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EQUITY, EFFICIENCY, SOCIAL JUSTICE, AND REDISTRIBUTION*

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Redistribution has always been a contentious political issue, but recently the level of disagreement seems to have risen. Regardless of the amount of redistribution that has been done (and different countries have done very different amounts), there seems to be a general reluctance to expand current systems of redistribution and in many cases there are strong pressures to contract existing systems.

The reluctance to proceed or the desire to retreat are often justified as an appropriate reaction to the harsh trade-off between equity and efficiency. More equality means less growth and, given the economic problems of the 1970s, countries have simply decided to opt for more rapid growth and less equality. If the performance and equality of different economies are examined, this explanation does not stand up. There is no relation between the amount of inequality that different countries have been willing to tolerate and their economic performance.

In Table 1, various countries are ranked in accordance with their economic performance from 1960 to 1977. The Japanese were most efficient with a 7.5 percent rate of growth of per capita gross domestic product (GDP), while the British were least efficient with a 1.9 percent rate of growth of per capita GDP. The rest of the data in Table 1 indicate the degree of inequality in each country and the extent of the redistribution efforts. As can be quickly seen, there is no rank order correlation among performance, the degree of equality, or the extent of the redistributional effort. Different data sets would present slightly different rankings in the degree of inequality and extent of redistributional effort, but they would not alter the conclusion that there is little or no rank order correlation between these variables and economic performance.

Pre-tax, the country with the most equal distribution of income, Japan, has the best performance, while the country with the most unequal distribution of income, the United States, is near the bottom of the performance

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Table 1

Performance and Redistributional Effort

Country	Real Per Capita GDP Growth 1960-1977	Distribution of Income		Government Final Consumption (Percent of GDP)	Income Maintenance (Percent of GDP)
		Pre-Tax	Post-Tax		
		(Income top 20%/Income bottom 20%)			
Japan	7.5%*	5.6	5.2	11%	3%
Spain	5.0	---	7.1	10	---
France	4.1	8.6	10.9	14	12
Norway	4.0	8.3	5.9	17	10
Italy	3.8*	—	9.1	14	10
Canada	3.4	10.1	8.2	20	7
Netherlands	3.4	7.8	6.6	18	19
Germany	3.1	7.9	7.1	20	12
Sweden	2.7	6.8	5.6	25	9
Australia	2.6*	5.9	5.9	16	4
United States	2.5	11.8	9.5	19	7
United Kingdom	1.9	7.5	6.1	22	8

*1960-1976.

Source: United Nations, *1978 Statistical Yearbook*, New York, 1979, pp. 698-702; Malcom Sawyer, "Income Distribution in OECD Countries," *OECD Occasional Studies*, Paris, July, 1976, p. 14; OECD, "Development and Trends in Social Security Expenditures and the Distribution of Social Benefits," October, 1979, pp. 3, 6.

distribution. Wide differences exist in the extent to which countries succeed in redistributing income. Norway, the country with the largest pretax to post-tax movement toward equality, has a relatively good economic performance, but so has France, a country with relatively little or no redistribution according to these data. Countries at the bottom of the performance distribution do not systematically make larger redistributional efforts.

Similar conclusions can be reached by looking at the proportion of GDP going to government consumption or the proportion of GDP going to income maintenance activities. With the exception of the Japanese, the three countries that spend the least on income maintenance are at the bottom of the performance distribution. High proportions of government consumption seem more correlated with economic performance, but the differences mainly reflect military spending. If defense spending is removed from the totals, the differences in final consumption are small. U.S. final consumption, for example, drops to 13 percent.

Some good performers have a high degree of inequality and no redistribution; others have a low degree of inequality and substantial redistribution. Poor economic performers are equally mixed in terms of the degree of inequality and the extent of their redistributional effort. Whatever the connection between equity and efficiency, it is not a simple one where the willingness to tolerate inequality guarantees efficiency or is necessary to achieve efficiency.

No one doubts that there is a direct trade-off between more equality and efficiency in a perfectly competitive static neoclassical economy operating at 100 percent efficiency. The only question is the size of the effect. But dynamic real-world economies are another matter. They may or may not have reached real political limits on redistribution, but most of them have not reached any harsh economic limits.

