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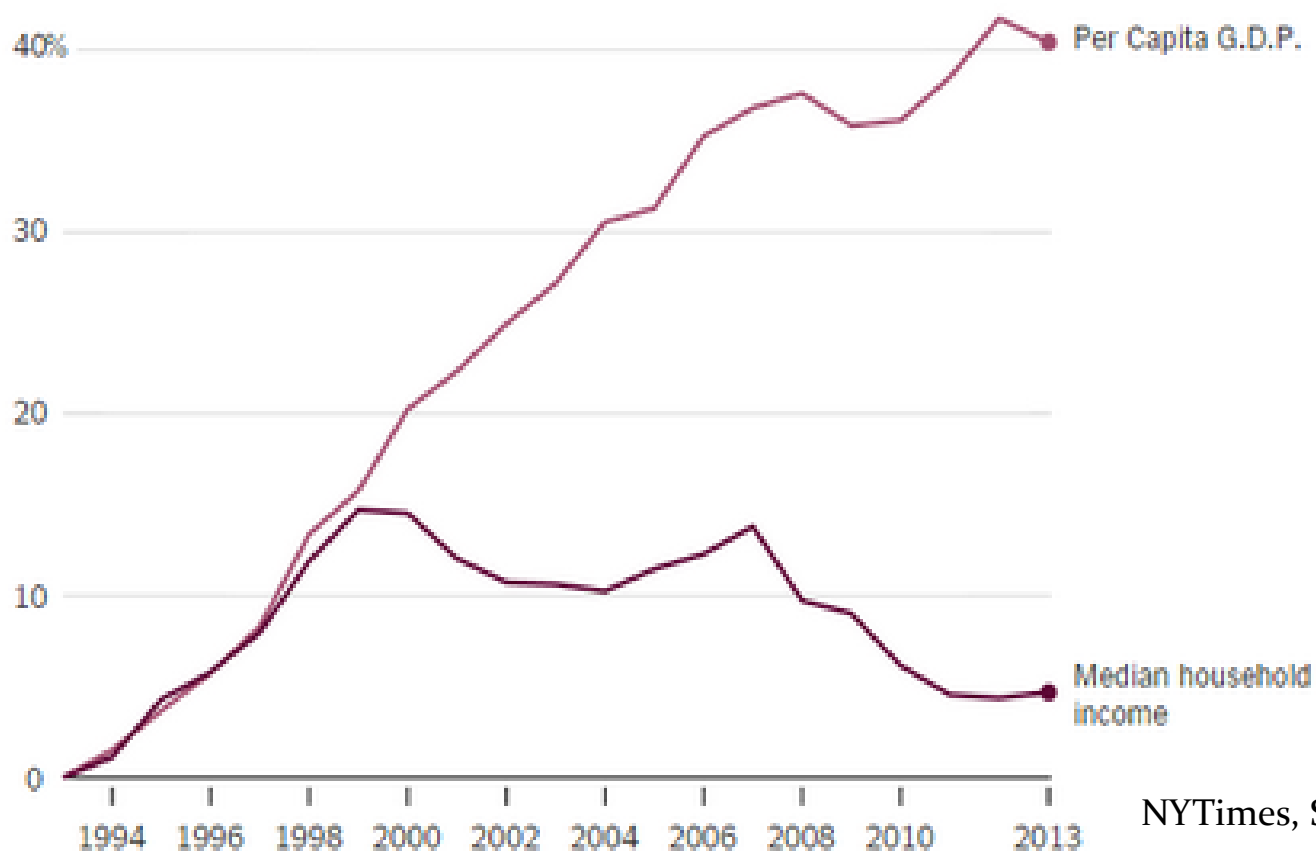
American Tax Policy Institute
The Urban Institute
January 7, 2016

What happens when growth and median household income diverge?

Growth Hasn't Translated Into Gains in Middle-Class Income

Until around 1999, overall economic growth tended to correspond with growth in earnings for middle-income Americans. Since then, the two have diverged sharply.

