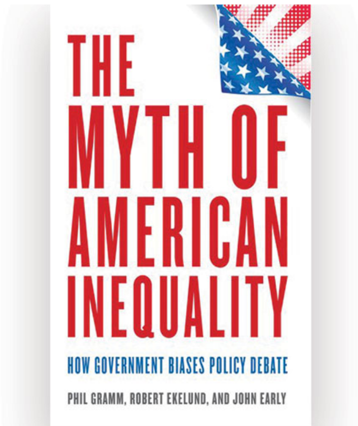
Written by **William P. Hoar** on March 7, 2023

Published in the March 27, 2023 issue of the New American magazine. Vol. 39, No. 06

The Review

How the Government Skews America



***The Myth of American Inequality: How Government Biases Policy Debate*,** by Phil Gramm, Robert Ekelund, and John Early, Lanham, Maryland: Rowman & Littlefield, 2022, 264 pages, hardcover.

Statistics have been likened to witnesses: They can testify for either side. Yet, even if that is so, you still do have to make decisions about which party is guilty.

However, there are a few ground rules. We need to understand that man, if healthy, lives by production; the state lives by appropriation and redistribution. Thus, when looking at figures, it behooves us to look very carefully at those favoring data that tend to enhance the size and power of the state.

Here's a representative example for one wing, an American politician who insists that the "obscene and increasing level of wealth and income inequality is immoral, un-American and obscene." That seems to be a very popular view these days, though those particular complaints are from U.S. Senator Bernie Sanders (I-Vt.) — who, not so incidentally, is an avowed "democratic socialist." He and his ideological allies find a variety of certain official statistics convenient to use as potential corroboration.

The book under review is testimony for the other side — the folks who still believe in the American dream.

While there are plenty of numbers in *The Myth of American Inequality*, the root of its thesis revolves around *words*, and how U.S. government agencies have been using them — especially in recent decades. Those bureaucracies have been playing the role of "Humpty Dumpty," for whom a word "means just what I choose it to mean." While most people might think they understand concepts such as "income," "poverty," "inflation," "prices," and "transfer payments," the authors show how these terms and others have been twisted and weighted to slant particular government policies.

You need not be a graybeard to recognize the economic progress that this country has experienced over the last half century, but that's not the tale generally spun by big government advocates, along with most of the professoriate and mass media. Their narrative of woe insists that we have been stagnating, with poverty rates hardly changing over the decades, and pay levels being stuck. All of this, we are told, has triggered horrendous "income inequality," a nebulous and flexible expression denoting an afflicted economy.

Such claims, say the authors dryly (after spending multiple chapters proving their contrasting assertions), "simply do not comport with the America we live in."

Indeed, they show how (among other key points) the Census Bureau does not count two-thirds of government subsidies to households as income. Nor does it count taxes taken as reductions to income

— which of course they are. (For the top quintile, such levies average 35 percent.) Such actions mean that official statistics overstate the supposed poverty rate and income inequality.

The exaggerated claims are then used as justification for more subsidies. There are more ramifications, since those subsidies (government transfers) have led many adults in recipient households to stop working.

The book makes a persuasive case that the government's official statistics overstate income inequality by a factor of four. Selective data has been used to contend that inequality has been rising, when in actuality it has been declining for seven decades. In similar fashion, the authors show how "official" poverty counts are 10 times larger than the actual number.

Official Statistics Are Wrong-headed

Don't be concerned that this is a heavy-eyed economic treatise that will have you dozing. Forthright and uncompromising, the volume is persuasive without being an impassioned diatribe.

Nor is this an overtly politically partisan book: There is but one mention of Joe Biden, and when other presidents are mentioned (Franklin Roosevelt and Lyndon Johnson in particular), it is generally to quote their stated intentions (as differing from what happened). For example, the authors show how LBJ's "War on Poverty" increased dependency. It happened, as they write, "just as President Roosevelt said it would in 1935: 'To dole out relief this way is to administer a narcotic, a subtle destroyer of the human spirit.'" Just so.

The book, as explained by Phil Gramm in the preface, was not written "by three different people and pieced together. We researched, analyzed, and wrote it jointly." Gramm served six years in the U.S. House of Representatives and 18 years in the U.S. Senate, where he was chairman of the Banking Committee. His published works appear, among other places, in *The Wall Street Journal*. That newspaper named *The Myth of American Inequality* one of its "best books" of 2022.

Gramm also taught economics at Texas A&M University, as did his colleague Robert Ekelund, who is now professor and eminent scholar (emeritus) in economics at Auburn University and the author of more than 20 books. According to Gramm, he and Ekelund concluded they could never match the understanding of the American system of collecting and reporting statistics of John Early, a statistician and economist with a lifetime of experience in the area. He was convinced to join the effort. Co-author Early began working as a legislative assistant to U.S. Senator George McGovern and served as a senior leader at the Bureau of Labor Statistics; Early's publications include improving measurements of price change, labor force dynamics, and improving healthcare.

Each co-author, as they acknowledge, has his own "opinions and political views," but all share the desire to "get the facts straight" (a recurring line in chapter subtitles).

