

# Reassessing the Facts about Inequality, Poverty, and Redistribution

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# Executive Summary

# Introduction

# How Unequal Are Incomes, Really?

**Table 1**  
**Distribution of United States household income, 2015**

Limit	Income range	Percentile	Households (thousands) in range	Limit (dollars)	Average for range (dollars)
Upper limit of	Lowest fifth	20	25,164	22,800	12,457
Upper limit of	Second fifth	40	25,164	43,511	32,631
Upper limit of	Third fifth	60	25,164	72,001	56,832
Upper limit of	Fourth fifth	80	25,164	117,002	92,031
Lower limit of	Top fifth	80	25,164	117,002	202,366
Lower limit of	Top 10 percent	90	12,582	162,285	265,068
Lower limit of	Top 5 percent	95	6,291	214,462	350,870
Lower limit of	Top 1 percent	99	1,258	390,000	853,866
Lower limit of	Top 0.1 percent	99.9	126	1,700,000	3,577,266
Lower limit of	Top 0.01 percent	99.99	13	8,400,000	10,162,775

Source: United States Census Bureau, Current Population Survey, 2016 Annual Social and Economic Supplement, 2016. Estimates of the 99th percentile and above are from Mark Price, Estelle Sommeiller, and Ellis Wazeter, "Income Inequality in the U.S. by State, Metropolitan Area, and County," Economic Policy Institute, June 16, 2016. See Appendix A, Online Technical Appendixes, <https://object.cato.org/sites/cato.org/files/pubs/pdf/pa-839-technical-appendixes.pdf>, for adjustments to make these estimates more comparable with Census Bureau estimates.

# The Congressional Budget Office Plugs Some of the Holes

**Table 2**  
**Percentage of selected financial totals contributed by each market income group, 2013**

Income fifth	Market income	CBO estimates			
		Social Security and Medicare	Other transfers	Federal taxes	Net income after taxes and transfers
Lowest	2.2	34.3	39.4	0.8	8.3
Second	7.0	24.3	32.0	4.2	11.1
Middle	12.6	16.9	20.7	8.6	14.5
Fourth	20.5	14.1	7.8	17.2	19.8
Highest	57.7	10.4	0.0	69.2	46.2
<b>Ratios</b>					
High to low	26.6	0.3	n/a	91.6	5.6
Mid to low	5.8	0.5	0.5	11.4	1.7
High to mid	4.6	0.6	n/a	8.0	3.2

Source: Congressional Budget Office, "The Distribution of Household Income and Federal Taxes, 2013," November 2016.

Notes: Author adapted data to (a) move EITC from a negative tax to a positive transfer, (b) reconcile taxes to a market-income-group basis, and (c) adjust rounding to ensure consistency with other data. CBO = Congressional Budget Office; n/a = not applicable.

**Table 3**  
**Reconciliation of total income transfers and computation of additional transfers**

	Transfer and related expenditures (\$ billions), 2011							
	Congressional Budget Office		National Income and Product Accounts			Congressional Research Service and U.S. Senate Budget Committee		
	Total	State and local	Total	Federal	State and local	Total	Federal	State and local
<b>Total transfers</b>	1,592.0		2,316.9	1,772.5	544.3	1,029.0	746.0	283.0
Less OASI	577.4		581.3	581.3	—	—	—	—
Less Medicare	512.4		515.9	515.9	—	—	—	—
Less EITC			63.0	63.0	—	63.0	63.0	—
<b>Transfers excluding OASI, Medicare, and EITC</b>	502.1		1,156.6	612.3	544.3	966.0	683.0	283.0
Less unemployment benefits	46.6		46.6	0.9	45.7	—	—	—
Less workers' compensation	13.5		13.5	0.3	13.2	—	—	—
Less disability benefits	126.8		126.8	126.8	—	—	—	—
Less black lung benefits	0.2		0.2	0.2	—	—	—	—
<b>Other transfers excluding major federal benefits</b>	315.0		969.5	484.1	485.4	966.0	683.0	283.0
Add unattributable federal transfers				198.7				
Add state-only transfers								202.4
<b>Reconciled other transfers</b>			1,168.3	682.9	485.4	1,168.4	683.0	485.4
<b>CBO underreported and excluded benefits</b>	853.3							
Plus Stafford student loans	40.0							
<b>Additional transfer payments</b>	893.3		Percent increase NIPA transfers to 2013 per household				3.79 percent	
<b>Additional transfer payments per household</b>	7,294.97		2013 additional transfer payments per household				7,571.69	



