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Introduction

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This is the last in a recent trio of conferences, sponsored as part of the continuing activities of the Conference on Research in Income and Wealth. The focal point of these conferences was to reexamine the state of the art in National Economic Accounts Systems, the research area which originally spawned the Income and Wealth Conference in 1936.

All three conferences involved a reexamination of the basic framework of the system of Economic and Social Accounts, with an eye to updating and refining them to take account of new theoretical insights with the potential for empirical implementation and for the provision of new information. The broad focus of these meetings has been the incorporation of concepts and data which go beyond the direct recording of monetary transactions. Of course, many of the papers given at the present conference, as well as those in the previous two conferences of the trio, also consider the interpretation of conventional monetary measurements. The spirit of these conferences cannot be understood, however, without recognizing that their principal motivation was a recognition that nonmarket activities, activities which impinge differently on present and future benefits than their conventional treatment suggests, and activities which involve the public sector in one way or another are (for some purposes) not satisfactorily handled within our present economic and social accounting framework.

The first of the three meetings on economic and social accounting systems was held at Princeton in 1970 and was titled "The Measurement of Economic and Social Performance." The focus of that conference was on aggregate accounts—what activities should, could, or might be included in a broadly defined set of accounts; what the measurement

problems were in some of the public sectors where output is conventionally measured by inputs; what could be done by way of accounting for and measuring environmental costs and benefits, and so on. The original idea was for a second conference to be held on the distributional consequences of this potential expansion of aggregate measures of income and material well-being. It soon became clear that a single conference would not suffice, since a range of problems concerned solely with the distributional analysis of conventional monetary aggregates required exploration. Thus, the distribution conference grew into two conferences. The first of these, "Personal Distribution of Income and Wealth," was held at Pennsylvania State University in 1972; the second was held at the University of Michigan in Ann Arbor in May of 1974.

The "Conference on the Distribution of Economic Well-Being" contained two special features. First, in addition to the traditional papers and comments from invited discussants, the conference organized a special session for "student papers," to which graduate students were invited to submit papers in a competition. Notification of the competition was circulated to all members of the Conference on Research in Income and Wealth, and to the chairmen of all major graduate departments in Economics. Some fifteen student papers were submitted to a panel of editors, and three were selected for inclusion in the conference proceedings. The three selected papers were presented at a special student papers session.

A second feature of this conference, which is common to all but the collection of papers which analyze earnings functions, is that papers are more speculative in their empirical analyses than the typical paper in other Income and Wealth conferences. The reason, of course, is the nature of the subject: we are obviously at the beginning of serious empirical work designed to implement a richer and more fully articulated set of economic and social accounts. Concerns with the overall size and distributional impact of transfers-in-kind, "consumption" of redistribution, cost of automotive emission controls, environmental damage from air pollution, and so forth, evidently must be based on insights and data that are more speculative in nature than many that economists are accustomed to dealing with. Nonetheless, it is important to make a start, and this conference has clearly succeeded in doing this.

As a guide to readers of the volume, let me note that discussants have provided excellent brief summaries of the papers before embarking on their critical commentary. For this reason, I have found it neither necessary nor useful to do more than indicate the problem and the broad conclusions contained in the papers. Readers of the volume will find these summaries extremely useful in making their way through a collection of papers that, while inventive and ingenious, are often not easy reading.

The Ann Arbor Conference on the Distribution of Economic Well-Being had three principal focal points: first, a number of papers dealt with conventional distribution issues, using either unconventional concepts of output or much broader concepts of income—terms like economic welfare or economic well-being convey the appropriate flavor. Papers in this area included, "Adding In-Kind Transfers to the Personal Income and Outlay Account: Implications for the Size Distribution of Income," by Eugene Smolensky, Leanna Stiefel, Maria Schmundt, and Robert Plotnick, which emphasized a framework for the measurement of benefits received by donors (taxpayers) as opposed to donees (recipients). The basic argument is that the income distribution achieved by government transfer programs is itself a consumption good, with a value to those who provide the resources which are to be transferred. As Neenan's discussion points out, recognition that consumption benefits can accrue from income redistribution per se simply represents one illustration of the proposition that consumption benefits or disadvantages are derived from all kinds of externalities.

