decline in relative terms. Using the fiscal year 1959–1960 as a starting point, the table below presents the relationship between the family allowance to national income, which indicates in part the degree to which the Government has become an instrument for the redistribution of income. The relationship of the family allowance to total social security expenditures is also presented in the table to indicate the significance of the family allowance relative to total transfer payments.

TABLE XVII.—THE RELATIONSHIP OF THE FAMILY ALLOWANCE TO NATIONAL INCOME AND TOTAL SOCIAL SECURITY EXPENDITURES FOR SELECTED FISCAL YEARS

Fiscal year	Family allowance as a percentage of national income	Family allowance as a percentage of social security expenditures
1959–60	1.9	16.3
1960–61	1.9	15.1
1961–62	1.8	14.1
962–63	1.7	13.7
1963–64	1.6	13.3
1964–65	1.6	12.9
1965–66	1.5	12.7
1966–67	1.4	12.5

Source: Department of National Health and Welfare, "Social Security in Canada," 1967.

Old Age Pensions

There are three income maintenance programs available for aged persons under the Canadian social security system which are as follows:

1. The old-age security program. This program provides a universal pension of $76.50 payable by the Federal Government to all persons 67 years of age or over who have lived in Canada for 10 years immediately preceding application for the pension. The program is administered by the Department of National Health and Welfare through regional offices in each provincial capital in which application is made for the pension. It its financed from the proceeds of a

3 percent sales tax, a 3 percent tax on corporate income, and, subject to an annual limit of $240, a 4 percent tax on taxable personal income. Yields from these taxes are paid into the old-age security fund, and if they are insufficient to meet the pension payments, temporary loans are made from the consolidated revenue fund.

2. The Canada pension plan program. This program is similar to the supplementary pension program used in Sweden in that each is designed to provide an earnings-related retirement pension for members of the labor force. It was enacted in 1965 and covers all employees who earn over $600 a year and all self-employed persons who earn $800 or more. Retirement benefits, which were paid for the first time in 1967, amount to 25 percent of a contributor's average pensionable earnings which include not only those earnings on which contributions were made, but also the $600 that was exempt from contributions. The Canada pension plan is financed by contributions of employees, employers, and self-employed persons, and by interest earned by the fund into which contributions are placed. On earnings between $600 and a current maximum of $5,000, the employee and the employer each make a contribution of 1.8 percent. Self-employed persons contribute at a rate of 3.6 percent. Pensions are payable at any time between the ages of 65 and 70. A pensioner can earn up to $900 a year without losing any part of the pension; however, for earnings between $900 and $1,500, the pension will be reduced by one-half the excess of actual earnings over $900. If earnings exceed $1,500, then the pension will be reduced by $300 plus all earning in excess of $1,500.

3. The guaranteed income supplement program. In December 1966, the Old Age Security Act was amended to provide for the introduction of a guaranteed income supplement program under which all pensioners would receive a minimum monthly income of $105. This minimum would be subject to increases in subsequent years in accordance with changes in a pension index established under the Canada pension plan. The rationale of the guaranteed income supplement is the guarantee of income to pensioners who would receive little or no income from the regular old-age pension. The maximum supplement which may be paid is 40 percent of the regular old-age pension. In 1968 the old-age pension is $76.50 and the maximum supplement is $30.60, for a total minimum income guarantee of $107.10 a month.

A pensioner with only the old-age pension can currently receive a guaranteed annual income of $1,285.20 a year ($107.10×12), and a married couple who are both pensioners can receive twice this amount, or $2,570.40 a year. The income supplement, however, is based on an income test and is reduced if outside income, i.e., income from sources other than pensions is available. For example, the full $30.60 is payable if a single pensioner had less than $24 in yearly income from sources other than his old-age pension, but it is reduced by $1 for every $24 increase in income. In other words, if outside income is between $24 and $48 a year, the guaranteed income supplement is reduced to $29.60. If a single pensioner has a yearly income of $744 from outside sources, there is no guaranteed income supplement and only the regular old-age pension of $76.50 a month is available. If both husband and wife are eligible for the regular old-age pension, the full guaranteed income supplement of $30.60 a month is payable to each providing that they both have less than $48 a year in outside income. The supplement is reduced by $1 a month for earned incomes from outside sources separate from pensions of between $48 and $96 a year, and an additional $1 decrease per $48 incremental increase in incomes. A couple who earned $1,488 in income during 1967 would receive no supplement.