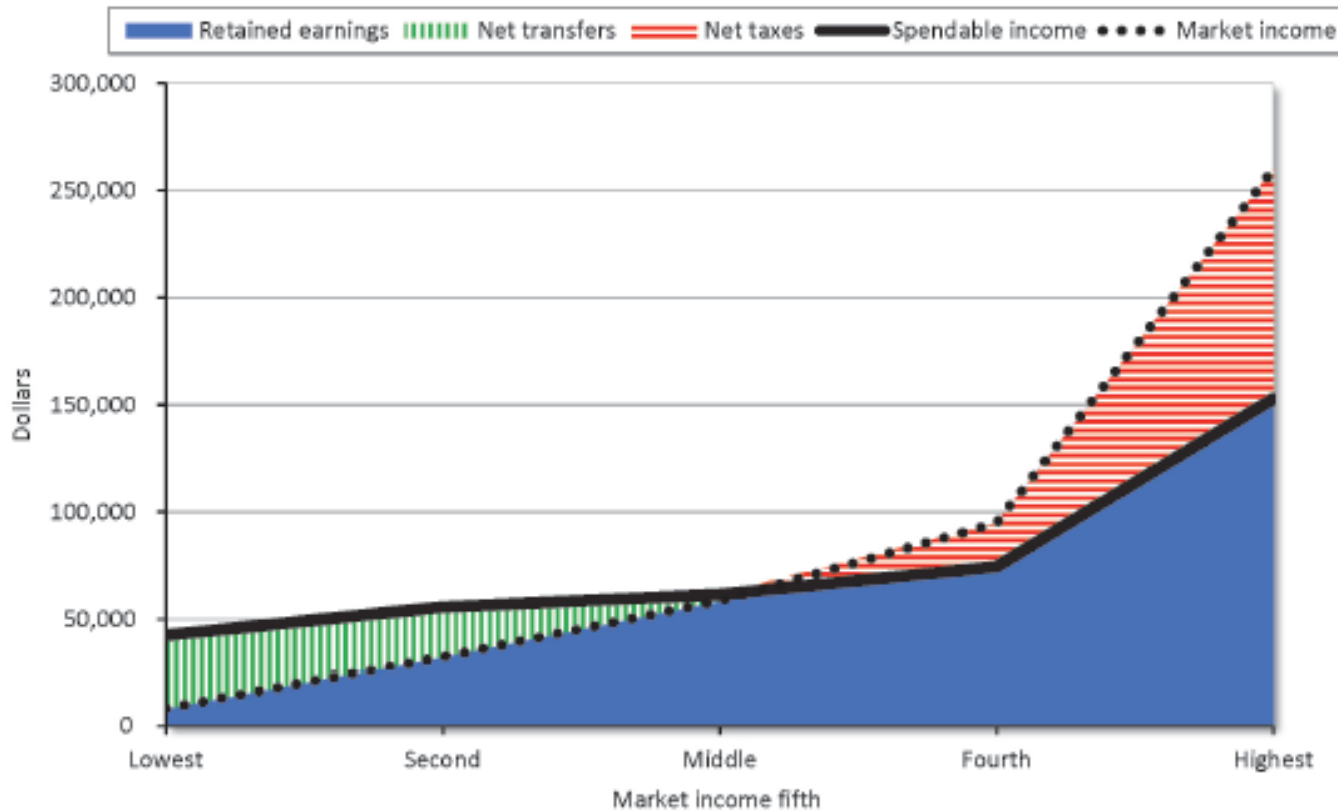
Table 4

Percentage of selected financial totals contributed by each income group, 2013, adjusted for items not included by the CBO

Income quintile	CBO estimates						CBO gaps				
	Percent of households	Market income	Social Security and Medicare	Other transfers	Federal taxes	Net income after taxes and transfers	State and local and under-reported federal transfers	Additional federal taxes	State and local taxes	Final net income after all taxes and transfers	Percent change from market to final
Lowest	23.2	2.2	34.3	39.4	0.8	8.3	42.6	1.9	1.5	12.9	493.2
Second	19.1	7.0	24.3	32.0	4.2	11.1	31.1	6.2	6.5	13.9	97.7
Middle	19.1	12.6	16.9	20.7	8.6	14.5	18.9	11.1	12.6	15.4	21.5
Fourth	19.1	20.5	14.1	7.8	17.2	19.8	7.3	18.0	20.2	18.6	-9.2
Highest	19.6	57.7	10.4	0.0	69.2	46.2	0.0	62.8	59.3	39.3	-31.9
<b>Top percentiles</b>											
81 to 90	9.8	15.6	5.7	0.0	15.3	13.6	0.0	16.9	15.4	12.0	-23.2
91 to 95	4.9	10.8	2.6	0.0	11.5	9.1	0.0	11.7	10.7	7.9	-27.0
96 to 99	3.9	14.3	1.8	0.0	16.8	11.4	0.0	15.4	14.0	9.8	-31.3
Top 1 percent	1.0	17.4	0.3	0.0	25.5	12.5	0.0	18.8	19.1	10.1	-42.2
<b>Ratios</b>											
High to low		26.6	0.3	n/a	91.6	5.6	n/a	32.6	40.0	3.0	-88.5
Mid to low		5.8	0.5	0.5	11.4	1.7	0.4	5.8	8.5	1.2	-79.5
High to mid		4.6	0.6	n/a	8.0	3.2	n/a	5.6	4.7	2.6	-44.0

