

Short note on the relationship between Distributional National Accounts and National Transfer Accounts

Upon Ron's request, let me briefly contribute to the discussion about Distributional National Accounts (DNA) versus NTA.

One way to compare DNA and NTA is to distinguish between redistribution across individuals in one period of time and from the younger self of one individual to his older self across different points in time (cross-sectional versus lifecycle analyses). In this approach, the large chapters of social programs (education, pensions, health care) are associated with the latter, whereas income and welfare support are considered cross-sectional.

In our coming paper¹ we apply a different approach. We distinguish between reallocations across income (or status) groups² and reallocations between age groups. Not cross-section versus lifecycle but status versus age. After all, both DNA and NTA can be (and are being) used in both cross-sectional and lifecycle analyses. Let me give just two simple examples. One: Piketty's comparison of bequests and lifetime labor income in a variant of Rastignac's dilemma ("Which fraction of a cohort receives in inheritance the equivalent of a lifetime labor income?") is based on estimated lifecycle values, not in cross-section. Two: the NTA-based institutional analysis of the inter-age transfer mechanism (chapters 7-9 of *Population Aging and the Generational Economy*) is cross-sectional, not lifecycle. In the end, the division of labor between DNA and NTA may prove to be more complex than the former being adequate in cross-section and the latter in lifecycle analysis.

The major strength of NTA is adding age to the analysis and, as a collateral benefit, the opening up of the black box of households, or in NTA parlance, the introduction of private transfers (including time transfers; see further details in Andy's table). I would look for the comparative advantages of NTA along these two lines.

Age can add new aspects to the analysis, such as the Paglin-Gini (the decomposition of cross-sectional inequalities to an age component and the rest), as well as its corrected variants (Paglin was rightly criticized for errors). He demonstrated that increasing inequalities in the 1960s were due to the expansion of education that modified the age-profiles of labor income. An equivalent of such an analysis could be to decompose the trends of widening inequalities demonstrated by Piketty, Saez and Zuchman (and Atkinson) and show that part of the increase is due to some cohort effects or changes in age-composition of something. Honestly, I doubt that this is really relevant – all I am trying here is to raise some potential questions in which an age-based approach, such as NTA, could add to the analysis of inequalities.

Age-profiles can also be useful in demonstrating the lifetime consequences of little differences at early ages. Think of the gap in lifetime earnings due to one additional year of education. However, that would require major developments in NTA.

Alternatively, if we focus on the rich private transfer (incl. time transfers) data of NTA we could add to DNA showing (if this is indeed the case) the income-related differences of the functioning of the inter-age reallocation mechanism. Say, that public transfers are more

¹ "What do welfare states really do?" (with Marton Medgyesi and Pieter Vanhuysse). This work is not the same as the parent versus non-parent paper presented at the first meeting of the workshop but a cross-country follow-up on our previous work on Hungarian data (NTA Working Papers 17-5).

² Using income groups is tricky because of the potential endogeneity.

important for the poor or people in the middle; and wealth transfers are more important for the rich (James and David are right that wealth is of major significance). PSZ seem to be aware of this, but we could undoubtedly refine this picture.