Percent change indexed to 1993 level



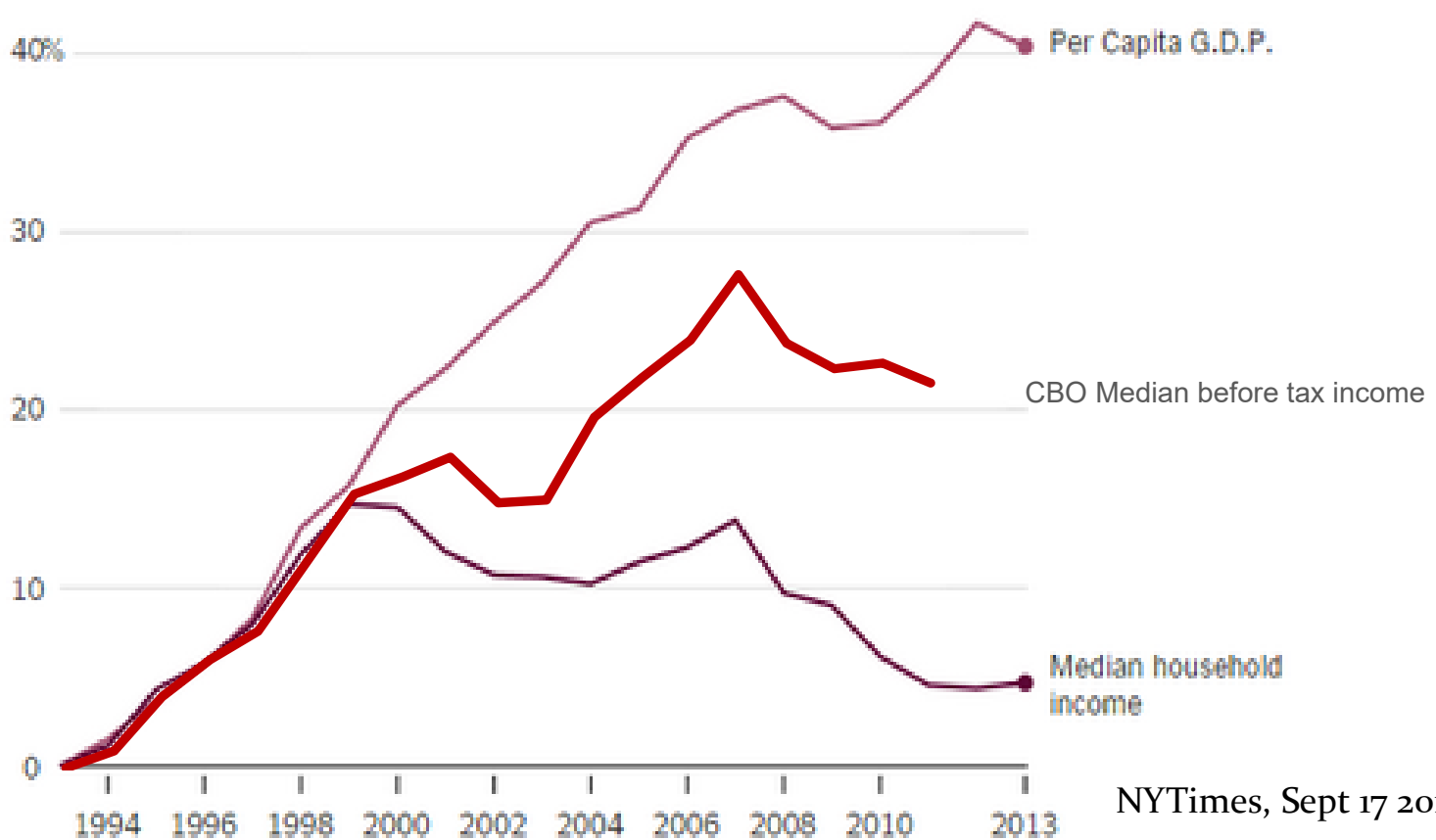
NYTimes, Sept 17 2014

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Measuring Inequality:

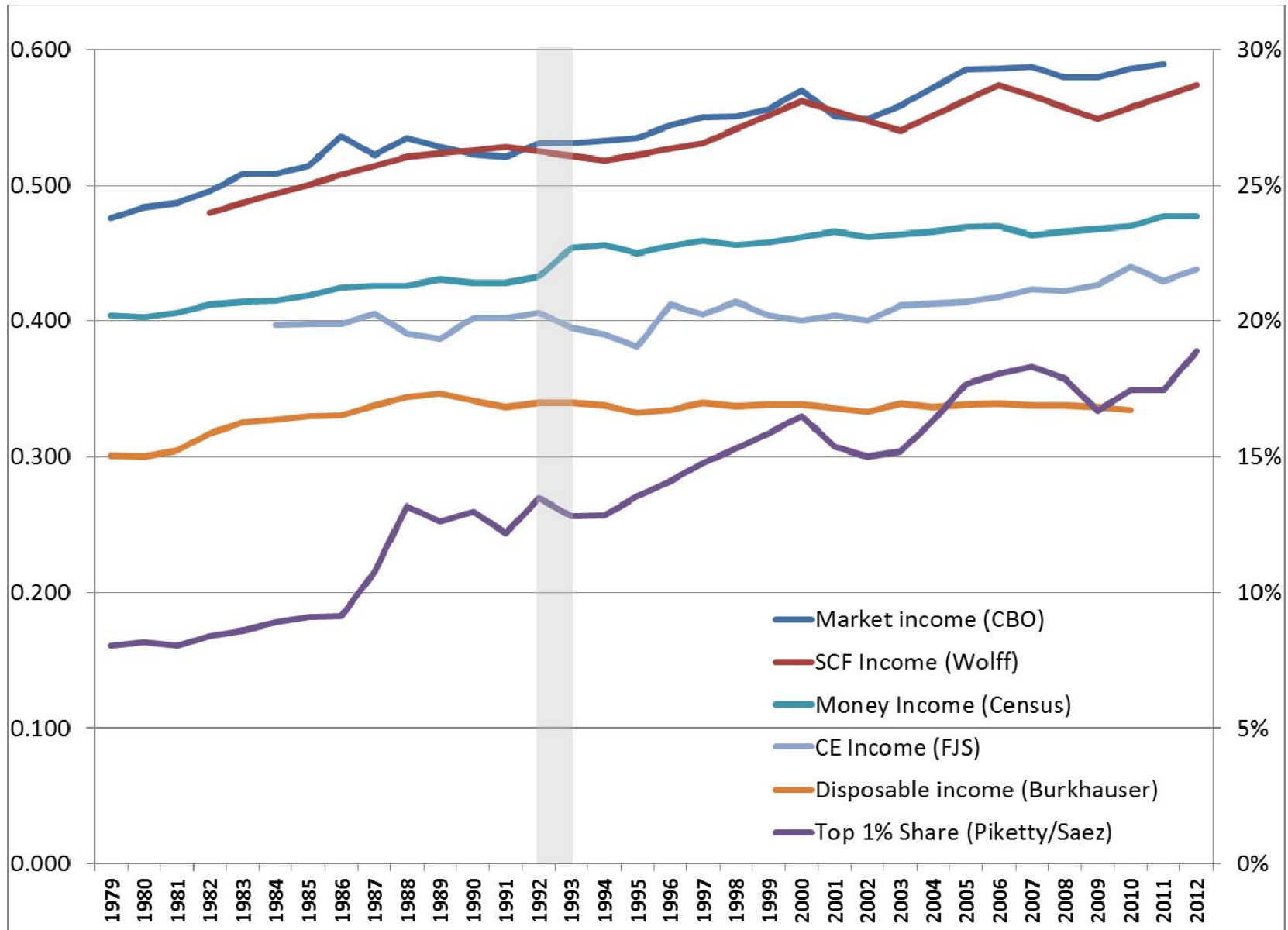
The who, what, where, when, why and how?

- **What:** What resource measure is used?
Income, disposable income, consumption
And which summary measure
- **Who:** Whose resource is measured?
And how do we adjust for differences in the
unit of analysis
- **When:** When do we adjust for the time period used?
And how to adjust for inflation
- **Where:** Do the measures differ by location?
- **Why:** Why is the measure needed; what is the purpose?
Well-being, trends, inequality
- **How:** Which data set is used?

