THE NATIONAL DIVIDEND PLAN: A PUBLIC CHOICE ANALYSIS

by

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PREFACE

Of the many perspectives from which the national fiscal system can be evaluated, the most familiar takes one particular feature of the system and subjects it to exhaustive theoretical and empirical analysis which is, hopefully, consistent with the general equilibrium constraints of the economy. A somewhat less familiar approach, as a result of its difficulty, involves the comprehensive analysis of the fiscal system as a whole, embodying both positive and normative elements. This study falls in neither one of these two broad categories. Rather, it examines in some detail an existing proposal for reform which includes several aspects of the nation's fiscal system, but which is by no means a comprehensive reform. The "package" that is contained in the National Dividend Plan defines the limits of the analysis in this study. From this basis, full analysis requires, as the study indicates, some examination of many features of the existing system.

Among the difficulties of performing this study has been that of keeping the practical proposal, the National Dividend Plan, as the central subject of investigation rather than the more comprehensive analysis of the whole

existing fiscal system which is suggested when certain side effects of the proposal are noted. As a result, arbitrary cutoff points in the analysis have been a necessity. For example, it has proved impossible to discuss the effects of the Plan without some analysis of corporate income taxation. Once this topic is opened for treatment, however, it becomes difficult to settle on the limits to analyze. Thus, out of necessity, particular aspects of the analysis in this study will appear incomplete, and the study itself must, as a result, remain vulnerable to particularized criticism at many points.

My intellectual debt to others is large. This is especially true with respect to Professor James M. Buchanan. Particular thanks also are due to Professors Thomas Borcherding, Winston Bush, Charles Goetz, Craig Stubblebine, and Gordon Tullock.

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CHAPTER I

INTRODUCTION

Origin

The National Dividend Plan originated with John H. Perry's book, The National Dividend, published in 1964. Perry is a newspaper and television executive with a wide diversity of other interests. Headquartered in West Palm Beach, Florida, Perry has been on the Board of Directors of a railroad, operator of a 2,600-acre farm, and developer of a two-man submarine. In 1971 he was involved in modular homes and oceanography. In his book Perry states that his proposal has three objectives:

(1) To protect corporations by having a maximum corporate income tax limit of fifty percent.

(2) To protect the owners of corporations by making dividends tax-free.

(3) To protect and strengthen every voting citizen by making him half-owner in all corporations.[1]

The achievement of these objectives is pictured by the author as an answer to Communism. The National Dividend Plan fosters in the average citizen an interest in business profits. As business profits increase, the citizen's direct

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[1]John H. Perry, Jr., The National Dividend (New York: I. Obolensky, 1964), p. XXII.

benefits are increased. Thus, by participating in the nation's profits, the sharing arguments of Communism are counteracted, and the benefits of Capitalism are enhanced in the individual citizen's eyes.

Although the National Dividend Plan itself has not been altered, the effects of its enactment were put into a new perspective by its proponents during the late 1960s. The anti-Communist aspects have been retained but de-emphasized, and the Plan's relevance to the problems of our society have been highlighted. Proponents see the Plan as a safeguard against inflation from government spending since it eliminates the need for many programs. It is viewed as replacing many subsidy and assistance programs by providing a minimum income while maintaining the work incentive. By its structure the Plan aids those in poverty, but preserves their individual freedom and dignity. The National Dividend Plan is seen as increasing the availability of tax revenues on local and state levels, thus eliminating the need for federal assistance programs to state and local governments. Besides affecting inflation, poverty, and state and local government tax bases, the Perry proposal is purported as influencing civil rights, welfare, problems of the aging, problems of the cities, individual freedom, education, the labor situation, states rights, voting reforms, high interest rates, oversized federal government, international trade, and the profit

motive. Of course, the Plan is not asserted to be a complete solution to any or all of these problems. However, it is suggested as a significant step toward the solution of these problems, rather than as a coverup of their symptoms.[1]

Publicity

The National Dividend Plan has received a considerable amount of attention since its inception. Newspaper columns and editorials have discussed the subject, as have magazines. The National Dividend Foundation (in Washington, D.C.) has prepared and distributed circulars, handouts, and films on the proposal. On April 23 and 24, 1971, a meeting of the Conference Board on the National Dividend Plan was held at Airlie House, Warrenton, Virginia.

Surveys have been conducted inquiring into the voters' opinions of the Plan.[2] The technique employed gauged the reactions and opinions of the general public toward the motion picture film presentation of "The National Dividend." The results of these investigations reveal a large degree of favorable agreement on the Perry proposal from persons of a wide variety of characteristic classifications.

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[1]The flavor of the proponents' presentation of the Plan during 1971 can be seen in the literature distributed by the National Dividend Foundation.

[2]Detailed results of the 1972 survey taken in Blacksburg, Virginia are available upon request.

The Purpose and Structure of this Study

By its supporters the Plan is purported to be a step in the direction of solving many of our society's problems. These include altering the public's attitude toward profit and replacing federal government programs. Even if the National Dividend Plan accomplishes only a small part of the claims made in support of it, this would justify the Plan's exposure to academic analysis, which it has not received. The purpose of this study is to initiate such a treatment.

Although the National Dividend Plan is deceivingly simple in appearance, a breakdown of the Plan into its many parts reveals the basis upon which its proponents make their claims for its widespread effects. Mr. Perry's proposal provides:

(1) that no income tax in excess of 50 percent of net income can be levied by Congress on the income of any corporation;

(2) that corporation dividends are not taxable income to the recipient;

(3) that all corporation income tax revenues are redistributed to the population;

(4) that the distribution process consist of giving payments to persons voting in the last preceding national election;

(5) that these payments be of equal size;

(6) that the National Dividend Payments do not constitute taxable income to the recipient in the eyes of the federal government;

(7) that Congress is empowered to put this plan into effect on a graduated basis;

(8) that the plan must be fully operable within five years of the proposal's passage;

(9) and finally that Congress can suspend the plan in time of war.

CHAPTER II

FEDERAL GOVERNMENT RECEIPTS AND EXPENDITURES

The National Dividend Plan may have significant effects on the size and composition of federal government receipts and expenditures. The purpose of this chapter is the investigation of these alterations. However, in order to analyze the possible changes in federal government receipts and outlays resulting from the NDP, considerable background information must be obtained.[1] A review of past trends is performed in this chapter. Additionally, projections as to what federal government receipts and outlays might be under the existing system is necessary. Once this material is compiled, consideration of the changes resulting from the NDP can be performed in following chapters.

Review[2]

Federal budget receipts for selected years (1930-1971) are shown in Figure 2.1. In 1930, total federal

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[1]The terms "revenues" and "receipts" are used interchangeably, as are "expenditures" and "outlays."

[2]Data for the years prior to 1957 were obtained from The Statistical History of the United States from Colonial Times to the Present (Fairfield Publishers, Inc., 1965),

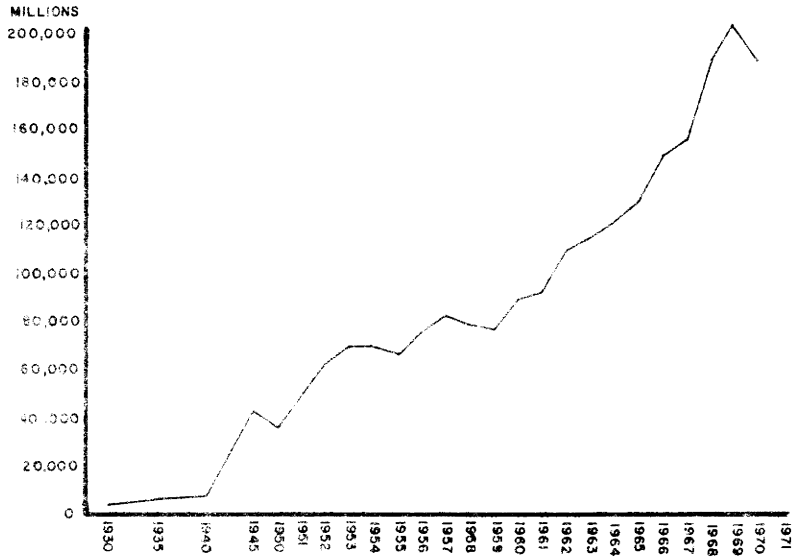

FIGURE 2.1
TOTAL BUDGET RECEIPTS BY THE FEDERAL GOVERNMENT, SELECTED YEARS 1930-1971

receipts were approximately $3 billion, while for 1971 they totaled more than $188 billion. Over this period of 41 years, federal receipts increased to more than 62 times their 1930 size which is an average yearly increase in excess of $4.5 billion.[1]

The overall trend is one of continuous increase although close inspection reveals that spurts and dips have taken place. The 10-year period of 1930-1940 shows an increase in total federal receipts of more than $2 billion, an average yearly increase of $0.2 billion. During the war years of 1940-1945, these receipts increased by more than 8 times their 1940 level to nearly $44 billion. In the years following the second World War, 1945-1950, federal receipts decreased to a total of $39 billion in 1950. Over the Korean War period, 1950-1954, receipts expanded greatly once more to $70 billion in 1954. A reduction of $3 billion occurred in 1955, but by 1956 federal receipts totaled $75 billion. From 1956 to 1959 expansion slowed to an average yearly increase of $1.3 billion, resulting in 1950 receipts of $79 billion. The

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Series Y 357-367, p. 713; and for the years following this date from The Budget of the United States Government, 1969, p. 539 and 1973, p. 545.

[1]Data on some accounts were available as far back as colonial times. These were not employed for two reasons: first, reliability and comparability of data of such material are highly questionable, and secondly, the number of accounts for which the data were available is a relatively small portion of the total number of accounts studied.

next year, 1960, receipts expanded by more than $13 billion to $92 billion. Between 1960 and 1965, yearly increases ranged from a low of $2 billion (1960-1961) to a high of $7 billion (1963-1964) yielding total federal receipts of nearly $117 billion in 1965. Over the Vietnam War expansion period, 1965-1968, receipts rose tremendously to a total of approximately $154 billion in 1968, which represents an average yearly rise of $11 billion. The 1968-1969 expansion in total federal receipts was a fantastic 1-year jump of $34 billion while the 1969-1970 increase was a much smaller $6 billion, resulting in a 1970 total of nearly $194 billion. In 1971, total federal receipts totaled $188 billion, a drop of $6 billion from 1970 back to the 1969 level.[1]

The largest single producer of federal revenues is the personal income tax.[2] This source only produced about $1 billion in 1930, but by 1971 it accounted for $86 billion. Another important source of federal revenue is the corporation income tax whose receipts show no clear pattern over the time period being studied. Finally, between 1930

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[1]The periods referred to in terms of the second World War, the Korean War, and the Vietnam War are subject to debate. No attempt is being made here to classify the economic effect of these actions in terms of years. These are simply terms used by the author to refer to the periods specified. No causal effects are hypothesized.

[2]Detailed discussion of the changes in federal revenues and expenditures during this period is available upon request.

and 1971 excise tax receipts increased by more than $16 billion and employment tax collections expanded by $40 billion.

The growth of total federal expenditures is illustrated by Figure 2.2 which shows that these outlays increased from about $3 billion to more than $211 billion over this time period, an increase of $208 billion in 41 years. Federal expenditures in 1971 were more than 70 times their 1930 level.

The trend is one of yearly increase, however, as in the case of federal revenues, closer inspection reveals that federal outlays had periods of vast increase and periods of slowing, frequently occasioned by decreases, during these 41 years. The 10-year period of 1930-1940 shows an expansion of federal expenditures of nearly $6 billion which represents an average increase of $0.6 billion per year. Over the war period, 1940-1945, outlays expanded to almost 9 times their 1940 level. Expenditures in 1945 were more than $98 billion. In the years following World War II, federal outlays fell sharply, totaling $40 billion in 1950. During the Korean War years (1950-1954), total federal expenditures increased greatly, peaking at $74 billion in 1953 and falling to $68 billion in 1954. Another reduction took place the next year, resulting in outlays of less than $65 billion in 1955 while between 1955 and 1971 only one decrease took place, which amounted

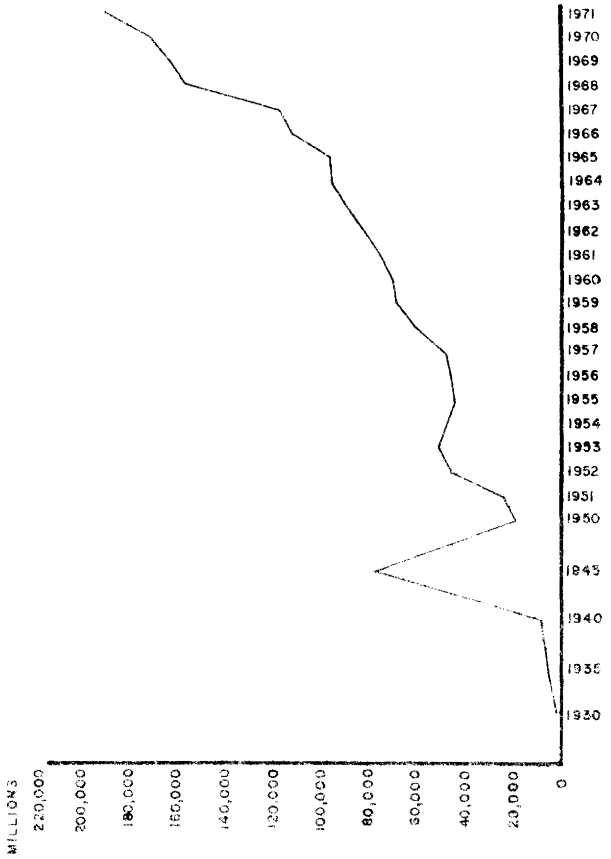

FIGURE 2.2

TOTAL OUTLAYS BY THE FEDERAL GOVERNMENT, 1930-1971

to less than $0.2 billion and occurred in 1965. In the two years of 1955-1957 total federal expenditures increased by less than $5 billion, but a $12 billion increase the year brought total outlays to $81 billion in 1958. Over the period from 1958 to 1965 this expansion continued, totaling federal outlays of $118 billion in 1965, an increase of $37 billion in 7 years, or an average yearly increase in excess of $5 billion. During the period 1965-1971 this growth in federal expenditures accelerated so that by 1971 total federal outlays were $211 billion. Thus, in the 6 years of this period outlays increased by $93 billion, an average rate of expansion of $15.5 billion per year.

These outlays are divided among a number of federal government functions of which national defense outlays account for almost $78 billion in 1971, representing a $77 billion increase over the period of 1930 to 1971. Expenditures on veterans' benefits and services were only $0.8 billion in 1930, but by 1971 they totaled $10 billion. The 1971 level of general government outlays totaling a little less than $4 billion is more than 10 times the 1940 level. Federal government income security expenditures more than doubled in the 8-year period of 1963 to 1971, amounting to nearly $56 billion in 1971.

Projections

Having reviewed the expansive trend of past revenue and expenditure patterns of the federal government, it remains to project future patterns. The attempt involves making "ballpark" projections of federal receipts and expenditures in the two decades of 1972 to 1991. Such data should provide a sufficient foundation for the analysis of the following chapters.

Procedure

The first step in the estimating procedure is to obtain the average yearly change in both federal receipts and outlays. This requires that a decision be made as to the base period employed in this calculation.[1] Four are considered in this paper: the Nixon period of 1969 to 1971, the Short period of 1964 to 1971, the Medium period of 1959 to 1971, and the Long period of 1952 to 1971. Calculations as to average yearly change in federal receipts are shown in Table 2.1.[2] The lowest average is 0.075 per year, while the highest average is 0.085 per year. Thus, the difference between these base period estimates total 0.010.

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[1]The term "base period" refers to the years analyzed in order to obtain some trend measure, such as an average yearly change.

[2]Figures and tables for several subareas not considered in the body of this chapter are available upon request.

TABLE 2.1

The Average Change in Total Federal Receipts by Time Period

Time Period	Average Yearly Change in Federal Receipts
Nixon (1969-1971)	0.075
Short (1964-1971)	0.085
Medium (1959-1971)	0.076
Long (1952-1971)	0.075

Estimates of the average yearly change in federal outlays also are given in Table 2.2. During the Nixon period this value was 0.057 per year, the lowest of the four calculations. The highest value was calculated using the Long period, yielding a value of 0.100. The difference between these extremes amounted to 0.043. These estimates would allow projections of future total federal receipts and outlays to be made. This would require that the assumption be made that future federal budget receipts and outlays continue the trend they exhibited during the base period. The results may not yield highly accurate yearly estimates, but they should be in the same ballpark with future budgets.[1]

The next step involves projecting the major sources and expenditure areas of future federal budgets. The technique employed involves the calculation of "marginal propensities." Once again, the assumption is made that the federal government will follow the same pattern in acquiring and spending its funds among the various areas it followed during the base period. If the federal government's expenditures increased $2 billion over the Nixon period, 1969 to 1971, and it is assumed that the federal government has a propensity to spend 50 per cent of its new outlays on national defense. Such "marginal propensities" were computed for several of the major functional areas of federal

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[1]The resulting projections are given at a later point in this section.

TABLE 2.2

The Average Change in Total Federal Outlays by Time Period

Time Period	Average Yearly Change in Federal Outlays
Nixon (1969-1971)	0.057
Short (1963-1971)	0.085
Medium (1959-1971)	0.077
Long (1952-1971)	0.100

government expenditures. Similar "marginal propensities" were calculated, once appropriate adjustments for various major tax sources of the federal government were made.[1] Estimates of the "marginal propensities" for several major tax sources by base period and similar propensities for federal government outlays are calculated.

Once these estimates are made, projections for each federal government revenue source and expenditure area can be derived. Since this chapter is only an attempt to obtain ballpark estimates, four sets of projections are superfluous. Sufficient accuracy for the analysis to be done later can be achieved if a bracketing process is employed. Thus, for each variable involved, a high and low estimate is obtained. These are compiled into a series of estimates labeled A Series, for high estimates, and B Series, for low estimates. Although the probability of either series resulting in a large number of highly accurate projections is relatively low, there is reasonable assurance that future receipts or expenditures will be in the area bracketed by these projections. The resulting high and low estimates, A Series and B Series, for the

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[1]This technique stems directly from two articles dealing with revenue sharing. For more information see "Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism?," Hearings (Washington, D.C.: U.S. Government Printing Office, 1967), pp. 659-660; and James L. Plummer, "Federal-State Revenue Sharing," Southern Economic Journal (July 1966), 122-124.

various estimating variables, such as the average change in federal receipts, are listed in Table 2.3.

In a number of cases adjustments were necessary before an estimate was entered in either A Series or B Series. These consisted of reducing the bracketed projection area by common sense elimination or alteration of some estimating variables. For a number of variables, data restrictions required that only two base periods be used. These entries complete A Series and B Series estimates. The next step is to employ these two series of estimates to project future federal budget revenues and expenditures.[1]

Results

Projections of federal budget receipts and outlays were made for two decades, stopping with the year 1991. Of course, the reliability of such projections decreases as they are made further into the future. The decision to make 20 years of projections was based on two facts: first, such a period was sufficient for the analysis of the National Dividend Plan effects, and second, the

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[1] In general, a negative MPC is seen as a tendency of the federal government toward the elimination of an expenditure area. The size of the -MPC value simply indicates the number of years until elimination. This may overstate the trend in many cases, since expenditures may decrease in an area until they reach some level and then are maintained. Of course, these occurrences would be bracketed by the elimination assumption.

TABLE 2.3

Variables Employed in Projection Analysis by Series

Variable	A Series (High)	B Series (Low)
Average Change in Federal Receipts	0.085	0.075
Average Change in Federal Outlays	0.100	0.077
$MPT_{(PIT)}$	0.504	0.458
$MPT_{(CIT)}$	0.089	0.061
$MPT_{(EGT)}$	0.022	0.019
$MPT_{(ET)}$	0.073	0.041
$MPT_{(EPT)}$	0.359	0.275
$MPT_{(CD)}$	0.016	0.015
$MPC_{(NDO)}$	0.329	0.253
$MPC_{(IAO)}$	0.001	-0.046
$MPC_{(NRO)}$	0.030	0.008
$MPC_{(VBO)}$	0.042	0.026
$MPC_{(GGO)}$	0.043	0.015
$MPC_{(CTO)}$	0.098	0.055
$MPC_{(SRO)}$	0.025	0.008
$MPC_{(ARDO)}$	0.000	-0.025
$MPC_{(CDHO)}$	0.042	-0.022
$MPC_{(EMO)}$	0.071	0.058

TABLE 2.3--Continued

Variable	A Series (High)	B Series (Low)
$MPC_{(HO)}$	0.148	0.130
$MPC_{(ISO)}$	0.662	0.315

assumption that the trends represented by the base periods considered will continue is reasonable for two decades.

Figure 2.3 illustrates, in money terms, the projections of total federal receipts from 1971 to 1991. Both high projections, A Series (PFR^a), and low projections, B Series (PFR^b), are shown. Yearly changes in PFR^a range from $16 billion to more than $75 billion, which results in an increase in total federal receipts from approximately $188 billion in 1971 to $963 billion in 1991, or an increase of about $775 billion in two decades. If this trend continues, total federal revenues would exceed $1 trillion in 1992. At the other extreme, yearly changes in PFR^b range from $14 billion to almost $56 billion, yielding a 1991 total federal revenue of $800 billion, or an expansion of $612 billion in two decades. Thus, it appears that federal budget receipts will increase by at least $612 billion in the 20 years following 1971, and no more than $775 billion.