However, pensioners whose spouses do not receive an old-age pension are allowed to earn up to $966 a year while receiving the full guaranteed income supplement of $30.60 a month.

The guaranteed income supplement is financed out of the old-age security fund and is administered by the Department of National Health and Welfare. It is really a transitional supplement in that it is limited to persons who were 56 years and older in 1966—the year during which the Canada and Quebec pension plans went into effect. Some Canadians, by reason of age or lack of work experience, will be unable to benefit from these plans for the reason that pensions will not be payable until 1976.

In the fiscal year 1966–67, total old-age pensions under the Old Age Security Act amounted to $1,073,005,708. This amount was paid to 1,229,561 persons. Of these, 505,240 received the guaranteed income supplement (328,927 received the full amount). For the first 3 months of the calendar year 1967, a total of $39,597,478 was paid out in guaranteed income supplements. The importance of the supplement to pensioners varied considerably by provinces. In Newfoundland, for example, 76 percent of all old-age security pensioners received the supplement compared to 41.1 percent for Canada as a whole. In Prince Edward Island, 66.7 percent of the pensioners received the supplement. However, in Ontario only 28.5 percent of all pensioners received the guaranteed income supplement.

The following table presents expenditures on old-age pensions and other benefits for selected fiscal years and the percentage relationship of these expenditures to total transfer payments under the Canadian social security system.

TABLE XVIII.—OLD-AGE PENSIONS IN CANADA FOR SELECTED FISCAL YEARS

Fiscal year	Old-age payments (in thousands)	Old-age payments as a percentage of transfers
1959–60	$635,586	21.0
1960–61	653,728	19.5
1961–62	686,729	18.7
1962–63	810,740	20.9
1963–64	886,807	21.9
1964–65	975,276	21.0
1965–66	981,184	20.9
1966–67	1,073,006	21.2

Source: Department of National Health and Welfare, "Report of the Administration of the Old Age Security Act for the Fiscal Year Ended Mar. 31, 1967." Old-age payments include pensions, the Federal-Provincial old-age assistance program, and general Provinical assistance programs for the aged.

The Canada pension plan will eventually supersede the guaranteed income supplement, and is considered to be the basic income maintenance adjunct to the old-age security pension. It covers 92 percent of the Canadian working force and is designed to provide a retirement pension, a disablement pension, benefits for children in the event the main wage earner is disabled, a widow's pension, a dependent children survivor pension, and a lump-sum payment to the estate of a deceased person. The Province of Quebec has a similar plan called the Quebec pension plan. Benefits under both plans are tied to the cost of living and are payable over and above old-age security pensions. The pensions went into effect in 1967.

The benefit under the Canada pension plan is 25 percent of average annual earnings up to $5,000 a year starting from January 1, 1966, the inception date of the plan. Full retirement pensions will become available in 1976, and earnings are averaged over this 10-year period. If earnings have averaged $5,000 a year for 10 years, the pension will be $1,250 a year or $104.17 a month until the pensioner's death. If average earnings are $4,800 a year ($400 a month) for 10 years, the pension will be $1,200 a year or $100 a month. The pensioner, to receive these amounts, must have contributed to the plan for 10 years. Assume, however, that the pensioner contributed for 2 years and had an average income of $4,800 for each year. His pension would be $240 a year or $20 a month.

