

Trends in the Distribution of Household Income From 1979 to 2020

November 2023

Terms Used in This Slide Deck

This slide deck provides details about the distributions of household income, means-tested transfers, and federal taxes from 1979 to 2020. For more information on changes to income in 2020 and the effects of federal programs implemented in response to the coronavirus pandemic, see the companion report *The Distribution of Household Income in 2020* (www.cbo.gov/publication/59509).

Income before transfers and taxes consists of market income plus social insurance benefits (including benefits from Social Security, Medicare, unemployment insurance, and workers' compensation).

Means-tested transfers are cash payments and in-kind services provided through federal, state, and local government assistance programs. Eligibility to receive such transfers is determined primarily on the basis of income, which must be below certain thresholds.

Federal taxes consist of individual income taxes, payroll taxes, corporate income taxes, and excise taxes.

Income after transfers and taxes is income before transfers and taxes plus means-tested transfers minus federal taxes.

Summary of CBO's Main Findings

Between 1979 and 2020, households at the top of the income distribution received significantly more income than households at the bottom. Over that period, average income, both before and after means-tested transfers and federal taxes, grew for all quintiles (or fifths) of the income distribution, but it increased most among households in the highest quintile (see Slides 5–11 and 24–29).

Households in the lowest quintile received more than half of all means-tested transfers between 1979 and 2020. As a percentage of income before transfers and taxes, means-tested transfers rose over the 42-year period, driven primarily by an increase in Medicaid spending (see Slides 12–15).

Higher-income households typically paid a higher average federal tax rate than lower-income households over that period. Average federal tax rates fell between 1979 and 2020 across the income distribution, with the sharpest decline in the lowest quintile (see Slides 16–23).

Income inequality, as measured by the Gini coefficients for income both before and after transfers and taxes, rose between 1979 and 2020. The degree to which transfers and taxes reduced income inequality increased over that period (see Slides 30–33). (The Gini coefficient is a standard measure of income inequality that summarizes an entire distribution.)

Notes

All dollar amounts are expressed in 2020 dollars, using the Bureau of Economic Analysis's price index for personal consumption expenditures.

To calculate growth rates, CBO first converted all dollar amounts to 2020 dollars.

Some of the figures have shaded vertical bars that indicate the duration of recessions. (A recession extends from the peak of a business cycle to its trough.)

Income Before Transfers and Taxes

Income Before Transfers and Taxes

Income before transfers and taxes consists of market income plus social insurance benefits.

Market income comprises wages and other forms of labor income (including cash wages, employers' contributions for health insurance premiums, and payroll taxes paid by employers), business income, capital income (including capital gains), and other income.

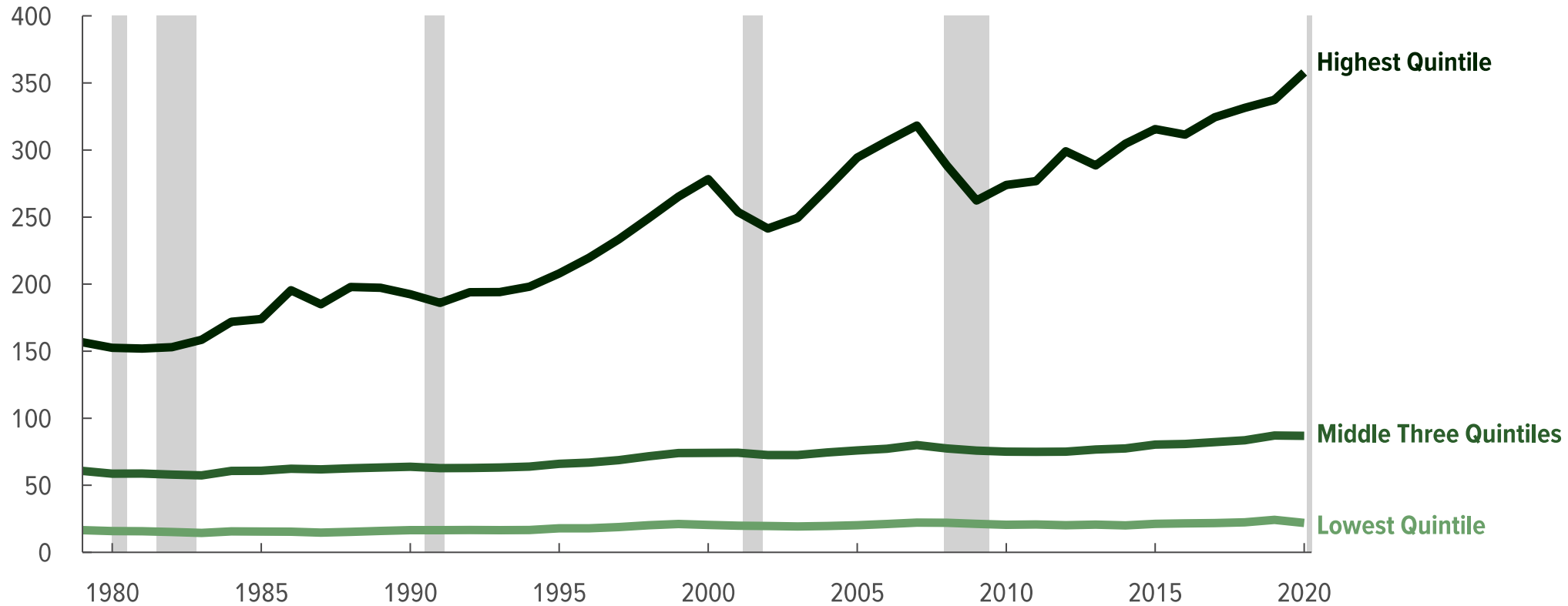
Social insurance benefits include Social Security and Medicare benefits, regular unemployment insurance (but not expanded unemployment compensation), and workers' compensation.

Notably, income before transfers and taxes excludes the effects of government policies carried out through means-tested transfer programs or the federal tax system.

Income before transfers and taxes is substantially higher among households at the top of the income distribution. As a result, those households receive a substantial share of that income.