The other side of the budget involves total federal outlays illustrated in Figure 2.4. The high series of projections is labeled PFO^a and shows yearly increases ranging from $21 billion to $129 billion. Total federal outlays increase from approximately $211 billion in 1971 to $1,422 billion in 1991, which is an expansion of $1,211 billion in two decades. The 1991 level of outlays is more than 5 times the 1971 level, with expenditures first passing the $1 trillion mark in 1988. The curve labeled PFO^b

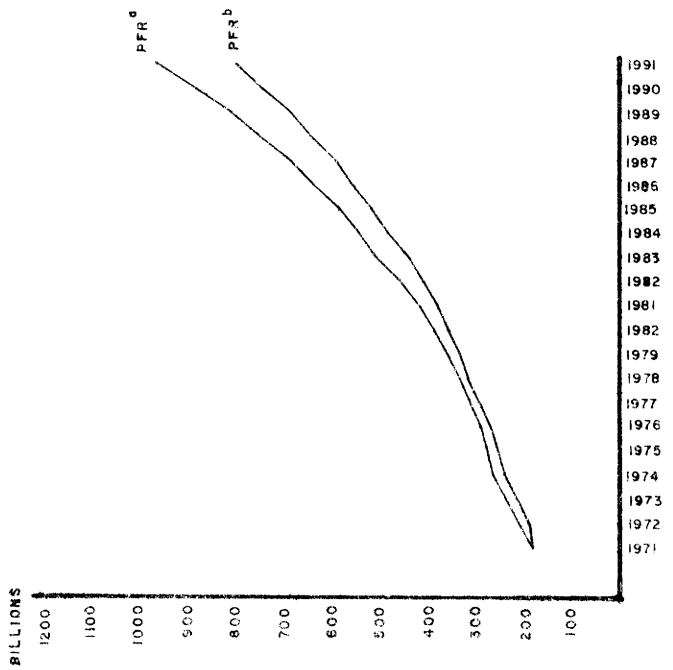

FIGURE 2.3

TOTAL FEDERAL RECEIPT PROJECTIONS,
A SERIES AND B SERIES, BY YEAR

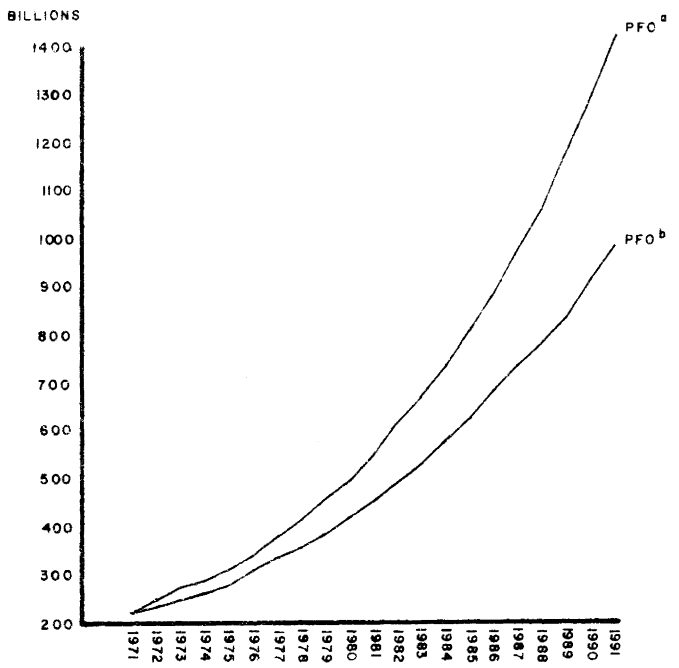

FIGURE 2.4

TOTAL FEDERAL OUTLAY PROJECTIONS,

A SERIES AND B SERIES, BY YEAR

represents the low series of projections and indicates changes in total federal outlays ranging from $16 billion per year to more than $71 billion in 20 years. In net, it seems that federal budget outlays will expand by between $754 billion and $1,211 billion in the period of 1971 to 1991.

Both A Series ($PPIT^a$) and B Series ($PPIT^b$) projections are made (in money terms) for federal revenues by source and expenditures by area. From these two sets of projections, personal income tax revenues are estimated to range between $391 and $366 billion in 1991. Corporation income tax receipts are projected to increase by between $37 and $69 billion in this 20-year period. The expansion in federal revenue from estate and gift taxes is estimated to be between $11.6 and $17.1 billion in two decades. Revenues from excise taxes in 1991 range between $41.7 and $73.2 billion. The employment tax collection projections indicate revenue increases of between $168 and $278 billion. The final source of federal receipts considered is custom duty collections which are projected to increase by from $9.2 to $12.0 billion in the two decades of 1971 to 1991.

Next expenditure areas are considered. Projections for national defense outlays imply a 1991 level of between $272 and $476 billion. Federal expenditures in the area of international affairs and finance in 1991 range from

zero to $4.3 billion. Natural resource outlays increase by between $6.2 and $36.3 billion over the decades of 1971 to 1991. Projections for veterans' benefits in 1991 range between $29.8 and $60.6 billion. Over the 20-year period, federal outlays for general government increase by between $11 and $52 billion. Commerce and transportation outlays for 1991 range between $54 and $130 billion. The 1991 federal expenditures on space research and technology are between $9.5 and $33.7 billion. Projected outlays for agriculture and rural development range from zero to $5 billion in 1991. The 1991 level of expenditures for community development and housing is between zero and $54 billion. Education and manpower expenditures over the two decades (1971-1991) average at least $2.2 billion per year, low series projections, and may be as great as $4.4 billion per year. Projections of federal government expenditures on health indicate that outlays for this purpose increase by between $100 and $191 billion over the years from 1971 to 1991. The last federal function considered is that of income security. Projections for this area of federal interest are between $298 and $867 billion in 1991.

These ballpark A Series and B Series projections are sufficient for the analysis of the following chapters. Many other methods can be used in making projections of this sort, however. A discussion of other possible approaches follows in Chapter III.

CHAPTER III

OTHER METHODS OF PROJECTING FEDERAL RECEIPTS AND EXPENDITURES

Edie Approach

Many methods can be used in making projections of the sort attempted in this chapter.[1] One such different procedure was employed by the Lionel D. Edie Company, while projecting federal outlays for the National Dividend Foundation.[2] This approach involved a look at expenditures in the 1960 and 1971 period, a review of legislation proposed during the Nixon period of 1969-1971, consideration of prevailing attitudes during the Nixon period toward the country's future needs, and anticipation of the future costs of governmental provision of goods, taking inflation into account.[3] Once these factors are evaluated, average annual rates of growth were inferred.[4] Total federal

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[1]Figures and tables for several subareas not considered in the body of this chapter are available upon request.

[2]Lionel D. Edie and Company, "Federal Spending and Revenues in the 1970's," prepared for the National Dividend Foundation (January 1972).

[3]These procedures are not explicitly stated in the Edie report. It appears, however, that when one reads this report this was the Edie Company's approach.

[4]It should be noted that the Edie report used these

expenditures are forecast to increase at an average yearly rate of 9.5 per cent.[1] Subgroup rates range from a low of 2 per cent per year for commerce and transportation to a high of 22 per cent for health.[2] In addition to health outlays, two other areas were expected to have relatively large growth rates. These were housing and community development expenditures at 13.1 per cent per year, and education and manpower expenditures at 12.1 per cent per year.

Application of the Edie average annual rates of growth of federal expenditures yields projections for the years 1980 and 1991 and were compared to those projections obtained earlier by using the A Series and B Series results. The distribution of these outlays varies from that estimated previously. The low estimate for national defense expenditures (B Series) in 1980 is $132 billion, while the Edie estimate is $104 billion, a difference of $28 billion. For 1991, the difference in estimates is $126 billion,

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rates only to project outlays for the year 1980. In this section that are used to project for the two decades of 1971-1991, so they would be comparable to the A and B Series projections made earlier.

[1]Those subgroups included in this table are not the only such estimates made in the Edie report. They were selected because they were comparable in composition to the A and B Series estimates made earlier.

[2]Subgroups not listed in Table 4.6 were considered in the Edie report. Only those comparable in terms of expenditure area were treated in this section.

which, considered with the 1980 difference, reveals the lack of emphasis the Edie approach predicts in this area. In the area of international affairs and finance outlays, the Edie projections for both of these years are $2 billion over the A Series (high estimates). Expenditures on space research and technology, and on commerce and transportation, are projected lower by the Edie estimates than by B Series (low) estimates. These differences ranged from $1 billion in space research outlays in 1980 to approximately $37 billion in commerce and transportation outlays in 1991. A number of Edie-based projections for federal government expenditures by function were within the high-low estimate ranges. These functions were: housing and community development, education and manpower, veterans' benefits, and general government. Finally, health outlays as projected by the Edie approach far exceeded the A Series estimates. For 1980 the Edie-based projection was $79 billion, $21 billion in excess of the $58 billion A Series projection, while for 1991 these estimates differed by $576 billion with the Edie-based projection totaling $772 billion.

This comparison of results shows five of the nine Edie projections to be outside the A Series-B Series range. When the vast difference in procedures is taken into consideration this is not at all unexpected. Others employing

an Edie-type approach might have different areas of agreement and disagreement with the A Series-B Series estimates, depending upon how they view the variables involved. Neither projection procedure can claim to be a high-powered technique. Yet, within broad margins, these estimates seem to reveal similar trends. In this sense, they can be viewed as "ballpark" estimates.

"Real" GNP

The A Series, B Series, and Edie estimates of federal government revenues by source and outlays by function are calculated using current price terms. The results all indicate expansive trends, but this might not be the case if inflation and population growth were taken into account. These factors can be accounted for if federal budget trends are examined in constant January 1971 dollars per capita, that is, real terms. The results as shown in Figures 3.1 and 3.2 are similar to those derived in current dollars in Chapter II, but with a lesser rate of yearly expansion. Total federal outlays per capita increase at a real yearly rate of between 0.5, B Series, and 4.9, A Series. These rates of expansion yield an increase of TFO[a] from $1,038 per capita in 1971 to $2,682 in 1991, and an increase of TFO[b] from the same $1,038 per capita in 1971 to $1,119 in 1991. Total federal revenues per capita change at a real yearly rate of between -4.8 and +3.4. The result is a

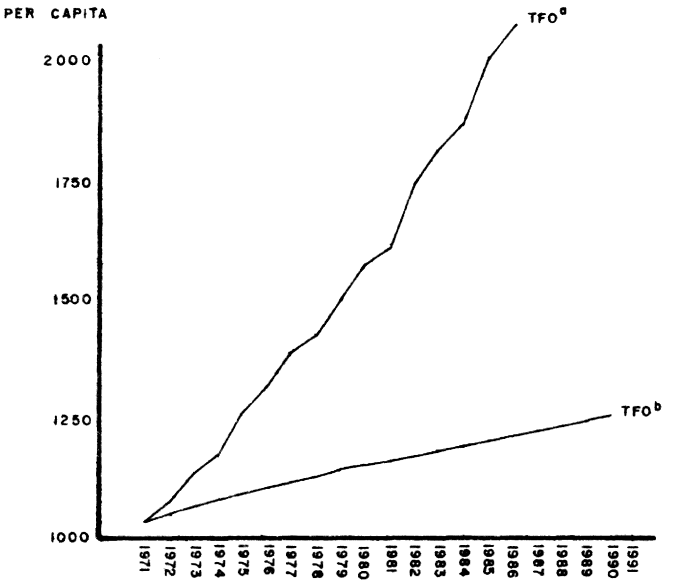

FIGURE 3.1

TFO IN CONSTANT TERMS,
A SERIES AND B SERIES, 1971 - 1991

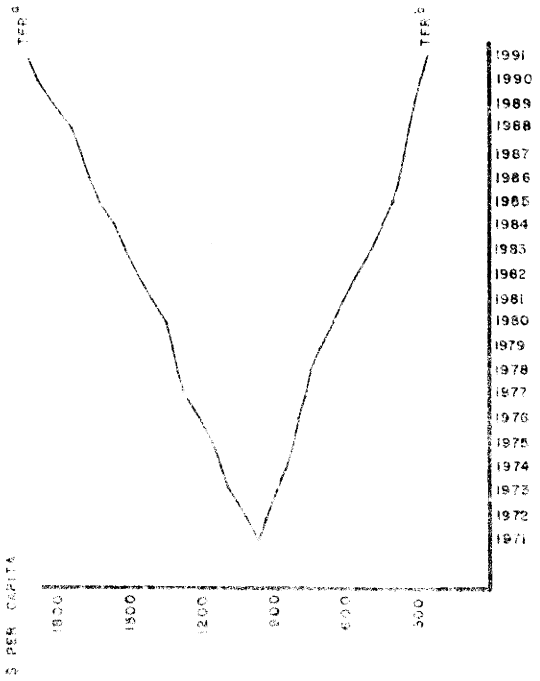

FIGURE 3.2

TFR IN CONSTANT TERMS,

A SERIES AND B SERIES, 1971 - 1991

change from a 1971 level of $947 per capita to between $360 per capita (low series) and $1,834 (high series) in 1991.

These estimates indicate that the federal budget trends derived previously in current dollars do exist in "real" constant terms. As one might expect, the rate of expansion is less in "real" terms than in current dollars. Thus, the projections made in Chapter II, and to be used in later analysis, do indicate a real trend.

Constraint[1]

Only the most meager of claims have been made with respect to the projections produced. High degrees of accuracy have been referred to as highly improbable. The stated objective has been to develop a set of "ballpark" estimates which will enable later analysis to examine the probable effects of the National Dividend Plan with a fair degree of realism. All of this taken into consideration, the projections made are, to say the least, of surprising magnitude. The Edie-based estimates, although they point to different areas of emphasis, also indicate tremendously high federal expenditure levels between 1971 and 1991.

The alarming nature of these estimates becomes abundantly clear when GNP (Gross National Product) figures

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[1]Money GNP and Federal Budget data are treated while real values are not. The results in each case since the difference is only one of deflating the data used.

are examined. Figure 3.3 shows the growth of GNP over the 1930-1971 period. In 1930, GNP totaled $90.4 billion, and by 1969 GNP was $931.4 billion. This is an increase of $841.0 billion in 39 years, an average annual increase of $21.6 billion. Over the period 1960-1969 GNP expanded at an average yearly rate of 7.3 per cent. When compared to the 6.5 per cent high and 5.5 per cent low, growth rates sometimes used to make GNP projections, this appears to be a relatively high estimate.[1] If it is assumed that GNP increases at this rate (7.3 per cent per year) over the 20 years (1971-1991), then the results illustrated in Figure 3.4 are obtained. For 1991 GNP is projected to be $4,388 billion, better than four times the 1969 level of $999 billion. The $2 trillion mark should be reached by 1985. Finally, the $4 trillion level of GNP is projected for 1989.

As in the case of federal budget projections, a vast expansion in GNP is estimated for the years of 1969 to 1991. Figure 3.5 compares federal receipts to GNP from 1930 to 1991. Two sets of receipt projections are shown, A Series and B Series, as are GNP estimates. Values for total federal receipts prior to 1975 and GNP prior to 1970 are

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[1]These percentages were used by the U.S. Congress, Joint Economic Committee, in U.S. Economic Growth to 1975: Potentials and Problems and illustrated in Table 457, Statistical Abstract of the United States, 1968, p. 314.

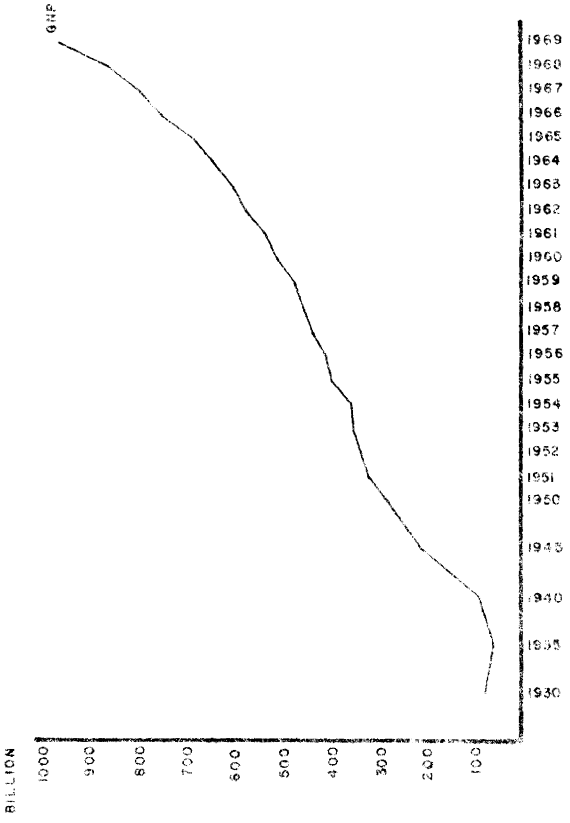

FIGURE 3.3

GROSS NATIONAL PRODUCT,
SELECTED YEARS 1930 - 1969

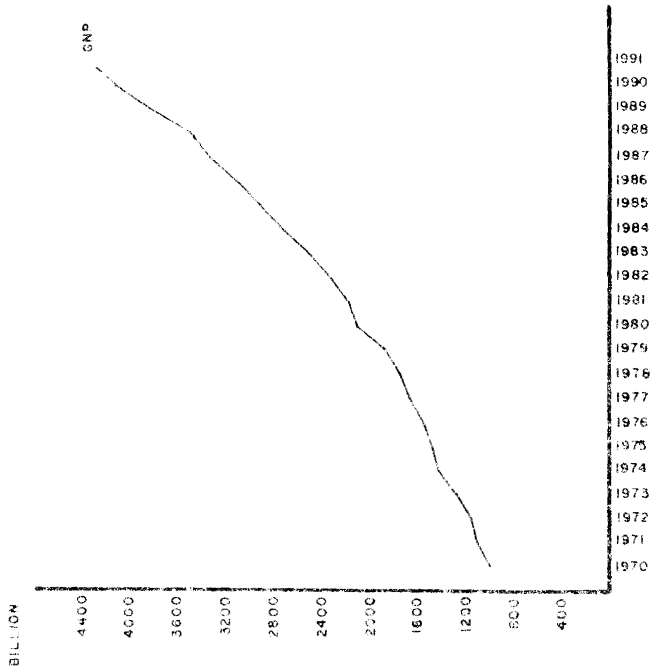

FIGURE 3.4

PROJECTED GROSS NATIONAL PRODUCT, 1970 - 1991

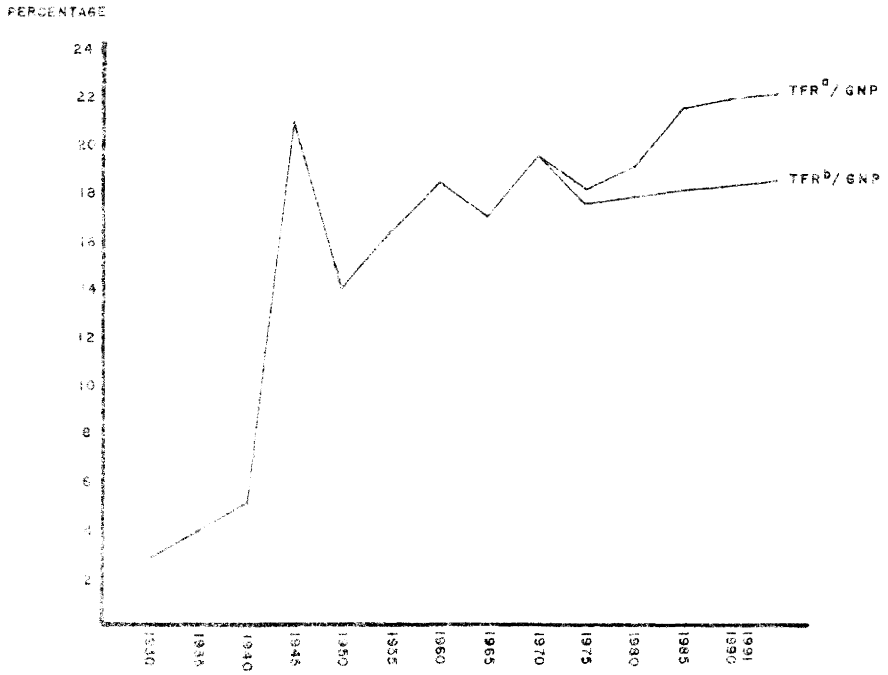

FIGURE 3.5

TOTAL FEDERAL RECEIPTS AS A PERCENTAGE OF GROSS NATIONAL PRODUCT, SELECTED YEARS 1930 - 1991

not estimates, but historical data. In 1930, total federal receipts were 3 per cent of GNP and total receipts increased to 5 per cent of GNP by 1940. The 21 per cent level was reached during World War II (1945). Total receipts as a portion of GNP were down 14 per cent in 1950. In 1960 federal receipts were 18 per cent of GNP, 17 per cent in 1965, and 19 per cent in 1970. Over the period 1970-1991, total federal receipts decrease to 18 per cent of GNP when B Series projections are used, but increase to 22 per cent of GNP when A Series projections are considered. The portion of GNP that federal receipts represents increased from 3 per cent to 19 per cent over the period from 1930 to 1970. A Series estimates are shown to implicitly assume that this expansion continues with this ratio reaching 22 per cent in 1991. Conversely, B Series estimates show federal receipts as being 18 per cent of GNP in 1991. To find collecting receipts amounting to 19 per cent of GNP in 1970 may surprise many citizens. For this to be reduced to 18 per cent of GNP by 1991 may not be sufficient to satisfy some citizens, but an increase to 22 per cent should be more disturbing.

