
Income Measurement and Inequality Measurement

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Measuring income

1. Pre-tax private cash income
 2. Census “money income”:
 - ❑ Same as #1 plus gov’t cash transfers (Social Security, Unemployment benefits, etc.)
 3. Cash income plus “near cash” income
 - ❑ Same as #2 plus food stamps
 4. Cash + near cash income minus Income + Payroll taxes
 - ❑ Same as #3 minus Income & Payroll taxes
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Measuring income

5. Cash + Near-cash + Imputed Noncash income +
Capital gains income + Imputed corporate income
 - ❑ Same as #3 PLUS—
 - Imputed value of employer health benefits
 - Imputed value of gov't health insurance (Medicare, Medicaid)
 - Realized capital gains
 - Corporate income that is imputed to owners of corporations
 6. All private + gov't provided gross income minus
direct and indirect federal taxes
 - ❑ Same as #5 minus Federal income & payroll taxes +
Federal corporate income taxes + Federal excise taxes
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Measuring income: Adjusting for household size

- At what level do we measure inequality?
 - Tax filing units
 - IRS data used by Piketty-Saez
 - Households – not adjusted for household size
 - U.S. Census Bureau
 - Persons, under assumption that household income is shared equally by each person in household
 - Luxembourg Income Study (LIS)
 - OECD
 - U.S. Congressional Budget Office
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Measuring income

1. Pre-tax private cash income

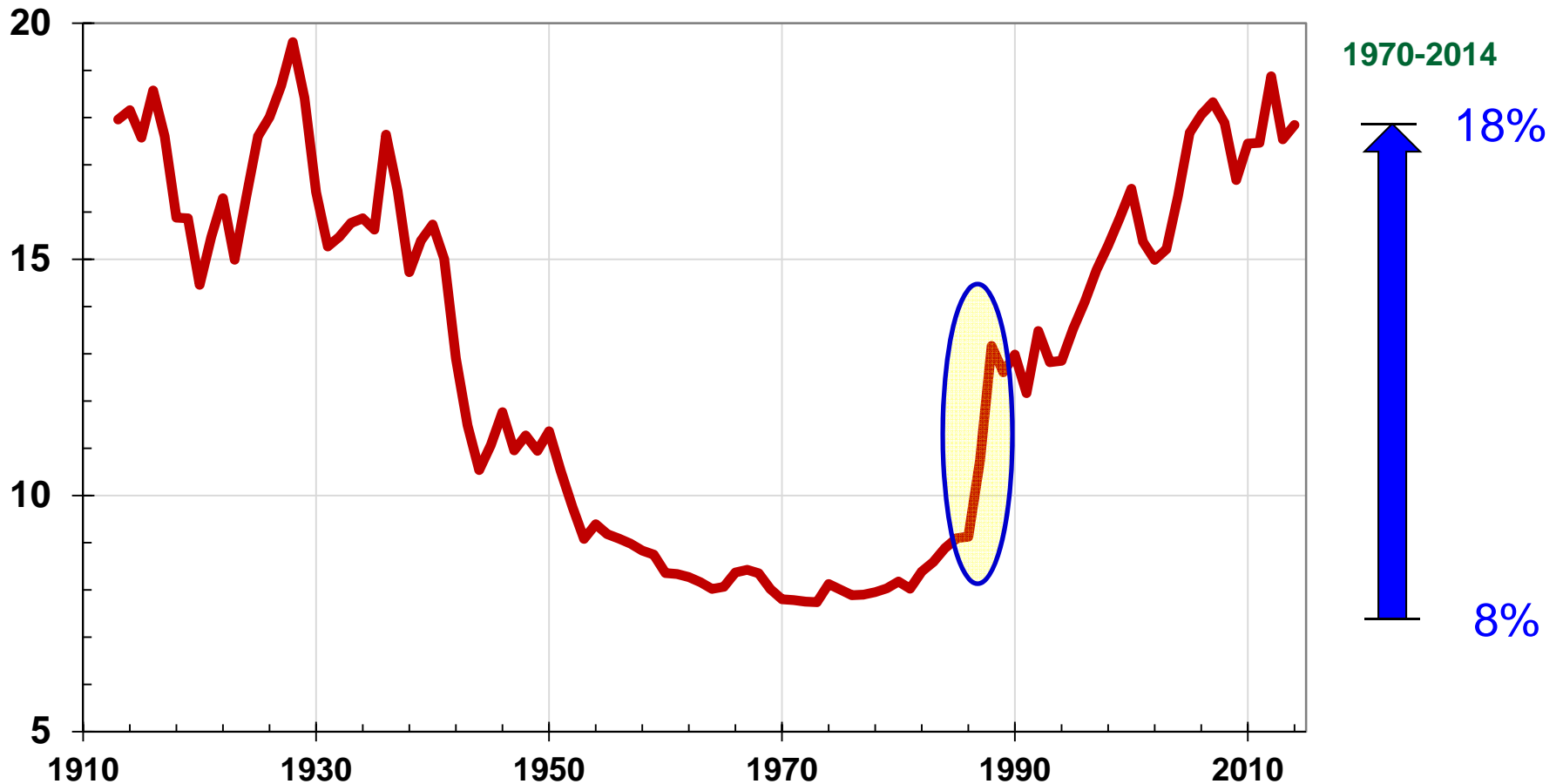
- ❑ Derived from Federal income tax return data
- ❑ This measure can include realized capital gains
- ❑ It differs from “Federally taxable data” because it excludes taxable Social Security and (government-funded) unemployment insurance income