What: Need a Consistent Measure of Income

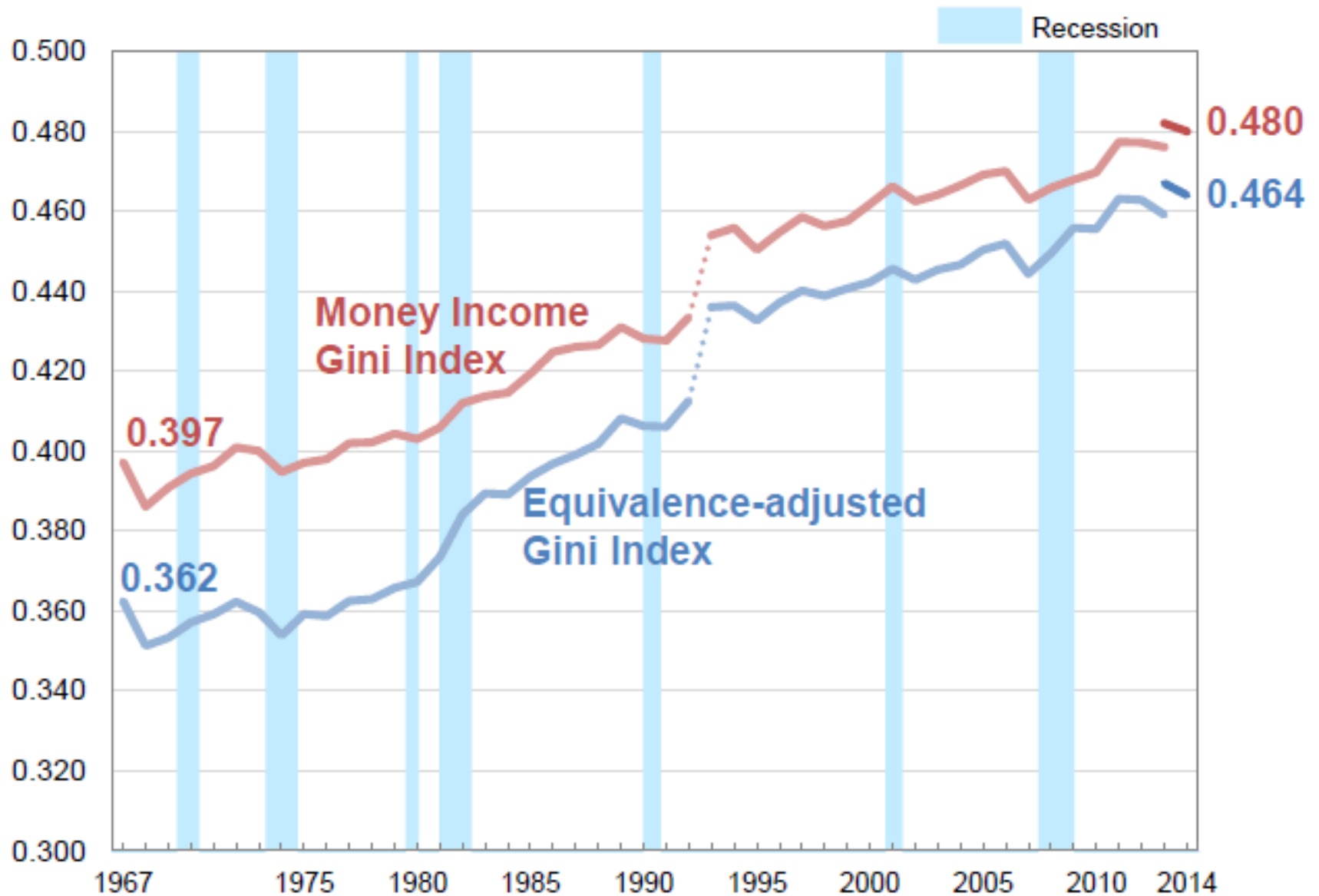
SOURCE	Haig/Simons	Census	PI (BEA)	CBO	SCF
Employment income	Yes	Yes	Yes	Yes	Yes
Employer contribution to Soc Sec	Yes	No	Yes	Yes	No
Employer-provided benefits	Yes	No	Yes	Yes	Yes
Investment income	Yes	Yes	Yes	Yes	Yes
Imputed investment income	Yes	No	Yes	No	No
Government cash transfers	Yes	Yes	Yes	Yes	Yes
Employee contribution to Soc Sec	Yes	Yes	No (subtract)	Yes	No
Retirement income	Yes	Yes	No (only int.)	Yes	Yes
Cash assistance from others	Yes	Yes	No	Yes	Yes
Realized capital gains	Yes	No	No	Yes	Yes
Lump sum (IRA disbursements)	Yes	No	No	Yes	Yes
In-kind government transfers*	Yes	No	Yes	Yes	[food, housing]
Other In-kind transfers*	Yes	No	No	No	No
Home production	Yes	No	No	No	No
Imputed rent*	Yes	No	Yes	No	No
Unrealized capital gains	Yes	No	No	No	Yes (stock)