This can be seen in the lack of any strong correlations between inequality and efficiency across countries, but it can also be seen in detailed microeconomic studies. Consider the case of the United States—one of the poor economic performers. More inequality would probably produce more savings, but it is equally clear that there are many ways to raise a society's savings rate. Japan, a country with one of the world's highest savings rates, is also a country with one of the most equal distributions of income. Governments can run surpluses in their budgets, require greater funding of private or public pension plans, decrease consumer and mortgage credit, or do a host of other things to raise savings. If they choose to raise the savings rate with more inequality rather than one of these other options, that is a political decision and not an economic necessity.

Individual work incentives are more of a problem, since there is no option to individual work effort. But work effort studies do not indicate that the United States has reached any redistribution limit. Three kinds of work effort studies have been done in the United States. One set of interview studies focuses on the work effort effect of high taxes on high-income individuals.[1] These studies have uniformly found that even when taxes were much higher than those now in place (there is now a 50 percent maximum tax rate on earnings) there was no adverse effect on work effort. Two factors accounted for this result. For the types of individuals who actually pay high tax rates, income effects (with a lower take-home income one must work harder to achieve same standard of living) dominate substitution effects (with a lower take-home wage rate, leisure becomes more attractive) and such individuals face a wide variety of non-monetary incentive systems. Power, prestige, promotions, fame—they all help to keep high-income individuals working hard in the face of high marginal tax rates.

The second set of econometric studies focuses on aggregate labor supply functions and is dominated by the labor supply characteristics of the average worker. Aggregate labor supply functions consistently show that taxes either have no impact on work effort or that the labor supply curve is actually backward-bending.[2] This is confirmed in the enormous increase in working wives. If current tax rates were a strong disincentive to work, these women would not be entering the labor force in massive numbers, since they often enter at their husbands' marginal tax rate.

The third set of studies focuses on the work behavior of those on welfare. In negative income tax experiments, families were given higher incomes and higher marginal tax rates. Since income and substitution effects work in the same direction, it is not surprising that a small adverse work effort resulted.[3] (Marginal tax rates of 70 to 80 percent and poverty line income grants—now $6,600 for a family of four—seem to result in a 10 percent reduction in work effort.) Alternative reward systems are also much less important for workers at this level. But what attracted an adverse political reaction was not the small reduction in work effort, but the

[1] Daniel M. Holland, "The Effects of Taxation on Effort," *Proceedings of the 62nd National Tax Association*, October, 1969, p. 428.

[2] See labor supply sectors in any of the major macro-economic models of the country—DRI, Wharton, or Chase Econometrics.

[3] Articles reviewing the results of the negative income tax experiments have appeared regularly in the *Journal of Human Resources*.

increase in divorce. Divorce seems to be a superior good that the poor buy when their incomes rise, but it is a good that the middle class does not want to give to the poor.

The results of such studies can be confirmed in another way. Compare the distribution of earnings for fully employed white males with that for the rest of the labor force (see Table 2). Unless one believes that the culture in which women, minorities, and unemployed white males exist is different from that of employed white males, there is every reason to believe that a reward structure that is capable of keeping white males on their economic toes is also capable of keeping other Americans on their economic toes. Yet, as can be seen from the data, white males have a much more equal distribution of earnings than the rest of the population. There is a 5-to-1 gap in the relative earnings of the top and bottom quintiles for fully employed white males, but a 27-to-1 gap for everyone else. Can economic efficiency really require five times as much inequality among minorities and women?

Table 2

Distribution of Earnings in 1977

Quintile	Full-Time Full-Year White Males	All Other
1	7.7%	1.8%
2	13.9	7.2
3	18.2	15.8
4	23.5	27.0
5	36.7	48.2
Mean Earnings	$16,568	$5,843

Source: U.S. Bureau of the Census, *Current Population Reports, Consumer Income*, No. 118, Series P-60, March, 1979, pp. 237-240.