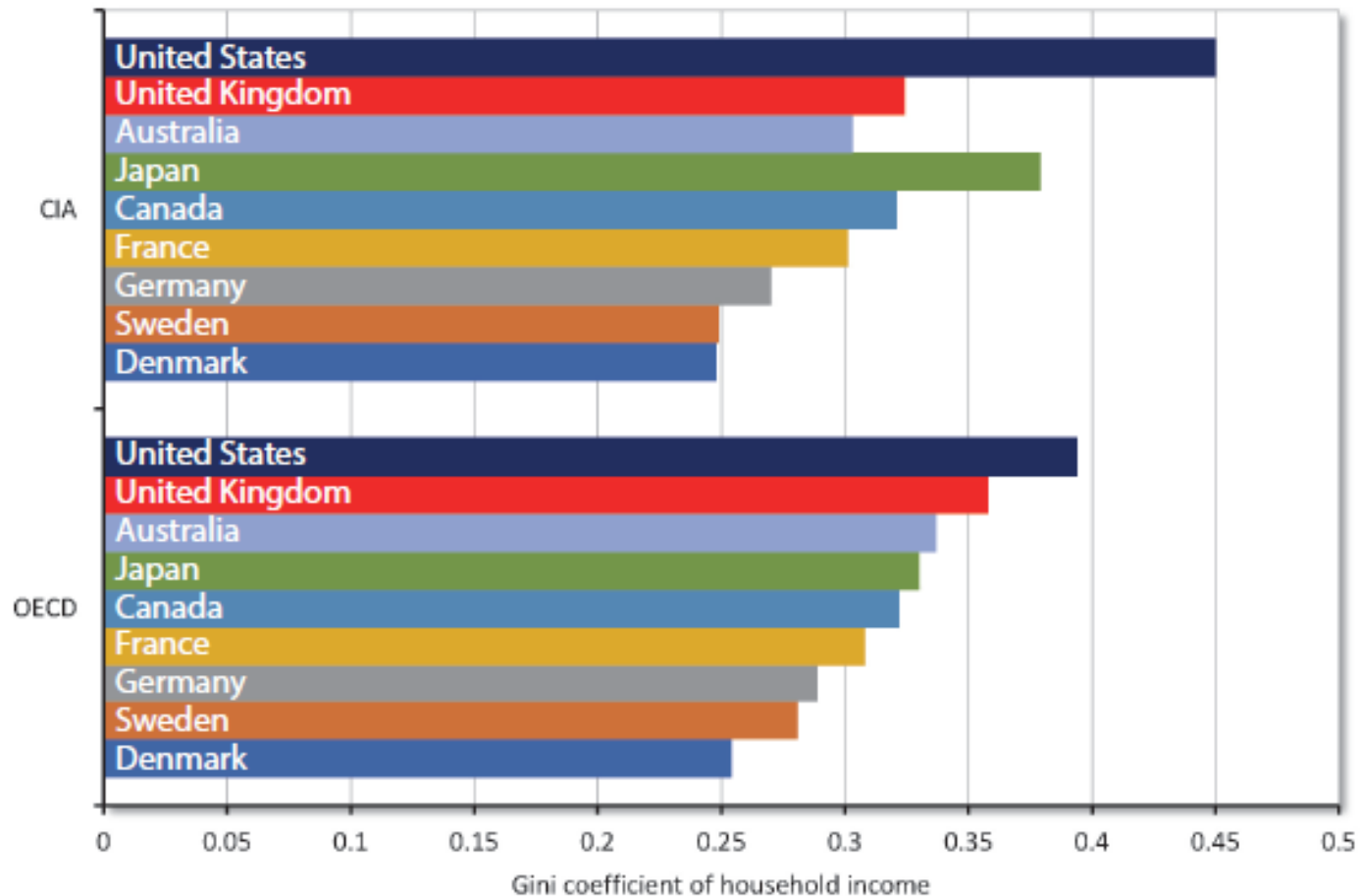
# The Gini Coefficient Measurement of Inequality

**Figure 1**  
**Average income, transfers, and taxes by income groups, 2013**



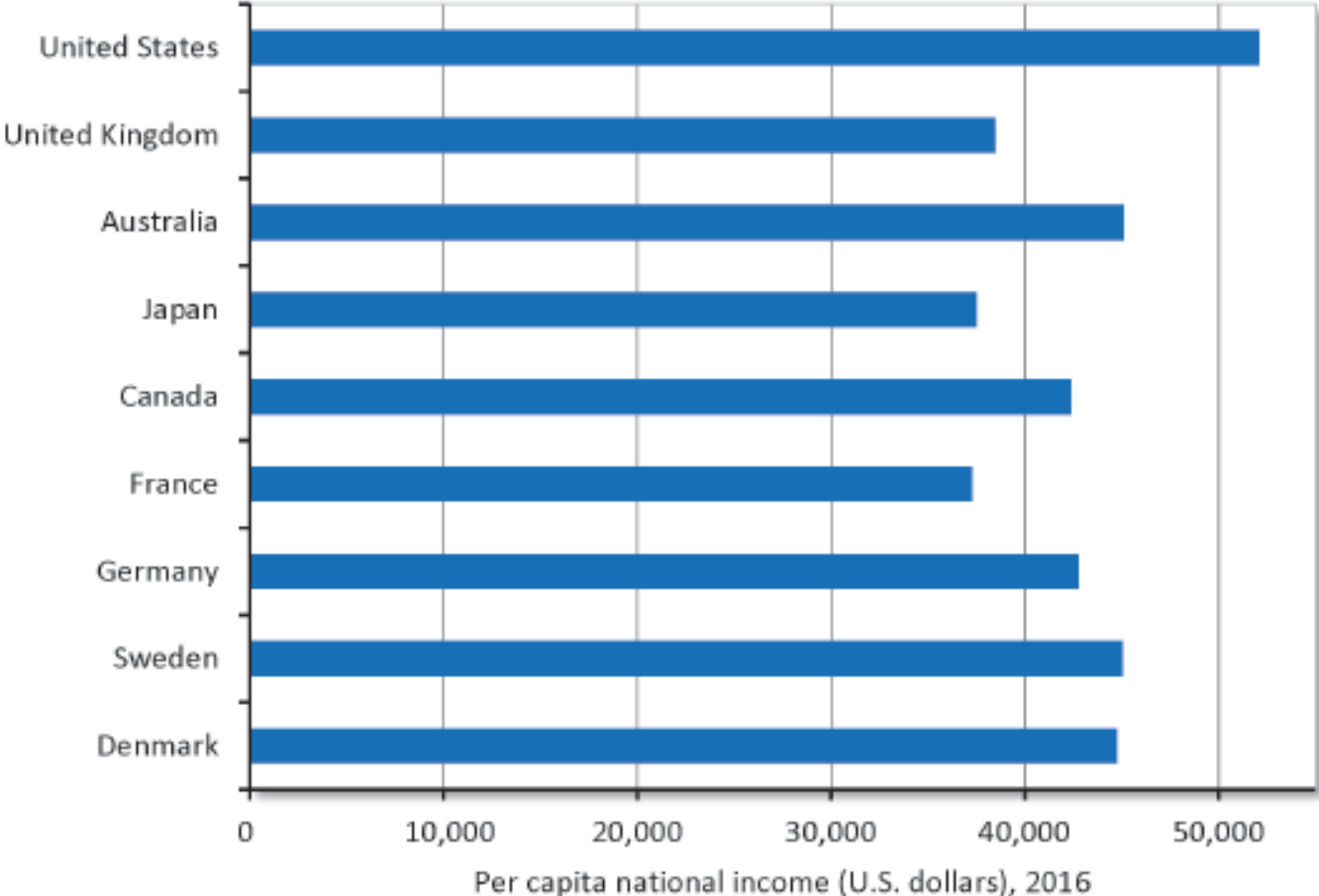
Sources: Market income from Congressional Budget Office, "The Distribution of Household Income and Federal Taxes, 2013," November 2016. Others computed by author from Congressional Budget Office, "The Distribution of Household Income and Federal Taxes, 2013," November 2016; Bureau of Economic Analysis, "National Income and Product Accounts," <https://www.bea.gov>; Social Security Administration, "Annual Statistical Supplement to the Social Security Bulletin," 2013 (for Social Security, Medicare, unemployment benefits, workers' compensation, and black lung); United States Senate Budget Committee, "CRS Report: Welfare Spending the Largest Item in the Federal Budget," 2013; and 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.