The Canada pension plan benefit is combined with the regular old-age security benefit. This would mean that a pensioner with an average income of $5,000 for 10 years would receive $104.17 plus the $75 old-age pension, for a total of $179.17 a month. If both husband and wife have worked and contributed to the Canada pension plan, their combined retirement incomes could amount to as much as $358.34 in 1976.[19]

Contributions are based on earnings of up to $5,000 a year. From earnings $600 is deducted, and a levy of 1.8 percent is applied to the remainder. For example, on earnings of $5,000, $600 is deducted and the levy of 1.8 percent is applied to $4,400. The amount is $79.20 a year. Employers are required to match their employee's contributions. This also means that they contribute an amount equal to 1.8 percent of employee annual earnings between $600 and $5,000 with the maximum amounting to $79.20 a year.

Under the Canadian pension plan disability pensions will become available by May 1970 to persons who have contributed to the plan for at least 5 years. A contributor's disability pension will be a flat-rate $25 a month plus 75 percent of his retirement pension. For example, if the monthly retirement pension is $25, the disability pension will be $43.75 a month. If children are involved, the benefit will be $25 per month for each dependent child up to four children, and $12.50 a month for each additional child. For example, the benefit would amount to $156.25 a month if the regular retirement pension is $25 a month.

Survivor's benefits became payable in February 1968 and are limited in amount since the pension plan has only been in effect since 1965. Benefits include a death benefit which amounts to six times the monthly retirement pension. For example, if the pension is $25 a month, the death benefit is $150.

The Canadian old-age security system is similar to the Swedish system in that both use a "double-decker" arrangement to provide pensions to older persons. The Canadian system consists of a regular

[19] The $75 was for 1967, but is raised to compensate for any cost-of-living increase. Therefore, the total of $179.17 can be considered as an example which is based only on 1967 rates.

old-age pension which is financed by a sales tax, and taxes on personal and corporate incomes, and a new pension arrangement in which an additional pension that is directly related to earnings is superimposed upon the regular old-age pension. In Sweden there is also a basic old-age pension which is paid at the same rate to everyone, and a supplementary old-age pension which is related to earnings. The general level of total old-age pensions—basic national pensions and supplementary pensions—are supposed to assure an adequate income to the aged. The Swedish system has been in effect longer than the Canadian system, and both are tied to the cost of living. Both pension systems comprise the largest single social welfare expenditure item in the budgets of the two countries.

The following table presents the cost of the old-age security pensions compared to revenue sources. The pension payment cost differs from the amount used in the preceding table for the reason that the guaranteed income supplement and provincial assistance programs are omitted.

Table XIX.—A COMPARISON OF OLD-AGE PENSIONS AND TAX RECEIPTS IN CANADA

[In millions of dollars]

Fiscal year	Pension payments	Sales tax [1]	Personal income tax [2]	Corporate income tax [3]	Total taxes
1960–61	$592.4	$270.2	$229.4	$103.5	$603.1
1961–62	625.1	284.9	259.0	100.1	644.0
1962–63	734.4	302.2	273.7	115.2	691.1
1963–64	808.4	331.8	302.6	115.7	750.1
1964–65	885.3	383.2	431.9	145.2	960.3
1965–66	927.3	522.1	494.9	152.3	1,169.3
1966–67	1,033.4	559.5	576.6	149.5	1,285.6

[1] The sales tax is 3 percent.
[2] The personal income tax is 4 percent of taxable income subject to an annual limit of $240.
[3] The corporate income tax is 3 percent on corporate earnings.

Source: Department of National Health and Welfare, "Quarterly Statistical Bulletin," vol. 1, No. 1, January 1968, p. 6.

The Canada Assistance Plan

The Canada Assistance Plan is a program which is designated to assist individuals and families with low incomes. It involves a Federal-Provincial arrangement whereby four traditional Federal-Provincial assistance programs covering the aged, the blind, the disabled, and the unemployed can be combined into a single program under the auspices of individual Provinces. The Provinces have the right to do so at their option. A purpose of the plan is to coordinate public assistance programs in Canada.

