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Introduction

Marilyn Moon

The papers in this volume were presented in May 1982 at a National Bureau of Economic Research Conference on Research in Income and Wealth held in Madison, Wisconsin. The particular focus of the conference was the measurement of transfer payments and their impact on the level and distribution of economic well-being. Although prior conferences have traditionally focused on measurement and distributional issues, this was the first meeting to exclusively consider transfer payments.

The issues raised at the conference are certainly not unique; indeed, much has already been written on the definition, size, and distribution of transfers. Rather, the contribution of the conference and this volume is more likely to be found in the collection of diverse issues raised and approaches employed in the various papers.

What Are Transfers?

Robert Eisner's paper, which began the conference, appropriately raises definitional issues. Are our standard measures of transfer payments contained in the National Income and Product Accounts too restrictive? In recent years the definition of a transfer—as a payment to an individual or institution that does not arise out of current productive activity—has been subject to ever broader interpretations. Eisner advocates an expanded set of national accounts that would increase the share of transfers from one-sixth to over one-half of total income. He includes in his figures in-kind benefits and transfers within each sector of the economy.

Perhaps the most controversial issue raised, however, is the appropriate time period to be used to define "current." For example, deferred payments such as private pension benefits could be defined as transfers if these payments to individuals are viewed as related to earlier rather than current productive activities. The passage of time before receipt of these benefits technically puts them—and similarly other income flows such as interest and Social Security payments—within the bounds of the definition. The issue of time both in this specific context and in others was a recurring theme discussed during the conference.

Edward Budd, Daniel Radner, and Cameron Whiteman also focus on definitional issues in their paper. They concentrate on the household sector using a 1972 data source that matches information from the March Current Population Survey with Social Security earnings and beneficiary records and with summary information from individual tax returns. Budd and his coauthors use income concepts of (1) earnings only, (2) intermediate, production-related income (PRI), which captures income from earnings and property, (3) household income, which adds transfers to PRI, and (4) household disposable income, which subtracts out personal taxes paid and contributions for social insurance. The last concept they discuss, age-related transfers, addresses the issue of the "time period over which the receipt of income and the furnishing of productive services are to be matched." Although the authors do not attempt to calculate a full lifetime approach to incorporating the effects of such transfers, they calculate alternative distributions including and excluding age-related transfers to illustrate their potential importance. Again, the issue of time plays a central role in this discussion.

The final paper in this section, by Harvey Galper and Eric Toder, focuses on the development of one specific transfer. The implicit transfer that Galper and Toder attempt to measure is the benefit to holders of fully taxable assets that accrues when rates of return rise above their equilibrium level because of differential tax treatment among various types of assets. The movement of capital investment into tax-exempt securities lowers the interest rate in that sector and raises the equilibrium rate on fully taxable securities. To the extent that lower-income investors choose taxable securities, an implicit transfer from higher-income (and higher tax bracket) investors would be made to those with less income. To measure such a transfer requires a new and rather complex approach. The model developed by Galper and Toder to measure the size of this implicit transfer attempts to illustrate the nature of interactions between tax burdens and preferential taxation of various types of assets. The authors simulate their results using 101 households treated as representative of various income and capital income classes. They find that their approach suggests large implicit transfers and taxes that are not considered in standard discussions of tax burdens.

In-Kind Transfers

The second set of papers presented at the conference focuses on the increasingly important area of in-kind transfers. Although these public and private resource flows are commonly accepted as transfers, there is considerable disagreement over how they should be measured. Since these transfers are restricted to the services they provide, economists generally agree that the value to recipients may be less than the cost of providing them. Beyond this point, however, controversy centers on how to develop empirical measures to reflect the recipient value of such transfers. The first two papers in this section focus on public in-kind transfers and are likely to continue the debate on this issue.

