When I first came to full-time graduate school in 1956 I had already decided that income inequality was to be my specialty. Lampman was just beginning to get into numbers—what he was publishing then were conceptual pieces. One could do that then when the half-life of an idea was measured in decades rather than megahertz as it is today.

Lampman’s key article on the topic was “Recent Thought on Egalitarianism.” That article conveyed two important ideas to me. First, that there were more important inequalities than income inequality—religious discrimination and legal inequalities, for example. That point was not central to Lampman, but it was important to me, for it said that issues such as inequality, neither central at the time to the discipline of economics nor to public life, could be worth serious study. The second point was of more lasting consequence. To quote his own words: “... egalitarianism has advanced on a moving front and has been transmuted from a generalized set of formal doctrines into a set of particular programs for practical equalization in economic affairs” (p. 265). Or alternatively, “The egalitarian question is different for every generation” (p. 235).

At that distant time, for that generation, regional inequality, international and intranational, was the central egalitarian question. It was a question of long standing, of course, certainly it was a worry in the formulation of regional equalization policy, but today’s micro data bases give the lie to any pretense in no uncertain terms. In this instance, the sudden rise in the incidence of poverty among children. The second is the overwhelming success of Old Age Survivors’ Insurance in reducing inequality. The latter event makes the former more paradoxical.

The current debate over whether we have done enough for the elderly and whether equity therefore requires us to turn now to youth was predictable from the general principles discerned by Lampman in “Recent Thought”—“The demand for economic equalization is to be expected,” Lampman wrote, “when a group is endeavoring to rise from an inferior to a less inferior position.” Such was the position of the elderly in the 1950s and 1960s and such is the position of the spokesmen for youth now. “On the other hand,” Lampman continues, “when a group is falling from a superior to a less superior, or to an inferior status, we would expect to hear a denial of the value of economic equality” (p. 265), and such is the rhetoric of spokesmen of the elderly today. Yesterday they argued that fairness was justice. Today they assert that justice is fairness.

This issue of intergenerational equity inevitably focuses attention on horizontal equity. The horizontal inequity inevitable in directing transfers to a large group with substantial variance in its income—say the elderly—was always a worry, of course, certainly it was a worry in the formulation of regional equalization policy, but today’s micro data bases give the lie to any pretense in no uncertain terms.

It might be thought that the current flurry of literature on horizontal equity would inform us as to when it is appropriate to leave the problems of the elderly for the problems of the young, but that is not the case. Ironically, just when we have the data that would tell us when horizontal equity was being violated, if we knew what horizontal equity was in this, or any other instance of practical significance, we discover we know of no appropriate principles. We do have principles by which to calculate reversals of initial rankings, but we have not been able to set down what we want to mean by the phrase “equals” in the initial state. In this instance, the literature does not tell us whether families of equal size,

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Section 3: Income Distribution
income, and wealth and with one dependent would be equals if one contained an elderly person and the other a child.

I can think of two alternative sources of guidance here. First there is the equivalence scale literature. The other is to try to infer the social welfare function from current policy. The equivalence scale literature is under the same cloud today as size distribution was three decades ago. The profession, that is the microtheorists, find it acceptable to assume that utility functions are identical across households when doing their own dirty work, but they emphatically deny the same assumption for empirical work. Yet, at least in principle, equivalence scales give an unambiguous definition of equals, and it is the economist's preferred definition. Equality is equal utility, and equal sacrifice is the equal sacrifice of utility. For what it is worth, the equivalence scale literature unambiguously denies that our old and young dependents are equals. The literature invariably finds that children need more than the elderly, and older children need more than younger children, while older elderly adults need less than younger ones. Of course, this unanimity may simply reflect a bias in the methodology, but on its face it says, ceteris paribus, help the young.

Public policy gives us a considerably more complicated response. Transfers currently beyond reasonable returns to premiums under Old Age and Survivors' Insurance or Supplemental Security Income benefit levels relative to Aid to Families with Dependent Children, and the special deduction for the elderly would lead us to believe that the elderly are thought to have greater needs than children. Adding in public education and the property tax which pays for it would however alter our perceptions dramatically. I wouldn't want to draw any inferences from these aggregate and complicated responses to dependence.

