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Puncturing the Inequality Fact Balloon

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It takes a real spoilsport — someone who has twice served as an assistant commissioner of the Bureau of Labor Statistics — to puncture the balloon of those panicking about the supposed crisis of social inequality in the U.S. and the capitalist world. But an extraordinarily impressive analysis published at the CATO Institute by mathematical economist John F. Early does just that.

It begins with President Barack Obama's fear of "a dangerous and growing inequality" that "drives everything I do"; candidate Hillary Clinton's promise to attack the "cancer of inequality" in the U.S. today; and Bernie Sanders' socialism. While professorially disclaiming whether today's income distribution is too top heavy or flat, Mr. Early's analysis does prove that the claims are exaggerated and that income inequality is not increasing.

Many have previously noted that the normal statistics used to calculate income use money earnings but do not include the value of government transfers to people or subtract taxes paid to arrive at actual income. Building on past research, Early includes all relevant data and then places the numbers into the five income categories (each with 20 percent) that have been used in past studies to claim growing inequality, two below and two above a middle income category.

Calculating Census Bureau money income confirms past worries that the average income for the top twenty percent of earners is 16.2 times higher than the average income for the bottom fifth. But these numbers miss the Earned Income Tax Credit direct government income payment to poor individuals; indirect payments for the Supplemental Nutrition Assistance (food stamps), free and subsidized medical care (such as Medicaid and Children's Health Insurance), free, subsidized, or controlled rent, housing, heating, daycare, tax preparation, and meal services; and do not count all retirement income or offset taxes paid.

The Congressional Budget Office's estimate without these factors is that the lowest 20 percent of the population received only 8.3 percent of total income. But after including some of the missing transfers, the lowest earner's total rises substantially to 12.9 percent of total U.S. income. These CBO data likewise show a reverse pattern for the 20 percent with the highest income, with its initial share of total income reduced down from 46.2 percent to 39.3 percent.

Including all of the relevant missing income-equivalent government transfer payments and taxes-paid data, Mr. Early demonstrates that the income share for the poorest fifth increases by an incredible 493.2 percent — a nearly six-fold increase produced by government welfare transfers. The second-lowest fifth gained 97.7, almost doubling its income share. Even the middle group increased a more modest 21.5 percent, while the two richest groups lost respectively 9.2 percent and 31.9 percent of their income through higher taxation.

The bottom line is that “the average spendable income for the highest income group was only three times higher than that for the lowest group, with government redistribution eliminating 88.5 percent of the ratio between the highest and lowest” income categories. As a result, the spendable income gap between the highest and lowest fifths is “more than five times smaller than the 16.2:1 ratio highlighted by the annual Census Bureau money income estimate.” Indeed, the middle-income group had only 20 percent more spendable income than the poorest group.

Early then reanalyzes world poverty. When corrected with the more complete data, the U.S. is about equal in income distribution as other developed countries, including ones professing socialism; and inequality has not been increasing significantly for any of these nations.

Rather than the official estimate of 13.5 percent in poverty in the U.S., Early’s corrections show a mere 2 percent poverty rate today, one that has fallen dramatically over time, contradicting both left and right ideological presumptions. Between 2009 and 2012, only 2.7 percent of the population lived in poverty for all this period, 61 percent of households even earned in the top 20 percent for at least two consecutive years during their lives, and about half of all households in the bottom fifth rise into a higher income category within 10 years.

The total redistribution effect is enormous. The government each year takes $1 trillion from above-average earners and transfers it to low-income recipients so that all but a small fraction of the population have essentially middle-class status.

In their "Freedom and Equality" book, politically savvy former senator Phil Gramm and economist Robert Ekelund interpret this one trillion dollar transfer from a middle class that earned three times the share of income and worked twice as much as the poorer mostly non-working classes below them as one important reason for the revolt by historically Democratic groups to vote for Donald Trump in 2016.

The facts are the facts and we should all be grateful to statistician John Early for forcing us to confront them, whatever the political consequences might be.