If this seems like a large slice of GNP for the federal government to collect in receipts, the percentage of GNP it purchases (expenditures) is even larger. Consider Figure 3.6. Three sets of projections are shown: A Series, B Series, and Edie. Data for federal outlays in 1970 and

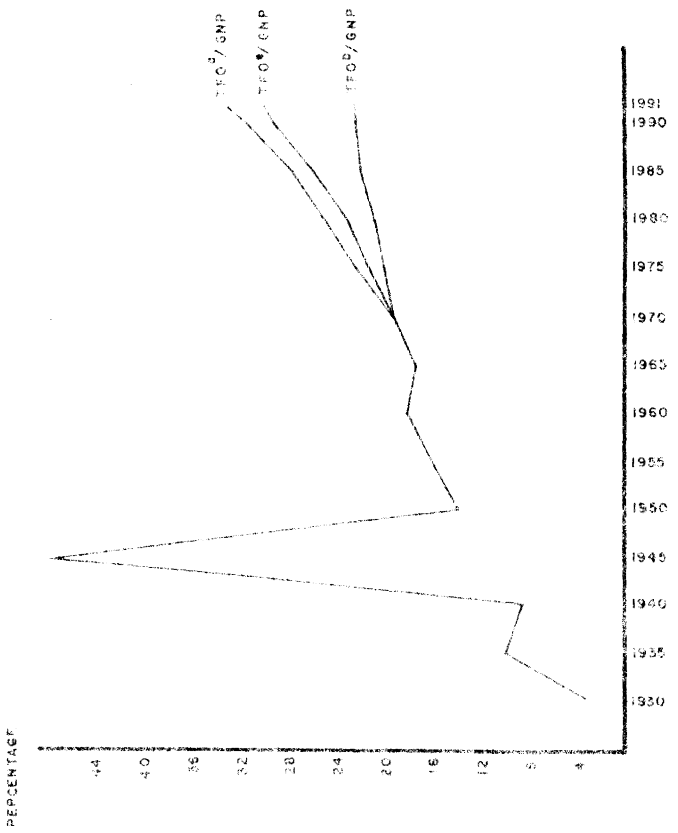

FIGURE 3.6

TOTAL FEDERAL EXPENDITURES AS A PERCENTAGE OF GROSS NATIONAL PRODUCT, SELECTED YEARS 1930 - 1991

prior years, and the GNP prior to 1970, are not estimates, but historical statistics. From 1930 to 1940, total federal expenditures as a portion of GNP increased from 3 per cent to 9 per cent. During the World War II year of 1945, this portion expanded to 46 per cent of GNP. These percentages ranged from 14 per cent in 1950 to 20 per cent in 1970. B Series estimates show federal outlays as a percentage of GNP increasing to 22 per cent in 1991. Using Edie-based estimates, this same portion expands to 30 per cent in 1991. This value is 32 per cent if A Series projections are considered. Regardless of the set of estimates used in calculating the federal government consumption in 1991 as a portion of GNP, it is clearly relatively large. Each set of projections implicitly assumes that total federal outlays will continue to increase as a part of GNP. Such expansion is shocking even when compared to federal receipts/GNP ratios.

The extraordinary nature of these projections becomes even more evident if one projects the trend onward in time past 1991, as is shown in Figure 3.7. By the year 2000 the percentage of GNP consumed by total federal outlays (A Series) expands to 40 per cent, 50 per cent in 2010, 66 per cent in 2020, 86 per cent in 2030, and 100 per cent in 2036. Thus, if the A Series trend continues, total federal outlays would consume better than one-half of the

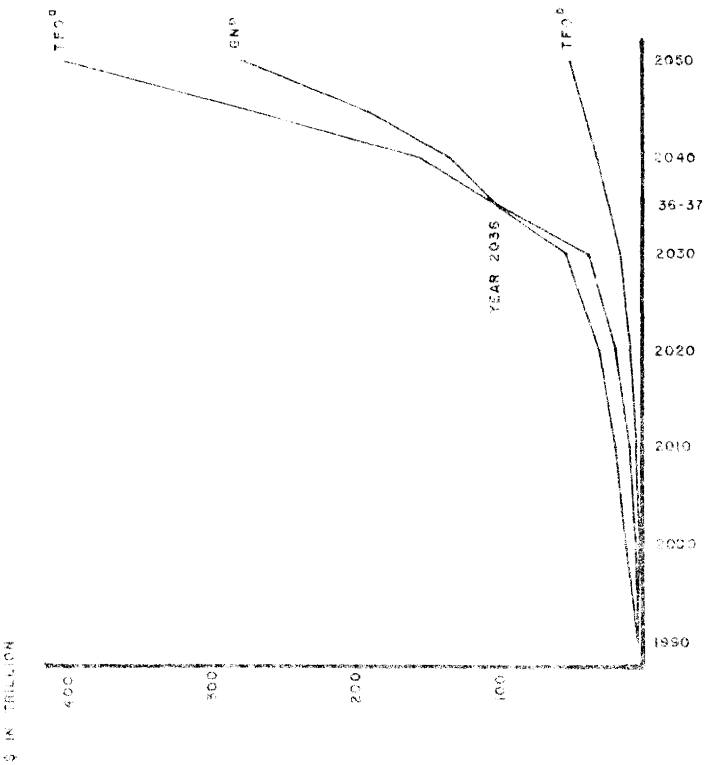

FIGURE 3.7

COMPARISON OF GNP AND TFO,
A SERIES AND B SERIES, 1990 - 2050

nation's GNP in less than 40 years from 1972, and all of GNP in less than 65 years from 1972.[1] A similar trend is indicated by B Series data, but at a somewhat slower rate.

The growth of total federal receipts and total federal outlays as portions of GNP implies that federal government propensities to tax and to consume changed over the time period considered. As the considered period shortens from 1952-1969 and 1959-1969, to 1964-1968, the marginal propensity to consume federally-provided goods increases from 0.205 to 0.221. Similarly, as the period considered shortens the marginal propensity to tax of the federal government expands from 0.211 to 0.251.[2] As the time period progresses toward 1990, the MPT_t^a, and the MPC_t^a increase:[3] the MPT_t^a expands from 0.245 and the MPC_t^a expands from 0.267 to 0.403. Using A Series projections, these estimates indicate that the federal government is implicitly assumed to consume 35 per cent of the expansion in GNP over the period 1970-1990, and to tax 22 per cent

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[1] Of course, the trend line continues past the GNP trend line once it intersects it, but this requires some type of capital consumption or foreign borrowing.

[2] This table shows that the MPC's and MPT's of the U.S. society increased during the 1950s and 1960s. Yearly and/or 5-year calculations of these propensities reveal the same trend.

[3] The MPT_t^a is the marginal propensity to tax of the federal government in time period "t," calculated using A Series projections. The MPC_t^a is the marginal propensity to consume federally provided goods in the time period "t," calculated using B Series projections.

of this growth during the same time interval. Even if B Series data are used, the results show that the same trends are revealed and that the federal government is presumed to consume 23 per cent of the growth in GNP during the 1970-1990 time period, and to tax 18 per cent of this same expansion over this period. These results indicate that the A Series, B Series, and Edie-based projections implicitly assume that the U.S. society's marginal propensities to tax and to consume will continue to increase from 1970 to 1991, as they did during the 1950s and 1960s.

These assumptions may not be warranted. At some point, the society may not wish to follow this presumed pattern. If the assumption that the U.S. society's marginal propensities to consume federally provided goods and/or to tax of the federal government are held constant or presumed to increase at a lesser rate, is substituted for the implicit assumption previously discussed, new projections can be made. Examples of the type of results obtained using such new assumptions are indicated in Figures 3.8 and 3.9. These comparisons show that the 20 per cent MPT assumption yields a set of projections between those of the A Series and B Series made earlier, and a 15 per cent MPT yields a set of projections lower than either the A Series, B Series, C Series estimates. Assumption of a 30 per cent MPC results in projections ranging between the A Series and B Series estimates, while the D Series

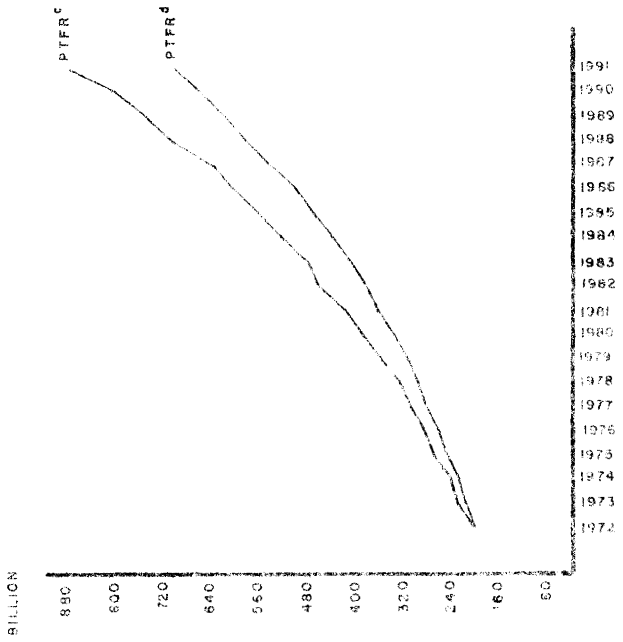

FIGURE 3.5

TOTAL FEDERAL RECEIPT PROJECTIONS,
C SERIES AND D SERIES, 1972 - 1991

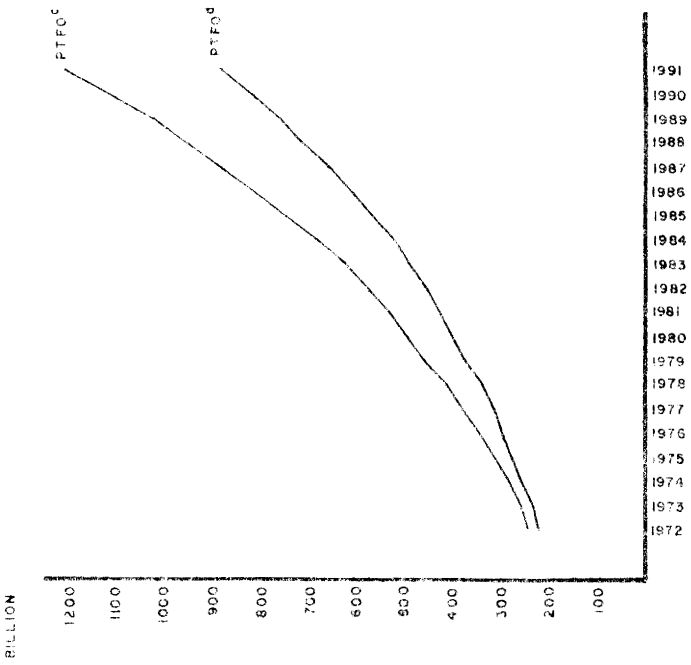

FIGURE 3.9

TOTAL FEDERAL EXPENDITURE PROJECTIONS, C SERIES AND D SERIES, 1972-1991

presumption of a 20 per cent MPC yields results lower than those of the other three sets -- A Series, B Series, and C Series.

Summary

Chapter II reviews federal receipts and expenditures over the period of 1930 to 1971 then established a procedure and makes projections of federal receipts and expenditures over the period of 1971-1991. In this chapter, Edie-based outlay projections are also considered and compared to those labeled A Series and B Series estimates, as are projections in real terms. It is recognized that these projections are surprisingly large, especially when related to GNP. The implicit assumptions of the simple-trend techniques used are pointed out and examples of federal revenue and outlay projections are made using different assumptions. Possession of the ability to predict a change in the trend of increasing MPT's and MPC's with respect to the federal government would allow an individual to employ the techniques used to obtain the C Series and D Series projections. In this way less shocking results might be obtained. Since such changes in trend are extremely difficult to predict, estimates based on the assumed continuation of this trend are shown in Chapter II. Although the possibility of a change is recognized, simple trend-based projections are sufficient for the analysis of later chapters.

CHAPTER IV

THE FUNDING OF THE NATIONAL DIVIDEND PLAN: THE ROLE OF THE CORPORATION INCOME TAX

The major source of proposed funding for the National Dividend Plan (NDP) is the corporate income tax. The Plan involves the proposal that all funds raised by this tax be distributed to persons voting in the preceding national election. Additionally, a limit of 50 per cent is placed on the share of measured income the federal government can take from a corporation. To evaluate these aspects of the National Dividend Plan, it is necessary to examine in detail the corporation income tax and the effects of tying the Plan to this tax as a funding source. First, this tax is considered in terms of its history, general effects, and incidence. Next, the general effects, federal budget changes, and burden redistribution which may take place as a result of using the corporation tax as a funding source is discussed. Finally, an alternative method for supporting the NDP is examined and compared to the employment of the corporation income tax.

The Corporate Income Tax

The taxation of corporation income is an important means of meeting revenue needs in modern fiscal systems. Consequently, this form of taxation has received considerable attention from the economic community. Prior to examining the use of the NDP, it seems appropriate to review some of what is known about the corporation income tax. No attempt is made to extend the existing analysis. The objective is to discuss various aspects of this tax, forming a basis for the analysis of its proposed use in the Plan.

History[1]

In 1909 the corporation income tax was enacted as an excise tax.[2] The tax, a 2 per cent rate on net income, was labeled in this manner due to the constitutional limitations on income taxation, and subsequently was upheld by the Supreme Court.[3] In 1913, after the Sixteenth Amendment,

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[1]The material in this section on the history of the corporation income tax is based on the review given in: The Corporation Income Tax, An Examination of Its Role in the Federal Tax System (New York: Tax Foundation, Inc., 1968), pp. 19-28.

[2]The civil war income tax did not apply as such, although assorted other taxes were applied to various types of business. (The Corporation Income Tax, p. 19.)

[3]Sidney Ratner, American Taxation (New York: W. W. Norton and Co., 1942), p. 29. (The Corporation Income Tax, p. 19.)

the first income tax was applied to both corporations and individuals. Consider Figure 4.1. A normal tax of one per cent was levied on all income with the exception of dividends. Additionally, a surtax was applied to taxable income of $20,000 or more, reaching a maximum of six per cent on taxable income in excess of $500,000. The corporation tax rate was raised to two per cent in 1916, and reached 12 per cent (excluding excess-profits tax) by 1918. The rate was reduced to 10 per cent in 1919, but increased to 12.5 per cent in 1922, and reached 13.5 per cent in 1926.

Significant changes took place in 1936. The Revenue Act of that year provided for graduated normal tax rates from 8 per cent to 15 per cent, and a new surtax on undistributed net income ranging from 7 to 27 per cent. In calculating the surtax, a credit for the normal tax was allowed. By 1938, the undistributed profits tax was eliminated, but returned in 1942,[1] when the normal tax ranged from 15 to 31 per cent, and the surtax from 10 to 22 per cent.[2] The excess-profits taxes were removed once more

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[1]George E. Lent, The Impact of the Undistributed Profits Tax 1936-37 (New York: Columbia University Press, 1948), p. 5. (The Corporation Income Tax, p. 25.)

[2]Under the Revenue Act of 1942 the normal tax ranged from 15 per cent to 31 per cent, and the surtax from 10 per cent to 22 per cent. The combined top rate remained at 38 per cent through 1949 (at a certain range of income a marginal "notch" rate of 53 per cent applied). (The Corporation Income Tax, p. 25.)

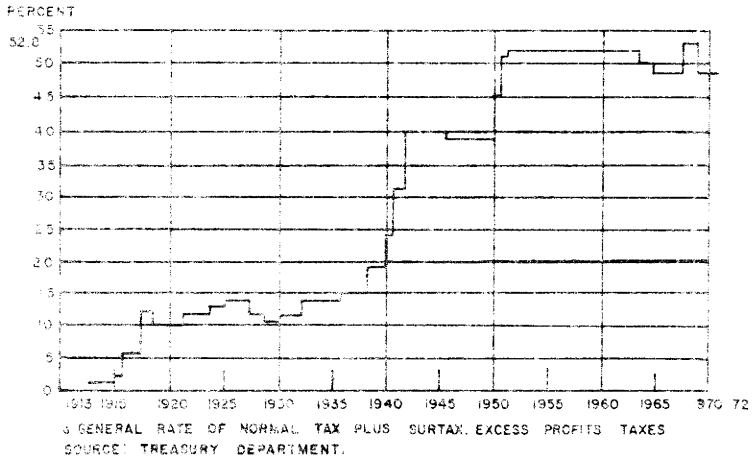

FIGURE 4.1

FEDERAL CORPORATION INCOME TAX RATES
CALENDAR YEARS 1913 - 1968

in 1946. During the Korean War the complete corporation tax structure was revised. A flat 30 per cent normal tax and a 22 per cent surtax on taxable income in excess of $25,000 were imposed. These rates were due to be reduced in 1954, but ten annual extensions maintained them until 1964, when the Revenue Act of that year reduced the combined rate in two stages from 52 per cent in 1963 to 48 per cent in 1965. In 1968 the combined rate was 52.8 per cent due to the 1968 surcharge, but returned to the 48 per cent level with the elimination of the surcharge in 1970. Summarizing, the corporation income tax began as a collection-at-the-source device for a general income tax with dividends being exempt. The integration of these two taxes, the general income tax and the corporation income tax, came to an end in 1919. From this year to 1970, many changes in the rate structure of the corporation income tax took place. Before 1951 the tax rate was 42 per cent or less of corporate profits. Between 1951 and 1971 this rate remained near the 50 per cent level, with the 1971 corporation income tax consisting of a rate of 22 per cent being applied to the first $25,000 normal tax, and 48 per cent on the excess over $25,000 surtax.[1]

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[1]A detailed history of changes in tax rates and major provisions of the law can be found in M. A. Chirelstein and others, Taxation in the United States, World Tax Series, Harvard Law School International Program in Taxation (Chicago, 1963), pp. 108-20. (The Corporation Income Tax, p. 19.)

Effects

The imposition of this form of taxation causes significant changes in the United States economy. Consider the investment decision of a corporation. New investments are undertaken by corporations if they promise to yield a satisfactory rate of return after tax. The higher the corporation tax rate, the higher the pretax return must be to maintain the after-tax return. To be equally attractive, an investment which promises 10 per cent in the absence of the tax must yield a pretax rate of return of 20 per cent, with a tax rate of 50 per cent. If 10 per cent after-tax is required to induce investments, corporations may defer the construction of new facilities and the purchase of new equipment unless there are projects that yield 20 per cent or more before tax. All other things being equal, the corporate income tax may reduce the amount of corporate funds available for investment.

Another area affected by this tax involves debt financing. Corporations may deduct from taxable income interest payments on borrowed capital, but may not deduct for dividends which are paid out to stockholders in return for the use of their funds as equity capital.[1] At a 50 per cent tax rate, a corporation must earn $2 before-tax to be

[1]Notice that this is under the existing tax system and is altered by the National Dividend Plan.

able to pay $1 in dividends, but it needs to earn only $1 to pay $1 of interest. This asymmetry results in the cost of equity capital being more expensive to the corporation than an equal quantity of borrowed capital. Financial experts tend to discourage large amounts of debt financing by corporations. Debt financing makes good business sense if a margin to pay fixed interest charges is available; however, business firms may be squeezed when business falls off, resulting in defaults on interest, defaults on principal payments, and bankruptcies. Although borrowed capital may increase returns to stockholders, corporations finance a major share of their capital requirements through equity capital (mainly retained earnings) in order to avoid such risks.

The corporation income tax also alters the economy's resource allocation. How much capital has left the corporate sector as a result of this tax is not known. It may be that the corporate form of doing business is so advantageous for nontax reasons that capital (which might leave otherwise) remains in the corporate sector. Moreover, the preferential treatment of capital gains under the individual income tax provides an incentive to invest in the securities of corporations that retain earnings for reinvestment which may offset the tax effect. These earnings appear as increase stock prices rather than as regular

income. Additional distortions take place. If prices increase in response to an increase in the corporation income tax, they rise in proportion to the use of corporate equity capital in the various industries. Consumers, as a result, purchase less of the goods and services produced in industries using a great deal of corporate capital, and purchase more in industries with less corporate capital.[1]

Finally, this form of taxation affects the voter-taxpayer's fiscal decisions. Assume that the tax rests exclusively on the stockholders of the corporation, and does not alter corporate output. In other words, presume that this tax is levied on pure economic profit. In this extreme case there is no direct behavioral response on the part of the business enterprise. If the tax rate is predetermined, the representative shareholder can estimate, with some limits, his share in corporate tax liability under these highly restricted conditions. The problem is that tax cannot be determined independently of the decision on the quantity of public goods to be supplied.[2] Therefore,

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[1]Joseph A. Pechman, Federal Tax Policy (Washington, D.C.: The Brookings Institution, 1966), pp. 98-114.