Elsewhere, however, Sheldon Danziger, Peter Gottschalk, and I pointed to a more explicit expression of the way our society perceives the needs of the elderly versus those of children when we retold the tale of the road from the Family Assistance Plan to Supplemental Security Income. The key point of that narrative was that in a series of interdependent decisions, the Congress set a floor for the elderly, SSI, which substantially exceeded the floor set for children in AFDC. This decision appeared to us not to have been made on equity grounds, but rather on efficiency criteria—specifically on the argument that the labor supply effects of increasing cash benefits to children, and hence their parents, exceeded those of aiding the elderly. If we are correct in that interpretation, there remains an important equity question. That is, if we need not accept that SSI benefits exceed AFDC benefits for equity reasons, then we need not accept that there is clear evidence that on equity grounds the social welfare function puts greater weight on the elderly. In fact, the question is wide open.

From the perspective of trying to better achieve equity, the most important consequence of the recent history of OASI is that in the space of a mere twenty years a new source of consumption has been created which is disassociated from an individual's factor income—past or current—and which raises consumption levels well above contemporary conventional minimums. Were this command over consumption derived from factor income it would be taxed. Only its source keeps it from being taxed. One way to address this horizontal inequity is to make this new source of command over consumption taxable. The circumstance is quite analogous to the situation that prevailed when the personal income tax was first made constitutional.
In 1895 the first peacetime federal personal income tax, established by Congress during the preceding year, was declared unconstitutional, setting off the process that eventually resulted in the passage of the Sixteenth Amendment less than two decades later. The most prominent economist spokesman for the amendment was E.R.A. Seligman of Columbia University. He wrote about the tax voluminously, once at the request of the American Economic Association, itself only about a decade old. Seligman was for the tax, despite great reservations, because he thought it would promote horizontal, yes horizontal, equity. He arrived at his conclusion this way. The personal income tax was explicitly to replace the general property tax. The general property tax was, in Seligman’s view, no longer horizontally equitable because it did not reach income which rested on what we would now call human capital. A professional man and a merchant who in all relevant respects were equal would, under the general property tax, pay very different amounts. As Seligman saw it, a consequence of the rise of the professions was that equal treatment of equals came to require an income tax that thirty years earlier would not have been necessary. In current terminology, we would argue that the tax base needed to be broadened. If the base were not broadened, horizontal equity would be violated, since two individuals who differed only in the sources of their income would otherwise face different effective tax rates. The limited exclusion of OASI income from the tax base has the same consequence—households with the same before-tax income have different after-tax incomes if the income source in one case is earnings and in the other case transfers.

Although not based on quite the same argument we have, of course, begun to tax OASI income. (Ironically we have done so to finance other benefits for the elderly.) The question naturally arises however as to whether other transfer income should also be taxed. With other income transfers there is less confusion about whether double taxation is involved. Consider AFDC—should it be taxable? I think so, although I would not expect it to yield much revenue since full-time full-year receipt would leave the recipients below currently accepted concepts of minimum consumption. In those years and for those recipients for whom AFDC was a part-year phenomenon, however, the recipient might indeed reach the taxable threshold. If that were the case, horizontal equity would be promoted if some positive tax were to be paid. Arguing from the Haig-Simon definition of taxable income (annual consumption plus increase in net worth), which is of course entirely based on horizontal equity criteria, would lead to the same conclusion, and Pechman is led there by relying on it. A negative income tax would work similarly, but it, too, of course, derives rather directly from horizontal equity.

Considerable revenue might be raised from adding transfers to the tax base, if transfers were defined as Lampman defines them in deriving his concept of secondary consumer income. Quantitatively, the major important addition would be private insurance benefit payments, including life, disability, and casualty benefit payments. Current tax treatment of these receipts draws subtle distinctions and creates many categories—a circumstance ripe for spawning horizontal inequities. Was the annuity paid out of income previously taxed? Is it pure compensation for a loss? Is it a loss covered by life or by disability insurance? Are these differences Haig-Simon relevant or are they not? It’s a labyrinth in which any notion of horizontal equity must inevitably be trashed.

To sum up. The great success in reducing poverty and inequality effected by recent generations lies in the great increase in transfers, particularly transfers to the elderly. That success has as a side effect a horizontal inequity which was of no consequence as recently as twenty years ago. We should fix that inequity. One way to do that is by making transfers—all transfers—taxable. We could then independently evaluate directing the resources gained toward youth—in a way that’s taxable, of course.

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1 Quarterly Journal of Economics, 71 (1957), 234–266.