A basic feature of the plan is the provision of Federal sharing in the cost of supplementary payments over and above the benefits paid under existing income maintenance programs such as old-age security pensions, which include the guaranteed income supplement, the Canada pension plan, the Quebec pension plan, and unemployment insurance, as well as allowances paid under the standard Provincial programs for the aged, the blind, and the disabled.

An area of support under the plan is the mother's allowance which has been the financial responsibility of the Provinces. This allowance is designed to assist mothers, who for one reason or another, lack the normal means to support their children. The Canadian Government under the plan, can share on a matching basis, the cost of allowances to mothers. The eligibility requirement which governs assistance is need, and this is determined by a needs test.

A variety of other areas are also covered by the plan. At the option of the provinces, separate agreements may be entered into, providing for the sharing of costs of work activity projects to prepare persons in need for entry or return to employment. The plan also provides support for the administration of public assistance programs and associated welfare services that have as their objective the prevention of poverty. There is provision for Federal sharing in the cost to the Provinces of maintaining needy persons in homes for the aged, nursing homes, and child care institutions.

Unemployment Assistance

Canada differs from the United States in the area of unemployment assistance in one important respect—there is a national labor mobility program which provides grants to assist workers to explore work opportunities in areas other than the home area.[20]

The Canadian Government has had, in effect, three separate programs of relocation assistance which are as follows:

1. The Government (National Employment Service) provides transportation assistance, including meals and lodging, on a nonrecoverable basis, to unemployed workers in designated labor surplus areas, who move to employment in other areas. The workers' dependents and household effects, including a mobile home, may be moved at public expense under this program. To be eligible, the worker must pass a means test—he must demonstrate his inability to pay such costs himself.

2. An employer wishing to recruit workers beyond commuting distance from his operation can authorize the National Employment Service to advance, on a refundable basis, travel expenses to selected workers to enable them to proceed to employment. This is done in connection with the regular clearance of labor through local offices of the National Employment Service. The employer has to reimburse the National Employment Service upon receipt of its account.

3. The third program under which workers are moved with all or part of their transportation paid is the Dominion-Provincial farm labor movement. Under this program, the workers pay part of the cost and the Federal and Provincial Governments share the balance. This program applies to workers recruited in one area in Canada to assist with the farm corps in another area. In recent years, workers have been recruited in the Maritime Provinces for employment in Ontario as farmhands, vegetable and fruit pickers, and as cannery and food-processing workers. There is also an annual movement within the Maritime Provinces which involves potato pickers who are recruited in New Brunswick to assist with the harvest in Prince Edward Island.[21]

Unemployment compensation is provided by the Unemployment Insurance Commission, and is financed by levies on the employee and

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[20] For that matter, so do Denmark, France, Great Britain, and Sweden.

[21] See Martin Schnitzer, "Programs for Relocating Workers Used by Governments of Selected Countries," Joint Economic Committee, paper No. 8, 1966.

employer which amount to 10 cents a week if weekly earnings are less than $9, up to 94 cents a week, if earnings are $69. The National and Provincial Governments provide 20 percent of the combined employee-employer contributions on a matching basis. To be eligible for unemployment benefits, an employee must have had 30 weeks of contributions during the last 2 years of employment, including 8 weeks during the last year, if seasonally unemployed.

Benefits are calculated on the average weekly contributions for the last 30 weeks in the 104 consecutive weeks preceding the claim, and range from $6 to $27 weekly up to a maximum of 52 weeks for a person without dependents, and from $8 to $36 a week for a person with one or more dependents. In the fiscal year 1965–1966, unemployment expenditures amounted to 12.1 percent of total social security expenditures.

Unemployed persons who have exhausted their benefits under the regular unemployment insurance program can be supported under provincial social assistance programs, the cost of which is shared with the Federal Government under the Canada Assistance Plan.