What: All measures show increase in inequality – but at different rates

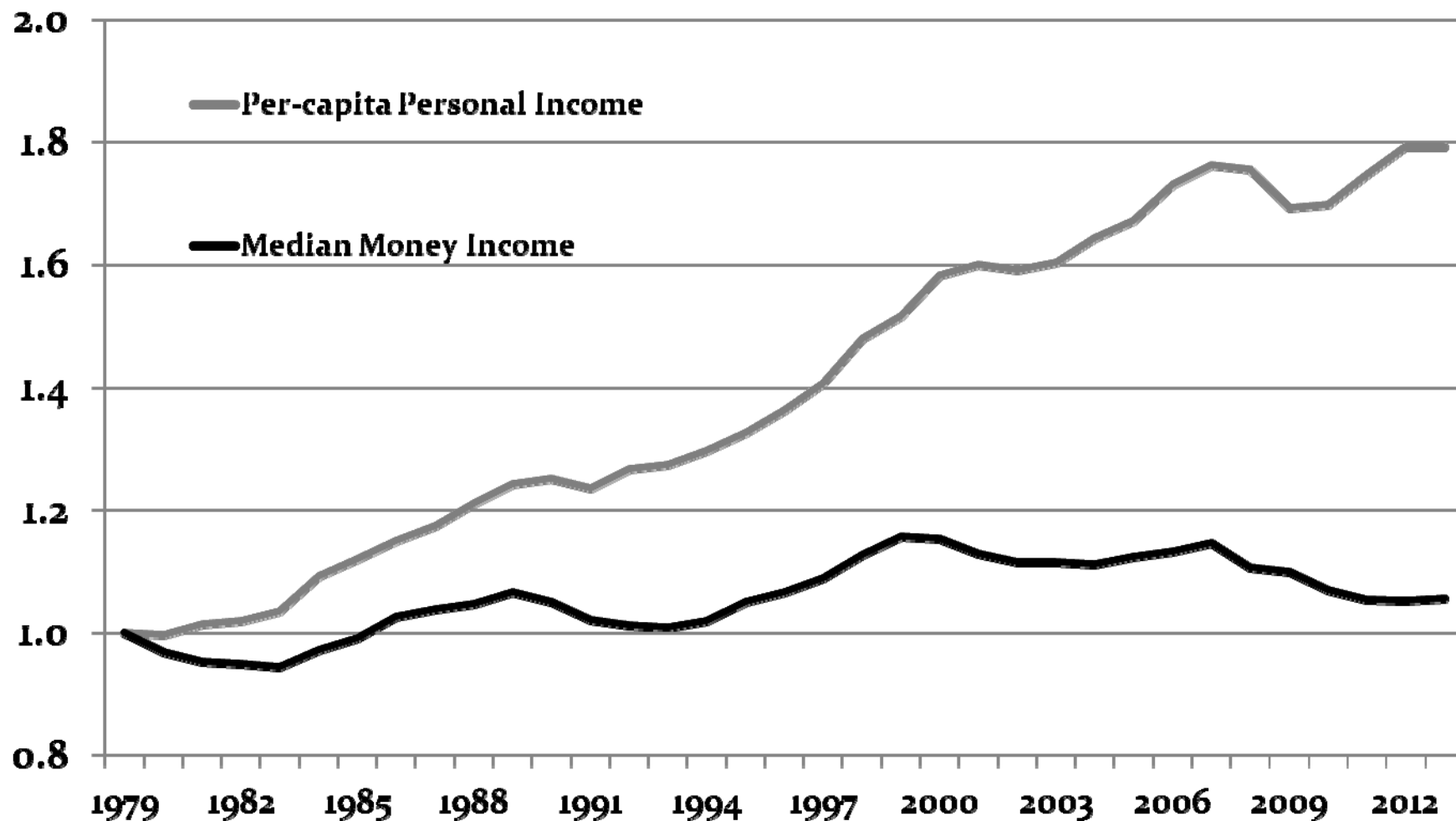


Who: Adjust by household size

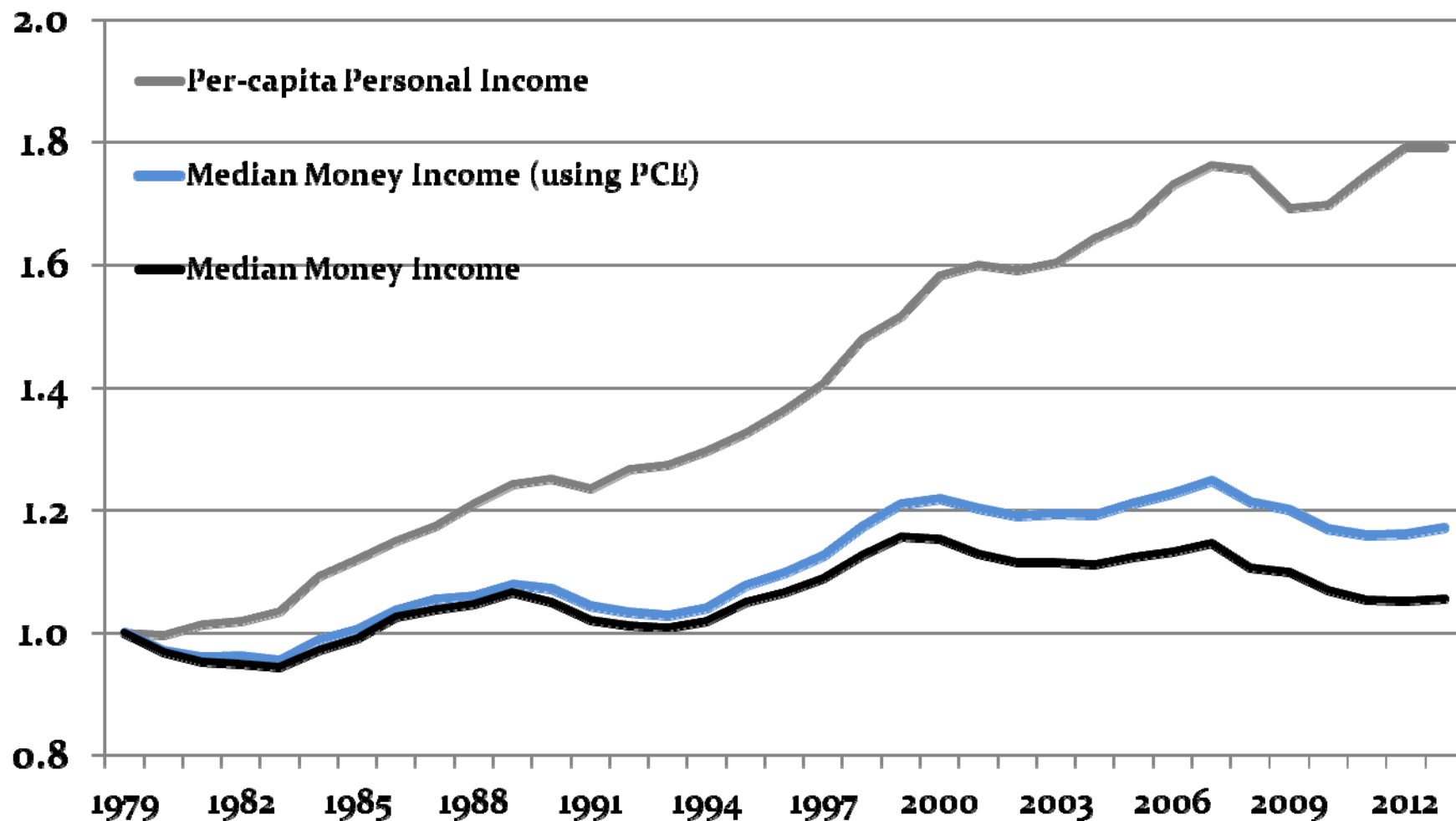
Census income Gini using three-parameter scale