The underground economy is also advanced as evidence that income redistribution has reached economic limits. But here again the evidence does not lead to that conclusion. Underground economic activity is still economic activity. It still contributes to output and well-being. When production leaves the taxable sphere it may affront our political institutions, but the only economic penalty is a reduction in government revenue. The real Gross National Product has not become smaller.

In the United States, the growth in the underground economy—if it has grown—is supposed to have taken place since the late 1960s. But this has been a period with a substantial reduction in the progressivity of the tax system. The maximum rates are lower on both earnings and capital income than they were in the forties, fifties, and early sixties. If the underground economy is growing, it is clearly related to changes in other cultural mores or to the examples set by national leaders. If presidents can legally or illegally avoid paying taxes, the average citizen will do the same. If legal loopholes are not "fairly" distributed, then the average citizen can simply go underground and make some loopholes of his own.

If governments want to stop the underground economy, there are also many enforcement procedures that can be employed. Reducing the level or progressivity of taxation is only one of many options. If taxes are reduced to solve the problem, that is a political decision and not one required by economic necessity.

While economic growth is often advanced as an argument for limiting further movements toward equality, this argument is a smoke screen that cannot be backed up with hard economic data. Advanced industrial societies may not wish to increase income equality, but this has to be argued as an ethical proposition. Economic growth does not require it.

THE SOCIAL CONSENSUS

Income transfer programs are on the political defensive because there has been a breakdown in the social consensus as to whether government should be taking actions to make the distribution of income more equal than it now is. While there has never been an explicit income redistribution consensus in the United States, there has been an implicit consensus that ran something as follows:

Income transfer payments and in-kind consumption goods should be used to deliver benefits to the poor and the lower middle class. Large human capital investments and government jobs should provide strong underpinnings for the middle class. The rich should benefit from a tax system that provides many opportunities for paying little or no taxes if one's affairs can be arranged properly, and government should act to support business profits. Minorities should receive the support of government through direct employment and affirmative action. Everyone should get something to help raise their absolute incomes, but government should give more aid to low-income groups so as to gradually reduce relative income differences.

The strategy flowing from this consensus worked and produced a significant movement toward a more equal distribution of per capita household income at a time when market earnings have been becoming more unequal (see Tables 3 and 4). What was an 11-to-1 top-to-bottom quintile income ratio fell to 7-to-1, while earnings ratios were rising from 19-to-1 in 1948 to 28-to-1 in 1977. Government made these conflicting trends possible. In 1977, government provided 60 percent of the income going to the bottom quintile, and wages in its manpower training programs directly accounted for 14 percent of the earnings going to the bottom 40 percent of the labor force.

In the United States the per capita mean income of the elderly has also reached parity with non-elderly, and the percent of the elderly living in poverty (14 percent) is only slightly higher than that of the entire population (12 percent). Median per capita elderly incomes still lag behind slightly, but, if in-kind consumption goods are considered, the median elderly household has also reached parity.

Working wives were the other factor that allowed a more unequal distribution of earnings to become a more equal distribution of household incomes. In the 1950s, 1960s, and early 1970s, women who were in households in the second and third quintiles of the income distribution were going to work more rapidly than women in other income classes. By working, they kept their family incomes rising in pace with those of the upper two quintiles even though their husbands' earnings were not rising as rapidly.

America's social consensus is breaking down for a number of reasons, but probably the most important is inflation. In inflationary periods middle and upper income groups feel that their real income is falling. As a result, they are no longer willing to support increases in transfer payments and may even demand cut-backs. There is no doubt that such a feeling is widespread in the United States, but the feeling is at variance with the facts.

In the decade of the 1970s real per capita disposable income rose 28 percent in the United States. This is slightly smaller than the 30 percent rise of the 1960s, but much larger than the 20 percent rise of the 1950s.[4] Nor were there any adverse shifts in the distribution of household income in the 1970s. Real income gains were evenly spread across the population. Why, then, the feeling of economic gloom?

The feeling is probably produced by a form of money illusion. This is a disease that never afflicts a rational "*homo economicus*" but burdens most

[4] *Economic Report of the President*, Washington, D.C., January, 1980.