[2]If we think of the group as voting in some fashion on various proposals for spending on public goods, we must allow the rate of tax to be adjusted. Or, alternatively, if we think of the group as voting on the rate of tax to be levied, we must allow the quality of public goods to remain dependent on the tax-rate decision. [James M. Buchanan,

the individual must make some estimate as to the size of the aggregate tax base. The independent variability of the tax base introduces major uncertainty into the choice problem faced by the representative individual.[1] Suppose an allowance is made for some behavioral response on the part of the corporation. Additional elements of uncertainty are introduced. Both individual and aggregate base variability are increased. Thus, the uncertainty is increased in any fiscal choice that the individual must make.[2] The tax on corporate income makes the individual shareholder's purchase of public goods a risky venture.[3]

Incidence

The distribution of the burden of the corporation income tax is the subject of considerable debate. The classical view in economics is that this tax cannot be shifted in the short run. The argument is that business

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Public Finance in Democratic Process (Chapel Hill: The University of North Carolina Press, 1967), p. 48.]

[1]The situation is roughly comparable to that faced under the personal income tax when the individual has no control over the amount of income that he receives. The uncertainty is greater under the corporate tax, however, due to the greater volatility in aggregate corporate profits. (Public Finance in Democratic Process, p. 48.)

[2]Buchanan presents a choice situation which reveals the central features of this discussion. His simple example should clarify the uncertainty problem. (Public Finance in Democratic Process, pp. 49-50.)

[3]Public Finance in Democratic Process, pp. 48-51.

firms, whether they are competitive or monopolistic, may be assumed to maximize net profits. This criterion is satisfied when output and prices are set at the point where the cost of producing an additional unit is exactly equal to the additional revenue from the sale of that unit. In the short run, since income is defined so as to exclude all elements of marginal cost, a corporation income tax should not alter this decision. The output and price which maximized the firm's profits before the tax continues to maximize profits after the tax is imposed.[1] The argument against this view is based on the opinion that modern markets are characterized neither by perfect competition nor by monopoly. They exhibit imperfections and mutual interdependence or oligopoly. These structural aspects act to insert slack into the market system. Suggestions have been made that firms price so as to cover their full costs, plus a margin for profit. Alternatively, it is maintained that firms aim at an after-tax target rate of return on invested capital. Regardless of the form of market slack, its existence permits businesses to shift the corporation income tax forward to consumers or backward to the workers, or partly forward and partly backward.

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[1]This follows from simple arithmetic. If a series of figures is reduced by the same percentage, the figure that was highest before will still be the highest after the percentage reduction is made.

Of course, the degree of slack in the market place determines if all or some part of this tax is shifted in the short run.

The mechanism of long run shifting of the corporation income tax involves the reduction of corporate equity investment. The tax may discourage the use of capital in the corporate sector. Simultaneously, it may encourage investment in debt-intensive industries and unincorporated businesses. This combination should result in a smaller supply of corporate products. There may be, however, other advantages such as limited liability which act to counteract the effects by making the corporate form of business so profitable that it outweighs the tax disadvantages. If the tax is shifted in the long run, net after-tax rates of return are reduced. As a result, the amount of corporate investment is diminished. If the advantages of the corporate form of doing business prevent this investment from moving to the noncorporate sector, then the noncorporate sector may not grow relative to the corporate sector, as a result of the tax, but corporate capital and output are reduced.[1]

Obviously, the theoretical analysis of the incidence of an indirect tax such as the corporation income tax is

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[1]This is clearly a simple treatment of the corporation income tax. It seems that a more involved treatment is not necessary for analysis of the National Dividend Plan.

not a simple matter. As difficult (if not more difficult) is obtaining empirical estimates of how the burden of the tax is distributed. A 1968 study, Tax Burdens and Benefits of Government Expenditures by Income Class, 1961 and 1965 (New York: 1968) by the Tax Foundation, Inc., provides an estimated distribution of the corporation tax burden by family income size groups. Table 4.1 illustrates the results of this 1968 study. Persons earning less than $2,000 per year paid only 2.8 per cent of the corporation income tax burden as a group. The portion of the incidence increases as the income class increases, with the exception of the $3,000 to $4,000 group and the $4,000 to $5,000 group. Those in the $3,000 to $4,000 income class incur 7.7 per cent of the burden, while those in the $4,000 to $5,000 class incur only 7.5 per cent. The largest portion of the total tax incidence is felt by those earning more than $15,000. This group accounts for 21.2 per cent of the burden. Table 4.1 shows clearly that those in the higher income groups bear the largest portion of the corporation income tax burden. Among the higher income classes, those earning between $5,000 and $10,000 incur almost as much of the incidence (38.8 per cent) as those earning more than $10,000 (39.0 per cent).

The burden distribution of this tax can be further clarified if one considers the way our country's population is spread across income classes. Table 4.2 shows 13 per

TABLE 4.1

Estimated Corporation Tax Burden in Relation to Income of All Families[a] by Income Class 1961[b]

Family Income Class[c] (thousands)	Allocated Corporate Tax Burden[d] (millions)	Percentage of Total Corporate Tax Burden
Under $2	$ 602	2.8
$2 - $3	909	4.2
$3 - $4	1,673	7.7
$4 - $5	1,640	7.5
$5 - $6	2,227	10.2
$6 - $7.5	2,862	13.2
$7.5 - $10	3,356	15.4
$10 - $15	3,862	17.8
$15 and over	4,620	21.2
Total	$21,751	100.0

[a]Includes single person units.

[b]The assumptions used in this table cover only one set of possible price effects and one relating to income. Results of other assumptions can be derived from data in the original study.

[c]Money income after personal taxes, as defined in the Bureau of Labor Statistics Survey of Consumer Expenditures 1960-61. Money income includes wages and salaries, interest, dividends, rent and other income from services plus transfer payments such as social security and public assistance payments, gifts, inheritances and other "windfall" receipts.

[d]The total "burden" is assumed to be measured by total (Federal) corporation income tax receipts. Half of these receipts was allocated among income classes in proportion to total consumption expenditures reported in the BLS Survey, and half in proportion to dividends received as reported in the BLS Survey.

Source: The Corporation Income Tax, 1968 (New York: Tax Foundation, Inc., 1968), p. 39.

TABLE 4.2

Population in Relation to Income of All Families by Income Class 1961

Family Income Class (thousands)	Population by Class[a] (thousands)	Percentage of Total Population
Under $2	23,877	13.0
$2 - $3	15,979	8.7
$3 - $4	17,999	9.8
$4 - $5	19,285	10.5
$5 - $6	23,693	12.9
$6 - $10	56,570	30.8
$10 - $15	19,469	10.6
$15 and over	6,795	3.7
Total	183,672	100.0

[a]These were calculated using total population figures for 1961 and percentages given in column number three.

[b]These are percentages for 1960 and are assumed to hold for 1961 calculations.

Source: Statistical Abstract of the United States, 1971, pp. 5 and 8.

cent of the population in the less than $2,000 income class in 1961. Forty-two per cent of the nation's 1961 population earned less than $5,000 a year. The $5,000 to $10,000 income class had 43.7 per cent of the population. Less than 15 per cent of the nation's people were in income groups in excess of $10,000 a year. The income class of $15,000 or more had only 3.7 per cent of the population. Table 4.3 uses information on the allocation of the corporation income tax burden and on the United States population distribution to show the calculation of the average corporation income tax burden per capita by family income class. The pattern is the same as that of Table 4.1. As income class increases, so does the average per capita tax burden, except in the $3,000 to $4,000 and $4,000 and $5,000 cases. The smallest portion is $25 per capita average for those with 1961 income of less than $2,000. For those in the $6,000 to $10,000 income class, the average individual burden is $111. In the $10,000 to $15,000 bracket, the average per capita incidence is $198. The highest average burden per person is incurred by those in the $15,000 and over income class. The average per capita corporation income tax burden for the population as a whole is $118.

Admittedly, these empirical tax incidence estimates for income classes as a group and per capita are highly subject to error. However, in some numerical values, the

TABLE 4.3

Calculation of Corporation Tax Burden per Capita by Income Class 1961

Family Income Class (thousands)	Allocated Corporate Tax Burden (millions)	Population by Class (millions)	Tax Burden per Capita (Col. 2/3)
Under $2	$ 602	24	$ 25
$2 - $3	909	16	57
$3 - $4	1,673	18	93
$4 - $5	1,640	19	85
$5 - $6	2,227	24	94
$6 - $10	6,218	56	111
$10 - $15	3,862	20	198
$15 and over	4,620	7	660
Total	$21,751	184	$118

Source: Table 4.1 and Table 4.2.

direct relationship between income class and tax burden is adequately illustrated. This is sufficient for analyzing the effects of having the National Dividend Plan use the corporation income tax as a source of funds. Such an analysis is discussed in the next section of this chapter.

Funding Role for the National Dividend Plan

Use of corporate income tax revenues as funds for the National Dividend Plan results in a number of changes taking place. These are considered in terms of the Plan's effects and its resulting effects on the federal budget.

General Effects

If Figure 4.1 is considered once more, one notes that before 1951 the corporate tax rate was 42 per cent or less of corporate profits. From 1951 to 1971 the tax rate remained near the 50 per cent level. The National Dividend Plan insures that the corporation income tax rate does not exceed 50 per cent. This limit is specified by a constitutional amendment. As a result, an added amount of certainty is inserted into the tax structure. No fear of an increased corporation income tax exists under such a system. Thus, the specification of this tax limit allows the corporation a significant degree of assurance about the tax rate it must pay on its profits. Simultaneously, it

provides those who bear the burden of this tax assurance that the incidence they bear shall not be increased. This decreases the degree of taxpayer uncertainty even if he continues to have tremendous difficulty in estimating his share of the burden of an indirect tax.

Besides placing a limit on the corporation income tax, the Plan obviously provides for the preservation of this form of taxation. The NDP payments are tied directly to the revenue from this tax. Thus, elimination of the corporation income tax after the implementation of the NDP is even more difficult than it is before the Plan is operational. The difficulties associated with the corporate income tax have been discussed previously. Such an indirect tax appears less than desirable. The NDP's further entrenchment of this tax seems harmful from this perspective. This result is a matter of degree. Assume that the corporate income tax is entrenched to such an extent at the present time that it will never be removed. That is, it is politically infeasible to expect this tax to be removed. Further entrenchment does no harm. Suppose the opposite assumption is made. The corporate tax is considered easily removable. The effect of increased dependence on this tax is significantly harmful. The harm that results from this entrenchment effect depends upon one's perspective.

A third general effect, and the last one considered in this section, involves the profit motive. Samuel

Gompers, founder of the American Federation of Labor, once said:

> The worst crime against working people is a company which fails to operate at a profit. Companies without profit mean workers without jobs. Remember that when the boss is in financial trouble the worker's job isn't safe.[1]

The difficulty is, as indicated by this quotation, that the benefits from profits to the average worker are indirect. When a large corporation in our society makes a profit, it is very difficult for the average worker to realize that these benefits exist. The average individual's difficulty is seeing the relationship between the profit of others and his benefit can easily lead to a harmful situation for all. One possible result seems to exist in the United States society of 1972. Individuals are being put in the position of not only defending, but often apologizing for, the existence of profits. Concurrently, the American work ethic seems to be in trouble. These attitudes have combined to create a situation which might be referred to as "anti-profit and anti-work."

The deterioration of the work ethic in the United States can be seen by an examination of 1972 newspaper and magazine articles. Consider, for example, the following quotations:

> In assessing America's faltering competitive stance in the world, one disturbing conclusion stands out:

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[1]John H. Perry, Jr., The National Dividend, p. 69.

a prime reason for the U.S. troubles is that all too many American workers -- particularly young ones, who are supposed to be bubbling with energy and ambition no longer give a damn. Whether they are overworked or overprivileged, pampered or oppressed, dehumanized by the demands of their jobs or just plain bored--whatever the reason--the evidence is strong that the traditional work ethic of the U.S. is showing signs of senility.

This worker malaise has resulted in absenteeism rates as high as 20 percent on Fridays and Mondays in some automobile plants . . . . a survey for the John D. Rockefeller 3rd Foundation recently turned up the fact that only 39 percent of a national sampling of students believe that 'hard work will always pay off,' compared with 69 percent who felt that was just four years ago. Moreover, only 36 percent of the students said they wouldn't mind being bossed around on the job; in 1968, 56 percent said they were willing to submit to authority.

--"Too Many U.S. Workers No Longer Give a Damn," Newsweek, April 24, 1972, p. 65.

Of a work force of some 80 million Americans, more than 22 million today are under 30. The number of these young workers is expected to increase in the years to come. Among that group we found the most striking evidence of frustration, anger, rebellion, and disenchantment. The way they felt about their jobs -- and their union and their company -- goes far beyond their own personal satisfactions. It affects such basic questions as productivity, pride in craft, the ability to remain competitive and a willingness to accept the goals and standards set by both unions and companies.

--"A Basic Problem: Work Attitudes Changing," Haynes Johnson and Nick Kotz, The Washington Post, April 18, 1972, p. A12.

The United Auto Workers today asked the Ford Motor Company to talk about a shorter work year 'by way of a shorter work week or other means.' Younger workers do not accept the idea that 'hard work is a virtue, a duty,' the UAW said.

> 'The traditional concept that hard work is a virtue and a duty, which older workers adhered to, is not applicable to younger workers, and the concepts of the younger force must be taken into account,' Bannon wrote. [Ken Bannon is a UAW vice president.]
>
> --"UAW Presses Ford for a Shorter Week," The Washington Post, February 4, 1972.

These statements clearly point to new worker attitudes. It appears many workers feel that hard work is not a utility maximizing course for them. The prevalence of this attitude among students and young workers indicates that the situation may worsen during the 1970s and 1980s.

The avowed purpose of using the corporation income tax in the National Dividend Plan is to inspire the public with an interest in the defense of the profit motive and inducement to work hard. Each voter becomes a "partner" in all the corporations in the country upon implementation of the Plan. They hold a preferred role, sharing in the profits, but taking none of the risks and suffering none of the losses. Everyone (those who vote) benefits when corporations make profits (they receive larger NDP payments). Presumably, everyone works harder at their jobs since, as partners, they share in the benefits of increased production.[1] Under the NDP, if a 50 per cent tax rate is applied to the share of measured income the federal government can take from a corporation, in the case of large

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[1]The National Dividend, pp. 72-74.

firms the public shares equally with the owners. The public may hold a smaller share in smaller companies. Thus, the Plan attempts to mitigate if not eliminate the "anti-profit and anti-work" environment of 1972 by making voters shareholders in the corporations of the United States. People would be faced with a direct benefit from firms making profits. The more money made by corporations in our society, the larger the payments the citizenry receives each year. This may very well lead to a turn-around in the existing attitude toward business. Workers feeling they directly benefit from increased profits may no longer be "anti-profit or anti-work," and may actually be in favor of profits.[1] The actual benefit to each individual from a profit increase in the corporate sector is very small in real terms.[2] Direct benefits to the individual from a corporate profit increase is principally illusionary. Yet, the indirect benefits are not illusionary. Thus, the illusionary direct benefits may lead to a change in attitudes, which produces increased indirect benefits.

Another aspect of the existing anti-profit atmosphere is evidenced by many of the suggestions for pollution control. The large majority of Americans seem to

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[1]The observations made about the 1971 attitudes are expressed in the news media and illustrated in this paper.

[2]Fifty per cent of the profit increase is taxed and then distributed among millions of people.

desire an improvement in the country's environment. Yet, few seem to realize the costs they themselves might incur from such an improvement being attained. The National Dividend Plan payment may act to clarify the costs of pollution reduction in the eyes of the individual citizen. Large reductions in the polluting activities of a firm might easily result in a sizable reduction in the firm's profits.[1] A decrease in profits has the effect of reducing the size of the National Dividend payments people receive. The reduction in payment size due to a decrease in the profits of any one firm, as it is seen by the individual, is very small.[2] Yet, profit reductions for a large number of firms have a significant effect. Profit reductions directly influencing the individual citizen may cause him to look into the costs of pollution reduction more carefully. Any failure on his part may be corrected by the efforts of corporations. It is to their advantage to point out the profit-pollution trade-off. Thus, the net result may be a clarification of this trade-off.

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[1]This assumes that the individual firm must bear the pollution control cost and not pass it on.

[2]This is due to the fact that this sum is spread over such a huge number of individuals.

Federal Budget Changes[1]

The implementation of the National Dividend Plan results in a reallocation of federal budget components. The changes that take place depend upon the length of time involved in putting the Plan into operation. Suppose one considers the projections for the period 1972-1991 discussed in Chapter II. If the decision is made to begin implementation of the NDP in 1975, the initial federal budget alterations which take place may be estimated.[2] Although almost any number of years might be examined as a time period for putting the Plan into effect, only three shall be considered: 1 year, 5 years, and 10 years. These should be sufficient to illustrate the results of most reasonable NDP implementation periods.[3] Table 4.4 shows the National Dividend payments estimated using A Series data on the corporation income tax revenues from Chapter III. Between 1975 and 1990, the number of persons 18 years and over expands from 147 million to 177 million, while corporate tax revenues increase from $33 to $89 billion. These

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[1]Estimates in this section consider 1990 and not 1991 because of a lack of population data for the year 1991.

[2]The assumption underlying this statement is that a constitutional amendment has passed the necessary procedures and becomes effective in 1975.

[3]The term "reasonable" is used to exclude most periods of more than 10 years as too long for the insertion of a proposal such as the National Dividend Plan into the United States' economic system.

TABLE 4.4

Calculation of National Dividend Payments by Length of Implementation Period, A Series, 1975-1990

Year	Corporation Income Tax Receipts, Series A[a]	U.S. Population 18 years & over[a]	ND Payments 1 Year Base[b]	ND Payments 5 Year Base[b]	ND Payments 10 Year Base[b]
1975	$33,254	147	$226	$ 45	$ 23
1976	35,229	150[c]	235	94	47
1977	37,372	153	244	147	73
1978	39,697	155	256	205	103
1979	42,220	157	269	269	135
1980	44,957	159	283	283	170
1981	47,927	161	298	298	208
1982	51,149	163	314	314	251
1983	54,645	165	331	331	398
1984	58,438	167	350	350	350

TABLE 4.4--Continued

Year	Corporation Income Tax Receipts, Series A[a]	U.S. Population 18 Years & over[a]	ND Payments 1 Year Base[b]	ND Payments 5 Year Base[b]	ND Payments 10 Year Base[b]
1985	$62,554	169	$370	$370	$370
1986	67,020	171	392	392	392
1987	71,865	173	415	415	415
1988	77,122	175	441	441	441
1989	82,826	176	471	471	471
1990	89,015	177	503	503	503

[a]Figures are in millions.

[b]National Dividend payments is abbreviated "ND Payments." Base refers to the period of years over which the Plan is put into operation.

[c]Population projections were given only for 1975, 1980, 1985, and 1990. The estimates for other years are interpolated from the trends represented.

trends produce national dividend payments which increase in size each year. If it is assumed that the Plan is fully implemented in 1 year, 1975, then payments of approximately $226 result. By 1980 these payments increase to $283. If the Plan is phased in over a 5-year period, then the 1975 payments are $45. These increase to $94 in 1976, $147 in 1977, and $283 by 1980. The 10-year implementation assumption yields 1975 national dividend payments of $23. In 1976 these payments are $47, $73 in 1977, and $170 by 1980. Regardless of the period of time used to put the Plan into full operation--1 year, 5 years, or 10 years--by 1984 the Perry proposal is fully implemented with voters receiving $350 payments. In 1987 these payments exceed the $400 level, equaling $445 per voter. By 1990 national dividend payments, calculated using A Series projections, are $503. Employment of B Series corporation income tax revenue projections yields national dividend payments of somewhat smaller size. The assumption that Mr. Perry's proposal is in full operation in 1975 provides for payments of $209 per voter, as shown in Table 4.5. The 1980 estimate for these payments is $235. If the Plan is phased in over a 5-year period, the 1975 payments equal $42. In 1976 they are $85, $130 in 1977, and by 1980 they are $235. The 10-year implementation assumption produces national dividend payments of $21 in 1975. For 1976 the payments are $42, $65

TABLE 4.5

Calculation of National Dividend Payments by Length of Implementation Period, B Series, 1975-1990

Year	Corporation Income Tax Receipts, Series B[a]	U.S. Population 18 years & over[a]	ND Payments 1 Year Base[b]	ND Payments 5 Year Base[b]	ND Payments 10 Year Base[b]
1975	$30,641	147	$209	$ 42	$ 21
1976	31,792	150[c]	212	85	42
1977	33,029	153	216	130	65
1978	34,359	155	222	177	89
1979	35,789	157	228	228	114
1980	37,326	159	235	235	141
1981	38,978	161	242	242	170
1982	40,754	163	250	250	175
1983	42,664	165	259	259	233
1984	44,717	167	268	268	268

TABLE 4.5--Continued

Year	Corporation Income Tax Receipts, Series B[a]	U.S. Population 18 years & over[a]	ND Payments 1 Year Base[b]	ND Payments 5 Year Base[b]	ND Payments 10 Year Base[b]
1985	$46,924	169	$278	$278	$278
1986	49,296	171	288	288	288
1987	51,846	173	300	300	300
1988	54.588	175	312	312	312
1989	57,535	176	327	327	327
1990	60,703	177	343	343	343

[a]Figures are in millions.