Rural Poverty

Rural-urban income disparities in Canada exist and are considered to be a source of national concern. In 1961 the rural nonfarm family income averaged 69 percent of the average urban family income, and rural farm family income averaged 63 percent of average urban family income.[22]

These disparities were compounded by regional variations which existed. For example in Nova Scotia, average farm family income was $2,255 in 1961, an amount which was less than half of the average urban family income of $5,796.[23] This was also less than half of the average urban family income for any province. Using two poverty income criteria, total rural poor families in 1961, numbered 504,743 out of 1,158,107 rural families.[24] Rural poverty was most extensive in Newfoundland—68 percent of rural families were classified as poor compared to 44 percent for Canada as a whole.

In 1961 the Agricultural Rehabilitation and Development Act (ARDA) was passed. The purpose of the act was to develop a set of programs which were directed toward the alleviation of low incomes in rural areas. These programs are Federal-provincial in nature. The provinces have the responsibility of initiating programs, implementing them, and paying half of the cost. The essence of programs is an arrangement for Federal-provincial cost sharing of approved projects which involve rural development. Projects include the promotion of more productive use of marginal and submarginal land for agricultural production, and the preparation of comprehensive plans with the participation of local residents through rural development committees. There are soil and water conservation projects that place

[22] Helen Buckley and Eva Tihanyi, "Canadian Policies for Rural Adjustment: A Study of the Economic Impact of ARDA, PFRA, and MMRA," Economic Council of Canada, special study No. 7, October 1967, pp. 27–28.

[23] Ibid., p. 29.

[24] Poor rural non-farm families are those having incomes of less than $3,000 a year, and poor rural farm families are those that have farms with a capital value of less than $25,000 and gross sales of agricultural products of less than $3,750 a year.

emphasis on developments that encompass resource management throughout an entire watershed or river valley.

In 1966 the Fund for Rural Economic Development (FRED) was established by an act of Parliament. It permits a Federal expenditure of $300 million from Consolidated Revenues over a 5-year period, and is designed to promote rural development in Canada. In the same year the Canadian Government and the Province of New Brunswick signed an agreement under the provisions of FRED to develop the northeast region of New Brunswick. The Provincial government had to match expenditures with the National Government. Basic measures to be accomplished under the agreement include the expension and modernization of school facilities, the provision of vocational training schools which will provide training for 700 workers a year, grants of up to $2,400 to encourage the movement of families out of isolated areas to more viable economic areas, the construction of several thousand housing units in major population centers in the northeast area to encourage movement from nonviable rural areas, and the expansion and development of the off-shore fishing industry. A number of small public investment projects will also be undertaken to provide local employment opportunities for seasonally employed workers.

In 1967 the Canadian Government and the Province of Manitoba signed an agreement to develop the Interlake Area of Manitoba. Funds on a matching basis are provided to support programs initiated under the Interlake comprehensive rural development plan. Support is provided for vocational training and mobility assistance.

Summary

Next to the United States, Canada has the highest per capita and per family income of any country in the world. By any standard, it is a wealthy country. The average family income is well above $6,000 a year, but for many reasons a sizable percentage of the Canadian population can be considered to be poor by Candian or American standards. Many of the poor are concentrated in rural areas across Canada, and others live in areas where industries, such as fishing or mining, no longer provide employment opportunities.

General Canadian social welfare policy had its genesis during the aftermath of World War II. Spurred by pervading concern for shoring up the economy against an anticipated postwar collapse, it also reflected the concepts of the Beveridge plan and its postwar implementation in Great Britain in the form of a wide variety of income maintenance programs. The family allowance was introduced into both countries at the same time for substantially the same reasons, one of which was the attempt to socialize aggregate demand.

The family allowance is the major difference between the Canadian and U.S. social welfare systems. In the fiscal year 1964–65, Government expenditures on social security programs amounted to 9.2 percent of gross national product in Canada compared to 6.9 percent in the United States. If the family allowance is deleted from Canadian expenditures, the percentage drops to 7.9 percent of gross national product.