Table 3

Distribution of Per Capita Household Incomes

Quintile	1948	1977
1	4.1%	5.6%
2	10.5	11.7
3	16.0	18.1
4	23.5	26.5
5	45.9	38.1

Source: U.S. Bureau of the Census, *Current Population Reports, Consumer Income,* No. 117, Series P-60, December, 1978, p. 19.

Table 4

Distribution of Earnings

Quintile	1948	1977
1	2.6%	1.7%
2	8.1	7.7
3	16.6	16.1
4	23.4	26.4
5	49.3	48.1

Source: U.S. Bureau of the Census, *Current Population Reports, Consumer Income,* No. 118, Series P-60, March, 1979, p. 237.

real human beings. While real per capita incomes were growing 28 percent, money incomes were growing 134 percent. Suppose a money man were to deliver $134, but were to then change his mind and take $106 back. Would you consider yourself better off or worse off? Objectively you are $28 better off, but you have seen the $134 and can imagine what life would have been like if you had really gotten $134 in increased purchasing power. You may even be able to persuade yourself that your real standard of living has fallen. And in some psychological sense you may be worse off.

This money illusion is compounded by a form of intrinsic puritanism. Everyone believes that their income is rising due to their own personal merit and that inflation then takes these hard-earned gains away from them. No one gives inflation credit for raising his income, yet inflation cannot occur unless it is raising someone's income.

Inflation also converts personal or industrial problems into what seem to be social problems. At any point in time in a dynamic growing economy, millions of incomes are rising and millions of incomes are falling. Without inflation, those suffering income cuts see this in the form of wage reductions. Since others are getting wage gains, they cannot argue that the system is failing everyone. But in an inflationary period everyone is apt to be getting wage gains. Some of those gains are simply smaller than the rate of inflation. But now the losers can believe that if only inflation stopped they would have had real income gains. Many college professors in the United States, for example, blame their falling real incomes on inflation, when the real cause is to be found in a downturn in the population and a large supply of new Ph.D.'s.

Whatever the cause and regardless of the truth, the middle and upper classes feel that they are worse off and can no longer afford income transfer payments. This feeling is partly due to inflation, but there is another problem.

As has already been mentioned, the second and third quintiles held on to their relative income position in the 1960s and 1970s by virtue of their wives going into the work force in greater numbers than wives in other income classes. This source of income equality has already vanished. Female participation rates are now rising most rapidly for wives with high-income husbands. If one believes in selective mating (that is, men are married to women who would make the same amount in an equal opportunity world), then the effects of higher participation are going to be magnified by higher earnings for these women. Because of working wives, the incomes of high-income households are apt to be rising much faster than those of the rest of the population in the early 1980s as they did in the late 1970s.

Table 5

Distribution of Government and Private Earnings
1976

Earnings ($000)	Military	Federal Civilian	State and Local	Indirect Government	Government Direct and Indirect	Private-Private
0-3	2.2%	12.4%	25.2%	24.3%	21.8%	30.5%
3-6	20.1	8.7	15.1	15.0	14.7	16.5
6-9	36.3	13.2	17.9	15.7	17.9	14.9
9-12	17.7	17.5	16.9	18.6	15.9	11.2
12-15	11.5	20.6	10.7	11.4	12.1	8.8
15-20	8.1	15.7	9.5	11.0	10.6	9.5
20-25	2.2	5.7	3.0	4.7	3.8	4.1
25-30	1.9	6.2	1.7	3.6	2.9	3.6
50 and up	----	0.1	----	0.7	0.3	0.8
Mean Earnings	$10,670	$12,929	$8,714	$9,367	$9,553	$8,431
No. of Workers (millions)	2.1	3.4	14.2	9.8	29.4	77.6

Source: Lester C. Thurow, "The Indirect Incidence of Government Expenditures," *American Economic Review*, May, 1980. Calculated from Census Bureau tapes and input-output tables of the U.S. Department of Labor.

But this means falling relative earnings for the second and third quintiles. With the gap between themselves and higher-income classes growing, they have a strong feeling that their real standard of living is falling. The inflation effects may be subjective rather than objective, but their relative income is falling and this leads to very real feelings of economic deprivation. The net result is middle and lower middle classes unwilling to pay for the transfer payments necessary to keep the income of the bottom quintile rising in pace with the rest of the nation.