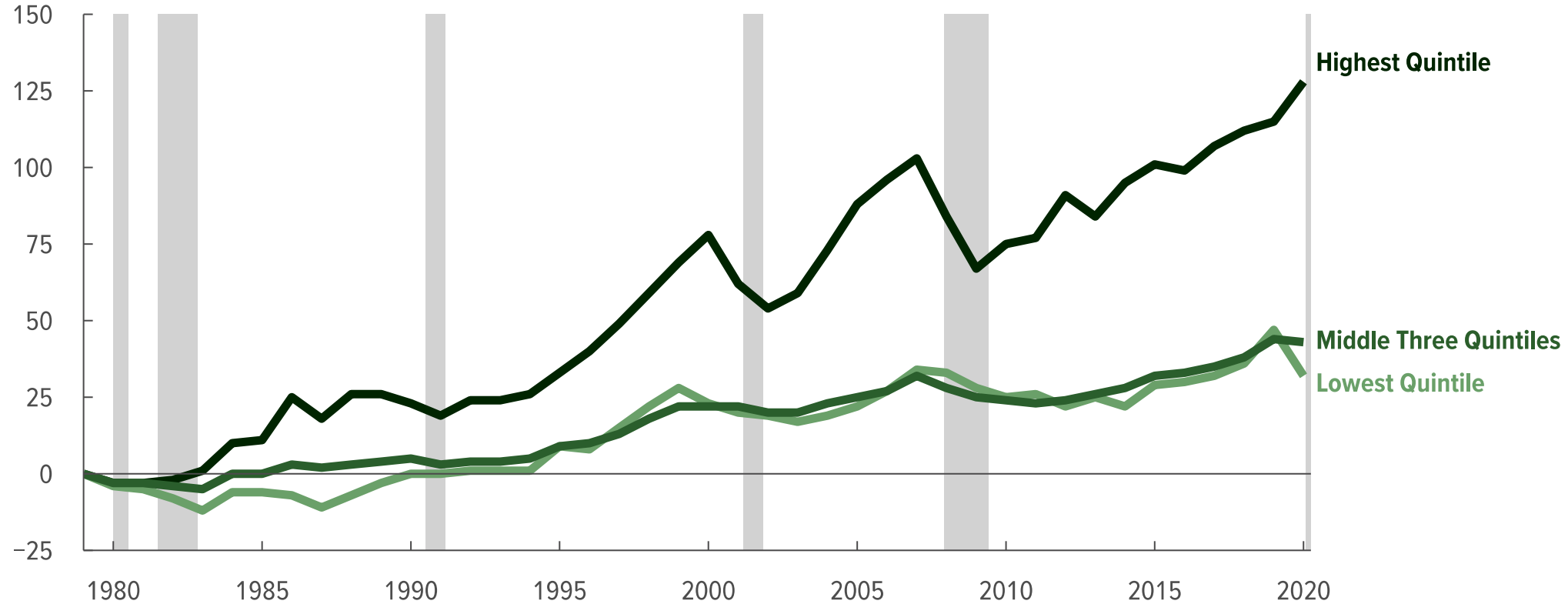
Average Income Before Transfers and Taxes, 1979 to 2020