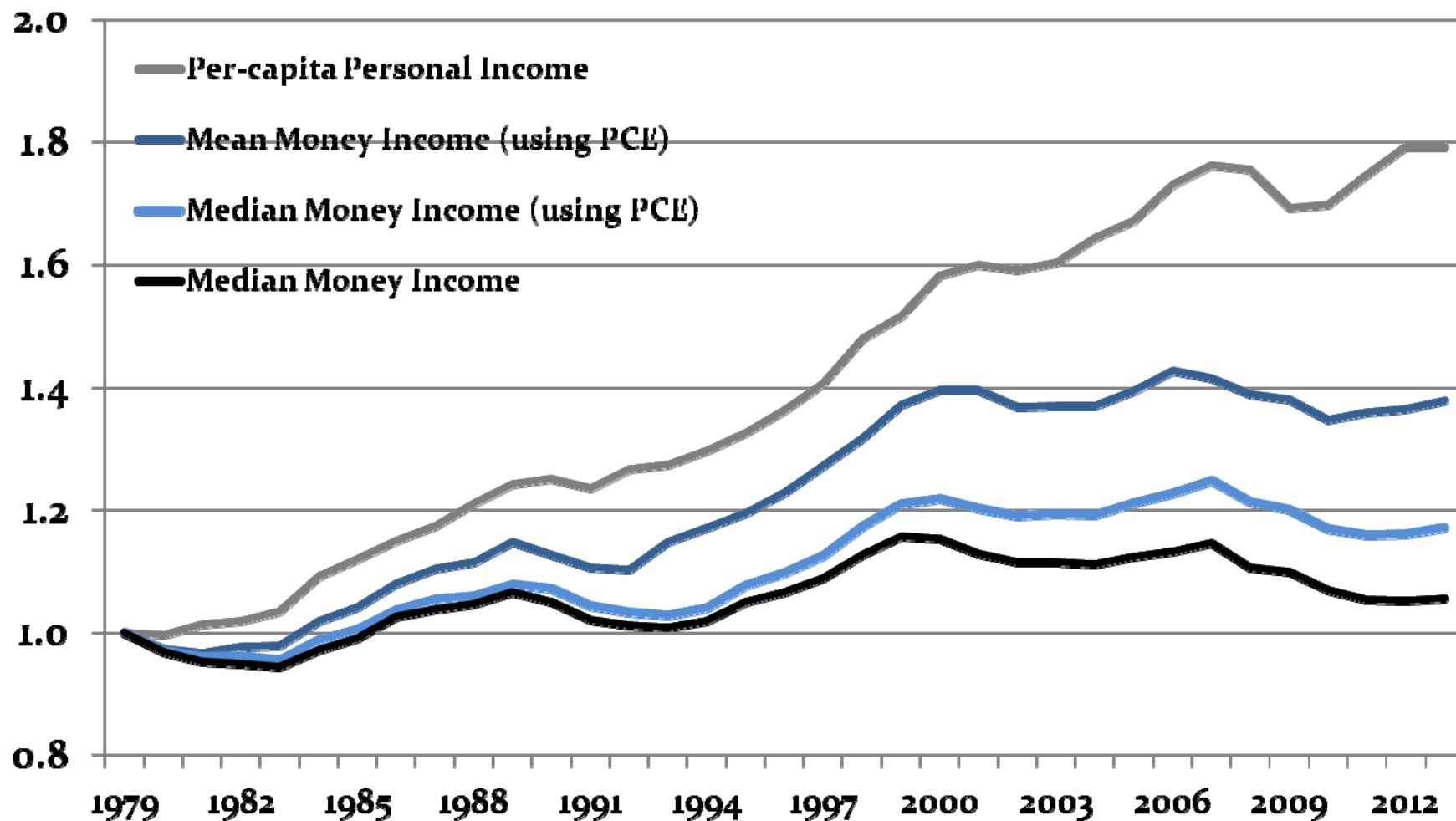
What & When: NIPA and Census, and adjusting by price index