The paper by John Kraft and Edgar Olsen, "The Distribution of Benefits from Public Housing," focuses on the question of housing subsidies and in particular on the efficiency of in-kind versus cash transfer programs. The Smolensky et al. paper examines that same issue for a variety of in-kind programs. Kraft-Olsen find that subsidies in the form of low-rent public housing, where the subsidized product can only be accepted or rejected, have little apparent effect on the aggregate consumption of housing services, and thus appear to be a very inefficient transfer instrument. As the discussion by Henry Aaron notes, these judgments on the housing program are suspect to the degree that the housing consumption predicted in the absence of subsidies cannot be explained very well, and hence the apparent inefficiency could be attributed largely to measurement error or model misspecification.

Harold Hochman and James Rodgers in "The Simple Politics of Distributional Preference," suggest that income redistribution, like other government activities undertaken in a democratic society, can best be understood as a reflection of constituent preferences. Since the direct recipients of the redistributed transfers constitute a minority of the voting population, the paper advances a hypothesis that reconciles support for redistribution with the preferences of at least some nonrecipients. Survey data are employed to ascertain the nature of such support, and to determine whether it reflects benevolence or simply negative nonmarket interactions between donor and recipient behavior and utility functions. They conclude that a pure self-interest model is inconsistent with their data. In the discussion by Thomas Weisskopf, it is noted that the evidence does not give a persuasive edge to the benevolence motive as opposed to

an alternative definition of self-interest, predicated on the desire to insure maintenance of the social status quo.

Two of the papers in the area of conventional issues unconventionally treated concern themselves with the distributional consequences of environmental costs and benefits (damage). Myrick Freeman, in "The Incidence of the Costs of Controlling Automotive Air Pollution," examines the incidence of various methods of controlling automotive emissions. He concludes that, with the exception of higher gasoline prices, all proposed methods of reducing emissions are strongly prorich in their incidence. Frank Segal notes in his discussion of the Freeman paper that this regressivity could be completely eliminated with an appropriately designed subsidy program targeted only on low-income users of automobiles.

Leonard Gianessi, Henry Peskin, and Edward Wolff, in "The Distributional Implications of National Air Pollution Damage Estimates," examine the question of environmental damage: where it impacts, and on whom. A principal contribution of their analysis is that it provides the only available quantitative measure of the distribution of air pollution damage among different localities, and demonstrates how U.S. Census Bureau data can be used to investigate distributional issues. With a mixture of data ranging from adequate to nonexistent, essential but heroic assumptions, and a good bit of ingenuity, Peskin et al. conclude that air pollution damage does not impact on the poor more heavily than the rich, and that quite possibly the reverse is true. Nancy Dorfman questions this conclusion, primarily because of the difficulties involved in defining an appropriate geographic area where air pollution damage can be assumed evenly spread, as well as because of what she views as an arbitrary and misleading method of summing damages from various types of pollutants.

Earnings functions constitute the second general area of concentration at the conference. Over the past decade and a half, a burgeoning literature, concerned with the functional determinants of earnings and income differentials, has appeared. Much of this literature starts with the assumption that observed earnings differentials reflect differential amounts of investments both in formal schooling and in on-the-job training, with schooling investments being obtained in formal schools and in the home.

In "The Anatomy of Earnings Behavior," Richard and Nancy Ruggles use a longitudinal file of individual earnings from the Social Security Administration to examine changes in the pattern of cohort earnings. They are concerned solely with market earnings in both current and constant prices, but with longitudinal aspects of those data rather than with conventional current year distributions. Among other findings, they

demonstrate the existence of a great deal of year-to-year variability in the earnings of identical individuals, far more than this reader, for one, would have expected on the basis of most descriptions and analyses of the labor market. Ahmad Al-Samarrie notes that the data do not adjust for differences over time in employment covered by Social Security, and that the Ruggles analysis does not take account of differences in the size of cohorts as a possible explanation for the observed patterns of cohort earnings.

