

Economic Inequality: Are We Measuring It Right and What Does It Mean?

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Our Inquiry Today

- ❑ Evaluate the data:
 - Income inequality
 - Poverty
- ❑ Assess both levels and trends.
- ❑ What official data miss.
- ❑ More complete measures.

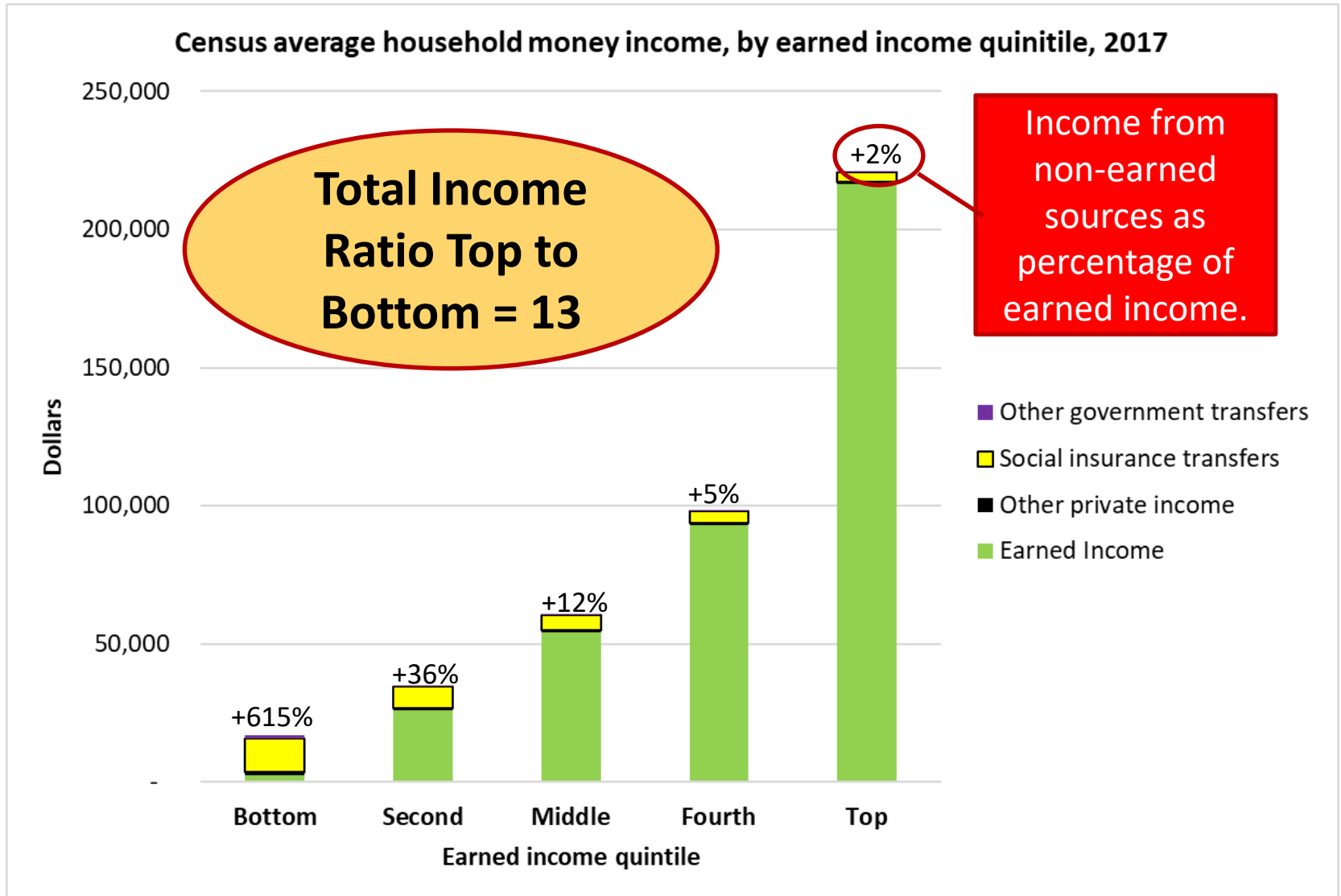
Census Money Income

Headline data for inequality and poverty

- ❑ Earned income
 - Employment earnings
 - Interest, dividends, rents, royalties, trusts
 - Private and employer-paid retirement, survivor, and disability
- ❑ Private transfers
 - Child support, alimony, education, other
- ❑ Social insurance transfers
 - Social Security (OASDI)
 - Unemployment & workers' compensation
- ❑ Other government transfers
 - Public assistance: TANF and state programs
 - Supplementary Security Income (SSI)
 - Education assistance