[b]National Dividend payments is abbreviated "ND Payments." Base refers to the period of years over which the Plan is put into operation.

[c]Population projections were given only for 1975, 1980, 1985, and 1990. The estimates for other years are interpolated from the trends represented.

in 1977, and $114 in 1979. By 1984 the Plan is in full operation whether the time taken is 1 year, 5 years, or 10 years. National dividend payments are estimated to be $300 in 1987 and $343 in 1990, when calculated using B Series projections. Summarizing, these estimates show that if the Plan is fully operational, national dividend payments for 1975 range between $209 and $226. In 1980 they range from $235 to $298, from $278 to $370 in 1985, and between $343 and $503 in 1990.[1]

Regardless of the time taken to put the Plan into operation, ceteris paribus, predicted total federal revenues remain unaltered. This proposal creates a new federal expenditure with a stated source of funds -- corporation income tax receipts. Clearly, this new program reduces the funds available for the other functions of the federal government. The federal government is left with a number of options:

(a) reduce other expenditures, thus maintaining the total federal expenditure level that would exist if the Plan were not in operation;

(b) continue federal expenditures in all areas and expand the public debt;

(c) continue federal expenditures in all areas and increase taxes, thus maintaining the public debt at the level it would be if the Plan were not in operation; or

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[1]Previous estimates by the Edie Company show larger payments. These are based on only those over 21 years of age voting, which significantly reduces the number of people receiving the payments.

(d) provide for a mixture of the actions of (a), (b), and (c).[1]

Suppose the Perry proposal is put into operation over a 5-year period, as its proponents suggest. Table 4.6 shows the total amount of funds allocated to the Plan, by year, 1975-1991. According to A Series-based estimates, total funds range from approximately $7 billion in 1975 to nearly $96 billion in 1990. B Series-based estimates show these funds to range between $6 and $64 billion. Comparison of national dividend funds to corporate income tax receipts shows the 5-year phase-in process clearly. By 1980 the Plan is fully implemented and all corporation tax revenues go for the National Dividend Plan. These rough calculations show expenditures by the federal government for this proposal of between $6 and $7 billion. In 1980 these outlays are between $37 and $45 billion, between $46 and $63 billion in 1985, and from $64 billion to $96 billion in 1990. If the federal government decides to reduce its other expenditures as the National Dividend Plan is put into operation, the reductions must be of the size indicated in Table 4.6. For example, projected federal outlays on functions other than the Plan must be cut by between $6 billion (B Series) and $7 billion (A Series), while for 1980 these cuts range from $37 billion

[1]Substitution of the Plan for existing federal programs is discussed in more detail in Chapters V and VI.

TABLE 4.6

Funds Allocated to the National Dividend Plan by Year, 1975-1991, Based on Five-Year Implementation Period, Series A and Series B

Year	Corporation Income Tax Receipts, Series A	Funds Allocated to the NDP, Series A	Corporation Income Tax Receipts, Series B	Funds Allocated to the NDP, Series B
1975	$33,254	$ 6,651	$30,641	$ 6,128
1976	35,229	14,092	31,792	12,717
1977	37,372	22,423	33,029	19,817
1978	39,697	31,758	34,359	27,487
1979	42,220	42,220	35,789	35,789
1980	44,957	44,957	37,326	37,326
1981	47,927	47,927	38,978	38,978
1982	51,149	51,149	40,754	40,754
1983	54,645	54,645	42,664	42,664
1984	58,438	58,438	44,717	44,717

TABLE 4.6--Continued

Year	Corporation Income Tax Receipts, Series A	Funds Allocated to the NDP, Series A	Corporation Income Tax Receipts, Series B	Funds Allocated to the NDP, Series B
1985	$62,554	$62,554	$46,924	$46,924
1986	67,020	67,020	49,296	49,296
1987	71,865	71,865	51,846	51,846
1988	77,122	77,122	54,588	54,588
1989	82,826	82,826	57,535	57,535
1990	89,015	89,015	60,703	60,703
1991	95,730	95,730	64,109	64,109

(B Series) to $45 billion (A Series). The change in total federal outlays is projected to range from $22 billion to $28 billion in the fiscal year 1974-1975. From 1979-1980 total federal expenditures increase by between $32 billion and $45 billion, while funding the NDP requires between $37 billion and $45 billion. Over the phase-in period, more and more of the increase in total federal outlays is consumed by the Plan. When in full operation in 1980, federal expenditures on other programs can expand only at each other's expense, since the NDP uses all of this outlay expansion for its funding.[1] As time progresses, however, growth of total outlays shows possibilities of exceeding the funding requirements of the Plan. In 1984-1985 the change in federal expenditures is between $46 and $73 billion, while the NDP funding requirements range from $47 to $63 billion. For 1989-1990 NDP funding needs between $64 and $96 billion, while the change in total federal outlays ranges from $66 and $118 billion. These figures show that over the phase-in period of the Plan,

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[1]This point may be confusing. To clarify, the Plan requires resources. If federal outlays were maintained at the 1975 level until 1990, and the Plan is put into operation, then the funds for it must be taken from other federal programs. However, total federal expenditures grow every year. This growth is sufficient to pay for the continuously expanding funding requirements of the Plan. Thus, all federal programs can be maintained at their pre-Plan levels. Yet, if the government wants to expand an old program or begin a new one after the Plan takes away the growth funds, then it must take resources from other programs.

increasingly larger portions of the expansion of total federal outlays must be used to fund national dividend payments. This process allows all 1975 programs to be maintained at their 1974 level, however expansion of these programs and the starting of new ones is restricted by the Perry proposal. If the Plan is in full operation in 1980, such an increase in an expenditure area results in a reduction in some other area. By 1985 it is possible that all 1984 programs can be continued at their 1984 levels in 1985 and some increased, if acceptable levels of projected federal outlay growth rates exceed the Plan's projected funding requirements. Of course, all of these assertions assume that pre-Plan expenditure levels are maintained by the federal government, which need not be the case.

If the federal government takes the option to continue federal expenditures in all areas and expand the public debt, then it need not increase its revenues. Total federal outlays and the public debt increase greatly as a result. Consider the B Series projections made in Chapter III for projected total federal outlays. Federal expenditures for 1975, using the NDP funds estimates of Table 4.6, increase by $6 billion, from $287 to $293 billion. For 1980 outlays expand by $37 billion, from $424 to $461 billion. By 1990 total federal expenditures increase from $981 billion to $1,045 billion, an expansion of $64 billion. Since federal revenues are maintained, the public debt also

expands by these amounts. If A Series estimates are used, the increases are even larger with 1990 total federal outlays of $1,518 billion being estimated. These expansions are based on the assumption that federal programs continue to grow at pre-Plan rates, even when the Perry proposal is in full operation. The shocking size of total federal outlay levels, not to mention the huge additions to the public debt, make this course of action by the federal government seem unlikely. Another possibility is that the federal government continue all areas of expenditure at their pre-Plan levels and increase taxes, thus maintaining the public debt at pre-Plan projected levels. This policy brings taxes which must increase federal government revenues by between $6 and $7 billion in 1975. Total federal receipts need to be increased by between $37 billion and $45 billion for 1980. Expansion of federal receipts by these amounts in addition to their pre-Plan projected increases may bring a public reaction. Thus, this policy may be politically infeasible. The most probable of governmental alternatives is a mixture of these three objectives: reduce total federal outlays, expand the public debt, and increase taxes. Obviously, the degree to which each course is pursued depends upon the political situation. Strong opposition to expansions of the public debt and total federal receipts over projected levels results in reductions in some federal outlay areas from their

projected levels. As lesser degrees of opposition are considered, smaller cuts in projected total federal outlays net of national dividend payments are to be expected. Use of the corporation income tax revenues as a source of funds for the Plan is not the only possibility. Alternatives exist to this method of financing. One of these is considered in the next section of this chapter.

General Funding Alternative

From the examination of the corporate income tax in this chapter it appears that the employment of this tax as a source of funds for the National Dividend Plan may be unwise. This raises the question of what alternatives exist. One possibility is the subject of this section. Suppose a new proposal is substituted for that of using the corporate income tax as a funding mechanism. The NDP is to be supported by 20 per cent of federal revenue. Such a system would have a number of advantages over the existing proposal. First, this would eliminate the entrenchment effect. Payments would not be tied to a specific tax. Thus, no new incentives for the continuation of the corporate income tax would be created. Second, this would tie the growth of NDP payments to increase in the general federal revenue, rather than to a specific tax. Thus, any new tax which would increase federal revenue would increase NDP payments, which is not the case under corporate income tax

funding. In general, this change-in-funding agent does not impair the implementation or operation of the Plan, although there is one significant disadvantage to this general funding proposal. The Perry proposal ties the size of the voter payments to corporate tax receipts. As a result, incentives are created for individuals to encourage profits. The substitution of general funding for the corporation income tax eliminates this effect. That is, the Plan's creation of a new attitude on the part of the public toward corporate profits, which is perhaps the most significant result of the NDP, is eliminated.

The changes in the federal budget are similar to those of funding the Plan with the corporate income tax. Table 4.7 shows the funds that support the NDP under this alternative. B Series-based estimates place the funds allocated to the Plan in 1975 at $58 billion if the proposal is fully operational. In 1980 these funds total $85 billion, $125 billion in 1985, and $196 billion by 1991. These estimates are nearly three times the size of those using corporate income tax revenues as a source. Projected funds employing A Series data, also, are close to three times larger than funds estimated using the corporation tax revenues. These range from $62 billion in 1975 to $285 billion in 1991. According to this data (A Series), funds for the Plan reach almost $100 billion

TABLE 4.7

Funds Allocated to National Dividend Plan Under General Funding, 1975-1991[a]

Year	Total Federal Outlays, Series A	Funds Allocated to NDP, Series A[b]	Total Federal Outlays, Series B	Funds Allocated to NDP, Series B
1975	$ 309,549	$ 61,910	$287,262	$ 57,452
1976	340,504	68,101	310,731	62,146
1977	374,554	74,911	336,007	67,201
1978	412,009	82,402	363,230	72,646
1979	453,210	90,642	392,549	78,510
1980	498,531	99,706	424,125	84,825
1981	548,384	109,677	458,133	91,627
1982	603,202	120,640	494,759	98,952
1983	663,522	132,704	534,206	106,841
1984	729,874	145,975	576,690	115,338

TABLE 4.7--Continued

Year	Total Federal Outlays, Series A	Funds Allocated to NDP, Series A[b]	Total Federal Outlays, Series B	Funds Allocated to NDP, Series B
1985	$ 802,861	$160,572	$622,445	$124,489
1986	883,147	176,629	671,723	134,345
1987	971,462	194,292	724,796	144,959
1988	1,068,608	213,722	781,955	156,391
1989	1,175,469	235,094	843,516	168,703
1990	1,293,016	258,603	909,817	181,963
1991	1,422,318	284,464	981,223	196,245

[a]All figures are in millions of dollars.

[b]These estimates are computed by taking 20 per cent of total federal outlays.

in 1980 and exceed $200 billion in 1988. If population statistics are considered once more, then national dividend payments can be computed. Table 4.8 shows the results of these computations and the assumption of a 5-year phase-in period. The 1975 payments are estimated at $84 per voter. For 1976 these increase to $184, $294 in 1977, and by 1980 they equal $627. In 1985 national dividend voter payments calculated using the A Series projections, equal $950 per person of age 18 or older, and reach $1,461 in 1990. Similar estimates for these years (using B Series projections) are shown in Table 4.9. Payments for 1975 are estimated at $75. In 1976 they are projected to be $166, $264 in 1977, and by 1980 they are $534. Calculations indicate the voter receives $737 in 1985, and $1,028 in 1990.

The percentage of total federal outlays used to fund the Plan can be adjusted downward to yield the same funds for support of the corporation income tax. This is not the problem posed by the general funding approach. The trade-off between the Plan's approach and the general funding approach is clear. The NDP is a step toward achieving the very important objective of changing our society's attitudes toward profit. On the other hand, the general funding approach does not involve the poor aspects of using the corporation income tax as a revenue source. Additionally, using this general funding approach has the beneficial

TABLE 4.8

Calculation of National Dividend Payments Under General Funding, Five-Year Implementation Period, Series A, 1975-1990

Year	Funds Allocated to NDP, Series A	U.S. Population 18 years & over	ND Payments 5 Year Base (Cols. 2/3)
1975	6,910	147	$ 84
1976	68,101	150	182
1977	74,911	153	294
1978	82,402	155	425
1979	90,642	157	577
1980	99,706	159	627
1981	109,677	161	681
1982	120,640	163	740
1983	132,704	165	804
1984	145,975	167	874
1985	160,572	169	950
1986	176,629	171	1,033
1987	194,292	173	1,123
1988	213,722	175	1,221
1989	235,094	176	1,336
1990	258,603	177	1,461

Source: Statistical Abstract of the United States, 1971, p. 8; and Table 4.7.

TABLE 4.9

Calculation of National Dividend Payments Under General Funding, Five-Year Implementation Period, Series B, 1975-1990

Year	Funds Allocated to NDP, Series B	U.S. Population, 18 years & over	ND Payments 5 Year Base
1975	57,452	147	$ 78
1976	62,146	150	166
1977	67,201	153	264
1978	72,646	155	375
1979	78,510	157	500
1980	84,825	159	534
1981	91,627	161	569
1982	98,952	163	607
1983	106,841	165	648
1984	115,338	167	691
1985	124,489	169	737
1986	134,345	171	786
1987	144,959	173	838
1988	156,391	175	894
1989	168,703	176	959
1990	181,963	177	1,028

Source: Statistical Abstract of the United States, 1971, p. 8; and Table 4.7.

result of forcing the federal government to pay larger national dividend payments when it increases its outlays. Compromise alternatives exist. For example, the size of the national dividend payments might be made dependent on both the amount of corporation profits and the level of total federal expenditures. One portion of the funds for the Plan may come from a percentage or all of corporate tax revenues, and the other portion from 5 or 10 per cent of all federal outlays. In this way, both the benefits of general funding and those of using the corporation income tax are obtainable.[1]

Summary and Conclusion

In this chapter the corporation income tax is examined. A general description of the tax, its history, general effects on the economy, and incidence are presented. Next, the provisions of the National Dividend Plan as it relates to corporate taxation is discussed. Changes in the federal budget as a result of the Plan are considered. Finally, the use of an alternative method of funding the National Dividend Plan is evaluated. The advantages and disadvantages are noted. Obviously, it would be ideal to eliminate the corporate income tax. Barring this, the Perry proposal use of this tax as a

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[1]Of course, the poor aspects of employing the corporate income tax remain.

source of funds does not appear harmful. In fact, if the tying of voter payments to the corporation income tax revenue results in a new attitude toward profits, then such a connection is highly beneficial. In fact, this may be the most significant result of the Plan. Alternatives such as general funding are available, and consideration of such possibilities may reveal methods of obtaining additional benefits. It does, however, seem desirable to maintain the profit attitude effect of the National Dividend Plan.

CHAPTER V

THE "CRUNCH"

The National Dividend Plan provides that the federal government's corporation income tax revenues be used for support of the Plan. As a result, the federal budget changes in size and/or composition. The Plan represents a new program for the federal government to handle. Federal receipts and expenditures are projected in Chapter IV for the period 1972 to 1991 under the assumption that the Perry proposal is not implemented. Table 5.1 illustrates the size of the projected federal expenditures crunch 1975-1991 assuming the Plan is fully implemented in 1975 and using A Series data. Projected total federal expenditure for 1975 equals $310 billion, while the projected NDP expenditure allocation is $33 billion which leaves $277 billion to be distributed among all federal programs other than the Plan. Thus, for 1975 A Series data indicates that there is a $33 billion federal expenditure deficit. The size of this deficit expands to $45 billion in 1980, $63 billion in 1985, $89 billion in 1990, and $96 billion in 1991. Table 5.2 shows the same information as Table 5.1 but for B Series data. Projected total

TABLE 5.1

Projected Federal Expenditure Crunch Resulting From the National Dividend Plan, A Series, 1975-1991, in Billions of Dollars

Year	Projected Federal Expenditures	Projected NDP Expenditure Allocation	Projected Federal Expenditures Net of NDP Allocation
1975	310	33	277
1976	341	35	306
1977	375	37	338
1978	412	40	372
1979	453	42	411
1980	499	45	454
1981	548	48	500
1982	603	51	552
1983	664	55	609
1984	730	58	672
1985	803	63	740
1986	883	67	816
1987	972	72	900
1988	1,069	77	992
1989	1,176	83	1,093
1990	1,293	89	1,204
1991	1,422	96	1,326

TABLE 5.2

Projected Federal Expenditure Crunch Resulting From the National Dividend Plan, B Series, 1975-1991, in Billions of Dollars

Year	Projected Federal Expenditures	Projected NDP Expenditure Allocation	Projected Federal Expenditures Net of NDP Allocation
1975	287	31	256
1976	311	32	279
1977	336	33	303
1978	363	34	329
1979	393	36	357
1980	424	37	387
1981	458	39	419
1982	495	41	454
1983	534	43	491
1984	577	45	532
1985	623	47	576
1986	672	49	623
1987	725	52	673
1988	782	55	727
1989	844	58	786
1990	910	61	849
1991	981	64	917

federal expenditure for 1975 is $287 billion, while the projected expenditure on the Plan equals $31 billion which leaves $256 billion to be distributed among all federal programs other than the Perry proposal. This indicates that B Series data reveals a $31 billion federal expenditure deficit. The size of this deficit increases to $37 billion in 1980, $47 billion in 1985, $61 billion in 1990, and $64 billion in 1991.

Expenditure Substitution

There are a number of ways for the federal budget to adjust to finance this new program. It is clear that either projected increases in pre-NDP programs must be reduced, eliminated, or reversed; or, total federal expenditures must be increased. Tables 5.1 and 5.2 indicate that the size of the alteration in the federal budget totals between $31 and $33 billion for 1975 and increases each year. All of this need not be reallocated, however, if the Plan is substituted, either wholly or in part, for one or more federal functions being financed prior to the Plan's implementation. The proposal lends itself to a number of possibilities. One of these, for example, involves income redistribution.

Expenditures in this area show increases over the period 1963 to 1971.[1] Projections for federal outlays on

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[1]This was discussed briefly in Chapter II. Detailed data are available upon request.

income security over the period of 1972 to 1991 show the results if this trend continues.[1] Low estimates (B Series) provide for federal outlays of $298 billion in 1991 while high estimates (A Series) show expenditures of $867 billion for the same year.

Costs and Benefits

Replacement of some part of one or more of the federal government's income security programs involves several costs and benefits. In order to see these aspects of the substitution possibility of the Plan, it is necessary to consider the costs and benefits of the transfers proposed by the National Dividend Plan. Once the proposed transfers are examined by themselves, then the possible replacement of the Plan for other income security programs is clarified.

The Perry proposal involves a number of income transfers taking place. On the individual level, those who receive the transfers benefit and those who pay them are injured. The total cost involved in the redistribution of the NDP is comprised of the transfers themselves and the administrative cost of distributing them. The size of the transfers is discussed at a later point in this chapter. The cost of distributing these funds under the National

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[1]Mentioned in Chapter II and detailed data are available upon request.

Dividend Plan is relatively small since the system proposed employs the existing Social Security structure to administer the payments. Compared to other proposed and existing distribution systems, this proposal is small in cost. The total cost to society of the Plan equals the sum of these two costs: the major cost is that of the transfers themselves, and the other is the administrative costs which are so small that they make no significant addition to the total cost. Thus, the cost equation is

$$(1) \quad C_{NDP}^{US} = T_{NDP}^{US} + AD_{NDP}^{US} ,$$

where C_{NDP}^{US} is the total cost of the income redistribution aspect of the NDP, T_{NDP}^{US} is the size of the net transfers involved, and AD_{NDP}^{US} is the administrative cost of the program.

The major benefit from this program is the same as that from any redistribution system. Psychological factors (P_{NDP}^{US}) exist which yield satisfaction to many in the nation when the poor are made relatively better off. Such factors may well be the largest value of the redistribution aspect of the Perry proposal, but, of course, the measurement of this value is an impossible task. Another benefit involves the generally unfavorable results of the existence of the very poor; that is, beggars, city slums, and rural poverty may bother people by their existence. Thus, transfer payments may be seen as payoffs to reduce these externalities.

This can be represented as E^{US}_{NDP}. Finally, this system of transferring income to the poor acts to enhance their credit status, since each voter receives a yearly payment, represented as CE^{US}_{NDP}, which encourages creditors to lend to these poor families. The ability to obtain credit, if only a small amount, significantly increases the living standard of the poor family. Under the existing system, the poor do not have a yearly income that a potential creditor can rely upon for repayment. The inability to obtain credit severely reduces the living standard of the poor. Of course, as the size of the national dividend payments increases, the credit availability of the poor increases. Thus, this credit creation process is continually expanding.