Most famous use:

Piketty-Saez estimate of the “top 1% income share”

Measuring income inequality: Piketty-Saez

Share of private cash income received by the top 1% of U.S. income recipients (excluding capital gains)



Source: Piketty and Saez, tabulations of U.S. income tax data (2014).

Measuring income

1. Census “money income”:
 - ❑ Same as #1 plus gov’t cash transfers (Social Security, unemployment insurance, cash public assistance, etc.)

Most famous producer:

U.S. Census Bureau

Most famous uses:

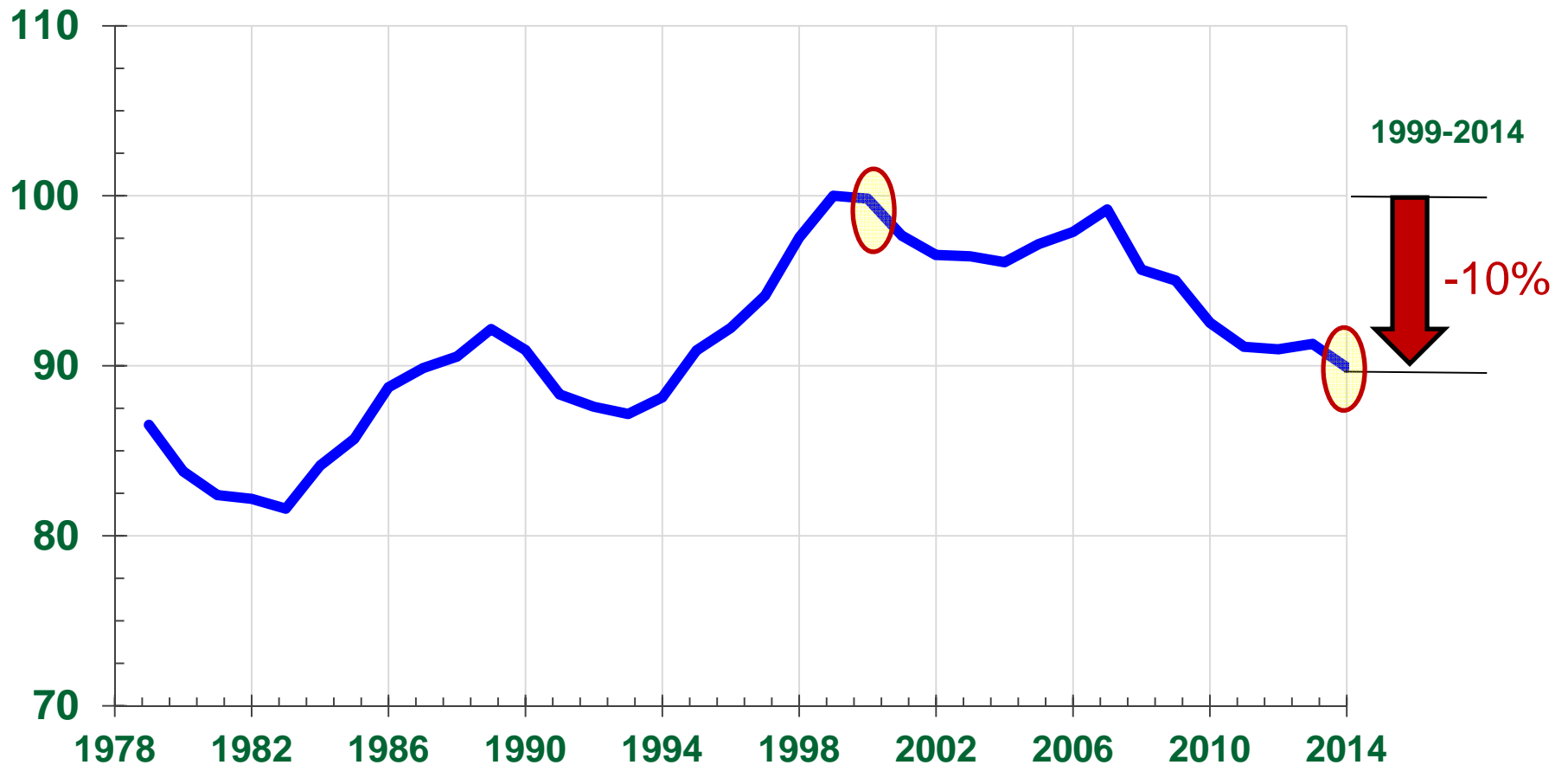
U.S. median household income

Official U.S. poverty rate

Household income “Gini coefficient” and income shares

Measuring income growth: U.S. Census Bureau

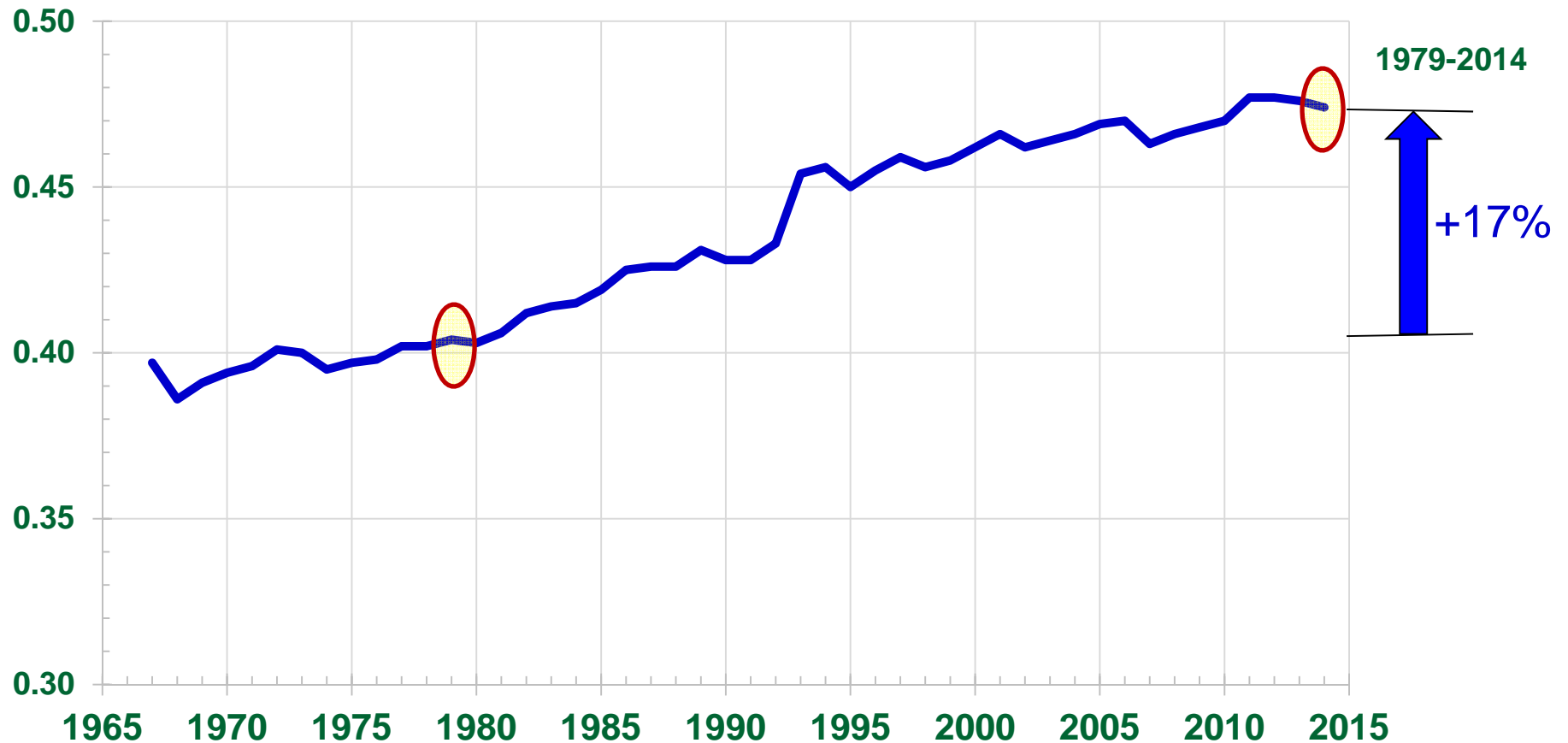
U.S. median household “money income” (1999=100)