Census Money Income

Composition, Difference Ratios, Percent Additions to Earned

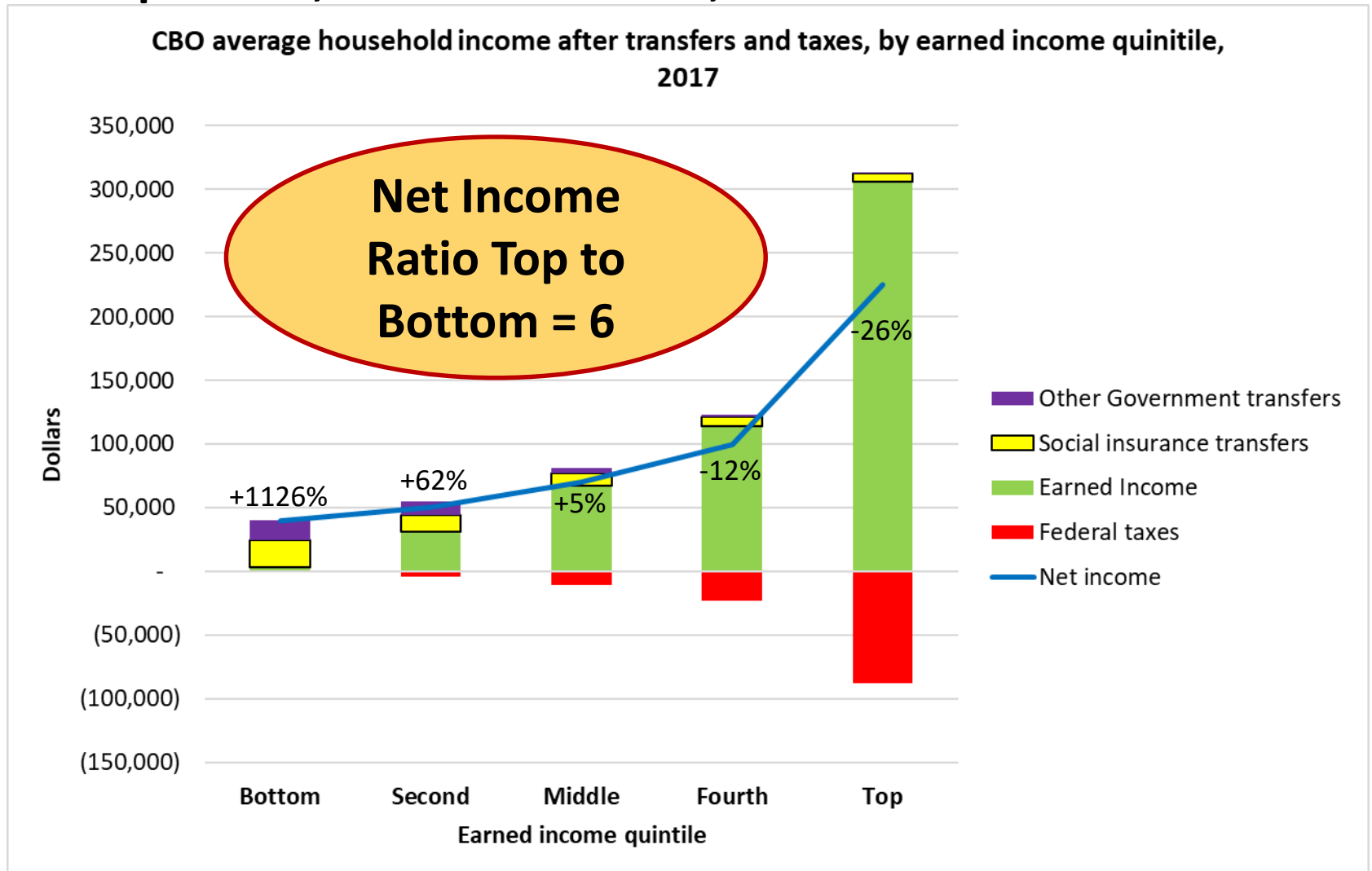


Census Money Income: What's Missing

- ❑ Excluded \$1,506 billion in transfers:
 - Medicare, Medicaid, and SNAP are largest.
 - Refunded tax credits.
 - Other nutrition, rent subsidies, home energy.
 - \$308 billion more.
- ❑ Under-reporting of included-transfers, \$139 billion.
- ❑ Employer-paid taxes, health insurance, etc.
- ❑ High end: capital gains and unreported
- ❑ Low end: second/sporadic employment, unreported
- ❑ 60% of earned retirement income
- ❑ Taxes