Estimating the size of the total benefit of the income redistribution of the Perry proposal is an extremely difficult task. Assuming the three benefits discussed are the only benefits of significance, the total benefit B^{US}_{NDP}, to society can be represented by a simple additional benefit equation:

$$(2) \quad B^{US}_{NDP} = P^{US}_{NDP} + E^{US}_{NDP} + CE^{US}_{NDP}.$$

Comparison of the total costs (C^{US}_{NDP}) and total benefits (B^{US}_{NDP}) is not a simple task. The costs can be put in wide brackets. Estimates of the benefits involved cannot be refined even to this extent. Thus, no attempt is made to

support or oppose transfer payments being made by our society, whether the Plan or some other income security program is the instrument used.

Substitution

Now that the costs and benefits of using the National Dividend Plan as a transfer instrument have been discussed, the next step involves comparing such substitution to existing programs. Since the fact is, as previously noted, that numerous transfer payments are made in our society, the possibility exists that it may be advantageous to substitute the Perry proposal for some part of the transfer programs of 1971. The 1971 income security functions constitute a major portion of total federal outlays. This implies that considerable savings may accrue if the Plan is substituted to a greater or lesser degree for other programs that provide transfers to the poor and the old. In this way it can be separated from the question of whether transfer payments as such are justified. The substitution of the Plan for transfer programs of the 1971 type yields clear results with respect to which method is the best way to provide these programs.

Whether income redistribution is provided in the 1971 manner and/or by the NDP, the psychological (P^{US}_{NDP}) and externality (E^{US}_{NDP}) benefits are essentially the same. However, the Perry proposal, unlike the 1971 programs,

has an additional benefit. This involves credit creation for the poor. The existence of this aspect, if it is assumed to be of more than zero significance as a benefit, implies that under conditions of equal cost the Plan method is preferable. Consideration of the costs of these approaches indicates that they are not equal. Recall the simple cost equation (2) developed earlier. For purposes of substitution, the size of the transfer (T^{US}_{NDP}) is identical under each system. However, there is a difference in costs from the administrative side, since the 1971 system has a significant overhead. Large numbers of administrators are involved, as are enormous amounts of paper work and people to process them. In contrast to this, the National Dividend Plan involves almost no increase in paper or personnel since the Social Security System is utilized and only a small increase in size is required to handle these equal payments to voters. Besides the difference in administrative cost, the Plan does not involve one cost of the 1971 programs, which is the humiliating aspect of taking public assistance. Significant discomfort may be encountered by persons using such items as food stamps in public, if they feel this is embarrassing and/or degrading to them. The Plan avoids this difficulty by making equal payments to all, whether they are rich or poor. Summarizing, Perry's proposal provides credit creation for the poor, which is not accomplished by the 1971 system.

It provides this additional benefit at less administrative cost and without the dehumanizing aspects of other transfer programs discussed. Thus, it is clear that if the NDP were substituted for a portion of the 1971 security programs, then not only is an additional benefit obtained, but it is also obtained at a smaller cost to the nation.

The outcome of treating this Plan as an addition to the present system is not as clear. The question is that if all existing programs continue, should the NDP be added? The benefits and costs of the redistribution are impossible to measure precisely. Additionally, there is the problem of justifying transfers themselves. Yet, the Plan does allow for a reduction in the cost to our society of making transfer payments. Thus, if it is assumed that our society has a demand for the federal government to make transfer payments to the poor, then it does not seem unreasonable for the nation to desire more transfer payments when their price is reduced. Due to the difficulties of measuring the factors involved, no estimate of the increase in demand is attempted. Yet, it seems probable that some increase would take place if the Plan were approved.

Perhaps the most likely outcome involves a mixture of these--the 1971 type system and the NDP. Some substitution should take place. It seems unreasonable to maintain more costly transfer programs, or at least to expand them when a less expensive but equally efficient system is

available. The price of the redistribution is reduced by the National Dividend Plan. As a result, some increase in demand for redistribution takes place. Taken together, it seems reasonable to expect a portion of the Plan to substitute for 1971 programs, while the remaining portion goes for expansion of the redistribution now taking place.

Estimated Transfer Size

The preceding analysis reveals little information on the topic of employing the Perry proposal to provide additional income security for the U.S. society. It does indicate, however, that the Plan might be used as a viable substitute for at least a part of the 1971 income security programs of the federal government such as transfers to the old and the poor. This possibility of substitution stimulates a need for estimates of the size and direction of the NDP transfers. The projections and calculations made in Chapter II permits estimates of the income distribution of the Perry proposal to be made. If the Plan were accepted and began operation in 1975, the size of the national dividend payments would depend upon the length of the proposal's implementation period. The assumption of a five-year phase-in period results in the NDP being in full operation by 1980. Under this condition, payments for 1980 range between $235 and $283 per individual voting in the last preceding national election, as shown in

Table 5.3. For 1985 these payments are between $278 and $370 per voter, while in 1990 the voter receives from $343 to $503. Obviously, if the individual paid corporation income taxes of more than the national dividend payments size he receives, then he continues to bear a corporate tax burden, although it has been reduced. Conversely, if the payments he gets exceed his share of the corporation income tax incidence, then he no longer bears a tax burden, but receives an income transfer. In order to estimate the size of the transfers involved, projections of the corporation income tax burden distributions over the period considered (1980-1990) are necessary.

Distribution by Age

The National Dividend Plan proposes to make payments to all those persons voting in the last preceding election. Such a payment system is not required in order to obtain the redistribution portion of the Plan. This section of this chapter deals with one possible alternative system which would provide the transfer aspects of the NDP without the voting implications. Suppose a substitution is made for NDP payments to voters. As a replacement, payments might be made to all individuals 18 years of age or older. All other aspects of the Plan are maintained. The size and number of transfers remains, for all practical purposes, unchanged. Only those persons who would find it

TABLE 5.3

National Dividend Payments, Five-Year Implementation Period, A Series and B Series 1980-1990

Year	National Dividend Payments B Series	National Dividend Payments A Series
1980	$235	$283
1981	242	298
1982	250	314
1983	259	331
1984	268	350
1985	278	370
1986	288	392
1987	300	415
1988	312	441
1989	327	471
1990	343	503

impossible to vote once every two years for a payment of $500 or more would now receive payments when they did not previously. This one might estimate as less than one per cent of those eligible. Changes, however, are present. Such a system would eliminate the effects of the Plan on the size and composition of our country's electorate. Thus, it would separate the redistribution from the voting effects of the National Dividend Plan.

Summarizing, total federal outlays on income security increased from $24 billion to $56 billion over the period of 1963 to 1971. The sum involved in the NDP redistribution is almost $45 billion of corporate income tax. Estimated national dividend payments for 1980 average $283 per voter. It appears that the net transfers are substantially less than $45 billion. A simple cost-benefit breakdown reveals that the NDP is a substitute for existing programs possessing a lower cost. Thus, assuming society decides a certain amount of transfers should take place, the NDP is the best method of accomplishing at least a portion of the desired quantity of redistribution. A proposal to distribute NDP payments by age shows that it is a realistic way of separating the income redistribution aspects of the NDP from the voting portions. It appears that if income redistribution is desired, the Plan performs this function at relatively small cost and can be completely divorced from its voting aspects.

There are a number of other federal functions for which the Plan might be substituted. It could replace, at least in part, federal expenditures for community development and housing, for education and manpower, and for health. Of course, the Plan cannot be substituted for each of these federal functions simultaneously; however, it can replace part or all of one of these. In this way the size of the expenditure crunch resulting from the National Dividend Plan can be reduced.

Total Expenditure Maintenance

Taking the substitution factor into account, the alternatives for reallocation due to the Plan can be considered. If the assumption is made that the projected federal expenditure levels are not to be exceeded, then the distribution of reductions in projected increases must be decided. The first question to be answered involves the magnitude of the reductions needed. For 1975 projections show these totaling between $31 and $33 billion. Part of this can be substituted for part of an existing federal program such as income security. Assuming the Plan is implemented as supplementing the government's income security functions, then the total reductions needed would range between $28 and $30 billion.[1] As a

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[1]This figure qualifies as guesswork. The Edie Company estimated, in The National Dividend Plan: Feasibility Report, p. 111, that 5% of the households in the

substitute for some other federal function the total quantity of reductions may be less than this amount. Income security is used as a substitute simply as an example.

The data developed in Chapter II permits projections to be made for federal expenditures by function if the Plan is fully implemented in 1975. These projections take into account the funds that must be allocated to the Perry proposal, the substitution of the Plan for part of the federal income security programs, and the increased funds that are to be allocated for the Plan from 1976 to 1991. The basic assumption upon which these projections are based is that the marginal propensities for each federal outlay area remain the same, although the pie to be shared, the total quantity of expenditure increase, is smaller with the Plan in operation than it is if the Plan were not implemented.[1]

Projected federal outlays by function with the Plan fully implemented as of 1975 when contrasted to the projections made earlier with the Perry proposal deleted,

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U.S. in 1975 have an income of less than $3,000 per year and 8% more earn less than $5,000 which totals 13%. Assuming that 10% of those who receive NDP payments lie below the 1975 poverty level since it should increase past its $3,600 level of 1972, then between $3.1 and $3.3 billion can be alloted as substitutes to income security programs. This leaves reductions ranging between $27.7 and $29.9 billion.

[1]This seems to be a somewhat neutral approach to making these projections. Arguments can be made that the existence of a smaller pie has stronger effects on one expenditure area than another. Such debates I leave to the reader.

indicate that the Plan results in a shift downward of each expenditure curve. In all instances the initial drop of $31 and $33 billion over the assumed implementation period (1973-1975) is the largest set of reductions. This could be eased as the Plan's proponents suggest, with a longer period (5 years) for the Plan to be put into full effect. Once fully implemented, the Perry proposal continues to take funds from projected increases. These range from $1 to $7 billion, depending upon whether A Series or B Series data is considered and the year involved. Federal outlays (A Series and B Series projections) by area for 1975, 1980, 1985, and 1990, respectively, both prior to the National Dividend Plan and after its full implementation show that government expenditures on national defense for 1975, using A Series data, are projected to be $98.2 billion instead of $109.9 billion as a result of the Plan, a difference of $11.7 billion. Similarly, the 1980 projection is $157.7 billion, not $172.1 billion; the 1985 estimate is $250.4 billion instead of $272.3 billion; and the 1990 projection equals $403.6 billion, not $443.5 billion.[1] Similar

[1]Estimates were computed using the same procedure and propensities as in Chapter II. Deductions for the NDP were made from the total outlay estimates for each year. In 1975 a deduction of $31 and $33 billion were made from the total federal expenditures. Once outlays were allocated the substitute portion, $3.1 and $3.3 billion, for 1975 was subtracted from income security outlays. Thus, it is assumed in these projections that part of the federal propensity to consume security is satisfied by the Plan.

results may be derived using both A Series and B Series data for federal expenditures on international affairs, natural resources, veterans' benefits, general government, commerce and transportation, space research, agricultural and rural development, community development and housing, education and manpower, health, and income security, in addition to national defense. Summarizing, the Plan's implementation alters projected federal outlays by function by shifting them downward if total federal expenditures are to be maintained at their projected levels. However, this need not be the case.

Total Budget Alterations

The total federal budget may not be maintained at its projected levels in order to relieve the shrinking of the expected pie, expected expenditure increases, just discussed. One possibility is to increase total federal expenditures without increasing federal receipts. The results of such an approach in terms of federal budget projections taking into consideration substitution of the Plan for a part of the federal income security programs show that total projected federal outlays, using A Series for 1975, expand from $310 to $340 billion, while those for 1980 increase from $499 to $539 billion. In 1985 these outlays increase from $803 to $860 billion and those for 1990 expand from $1,293 to $1,373 billion. Increases also are seen when

B Series data is used: 1975 total projected federal expenditures are $315 billion instead of $287 billion; 1980 expenditures equal $457 billion, not $424 billion; 1985 outlays increase from $623 to $665 billion, and 1990 expenditures expand from $910 to $965 billion. Similar increases are shown for the other years over the period of 1975 to 1991. If total federal revenues are not expanded, then these increases in projected total federal expenditures act to increase the projected budget deficits.[1] These projected deficit increases amount to between $28 and $30 billion for 1975, between $33 and $40 billion in 1980, $42 and $57 billion for 1985, and between $55 and $80 billion for 1990.[2] Another possibility is to increase taxes to the point where total projected federal receipts expand to cover the increases in federal expenditures resulting from the National Dividend Plan without altering the projected differences in total federal budget revenues and outlays. This requires increased revenues of the size noted previously as expanded outlays.[3] Finally, there is the alternative of mixing these possibilities. When the Plan is implemented, reductions in projected increases take

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[1]These deficit projections are obvious when projected outlays and revenues are compared by series.

[2]This was discussed in Chapter II.

[3]Expanded federal receipts must total between $28 and $30 billion for 1975, between $33 and $40 billion for 1980, between $42 and $57 billion for 1985, and between $55 and $80 billion for 1990.

place in pre-NDP federal programs, total projected federal expenditures expand, and total projected federal revenues increase. Such a mixture spreads the burden of the introduction of the Plan, thus lessening its effect on each area. In this way it may serve as a compromise solution for financing the Perry proposal's implementation. On the other hand, such a mixture may raise the political ire of those who want large increase in pre-NDP programs which are not forthcoming, of those who oppose deficit spending, and of those who oppose tax increases.[1]

Summary

There are a number of ways to finance the implementation of the NDP. First, however, the fact that the Plan can be substituted for part of pre-NDP programs is noted. The example of substitution for part of pre-Plan income security programs is discussed. One of the ways of financing the Perry proposal involves maintaining projected budget revenue and expenditure totals, which means reductions must be made in the projected increases of pre-NDP programs. Estimates of these adjustments are computed using the data developed in Chapter II and are compared to the pre-Plan estimates. Another possibility is simply to expand projected total

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[1]Such a mixture can easily be projected from the data developed in this study to this point. So many possibilities exist, depending upon the political pressure assumptions made, that I leave this to the reader's own efforts.

federal expenditures while holding revenues and pre-NDP outlays constant. Similarly, taxes can be increased as an alternative which permits pre-NDP outlays and total budget deficits to be maintained. Finally, a brief discussion of the possibility of mixing these alternatives is presented.

CHAPTER VI

NONTAXABLE DIVIDENDS

Another major provision of the National Dividend Plan provides that dividends issued by corporations become nontaxable income. A number of superficial effects are obvious. Assuming no change in the amount of dividends paid by corporate enterprises, individuals owning stocks and receiving dividends benefit by the sum they previously would have paid in taxes on these earnings. The size of this gain for each person depends upon his income level as a result of progressive taxation, since the higher the tax bracket applicable to the individual, the more tax he pays on additional income. Another factor affecting the gain from this change in tax laws is the total amount of dividends since those persons receiving large dividend payments have had the tax burden they pay reduced to a greater degree than those receiving small dividend earnings. Dropping the no change assumption with respect to dividends and, all other things being equal, those persons receiving no dividend income remain unaffected, yet these individuals might take advantage of the new tax laws by buying stocks from which they would receive dividends.

The extremely wealthy can invest heavily in the stock market, making large purchases which return a sizable dividend income. An additional shift can be seen if one considers public goods provision. Suppose the assumption is made that the tax on dividends which is eliminated was used to provide pure public goods. This type did represent a transfer from corporations to those other individuals in the economy.[1] When this tax is eliminated one obvious result is the reversal of this transfer situation.[2]

The superficial effects just discussed yield the impression that this aspect of the National Dividend Plan is simply a wealth transfer to the rich. That is, this action reduces the tax burden faced by individuals possessing a large number of shares of stock in the nation's corporations and receiving large amounts of income in the form of dividends. Perry argues that such a transfer is justified due to the double tax aspect of the existing dividend tax provisions. This commonly-made argument simply states that the investment earnings that an individual receives are subject to both the corporation income tax and the personal income tax. The Perry propcsal,

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[1]The distribution of this transfer (tax) burden borne by the corporations depends upon incidence and prive effects discussed briefly in Chapter IV. Once this burden is distributed then the "other individuals" in this statement are clarified.

[2]This is, of course, a disequilibrium situation and an incomplete analysis since the price of loanable funds (returns to stocks) will have to adjust.

according to its proponents, eliminates this injustice of double taxation of one form of income. Obviously, such a position ignores compensating tax factors such as investment credits which exist in the present system. Thus a cursory examination of this provision of the Plan leads one to observe: as a result of double taxation being eliminated, a wealth redistribution takes place.

Corporate Reaction

This proposition of the National Dividend Plan (providing for the nontaxability of dividend income) has a multiplicity of effects on corporation decision-making. One of these deals with the way in which corporations are financed. For many years most corporate entities used profits earned and allocated to retained earnings as a source of funds for the replacement of depleted equipment and for the company's expansion. During the 1960s firms began to turn to borrowed funds to finance these activities in part. One reason for this is the general change in the attitude of businessmen toward loaned capital. The fact that a corporation used large quantities of borrowed money no longer implies a weakness in a firm, as it once did to many persons in the business community. Another reason is the fact that under the present system corporations are allowed to deduct from their taxable income interest payments on borrowed capital. There is no such deduction for

dividends. Thus, payments made by corporations to their stockholders in return for the use of their money as equity capital is not deductible.

Consider the fact that this situation is altered by the nontaxability of dividends provision. Interest payments on borrowed capital remain deductible for corporations, while dividends are nontaxable income to those who receive them. Now the corporation need pay less in dividends to give its stockholders the same amount of after-tax income. Clearly, if before the Plan is implemented one pays a 50 per cent tax rate on a dividend income of $100 from a $2,000 investment, his after-tax return on his investment is $50. The corporation is paying a 10 per cent return on equity capital and the investor is receiving a 5 per cent after-tax return. Suppose the firm borrows the $2,000 it desires rather than using the equity process. Using the same 50 per cent tax rate, the investor might once again receive an after-tax rate of return of 5 per cent and the corporation might pay a 10 per cent rate. The equilibrium quantities of equity and borrowed capital used by a business depend upon the deductibility factor, business attitudes, and the availability of each type of funds. For the example just discussed, a firm would obviously prefer to borrow funds since they are deductible (assuming a neutral attitude toward the characteristics of a

sound business).[1] Once the Plan is implemented, the investor who receives dividend income obtains a 10 per cent return on his $2,000 investment while the corporation still pays the previous 10 per cent rate. This means that the corporation could pay a lower rate (say, 6 per cent) in dividends and still allow the investors to receive a higher percentage--6 per cent. Such an alteration of the relative prices of funds to a corporation clearly changes the equilibrium quantities of borrowed and equity funds used. Ceteris paribus one would expect the amount of equity financing and the total amount of financing to increase.[2] What happens to the quantity of borrowed financing depends upon the degree of substitutability between these two methods of financing in the minds of corporate managers. Figure 6.1 should help to clarify this point. Curves I_1, I_2, and I_3 simply represent the corporate manager's indifference between each type of financing, equity and loan. Line R_1R_1 indicates the relative prices between the two financing methods before

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[1]This example is highly simplified for purposes of pointing out the change which results from the nontaxability provision. Due to the differences in risk and many other factors, one might suspect that the interest rates would vary at the equilibrium position.

[2]One could imagine conditions under which the quantity of equity financing and of total financing would remain the same. For example, when the supply of equity funds and the supply of total funds are infinitely inelastic. Clearly, however, this is an improbable situation.

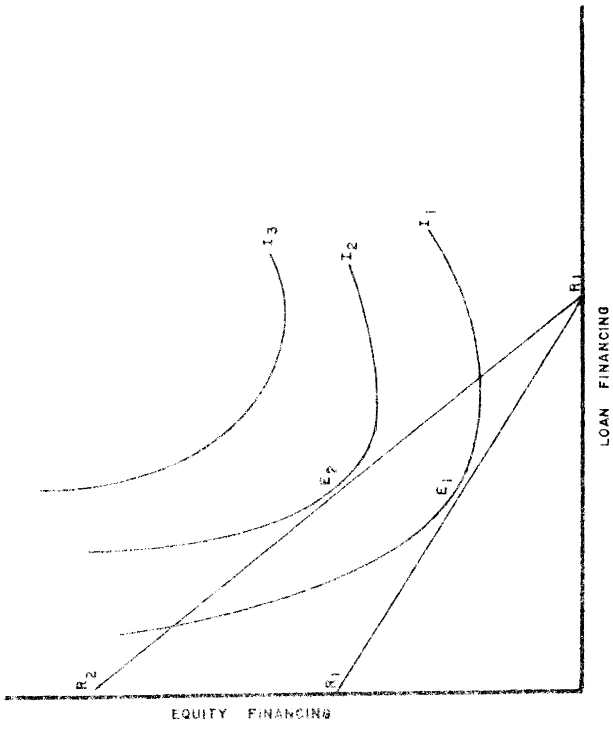

FIGURE 6.1

CORPORATE FUNDING EQUILIBRIUM BEFORE AND AFTER IMPLEMENTATION OF THE NATIONAL DIVIDEND PLAN

the Plan is implemented, resulting in an equilibrium at point E_1. When the Plan becomes effective, the new relative prices are shown by R_1R_2 and the new equilibrium by E_2. In the case of this example the total quantity financed, the quantity of equity financing, and the quantity of loan financing each increase. Clearly, the effect on the quantity of loan financing depends upon the shape of the corporate manager's indifference curves. Using normal assumptions and the foregoing elementary analysis, one might predict that the nontaxability of dividends provision of the Perry proposal would result in an increase in total corporate financing, equity financing, and perhaps in loan financing.