Figure 2  
Gini coefficients of various income measures in advanced nations



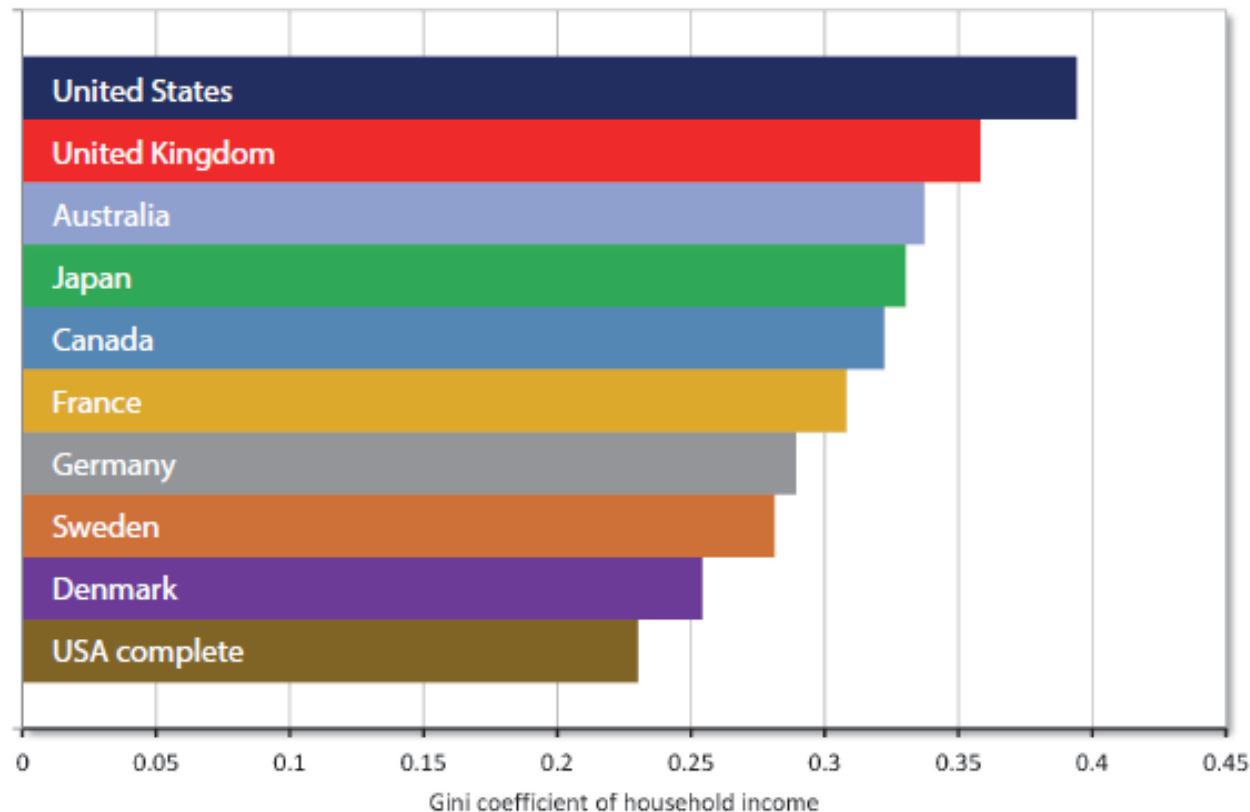
Sources: Central Intelligence Agency, *The World Factbook*, <https://www.cia.gov/library/publications/resources/the-world-factbook/rankorder/2172rank.html>; and Organisation for Economic Co-operation and Development, "OECD (2017), Income Inequality (indicator)," DOI: 10.1787/459aa7f1-en, <https://data.oecd.org/inequality/income-inequality.htm>.

