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Roger Ressmeier/Corbis Milton Friedman first proposed a negative income tax in the early sixties. Republicans have been winning races again, but with some important exceptions -- Wisconsin Rep. Paul Ryan comes to mind, they've done so mostly by running against the liberals' proposals in power rather than offering a coherent alternative agenda. This essentially critical approach stands in marked contrast to the 1980s, when the Reagan Revolution worked to implement a rich body of political ideas developed in advance by many thinkers, including, prominently, the free-market economist Milton Friedman. Friedman, a Nobel laureate who died four years ago and whose centenary will be celebrated next year, was one of the most influential economists of the last century. His emphasis on monetary stability as a prerequisite for growth has changed the way that central banks around the world have done their business, so even today, after the worst economic downturn since the Great Depression, no government has openly proposed inflationary policies as a response to the recession, as would be common in the pre-Friedman universe. But Friedman's creative policy proposals to rethink and replace the welfare state - he called these alternative utopias, a term he borrowed from his mentor, the Austrian economist and philosopher Friedrich Hayek - gained much less traction. Both men believed that the best way to combat destructive ideologies such as socialism and statistics was to offer equally audacious but effective solutions to problems that bad theories supposedly solve. Just say no, Friedman thought it was not a satisfactory position in a democratic society. Republicans don't want to go back to Friedman's alternatives. The most familiar is the school voucher, which students can use as a school, public or private, willing to accept them. But one of Friedman's most inventive and potentially effective alternatives to extra bureaucracy is far less attention than vouchers. Liberals tend to dismiss Friedman as an extremist freedom fighter, a blind defender of selfishness, the enemy of any social assistance. It's always been an absurd accusation. In his 1962 book *Capitalism and Freedom*, Friedman acknowledged that a certain form of wealth was needed in capitalist societies and that the state was likely to play a role in its provision. The trick was to imagine a completely different, radically improved and more effective form of well-being - what Friedman's son, David, also an economist, calls libertarian redistribution. What program can help protect every citizen from poverty without giving excessive power to bureaucrats, creating incentives for work and clogging the economy market, as has the modern welfare state done? Friedman's response was negative income tax, or NIT. NIT is easy to describe. The basic idea, Friedman wrote in a 1968 *Newsweek* column, is to use the mechanism by which we now collect taxes, from people with incomes above the minimum level to provide financial assistance to people with incomes below this level. Already, he noted, no one pays taxes on the first few thousand dollars of income, thanks to personal withdrawals and deductions. Most workers pay a portion of their positive taxable income, that is, the amount by which their income exceeds the first few thousand dollars. Under Friedman's plan, the poor would also receive a portion of their negative taxable income - an amount for which their income is not up to that level. This direct cash grant will replace all other social welfare programs for the poor, which, as Friedman rightly observed, create a huge bureaucracy and a vast reliance on social security. But won't the BAT, in fact, government-guaranteed income continue to be a deterrent to work, just as the non-questionable questions social benefits were before reform in the 1990s? Any government intervention, any redistribution of income creates incentives and distortions, admits Gary Becker, an economist at the University of Chicago and Friedman's apprentice. But if society decides that a certain level of redistribution should take place, NIT is the best, most minimally distorting, solution ever developed. To limit the deterrent, Friedman argued, NIT must be progressive. Say the government drew an income line of \$10,000 for a family of four and NIT was 50 percent, as most economists recommend. If the family had no income at all, they would have received \$5,000, or 50 percent of the amount for which her income did not reach \$10,000. If a family earned \$2,000, it would receive \$4,000 from the government - again, 50 percent of its income deficit-for total after-tax income of \$6,000. Bring in \$4,000 and he'll get \$3,000, for a total of \$7,000. As a family's income grows, its after-tax incomes also grow, keeping incentives to work. This is very different from many social security programmes in which a household either receives all benefits or, if it ceases to be eligible, nothing at all. The all-or-nothing model encourages what social scientists call poverty traps by entice the poor not to improve their situation. Robert Moffitt, an economist at Johns Hopkins University and a leading expert on NIT, notes another advantage of the program over other forms of government assistance: No stigma gives BAT stigma. Everyone fills in the same forms, and no infantilizing government interferes with food, housing and health care as under the current system. NIT simply provides the poor with money that they can use to meet their various needs. Friedman firmly believed that individuals had the opportunity to advance