This prediction has a major flaw, however, in that it neglects to take into account the effect on stockholders.[1] The nontaxability of dividends establishes a preferred type of income. The stockholder faces a choice between a quantity of funds being obtained by means of the firm taking out a loan or through equity means. Firms can obtain equity funds by issuing additional stock or by the reinvestment of undistributed profits. It has been mentioned that interest on corporate loans is tax deductible. Prior to the National

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[1]This holds true when it is assumed that stockholders have a significant effect on corporate decision-making as a result of their voting power or because those managing the corporation are also major stockholders and thus share their perspective.

Dividend Plan's implementation, dividends on stock issued were not tax deductible to the corporation and were taxable income to the individual. Generally speaking, one would expect the stockholder to prefer reinvestment of undistributed profits since he pays no tax on this income and it increases the value of his stock. Referring to the earlier example, if the individual stockholder pays a 50 per cent tax rate and receives $200 in before-tax dividend income, he nets $100 in after-tax income from this source. On the other hand, if he has this reinvested in the firm it is an investment of $200 since it is not taxed.[1] Once undistributed profits are used up, loans seem preferable since interest on them is tax deductible and they do not dilute the value of each existing stock share as the issuing of new stock would dilute them. Once the Plan is in effect funds become much less expensive when the firm issues stocks. The reinvestment of undistributed profits no longer avoids a tax, thus a $200 reinvestment costs the stockholder $200 in the foregoing example.[2] Loans are now relatively more expensive. It is not clear the degree to which a stockholder prefers diluting his stock and thus his dividends to the more expensive source of loans.

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[1] In these comparisons I am assuming equal costs to the corporation.

[2] This presumes that stockholders do not look ahead to the point that they reinvest to have larger dividend income in the future.

Table 6.1 summarizes the incentive alterations to corporations (managements) which result from Perry's plan. Prior to the Plan's implementation, the pre-NDP ratings illustrate that it is assumed that the least expensive way for the corporation to obtain funds to take care of depreciation and expansion is to use undistributed profits. Interest payments are not required on these funds, equity is not diluted, and dividends need not be increased.[1] Stockholders benefit indirectly by an appreciation of the value of their shares. Once the National Dividend Plan is put into effect, these conditions do not change from the corporate manager's perspective as manager.[2] Before the Plan is implemented, loans are a less expensive source of funds since interest payments on them are tax deductible while dividend payments on stock are not deductible. The relative prices change when dividends become nontaxable. This nontaxability is a bigger advantage than interest tax deductibility and thus issuing stock should become more desirable than borrowing in the eyes of the corporate management. Table 6.2 shows the alterations as seen by corporation stockholders. Prior to the Plan, the most desirable source of funds for replacement of depreciation and growth from the stockholder's

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[1]Dividends need not be increased at the same time as reinvestment is taking place. Obviously, later profits require new decision by the firm.

[2]Clearly his perspective may change as a stockholder.

TABLE 6.1

Probable Incentive Changes to Corporations Resulting from the National Dividend Plan

Funding Source	Change from Corporate Manager's Perspective	Pre-NDP Rating	Post-NDP Rating
Loans--tax deductible interest	Increase in price as funds source relative to issuing new stock	2	3
Profit reinvestment	NONE	1	1
Issue stock--dilutes equity and dividends	Decrease in price as funds source relative to loans	3	2

TABLE 6.2

Probable Incentive Changes to Stockholders Resulting from the National Dividend Plan

Funding Source	Change	Pre-NDP Rating	Post-NDP Rating
Loans--tax deductible	NONE	2	1
Profit reinvestment	Taxable dividends to nontaxable dividends	1	2
Issue stock--dilutes equity and dividends	Bigger after-tax dividend income	3	3

point of view is profit reinvestment. Assuming most shares of stock are held by those in high income tax brackets, stockholders prefer the indirect benefit of stock appreciation since they can take this income in the form of capital gains and pay a lower tax rate on it. When this proposed provision goes into effect, dividends are preferable to capital gains. As a result, these stockholders prefer the corporation borrow funds rather than use their nontaxable income. This reverses the first and second preferences of stockholders since before the Plan it is preferable for the firm to use taxable profits before they are distributed rather than borrowing funds. Issuing stock is the least preferred alternative before the Perry proposal, from the stockholder's perspective since dividends are not tax deductible while interest payments on loans are deductible. Once the Plan becomes effective, this is altered but the dilution of equity is more important since dividends become nontaxable. Assuming that stockholder preferences dominate as a result of their voting control of a firm and/or because the corporate management consists of large shareholders, then the earlier prediction of increased equity and total funding needs reconsideration. Although the relative price of loan funding increases and the relative price of equity funding decreases, corporations may continue to prefer loans as a source of funds. Figure 6.1 is deficient in that it only takes into account the change in relative prices which

result from the nontaxability provision of the National Dividend Plan. Clearly, the changes in incentives just considered alter the shape of the corporate manager's funding indifference curves. Thus, the intuitive presumption that as a result of a reduction in cost, investment increases, is not justified; in fact, the counter-intuitive result of a decrease in investment may take place.

This lack of clarity pertains only to the financing of existing firms. An increase in investment return, the act of making dividends nontaxable, stimulates the creation of many new corporations. Similarly, the corporate form of doing business in itself takes on new significance. The elimination of dividend taxes means that existing proprietorships and partnerships can escape personal income taxes they now pay by becoming corporations and distributing profits by means of dividends. Another effect of this provision of the Plan has to do with the methods used to pay salaries of their workers. One would expect that many persons, especially those having high incomes, might prefer to have their salaries paid, at least in part, in stock options. Obviously, the resulting dividend income is preferable to highly-taxed salary income to many workers. The corporation, on the other hand, will not desire to distribute shares of its stock since its stockholders do not want to have their equity diluted or their dividends spread over shareholders. As a result, it appears that

not only will new stock options not be forthcoming but also that those now in use may be dropped.

Although it is not clear that when this proposed provision is put into effect total investment will increase, it is certain that many new corporations will be created. Shareholders in existing corporations will attempt to maintain or increase their dividend income from this source by having the firm use borrowed funds. Additionally, they will halt the distribution of new shares if at all possible. Then they and new investors will invest in new enterprises in the hope of obtaining more preferred income--dividends. Such an increase will, in all probability, not be confined to new areas but will also involve older established areas. The entry of these new firms combined with the tendency to reduce reinvestment in established businesses and a viable merger policy should act to increase competition. Clearly, the increased competition will appear according to where the new corporations spring up, which will result from the entry barriers established by existing firms.

Finally, the preference of corporations to borrow funds for replacing depreciated material and expansion once the Plan is implemented acts to raise the interest paid on funds from this source. Concurrently, high-income individuals act to redirect their investment funds out of the loan area and into corporations in order to take advantage of the nontaxability provision of the NDP. This leaves the

way open for the lower-income groups to make large returns by lending their money and paying a tax on their return. Due to the fact that additional income for individuals in these groups is taxed at a lower rate than such income is for those in the high brackets, those in the low-income groups may make more after-tax income by lending their money and paying tax than by owning corporate shares and receiving dividends that are not taxed. For example, suppose a low-income individual pays a 10 per cent tax rate on any additional income he gets up to $1,000. If he invests $100 in stock he gains a nontaxable dividend income of 10 per cent or $10 in one year, while lending it in the form of a short-term bond he receives 15 per cent or $15 per year interest income before-tax which leaves $13.50 after-tax income. He is better off taking the short-term bond. On the other hand, a high-income individual paying a 50 per cent tax rate on any additional income up to $1,000 would receive the same $10 per year if he invests $100 in stock since it is nontaxable under the Plan. Using a short-term bond he receives the same $15 per year interest income before-tax, which leaves him $7.50 after-tax income. This high-income person is better off investing in stock. Thus, the incentives for low-income individuals to get involved in the lending process are heightened by this provision of the Perry proposal.

Stock Market

The nontaxability has a number of effects on the stock market. In fact, it alters the nature of the market of today. An initial result is a significant increase in the price of stock shares since dividend income is highly desired. During price adjustment considerable trading may take place but once an equilibrium level is reached the volume of trades should decrease. This follows from the fact that the number of persons investing in the stock market in order to take advantage of capital gains provisions is considerably reduced. It is much more advantagious to go for nontaxable dividend income. Thus, although there may be a large amount of bidding for shares and many stocks for stock exchanges, the volume of shares bought and sold should be significantly less than the quantity traded prior to the Plan's implementation. In net, the volitability of the stock market is reduced by this nontaxability of dividends provision. Shares are held by high-income individuals interested in dividend income in the new equilibrium achieved after this proposed provision is put into effect. This being the case, these new shareholders are liable to ignore the numerous economic disturbances which affect the stock market prior to the Plan's being put into effect.

Another result is a change in the growth perspective toward stock evaluation. When many investors are

principally interested in stock shares as a means of obtaining capital gains income, then the growth record of a firm becomes an important criterion for the evaluation of investment stocks. Growth of a corporation yields an appreciation of its stock. With a new group of investors who are interested in dividend income once the Plan has been put into effect, a firm's dividend record becomes more important than its growth record. Thus, a new stock investment criteria may be established as a result of the Plan. Finally, new shares offered on the market enter at relatively high prices when compared to the initial prices of new shares during the pre-NDP period.

Summary

This chapter begins by noting the most obvious first reactions one might have to Perry's proposal to make dividends a nontaxable form of income. These are not this provision's only effects. Another has to do with the alteration of the individual's portfolio decision. Corporate reactions to the National Dividend Plan's implementation as it concerns the equity versus loan financing question is examined. It is noted that if shareholders' preferences dominate, corporations may continue to prefer loans as a source of funds even though the relative price of loan funding increases and the relative price of equity

funding decreases. Finally, the effects of the nontaxability of dividends provision on the stock market are considered. Several alterations are pointed out, such as an initial increase in share values and a change from the pre-NDP growth perspective on stock evaluation to the post-NDP dividend perspective.

CHAPTER VII

PAYING VOTERS

The National Dividend Plan provides that payments be made to each individual who votes in the preceding national election. This process has pronounced effects on whether the individual decides to vote or not. In order to obtain some insight into the effects of voter payments, one must consider the voting decision. One approach to this problem involves an examination of the factors which affect the individual's decision to cast his ballot or to refrain; that is, consideration of the individual decision-making process.[1] Anthony Downs in his book, An Economic Theory of Democracy, discusses this type of approach to the voting decision.[2] Gordon Tullock refines the analysis in his book, Toward A Mathematics of Politics.[3] Each person

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[1]Other approaches to the voting question are in abundance in traditional political science literature. For example, The People's Choice by Paul F. Lazarsfeld, Bernard Berelson, and Hazel Gaudet (first published in 1944 by Duell, Sloan and Pearce; its third edition was published in 1968 by Columbia University Press) is typical of what might be referred to as the traditional voting analysis.

[2]Anthony Downs, An Economic Theory of Democracy (New York: Harper and Row, 1957), pp. 36-50.

[3]Gordon Tullock, Toward A Mathematics of Politics (Ann Arbor: University of Michigan Press, 1967), Chapter 1.

is pictured as facing a cost-benefit decision in which his behavior is assumed to be directed toward maximizing his own utility. When the cost of an action exceeds the benefit to be accrued from it, the individual refrains from acting while when the benefit exceeds the cost, he acts.[1]

Size of the Electorate

Perceiving the voting decision from this cost-benefit perspective allows one to assume that people do not vote for one of two reasons: (a) they are indifferent between the candidates, or (b) they are not indifferent but the expected costs of voting exceed the anticipated gains. Paying voters obviously alters the voting decision equation by adding to the benefit side. This benefit increase may be so significant as to not only overcome the costs of voting to those who expect some other benefits from this action, but also to those who are indifferent between candidates. Thus, the logical conclusion is that the national dividend payments increase the number of people voting in the U.S. national elections. An increase in the number of U.S. voters (an increase in the size of the electorate) involves a number of costs and benefits. These items deserve attention when a proposal such as the National Dividend Plan involves

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[1]The basis of this theory of behavior lies in the concept of rationality upon which it is based. Detailed discussion of this point is available in James M. Buchanan, Public Finance in Democratic Process (Chapel Hill: The University of North Carolina Press, 1967), pp. 8-10.

expansion of the U.S. electorate. The question to be answered involves the costs and benefits of this voting aspect of the Plan assuming the remainder of the Perry proposal is to be implemented. That is, what are the differences in the costs and benefits of this voting distribution system as opposed to some other system, such as distribution on a per capita basis.

One of these costs involves administrative expenses. An increase in the number of voters in the United States represents an increase in the cost of holding an election. The addition of millions of voters can be a significant cost, even if the cost of handling each vote costs very little. Additionally, there is the cost of a decrease in the value of each person's vote in national elections, which results from an increase in the number of persons making up the electorate. The Shapley value approach can be used to clarify this effect.[1] On this basis, the existence of an (N) size electorate means that each vote has a value of 1/N. Suppose the Plan increases the number of voters by M. This results in a new electorate of N + M, and a new vote value of 1/N + M. Since N + M is greater than N, where M is positive, 1/N is greater than 1/N + M. Thus, an expansion of the electorate by M decreases the value of one vote by

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[1]Duncan Luce and Howard Raiffa, Games and Decisions (New York: John Wiley and Sons, Inc., 1957), pp. 245-250 and others.

$1/N - 1/N + M$. Clearly, if the U.S. voting population is expanded, those who are new voters receive the new value of one vote, while those who were voting before the Plan lose $1/N - 1/N + M$.

Questions have been raised as to the relevance of the Shapley value approach. Charles Goetz suggests that voting coalitions are not randomly formed as is assumed in the Shapley approach.[1] A determined or even partially limited method of coalition formation alters the value of a vote to each individual. Under such an assumption of established coalition formations, the distribution of vote value loss is not equally distributed.[2] Regardless of the distribution of the cost of a vote's reduction in value when the electorate is expanded, such a cost is incurred.[3] Generally, one expects this cost to be relatively minor for the U.S. voters if the Shapley approach is taken. For example, suppose there are a million voters in the electorate, then one vote is valued at 1/million. If the electorate expands by a million, doubling to two million voters, then one vote is valued at 1/(two million). Obviously, the

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[1]This point has been made by Professor Goetz in informal discussions.

[2]Under such conditions each voter's probability of being the median voter may differ. Changes in the number of voters results in losses according to these probabilities.

[3]One obvious exception occurs when new voters are added in such a manner as not to affect the individual whose probability of being the median voter is one, while all other voters' probabilities of being the median voter is zero.

difference, 1/million - 1/(2 million), is such a small number that it is a relatively small number even though the electorate has doubled in size.[1] Taking the Goetz objection into account implies that one individual, the median voter, or a small number of persons, median voters, feel significant costs from an increased franchise.[2] Summarizing, the cost of increasing the number of voters is equal to the tax price, the administrative cost of the increased number of voters, plus the decrease in the value of the individual's vote. Only a relatively small portion will be added by the increase in administrative costs. The decrease in the value of the vote results in an increase in the size of payments necessary to obtain an expansion of the electorate.[3]

From the benefit side there are many people who encourage large voter turnout. This is not difficult to understand. A man running for political office will be all for large voter turnout if he feels those not already planning to vote are likely to vote for him. If he thought those on the borderline as far as voting goes would vote

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[1]For small number cases, a doubling of the electorate in size is much more significant.

[2]If an individual has a probability of one of being the median voter, and if the addition of a new voter reduces this probability to zero, the individual suffers a significant cost.

[3]This assumes that the basic voting system is already in existence.

against him, he might not be as enthusiastic in encouraging these people to vote. Similarly, those citizens favoring one candidate will encourage people to vote if they feel it will improve the chances of their man being elected. They may not be as happy to do this if they thought such action would decrease their man's probability of winning. It is not hard to see why such individuals would encourage voter turnout.

Another possible benefit might be referred to as psychological comfort. Some people may feel better when more people vote since it gives them the feeling that democracy is working. Alternatively, they may feel satisfaction in the knowledge that others feel some degree of political importance while living in our society. No matter what the reason behind it, the possibility that a benefit is derived by many individuals in this society is real and, therefore, noted here. Finally, there is the benefit of the proliferation of information. The members of our society may value an increase in information. They may desire to know how the overwhelming majority of people would vote. This they can find out by paying people to vote, or having society to do so. The total benefits from increasing the number of voters in our nation equals the sum of the political returns, the psychological value, and the information it supplies. It seems reasonable to assume that the total value of these total benefits is relatively small.

Once costs and benefits are recognized, the natural temptation is to follow the procedure used to analyze the individual's decision to consider the decision of society. As in the case of the individual's analysis, the costs and benefits have been laid out. The problem is that this would involve interpersonal comparisons of utility, and for that reason such a hypothetical comparison would serve no useful purpose. This is not to say that it is impossible to comment on the tradeoffs that exist. It only points up the idea that such comments must be made carefully. For one thing, we can employ the Pareto criteria. Costs of the move proposed are borne by members of society. This means that by definition society cannot make a Pareto move. Abandoning the cautious approach represented by the Pareto criteria, one might dare an additional comparison. Suppose the philosophy that states let the individual suffer for the good of society is adopted. Even using this approach the costs and benefits described seem to be relatively minute and evenly distributed.[1] Of course, this analysis considers the voting distribution system as one of many alternatives for achieving this portion of the National Dividend Plan. If this perspective is changed and this voting aspect is viewed as the sole objective of the Plan, then its costs are increased. The NDP payments which are

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[1]At least from the analysis performed in this study.

in excess of several hundred dollars per person dominate the cost-benefit discussion just completed. Abandoning the cautious once more, it seems clear that from this point of view the costs of this voting proposal heavily outweigh its benefits. Thus, such a process for encouraging individuals to vote may prove wise as an addition to the Plan when it might not as a program in itself.

The central question is, does the U.S. society wish to subsidize persons to vote? The foregoing discussion indicates that this may not be a desirable subsidy in a program constructed simply to achieve an increase in the number of voters. However, addition of a voting stipulation as part of a program such as the National Dividend Plan makes the obtaining of this objective less costly, and thus more appealing.

Compulsory Voting

The preceding analysis has indicated that payments to voters may not be a wise step. One alternative is to institute compulsory voting as a method of increasing voter participation. This could be accomplished at quite low costs in our present society. Passage of a law providing for a substantial fine or other penalty to be placed on those who do not vote should accomplish a tremendous increase in voter participation.[1] In this case, total cost

[1]Policing of such a law may involve some minor cost. Such a cost may result from investigation of those who claim

would not be the same as it was in the NDP payments example. Under a compulsory system, the tax price cost would be equal to zero. The administrative cost and vote loss cost would remain about the same. Thus, such a system would accomplish approximately the same increase in the size of the electorate at a lower cost. The cost is equal to the administrative cost plus a decrease in the value of each vote. The benefits would be the same as in the NDP case. The total cost of the compulsory plan would be almost zero. The administrative cost should be very small. If we assume that the total is not significantly different from zero instituting a system of compulsory voting may be a Pareto move. There is, however, another cost that has not been discussed. This has to do with the citizen's individual freedom. A law requiring people to vote alters the individual's choice set by placing a cost on his not voting. This cost may be much greater than zero. In fact, it may be considered so great that it completely overwhelms any benefits from a compulsory voting system.

Such a system has been implemented in many countries of the world. An example is the 1956 Electoral Act in New

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illness or some other acceptable reason for not voting. The validity of their claim must be investigated. The simple requirement of having a doctor's certificate to certify that the patient is incapable of going to the voting place would be a relatively low cost verification system.

Zealand which instituted compulsory voting.[1] Since it has been in operation in a number of countries for a number of years, compulsory voting is practical for implementation. It provides an increase in the electorate similar to that of NDP payments. The cost would, in most respects, be very small. Thus, one would suspect it would be unacceptable to the United States' society.

Composition of the Electorate

It is clear that the National Dividend Plan payments will increase the number of people voting in the U.S. national elections. Such a large change in the number of people voting alters the composition of the U.S. electorate. This alteration is the subject of this section. The approach employed involves the 1968 U.S. national elections and the composition of the electorate of that year. Next, it is hypothesized that the National Dividend Plan was implemented in 1968, and the electorate is considered once more. In this way, the changes in the composition of the electorate which result from the National Dividend Plan being put into operation are revealed.

It appears that people in our society are not, for the most part, interested in most public issues since it is quite possible to live comfortably in our society without

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[1]Robert Chapman, W. K. Jackson, and A. V. Mitchell, New Zealand Politics in Action (London: Oxford University Press, 1962), p. 7.

being politically concerned. Political activity is costly; it eats up time and energy. To be properly informed on the complicated issues of today takes much time and effort; thus, it is only in regard to a few issues that most citizens find it worthwhile to participate in politics. Differences in the degree of interest of individuals in politics has profound implications for political life; the interested tend to participate, go to public affairs meetings, and cultivate their access to public officials. People who are interested in politics tend to vote; those who are disinterested tend not to vote.[1] The better educated people are more active and interested in public affairs. The Republican party gathers disproportionate support from this segment of the population, while Democrats draw low turnout groups, but numerically greater than the typically high turnout Republican groups.[2] The NDP payments would alter this turnout situation, since almost everyone eligible would vote in national elections. Thus, those groups which have been traditionally low turnout groups would increase as a percentage of the electorate. This becomes clear if one examines portions of our society by group characteristics.