CBO Income After Transfers and Taxes

Composition, Difference Ratios, Percent Additions to Earned

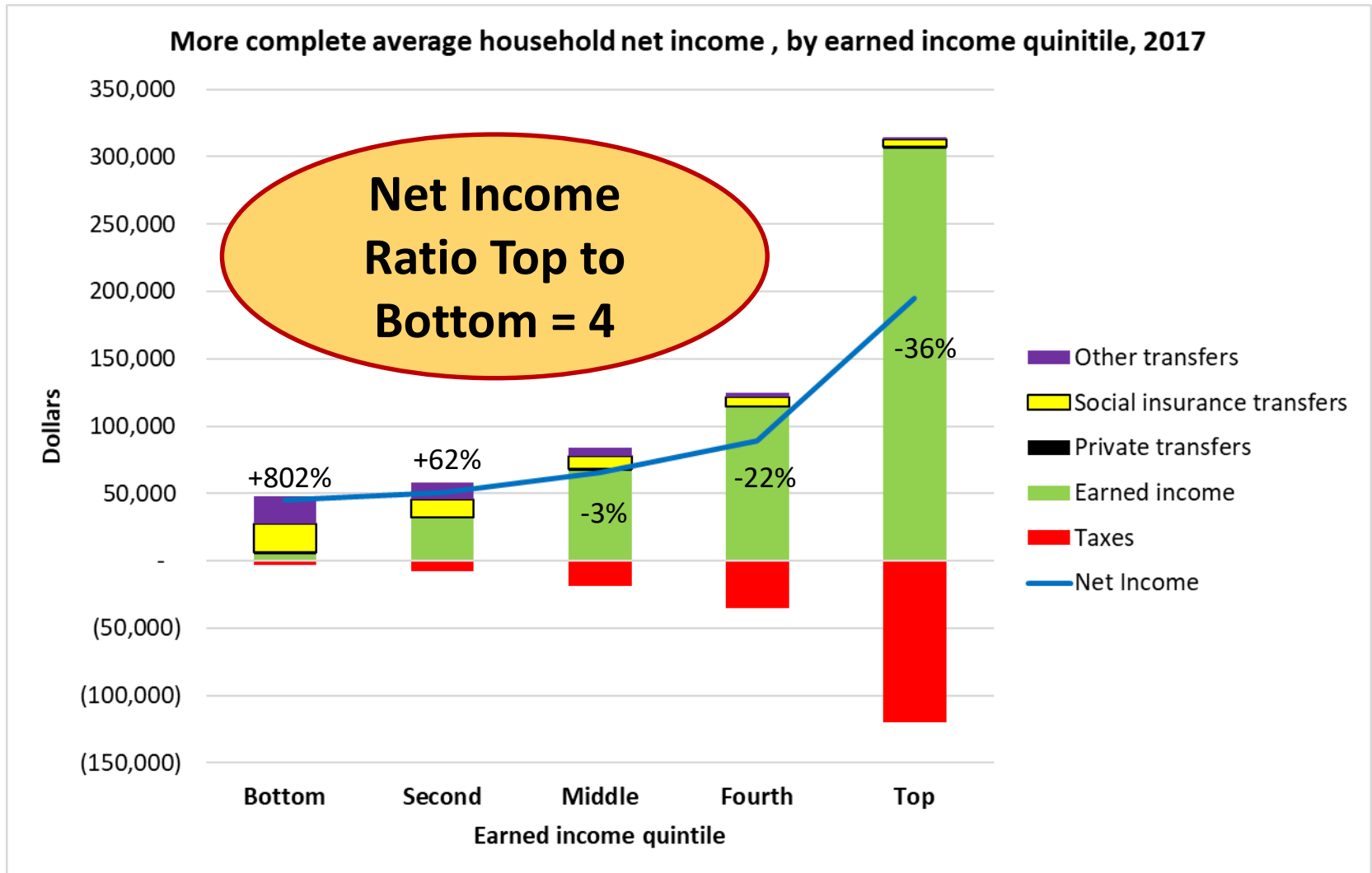


CBO Estimates: What's Still Missing

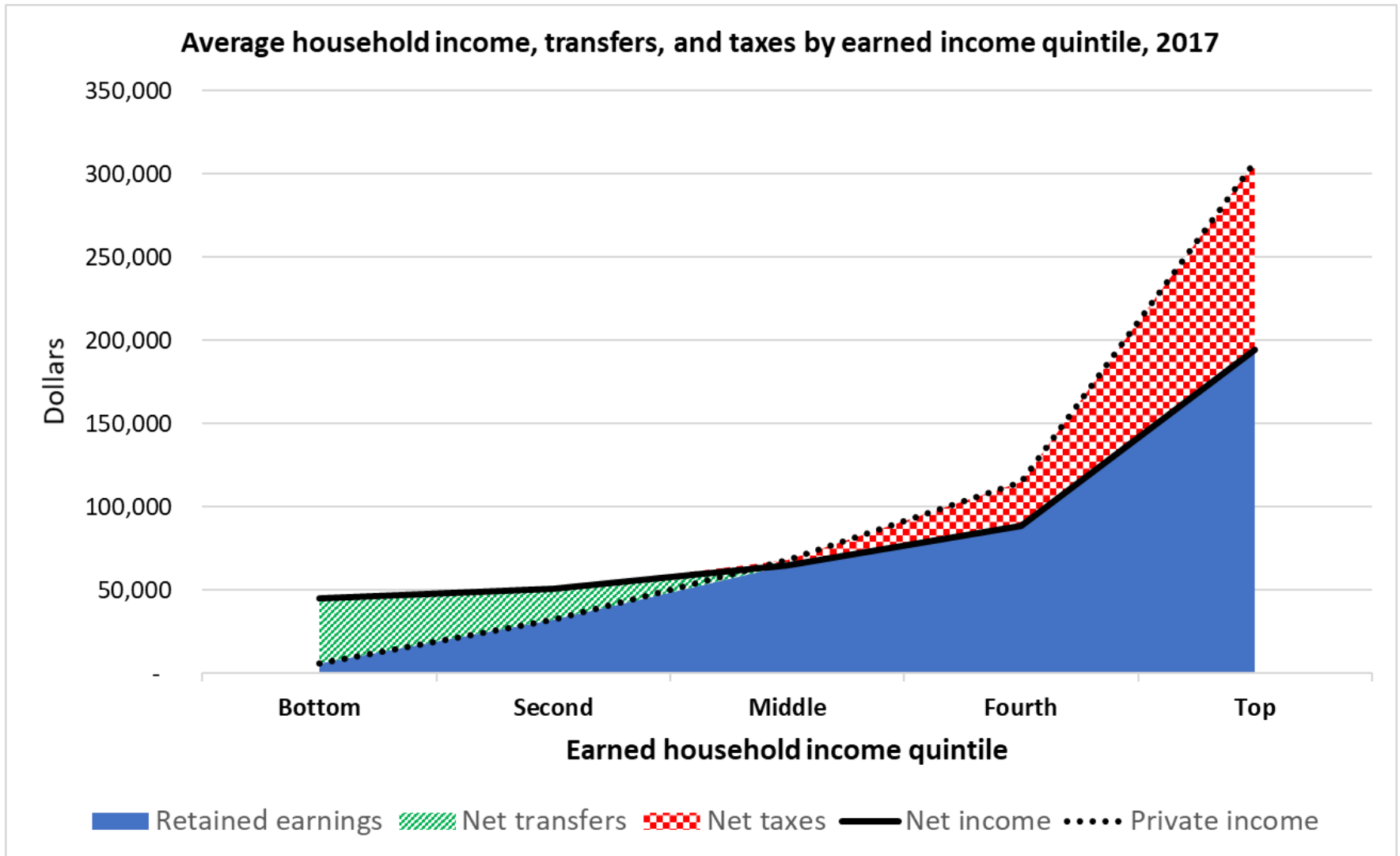
- ❑ State and local taxes, 4% of federal taxes.
- ❑ \$308 billion transfers omitted:
 - 71 identified federal programs.
 - State programs other than cash public assistance.
 - Student loan subsidies.
 - Most public housing.
 - “Unattributable” transfers.
- ❑ “Extreme” poverty cases – 64% aren’t poor.