Together, they substantiate (among other points) how understating real income growth in American households along with overstating poverty have led to overstating income inequality.

The authors don't claim that their exposition and potential solutions are attempts to end a debate. Rather, they want to start a debate. We second the motion — albeit with the awareness that the bulk of our legislators might practice more economy if they weren't so out of practice.

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Uncounted Transfer Payments

The situation is a mosaic, with multiple problems. There's only room here for a few aspects — which is one reason why the entire book should be required reading in Washington and state capitals, among other places where policies are formulated.

Take this rather astounding factoid from the book: The average household with earned income placing it in the bottom quintile (20 percent) of all American households received in 2017 more than $45,000 in government transfer payments. However, the commonly relied-upon statistics of the Census Bureau did *not* count nearly $32,000 of that as income for its recipients.

"The result is that today two-thirds of all government payments to individuals and households are not counted by Census as income estimates." These include big-ticket items. Census excludes 100-plus transfer programs (listed in an appendix), including Treasury Department checks that pay low-income households refundable tax credits in excess of their tax liabilities, food-stamp debit cards, and medical bills paid by Medicaid. (Census does use what it calls "money income" for its official estimates.)

It is difficult to see, comment the co-authors, "how a middle-income family with two adults both working would not resent the fact that other work-age people who are not working at all are just about as well off as they are."

If things continue as they are — and the authors do offer ways to recompute the statistics — such matters will get worse. These are the real inequities. Current "public assistance," we read, "continues to grow faster than the earned income of taxpayers, with the average nonretired household in the bottom quintile receiving more than $41,000 in government transfer payments, while employers cannot find people to work in their eleven million vacant jobs."

Money to spend: Government and media claims of obscene income inequality in America are based on faulty statistics that don't count transfer payments (i.e., welfare) as income. Such transfer payments also discourage Americans from working. (AP Images)

Impacts of Misleading Indexes

Misleading government inflation indexes help bollix up the measurement of the economy — generally overstating inflation by leaning on the CPI-U index. There are more accurate indexes available (plenty of explanatory details are provided) such as C-CPI-U or Chained CPI, which is used by the Bureau of Labor Statistics. Another similar index is called PCEPI.

Muddying the situation is the fact, as noted in *The Myth*, that the government uses five different price indexes "to adjust for changes in government prices when it measures economic well-being, when it adjusts government-transfer benefits levels for inflation, and when it adjusts the tax code for inflation."

If the more-accurate measures were employed, government spending would be reduced, real hourly earning and real median household income would be found to be considerably higher, and the poverty rate would be substantially lower.

The book's analysis provides what amounts to a map for sanity, with charts and detailed explanations. Here's one look of what the Census statisticians have done and what they didn't do. In 2017, under the CPI-U, the poverty rate was said to be 12.3 percent. However, write the authors, if Census "had adjusted the poverty thresholds using the more accurate Chained CPI, 9.1 percent of the population would have been in poverty. Incorporating the better measures of the effects of new and improved products would have lowered the poverty rate even further to 6.5 percent — a decline of more than half from 1967."

Of course, we know that figures can lie — the government has been doing that, after all — and liars can figure. (Fill in you own favorite pols for that role.) But, if the idea is really to wage war on poverty, shouldn't there be some gains in the fight over so many years and so much spending?

One chapter-long evaluation does demonstrate, as the authors explain, that the official income measurement employed by Census

> fails to include 88 percent of government transfer payments to families classified as poor. Counting all transfer payments as income to the recipients, even using the CPI-U to adjust the poverty threshold for inflation, would cause the poverty rate to fall to only 2.5 percent. Both counting the missing transfer payments and using improved price measures with reduced biases from substitution and new products [taking into account the well-known effects of consumers substituting one service or product for another] would cause the poverty rate in 2017 to fall to 1.1 percent.

Yep, that is only 1.1 percent!

The co-authors remind us about what would occur with more accurate measurements being employed. This would show

> that only 1.3 percent of children and less than 0.4 percent of seniors live in poverty. For children living with married relatives, the poverty rate is a mere 0.2 percent. Poverty affects 1.7 percent of Blacks, about 92 percent fewer than shown by the Census counts. While the improved measures show that poverty among Blacks is still somewhat higher than for Whites, the difference is only 0.6 percentage points, versus the 11.5 percent in the Census numbers. With the improved estimates, poverty affects 1.3 percent of women and 1.0 percent of men.

The Myth of American Inequality reveals graphically how we have been deceived — even though most Americans today are actually as prosperous as many in the top 20 percent were five decades ago.

What would help the current situation? The book's proposals include removing government disincentives to work; reforming elementary and secondary education, including school choice; and recognizing that government has been a barrier to opportunities, including the imposing of artificial licensing requirements.

Opportunities are the key. When individual Americans lend a helping hand, say Gramm, Ekelund, and Early, "we help others up. But if all our government does is provide subsidies to those who have fallen, it is letting them down and too often keeping them down." America has promised them so much more, namely "a chance to develop their God-given abilities and put them to work for themselves and their families."

— William P. Hoar