The family allowance is payable at two flat rates—a rate of $6 a month for each child under 10 years of age, and $8 a month for each child between the ages of 10 and 16. The average monthly payment in 1966 was $16.59, and the average payment per child was $6.74. The allowance would constitute a small percentage of total income to the average Canadian family, but can be of significant importance to low income families with a large number of children. It also varies in importance between provinces, being more important relative to average family income in Newfoundland and less important relative to average family income in Ontario.

Several other points can be made concering the family allowance. It is financed out of general revenues and is not subject to the Canadian income tax. However, exemptions for children are reduced from $550 to $300 for families receiving the allowance. Under the Income Tax Act, any child who is qualified to receive the family allowance brings the deduction of $300. Once the child reaches the age of 16, he is no longer qualified to receive the family allowance, and an exemption of $550 may be claimed even though he is eligible for the youth allowance of $10 a month.

Although certainly not an anachronism, the family allowance appears to be declining in importance in the general Canadian social security system. In the fiscal year 1959–60, it accounted for 16.3 percent of all social security expenditures—Federal, Provincial, and municipal. Since it is a Federal expenditure, the appropriate measurement is to compare it to total Federal social security expenditures. In 1959–60, it amounted to 24.4 percent of Federal social security expenditures. In the fiscal year 1965–66, the family allowance accounted for 12.7 percent of all social security expenditures, and 20.7 percent of Federal social security expenditures. In 1963 the average monthly payment was $16.63; in 1966, it was $16.59.

In the field of old age pensions, a guaranteed income supplement has been adopted recently to bring up pensions to what is considered to be a minimum income standard. This income supplement, which is currently $30.60 a month for individual pensioners, is added to the regular old-age pension of $76.50 a month to provide a basic current minimum pension of $107.10. The guaranteed income supplement is tied to an earnings test and decreases as outside income increase. The guaranteed income supplement is transitory and will eventually be superseded by the Canada and Quebec Pension Plans, which will give Canada a "double decked" arrangement as far as old age pensions are concerned. The Plans relate pensions to earned income over a period of time—the higher the income, the higher the pension. The pension will be an addition to the regular old age pension which is paid at the same rate (currently $76.50 a month) to all eligible persons.

In the fiscal year 1959–60, Government expenditures on social security amounted to 11.3 percent of national income; in the fiscal year 1965–66, expenditures amounted to 11.8 percent of national income. In the same fiscal years, expenditures on social security amounted to 8.5 and 8.8 percent of gross national product, compared to 6.3 and 6.9 percent for the United States.

Social security expenditures include old-age and survivors benefits, family allowances, unemployment benefits, disability benefits, workmen's compensation, health services, veterans' pensions, and general administrative expenditures. The ratio for expenditures for the fiscal year 1965–66 was Federal, 61.4 percent; Provincial, 36 percent; and municipal, 2.6 percent. There is joint Federal-Provincial implementation of a number of social welfare programs.

Poverty in Canada and the United States exhibits similar patterns, and there is concern in both countries over the concentration of low-income families in rural areas. Canadian legislation has attempted to deal with this problem through the provision of measures which are designed to improve the use and productivity of resources in rural areas.

Chapter VI

CONCLUSIONS

The purpose of this study has been to analyze existing welfare schemes in five countries—Canada, Denmark, France, Great Britain, and Sweden. Particular attention has been placed on the methods of financing various welfare programs and their income redistribution effects. Well-defined programs to eliminate poverty do not exist for the reason that there has been little or no preoccupation with the subject. Defined levels of poverty in these countries do not exist. On an a priori basis it is easy to select the lowest one-fifth or one-tenth of persons in an income distribution and designate them as "poor." This would mean that unless everyone made the same incomes, the bottom one-fifth or one-tenth of any income distribution would always be poor by definition. This is an arbitrary criterion. Even though income tax data is available for each country, the income distribution breakdown ignores the effects of transfer payments. It is, however, possible to identify low-income groups in these countries by using some percentage of average income as a mechanical divider between low and middle incomes.