their own interests. Another NIT is a freer job market. The minimum wage would not be required, as the minimum income would now be guaranteed. This would boost employment: as economists acknowledge, a legitimate minimum wage tends to increase unemployment by from the recruitment of unskilled labour. NIT will reduce illegal immigration, too. Managed by the IRS, it will only apply to citizens and legal residents, and since it would eliminate social security programs, foreigners would have less incentive to illegally cross the border for state benefits (although local authorities would still have to decide whether to grant them access to schools and hospitals). From an economist's point of view, a negative income tax is the perfect design, says Moffitt. The only reason an economist would oppose it would be from a strict libertarian-view-opposition to any kind of government-managed welfare. But the biggest advantage of BAT is that it requires as little bureaucracy as possible to implement. The IRS already exists; She knows how to evaluate income reports; and, to run NIT, he only has to take the money or pay it back. There will no longer be federal and state governments supporting the sprawling multiple agencies needed to distribute food stamps, public housing, Medicaid, monetary welfare, and a plethora of community development programs. Nor should they pay the wages and huge future pensions of the public servants who run all these programs. According to a Study by the Heritage Foundation conducted by Robert Rector, Kiki Bradley and Rachel Sheffield, the federal part of the American social security system was worth a staggering \$522 billion in 2008, which is about \$12,000 per poor person. Speaking very generally, then, we can estimate that as long as the average federal NIT payout was less than \$12,000, it would cost less than the current Social Security system does. True, replacing Medicaid with a cash benefit would create great difficulties in America's current, tightly regulated health care system, in which private insurance is artificially expensive. One solution would be to leave Medicaid in place and bestow a less generous NIT; another, which Friedman himself proposed at the end of his life, would be health vouchers that would work in the same vein as school vouchers. How could such a reasonably imaginary and plausible policy have so far led to nothing? The history of NIT is, in a sense, as interesting as the idea itself, and it says a lot about the recent evolution of American society. The initial opposition of the BAT came not from the left, but from the right. In the 1960s - an era of very different economic conditions than today, with abundant manufacturing jobs and extremely low unemployment - Republicans viewed any wealth as suspicious. But Friedman's reputation forced politicians to consider THE NIT, and a small empirical test took place in the late sixties. In New Jersey and Pennsylvania, local research centers about 1,200 households headed by the poor and unemployed were selected. Households were divided into two groups. One group received traditional social benefits - food stamps, alimony, public housing and so on. Another group received cash, cash, so that it would be within the NIT system. Which group would like to try to get back to work? More of these income maintenance experiments, as they were called, were conducted during the seventies and early eighties, against diverse social and ethnic backgrounds in Colorado, Indiana, Iowa, North Carolina, and Washington state. The results of all these tests were fuzzy, probably because many other factors were in the game, from the structure of the test subjects' family to their personal values to the fact that they were aware of the experiments. But if the results were mixed, the media coverage was anything but. The reckless and superficial reading of the limitations of the data in the press was simply that the cash recipients were in no hurry to find work and that the BAT would never succeed. So it's no surprise that when Richard Nixon proposed NIT in 1972, Republican lawmakers categorically rejected it, seeing it solely as an encouragement for people to stay on the dole. Prejudice and emotion were goats' knowledge. However, the experiments brought Friedman's trust in the personality that stands at the heart of NIT. The most common argument used to legitimize aid on the ground, rather than monetary assistance to the poor, is that they will spend cash on inconsequential things. But cash recipients in experiments tend to responsibly use their money to educate their children and maintain their home. In addition, those who received NIT 100 percent were less likely to seek employment than those with a lower percentage of cash subsidies. This conclusion confirmed Friedman's argument that any BAT should be progressive. She also supported his controversial view that incentives to work matter, opening up the link between incentives and well-being for further research. The growing evidence ultimately allowed Democratic President Bill Clinton to link Social Security benefits to a willingness to work and sign Social Security reform to the law. The unintended and, according to Friedman, the unsatisfactory result of NIT's initial proposal was the creation of the Earned Income Tax Credit (EITC). This loan, the amount sent each year by the IRS to the working poor, is the result of the counter-proposals of Friedman-Nixon NIT Democratic Louisiana Senator Russell Long (son of Huey, the populist governor). The measure was passed by Congress in 1975 as part of an incentive package, and it has remained ever since; Last