Timothy Smeeding's paper takes an empirical approach, comparing a number of alternative measures of benefits and implicitly arguing that it is unrealistic to wait for more perfect estimates. Smeeding's paper builds on an earlier ambitious line of research attempting to calculate the value of all major public in-kind transfers. In addition to the value of these transfers to recipients, Smeeding attempts to measure an indirect benefit often attributed to such programs—the value to the provider (taxpayer). This indirect benefit may reflect altruism or the existence of externalities, for example. Such benefits—and their appropriate distributional impact—are even more controversial than the calculation of recipient values for in-kind transfers. Smeeding concludes that the direct subsidies to recipients equalize the distribution of well-being while the indirect benefits operate in the opposite direction.

Edgar Olsen and Kathy York attempt to provide empirical evidence on the measures of in-kind transfers that result from three different approaches: market value, Hicks cash equivalent, and Marshallian consumer surplus. The authors use public housing as the in-kind transfer under study and draw their data from the 1965 New York City Housing and Vacancy Survey. They find that the distributional results are sensitive to the measure of benefit used and the specification of the underlying prediction equations. Consequently, the authors are skeptical of claims about the effects of in-kind programs on the distribution of economic well-being.

The third paper in this section turns to private in-kind transfers. James Morgan's paper emphasizes that transfers within and across households remain an important—albeit sometimes overlooked—source of economic well-being. Although it has sometimes been argued that public transfers have overshadowed private resource sharing, Morgan attempts to dispel this notion by summarizing some of the findings of the Survey Research Center on intrafamily transfers. Central to this argument is the controversial issue of the dollar value to place on time spent in the home.

This in-kind transfer consequently shares some of the same measurement problems as public in-kind transfers. Morgan uses a rate for the value of time that lies between the average hourly rates of working men and women. Is a "full market" value the appropriate measure for time spent in home production? If so, then intrafamily transfers are very large. A second issue that naturally arises from such a discussion is the role of time in the measurement of economic well-being. Attention to the distributional effect of these in-kind transfers only makes sense in the context of a measure of economic well-being that incorporates the value of time.

The Distributional Effects

Since transfers are a distribution of resources from one individual or group to another, the questions of who gains and who loses are paramount in any discussion of transfer payments. The measurement issues involved in this context must focus on the measurement of other resources as well as transfers. For example, before we can know whether the wealthy are gainers, we must agree on the definition of wealth. In addition, we may be concerned about how transfers are distributed across variables such as age or region.

The paper by Sheldon Danziger, Eugene Smolensky, Jacques van de Gaag, and Michael Taussig compares the effects of transfers on the elderly and nonelderly. The bulk of the empirical work centers on developing the appropriate measure of economic well-being against which the distributional impact of transfers may be assessed. The authors consider consumption as well as income measures, but the most sensitive adjustment turns out to be the choice of the economic unit. If well-being is expressed as equivalent adult income (calculated through the use of constant utility equivalence scales), the elderly are about 90 percent as well-off as the nonelderly. If either consumption or income (with no adjustments for household size) is the measure used, the elderly appear to be only 60 percent as well-off as the nonelderly. Cash transfers to the elderly are particularly important to their level of well-being and the equality of the distribution of that well-being. The degree of "success" attributed to these transfers is sensitive indeed to the measure of economic status employed.

The paper by David Betson and Robert Haveman considers the distribution of public transfers by region. Current policy debate over decentralization of such transfers has made the results from a study of the regional impact of transfers of particular interest. Betson and Haveman examine the inequality of pre- and posttransfer incomes across and within regions both at one point in time and across the period of 1967 to 1979. They find that public cash transfers have decreased inequality substantially—and by a greater degree over time. Through use of a Theil index, the authors are also able to calculate the degree to which these changes affect within- as opposed to across-region changes. For example, Betson and Haveman found a 70 percent decline in inequality within states as a result of income transfers in 1975.

Social Security

By far the largest of the public transfers, Social Security represents both an inter- and intragenerational transfer of resources. Because Social Security is a pay-as-you-go system and has a very complex benefit formula, benefits received by a worker may display little resemblance to the contribution paid through the payroll tax. The relevance of this issue is addressed by both of the Social Security papers in this volume.