With widespread feelings of economic deprivation, the social consensus on redistributing economic goods and services dissolves. Everyone feels that the country's major problem is raising their own personal income and that their taxes should be reduced. No one has any extra income to help anyone else. But this feeling and its political consequences often lead to reflexive actions that make the problem worse rather than better.

Nowhere is this more likely than in the idea that the middle class does not benefit from government and that it would be better off if only it could reduce the size of government. This ignores the enormous expenditures on roads, schools, parks, and other benefits that go principally to the middle class, but more importantly it ignores the incomes earned in the process of producing government goods and services.

In 1976, American governments (federal, state, and local) directly employed 18.4 percent of the labor force, or 19.7 million people.[5] Of these, 14.2 million were state and local government employees. In addition, government indirectly employed another 9.8 million employees who worked in the private economy but produced goods and services bought by government.

The data in Table 5 show the distribution of earnings for government employees, indirect government employees (those working in private industry but producing goods and services bought by government), and private-private employees (those working in private industry and producing goods and services purchased by private firms or individuals).

Government is basically a producer of middle and upper middle class jobs. Without government there would be many fewer middle class families. Governments, for example, directly employ 50 percent of all professional female workers. When government indirect demands are included, two-thirds of all women professional workers work for government. Government also pays white women a 28 percent premium over what they would

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[5]Lester C. Thurow, "The Indirect Incidence of Government Expenditures," *American Economic Review*, May, 1980.

make in the private economy. If government were to contract and the private economy were to expand by the same amount, the number of middle class jobs would fall. The private-private economy provides more low-income jobs and more high-income jobs, but fewer middle-income jobs.

The U.S. government is both a principal employer of minority groups and an employer who pays minorities groups higher wages than they would receive in the private economy. It is the principal route for minorities to enter the middle classes. While 18 percent of the entire population is employed by government, government employs 25 percent of all blacks. Black males receive a 17 percent premium in government and black females receive a 36 percent premium. Middle class minority incomes would fall sharply in any contraction of government.

Cutting government expenditures to alleviate middle class feelings of economic deprivation is, in the end, apt to intensify the feeling it was designed to eliminate. Middle class incomes will fall more than middle class tax payments.

With all of these factors leading to either imagined or real declines in absolute or relative incomes, it is not surprising that the social consensus has broken down. The feelings of affluence that allowed the vast expansion of transfer payments during the 1970s have disappeared and been replaced by feelings of deprivation that will inhibit the expansion of social welfare programs in the 1980s.

THE DISTRIBUTION OF INCOME IN THE 1980s

While I am not familiar enough with the detailed statistical data of other countries to generalize, the 1980s are apt to be a decade of rising inequality in the United States. Some of the factors leading to this result have already been seen in the breakdown of the social consensus as to how government should aid different income classes. Government is not apt to play the equalizing role in the 1980s that it played in the 1970s. The market distribution of earnings is growing more unequal. This trend can be expected to continue and will be augmented by the pattern of female labor force participation. Because of female work and changes in wage patterns, high-income households are going to be recording much higher income gains than low-income households.

To the extent that the 1980s witness a continuation and expansion of the current policies for fighting inflation, unemployment is going to be very high by historic standards. Since most of this unemployment will be concentrated among low-wage workers, this will further lower their income relative to upper-income groups.

The progressivity of the tax system is also apt to decline during the 1980s. Even without further additions to social welfare programs, regressive social insurance taxes will be growing relative to progressive income taxes. But there is also strong pressure to reduce the progressivity of the income tax to stimulate savings, investment, and economic growth. Direct arguments are now being made that a more inegalitarian tax system is necessary to achieve higher but more unequal incomes in the future. More inequality today and tomorrow is the price that must be paid for higher incomes tomorrow.

In the context of rising market inequalities, smaller increases in transfer payments, and more regressive taxes, redistributional issues are unlikely to disappear but to focus on market earnings. Both income and employment factors will focus social attention on the allocation of jobs. If high unemployment rates are not going to be lower in the near future, those without jobs can no longer be content with unemployment insurance and the knowledge that macro-economic stimulation will quickly bring them a job.

