



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 measured over a period of time. In contrast, net worth 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 that includes both money income (e.g., wages and salary) and nonmoney income (e.g., employer-sponsored health care, housing, and meals). BEA data are generally reported at the aggregate level (e.g., economy-wide, states, regions) but also offer limited information at the individual level. Additionally, BEA collects income figures from both federal agency administrative data and surveys. BEA also provides income data both before and after tax remittances.

In contrast, the Census Bureau’s measure of income includes only money income. The Census collects income data through surveys at the household level but also reports the data at the individual and family level because of the recognition that individuals within a household or family generally share resources and make economic decisions together. A household 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 provides data on the distribution of income and poverty levels. Additionally, income measures from the Census generally reflect pretax income.

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 income. **Table 1** breaks income down into categories according to the BEA definition.

In general, the largest share of personal income is employee compensation (59% of total income in 2021, as shown in **Table 1**), comprised of wages and salary (46%) and supplements to wages and salaries (i.e., employer paid benefits: 11%). Business, rental, and investment income

collectively accounts for about 26% of total income. Transfers from the government, in the form of both money income and in-kind benefits, accounted for about 22% of total income in 2021.

Table 1. Sources of Personal Income: 2021

Percentage of Total Income	
Employee Compensation	59%
Wages and Salary	48%
Supplements to Wages and Salaries	11%
Business Income	8%
Rental Income	3%
Investment Income	15%
Government Transfers	22%
Social Security	5%
Medicare	4%
Medicaid	3%
Unemployment Insurance	2%
Veterans’ Benefits	1%
Other	6%

Source: CRS calculations using data from BEA, *GDP and Personal Income*.

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

Earnings, a subset of income, are often reported alongside income measures. Earnings generally include only income derived from labor. The BEA’s measure of earnings includes wages and salaries, supplements to wages and salaries, and business income, while the Census includes only wages and salaries, self-employment income, and business income as earnings.

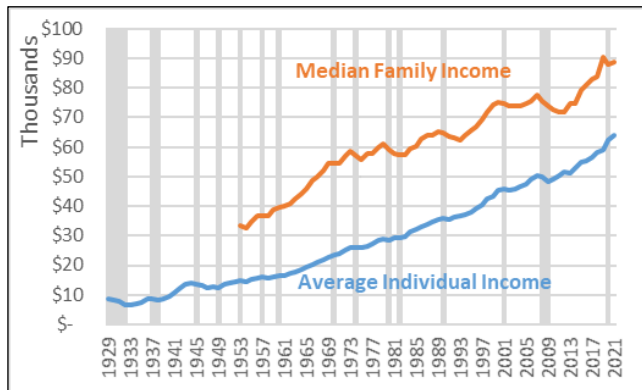
Measuring Income over Time

Incomes have grown significantly over time in the United States, although the rate of growth varies depending on measurement used. According to the BEA, real (i.e., inflation-adjusted) average individual income grew from \$8,705 to \$64,100 from 1929 to 2021, which equates to about 2.2% per year growth on average, as shown in **Figure 1**. According to Census data, real median family income has grown from about \$33,513 in 1953 (the earliest data available in this dataset) to about \$88,590 in 2021, an increase of about 1.4% per year on average. (BEA increases in individual income in this period would be from \$14,814 to \$64,100, or about 2.2% a year.) Differences in income growth between Census and BEA figures are due to differences in the unit of analysis (i.e., households can have

multiple income earning individuals), the alternative *income* definitions used, and differences between average and median (value at the midpoint of a distribution) calculations.

The rate of income growth has also varied across different time periods. As shown in **Figure 1**, median family income grew quite rapidly between 1953 and 1969, an average growth rate of about 3.1% per year. However, between 1970 and 2021, median family income growth has been about 1% per year on average. Median family income growth has accelerated since 2012, growing by about 2.3% per year on average. However, this recent uptick might be caused by changes implemented to the survey and data collection challenges during the pandemic.

Figure 1. Income Levels, 1929-2021



Source: CRS calculations based on U.S. Department of Commerce, BEA, *GDP and Personal Income*, and U.S. Department of Commerce, Census Bureau, *Historical Income Tables: Families*.

Note: Measured in constant 2021 dollars. Grey bars represent recessions as defined by the National Bureau of Economic Research.

Determinants of Income Growth

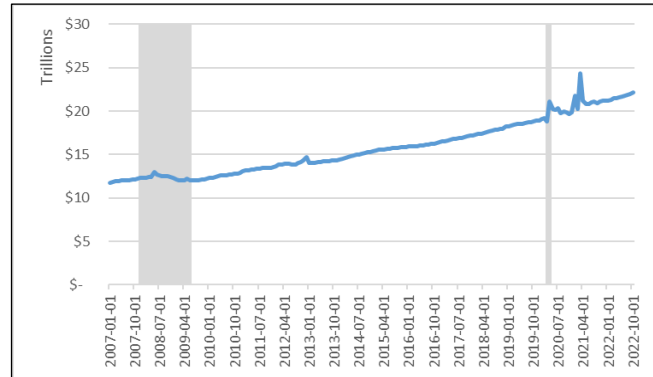
Economic growth—as measured by gross domestic product (GDP)—generally results in the growth of aggregate income. In the short term, economic growth (and therefore income growth) depends largely on the level of aggregate demand in the economy. As individuals demand more goods and services within the economy over the course of an expansion, overall output and incomes tend to rise.

In the long term, economic growth depends largely on growth in the economy’s productive capacity. In general, increases in the economy’s productive capacity lead to an increase in aggregate incomes over time. For more detail on the connection between economic growth and incomes, see CRS In Focus IF10408, *Introduction to U.S. Economy: GDP and Economic Growth*.

Personal Income and the Business Cycle

Personal income typically falls during recessions as unemployment increases. Notably, this did not occur in the most recent recession in 2020, despite large decreases in aggregate demand and GDP. This was largely the result of policies enacted in response to the pandemic, such as enhanced unemployment benefits and economic impact payments.

Figure 2. Personal Income over Past Two Recessions
January 2007 to October 2022



Source: BEA

Notes: Gray bars denote recessions.

Income Distribution

Aggregate 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**, 52.7% of income in 2021 went to households in the top quintile (top 20%), and 2.9% of income went to households in the bottom quintile (bottom 20%). The top 5% of households received 23.5% of aggregate income.

Table 2. Income Distribution: 2021

	Percentage Share of Aggregate Income	Mean Family Income of Cohort
Lowest quintile	2.9%	\$14,859
Second quintile	8.0%	\$41,025
Middle quintile	13.9%	\$70,879
Fourth quintile	22.6%	\$115,462
Highest quintile	52.7%	\$269,356
Of which: top 5 percent	23.5%	\$480,236

Source: U.S. Department of Commerce, Census Bureau, *Historical Income Tables: Households*.

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 9.1 percentage points, up from about 43.6% in 1967 to 52.7% in 2021. The share of income going to the rest of the income distribution decreased over the same period.

(*Note:* This In Focus was originally authored by Jeffrey Stupak, former CRS Analyst in Macroeconomic Policy.)

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