

**Comment on Carneiro, Hansen and Heckman: Removing the Veil of Ignorance in assessing the distributional impact of social policy**

Mårten Palme\*

The effect of individual heterogeneity, and how it should be handled, has been of primary interest over the last decade in studies aiming to estimate the average causal effect of education on labour earnings. In Carneiro, Hansen and Heckman's paper, individual heterogeneity is not only considered in the estimation, but also in the policy analysis. In the first step, they obtain entire distributions of contrafactual earnings distributions. In the second step, these distributions are related to the distributions ex post two hypothetical policy interventions. The second step enables the authors go behind what is referred to as the "Veil of ignorance" assumption of restricting the analysis to the "end-state", by also analysing where those who would have been affected by the policy reform are located in the income distribution.

A key issue in the prediction of educational policy effects is whether heterogeneity and selection are empirically important. If the marginal returns to education are much lower than the average ones, those who are affected by a policy initiative by shifting their educational level will expect a lower wage gain compared to those choosing a higher educational level, irrespective of the policy initiative.

The estimates of the marginal and average returns to education in this study suggest that the differences between these measures are quite small. For example, the point estimate of the average returns for College versus High School is 0.1517 compared to 0.1096 for the marginal individual with overlapping confidence intervals. Figures 3 and 4 also show that the estimates are remarkably similar between groups with different educational levels. This is, of course, encouraging for educational policy.

On the other hand, a very interesting, and somewhat surprising, result is that the heterogeneity within groups in returns to education appears to be very large. Figure 4 shows that a large share of college graduates actually experience negative returns to their college educa-

\* *Mårten Palme is associate professor at the Department of Economics, Stockholm University.*

tion, while a large share of those who stopped their education after High School would have made substantial gains by continuing to College.

Heterogeneity in returns to education seems to be important even in Sweden. Meghir and Palme (2001) use the assignment to the post reform school system in the social experiment between 1949 and 1962 preceding the comprehensive schooling reform, as an instrument for education. The results show that the returns for students with a below average result on IQ tests made at the age of 12 are significantly lower (with a point estimate at 3.7 percent per year of schooling for men) compared to those with an above average result (point estimate at 7.3 percent for men).

Carneiro, Hansen and Heckman's framework widens the normative scope of the traditional evaluation of social programs to also consider the income distribution effects of the policy intervention. The simulations of the two hypothetical policy initiatives show that both reforms have negligible effects on overall income inequality, since they only move people in the middle of the ex ante income distribution. Neither of the reforms benefited the poor. This is, however, probably a common feature of most policy initiatives towards College/University level education. In the light of previous research on returns to education (see Heckman, 2000), educational policy initiatives directed towards young disadvantaged children are probably much more efficient in alleviating poverty.

Finally, the framework suggested in the paper also opens up possibilities for a positive, political economic, analysis of educational policy since the income redistribution aspects of policy interventions can be measured. This is a very interesting perspective, since it allows for an analysis of why certain educational policy initiatives take place even though, from a normative perspective, there are obvious better alternatives. Swedish educational policy over the past decade can be characterized by shifting resources from the education of young children to adult secondary education. Although this policy has an obvious appeal to large groups of voters, research suggests that educational spending on young children has higher returns.

Carneiro, Hansen and Heckman's paper provides us with a framework for normative and positive studies on policy reforms in the education sector—well suited for Scandinavian economists, administrators and politicians who, although there are some clear overlaps in the

distributions, are on average more concerned about income inequality considerations than their American counterparts.

### **References**

- Heckman, J.J. (2000), Policies to foster human capital, *Research in Economics* 54, 3-56.
- Meghir, C. and Palme, M. (2001), The effect of a social experiment in education, Working Paper 451, Stockholm School of Economics.