In each country, there is a reliance on standard social welfare measures, including the family allowance, to accomplish the placement of a minimum income floor for everyone. However, with the exception of the family allowance, the other measures are also used in the United States, and any variation that exists is simply a matter of degree. None of the countries used what is called "negative" income taxation, nor is there any interest in using this approach. The person who thinks that the European countries are doing things better than we are in the whole area of social assistance may be in for a disappointment.

The family allowance has been suggested by many persons as a device which can eliminate poverty in the United States. In the five countries examined in the study, the family allowance comes the the closest to what can be considered a guaranteed income. In France, it is a very important social welfare measure, and as a transfer payment represents around 5 percent of national income. The allowance is based on a step progression—22 percent of a base minimum income of 328 francs in the Paris area for the second child, 33 percent for the base for the third child, and 33 percent for subsequent children through the sixth child. The allowance can constitute a sizable proportion of personal income for lower income families. For example, for an average French worker with an income of $190 a month and with children, the family allowance would amount to approximately $38 or 20 percent of the average income. In 1961 the estimated percent of monthly family allowances to average gross monthly earnings of French production workers was 28.7 percent.

However, the family allowance is of lesser importance in Great Britain. It was introduced in 1945 as a part of the social welfare measures adopted by the Labor government. In the 22 years since the family allowance has been in existence, the rates have been changed only three times. In terms of real income, the allowance is less important now than when it was introduced. In 1961 the family allowance constituted 5.7 percent of the average production worker's monthly wage.

In Sweden the family allowance is payable to all families regardless of the number of children, unlike France and Great Britain where the first child is excluded. The allowance is a flat 900 kroner a year ($175) for each child and is financed out of general tax revenues. With average family income amounting to more than $5,000 a year, the allowance would represent a small percentage of total income to the typical Swedish family. However, for lower income families with several children, it can constitute a sizable percentage of total income. The allowance has not kept pace with the cost of living, and as a percentage of personal income has declined since its inception in 1948.

In Denmark the family allowance does attempt to discriminate between families on the basis of income. Families below a prescribed income level receive a general allowance which is over and above the regular family allowance. This general allowance decreases as family income rises to a standard which is considered a minimum income level. The family allowance is used as partial compensation for a series of indirect taxes, the latest of which is the value-added tax.

In Canada the family allowance was introduced during the period immediately following the Second World War. Current payments are $6 a month for children under 10, and $8 a month for children 10 to 16. Payments are low for a high-income country such as Canada, but are of importance to low-income families with a number of children. The family allowance also varies in importance between regions in Canada.

In the five countries, family allowances also include benefits in addition to allowances for children. Examples are marriage, prenatal, maternity, and housing allowances. There are also allowances for dependent persons other than children and for such categories of the population as disabled persons and orphans.

In general, the following statements sum up the characteristics of the family allowance as it is used in the five countries.

1. With the exception of France, it is financed out of general tax revenues. In France, it is financed from a tax on the employer.

2. The reasons for adopting the family allowance are diverse. In France, the primary reason for its adoption was to increase the birth rate. In Canada and the United Kingdom, the reason was Keynesian in nature—the need to stimulate aggregate demand after the end of the Second World War. The Beveridge plan and its Canadian equivalent, the Marsh report, recommended the adoption of the family allowance as part of the general social security system.

3. In Great Britain, the family allowance must be declared as income for tax purposes; in the other four countries, it does not constitute taxable income. Exemptions for children are not permitted under the Danish and Swedish tax systems—they were replaced by the family allowance. Regular exemptions for children exist under

the British tax system. In Canada, the exemption is $300 per child receiving the allowance and $550 for other dependents. In France, the family quotient system enables a wage earner to split his income for tax purposes among all dependents.

4. The family allowance, for the most part, has not kept pace with the cost of living. With the exception of France, it does not constitute a significant source of income to the average wage earner. To the low-income groups, however, it can be a significant source of income.

