any) more than the current welfare system. Replacement of the current system with a somewhat less generous negative income tax presumably would be possible if the federal and state governments maintained their current outlays but the city stopped spending anything on welfare. The point is that New York City could have a rather nice slice of welfare cake with fiscal relief frosting on top.

III. Concluding Remarks

Although our calculations are based on 1970 census data and perhaps underestimate the magnitude of the current fiscal problem, the study is useful in showing the extent of potential relief to the City at a time when its current account deficit was over seven percent of its general revenues.

It should be emphasized that we have considered in each calculation an NIT plan of total cost roughly equal to the programs it would have replaced. The cost of an NIT with a guarantee of $3500 (a generous figure by 1970 standards) and a payment reduction rate of .5 as well as the costs of providing all other public services in the New York SMSA could have been financed with a flat rate tax of 3.2 percent on incomes exceeding $7000. To a resident of New York City who is accustomed to paying rates ranging from 0.9 to 4.3 percent, the $3500 figure presented in this paper (including the 3.2 percent figure above) seems tenable.

If, however, the tax rate required to finance an NIT plan in New York City were too high, there may be reasons—normative and theoretical, as well as political and pragmatic—why the plan's scope could not be expanded to the rest of the metropolitan area. Moreover, given the alleged compliance and under-reporting problems of an NIT, the SMSA may be a less suitable agency than the Federal government for dealing with those problems an NIT might introduce.

Given federal provision of AFDC and present New York State welfare laws, NIT for NYC is not now a feasible policy option. Yet, so long as municipal governments are saddled with a sizable welfare burden, there will be a need for exploring new policy options which might conceivably provide a basis for an NIT at the local level. The disincentive effects of an NIT, for example, compare favorably to the disincentive effects of a welfare program, since many welfare programs impose a 100% marginal tax rate on earned income. Moreover, disaffection with the "welfare mess" might lead us to look toward the relative simplicity of the NIT as a more efficient method of improving the situation of the poor.

References


All too often in our attempts to teach sophisticated concepts to students in the elementary economics course, we simplify to the point of error. One common such fallacy deals with the degree of tax shifting, and is a consequence of failing to distinguish properly between elasticity and slope.

Many elementary textbooks use the following example to demonstrate an application of supply and demand curve analysis. In Figure 1, the initial supply and demand curves, S and D, determine an equilibrium price at A. When a per-unit tax is imposed, S shifts upward to S', resulting in a new equilibrium price, B. Since the tax equals the vertical difference between S' and S, which is less than the difference between A and B, the tax has been shifted partially onto the demanders. The vertical difference between A and B measures the amount shifted onto the consumers, while the remainder, viz., the per-unit tax less (A - B) is borne by the suppliers.

Alternatively, consider the rectangular hyperbola demand curve portrayed in Figure 1. The tax shift is dependent on the slope of the demand curve, not its elasticity.

Consider D1 in Figure 1, which has the same slope as D2, but is less elastic at every price. (Elasticity is calculated geometrically as follows: at a, e = OA/AC; at a', e = OA/AD, which is less than OA/AC). As can be determined from close visual examination, the amount of the tax shifted forward is precisely the same in both instances, despite the differences in elasticity. The outcome is obviously due to the equalities of the slopes. (A mathematical proof is offered in the appendix.)

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Figure 1
2. As is well known, elasticity of this demand curve is unitary throughout. Yet it is obvious that forward shifting differs—more of the tax is shifted when a per-unit tax is levied on $S$, than when the identical per-unit is imposed on $T$.

Students often confuse slope and elasticity. Textbook writers should set a better example.

Mathematical Appendix

Let the demand function be: $q = f(p)$ and the supply function be: $q = g(p - t)$, where $t$ is the tax. Equilibrium requires that: $f(p) = g(p - t)$.

Now, if $t$ changes, reestablishment of equilibrium requires:

\[ f(p) dp - g'(p - t) dp = g'(p - t) dt \]

or

\[ dp/dt = g'(p' - p) \]

*My thanks to William J. Baumol for this formulation.

References


This paper investigates the relationship between the policy recommendations which John Maynard Keynes (1883-1946) articulates in his phenomenological writings, and in his major theoretical works, A Treatise on Money and The General Theory of Employment, Interest and Money. More specifically, I suggest that the policy recommendations of the Treatise, allowing for some institutional differences, are identical to those articulated by Keynes in his phenomenological writings: namely, the general level of prices could be stabilized in one of three ways: (1) by changing the bank rate, or (2) by using a trident of control (the bank rate, the forward exchange rate, and the buying and selling points for gold), or (3) by implementing a loan-financed, government-sponsored domestic investment program.

I suggest that even though there are scattered references throughout his phenomenological writings to the problem of unemployment, a careful perusal of these writings leads the reader to the conclusion that the term "unemployment" is used in a different context than in the General Theory. The context of his phenomenological writings is Ricardian and Marshallian: unfavorable changes in the general level of prices, either of an inflationary or of a deflationary nature, or the restriction by artificial means of the terms of international trade, results in periodic but temporary movements away from an equilibrium at a full employment level of output. When Keynes wrote the General Theory, however, unemployment had persisted for a long period of time. The British economy, Keynes believed, had settled into an equilibrium at a less than full employment level of output. That context is completely foreign to the economics of Ricardo and Marshall, and a reading of Keynes' phenomenological writings does not lead to the policy recommendation of the General Theory: namely, the implementation of a loan-financed, government-sponsored domestic investment program designed to move the economy from an unemployment equilibrium to a full employment equilibrium.

Keynes, in response to important historical events or issues, wrote a number of articles, pamphlets, and books in which he argued for the immediate adoption of specific policy recommendations. I will, hereafter, refer to these writings as Keynes' phenomenological writings. Let us briefly explore the policy...