Thousands of 2020 dollars



Cumulative Growth in Income Before Transfers and Taxes, 1979 to 2020

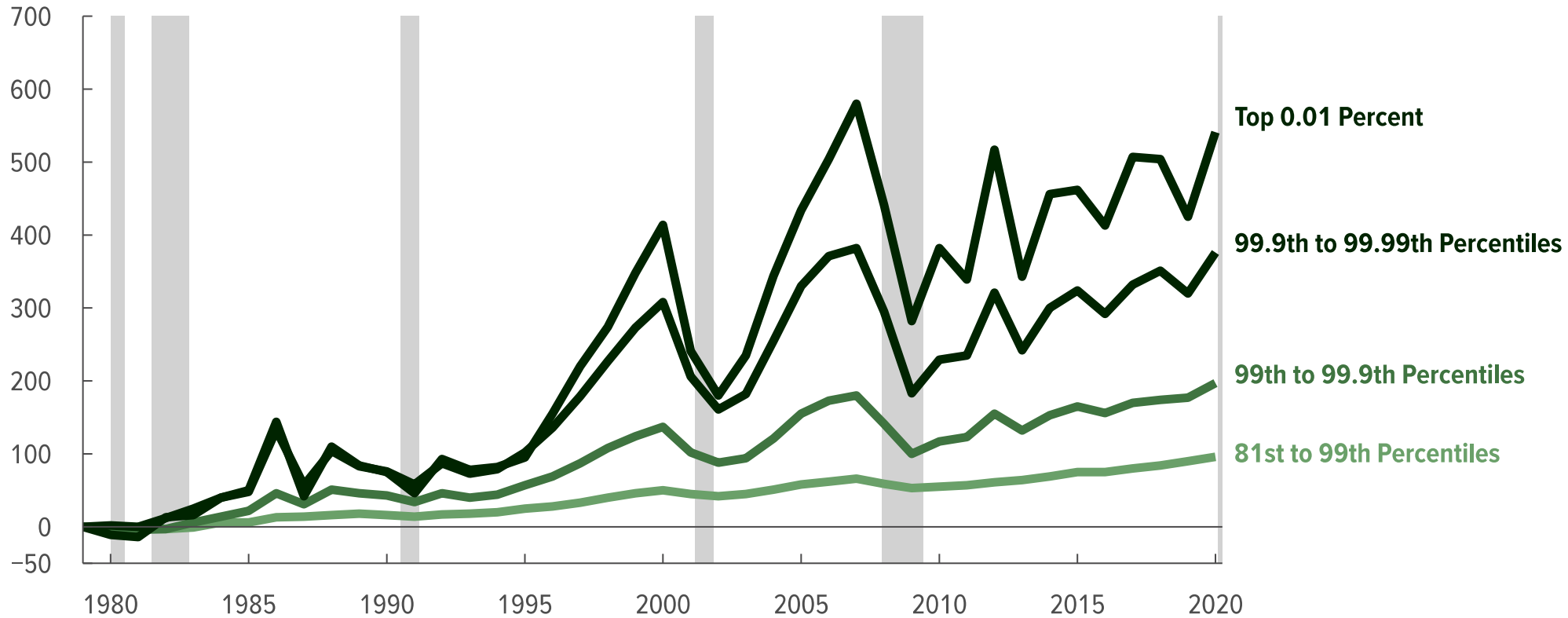
Percent





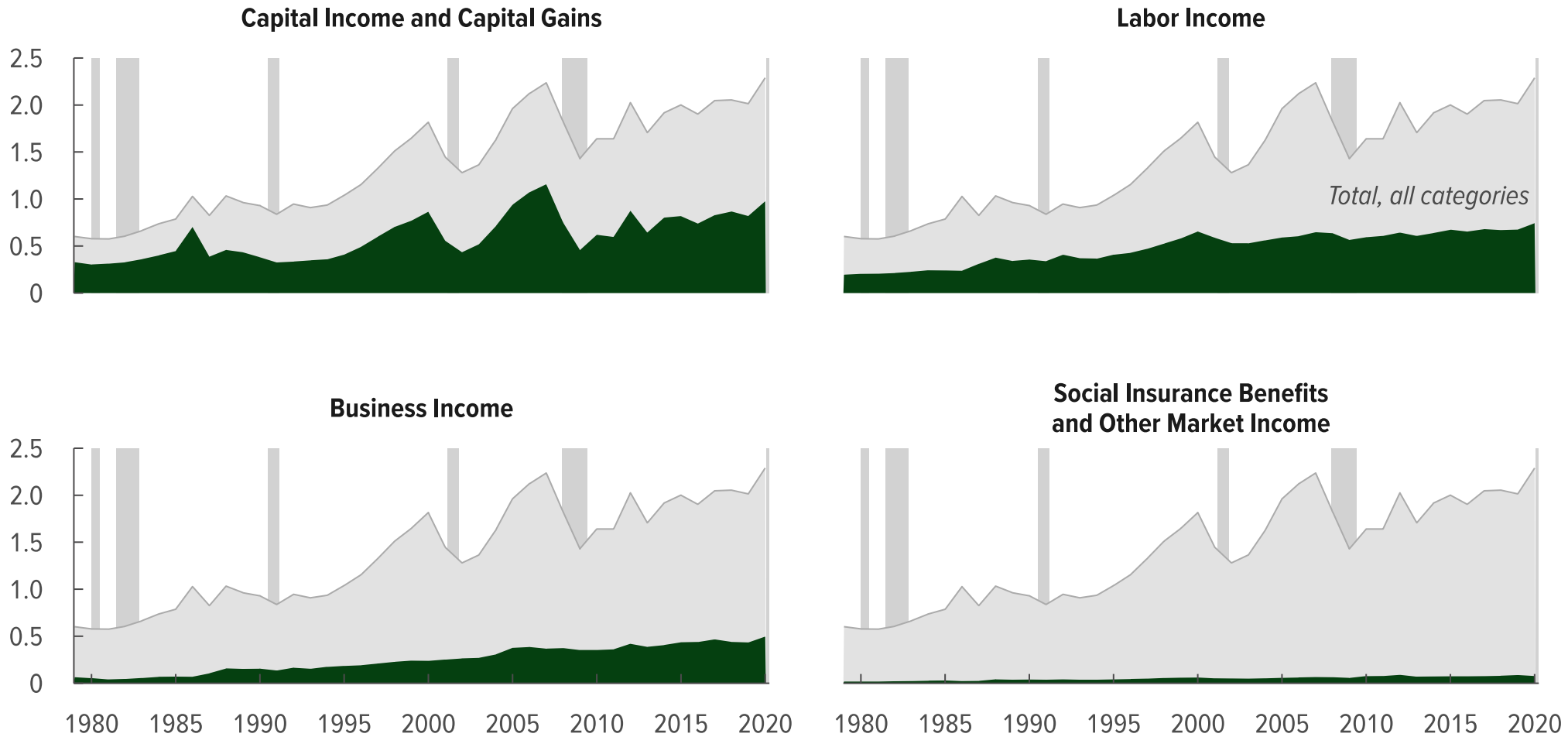
Cumulative Growth in Income Before Transfers and Taxes Among Households in the Highest Quintile, 1979 to 2020

Percent



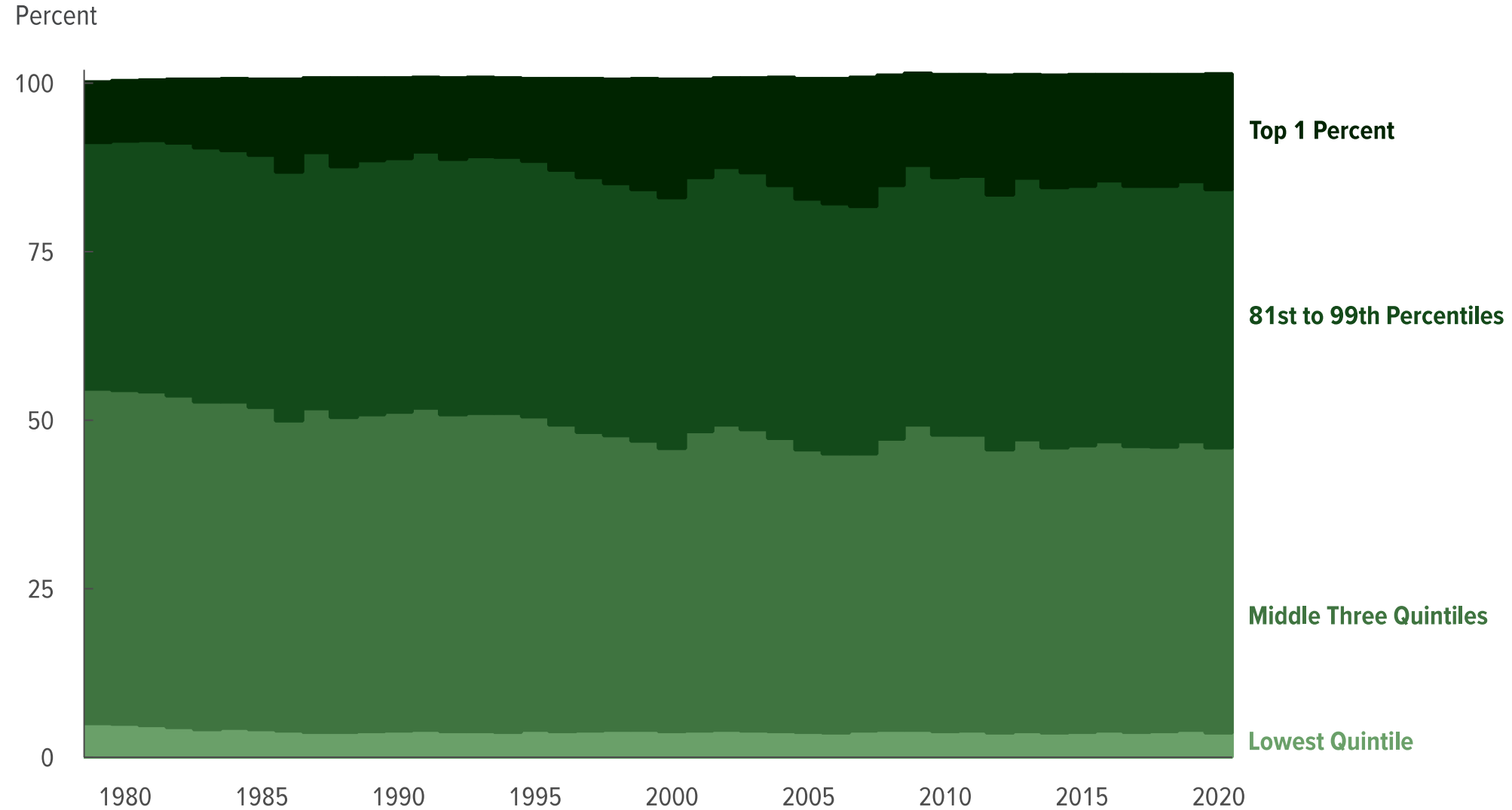
Composition of Income Before Transfers and Taxes Among Households in the Top 1 Percent, 1979 to 2020