The public reaction to rising income inequalities is going to be interesting, since the United States has never had a period of rising inequality since income distribution data have been collected. These data were first collected in the 1930 census. At no point since then has the distribution of income grown more unequal. The 1930s and 1940s were periods of rapidly rising equality. The 1950s and early 1960s were periods of stability in the distribution of income. And the late 1960s and early 1970s were periods of modest growth in equality. While there were undoubtedly periods of rising inequality before 1930, no one knew what was occurring or had hard data to prove it. If the 1980s lead to rising inequality in the distribution of income, everyone is going to know what is happening.

OFFSETTING INEQUALITY WITH EDUCATION

In the early 1960s there would have been an easy answer to the problem of rising inequality in market earnings. Instead of worrying about jobs and wages directly, economists would have argued that rising inequalities in market earnings could be counteracted with rising equality in the distribution of human capital and appropriate macro-economic pump-priming. Pump a more equal distribution of human capital into a full employment economy and a more equal distribution of earnings will automatically flow out of the system. This strategy was followed, but we now know that it did not work.

Using education as a measure of human capital, government programs were successful in pumping a more equal distribution of human capital into the economy (see Table 6). From 1965 to 1976, the proportion of the work force with less than a high school diploma has fallen from 50 to 25 percent and the proportion with more than a high school diploma has risen from 11 to 35 percent. But a more equal distribution of earnings did not flow out of the economy. This was true for the entire economy (see Table 4) and for more homogeneous subgroups within the economy.

Table 6

Distribution of Man-Years of Education of the Work Force

Years of Education	1965	1976
0-7	17.4%	5.3%
8	15.0	5.3
9-11	17.7	14.3
12	29.8	40.4
13-15	8.9	17.7
16	6.8	10.1
17 and up	4.2	7.0

Source: U.S. Bureau of the Census, *Current Population Reports, Consumer Income*, No. 118, Series P-60, March, 1979, p. 194.

Among males 24-34 years of age who work full-time, full-year, the percentage with less than a high school diploma has fallen from 26 to 12 percent, while the percentage with more than a high school diploma has risen from 34 to 52 percent (see Table 7). In the face of this enormous change in the distribution of education, the relative earnings of the bottom three educational classes rose 5 percent and the relative earnings of the top three educational classes fell 6 percent. To close the earnings gap between top and bottom quintiles by 11 percent required 13 million man-years of education above that which would have been necessary to hold the distribution of education constant at 1968 levels. Using direct costs of $3,000 per man-year of education, $39 billion was necessary to achieve this change. If such a program were expanded to the entire labor force, an expenditure of $365 billion (or 21 percent of the Gross National Product) would have been needed to make the same improvement.

But there is every reason to believe that the effects of a more equal distribution of education disappear with age. Among those 55-64 years of

Table 7

Distribution of Relative Earnings for Males
by Educational Attainment for Those Who Work Full-Time Full-Year

Educational Attainment (Years)	25-34 Years of Age				55-64 Years of Age			
	Relative Earnings		Percent of Labor Force		Relative Earnings		Percent of Labor Force	
	1968	1976	1968	1976	1968	1976	1968	1976
0-7	63%	70%	5.2%	2.0%	63%	62%	21.5%	10.3%
8	78	85	5.3	1.6	75	75	20.3	11.2
9-11	85	86	15.5	8.8	86	87	17.6	14.8
12	100	100	39.8	35.7	100	100	22.8	35.5
13-15	111	109	14.8	21.4	114	122	7.9	12.7
16	138	122	10.6	18.0	199	157	5.3	7.7
17 and up	143	137	8.8	12.4	190	190	4.7	7.9

Source: U.S. Bureau of the Census, *Current Population Reports, Consumer Income*, No. 118, Series P-60, March, 1979, p. 194.

age, the changes in the distribution of education were if anything more dramatic. Those with less than a high school diploma fell from 59 to 27 percent, and those with more than a high school diploma rose from 18 to 28 percent. Yet the net reduction in relative earnings was only 6 percent, or half as large as that for the younger group.