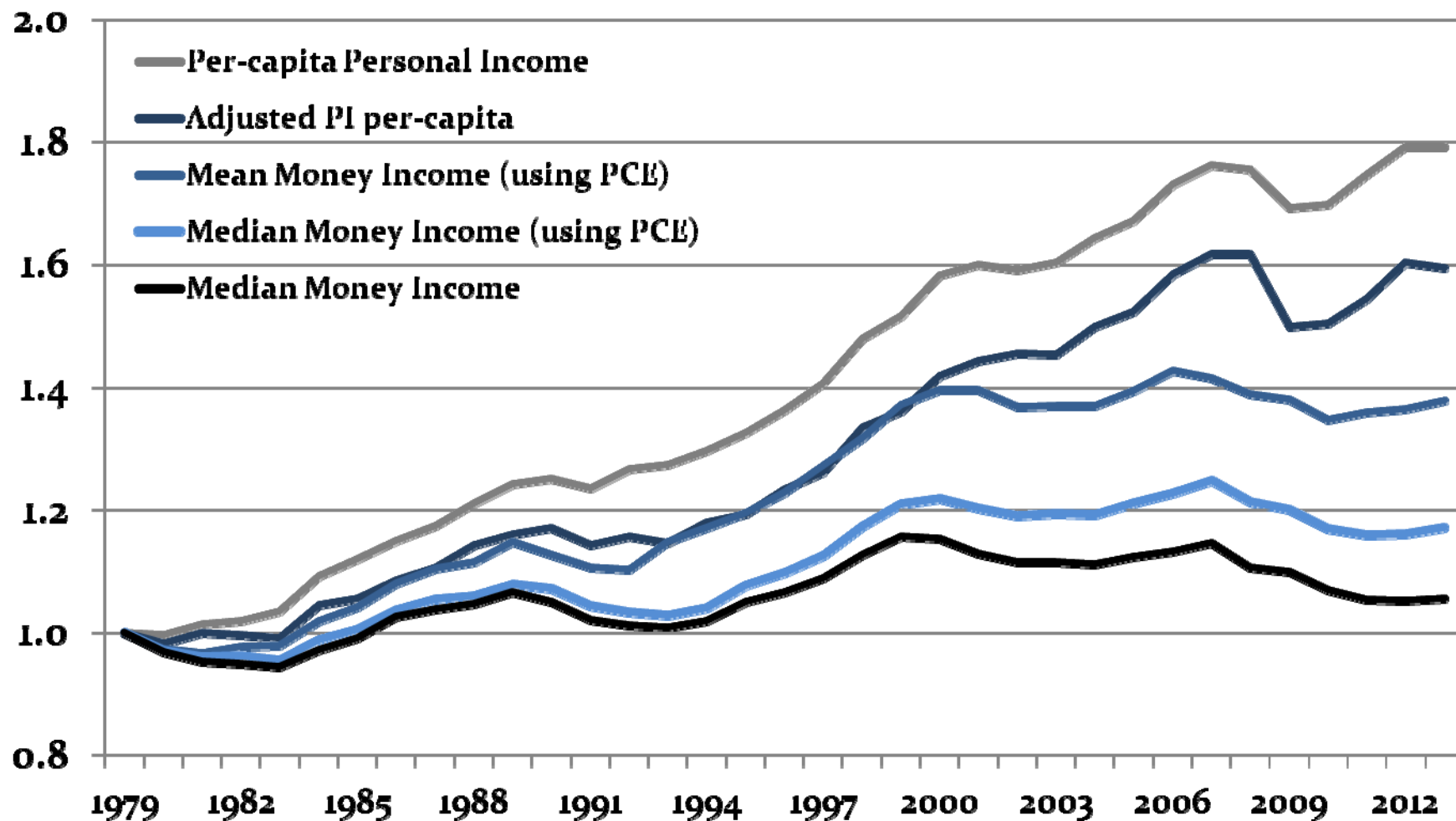
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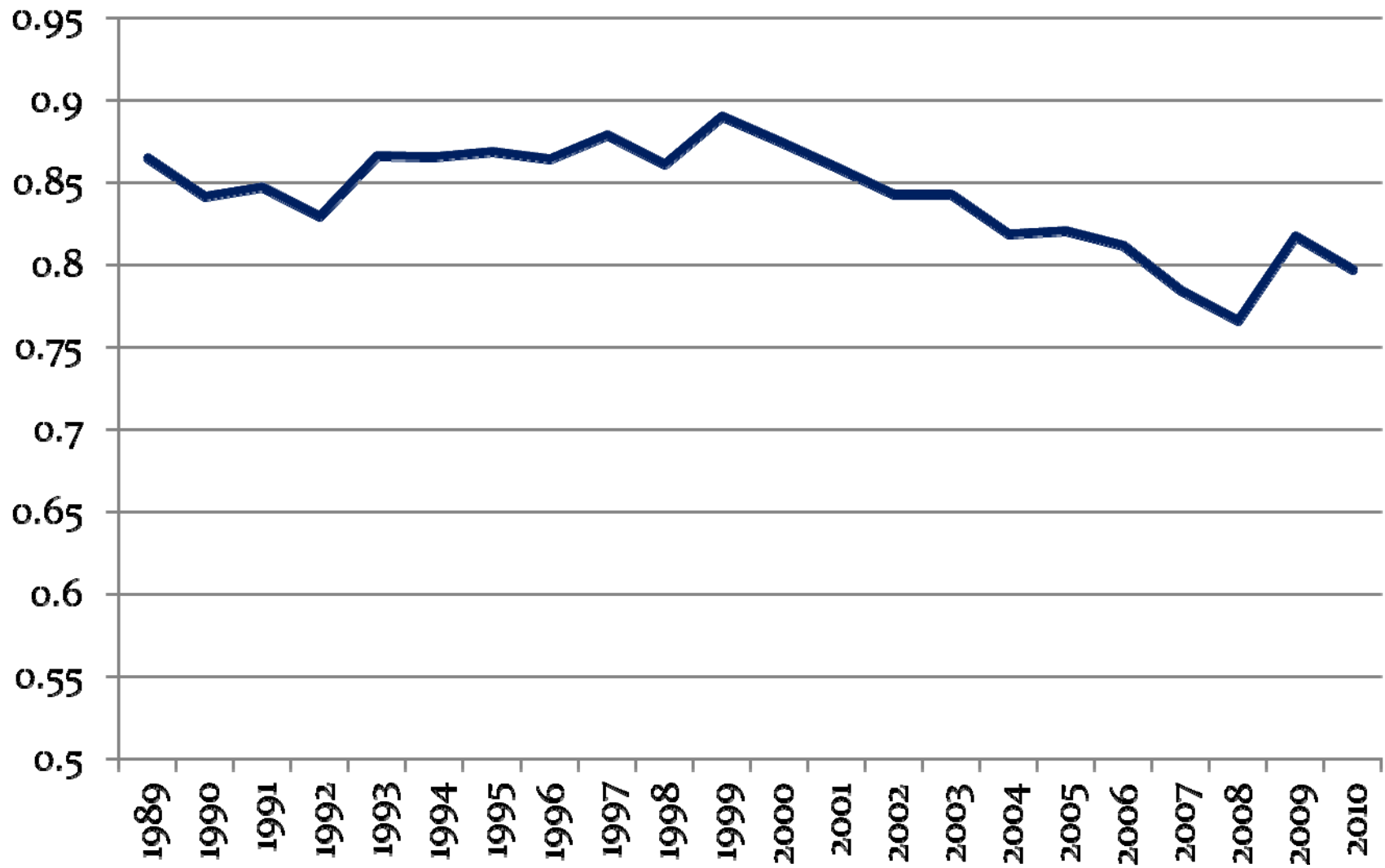
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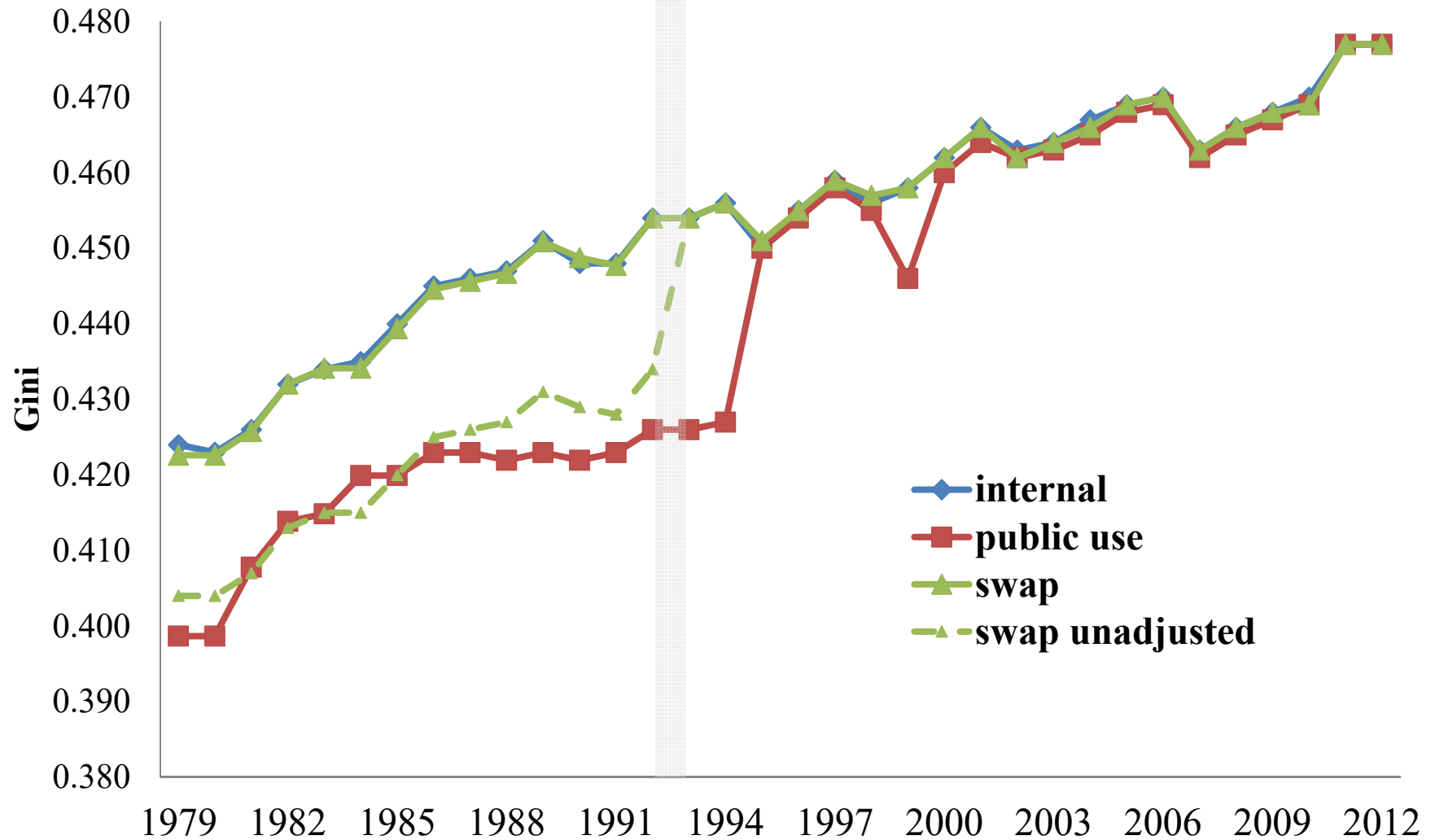
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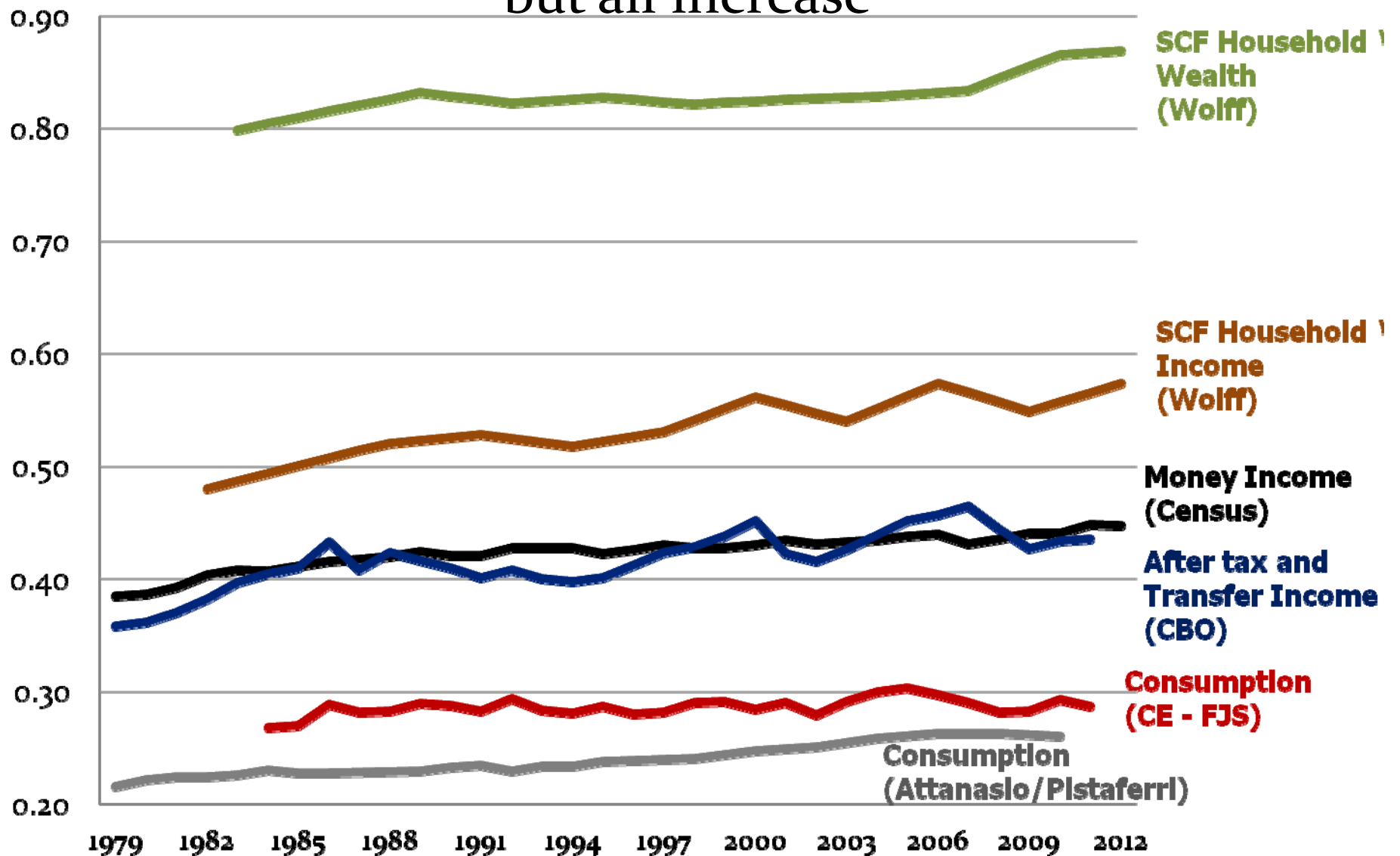
How: Under-reporting has increased in recent years
(ratio of CPS total to national aggregates)