**Figure 3**  
**Per capita national income by country, 2016**



Source: Organisation for Economic Co-operation and Development, *OECD Factbook 2016*, "Gross Domestic Product (GDP): GDP per Head, US \$, Constant Prices, Constant PPPs, Reference Year 2010 Data," OECD.Stat.

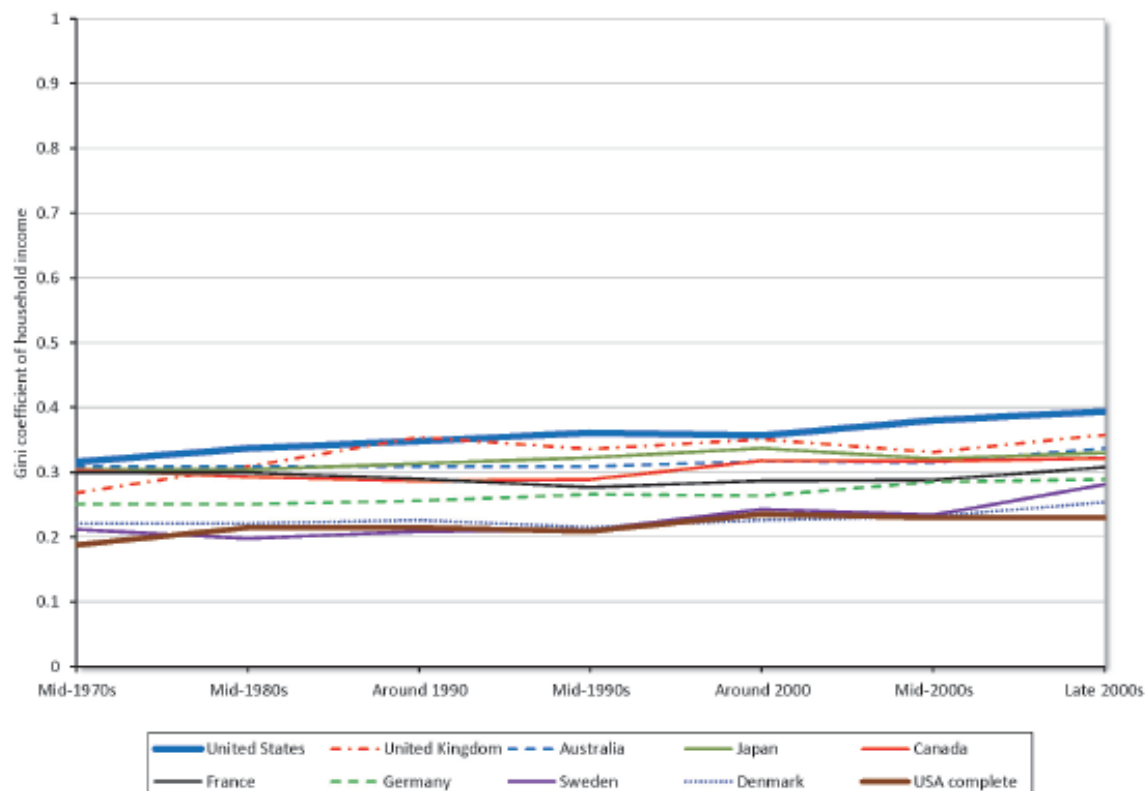
**Figure 4**  
**Gini coefficients of spendable income in advanced nations, including more complete USA coefficient**



Sources: Organisation for Economic Co-operation and Development, OECD (2017), "Income inequality (indicator)," DOI: 10.1787/459aa7f1-en, <https://data.oecd.org/inequality/income-inequality.htm>; USA Complete: Author's calculations from Congressional Budget Office, "The Distribution of Household Income and Federal Taxes, 2013," November 2016; Bureau of Economic Analysis, "National Income and Product Accounts," <https://www.bea.gov>; Social Security Administration, "Annual Statistical Supplement to the Social Security Bulletin," 2013 (for Social Security, Medicare, unemployment benefits, workers' compensation, and black lung); United States Senate Budget Committee, "CRS Report: Welfare Spending the Largest Item in the Federal Budget," 2013; and 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.