Source: U.S. Census Bureau.

Measuring income inequality: U.S. Census Bureau

Gini coefficient of household money income inequality:
1967-2014



Source: U.S. Census Bureau.

Measuring income

- 4. Cash + near cash income minus Income + Payroll taxes
 - Same as #3 minus Income & Payroll taxes

Most famous producers:

Luxembourg Income Study; OECD

Most famous uses:

Compare inequality across rich countries

Compare “relative” poverty rates across rich countries

Measuring income

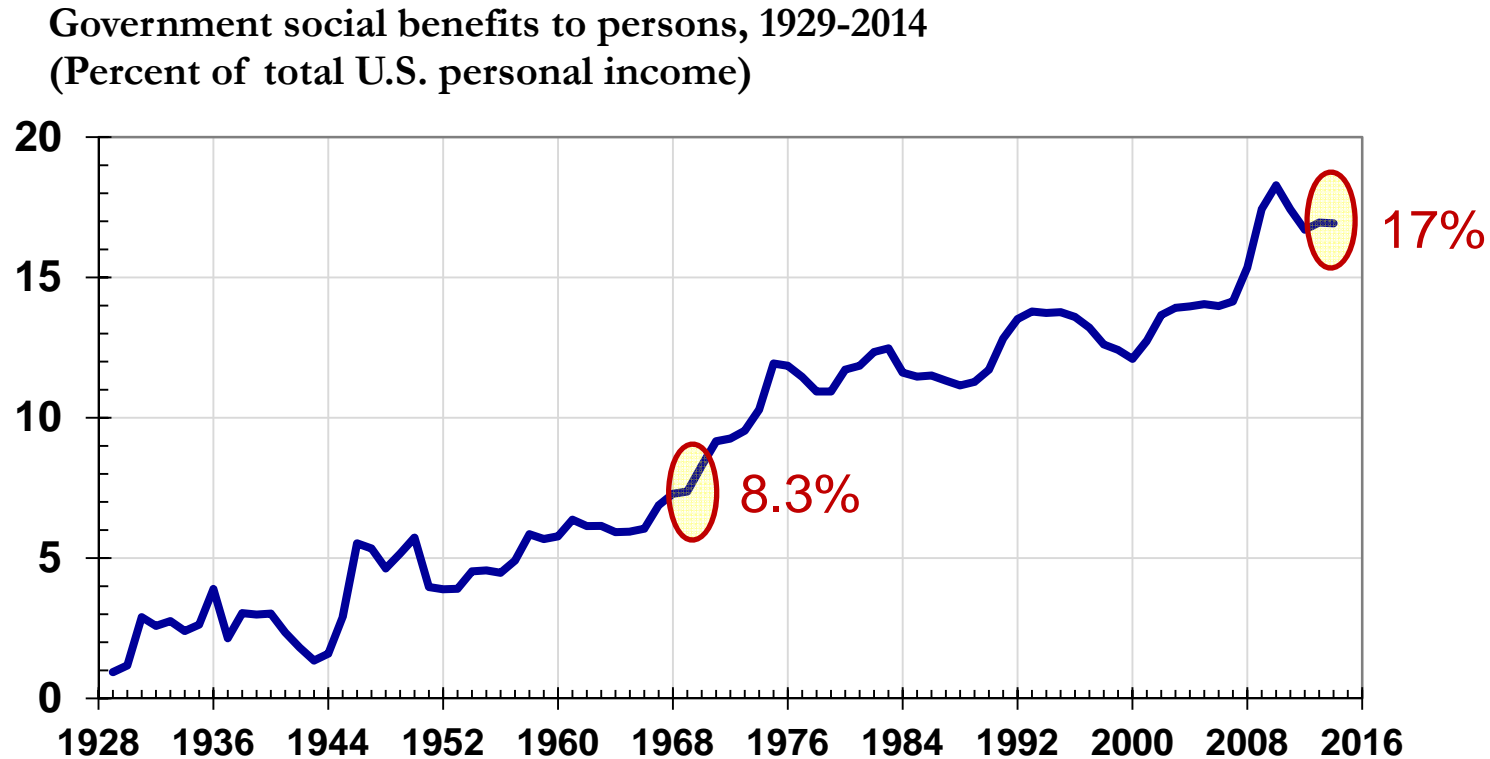
6. Cash + Near-cash + Imputed Noncash income +
Capital gains income + Imputed corporate income
– Federal direct & indirect taxes
- Imputed value of employer health benefits
 - Imputed value of gov't health insurance (Medicare, Medicaid)
 - Realized capital gains
 - Corporate income that is imputed to owners of corporations
 - MINUS: Federal income + payroll + excise + corporate income taxes