More Complete Income Distribution

Composition, Difference Ratios, Percent Additions to Earned



Net Transfers, Taxes, Income

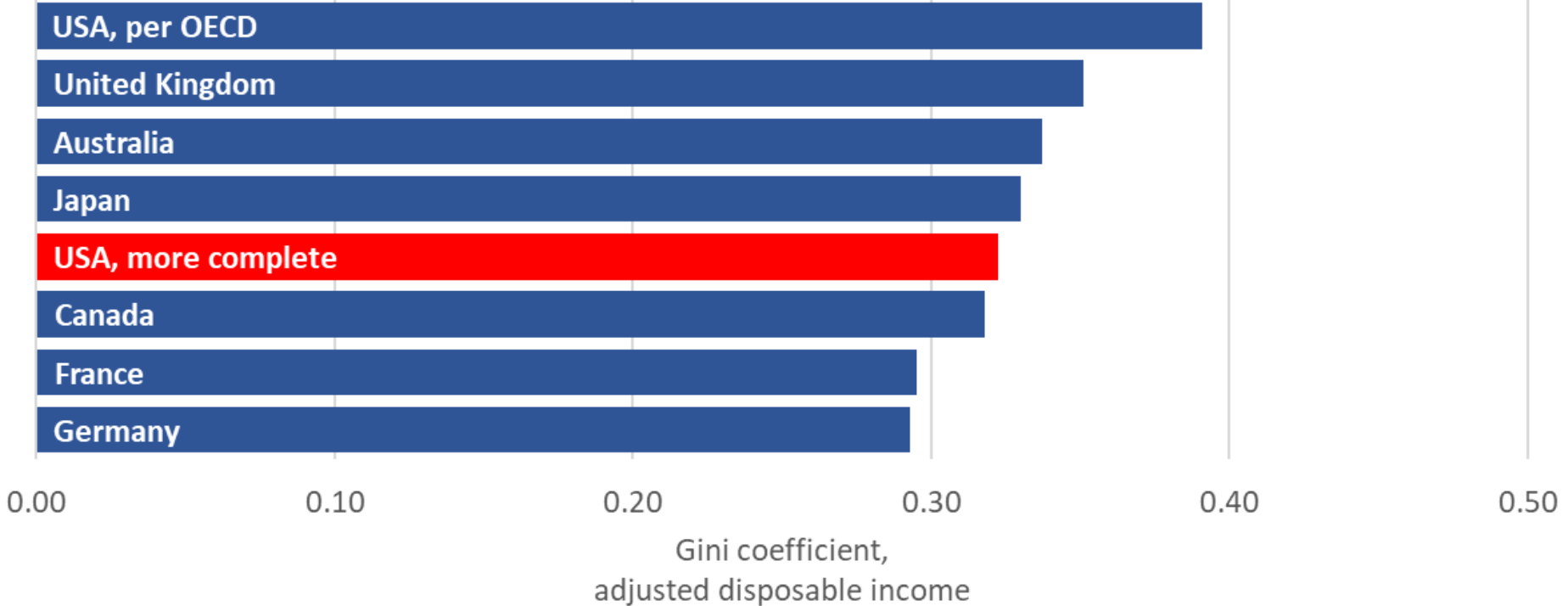


The Gini is Out of the Bottle

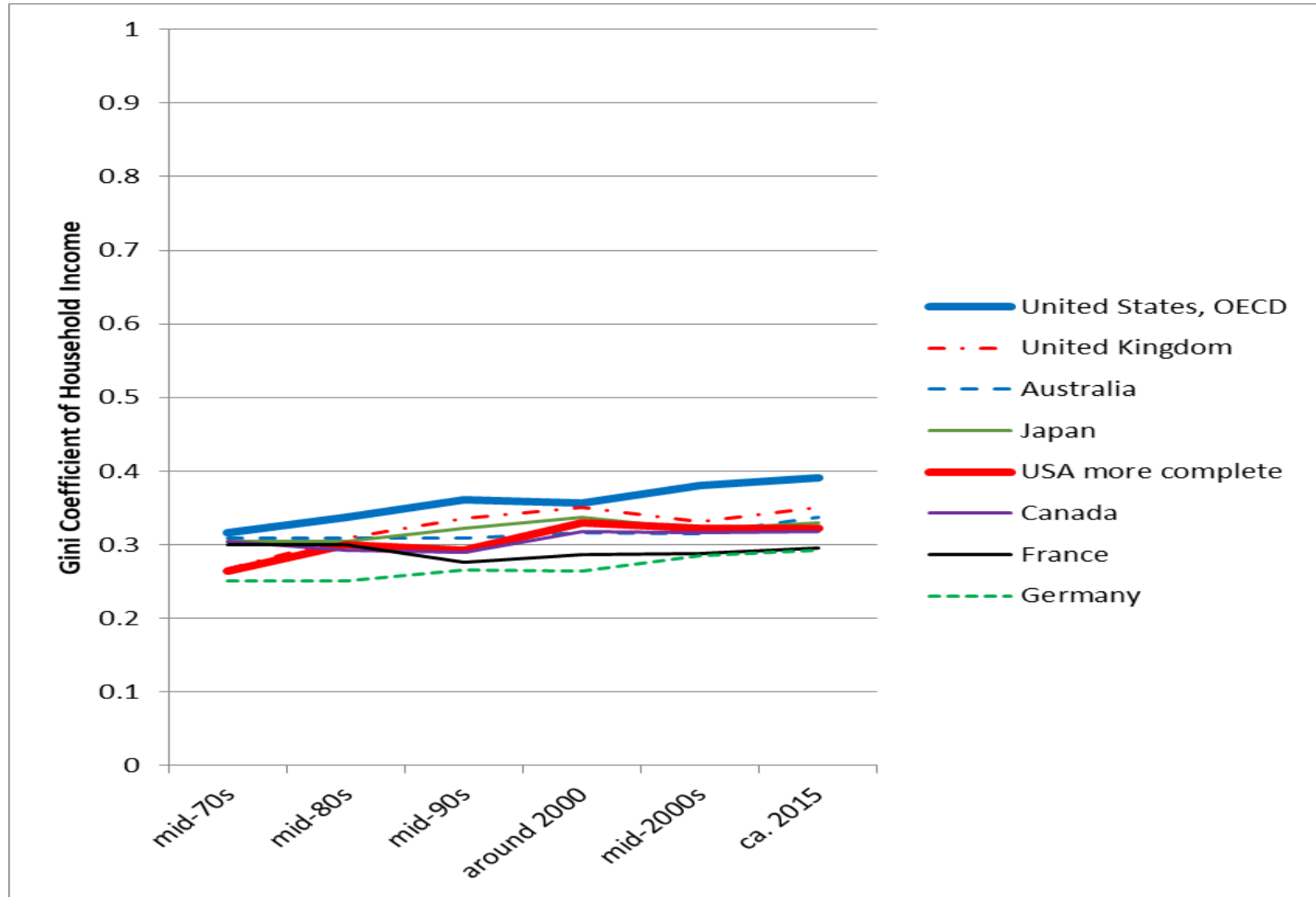
- ❑ Gini coefficient of inequality
- ❑ No inequality = 0.00
- ❑ One household has everything
 - $\lim_{n \rightarrow \infty} (Gini) = 1.00$
- ❑ Approximately, the proportion of measured income that must be redistributed to get exact equality.



