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Introduction to U.S. Economy: Personal Income

What Is Income?

Income is a measure of resources accruing to an individual over a period of time. In general, individuals receive income from their labor, assets, and government transfers. In its broadest terms, income is a measure of the maximum amount of goods and services an individual can consume in a given period without diminishing their net worth (the difference between their assets and liabilities) at the end of the period. Income is considered a flow variable as it is measured over a period of time, in comparison to net worth, a stock variable, which is measured at a given point in time.

Measures of Income

There are two prominent sources of data on personal income in the United States, the Bureau of Economic Analysis (BEA) and the Census Bureau. Although both agencies attempt to measure personal income, their definitions of income and how they collect data differ significantly. The BEA has a broader measure of income which includes both money income (e.g., wages and salary) and non-money income (in-kind benefits such as employer-sponsored health care, housing, or meals). BEA data is generally reported at the aggregate level (e.g., economy-wide, states, regions), but also offers limited information at the individual level. Additionally, BEA collects income figures from both administrative data from federal agencies and surveys. BEA also provides income data both before and after remittance of taxes. Income data from BEA is available at http://www.bea.gov/iTable/index_nipa.cfm.

In contrast to BEA, the Census Bureau's measure of income includes only money income, while non-money income is not included. The Census collects income data through surveys at the household level, but also reports the data at the individual and family level. The reason income is often reported at the household or family level is the recognition that individuals within a household or family generally share resources and make economic decisions together. Households generally includes all individuals that live at the same address, while a family includes all individuals living at the same address who are related to each other by birth, marriage, or adoption. The Census also offers data on the distribution of income and poverty levels. Additionally, income measures from the Census generally reflect pre-tax income. Income data from the Census Bureau is available at http://www.census.gov/topics/income-poverty/income.html.

Sources of Income

Income is derived from a wide array of sources including salaries and wages, business income, rental income, investment income (interest, dividends, etc.), and government transfers from a number of programs. Different definitions include different sources of incomes; **Table 1** breaks income down into categories according to the BEA definition.

Table 1. Sources of Personal Income: 2015

Percent of Total Income	
Employee Compensation	58%
Wages and Salary	47%
Supplements to Wages and Salaries	11%
Business Income	8%
Rental Income	4%
Investment Income	14%
Government Transfers	16%
Social Security	5%
Medicare	4%
Medicaid	3%
Unemployment Insurance	<1%
Veterans' Benefits	1%
Other	3%

Source: CRS calculations using data from U.S. Department of Commerce, BEA, *GDP and Personal Income*, at http://www.bea.gov/iTable/index_nipa.cfm.

Note: Percentages may not add to 100% due to rounding.

In general, the largest share of personal income is employee compensation, about 58% of all income in 2015. Wages and salaries account for about 81% of employee compensation and 19% is in the form of in-kind transfers to employees. Business income accounts for about 8% of income, rental income accounts for about 4%, and investment income accounts for about 14% of income as shown in **Table 1**. Transfers from the government, in the form of both money income and in-kind benefits, accounted for about 16% of total income in 2015. Approximately one-third of government transfers are from Social Security, 24% is from Medicare, 21% is from Medicaid, less than 1% is from unemployment insurance, 3% is in the form of veterans' benefits, and 18% is from other programs.

Earnings, a subset of income, are often reported alongside income measures. Earnings generally only include income derived from labor. The BEA's measure of earnings includes wages and salary, supplements to wages and salaries, and business income, about 66% of all personal income as shown in **Table 1**. However, the Census only includes wages and salaries, and self-employment/business income as earnings.

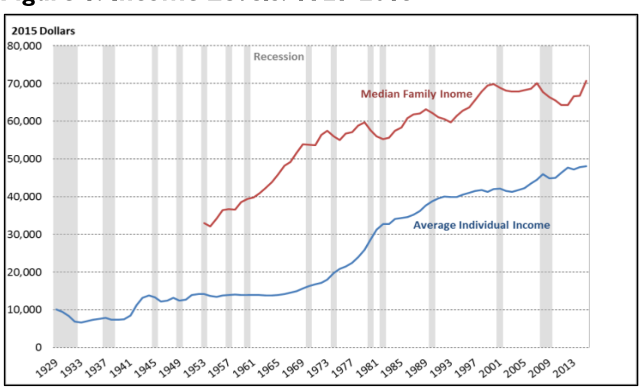
Measuring Income over Time

Individual incomes have grown significantly over time in the United States. According to the BEA, real aggregate income has increased in inflation-adjusted dollars from about $1.2 trillion in 1929 to about $15.5 trillion in 2015, an increase of about 3.0% per year on average. However, average individual income, which accounts for population growth, grew by about 1.8% per year on average over the same period, as shown in **Figure 1**.