Millions of 2020 dollars



Other market income includes income received in retirement for past services and other nongovernmental sources of income.

Shares of Income Before Transfers and Taxes, 1979 to 2020



Shares do not add up to 100 percent because households with negative income are not shown.

Means-Tested Transfers

Means-Tested Transfers

Means-tested transfers are cash payments and in-kind benefits from federal, state, and local governments that are designed to assist people who have low income and few assets. Means-tested transfers go largely to households in the bottom two quintiles.

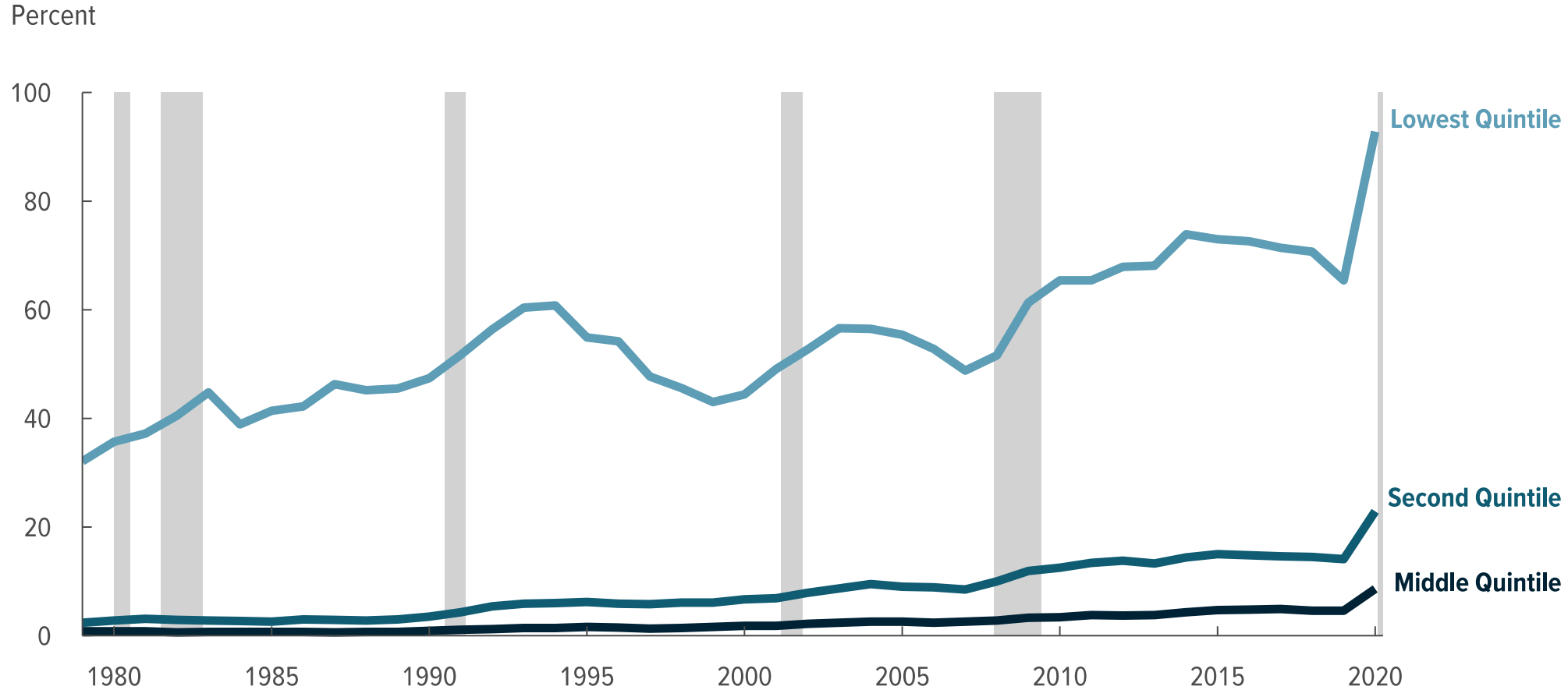
In this analysis, CBO divided means-tested transfers into four categories: Medicaid and the Children's Health Insurance Program, the Supplemental Nutrition Assistance Program, Supplemental Security Income, and other means-tested transfers.

The other means-tested transfers that are analyzed in this document are expanded unemployment compensation, housing assistance programs, low-income subsidies for Part D of Medicare (which covers prescription drugs), Temporary Assistance for Needy Families, child nutrition programs, cost-sharing reductions under the Affordable Care Act, the Low Income Home Energy Assistance Program, and state and local governments' general assistance programs.

This analysis focuses on the average means-tested transfer rate, which is the ratio of average means-tested transfers to average income before transfers and taxes in a given income group.

In 2020, expanded unemployment compensation increased the means-tested transfer rate.

