

**Subject:** RE: US Taxes and inequality at lower end of distribution  
**From:** James Heckman <jheckman@uchicago.edu>  
**Date:** 7/29/2021, 3:06 PM  
**To:** "Thomas S. Coleman" <tscoleman@uchicago.edu>  
**CC:** Jennifer Boobar-Pachon <jsb2@uchicago.edu>

FASCINATING Thanks for sharing  
Jennifer please put on 350 the table;email and paper

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**From:** Thomas S. Coleman <tscoleman@uchicago.edu>  
**Sent:** Thursday, July 29, 2021 1:29 PM  
**To:** James Heckman <jheckman@uchicago.edu>  
**Subject:** US Taxes and inequality at lower end of distribution

Jim,

You know (from the paper by Elwell et al.) that it looks like income growth at the bottom end of the income distribution has been strongly benefited by tax policy - there is a big divergence between growth in before-tax vs after-tax&transfer income. This is what Elwell et al. found (as in table below). I've seen the same result in other data - for example the Auten and Splinter tax data and other authors.

I casually assumed this was due to "welfare" transfers such as foods stamps or TANF. I loosely though that that this was potentially problematic because it represented a detachment from the labor market - those at the lower end of the distribution being subsidized by non-market-related benefits that would remove incentives for work.

It looks like my underlying assumption was incorrect - apparently much of the difference between before-vs-after tax (in current US tax structure) is due to refundable tax credits. I've just finished reviewing a paper for *Social Stratification and Mobility* that compares Germany vs US, and argues that changes in German tax policy (since the 1990s) focused on removing "barriers to entry" such as high payroll taxes, while changes in the US involved refundable tax credits (e.g. EITC). In other words, US current tax policy looks like work-related tax subsidies targeted at the lower end of the distribution. This is consistent with Auten & Splinter's argument that effective tax rates at the lower end of the distribution have gone down (while effective rates at the upper end have remained relatively constant) thus increasing progressivity of US tax structure.

The paper was blinded so I don't know the author (or authors). I suspect they are sociologists, and European (given their focus on Germany vs US).

Elwell, James, Kevin Corinth, and Richard V Burkhauser. 2020. "Income Growth and Its Distribution from Eisenhower to Obama: The Growing Importance of In-Kind Transfers (1959-2016)." In *United States Trends in Income, Wealth, Consumption, and Well-Being*, edited by Diana Furchtgott-Roth, 90-124. Oxford: Oxford University Press.  
<https://doi.org/10.3386/w26439>.

**Table 1. Income Growth for 1959-2016 and 1959-2007 using Alternative Measures of Income by Quintiles**

	Labor Income of Tax Units (1)	Market Income of Tax Units (2)	Household Size-Adjusted Labor Income of Persons (3)	Household Size- Adjusted Market Income of Persons (4)	Household Size-Adjusted Post-Transfer		
					Pre-Tax Income of Persons (5)	Post-Tax Income + In- Kind Income of Persons (6)	Post-Tax Income + In-Kind Income + Medicare + Medicaid + ESI of Persons (7)
Panel A:							
Median	6.4%	23.0%	75.1%	91.3%	103.1%	130.4%	153.7%
Q1	-52.7%	-75.5%	-61.3%	18.0%	109.0%	183.8%	262.0%
Q2	-4.7%	20.7%	35.5%	63.3%	88.5%	119.7%	157.6%
Q3	8.6%	24.3%	75.7%	91.9%	103.8%	130.4%	154.5%
Q4	41.6%	54.0%	103.4%	116.2%	120.4%	145.1%	162.2%
Q5	110.6%	121.2%	149.8%	160.4%	157.2%	164.7%	175.7%
Top 5%	146.7%	155.0%	190.6%	193.4%	184.9%	179.3%	186.8%
Panel B:							
Median	24.0%	36.2%	78.2%	92.4%	100.8%	126.4%	141.2%
Q1	-75.7%	-20.4%	-30.9%	34.9%	108.9%	188.1%	246.8%
Q2	21.0%	47.9%	45.7%	68.2%	85.3%	116.5%	144.9%
Q3	28.5%	37.1%	78.0%	93.4%	101.0%	126.7%	141.9%
Q4	56.4%	63.7%	99.5%	113.5%	115.4%	140.0%	149.1%
Q5	108.5%	119.2%	135.5%	148.0%	144.0%	154.0%	155.7%
Top 5%	134.5%	142.2%	168.6%	173.9%	164.9%	165.4%	163.5%

*Sources:* Authors' calculations using ASEC-CPS, NHEA, White House Budget Historical Tables, Statistical Abstracts of the U.S., Census Bureau population estimates, USDA SNAP Data Tables and Child Nutrition Tables, BLS CPI for Medical Care in U.S. City Average, CMS Medicare Enrollment Data, MACPAC Medicaid Enrollment Data, Kramer (1988), Collinson et al. (2016), Hoynes et al. (2016). Taxes calculated using NBER TaxSim.

*Notes:* Panel A: 1959-2016, Panel B: 1959-2007.

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Thomas Coleman

Sr Lecturer & Executive Director Center for Economic Policy

University of Chicago Harris School of Public Policy

203-252-4897 (mobile)

Risk books: <http://closemountain.com/risk-management-books/>