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# Introduction

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The title of this volume emphasizes the elements of this fiftieth Conference on Income and Wealth. The target for discussion is a familiar one: measuring the well-being of individuals and households (in the United States). But within this broad topic area the two major focuses that we seek to emphasize may not be so familiar to those acquainted with previous volumes in this series. The value of our discussion lies in a recognition that measures of well-being serve to guide social and economic policy, and that measures used historically may be deficient in a period of rapid economic and social change such as the present.

Thus the purpose of this conference is to explore the intersection of two relatively new research areas: (1) the implication of new analytic models of consumer choice under uncertainty for data development and model estimation, particularly as they relate to public policy, and (2) the use of new data sets and techniques to examine the horizontal equity implications of expanded measures of economic well-being. Following these themes, the conference demonstrates the use of several new data sets and develops new methodologies to contribute fresh insights into the measurement of well-being, especially in a dynamic and prospective sense.

The four brief comments that follow will help the reader understand the context for the conference and the volume and provide the more general framework within which the contributors have developed their own studies. In the first two sections we recognize that the concept of well-being can be approached from two meaningful perspectives. In the one instance, well-being may be thought of as that perception of the world that motivates economic behavior of the individuals in the society. The chapters dealing with this subjective evaluation of economic status are mentioned in the first section below. In the second instance, well-being may be thought of as a social appraisal of the state of society. Issues treated in this

second section include those related to pensions, to the environment, and to the way in which contingent claims affect and are affected by both policy and behavior. The third section completes our summary of chapters by addressing the topic of policy-relevant measurement of well-being, particularly as it deals with the issue of horizontal equity. The fourth and final section explains the more general hidden agenda that underlies our conference and that, we feel, should underly all Conferences on Income and Wealth.

### **Individual Well-Being**

The individual perspective on well-being causes us to search for data that will more clearly link economic models of rational responses to changing prices and incomes to the changing behavior of individuals. It causes us to ask: To what degree is a subjective approach required? If individuals *feel* better off they will behave differently than if they feel worse off, despite identical objective conditions. Thus some understanding of attitudes towards well-being may be an intrinsic part of the measurement of well-being for policy purposes. This theme is explored here in the chapters by Levy and by Kapteyn, van der Geer, and van de Stadt.

Another aspect of the subjectivity of well-being is that well-being will vary as individual expectations vary. The poverty of the student is less oppressive than the poverty of the unemployed illiterate, precisely because income expectations are different. Changes in nominal income presage different real-income situations for individuals, depending on their level of inflation expectations and their ability to adjust to those expectations. Both the Levy and Shoven-Hurd chapters help us to begin to understand this aspect of well-being, the latter chapter dealing with the effect of inflation on the incomes of the elderly during the 1970s.

A third aspect of subjectivity that is clearly of essential importance to how individuals appraise their well-being is their understanding of risks and contingencies that affect the future. Health risks may depress income levels expected in the future; risks of divorce and death may induce more bearish feelings about well-being than are justified by current positions and expected income trajectories. But these risks are clearly of two types—those that are in some sense fungible, and those that are not. The individual recognizes that variation in rate of return affects the yield of investments, but that variation is able to offset gain on some assets against loss with respect to others. However, risks that involve change in marital status involve largely nonfungible human assets. Farley and Wilensky deal with an aspect of risk that is fungible in their exploration of the substitution of wealth for insurance against the risks of medical costs. Duncan and Hoffman study a nonfungible risk—remarriage by divorcees, who

can hardly be expected to make adjustments in present life-styles on the basis of potential for improved well-being from a marriage that may or may not come to pass.

### **Social Appraisal of Well-Being**

Historically, measurement of well-being in the United States after World War II has focused largely on objective annual data collected from sources that pertain to individuals—surveys, tax return data, and the census. Earlier volumes of this conference have sought to improve upon those measures by assuring adequate coverage, comprehensive enumeration of items resulting in income flows, and attention to measures of in-kind income. Most of the attention has largely been given to measurement of annual income, rather than measurement of consumption flows, savings, or longer multiperiod incomes. Recent trends in compensation, taxation, and family stability make it less clear that such measures are sufficient, particularly for the evaluation of social programs. This brings us to the second aspect of the conference—societal concerns with well-being.

#### **Pensions**

Lack of information about well-being, for instance, in connection with individual knowledge of pension rights, may persist at the individual level because of market failures, inertia, and the cost of acquiring information. At a societal level the situation is different. The society can and does regulate pension-giving organizations in return for the substantial tax subsidies granted them and their clients. Continuation of tax subsidies for pension funds clearly engenders a social interest in measuring well-being that is broader than the individual interest, even in a situation where individuals are fully rational and responsive to the true cost of information.

This social interest in individual behavior and well-being prompted two chapters in this volume. Burkhauser, Butler, and Wilkinson responded most directly to the question: How can society appraise the well-being of the retired as compared to those still in the labor force, but near retirement? The authors show that the difference between comprehensive measures of well-being and actual cash received can be substantial. Because the former is clearly more useful than the latter for policy purposes, their contribution is an important one. Mitchell and Fields focus on a more policy-oriented societal question. They seek to determine how the profile of pension rights varies according to the age of retirement in order to determine whether the rules of private pension programs reflect variation in rights that are socially desirable, or at least not capricious. Without such information it is hard to evaluate the behavioral implications of both private and social pension regulations.