While there was a modest reduction in the income differences among educational classes and a much more equal distribution of education, this did not show up in a more equal distribution of earnings (see Table 4). Even among the most preferred group, white males who work full-time full-year, the distribution of earnings did not become more equal (see Table 8). Although average earnings differentials for different educational classes were falling, the variance in earnings within each education subclass was growing so that there was no overall improvement in the distribution of earnings.

Table 8

Distribution of Earnings for Full-Time Full-Year White Males

Quintile	1968	1976
1	7.7%	7.7%
2	14.3	13.9
3	18.2	18.2
4	23.5	23.5
5	36.3	36.7

Source: U.S. Bureau of the Census, *Current Population Reports, Consumer Income*, No. 118, Series P-60, March, 1979, p. 238.

This occurs because education quickly ceases to be human capital and becomes a desirable background characteristic as the average level of education increases. The relevant form of human capital is that acquired on the job. Different individuals receive different on-the-job experience and training. As a result they earn different incomes even though their formal education is identical. But this creates a severe problem for governmental programs to affect the market distribution of earnings, because the distribution of human capital or potential earning power now lies outside the traditional domain of government. The job becomes the locus of human capital acquisition as well as the place where employment and wages are acquired.

But even if one believes that education can have an equalizing impact on market wages, there is going to be less of that impact in the 1980s than in the preceding decades. In the 1970s there was an enormous difference in the educational attainments of the cohorts entering and leaving the labor force. Those entering the labor force were educated in the post-World War II environment, and those leaving the labor force were educated in a very different environment prior to the war. But the 1980s will be a period where both those entering and leaving the labor force will have been educated after the war. While there has been some further equalization of educational attainments since World War II, the changes are very small in comparison with changes before and after the war. Thus education is going to offset less of the other factors leading to inequality in the 1980s than it did in the 1970s.

It is also unlikely that there will be any effort to increase or equalize average educational attainments. Age cohorts have reached an educational plateau where there are no longer year-to-year improvements. Rates of return on educational investments have also fallen far below those available on riskless bonds. More education is no longer a good private investment, and it is unlikely that governments will regard it as a good social investment. And even if they did, it would be difficult to persuade private individuals to sacrifice current earnings for more education. They know that it is not a good private investment even if their government has not yet reached this social conclusion.

SOCIAL JUSTICE

Perhaps the 1980s will simply be a decade where everyone accepts rising income inequalities, but it is more likely that it will be a decade of renewed interest in the distribution of market incomes. In the 1960s and the 1970s the focus of attention was on income transfer payments, but the 1980s are apt to be a decade where the major redistributional questions revolve around the market distribution of earnings.

Such a prediction is relatively safe in the United States, since there are large ethnic groups that have been, are, and will be demanding parity in income-earning opportunities. Blacks, Hispanics, women—each wants a larger share of the available job opportunities and each wants a larger share of the "good" job opportunities. Other countries do not have America's large ethnic groups and female workers do not seem to be quite so militant, but regional demands for income parity are growing everywhere.

The whole concept of group, as opposed to individual, justice is one that western societies find difficult to handle. Individual blacks may have been unfairly treated, but each and every black has not been unfairly treated. Consequently, remedies must come at the individual level (a case-by-case fight against discrimination or remedial programs for individuals) and not at the group level. Affirmative action programs or quotas that create special preferences for minorities are often fought on the grounds that they are unfair even if everyone agrees that many of the members of that group have suffered from unfair practices in the past. The western tradition is one of justice for individuals and not social justice for groups. Individuals are awarded voting rights and individuals are to have equal opportunities to achieve economic success.

But, at the same time, ours is an age of group consciousness. Economic minorities argue that group parity is a fundamental component of economic justice and that an optimum distribution of income consists of more than an optimum distribution of income across individuals. In doing so, they argue that they are not advocating something new but merely extending the old doctrines that are used to invoke aid for farmers or other industries.