# The Incidence of Poverty Has Fallen Significantly

**Figure 5**  
International trends in Gini coefficient of household income

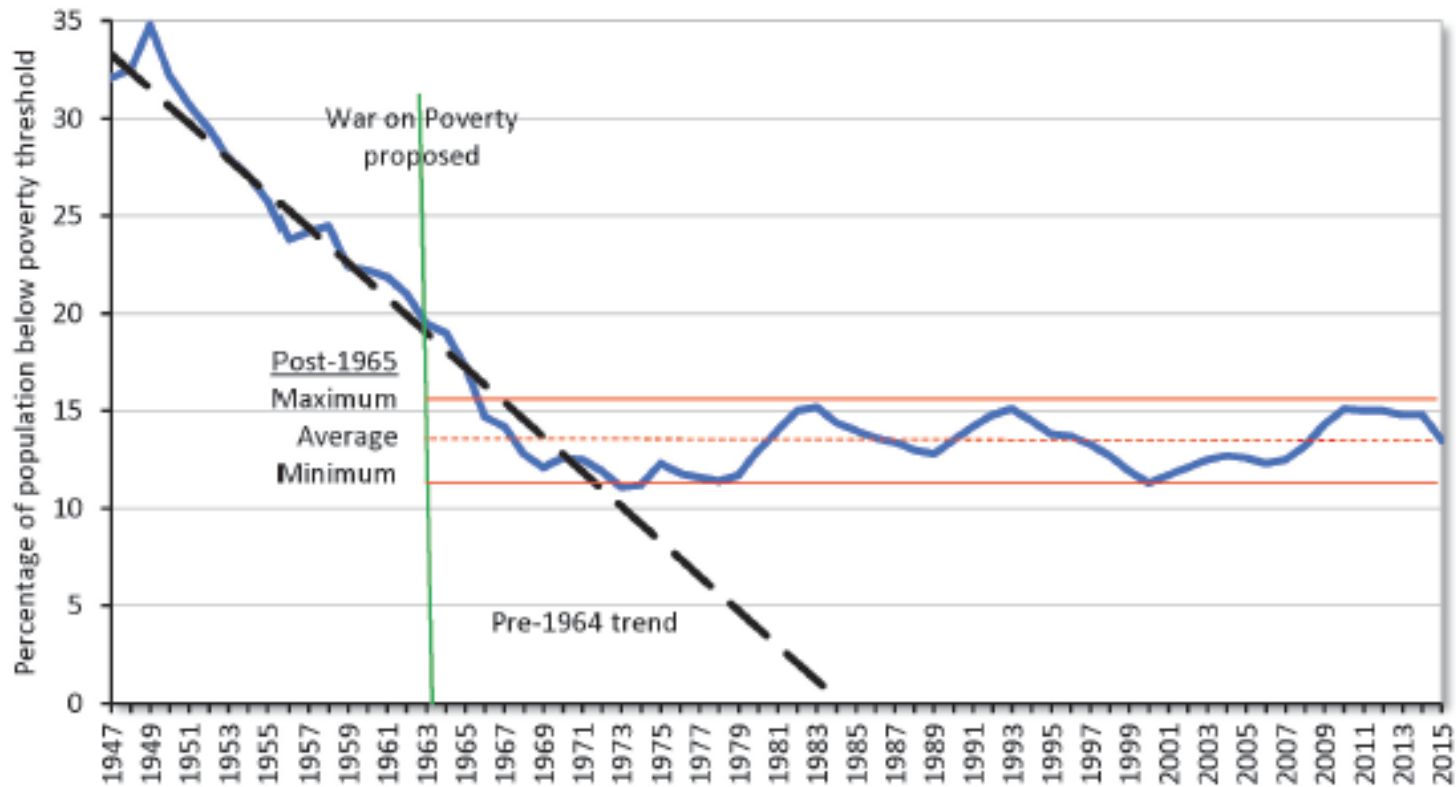


Sources: Organisation for Economic Co-operation and Development, OECD (2017), "Income inequality (indicator)," DOI: 10.1787/459aa7f1-en, <https://data.oecd.org/inequality/income-inequality.htm>; USA Complete: Author's calculations from Congressional Budget Office, "The Distribution of Household Income and Federal Taxes, 2013," November 2016; Bureau of Economic Analysis, "National Income and Product Accounts," <https://www.bea.gov>; Social Security Administration, "Annual Statistical Supplement to the Social Security Bulletin," 2013 (for Social Security, Medicare, unemployment benefits, workers' compensation, and black lung); United States Senate Budget Committee, "CRS Report: Welfare Spending the Largest Item in the Federal Budget," 2013; and 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.

Note: Many countries publish their data on a less-than-annual basis. The time scale reflects the approximate timing. Individual observations may be as much as four years different from the reference point.



