

Data Details Supporting “The Myth of American Inequality”

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John F. Early and Phil Gramm

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By Phil Gramm and John F. Early

This paper examines data behind the claim that income is distributed more unequally in the United States than in any other major, developed country. Proponents of that claim point to data published by the Organisation for Economic Cooperation and Development (OECD). A careful examination of the available evidence reveals that the OECD data submitted by the United States is incomplete and that the claim of the United States’ greater income inequality cannot be supported when more complete data are applied.

Basic Methods and Definitions

The OECD solicits data from statistical agencies in its member countries. The Census Bureau submits the data for the United States. OECD sets out general guidelines for the data to be used and the calculations to be made.

The individual national agencies, including the Census Bureau, compute the distribution for “household adjusted disposable income” – that is the number of households at each level of adjusted disposable income. The end-product of the OECD exercise is the calculation of a Gini coefficient for each nation based on that income distribution.

A **Gini coefficient** is indicative of the proportion of all household income that would need to be redistributed to achieve absolute equality. A Gini Coefficient would be 0.00 if every household had exactly the same amount of disposable income. The coefficient approaches 1.00 when one household has all the disposable income. Current OECD releases show Gini coefficients for major developed economies ranging from 0.39 in the United States to 0.29 in Germany.

Adjusted disposable income is generally defined by the OECD as

- Income from employment, self-employment, unincorporated business, interest, and dividends
- Plus government transfer payments received
- Minus taxes on individual income and wealth, including social insurance collections.

This paper measures the completeness of the government transfer estimates used for the United States. Other improvements could also be made in the various earnings components and the taxes, but they are relatively small and largely offsetting to each other.

The Census Submission to OECD

The first data column of Table 1 shows the average government transfers per household by income decile from the data that were submitted to the OECD by the Census Bureau and used in their calculation of adjusted disposable income and the Gini coefficient.¹ The per-household transfers were developed by Census from the Current Population Survey (CPS) that collects household reports of

¹ United States Census Bureau, OECD 2016-Wave 7.xlsx, provided by Jonathan Rothbaum, Chief, Income Statistics Branch; Social, Economic, and Housing Statistics Division.

specific transfers they received. According to the available documentation, the following transfers were explicitly included in calculating the United States submission:

1. Social Security
2. Unemployment insurance
3. Workers' compensation
4. Earned Income and Child Tax Credits (refundable component, both federal and state)
5. SNAP (food stamps)
6. National School Lunch Program (free/reduced price components)
7. Low-Income Home Energy Assistance Program (LIHEAP)
8. Housing subsidy (inferred to be Section 8 Housing Choice vouchers)

The second data column in Table 1 contains the aggregate government payments made to the households and was computed by multiplying the average transfer per household times the 12.622 million households per decile.

Table 1.

Per-household transfer receipts by adjusted-disposable-income decile, 2016

	OECD/Census	Computed
Decile	Transfers received per household	Total transfer \$ billion
1	4,522	57.08
2	6,853	86.50
3	6,266	79.09
4	5,950	75.10
5	5,488	69.27
6	5,594	70.61
7	5,130	64.75
8	6,429	81.15
9	6,977	88.07
10	7,742	97.72
Total		769.35

The Missing Pieces in the OECD Submission

The Census submission to OECD implies a total government expenditure for transfers of \$769.35 billion. The National Income and Product Accounts (NIPA) reported total government expenditures for transfers to persons as \$2,711 billion. NIPA does not include unattributable transfers² (\$199 billion) or Stafford loan subsidies (\$40 billion). If we total those missing pieces, then total government transfers to persons were \$2,950 billion in 2016. Social Security alone was \$910 billion, 18% more than the total submitted to OECD by the Census Bureau, which presumably includes it.

² Unattributable transfers are transfers that cannot be assigned to a specific person – for example social services to TANF (Temporary Assistance for Needy Families) such as income tax preparation, dealing with government offices, and general medical assistance at community clinics, and some legal assistance.

The OECD submission by Census is missing \$2,180 billion in transfers to persons, 74% of the transfer total. This research has tracked down those missing pieces. The following programs constitute most of the missing transfer expenditures:

1. Medicare
2. Medicaid
3. Another 86 federal transfer programs documented by the Congressional Research Service (CRS) and Senate Budget Committee.³
4. Transfers from state-only programs amounting to \$303 billion
5. Any programs spending less than \$100 million per annum, which were not captured in the CRS list.