5. All families receive the allowance. No attempt has been made to differentiate on the basis of need.

The family allowance has been suggested by some Americans as a device that can be used to reduce the extent of poverty that exists in the United States. It would appear that this would be a rather inefficient approach to the solution of poverty.

The family allowance is payable to all families under current arrangements in the five countries examined in the study. This means that if the system were adopted in the United States, a considerable amount of wastage in terms of payment to non-poor families would occur. If, for example, a $10 a month allowance is paid for all children under 18 in the United States, the cost would be approximately $8.5 billion. Approximately one-fifth of all children live in poor families. This would mean that around $2 billion would go to poor families and the remainder to families that are not in need. The family allowance, as a transfer payment, would not be subject to the personal income tax, so it would result in a gain for upper income families who already enjoy a form of family allowance in exemptions and deductions for their children.

It is true, however, that the current $600 exemptions could be taken away, and the allowance used in their place. This is the normal arrangement in countries using the allowance. However, the merit and political acceptability of the arrangement is doubtful.

The family allowance could be limited to poor families with children. For example, in 1964, 15.9 million children would have been classified as poor, If a family allowance of $10 a month per child had been applied, the cost would have been $1.9 billion a year; if an allowance of $30 a month per child had been used, the cost would have been $5.7 billion a year.

If, for example, the Swedish family allowance of approximately $180 a year per child, were transplanted in the United States, the cost would be approximately $12.2 billion a year.[1] However, the Swedes do not permit exemptions for children, so part of the $12.2 billion cost would be recovered by the elimination of exemptions for children in the United States.

The French family allowance would cost an estimated $30 billion if it were used in the United States.[2] Unlike the Swedish allowance, it is a rather cumbersome device which excludes the first child in a family from an allowance. The rates also vary depending on the number and ages of the children.

Canada, Denmark, and Sweden have a "double decker" arrangement of old-age pensions. One pension is general in that a basic amount

[1] In 1964, there were approximately 68 million children under 18. Multiplying 68 million by $180 will give the cost of $12.2 billion.

[2] This is a rough estimate. The French family allowance costs about 5 percent of French national income. Five percent of U.S. national income is approximately $30 billion.

is paid to everyone who reaches a certain age. The other pension is related to earnings. Both pensions combine to provide an income which can amount to a substantial proportion of income which was earned during the years of employment. Canada has adopted a guaranteed income supplement program which, when combined with the regular old-age pension, currently provides a guaranteed income of $107.10 a month to a single pensioner. Old-age pensions in both countries are tied to a cost-of-living index.

There is little or no interest in negative income taxation of the type proposed by Friedman, Tobin, and others in the United States as an antipoverty device. The reasons vary from country to country. In France, there is no official recognition that poverty exists. In the other countries, there is recognition of the fact that many families do indeed live on incomes which are well below half of the average or median family income. There has been no formal attempt to delineate between who is poor and who is not poor.[3]

Transfer payments through the government sector play an important role in income redistribution in these countries. When transfer payments are compared to household income, the percentage is higher in the five countries than in the United States. In France, transfer payments represent 19 percent of household incomes compared to 6.5 percent in the United States.

However, taxes expressed in terms of their relationship to gross national product are considerably higher in most of the five countries. In Sweden, all direct and indirect taxes and social welfare contributions represent 43.6 percent of the gross national product, compared to 27.3 percent in the United States. In Great Britain the percentage is 35.4. There is also a reverse side of the coin. Over the period, 1960–64, real consumption of households increased 31 percent in Sweden, 36 percent in Great Britain, and 59 percent in the United States. In Sweden, for every dollar increase in household income during this period, 34 percent was absorbed by increased taxes compared to 15 percent in the United States.[4]

[3] In Great Britain, the author was told by one of Prime Minister Wilson's economic advisers that the negative income tax would stultify incentives to work. He said it is necessary to encourage the opposite in Great Britain.

[4] Erik Lundberg, "Sweden's Economy in an International Perspective", Skandinaviska Banken Quarterly Review, first quarter, 1968, pp. 4 and 5.

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