Most famous producer:

U.S. Congressional Budget Office

Measuring trends in income inequality: Problems

- Piketty-Saez estimate of “top 1% share”
 - Excludes government transfers (cash & noncash)
 - Excludes in-kind benefits from employers

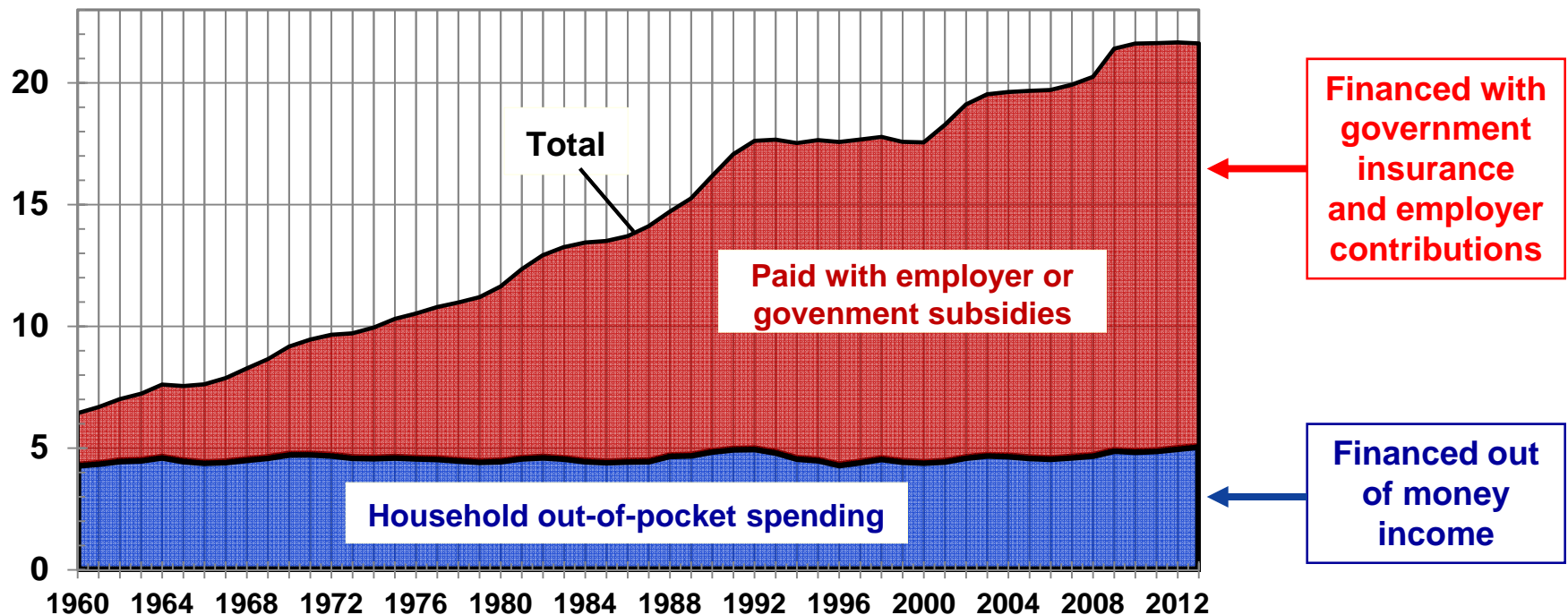


Source: U.S. National Income and Product Accounts.

Measuring trends in income inequality: Problems