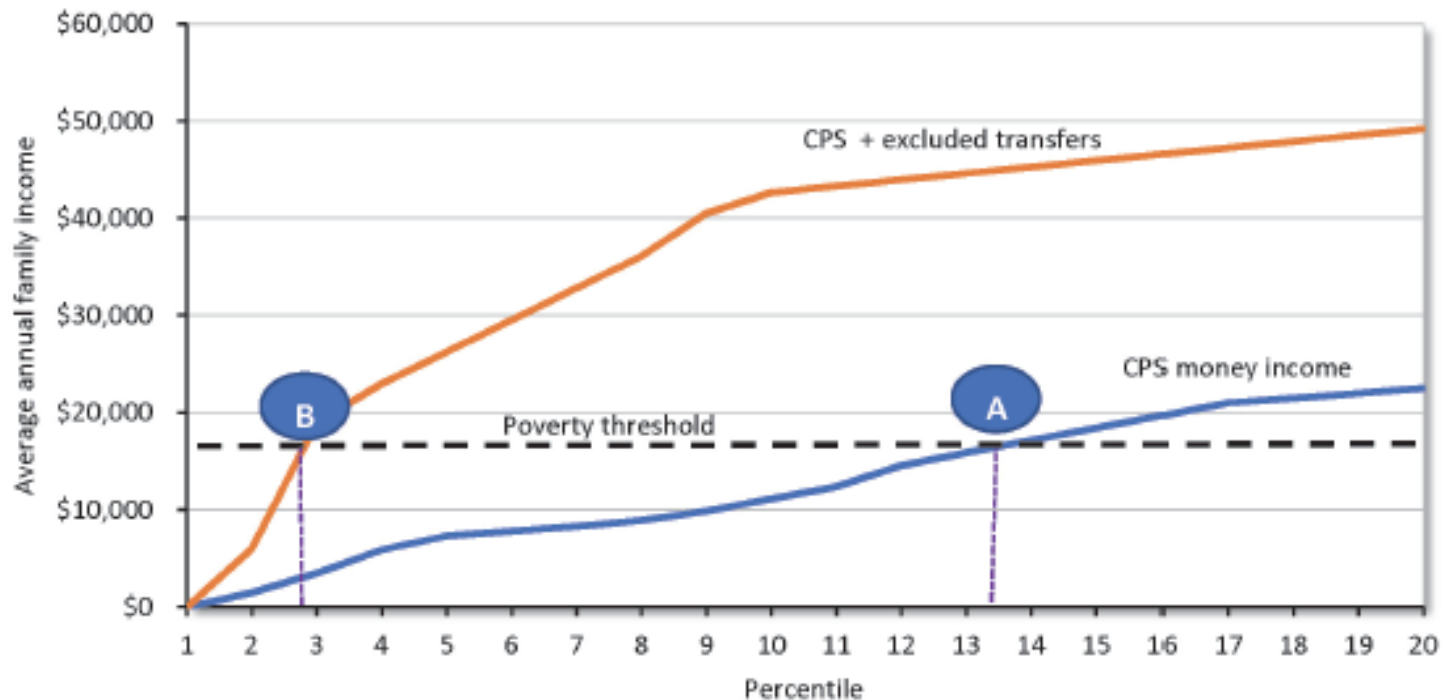
**Figure 6**  
**Percentage of population below poverty threshold, 1947–2015**



Sources: For 1959–2015, U.S. Census Bureau, “Income and Poverty in the United States: 2015,” Table B-1. For earlier data, Gordon Fisher, “Estimates of the Poverty Population under the Current Official Definition for Years Before 1959,” U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, 1986.

# The Temporary Nature of Poverty and Unequal Income

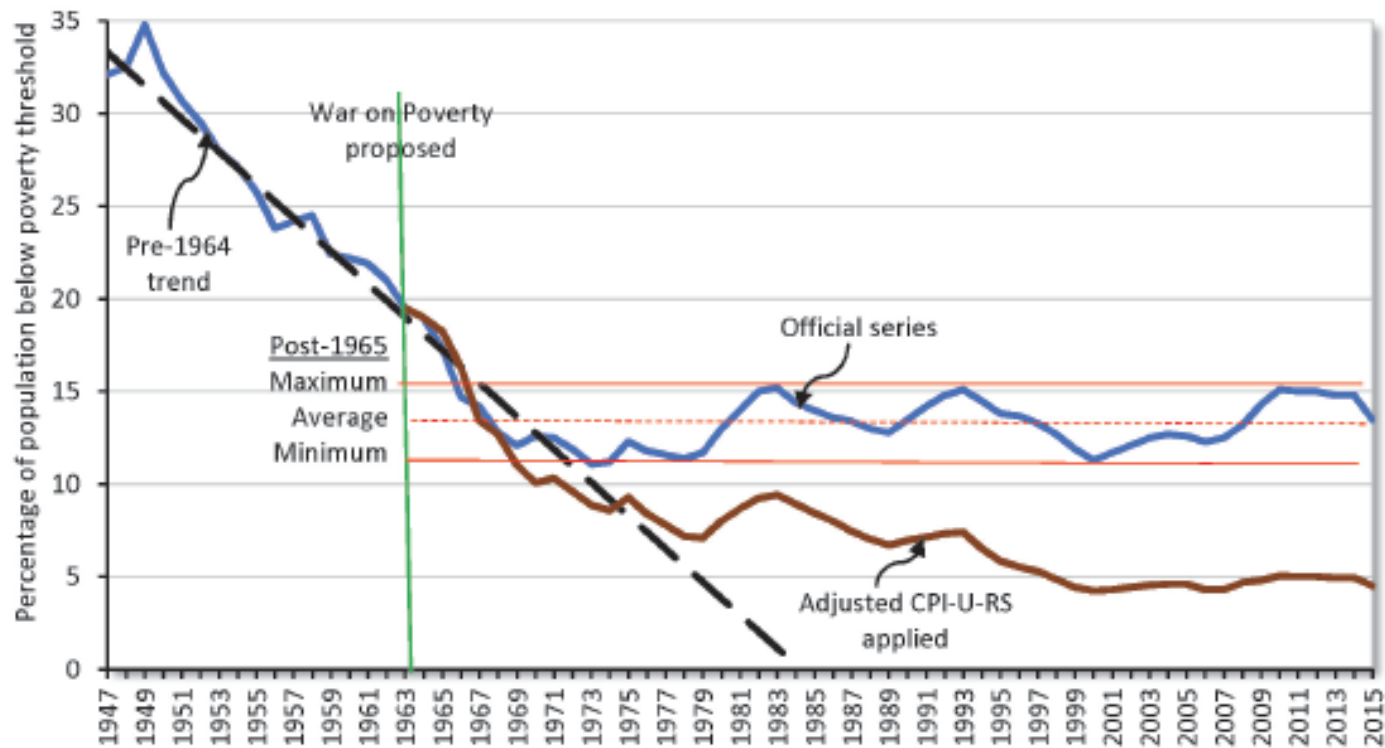
**Figure 7**  
**Incidence of poverty adjusted for excluded transfers, 2015**