An area of continuing interest in earnings patterns is in what might be called the analysis of persistent differentials in earnings—often thought of in the context of discrimination. Finis Welch and James P. Smith in "Black/White Male Earnings and Employment: 1960–70" examine the behavior of these differentials for people at different stages of the life cycle and different levels of formal schooling. They conclude that, by any measure, blacks made significant gains relative to whites between 1960 and 1970, although a significant gap remained. The black and white earnings gap was clearly smaller for younger than for older workers, a result that the authors attribute largely to "vintage" effects of differential schooling quality. Ronald Oaxaca examines another widely discussed differential in "The Persistence of Male-Female Earnings Differentials." He finds evidence of widening differentials adverse to white women up to about 1965, with some slight indication of reversal since then. However, he reports the opposite for blacks; here the gap between female and male earnings has narrowed appreciably. In both the Welch-Smith and Oaxaca analyses of earnings differentials, the crucial factors turn out to be changes over time in both schooling attainment and schooling quality (especially for the analysis of black-white differentials) and changes in the degree to which earnings advance with age and experience (especially true for male-female differentials).

Commenting on Welch-Smith, Orley Ashenfelter suggests that the analysis of black/white earnings differentials has to explain the increase in the relative earnings of black males after the mid-1960s as well as the tendency of black females to show increases relative to white females during the period before the mid-1960s. Reduced discrimination could explain the first and increasing relative skill level the second, but we are still left with a puzzle, since both factors should apply to male as well as to female relative wage patterns through the entire period. Alvin Mickens notes the peculiar regional character of gains in black relative to white income; such gains are much more apparent in the South than elsewhere. He also points to the difficulty in the Welch-Smith analysis of dealing with the fact that 1969 was a much better year generally than 1959 and, hence, that part of the relative gains for blacks may simply be a consequence of cyclical phase. Nancy Barrett, commenting on Oaxaca, points out that a

major aspect of the male-female differential concerns the increased gap between male and female wages as labor force experience grows for both—females typically tending to show less income growth. In Barrett's view, this results, at least in part, from functional discrimination—the alleged weak attachment of females to the labor force and, hence, their alleged unsuitability for managerial and other experience-dominated occupational roles.

The basic issue of how the observed earnings and income distributions are generated is examined in two papers: "Schooling, Ability, Nonpecuniary Rewards, Socioeconomic Background, and the Lifetime Distribution of Earnings" by Paul J. Taubman; and "Family Background and Lifetime Earnings," by Russell Hill and Frank Stafford.

Taubman uses an immensely rich but specialized sample (a group of males originally analyzed by Thorndike and Hagen, subsequently reinterviewed by the NBER). His findings cannot be simply summarized, but the principal ones are that: (1) schooling and ability both make independent, and to some extent interactive, contributions to earnings; (2) occupation makes more net difference (standardizing for education and ability) than many would suppose; and (3) a number of family background and outside activity measures show up quite strongly in the determination of earnings levels and changes. The Hill and Stafford paper focuses on the role of family background in earnings functions, examining a channel of causation that has already begun to loom large in economists' thinking about the importance of inheritance in earnings functions. Hill and Stafford look specifically at the distribution of parental time inputs to children and find that more educated parents invest more time per child than do parents with lower educational attainments. (The former have fewer children but invest comparable amounts of total time.) The implications for child development, schooling attainment, and earnings, via a higher level of marketable skill, are evident.

James Morgan, in discussing the Taubman paper, notes that the difficulties of model specification suggest a number of alternative explanations for the findings. At issue is whether Taubman is testing hypotheses or ransacking data, and Morgan suggests that the latter is a more apt description. Jacob Mincer, in comments on Hill-Stafford, notes that they have barely begun the process of translating differences in inheritance (in this case, time spent by parents) into differences in earnings. In addition, Mincer notes that the very indirect procedures used by Hill and Stafford in estimating child-care time are subject to potentially serious bias.

