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‘The Myth of American Income Inequality’: The Federal Government Drastically Overestimates Earnings Disparity, Study Says

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The federal government drastically overestimates income inequality in the United States by failing to account for certain welfare programs and income taxes on the wealthiest earners, according to a study released on Tuesday by the Cato Institute.

The analysis, written by Cato Institute adjunct scholar John Early, says that official statistics fail to account for more than two-thirds of transfer payments provided to low-income households and do not consider income loss from taxes, which average 35% of income for the wealthiest quintile of taxpayers. Poverty counts are 10 times higher than the true figure, while income inequality is overestimated by a factor of four, according to the study.

The Census Bureau’s official accounting method “excludes $1.9 trillion given to households in transfer payments and pretends that the $4.4 trillion that households pay in taxes is really income,” Early explained in an interview with The Daily Wire, “even though they usually never even see that money and can certainly never use it for the benefit of their families.”

If officials were to calculate income inequality while considering more transfer programs — including food stamp debit cards, bills paid by Medicaid, and checks that provide refundable tax credits in excess of tax liabilities to low-income households — earned income in the bottom quintile would rise by 700%, while earned income in the second quintile would rise by 70%, the study says.

Meanwhile, Early says the Census Bureau neglects to consider that only 7% of income in the bottom quintile is lost due to taxes, while 35% of income is lost in the highest quintile.

“Too many political and career bureaucrats ignore and even deny the existence of this *prima facie* evidence because if the data show a large gap of inequality, that gap will justify their existence to administer money to fill the gap,” Early, who served twice as assistant commissioner at the Bureau of Labor Statistics, continued. “Then, because the new spending is not counted as income, they are able to demand still more spending. The cycle is repeated over and over again.”

Indeed, many lawmakers have cited earnings disparity as justification for more federal social programs. Rep. Alexandria Ocasio-Cortez (D-NY) has argued for a 70% marginal income tax for earnings above $10 million per year to "stem runaway income inequality," which purportedly accrues as "wealth begins to automatically compound at obscene rates for the extremely rich." Last year, Sen. Bernie Sanders (I-VT) contended that "massive wealth and income inequality" justified passing a reconciliation bill through Congress.

The study nevertheless argues that welfare programs' introduction of incentives to work less place upward pressure on income inequality, especially as others toward the top of the income spectrum increase their productivity through education and more rigorous work. Other social trends, such as the reality that highly educated earners tend to marry one another, further contribute to reported income inequality.

"That added spending, of course, sends yet more money to the lower-income households while taxes take more from the higher incomes. And, as a side effect, this process enriches those who administer the programs," Early added. "A whole industry feeds off these growing transfer payments, and it has a vested interest in continuing to use methods that belie the vast improvement of wellbeing for almost all Americans."