Sources: For CPS money income data: United States Census Bureau, “Current Population Survey, 2016 Annual Social and Economic Supplement,” 2016. Excluded transfers: author calculations on Congressional Budget Office, “The Distribution of Household Income and Federal Taxes, 2013,” November 2016; Bureau of Economic Analysis, “National Income and Product Accounts,” <https://www.bea.gov>; Social Security Administration, “Annual Statistical Supplement to the Social Security Bulletin,” 2013 (for Social Security, Medicare, unemployment benefits, workers’ compensation, and black lung); United States Senate Budget Committee, “CRS Report: Welfare Spending the Largest Item in the Federal Budget,” 2013; 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. For poverty thresholds: U.S. Census Bureau, “Income and Poverty in the United States: 2015,” November 2016, p. 43. Calculations by author.

Note: CPS = Current Population Survey.

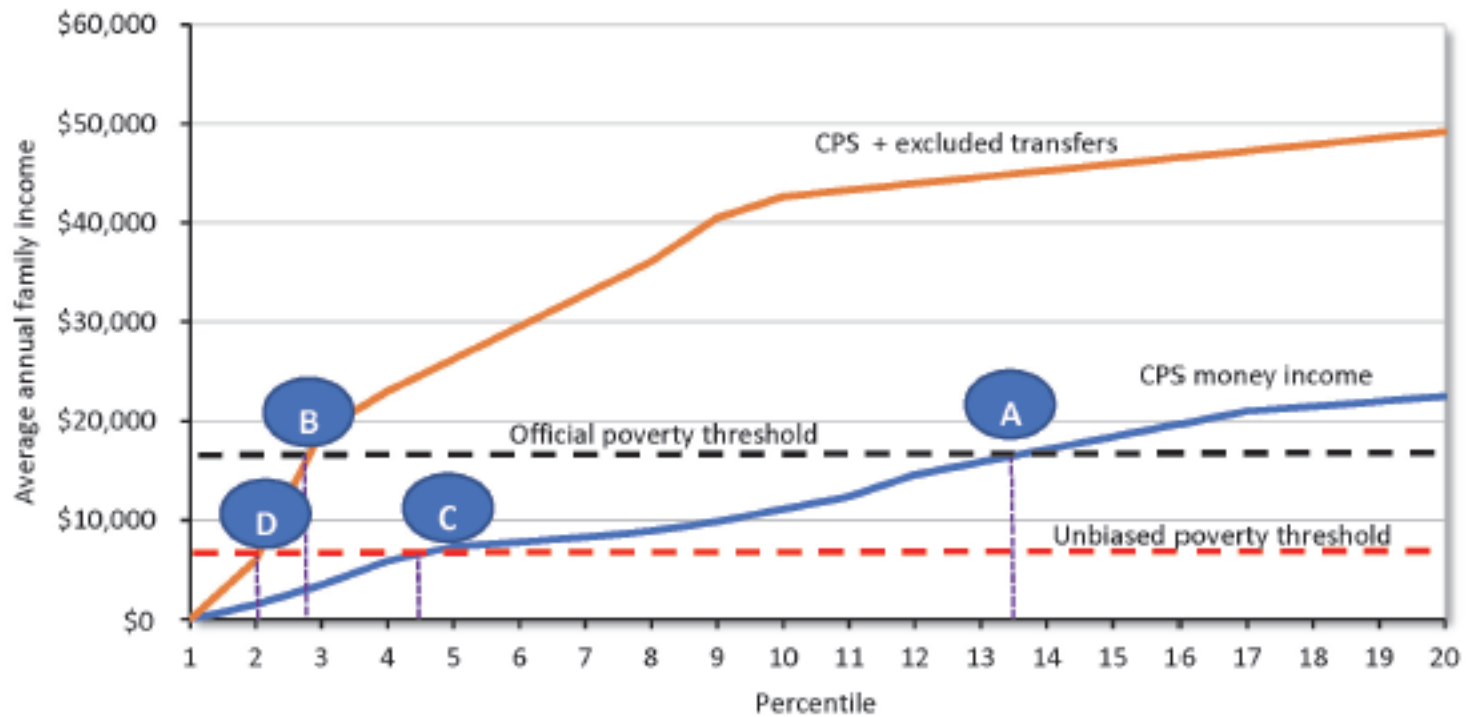
**Figure 8**  
**Effect of adjusting poverty threshold to remove pricing biases**



Sources: U.S. Census Bureau, "Income and Poverty in the United States: 2015," Table B-1, for official measure 1959–2015. For earlier data, Gordon Fisher, "Estimates of the Poverty Population Under the Current Official Definition for Years Before 1959," U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, 1986. Estimates using adjusted CPI-U-RS from Bruce D. Meyer and James X. Sullivan, "Winning the War: Poverty from the Great Society to the Great Recession," NBER Working Paper 18718, January 2013, <http://www.nber.org/papers/w18718>.  
 Notes: Author extended series from 2010 to 2015 and rebased the indexed level from 1980 to 1963. CPI-U-RS = Consumer Price Index for All Urban Consumers Research Series.

# Other Alternatives for Measuring Poverty

**Figure 9**  
Incidence of poverty adjusted for excluded transfers and biased Consumer Price Index



# Independent Validation of the Overstatement of Poverty

# Conclusion