The final subject covered at the conference proceedings concerns the distribution of wealth. Here, the paper by Lee A. Lillard, "The Distribution of Earnings and Human Wealth in a Life-Cycle Context," is concerned with implications of human capital theory for inequalities in

the distribution of human wealth. The second paper, by James D. Smith, Stephen Franklin, and Guy Orcutt, "The Inter-generational Transmission of Wealth: A Simulation Experiment," is concerned with the impact of inheritance on the transmission of nonhuman or property wealth, and on the changes in wealth inequalities which result.

Lillard's paper summarizes the optimal theory of investment in human capital, estimates the implied life-cycle pattern, and computes estimated distributions of human wealth. Zvi Griliches, discussing the Lillard paper, points out a number of difficulties with the theory (largely its lack of correspondence with a number of constraints that shape the market in which these investments are made), and notes that the generating function for human wealth in Lillard's model has a sufficiently large standard error so that one cannot really tell even whether wealth is more or less evenly distributed than income.

The Smith-Franklin-Orcutt paper is a simulation experiment using the Survey of Financial Characteristics of Consumers (1962) data on wealth distribution and stochastically generated deaths from mortality rates to produce bequests and inheritances. Behavioral relationships are obtained from District of Columbia and federal data on estates. The basic conclusions are that wealth distributions are only marginally affected by even extreme inheritance tax assumptions (which is not surprising given the small number of people who pass under this tax each year) and that there is a good bit of shuffling among people within a relatively stable and highly unequal wealth distribution. John Brittain, commenting on the paper, notes some implausible findings of this simulation model (the very large gains of both very poor families and those with relatively young heads), and notes the absence of sufficient behavior relationships with a solid enough foundation to inspire confidence in the results.

The final session to be discussed is the "student paper" session, which was held during the evening of the second day of the conference. In "Labor Market Discrimination and Nonpecuniary Work Rewards," Greg Duncan of the University of Michigan examines the impact on income distribution of accounting for a collection of fringe benefits and working conditions variables. In general, Duncan finds that these rewards are more equally distributed than direct wage payments, that inequality is thereby reduced by a fuller accounting of income from work, and that at least certain persistent income differentials (male-female, in particular) are less marked if account is taken of all rewards rather than simply wages. William Johnson, from Wesleyan University, in "Uncertainty and the Distribution of Earnings," finds that income uncertainty as reflected by earnings dispersions within occupational groups, is positively associated with higher average earnings—a result consistent with the conventional view that people are risk averters. Thomas Osman, from the

University of Wisconsin at Madison, examines the wealth distribution in "The Role of Inter-generational Wealth Transfers and the Distribution of Wealth over the Life Cycle: A Preliminary Analysis." He notes that the persistent finding that wealth inequality varies little across age cohorts is inconsistent with any reasonable model of life-cycle earning and saving, and suggests that the reason may be that inter-generational transfers flow most heavily to younger age groups who already hold relatively high levels of assets. Lee Hansen's comments on all three papers are concise and perceptive.

Finally, I wish to express my appreciation to the University of Michigan for making available the excellent facilities of the Rackham amphitheater for the conference, to Peter Steiner, Dorothy Projector, Harold Shapiro, Jan Kmenta, and Harvey Brazer for chairing the various sessions, to James D. Smith of Pennsylvania State University for his work as a member of the Conference Planning Committee, to Mildred Courtney of the National Bureau of Economic Research for her invaluable assistance as Secretary of the Conference on Research in Income and Wealth, as well as for her constant prodding of both myself and authors to get things done on time, and to Antonia Kramer for keeping track of "who had not yet done what" as well as the inevitable maze of detail involved in being secretary to the Conference Chairman. H. Irving Forman drew the charts and Ruth Ridler prepared the manuscript for press.