



Board of Governors
Peter C. Aldrich
Leon Botstein
David A. Levy,
Vice Chairman
Leon Levy
S Jay Levy, *Chairman*
Jack Nash
Dimitri Papadimitriou,
Executive Director

Board of Advisors
Philip Caldwell
Charles P. Kindleberger
Lord Harold Lever
Hyman Minsky
Franco Modigliani
Sen. Daniel Patrick Moynihan
Eugene Rotberg
James Tobin

January 7, 1990

TO: Members of the Inequality, Wealth, and Income
Distribution Research and Policy Team

FROM: S Jay Levy S J L

As you know, the Institute's focus in all its endeavors is to improve public policy by studying problems, finding solutions, and communicating recommendations to those who can influence government action. The Inequality, Wealth, and Income Distribution project was therefore designed to include a "policy forum," a group effort to recommend practical steps for improving upon current tax, transfer, and other policies that affect the division of the economic pie.

In particular, our goal is to provide policy-makers with guidance in two forms:

- 1) policy-oriented conclusions to each sub-project, including identification of policy problems and recommendations.
- 2) an integrated statement presenting the findings of the project within the context of a unifying theme.

By now you have received the preliminary program for the February 1-2, 1991 mid-point gathering of the income/wealth project. An important part of the meeting will be to identify and examine the leading policy issues raised by the research projects (and other, related issues) and to discuss possible solutions.

At the May 18 New York meeting and the October 20 meeting at the Institute, we held informal discussions that will help direct our efforts toward formulating policy statements. Some of the key points raised:

■ We must define policy problems, as distinguished from research problems.

■ The problems must be of concern to the broad population. For instance, while "increasingly skewed income distribution" may be of concern to economists, we need to articulate aspects of the problem with more popular impact such as "falling real wages," "rising poverty," or "the inability of many Americans to afford adequate housing and health care."

■ The costs of these problems--"the costs of doing nothing"--must be demonstrably serious enough to warrant a government response.

■ Recommendations must be salable in Washington. Given severe budget difficulties, recommendations to use resources more efficiently obviously have far more political potential than do plans requiring new resources. Also, the values and principles reflected in the solutions must be politically acceptable to voters.

The February meeting will be the first major step toward developing policy positions. In the discussion following the presentation of work-to-date on each project, we will examine the policy issues and possible government responses. We will also devote time to wealth and income issues not addressed by any of the eight projects. Finally, we will decide on the procedure for integrating the project's findings into a final statement to be issued at the time of our June conference.

In preparation for the February meeting, we ask you to consider the following questions relating to your research project, which will be raised after your presentation:

(1) What are the policy problems and tangible objectives in this area? We need to be as specific as possible.

(ii) What are the root causes of these problems?

(iii) What specific policy initiatives, revocations, or modifications could attain or make progress toward our objective? What programs have worked and might be modified or expanded?

(iv) What secondary costs or benefits would this policy have in other areas (creating incentives or disincentives, leading to dysfunctional behaviors, etc.)

(v) What does the current situation cost our society? What are the estimated costs and benefits of the recommended policy measure?

Also, we will discuss income/wealth issues more generally:

(i) What are the major socioeconomic problems concerning the distribution of wealth and income that should be on the government's agenda?

(ii) Can we identify, or invent, objective, practical indexes to measure the economy's performance on issues such as fair income distribution, opportunity and social mobility, "well-being," "misery," and perhaps some others? To the extent we can establish such measures, we can help clarify and quantify important problems that heretofore have been too amorphous for policy makers to act upon.

I hope you share my excitement and optimism about the potential of this project to play an important role in bringing about constructive policy initiatives or reforms. I look forward to seeing you in February.

SJL/sh