

Income



Income, which includes resources earned from work, returns on investment, and government transfers and benefits (e.g., Social Security, Medicare, Medicaid, and unemployment insurance), is a key determinant of living standards. A comprehensive look at family and household income reveals that growing inequality has led to economic progress for low- and middle-income families that lags far behind the economy's potential.

The big picture

241%

Between 1979 and 2007, the top 1 percent of households received more income growth than the bottom 90 percent. Incomes for the top 1 percent grew 241 percent compared to 11 percent for the bottom fifth and 19 percent for the middle fifth.

2018

Incomes for middle-class households and families are not likely to reach their 2000 levels until 2018 due to the weak economic performance of the 2000-2007 business cycle and the dramatic losses resulting from the Great Recession.

\$62,301

In 2000, median family income was \$66,259. In 2010, it was 6 percent lower (\$62,301), constituting a “lost decade” for income growth. African American and Hispanic families had substantially lower incomes. In 2010, black median family income was \$39,715, just 61 percent that of whites, while Hispanic median family income was \$40,785, 62.6 percent that of whites.

From 1947–1979, income growth was relatively uniform across the income distribution. From 1979–2007 (business cycle peaks), however, income growth was concentrated in the top 20 percent of the income distribution, with most of it going to the top 5 percent.

Spotlight INEQUALITY

Market activity (before taxes and government transfers are taken into account) has driven the growing inequality in the income distribution. While taxes and government transfers serve to reduce inequality at any point in time, since 1979, they have been less effective in doing so.

28.3%

In 1979, the bottom 20 percent of the income distribution was taxed higher than in 2007 but received more in government transfers. On net, the tax-and-transfer system boosted their incomes by 37.2 percent in 1979, but only 28.3 percent in 2007.

↓ 20%

The top 1 percent paid higher taxes in 1979 and received less in government transfers compared to 2007. In 2007, the top 1 percent had a 20 percent lower tax bill than in 1979 and *received three times* more in transfers than in 1979.

Income shift

The increases at the top of the income distribution are marked by a shift in how income is earned in the market and taxed by the government.

15%

Growth in capital income accrued mostly to the top 1 percent of households. In 1979, the top 1 percent claimed about 40 percent of all capital income. In 2007, they captured 65 percent of the total. Conversely, the bottom 90 percent, which claimed nearly a third of capital income in 1979, claimed about 15 percent in 2007.

How has the economy delivered for the middle class?

Comprehensive income data, which includes benefits from employers and government transfers, shows no evidence that the private economy is performing well or fairly for most American families. Instead, it simply shows the great importance of preserving American social insurance programs.

86%

Pensions, cash transfers and in-kind income (minus employer-sponsored health insurance) accounted for nearly 86 percent of all income growth for the middle fifth from 1979–2007. Furthermore, those categories directed at elderly households (Social Security, Medicare, and pensions) accounted for more than 56 percent of all the income growth during the period.

Wage and salary growth contributed relatively little to overall income growth during this period, and much of the increase is attributed to employees being better educated and working more hours (not earning more money per hour worked).