## Environment

It is well known that environmental contaminants pose health risks to individuals. The risks pose different degrees of hazard to persons with different (sometimes unknown) characteristics. The risks are likely to be small, stochastic, and unmeasured. Some individuals respond by ignoring the risks; others are unable to acquire relevant information. Collecting information from individuals on the effects on well-being of environmental risks is therefore likely to be difficult. Smith and Gilbert, in their contribution to this volume, attempt to assess the degree to which inferences from other domains—the impact of air pollution on property values—can be transferred into assessment of changes in the well-being of individuals. Again the central interest in the problem arises because society needs measures of the degree to which the distribution of well-being is altered by externalities that may be regulated to some degree or may be compensated by ameliorative or income replacement programs (such as the black-lung diseases program).

## Contingent Resources

Most measures have concentrated on income to individuals; they have tended to ignore the resource that is available for subsistence in the stock of wealth owned by the individual. Even more often they ignore the resources that will be forthcoming under some contingencies from kin (or friends), from employers, or from government. Because these contingent claims affect and are affected by policy, it is important to understand the way that measures of well-being can incorporate them as a basis for behavioral analysis.

Some information on both of these problems comes from the chapters by Steuerle and by Cox and Raines. Steuerle is able to directly join the information on estate wealth to the income tax returns of individuals. This combination exposes the degree to which income flows offer adequate information on individual well-being and the degree to which unrealized gains and capital stocks must also be brought into a measure of well-being. Cox and Raines look at another aspect of the picture, the flow of gifts between households and measures of interhousehold support, especially as they affect children receiving aid from parents and inter vivos private transfers of all types.

Another aspect of interhousehold support is the actual payments that flow from divorced parents for the support of their children. Understanding these flows requires an understanding both of the legal settlement (obligations) and the fulfillment of those obligations. Research on both topics is undertaken by Beller and Graham in their contribution.

Finally we must approach the role of governmental disability policy as it affects the income flows to disabled persons. While most would agree that disabled persons (and also the elderly) ought to be assured of a stable

income flow, the contribution by Haveman and Wolfe indicates that current public disability programs often do not meet these expectations.

What is clear from all of these chapters is that it may be necessary to address a large data base, including characteristics of individuals and characteristics of their environment, whether it be the work environment, the places where people live, or their kinship groups. Social evaluation of well-being is not possible without integrating information that may be beyond individual reach; also the information that guides behavior is not always known with certainty.

### Measures Suitable for Policy Analysis

Even after a measure that encompasses sufficient information has been determined from the facts, important questions arise as to how the distribution of that measure is to be used to generate policy-relevant information. Three chapters attempt to integrate the developments in theory with the practice of policy assessment related to measures of well-being.

Plotnick and Berliant and Strauss concentrate their efforts on distinguishing horizontal and vertical equity in the distribution of measures of well-being. They adopt radically different approaches. Plotnick derives a criterion for horizontal inequity from the reranking of individuals in the distribution of well-being as it is transformed by the operation of government tax and transfer programs. Berliant and Strauss adopt a more intuitive approach in which horizontal inequity is measured by pairwise comparisons of the measures of well-being of individuals within an equivalence class. Both procedures recognize that some normative assumptions are placed on the use of measures of well-being in the process of interpreting the results for the purposes of policy-making.

Betson and van der Gaag adopt a more specialized approach to a more limited but vexing problem: What would individuals be willing to pay for the reduction of uncertainty concerning the lower-bound level of their income? Their work, which extends the theory of option demand in a new and important way, indicates how this concern can be made pertinent for understanding the social demand for income maintenance programs.

### The Hidden Agenda of the Conference

Because the measurement of well-being involves a broad range of factual data, because those data are not necessarily accessible to an individual, because well-being also entails a perception of the facts, and because the society will interpret both facts and perceptions in accord with statistics based on normative concepts of equity and inequity, it is clear that the measurement of well-being is complex and extensive. At this conference NBER hoped to bring together a group of scholars who could demonstrate the usefulness of new or continuing data sets and who would also in-

dicating ways in which the future collection of new or different data would encourage a clearer understanding of well-being. Such a demonstration was particularly aimed toward those who design and implement data collection efforts. This direct intersection of data collectors and data users is all too often absent, leading to collection of relatively less useful data and to use of poor proxies for data that, in retrospect, could have been collected. This intersection is the hidden agenda of which we speak.

The studies presented cover a range of complex data sets—the Retirement History Survey of the Social Security Administration, the matched estate–income tax record file of the Internal Revenue Service, the National Medical Care Expenditure Survey, the Panel Survey of Income Dynamics, and the matched child support and income supplements of the 1979 Current Population Survey. In addition to such data on individuals, Smith and Gilbert, and Mitchell and Fields develop bodies of information that embed individual data in environmental or employer variables to which behavioral change is often geared. The need for this latter type of cross-cutting data becomes clear as the analyses in those chapters so aptly demonstrate.

The development of such complex data sets, replication to monitor longitudinal trends and change in the society, and the productive exploitation of such bodies of information using new tools of analysis are all topics that the chapters in this volume indirectly address. It is clear that many of the studies done here will need to be repeated because the stability of findings must be tested and because society continues to change. It is also clear that some of the data (and some of the models) were found wanting, as the reader can see from the discussants' comments.

But this is how progress takes place. As editors of the volume we are proud that our contributors made progress, given the imperfect tools at hand. We believe that major contributions have been made in the conceptualization of uncertainty and its measurement, in the realm of developing measures of horizontal (and vertical) equity, and in the development of new measures of well-being, all of which comprise a substantial advance over previous work. We hope that you concur.