OECD Publication of Gini's, ca. 2015



Gini Trends Major Advanced Countries



Poverty Incidence

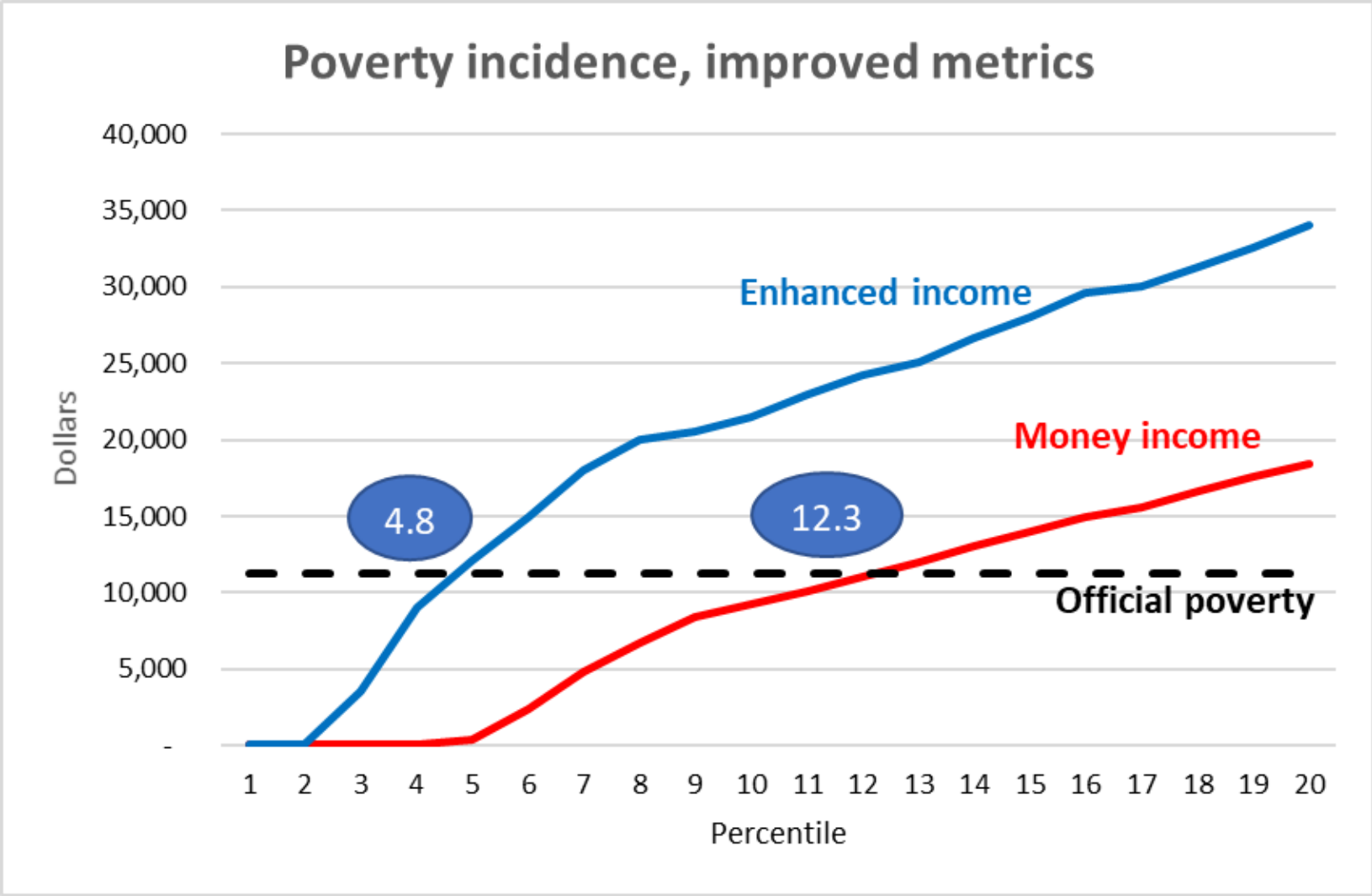
☐ Thresholds

- Cost of 1963 “economy” diet, times 3.
 - Agriculture/BLS family budget food plans.
 - “3X” from average family in 1958 survey.
- Adjusted for inflation by CPI-U

☐ Census money income

- All the limitations already discussed.

More Complete Income Effect on Poverty



Poverty Incidence

❑ Thresholds

- Cost of 1963 “economy” diet times 3
 - Agriculture/BLS family budget food plans
 - “3X” from average family in 1958 survey

