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Abstract

Recent research on U.S. levels and trends in income inequality varies substantially based on how these studies measure income. In this presentation I will compare a market income of tax units approach similar to that used by Piketty and Saez to a more comprehensive measure of income including realized capital gains of households used by the Congressional Budget Office and Armour, Burkhauser, and Larrimore with a unified data set and replicate common findings in the literature. By using a comprehensive income definition in the spirit of Haig-Simons, considering yearly accrued capital gains rather than focusing on the delayed reporting of capital gains that appear in Internal Revenue Service tax return data, the observed growth in income inequality and top income shares since 1989 is dramatically reduced. With this same fuller measure of income I then show that government tax and transfer policy dramatically cushioned the decline in market income during the Great Recession for the bottom income quintile and for the average American.