According to Census data, real median family income has grown in inflation-adjusted terms from about $32,970 in 1953 (the earliest data available) to about $70,697 in 2015, an increase of about 1.2% per year on average. Differences in income growth between Census and BEA figures are due to differences in the level of analysis, the alternative income definitions used, and differences between average and median calculations. As shown in **Figure 1**, median family income grew quite rapidly between 1953 and 1969, an average growth rate of about 2.9% per year. However, between 1970 and 2015 median family income growth has only been about 0.6% per year on average. And between 2000 and 2015 median family income growth has been nearly flat, increasing by about 0.1% per year on average.

Both average (mean) and median are measures of central tendency, which means they provide a sense of the central or typical value within a distribution. For income measures, median is often preferred as it is less sensitive to outliers (extreme values at either end of a distribution) which are especially common at the upper end of the income distribution.

Figure 1. Income Levels: 1929-2015



Source: U.S. Department of Commerce, BEA, *GDP and Personal Income*, at http://www.bea.gov/iTable/index_nipa.cfm, and U.S. Department of Commerce, Census Bureau, *Historical Income Tables: Families*, at http://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-families.html.

Note: Adjusted for inflation. Grey bars represent recessions as defined by the National Bureau of Economic Research.

Determinants of Income Growth

Economic growth (as measured by gross domestic product (GDP)) generally results in the growth of aggregate income. For example, between 1929 and 2015 real GDP grew at about 3.2% per year on average, while aggregate personal income grew at about 3.0% per year on average. In the short-term, economic growth, and therefore income growth, is largely dependent on the level of aggregate demand in the economy. As individuals demand more goods and services within the economy over the course of an expansion, overall output and incomes tend to rise. As shown in **Figure 1**, median family incomes tend to rise and fall with the business cycle.

However, in the long-term, economic growth is largely dependent on growth in the productive capacity of the economy. Increases in the economy's productive capacity generally lead to an increase in aggregate incomes over time. For a more detailed discussion of the connection between economic growth and incomes see CRS In Focus IF10408, *Introduction to U.S. Economy: GDP and Economic Growth*.

Income Distribution

Economic growth is synonymous with growth in aggregate income, but this growth in income is not necessarily shared equally. The Census collects data on the distribution of income by quintile and for the top 5%. As shown in **Table 2**, about 51.1% of income in 2015 went to households in the highest quintile (top 20%), and 3.1% of income went to households in the lowest quintile (bottom 20%). The top 5% of households received about 22.1% of aggregate income.

Table 2. Income Distribution: 2015

	Share of Aggregate Income by Percentile	Mean Household Income of Percentiles
Lowest quintile	3.1	$12,457
Second quintile	8.2	$32,631
Middle quintile	14.3	$56,832
Fourth quintile	23.2	$92,031
Highest quintile	51.1	$202,366
Of which: top 5 percent	22.1	$350,870

Source: U.S. Department of Commerce, Census Bureau, *Income and Poverty in the United States: 2015*, at http://www.census.gov/data/tables/2016/demo/income-poverty/p60-256.html.

Over time, the share of income going to the highest quintile of households has been steadily rising since the Census began collecting this data in 1967. The share of income going to the highest quintile rose by about 7.5 percentage points, increasing from about 43.6% in 1967 to 51.1% in 2015. The share of income going to the rest of the income distribution decreased over the same period. The share of income going to the lowest quintile decreased by about 0.9 percentage points, the second quintile decreased by about 2.6 percentage points, the third quintile decreased by about 3.0 percentage points, and the fourth quintile decreased by about 1.0 percentage points.

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