How: Issues with data and the break in series in the CPS

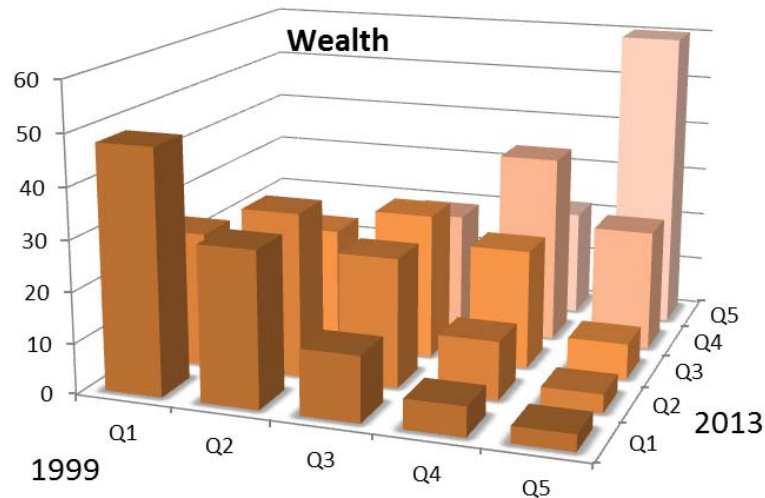
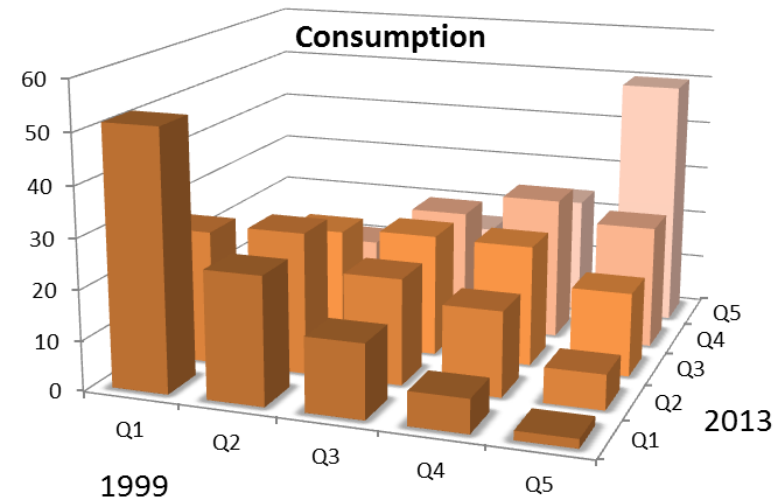
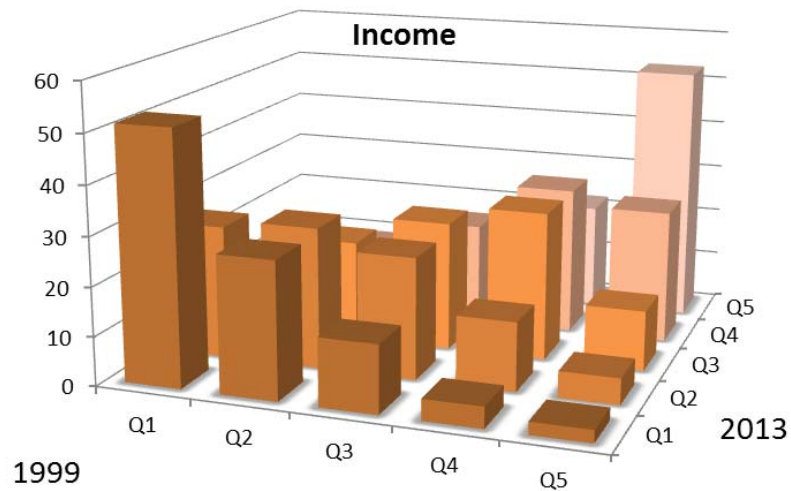