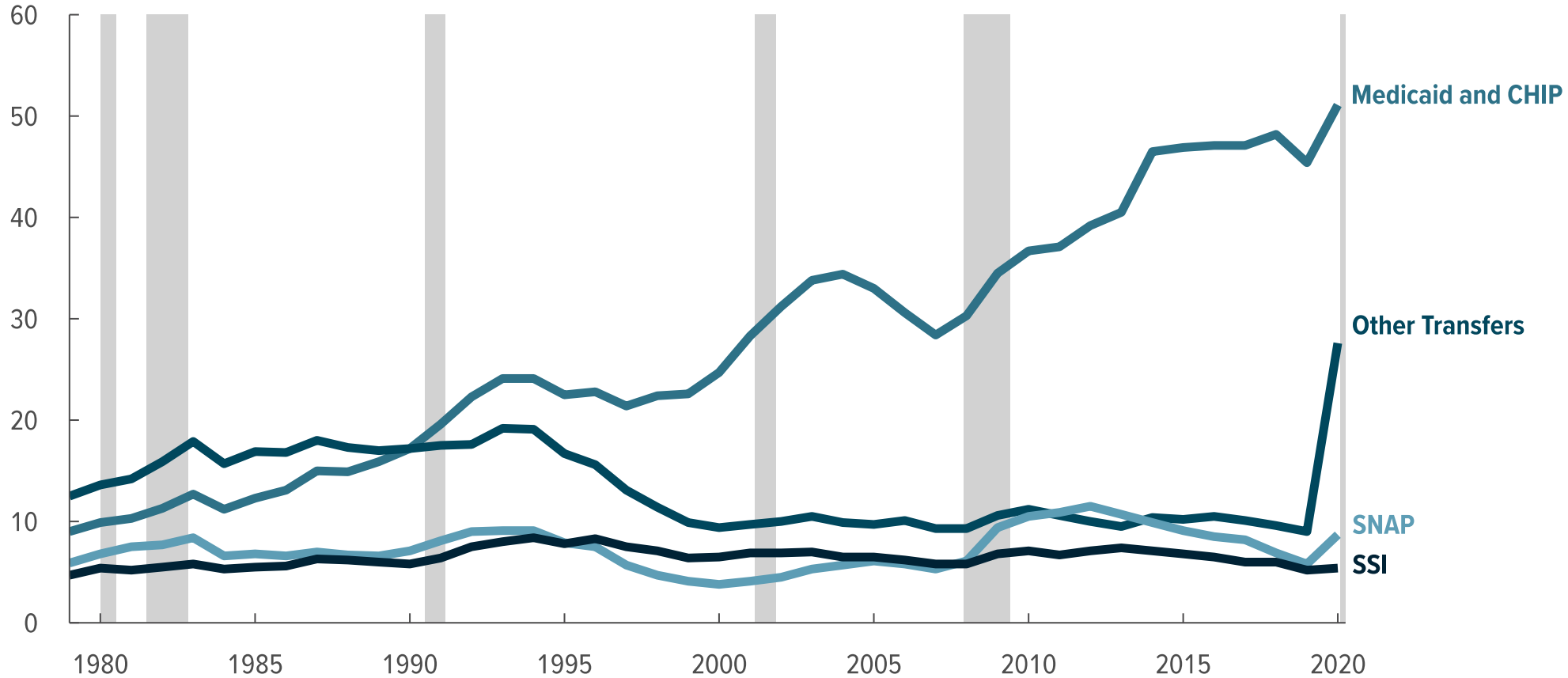
Average Means-Tested Transfer Rates Among Selected Income Groups, 1979 to 2020





Average Means-Tested Transfer Rates Among Households in the Lowest Quintile, by Type of Transfer, 1979 to 2020

Percent



Other transfers consist of expanded unemployment compensation in 2020, housing assistance programs, low-income subsidies for Part D of Medicare (which covers prescription drugs), Temporary Assistance for Needy Families, child nutrition programs, cost-sharing reductions under the Affordable Care Act, the Low Income Home Energy Assistance Program, and state and local governments' general assistance programs.

CHIP = Children's Health Insurance Program; SNAP = Supplemental Nutrition Assistance Program; SSI = Supplemental Security Income.

Federal Taxes

Federal Taxes

In this analysis, federal taxes consist of individual income taxes, payroll taxes, corporate income taxes, and excise taxes.

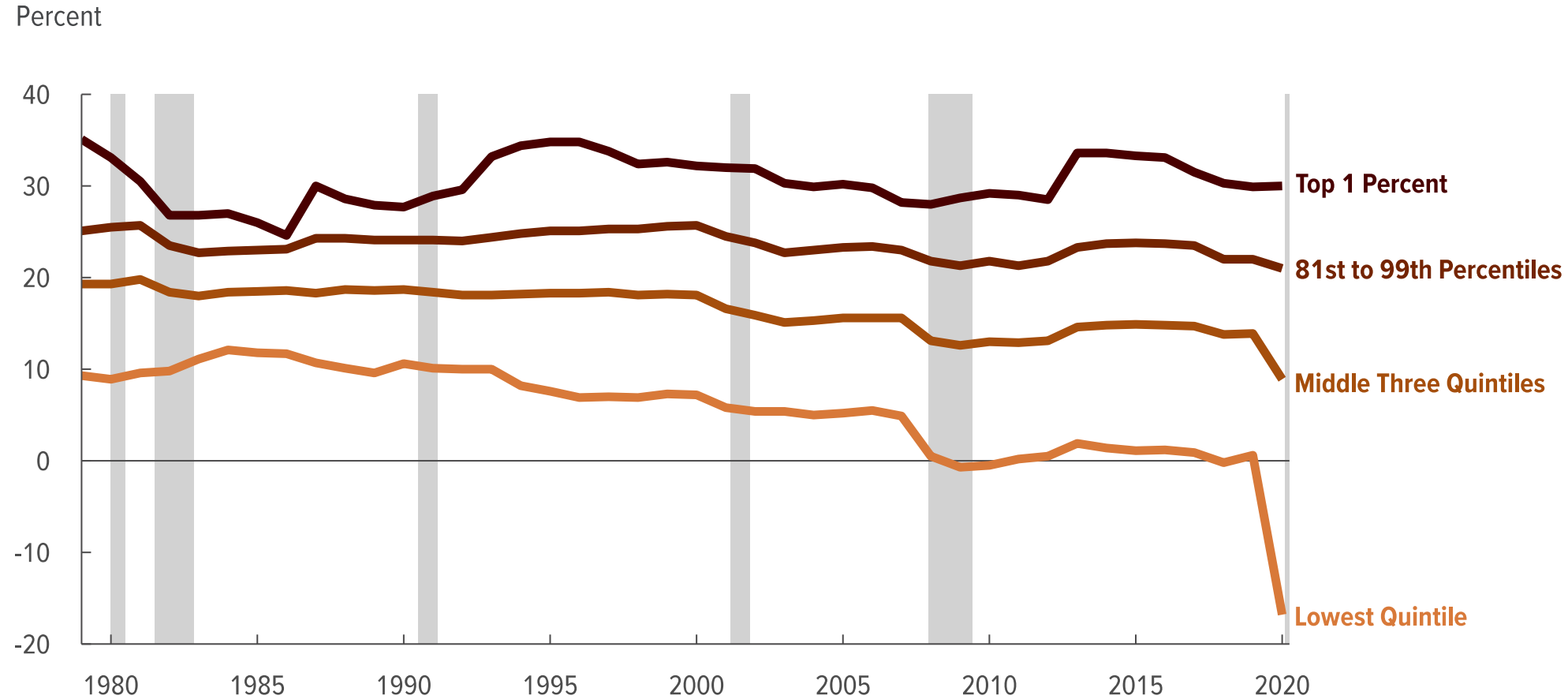
CBO's examination of household income focuses on the average federal tax rate, which is calculated by dividing total federal taxes in an income group by total income before transfers and taxes in that group.