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[1]Robert Lane, Political Ideology (New York: Free Press of Glencoe, 1962), p. 167.

[2]Gerald M. Pomper, Elections in America (New York: Dodd, Mead Publishing Company, 1968), pp. 71-79.

Age

One characteristic by which voting often is analyzed is the age of those voting. Table 7.1 shows such a breakdown.[1] Three age groups are considered: age 21-24, age 25-64, and age 65 and over. The number of eligible voters (in 1968) in each class is given. These are compared to the values projected using the 99 per cent assumption. The estimated number of voters in 1968 as a percentage of the 1968 electorate each group comprises and the proportion of the total projected voters comprised by each age group are shown. Finally, the differences in the proportion of the total electorate held by each age group is noted. The 21-24 age group would have comprised approximately 3.6 per cent more of the electorate under full NDP implementation than it did comprise in 1968. Approximately, a 3.0 per cent reduction in the size of the electorate represented by the 25-64 age group would have taken place under the NDP. Finally, the 65 and over age group would have made up some 0.6 per cent less of the U.S. electorate. Thus, 3.6 per cent of the age composition of the electorate would have been altered.

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[1]Tables 7.1 through 7.6 are developed from raw data compiled by Richard M. Scammon and Ben J. Wattenberg and published in their book, The Real Majority (New York: Coward-McCann Publishing Company, 1970.

TABLE 7.1

Changes in Electorate by Voting Age, 1968 to Complete Implementation of the National Dividend Plan

Age	1968 Voters	Per Cent of 1968 Voters	Projected Voters[a]	Per Cent of Total Projected Voters	Change in Per Cents[a]
21-24	11,831	14.5	22,966	18.1	+ 3.6
25-64	57,067	70.4	85,600	67.4	- 3.0
65 and over	12,189	15.1	18,284	14.5	- .6
Total	81,087	100.0	126,850	100.0	0.0

[a]This ignores the 18-year old vote.

Family Income

Another variable of interest concerning the subject of voting is that of family income per year. Consider Table 7.2. Family income per year is divided into four groups: under $3,000, $3,000-$4,999, $5,000-$14,999, and $15,000 and over.

The changes in the electorate by family income group for the actual 1968 voting and the projected voting under the assumption that the NDP is completely implemented are shown. The estimates of the 1968 voters by family income group are listed. The percentage of voters in each group comprise of the total 1968 electorate is shown. The projected number of voters if the NDP had been fully implemented by the 1968 general election is given. The percentage of the total number of projected voters is listed. Finally, changes in the percentage of the electorate by family income group are listed.

The under-$3,000-a-year group gains 2.7 per cent of its size in the 1968 election if the assumption is made that the NDP were completely implemented before that year. Similarly, 2.3 per cent in size is gained by the $3,000-$4,999 group. The $5,000-$14,999 family income group loses 2.7 per cent in size of the projected electorate. Additionally, the $15,000-and-over group loses 2.3 per cent in size. Thus, the two lower income groups gain size, while

TABLE 7.2

Changes in Electorate by Family Income, 1968 to Complete Implementation of the National Dividend Plan

Family Income Per Year	1968 Voters	Per Cent of 1968 Voters	Projected Voters[a]	Per Cent of Total Projected Voters	Change in Per Cents
Under 3,000	6,098	9.1	11,279	11.8	+ 2.7
3,000- 4,999	8,443	12.6	14,411	14.9	+ 2.3
5,000-14,999	44,305	66.1	60,919	63.4	- 2.7
15,000 and over	8,154	12.2	9,609	9.9	- 2.3
Total	67,000	100.0	96,218	100.0	0.0

[a]This ignores the 18-year old vote.

the two upper family income groups lose size under the assumption of this section.

Race

The electorate can also be analyzed in terms of its racial composition. The estimated electorate composition. The estimated electorate composition for 1968 is compared to that which is projected under other conditions in Table 7.3. Two racial groups are employed: white and nonwhite. The numbers of voters in each group is given for 1968. Additionally, the percentage of the electorate comprised by each group in 1968 is given. Similarly, the number of projected voters had the NDP been fully implemented, and the proportion each group accounts for of the total projected electorate, are shown. Finally, the changes (differences) each group accounts for of the electorate are listed. Under the projected figures based on full NDP implementation, the white segment of the population would lose 1.7 per cent of its proportion of the electorate. The nonwhite group would acquire this addition to its portion of the electorate.

Education

The level of education of voters is of interest when one examines the way people vote. Educational level is considered in Table 7.4, where five educational groups

TABLE 7.3

Changes in Electorate by Race, 1968 to Complete Implementation of the National Dividend Plan

Race	1968 Voters	Per Cent of 1968 Voters	Projected Voters[a]	Per Cent of Total Projected Voters	Change in Per Cents
White	72,120	91.4	103,476	89.7	- 1.7
Nonwhite	6,728	8.6	11,894	10.3	+ 1.7
Total	78,848	100.0	115,370	100.0	0.0

[a]This ignores the 18-year old vote.

TABLE 7.4

Changes in Electorate by Education in Terms of Years of School Completed, 1968 to Complete Implementation of the National Dividend Plan

Education	1968 Voters	Per Cent of 1968 Voters	Projected Voters[a]	Per Cent of Total Projected Voters	Change in Per Cents
Elementary or less	6,695	22.0	30,126	26.1	+ 4.1
High School:					
1-3 years	3,269	16.0	20,225	17.5	+ 1.5
4 years	14,294	36.0	39,307	34.1	- 1.9
College:					
1-3 years	1,731	13.0	13,179	11.4	- 1.6
4 years or more	1,646	13.0	12,532	10.9	- 2.1
Total	27,635	100.0	115,369	100.0	0.0

[a]This ignores the 18-year old vote.

are specified in terms of the school years completed by those members of the group.

The 1968 electorate and the electorate projected under the assumption that the NDP was fully implemented before that election, and that 99 per cent of those eligible would vote once these payments were being made, are compared. The number of voters in each group in 1968, and each group's portion of the 1968 total electorate is listed. Similarly, the projected number of voters under full implementation of the NDP, and each group's percentage of the total projected electorate is shown. Finally, the differences in the portion of the electorate between the 1968 estimates and the projected figures are noted.

Those individuals in the group having completed elementary school or less of education gain 4.1 per cent in their portion of the electorate when the NDP is assumed to be fully implemented. The other group that gains is those having 1-3 years of high school completed. This educational group gains 1.5 per cent in representation. All three remaining groups lose some of the size of the electorate they possessed in the 1968 election. Those having completed 4 years of high school lose 1.9 per cent of their group's electoral size. Similarly, the 1-3 years of college group loses 1.6 per cent. The 4 years or more of college group loses 2.1 per cent of its previous portion

of the electorate when we change from the 1968 electorate to that projected.

Residence

Place of residence may also be a significant factor affecting the way people vote. Three categories are considered: central cities, suburbs, and small cities, towns, and farms. Comparisons of the estimates of the actual number of voters by place of residence in the 1968 presidential election to those projected under the assumption of complete NDP implementation before that election are shown in Table 7.5. The number of voters by place of residence group is given. Each group's proportion of the total 1968 electorate is shown. The number of projected voters under the assumption mentioned are noted. Additionally, the percentage each group comprises of the entire projected vote is listed. Finally, the change in each group that would have resulted under the NDP is noted. Central cities would gain 1.0 per cent in electorate size under the NDP payments assumption. Suburbs would lose 1.2 per cent of their electorate portion, and the remaining 0.2 per cent increase is received by the small cities, towns, and farms residential group.

Occupation

The last voting characteristic considered involves the voter's occupation. Four occupational groupings are

TABLE 7.5

Changes in Electorate by Place of Residence, 1968 to Complete Implementation of the National Dividend Plan

Place	1968 Voters	Per Cent of 1968 Voters	Projected Voters[a]	Per Cent of Total Projected Voters	Change in Per Cents
Central Cities	21,671	29.6	35,261	30.6	+ 1.0
Suburbs	26,064	35.6	39,738	34.4	- 1.2
Small Cities, Towns, and Farms	25,477	34.8	40,371	35.0	+ 0.2
Total	73,212	100.0	115,370	100.0	0.0

[a]This ignores the 18-year old vote.

considered: white collar, manual, farm, and others. Comparisons are made in Table 7.6. The four occupational groups are employed once more. The number of 1968 voters is listed by occupational category. Each group's proportion of the total 1968 electorate is shown. The projected number of voters under the assumption that NDP payments are being made is noted by occupational group. The percentage that the projected numbers of voters per group comprises of the total number of voters projected is shown. Finally, the difference in electorate portion held by each group in 1968 as opposed to that under NDP assumptions is listed. White collar workers would have lost 3.2 per cent of their portion of the electorate. Manual workers would have lost 0.3 per cent of their portion. Farm workers would have lost 0.4 per cent of their portion. The group described as "others" would gain some 3.9 per cent in their electorate portion.

Summary and Conclusion

This chapter has examined the potential effects of the implementation of the National Dividend Plan on the size of the U.S. electorate. An analysis of the individual's decision process when faced with the question of whether to vote or not leads to the conclusion that national dividend payments, when introduced into the individual's decision calculus, greatly increases voter participation. This

TABLE 7.6

Changes in Electorate by Occupational Group, 1968 to Complete Implementation of the National Dividend Plan

Group	1968 Voters	Per Cent of 1968 Voters	Projected Voters[a]	Per Cent of Total Projected Voters	Change in Per Cents
White Collar	13,911	19.0	18,280	15.8	- 3.2
Manual	30,749	42.0	48,065	41.7	- .3
Farm	2,196	3.0	2,957	2.6	- .4
Others[b]	26,356	36.0	46,068	39.9	+ 3.9
Total	73,212	100.0	115,370	100.0	0.0

[a]This ignores the 18-year old vote.

[b]This group includes those unemployed women (mostly housewives), men over 65 (mostly retired), and some other men not in the labor force.

expansion results in a number of costs and benefits which are discussed. Next, an alternate method for obtaining full voter participation was discussed. Such a system as compulsory voting is less expensive than NDP payments. The difficulty is that it results in a reduction in the individual freedom of the U.S. citizen.

Finally, such a large increase in the number of U.S. voters alters the composition of the country's electorate. Six voter characteristics were examined. The first divided citizens into three age groups. The results showed that the youngest group (21-24 years) would gain size, while the other two groups would be reduced in size. The greatest reduction occurs in the median group (25-64), and a small loss is seen in the oldest group (65 and over). Family income is considered. Four groups were constructed, based upon family income per year. The comparison shown in Table 7.2 indicates that the two lower income groups (under $3,000 and $3,000-$4,999) would gain in their portion of the electorate. The other two groups ($5,000-$14,999 and $15,000 and over) lose, each group having its portion of the electorate changed by about the same amount.

Race was studied, involving two groups: white and nonwhite. The white group had its portion of the electorate reduced. The nonwhite group gained that amount lost by the white group. Five groups were used to study the education of the electorate. Those possessing an elementary education

or less were the big gainers. The group having 1-3 years of high school completed gained a somewhat smaller increase in their portion of the electorate. All three remaining groups (4 years of high school, 1-3 years of college, 4 or more years of college) lost about the same amount of electorate strength.

The place of residence was considered. Three groups were constructed: central cities, suburbs, and small cities, towns, and farms. The central cities would have gained electorate strength. Small cities, towns, and farms would gain, but to a much lesser degree. Finally, the suburbs would lose the strength gained by the other two groups. The last subject studied involves four occupational groups. The results indicate that the category labeled "others" gains all the increase in electorate strength lost by the other three groups. The big loser is the "white collar workers" category. The remaining two groups lose a somewhat smaller portion.

Generalizing, if the National Dividend Plan were fully implemented, the electorate would become younger, poorer, less white, less educated, less urban, and less employed, since the many new voters encouraged by NDP payments to cast their ballots predominately have these characteristics. Such a change in the voting composition has several interesting implications. Individuals in these groups generally are assumed to be predominately in

the Democratic Party. This implies an increase in the number of traditional Democratic voters, thus increasing that party's probability of winning any individual election.[1]

Another implication is the probable shift in the median voter toward the additional voters' positions. The addition of large groups of people fitting in a particular part of the political spectrum acts to shift the median voter's status. This would not be the case if new voters distributed themselves randomly, but since they come from specific classifications having predominant interests in one part of the political spectrum the probability is that they will not distribute in a random fashion. One might also expect that income redistribution might take place since those being added to the voter population would have this as a primary interest. Clearly, those running for office would see this as a way of obtaining votes. Finally, one might expect the new median voter to desire less governmental goods since his income level is lower than the old median voter's. However, the burden of such goods should be easier to shift to the higher income groups since the low income voter population has increased as a result of

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[1]Of course, the other candidate or candidates can "court" those in the traditional Democratic groups, but they should have a more difficult task in winning votes from individuals in these groups than Democratic Party candidates.

NDP payments. Thus, the amount of federally-provided goods should increase as a result of the Plan.

Clearly, all of these implications are dependent upon implicit assumptions as to how the individuals in these groups will disperse along various issues and political spectrums. If one believes that the distribution of new voters added by the Plan is random, then obviously the political effects are nonexistent. However, these persons may have group interests, depending upon how one views the placement and intensity of these interests, numerous political implications can be derived.

CHAPTER VIII

SUMMARY

The National Dividend Plan proposes major alterations in the United States' tax structure. The presidential primaries of 1972 have emphasized the desire for a complete overhaul of our tax system. Voters appear ready to accept such sweeping changes. Proponents of the Perry proposal suggest that the alterations it provides in the tax structure yield numerous positive results. Perry emphasized the way the Plan enhances the capitalist system and the federal programs it would replace in his 1964 book. In the late sixties this perspective of the effects of the National Dividend Plan was widened to include many of the United States' social problems, such as the crisis of the cities. The National Dividend Foundation has actively promoted the Plan. Newspapers and magazines have discussed it, while congressmen have urged its serious consideration by the United States Congress. Surveys on the National Dividend Plan have been held in 1966, 1968, and 1972. The results show a highly favorable initial reaction to the Perry proposal among voters of varying characteristics. All of this encourages the academic investigation of this proposal.

The Plan has a significant impact on federal government revenues and expenditures. A review of past trends in this area reveals a vast expansion of both revenues and expenditures, particularly during the decade of the 1960s. Simple "ballpark" projections indicate that the federal government will continue to increase its dominance of the U.S. economy by becoming an increasingly larger actor in it. Even when strong constraints are hypothesized during the late 1970s and the 1980s, these estimates are, to say the least, overwhelming. The development of this data permits the examination of the effects of the Plan on the federal budget during the two decades of the 1970s and 1980s. The Perry proposal employs the corporation income tax as a source of funds. This form of taxation is less than highly desirable. The Plan acts to entrench it, however, at the same time the use of this tax tends to rejuvinate the profit motive. Thus, it seems to represent a countermeasure to the antibusiness and antiwork environment of the late 1960s and the 1970s.

Depending upon the perspective drawn, the National Dividend Plan may be used to substitute, wholly or in part, for numerous federal functions, for example the income security program. Additionally, there is the possibility of substituting the Plan (at least to some extent) for such federal programs as health and education.

This reduces the deficit effects of financing the Perry proposal. A number of financing methods are considered. If projected total federal expenditures are maintained, reductions in projected increases in pre-Plan programs take place and are estimated. The results under other assumptions are discussed also.

Another area where the Perry proposal has a significant impact involves dividends. Permitting these to be nontaxable may have numerous repercussions in the way individuals and corporations allocate their portfolios. This is a very complicated area, where final results are impossible to even estimate, but where many initial effects are clearly to be expected as a result of the Plan. Finally, there is the provision of the Plan which requires that the federal government distribute funds to all individuals voting in the last preceding national election. These payments affect the average voter's voting decision. Analysis using the Downs-Tullock approach implies that the U.S. electorate expands and its composition changes when payments of several hundred dollars are involved, as is the case upon full implementation of the Plan. If the 1968 presidential election is considered, and the assumption is made that the National Dividend Plan is fully implemented in that year, it is clear that they would be younger, poorer, less educated, less white, less suburban, and less employed. These

changes in composition result from assumed increases in the number of persons voting.

This study represents an investigation into the implications of the National Dividend Plan by considering each of its most significant provisions. These were treated individually and in detail. Yet, this proposal is a package of these provisions. Clearly, each major alteration has important implications. However, the objective of the Perry proposal does not seem to be the achievement of the individual effects considered. To this point, little other academic work has been done on what the analytical implications of this proposal are for our society. The objective of the Plan appears to be the rejuvenation of the profit motive. New life may be pumped into the idea that profit is a good thing by means of this package.

Opinion studies indicate that, in general, initial voter reaction to this proposal is highly favorable. As a package, the Plan appeals to most voters. Of course, all provisions are not favored to the same extent. However, the favorable aspects seem to outweigh the unfavorable in most cases. Extremists appear to comprise the opposing forces--individuals who find themselves unable to accept the redistributive aspects of the Plan, persons feeling the dividend features are unacceptably beneficial to the wealthy. Finally, there are those who maintain the Plan misdirects federal priorities from desirable goals. Taken as a package, the

Plan is acceptable to most Americans, but subject to strong attack from those on the extremes of the United States' political spectrum.

Clearly, the United States needs a regeneration of the profit motive. If indeed the National Dividend Plan accomplishes this to a reasonable extent, it provides a much needed service for our society. Many provisions of the Plan act to obscure this basic objective of the Perry proposal, however. For example, the provision making dividends nontaxable income at the federal level has important implications, yet affects the profit motive psychology of the populace as a whole insignificantly. Similarly, paying voters rather than individuals by age has little effect on the anticapitalist frame of mind. Alteration of these aspects of the Plan leaves the core of the proposal unharmed. That is, deletion or alteration of those parts of the Plan other than the provision to distribute to persons equal shares of the federal government's corporation income tax revenues leaves the basic purpose of the National Dividend Plan in tact.

Considered in terms of its essentials, the Plan involves the use of an instrument which is usually pictured as a socialist tool. The redistribution of income in such a blatant manner is a frequent socialist proposal. Most persons favoring a capitalist system might be expected strongly to oppose such redistribution. Large

payments such as those suggested in the National Dividend Plan might be viewed as having a negative effect on the profit motive and in this way a harmful effect on the capitalist system. On the other side, the fact that the size of the NDP payments depends upon the size of corporate profits has capitalist connotations. Many individuals of a socialist philosophy may feel that such a connection is unwarranted. Stimulating the public to favor corporate profits may be seen as encouraging the "evils" of the capitalist system from a socialist perspective. Taken together, these aspects of the Perry proposal provide a socialist instrument (income redistribution) to achieve a capitalist objective (rejuvenation of the profit motive).

Fair evaluation of these provisions as part of the NDP package requires a clear realization of the existing situation. For example, from a theoretical perspective, most economists would agree that the corporate income tax, being an indirect tax, is not an optimal way of obtaining tax revenues and should be replaced. Close examination of the U.S. political situation reveals that elimination or substitution of the corporation income tax is a political infeasibility. In fact, politicians such as Senator George McGovern state that the tax should be expanded. As a result of this real-world assessment, the entrenchment aspects of the Plan need reconsideration. This type of perspective is needed as one considers all aspects of

the NDP. As a package, the Perry proposal appears to be generally acceptable to the United States electorate. Some provisions may be less than ideally desirable. The question for the reader is: "Does the National Dividend Plan, considered from a perspective of political and economic feasibility, act to improve the well-being of our society at a reasonable cost or not?"

This study has not attempted to answer this question; however, it has analyzed the probable effects of the National Dividend Plan. Hopefully, this analysis will aid the reader in evaluating the Plan and answering this question for himself.

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THE NATIONAL DIVIDEND PLAN:
A PUBLIC CHOICE ANALYSIS

by

Dennis John Jacobe

(ABSTRACT)

Largely as an outgrowth of the promotional efforts of a single man--an industrialist and publisher, John H. Perry, Jr.--a proposal called the National Dividend Plan has received considerable attention. The Plan involves a proposed constitutional amendment which would prohibit the corporate income tax rate from exceeding fifty per cent of net income; make corporation dividends nontaxable income to the recipient; and redistribute funds raised by the corporate income tax to those persons voting in the last preceding national election in equal amounts on a per capita basis.

This study represents an investigation into the implications of the Perry proposal by considering each of its most significant provisions. The proposal has a significant impact on federal government revenues and expenditures. Projected federal budget data for the two decades of the 1970s and 1980s permits examination of

these effects. The Plan acts to entrench a less than highly desirable form of taxation, the corporate income tax, however at the same time it tends to rejuvenate the profit motive. The National Dividend Plan may be used to substitute, wholly or in part, for numerous federal functions; for example, the income security program. The provision for the nontaxability of dividends may have numerous repercussions in the way individuals and corporations allocate their portfolios. Finally, the distribution of funds to persons voting in the last preceding national election implies that the new voting population would be younger, poorer, less educated, less white, less suburban, and less employed.

Fair evaluation of the National Dividend Plan package requires a clear realization of the existing situation. Thus, the question for the reader is: "Does the National Dividend Plan, considered from a perspective of political and economic feasibility, act to improve the well-being of our society at a reasonable cost or not?" This study does not attempt to answer this question, however, it will aid the reader in evaluating the Plan and answering this question for himself.