Also missing are household transfers from programs that were counted by Census but that the survey respondent either failed to mention or understated. Census has documented that respondents systematically under-report both their participation in and the amount of money they receive from the surveyed programs. The degree of that under-reporting for transfers has been growing.

Filling in the Missing Pieces

The Congressional Budget Office (CBO) has plugged some of the holes in the estimates it prepares for budgetary analysis. Of the missing \$2,180 billion, the CBO has added \$1,362 billion. Medicare and Medicaid account for 76.9% of that addition. The remaining additions come from other programs that were collected in the Census CPS survey but were not reported in the Census Bureau's submission to OECD, for example, Supplementary Security Income (SSI) and TANF.

Our research builds on the CBO additions and incorporates the other \$818.25 billion. These additional transfers include approximately 90 programs not counted in either the Census or CBO tabulations, \$303 billion in state-only programs, and under-reporting in the other two sources. Table 2 displays the original Census submission of transfers, the augmented CBO estimates, and the more complete results of our research. Note that the income distribution has been reformatted from deciles to quintiles because the CBO data was developed that way.

The "more complete" estimates include all the transfers for which official government sources could be found. There are still other transfers that are not included but should be added in future research. Examples include the value of public housing and the amount of forced transfers created by rent control and affordable housing regulations.

³ United States Senate Budget Committee, "CRS Report: Welfare Spending: The Largest Item In The Federal Budget," 2013, Washington, DC and the Congressional Research Service, "Spending for Federal Benefits and Services for People with Low Income, FY2008-2011: An Update of Table B-1 from CRS Report R41625," October 16, 2012, Washington, DC for Means Tested Programs.
<https://www.budget.senate.gov/imo/media/doc/Spending%20for%20Federal%20Benefits%20and%20Services%20for%20People%20with%20Low%20Income,%20FY08-FY11.pdf> . See Appendix A for a list.

Table 2.

Transfers by income quintile from OECD, CBO, and this analysis

Quintile	Transfers \$ billions, 2016		
	OECD/ Census	CBO	More complete
1	143.58	665.09	995.88
2	154.20	610.36	894.22
3	139.88	423.35	581.48
4	145.90	246.83	292.31
5	185.79	185.79	185.79
Total	769.35	2,131.43	2,949.68

Other Nation's Reporting

With the available information from the other large, developed nations, it appears that the United States has significantly under-reported its transfers compared to the others.

The biggest missing pieces in the OECD submission are Medicare and Medicaid. Other nations do not have these, but there is no reason those should not be included. The fact that the United States organizes its policies differently does not make these expenditures less countable as transfers.

None of the other nations specify how they treat their national health services, so we don't know how they may have included them. But suppose they did not add the value of services from a national health service to their transfers, our addition of Medicare and Medicaid is still compliant with the OECD guidelines and should be submitted to ensure accurate comparisons. Four justifications include:

1. Perhaps most important, when queried about the inclusion of Medicare and Medicaid, Census responded: "we don't have Medicaid data available for OECD to use (we used to collect it, but tests showed it was not reliable enough)." The answer wasn't that it was out of scope, but rather that the data were not reliable and abandoned. That is a problem that can be fixed, and we have fixed it.
2. Also note that the Congressional Budget Office follows the above logic and includes Medicare and Medicaid among the transfers in its calculations.
3. By definition, a transfer for the OECD is a payment to or on behalf of an individual or household based on a specific list of characteristics such as income, wealth, or age. National health services do not condition their delivery on that basis. Those services are not transfers. In the United States, health care is bought by private individuals from mostly private providers. The elderly and poor get their care from the same set of providers, but some or all of their bill is paid for them by government. Those payments are transfers.
4. Whether the value of a national health service is included in the calculation of other nations, or not, it would have minimal impact on the Gini coefficient because the value of the services would be distributed independently of income, with the same amount being added, on average, to all levels of income. Any significant Gini coefficient effect from a national health service would come from the taxes to pay for it, which do vary by income, and the taxes are already included in the OECD calculation. In the USA, only the elderly, disabled, and poor get payments –

three of the OECD classes defining transfers. (Because the base to which the equal transfers are added is smaller for lower-income people, there would be some differential impact on the Gini calculation which uses percent of income, but it would be quite muted.)