Whatever the reason, it is clear that most countries are undergoing a process of balkanization. More and more groups are forming and asserting that government should intervene to bring their income up to parity with the majority or reference group. However it is done, each society is going to have to establish rules as to when it will recognize the groups' demand for parity and when it will resist that demand. When the economic protection that is now offered to farmers is expanded to everyone else, most economies will be frozen into an impossible situation. Economic change and growth will have become impossible.

Developing a theory of legitimate groups is going to be important, not only to determine which of the many new groups demanding recognition should be recognized, but to determine which of the many groups now being recognized—farmers, steel—should no longer be recognized. Probably the most fundamental issue facing advanced industrial societies is the issue of being able to decide when it should or should not intervene in the market to protect or raise some group incomes.

MAKING AND ENFORCING SOCIAL JUDGMENTS

In most industrial countries, marginality has been used to avoid having to decide what is ultimately fair or unfair. Instead of arguing about the nature of a just distribution of income, there is agreement on a marginal program to help this or that group or to make the distribution of income a little less unequal. This escape from having to face the issue of "What Is

Economic Justice?" is probably drawing to a close. Industrial societies are now facing a period where they must decide what groups do and do not merit parity with the rest of the society and what is or is not a fair distribution of household income.

Long before they reach complete equality, most societies will decide that they now have a distribution of income that is "equal enough" and shift their attention to other social problems. Long before every group has parity, society will have to learn how to make decisions that some group does not deserve to reach parity.

To what extent is the current back-pressure against income redistribution programs an expression of such sentiment? Is there a social or economic case to be made for more equality in those countries that have the more equal distribution of incomes? If there is such a case to be made, it is clearly incumbent on those that believe there is such a case to make it. If the case cannot be made, then there isn't much reason to worry about new directions in redistributional policies. Perhaps attention should focus on removing the redistributional aid going to groups, such as farmers (?), that should not be receiving such aid.

In a country such as the United States it is relatively easy to make a case for the need for more redistribution. There are large racial groups—blacks, Hispanics, American Indians—whose incomes are far below the income of the white majority. Women who work full-time full-year make less than 60 percent of what men make, and this has been true ever since the data were first collected in 1939. Among the poor, food stamps have eliminated much of the overt signs of malnutrition, but real hunger can still be found. The distribution of earnings is well within the limits set by economic incentives and the majority group, fully employed white males, has a distribution of income that is much more equal than that of the rest of the population. But the United States has one of the most unequal distributions of income of all industrialized countries. What applies here may not apply elsewhere.

In most countries the major redistributional effort has focused on the elderly. At least in the United States these programs have succeeded. Per capita elderly incomes have reached parity with the rest of the population. Economic deprivation is no longer automatically associated with old age. Income transfer payments are the only solution for those that are out of the labor force, but they are not the solution for the remaining groups that are in the labor force. If these groups are to be helped, the aid will have to take the form of policies designed to intervene in the market distribution of earnings.

The most dramatic change that has ever occurred in the American market distribution of earnings occurred during World War II. As part of the war effort and the widespread belief that the resulting burdens should be more equally shared, government wage regulations were used to narrow wage differentials. After a five-year war effort, these government-imposed wage differentials were so embedded in the structure of wages that they continued even after the regulations ordering them had been removed. Only recently have wages started to drift toward greater inequality.

The heart of this change was not the government regulations ordering wage differentials to be reduced, but the widespread social opinion that wages should be narrowed as part of an egalitarian war effort. It is this social opinion and not the government regulations that allowed wage differentials to be reduced. Similarly, it will be the presence or absence of this opinion in the future that will allow government to intervene to narrow wage differentials. The technical problems of exactly what programs are to be used to narrow the differentials are relatively minor in comparison with the social decision that the differentials should be narrowed.

In the United States the relative earnings of blacks rose in the late 1960s and early 1970s when there was a consensus that black earnings should rise. When the consensus disappeared in the mid-1970s, black earnings quit rising. But government programs did not change. The same laws and institutions existed. They just quit working in a different social context.

The time has come to worry about the vision that lies behind income redistribution programs and not about the technical details of this or that redistributional effort. What is that vision trying to accomplish? What part of that vision has been accomplished? What parts of that vision remain to be accomplished?