Robert Moffitt's paper uses aggregate data to consider the extent to which various cohorts have benefited from the Social Security system relative to their contributions. For these intergenerational comparisons, Moffitt constructs a new historical wealth series ending with persons aged 67 in 1977. This series is quite different in content and purpose from other series, like that developed by Martin Feldstein, since Moffitt's series attempts to measure all taxes paid and benefits received. Moffitt finds that the value of net Social Security wealth has risen for each cohort group reaching retirement age in 1977, although the rate of growth in wealth has slowed over time. The overall growth in benefits—particularly those to male retirees—is largely accountable for the overall increase in Social Security wealth. In the early years of the program such benefit growth was largely attributable to increased recipiency rates. Growth in the actual level of benefits has increased in importance over time, although with considerable variation across cohorts.

Jennifer Warlick and Richard Burkhauser follow quite a different tack in their examination of Social Security. Using an allocation scheme developed in an earlier paper that separates the welfare transfer component of Social Security wealth from that which would be obtained under an actuarially fair system, they focus in this paper on the effects of raising the normal retirement age under Social Security. Theirs is not an empirical paper; results are simulated for several representative cases. Even so, the number of adjustments and complications are substantial. They find that postponing normal retirement is in many ways equivalent to an across-the-board reduction in benefits, lowering the welfare transfer component. Large savings are only possible if workers elect to retire at later ages and if the credits that they receive for postponement are less than actuarially fair.

Other Issues

In addition to the specific topics discussed, the papers as a whole raise some common concerns. For example, the papers in this volume illustrate many of the empirical sources available to researchers interested in transfers—and the important limitations of such data. The creative techniques used in the papers have to some extent been mandated by the shortcomings of existing research materials. In fact, two of the papers—Galper and Toder, and Warlick and Burkhauser—use example observations rather than actual data. Since the likelihood of improvements in data in the 1980s seems increasingly dim, the authors have generally chosen to use existing data even though heroic assumptions are sometimes necessary.

Although several of the papers either explicitly or implicitly raise the issue of the treatment of transfers over time, the discussion at the conference helped to underscore the fact that this remains an important, unresolved issue. Time represents a definitional concern for "transfers" that may actually be linked to past or future productive activity but not in a way that can be measured. If so, where do we draw the line between transfers and payments to factors of production? For example, is aid by family members across generations simply an unmeasured quid pro quo or truly a transfer of resources? Perhaps more important, when does this definitional issue actually matter?

A related issue for the role of time in the measurement of transfers is the increasing emphasis on comparisons of the impact of transfers across generations. Estimating intergenerational equity remains a relatively unexplored area, however. In this conference, the two papers on Social Security and the Danziger et al. paper on the economic status of the elderly only begin to consider these issues. Other researchers may wish to attempt to estimate, for example, to what extent transfers such as Social Security are offset by private intergenerational resource flows, or how intergenerational equity changes for different cohorts across time.

Although these papers were not intended to be policy oriented, they address a number of issues of current interest. Public debate since the beginning of the Reagan Administration has focused on the size of transfer payments relative to the size of the "productive" sectors of the economy. Although some focus has been on shifts from public to private transfers, much of the criticism leveled at the effect of transfers on incentives for work and investment relates to the overall size of transfer payments. Major reductions in public transfers have also made the measurement of the distributional impact of such programs a subject of considerable controversy. As the papers in this volume illustrate, many unresolved measurement and distributional issues are likely to add fuel to the policy debate. For example, adjustments in the value of in-kind transfers to allow comparison with other sources of economic well-being are important for considering adequacy of benefits and the contribution of transfers to poverty reduction. Improved measures of private intrafamily transfers provide a benchmark concerning the current level of resource sharing and the potential for additional transfers within families (as discussed in Morgan's paper). The regional distribution of transfers is of concern for assessing the impact of the decentralization of transfers, particularly those directed at low-income populations. Estimates provided by Betson and Haveman help to illustrate such differences by states and regions.

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