year, almost 26 million people received the loan, which cost a total of almost \$58 billion. The EITI may look like Friedman's idea, but it's different. It does not replace any social security programmes; instead, it adds another layer to them, utterly unable to reduce government bureaucracy. And while this is a cash payment, as would suggest it goes only to the working poor; unemployed continue to receive support for the snuff, such as food stamps. The rationale for this distinction between working and non-working poor is that the tax credit is presumably an incentive for the there, if you work, you get a loan in addition to your salary, but if you stop working, you will lose both salary and credit. However, EITI studies have failed. Working single mothers seem to be inclined to continue working as soon as they receive a tax credit, rather than turning to social security; married women, on the other hand, sometimes stop working as soon as their husbands receive credit in addition to their salary. Thus, the supposed incentive to work is not a decisive basis for heat. Ideally, the NIT will replace not only the country's wealth empire but also the EITI, ending the current distinction between the unemployed poor, who are considered unable to make reasonable life choices, and the working poor. A system based on NIT will treat all Americans equally. A few years ago, social theorist Charles Murray, author of the famous mid-eighties book on welfare pathologies, *Losing Ground*, sought to revive NIT in a different form. In *In Our Hands: A Plan to Replace the Welfare State*, Murray has developed an even simpler and more egalitarian replacement for welfare than Friedman's. All existing government transfer payments, from Social Security to Family Care, Murray argued, should be replaced by an annual tax-free cash grant for everyone over 21 of the \$10,000 - roughly where the poverty line is for a person - with the condition that \$3,000 of that money goes to health insurance and a strong assumption that another chunk of it be invested in a retirement account (Murray is a bit more paternalistic than Friedman). Murray's plan relies not only on Friedman, but also on another creative economist, Irwin Garfinkel, who currently works at Columbia University. Thirty years ago, Garfinkel proposed a demogrant: when everyone reaches the age of 20, every American will receive a significant sum of money from the government, but after that there will be no social support. The Liberals rejected Garfinkel's plan, as did Friedman and Murray's plan, as too libertarian. The Conservatives, again, feared it would hinder work. The potentially negative aspects of all these proposals require research, but we should always compare them with the existing social security system, the problems of which are now recognized by even many on the left. As Becker says, These are not ideal solutions, but they try to be less imperfect than what we already have. George Schultz, who before becoming Ronald Reagan's secretary of state was chairman of his Economic Policy Advisory Council, where Friedman was a major intellectual force, calls the BAT a brilliant and unworkable idea. Why? BAT is not working from a theoretical point of view, but from a political point of view, he says. 27 million families who receive EITC it and would not want their tax credit replaced; moreover, most Americans believe that non-working Social Security recipients should receive programs, not cash. Another reason: The bureaucrats who run the current welfare state the power it gives them. Another former Reagan adviser, Martin Anderson, now like Schultz, a fellow at the Hoover Institution at Stanford, fears that NIT will simply be added to existing programs rather than replace them; Politicians are better at accumulating benefits than on the reingier of the state, he notes. Schultz and Anderson may be right. But it's worth noting, David Friedman notes, that the distinction between cash-sed welfare and cash grants isn't as pristine as it may seem, many welfare recipients already know how to turn a wealth-scheming like food stamps into cash. More importantly, in the current era of vociferous and growing opposition to excessive statistics, Milton Friedman's proposal may have a new appeal. With governments at the state and local levels risking default due to unsustainable debt, all government interventions may be up for rethink in the years ahead. Such a financial disaster is certainly not to be desired, but as Hayek argued, free men and women should always be willing to offer their alternative utopias in the event of a crisis. If conservatives really want to get back in power and get the American people to embrace change, they need to go beyond the negative and refocus the political debate on bold ideas, Becker said. And negative income tax is the best we have. A policy agenda that, say, combined school vouchers, health vouchers, and NIT can help the newly empowered Republican Party shape a twenty-first-century America that was freer, and thus more true to its historical roots. Guy Sorman, City magazine contributing editor, is the author of *Economics Doesn't Lie* and many other books. The City Journal is a publication of the Manhattan Institute for Policy Studies (MI), a leading free-market think tank. Are you interested in supporting the magazine? As a 501 (c) (3) non-profit organization, donations in support of MI and city journal are fully taxed as required by law (EIN #13-2912529). SUPPORT milton friedman negative income tax youtube. milton friedman negative income tax essay

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