MORE What:
Wealth inequality > income > consumption
but all increase



PSID

A national study of socioeconomics and health
over lifetimes and across generations



And Mobility is even
more complicated
Using PSID, mobility
is similar across all
three measures

EXTRA SLIDES

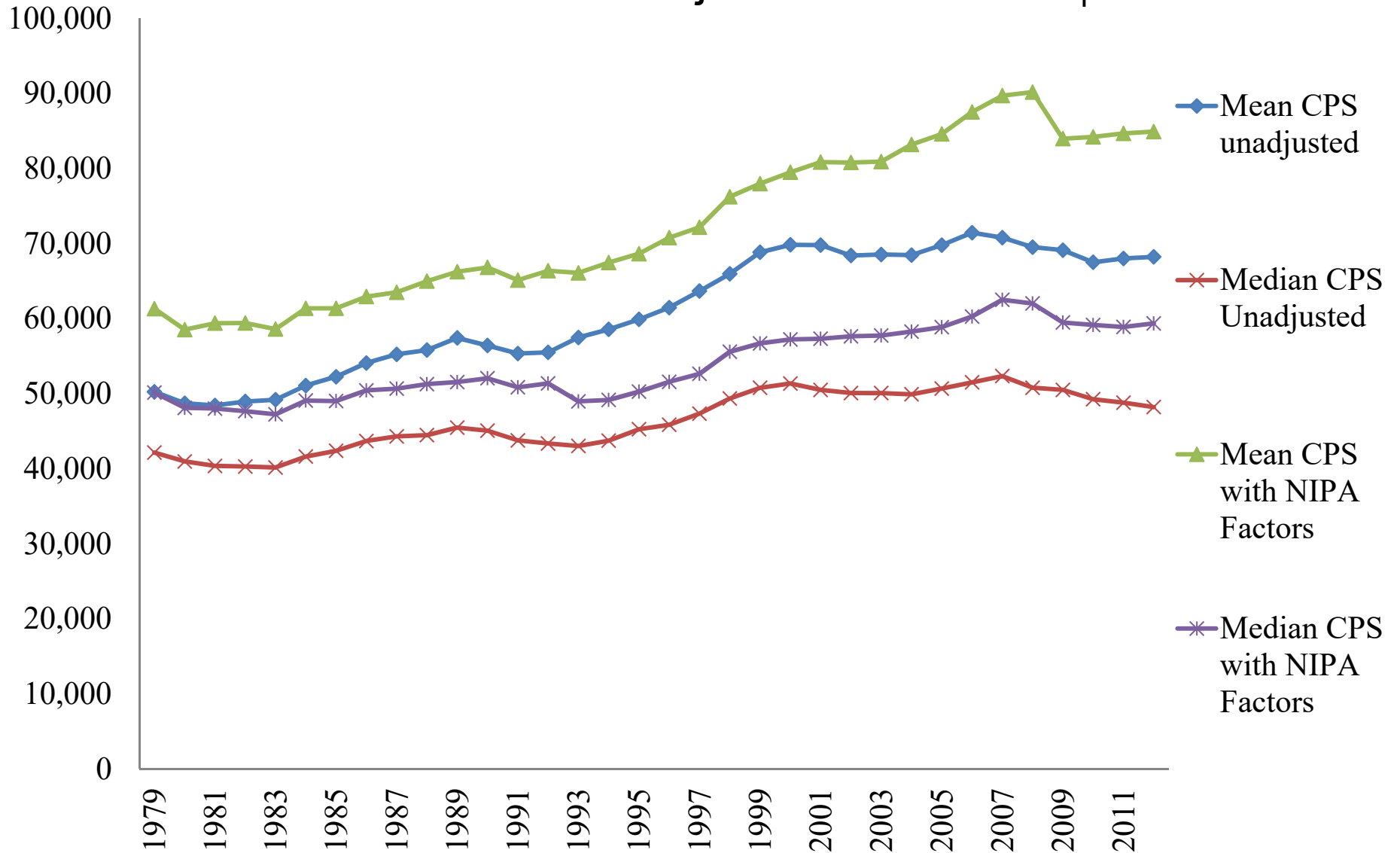
Need research on under-reporting and comparing survey to aggregate and admin data

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- Burkhauser, R., Feng, S., Jenkins, SP, Larrimore, J. "Recent Trends in top income shares in the United States: Reconciling estimates from March CPS and IRS tax return data," *Review of Economics and Statistics* 94, 371-388, 2012
- Fixler, D., Johnson, D., Furlong, K. and Craig, A. "A Consistent Data Series to Evaluate Growth and Inequality in the National Accounts," paper prepared for "W(h)ither the SNA?", April 16-17, 2015, Paris.
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- Meyer, B and Mittag, N., "Using Linked Survey and Administrative Data to Better Measure Income: Implications for Poverty, Program Effectiveness and Holes in the Safety Net," NBER Working Paper No. 21676, Oct 2015
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- Rothbaum, J. "Comparing Income Aggregates: How do the CPS and ACS Match the National Income and Product Accounts, 2007-2012," SEHSD working paper 2015-01, 2015.

Use new Rank Proximity Swapping Data

- For CPS users
 - adopt swap income values via
http://www.census.gov/housing/extract_files/data%20extracts/income%20data%20files/
- Available for download from 1975-2010
- Currently used in public files for 2011-2014

1980-2012 Household Income Growth Using CPS with NIPA Adjustment Factors α_i



Effect of Government Health care spending