The exclusion of most state and local transfers in the United States submission uniquely biases it. Of the top seven countries, Canada is the only one with a significant federal system, and even there most of the revenue is collected centrally and allocated for local administration. Nevertheless, some of the countries, for example Great Britain, report explicit tax breaks for local taxes as a transfer payment. The United States submission does include state refundable earned income and child tax credits, but there is no reason to exclude the other state transfers.

The United Kingdom counts the subsidies of mortgage interest rates underwritten by government, like FHA loan subsidies in the USA. These subsidies are entirely appropriate to include, but neither the Census submission nor the “more complete” estimates include them. The British also count the rebates of some local taxes.

Also, other nations report items that don’t belong as government transfers. France includes private pension plans because they say they can’t separate them from the social security plans, thereby inflating their government transfer numbers. (While the French classification exaggerates the size of government transfers, the ultimate disposable income is not affected.)

<https://stats.oecd.org/viewhtml.aspx?datasetcode=IDD&lang=en#>

A More Complete Gini Coefficient

For the data submitted to OECD, the average disposable income per household for the top quintile is 6.05 times larger than for the bottom one. That yields the 0.39 Gini coefficient reported by the OECD. But after adding the missing pieces to the calculation, the ratio between top and bottom is cut by 40% to 3.58. A Gini coefficient calculated on the more complete data would be 0.32.

Taxes

Relative to the peers elsewhere, U.S. households in the top 10% of income pay a greater proportion of the total taxes relative to their income than others do. Table 3 presents for each of the seven peer OECD countries the percent of income and percent of income-based taxes for the top 10% of the population, along with the ratio of those two percentages.⁴

⁴ https://read.oecd-ilibrary.org/social-issues-migration-health/growing-unequal_9789264044197-en#page109.

Table 3.**Top decile shares of income and income-based taxes compared.**

	2005		
	Share of	Share of	Ratio
	Income Taxes	Income	Tax share
	Top	Top	to Income
Country	Decile	Decile	Decile
Australia	36.8	28.6	1.29
Canada	35.8	29.3	1.22
France	28.0	25.5	1.10
Germany	31.2	29.2	1.07
Japan	28.5	28.1	1.01
UK	38.6	32.3	1.20
USA	45.1	33.5	1.35

Table 4 contains OECD data on the proportion of GDP that the top 10% and bottom 90% pay in personal income-related taxes (income tax plus contributions to social insurance).⁵

Table 4.

**Relative shares of personal taxes
paid by top 10% and remaining 90%
As percent of GDP**

Country	Personal taxes	
	Percent of GDP By Decile, 2015	
	Top 10 percent	Other 90 percent
Australia	4.3	7.4
Canada	6.0	10.7
France	7.1	18.2
Germany	7.4	16.4
Japan	5.8	9.3
UK	5.1	12.8
USA	7.6	9.2
Sweden	5.9	16.3

Table 5 contains the proportion of all taxes obtained from personal taxes (personal income tax plus contributions to social insurance).

⁵ <https://data.oecd.org/tax/tax-on-personal-income.htm>

Table 5.

**Personal income tax and contributions to social insurance
As percent of total taxes collected, 2015**

Personal income-related taxes as percent of total	
Country	2015
Australia	41.5%
Canada	52.0%
France	64.2%
Germany	56.0%
Japan	46.4%
UK	58.3%
USA	64.2%

Appendix A: Major Federal Transfer Programs to Low Income People

The following is a list of federal need-based (welfare) programs, assembled by the Congressional Research Service (CRS), “Spending for Federal Benefits and Services for People with Low Incomes, FY2008–FY2011,” Washington, DC, October 16, 2013. The original list has been rearranged to show which programs are included in the Census submission to OECD.

Note that Social Security, unemployment insurance, workers’ compensation, and veteran’s benefits, were, by definition, excluded from the CRS analysis, but they are included in the Census submission money income. Medicare was also not included in the CRS report, and it is not included in the Census submission.

