Income Measurement and Inequality Measurement

Gary Burtless
THE BROOKINGS INSTITUTION

Roundtable Sponsored by the American Tax Policy Institute
The Urban Institute
January 7, 2016
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
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
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
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)

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


- 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

**Government social benefits to persons, 1929-2014**
(Percent of total U.S. personal income)

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)

![Graph showing personal health consumption as percent of total personal consumption expenditures.](chart.jpg)

- **Total**
- **Paid with employer or government subsidies**
- **Household out-of-pocket spending**

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

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

Bottom four fifths of income distribution

Bottom 2nd Middle 4th Pctl

81-90 Pctl 81-90

91-95 Pctl 91-95

96-99 Pctl 96-99

Top 1%

56 69 84 200

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

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

Bottom four fifths of income distribution
- Bottom: 48%
- 2nd: 37%
- Middle: 35%
- 4th: 45%

Top fifth of income distribution
- Pctl 81-90: 56%
- Pctl 91-95: 69%
- Pctl 96-99: 84%
- Top 1%: 200%

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

Bottom four fifths of income distribution
- Bottom: 19%
- 2nd: 13%
- Middle: 11%
- 4th: 11%

Top fifth of income distribution
- Pctl 81-90: 13%
- Pctl 91-95: 13%
- Pctl 96-99: 10%
- Top 1%: -5%