

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is centered in the narrow neck of the hourglass. The top bulb is filled with a dark blue color, and the bottom bulb is filled with a light blue color. The globe is centered in the narrow neck of the hourglass.

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The Distribution of Income

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December 30, 2008

Abstract. Although not itself a subject of legislation, the shape of the U.S. income distribution is a factor in a number of policy areas of congressional interest, including taxes, welfare, Social Security, and the minimum wage. The Bureau of the Census conducts an annual survey from which it derives estimates of the distribution of income in the United States. This report presents summary estimates of the distribution of household income for 2007.

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Summary

Although not itself a subject of legislation, the shape of the U.S. income distribution is a factor in a number of policy areas of congressional interest, including taxes, welfare, Social Security, and the minimum wage. The Bureau of the Census conducts an annual survey from which it derives estimates of the distribution of income in the United States. This report presents summary estimates of the distribution of household income for 2007. It will be updated periodically. For more information on the distribution of income including changes over time, see CRS Report RL32639, *Inequality in the Distribution of Income: Trends and International Comparisons*, by Brian W. Cashell.

Contents

The Distribution of Household Income 1

Tables

Table 1. Distribution of Household Income, 2007 1
Table 2. Distribution of Household Income, 2007 2
Table 3. Distribution of Household Income, by Definition of Income, 2005 3

Contacts

Author Contact Information 3

<http://wikileaks.org/wiki/CRS-RS20811>

The Distribution of Household Income

The Bureau of the Census conducts an annual survey from which it derives estimates of the distribution of household income. The Census Bureau's 'official' measure of income is based on the concept of money income and includes earnings, Social Security, interest, dividends, and other forms of social insurance. It excludes the value of non-money benefits such as food stamps and housing subsidies. It does not include capital gains, and it is pre-tax income.¹

Table 1 shows the distribution of income in 2007, by quintile, using this official measure of household income. Each quintile represents 20% of the total number of households. In 2007, there were 116,783,000 households, so each quintile represents 23,356,600 households. The top 5% (the top 5,835,150 households) are also shown independently, because they alone account for a significant share of household income.

The Census Bureau publishes these estimates by quintile to provide a concise snapshot of the overall distribution of income. It should be noted that there is no official definition of "middle class," but one approach that has been used is to group together the three middle quintiles. In 2007, that included those households with incomes between \$20,291 and \$100,000. The concept of middle class, however, remains entirely subjective.²

Table 1. Distribution of Household Income, 2007

| | Quintiles | | | | | Top 5% |
|-------------------------------|-----------------------|----------------------------|----------------------------|-----------------------------|------------------------|------------------------|
| | Lowest | Second | Third | Fourth | Highest | |
| Share of households (%) | 20 | 20 | 20 | 20 | 20 | 5 |
| Range of income class | less than \$20,291 | \$20,291 to \$39,100 | \$39,100 to \$62,000 | \$62,000 to \$100,000 | more than \$100,000 | more than \$177,000 |
| Share of household income (%) | 3.4 | 8.7 | 14.8 | 23.4 | 49.7 | 21.2 |

Source: Department of Commerce, Bureau of the Census.

Data describing the distribution of household money income are also available by level of income, or income class. These figures, shown in **Table 2**, indicate the number and share of households in selected income ranges up to and above \$250,000. Also shown are median and mean household income.

¹ The complete Census Bureau report on income is available on their website at <http://www.census.gov/hhes/www/income/income.html>.

² See CRS Report RS22627, *Who Are the "Middle Class"?*, by Brian W. Cashell.

Table 2. Distribution of Household Income, 2007

| Income Class | # of Households (in thousands) | % of Households |
|------------------------|-----------------------------------|-----------------|
| All Households | 116,783 | 100.0 |
| Less than \$5,000 | 3,413 | 2.9 |
| \$5,000 to \$9,999 | 5,042 | 4.3 |
| \$10,000 to \$14,999 | 7,051 | 6.0 |
| \$15,000 to \$19,999 | 6,727 | 5.8 |
| \$20,000 to \$24,999 | 6,801 | 5.8 |
| \$25,000 to \$29,999 | 6,314 | 5.4 |
| \$30,000 to \$34,999 | 6,218 | 5.3 |
| \$35,000 to \$39,999 | 5,788 | 5.0 |
| \$40,000 to \$44,999 | 5,750 | 4.9 |
| \$45,000 to \$49,999 | 4,983 | 4.3 |
| \$50,000 to \$59,999 | 9,565 | 8.2 |
| \$60,000 to \$69,999 | 8,009 | 6.9 |
| \$70,000 to \$79,999 | 7,006 | 6.0 |
| \$80,000 to \$89,999 | 5,788 | 5.0 |
| \$90,000 to \$99,999 | 4,741 | 4.1 |
| \$100,000 to \$149,999 | 14,214 | 12.2 |
| \$150,000 to \$199,999 | 5,115 | 4.4 |
| \$200,000 to \$249,999 | 2,012 | 1.7 |
| \$250,000 and above | 2,245 | 1.9 |
| Median Income | \$50,233 | |
| Mean Income | \$67,609 | |

Source: Department of Commerce, Bureau of the Census.

The Census Bureau also published estimates of the income distribution in 2005 using alternative definitions of income. **Table 3** presents the distributions, by quintile, for these alternative definitions of income. The first row, *money income*, shows the income shares using the same definition of income as that shown in **Table 1**. *Market income* includes money income except for government cash transfers, capital gains and losses, and an imputed return on home equity. It also subtracts an estimate of work-related expenses.³ *Post-Social Insurance Income* includes money income except government means-tested transfers, capital gains and losses, and estimated return on home equity, and it subtracts work-related expenses. The difference between market income and post-social insurance income is that the latter excludes means-tested government transfers. *Disposable Income* includes money income, the value of non-cash transfers such as food stamps and subsidized housing, capital gains and losses, and estimated return on home equity. It subtracts

³ Work related expenses includes items such as child care, union dues, permit and license fees, and commuting costs.

work expenses, federal payroll taxes, federal and state income taxes, and property taxes on owner occupied homes.⁴

Money income is the measure on which official estimates of poverty are based, and it is the source for the most publicized income measures such as median household income. Market income can be compared with post-social insurance income to assess the effect of non-means-tested transfers like Social Security on the distribution. Comparing post-social insurance income with disposable income shows the effect of means-tested transfers on inequality. Finally, comparing market income with disposable income is a way to see the effect of transfers and taxes on the distribution.

Table 3. Distribution of Household Income, by Definition of Income, 2005

| | Quintiles | | | | |
|------------------------------|-----------|--------|-------|--------|---------|
| | Lowest | Second | Third | Fourth | Highest |
| Money Income | 3.4 | 8.8 | 14.4 | 23.0 | 50.3 |
| Market Income | 1.5 | 7.3 | 14.0 | 23.4 | 53.8 |
| Post-Social Insurance Income | 3.2 | 8.6 | 14.3 | 22.8 | 51.0 |
| Disposable Income | 4.4 | 9.9 | 15.3 | 23.1 | 47.3 |

Source: Department of Commerce, Bureau of the Census.

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⁴ The full report on alternative income estimates is available on the Census Bureau's website at <http://www.census.gov/hhes/www/poverty/effect2005/tables.html>.