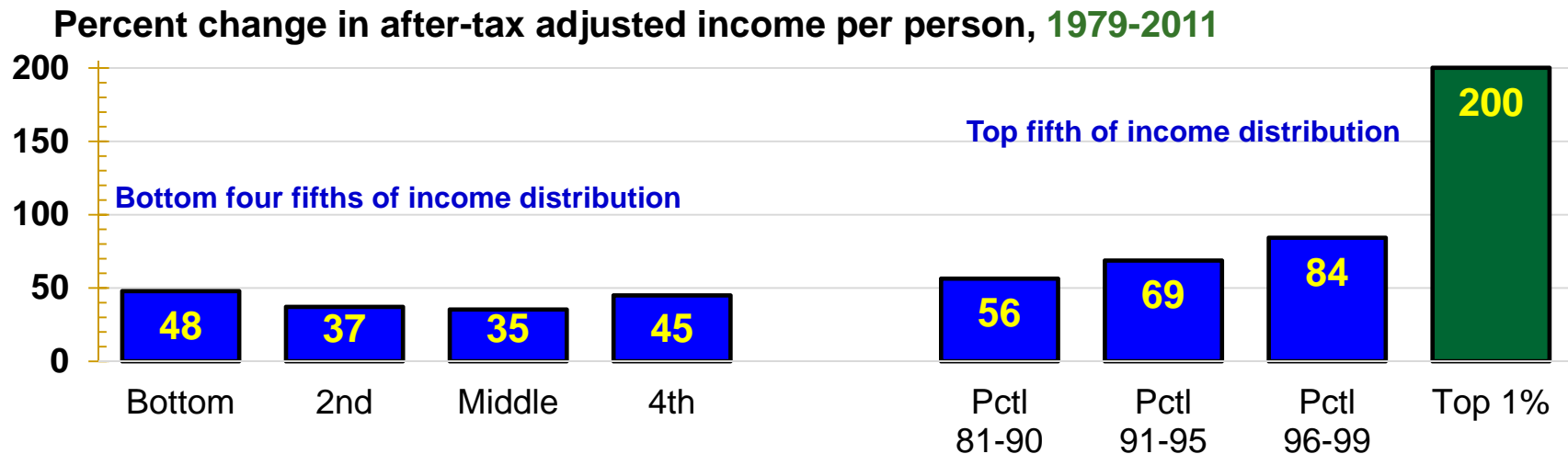
- U.S. Census Bureau “money income”
 - No adjustment for household size (households are now smaller)
 - Excludes in-kind benefits (from government and employers)

Personal health consumption as percent of total personal consumption expenditures



Source: U.S. National Income and Product Accounts.