At least partially in Census submission to OECD:

1. Supplemental Nutrition Assistance Program (SNAP – food stamps)
2. Refundable component of the Earned Income Tax Credit (EITC) (also included state refundable tax credits not included in the CRS report)
3. Additional Child Tax Credit
4. Section 8 Housing Choice Vouchers
5. Low-Income Home Energy Assistance Program (LIHEAP)
6. School lunch programs (free/reduced price components)

Not in Census submission to OECD:

7. Medicaid
8. Children’s Health Insurance Program (CHIP)
9. Public assistance (Temporary Assistance to Needy Families – TANF—and other unspecified cash assistance)
10. Supplemental Security Income (SSI)
11. School breakfast programs (free/reduced price components)
12. Public Housing
13. Family Planning
14. Consolidated Health Centers
15. Transitional Cash and Medical Services for Refugees
16. Voluntary Medicare Prescription Drug Benefit—Low-Income Subsidy
17. Ryan White HIV/AIDS Program
18. Breast/Cervical Cancer Early Detection
19. Maternal and Child Health Block Grant
20. Indian Health Service

21. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
22. Child and Adult Care Food Program (lower-income components)
23. Summer Food Service Program
24. Commodity Supplemental
25. Food Program Nutrition Assistance for Puerto Rico
26. The Emergency Food Assistance Program (TEFAP)
27. Nutrition Program for the Elderly
28. Government educational assistance (Pell Grants but not loan subsidies)
29. Indian Education
30. Adult Basic Education Grants to States
31. Federal Supplemental Educational Opportunity Grant
32. Education for the Disadvantaged—Grants to Local Educational Agencies (Title I-A)
33. Title I Migrant Education Program
34. Higher Education—Institutional Aid and Developing Institutions
35. Federal Work-Study
36. Federal TRIO Programs
37. Education for Homeless Children and Youth
38. 21st Century Community Learning Centers
39. Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)
40. Reading First and Early Reading First
41. Rural Education Achievement Program
42. Mathematics and Science Partnerships
43. Improving Teacher Quality State Grants
44. Academic Competitiveness and Smart Grant Program
45. Single-Family Rural Housing Loans
46. Rural Rental Assistance Program
47. Water and Waste Disposal for Rural Communities
48. Public Works and Economic Development
49. Supportive Housing for the Elderly
50. Supportive Housing for Persons with Disabilities
51. Section 8 Project-Based Rental Assistance
52. Community Development Block Grants
53. Homeless Assistance Grants
54. Home Investment Partnerships Program (HOME)
55. Housing Opportunities for Persons with AIDS (HOPWA)
56. Indian Housing Block Grants
57. Neighborhood Stabilization Program
58. Grants to States for Low-Income Housing in Lieu of Low-Income Housing Credit Allocations
59. Tax Credit Assistance Program
60. Indian Human Services
61. Older Americans Act Grants for Supportive Services and Senior Centers
62. Older Americans Act Family Caregiver Program
63. TANF social services
64. Child Support Enforcement

65. Community Services Block Grant
66. Child Care and Development Fund
67. Head Start HHS
68. Developmental Disabilities Support and Advocacy Grants
69. Foster Care
70. Adoption Assistance
71. Social Services Block Grant
72. Chafee Foster Care Independence Program
73. Emergency Food and Shelter Program
74. Legal Services Corporation
75. Supplemental Nutrition Assistance Program (SNAP) (employment and training component)
76. Community Service Employment for Older Americans
77. Workforce Investment Act (WIA) Adult Activities
78. Workforce Investment Act (WIA) Youth Activities
79. Social Services and Targeted Assistance for Refugees
80. Temporary Assistance for Needy Families (TANF) employment and training
81. Foster Grandparents
82. Job Corps
83. Weatherization Assistance Program

Additional means-tested programs identified by the staff of the Senate Budget Committee (United States Senate Budget Committee, "CRS Report: Welfare Spending: The Largest Item In The Federal Budget," 2013, Washington, DC)

84. Student loan subsidies
85. Federal fellowship grants
86. Lifeline free telephones
87. Bureau of Indian Affairs benefits

Additional programs identified by the staff of the Senate Budget Committee as having significant need-based components (United States Senate Budget Committee, "CRS Report: Welfare Spending: The Largest Item In The Federal Budget," 2013, Washington, DC)

88. Compensation for survivors of public safety officers
89. Compensation of victims of crime
90. Pension guarantee benefits
91. Disaster relief benefits
92. Radiation exposure compensation
93. Federal education exchange benefits