Average federal tax rates generally rise with income.

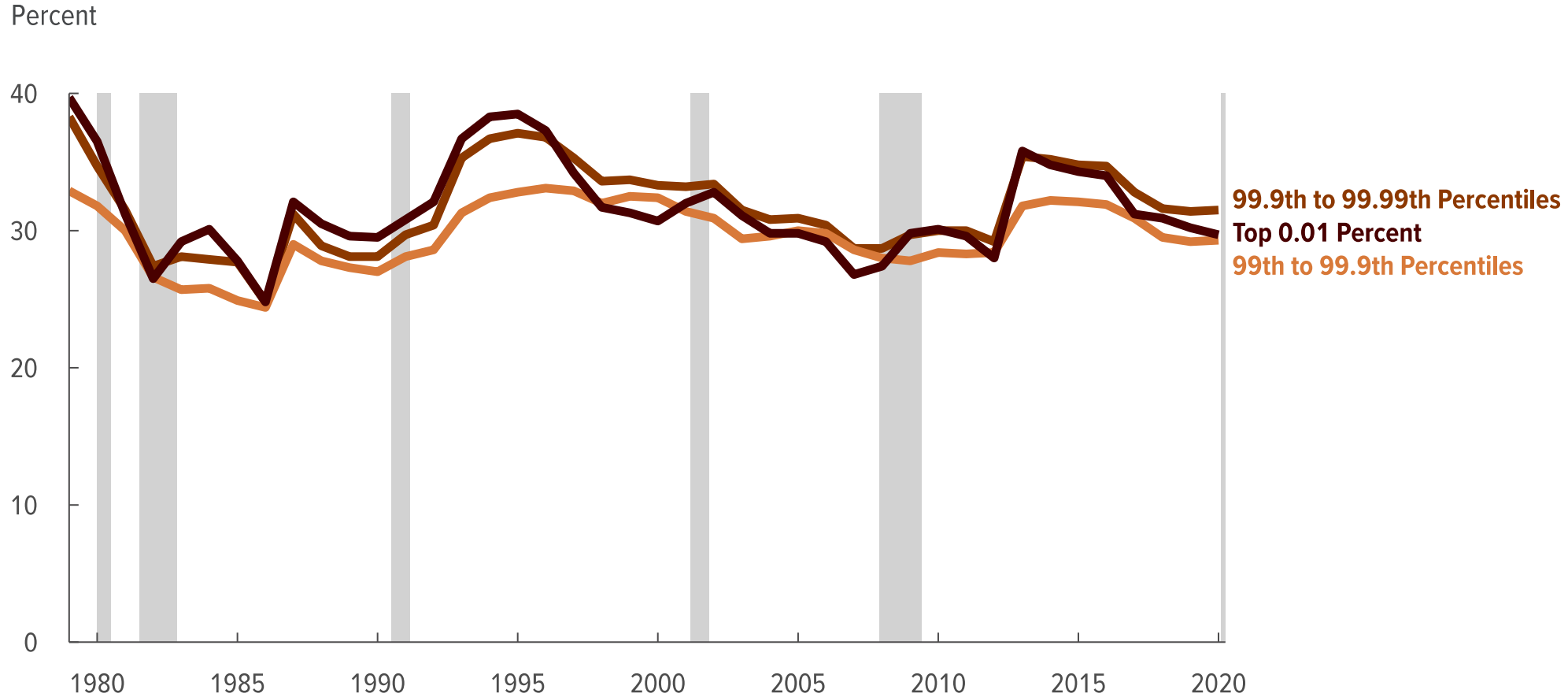
Individual income taxes include refundable tax credits, which can result in net payments from the government. In 2020, average federal tax rates were reduced by recovery rebate credits.