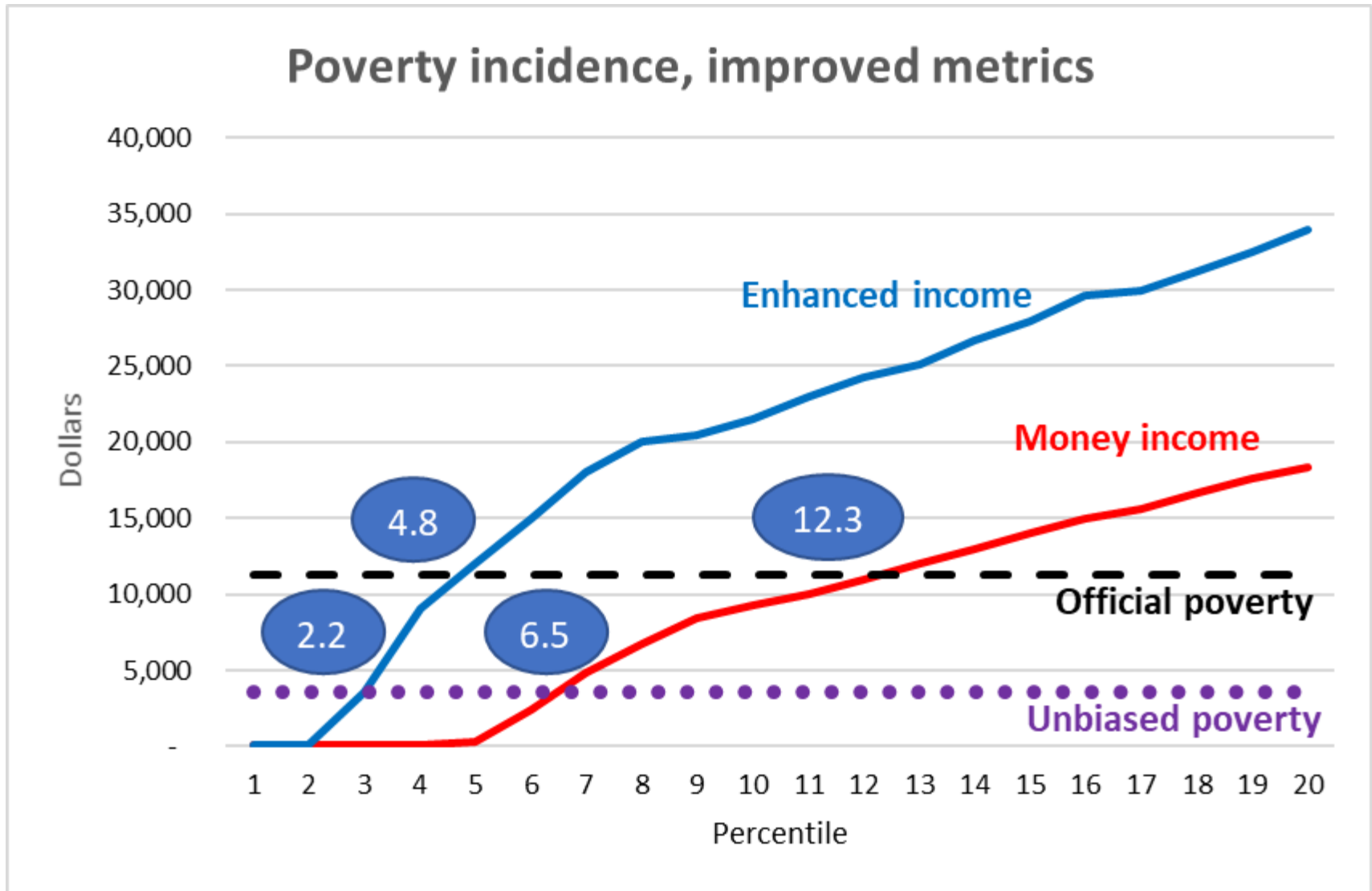
❑ Adjusted by CPI-U

- Substitution bias
- New product and quality bias
- Outlet bias

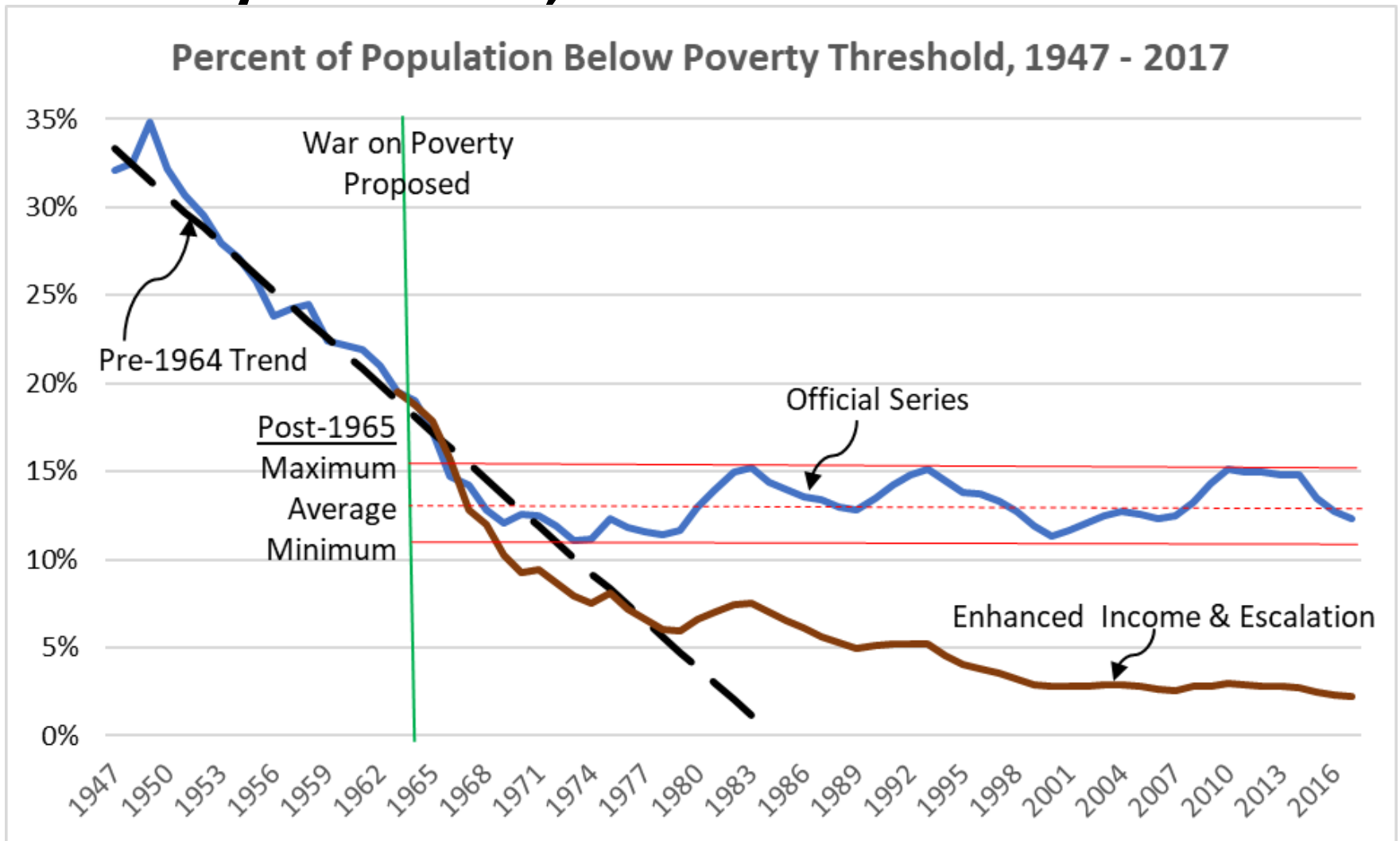
❑ Official increase 1963-2017: 701%

- Only 365% was true price increase
- 72% higher standard of living

Effects of Enhanced Income & Escalation



Poverty Incidence, Escalation & Income Effects



Summary

- ❑ Transfer payments and taxes eliminate 93% of earned income inequality.
- ❑ Income inequality in U.S. is not greater than in other advanced countries.
- ❑ Official data on income inequality overstate it by a factor of three.
- ❑ Official measures of poverty incidence are overstated by a factor of five.
- ❑ These are not accidental mistakes, but definitional failures to use all the information.