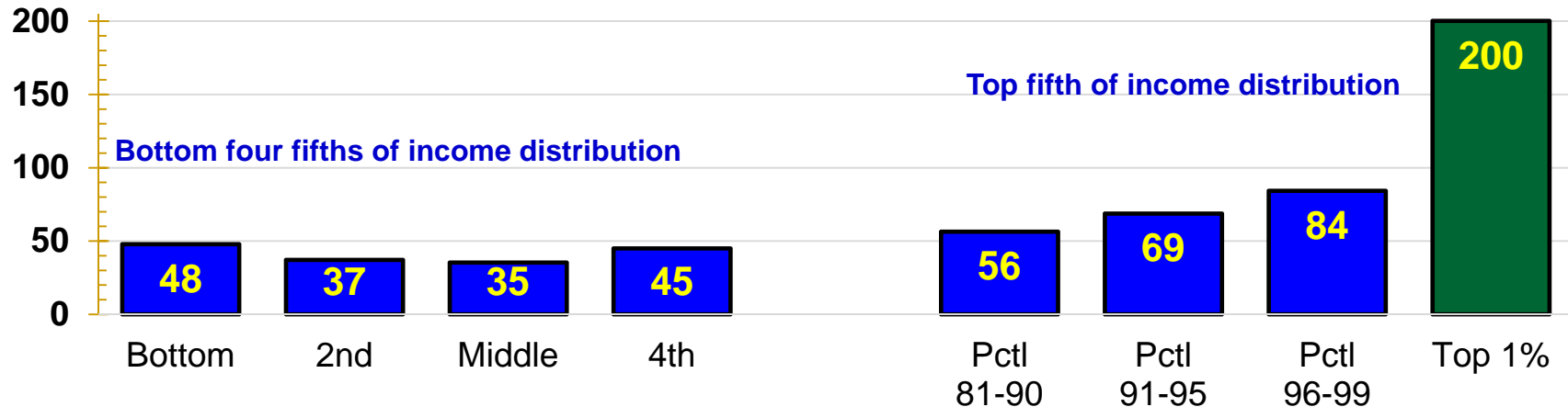
Measuring trends in income inequality under most inclusive income definition: U.S. CBO



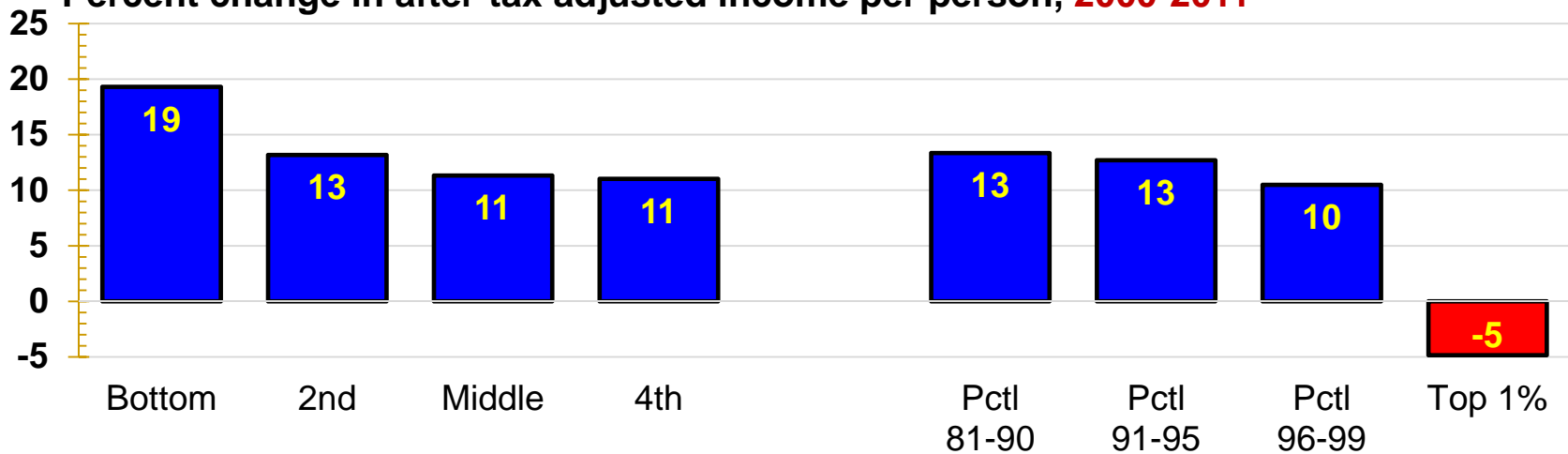
Source: U.S. Congressional Budget Office (2014).

Measuring trends in income inequality under most inclusive income definition: U.S. CBO

Percent change in after-tax adjusted income per person, 1979-2011



Percent change in after-tax adjusted income per person, 2000-2011



Source: U.S. Congressional Budget Office (2014).