Average Federal Tax Rates, by Income Group, 1979 to 2020

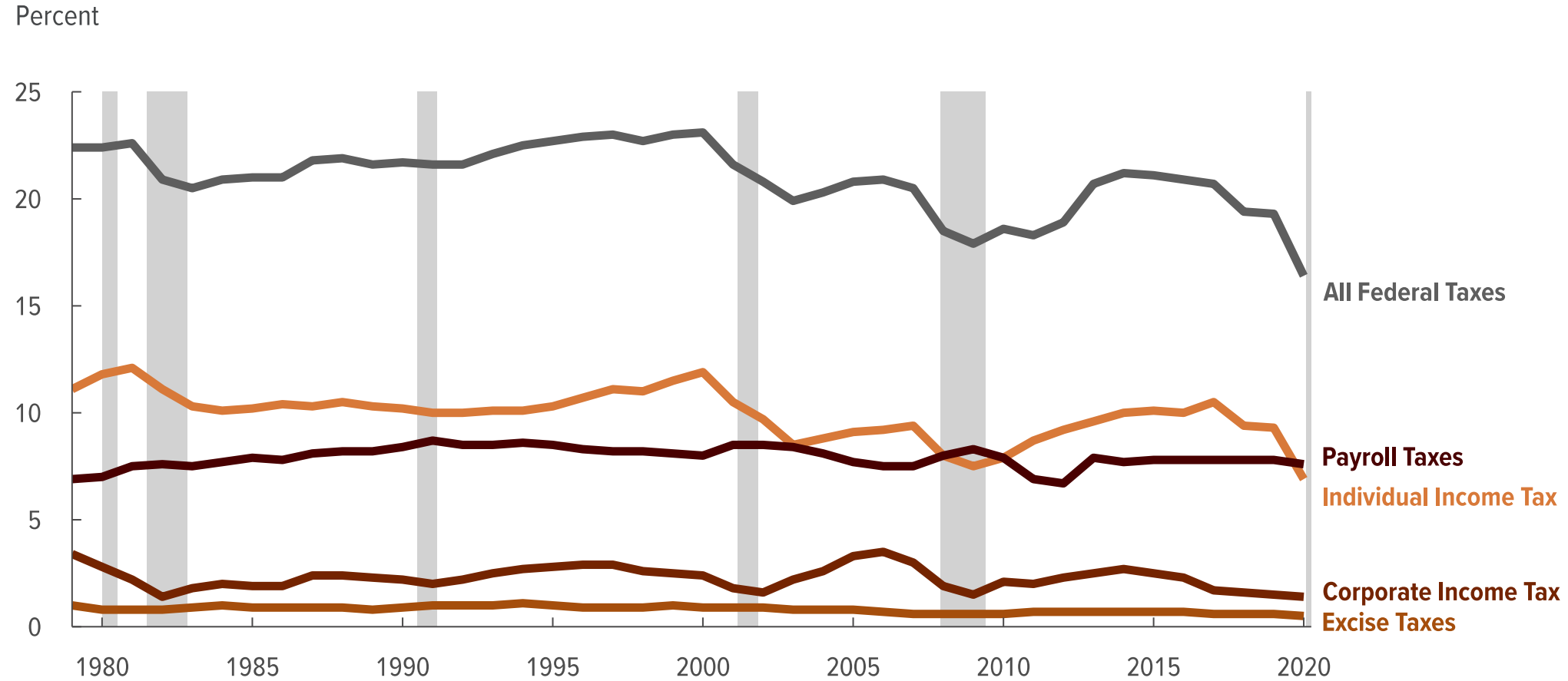


Average Federal Tax Rates Among Households in the Top 1 Percent, 1979 to 2020

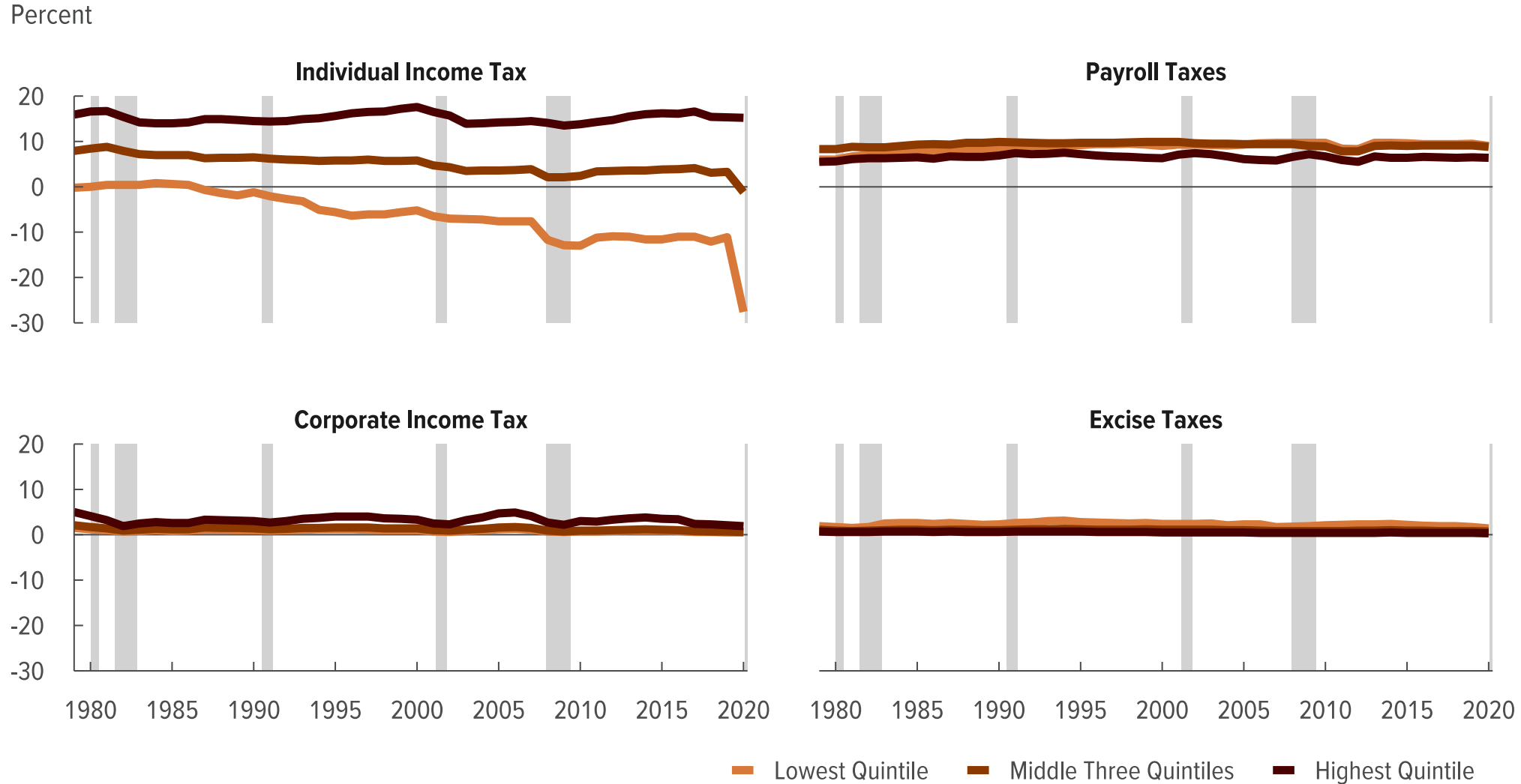




Average Federal Tax Rates, by Tax Source, 1979 to 2020



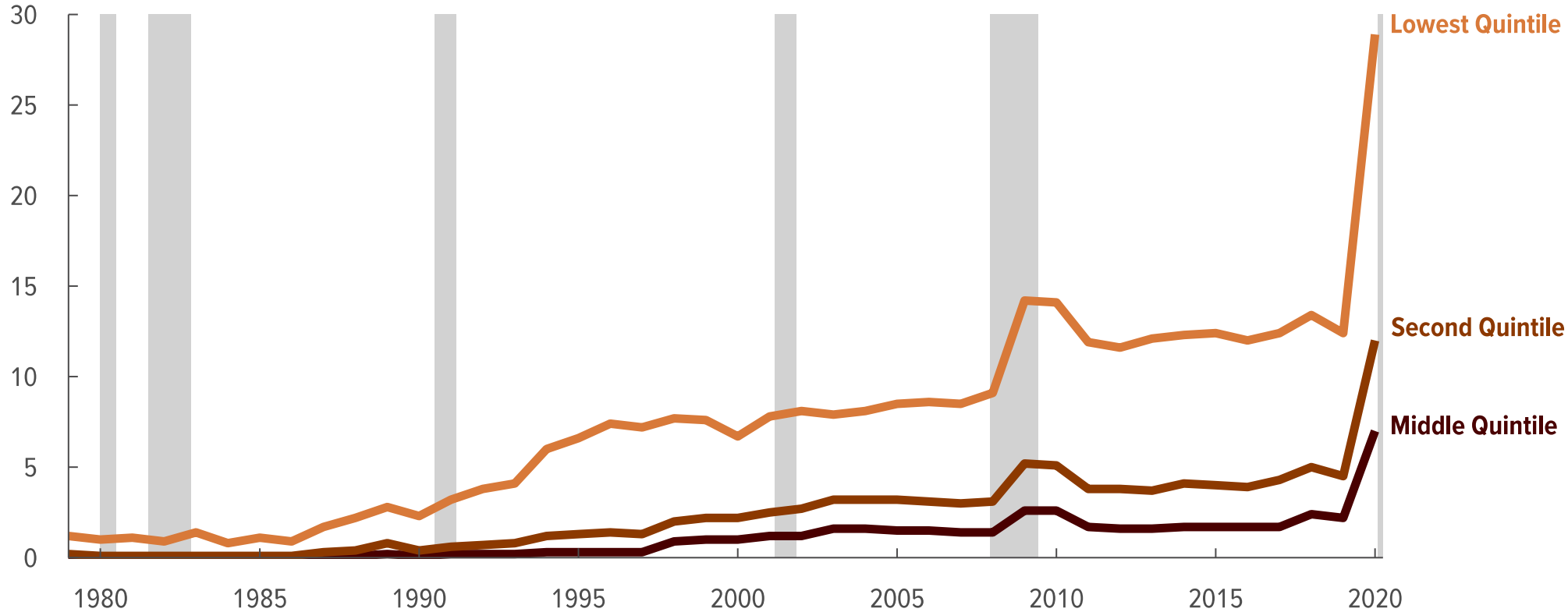
Average Federal Tax Rates, by Tax Source and Income Group, 1979 to 2020





Average Refundable Credit Rates Among Selected Income Groups, 1979 to 2020

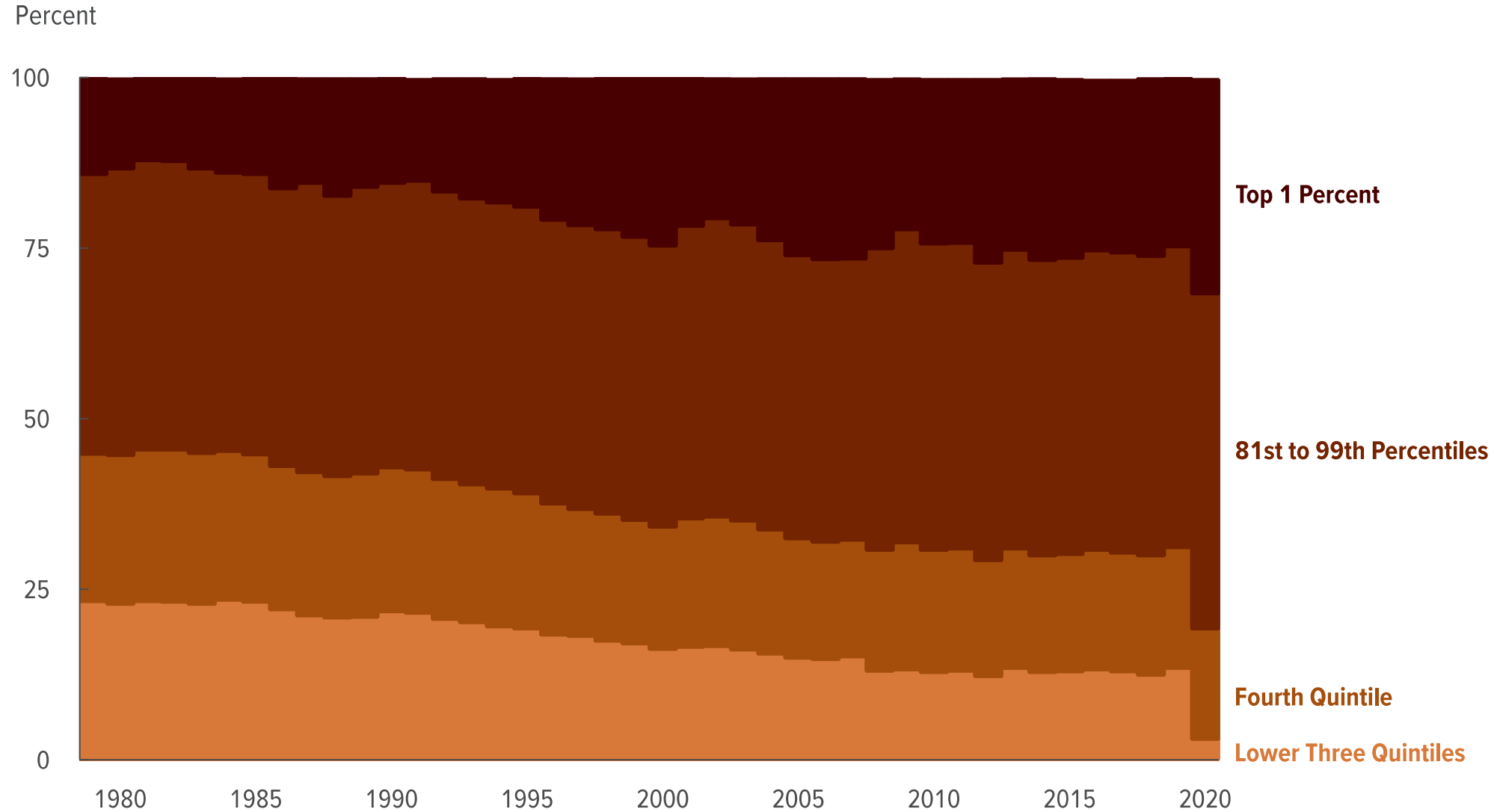
Percent



Major individual income tax credits consist of the earned income tax credit, the child tax credit, postsecondary education tax credits (the American opportunity tax credit—formerly the Hope credit—and the lifetime learning credit), recovery rebate credits, the premium tax credit, the 2008 economic stimulus payments, and the Making Work Pay tax credit. Major individual income tax credits include both the refundable and nonrefundable portions of the credit, when applicable.



Shares of Federal Taxes, 1979 to 2020



Shares do not add up to 100 percent because households with negative income are not shown.

Income After Transfers and Taxes

Income After Transfers and Taxes

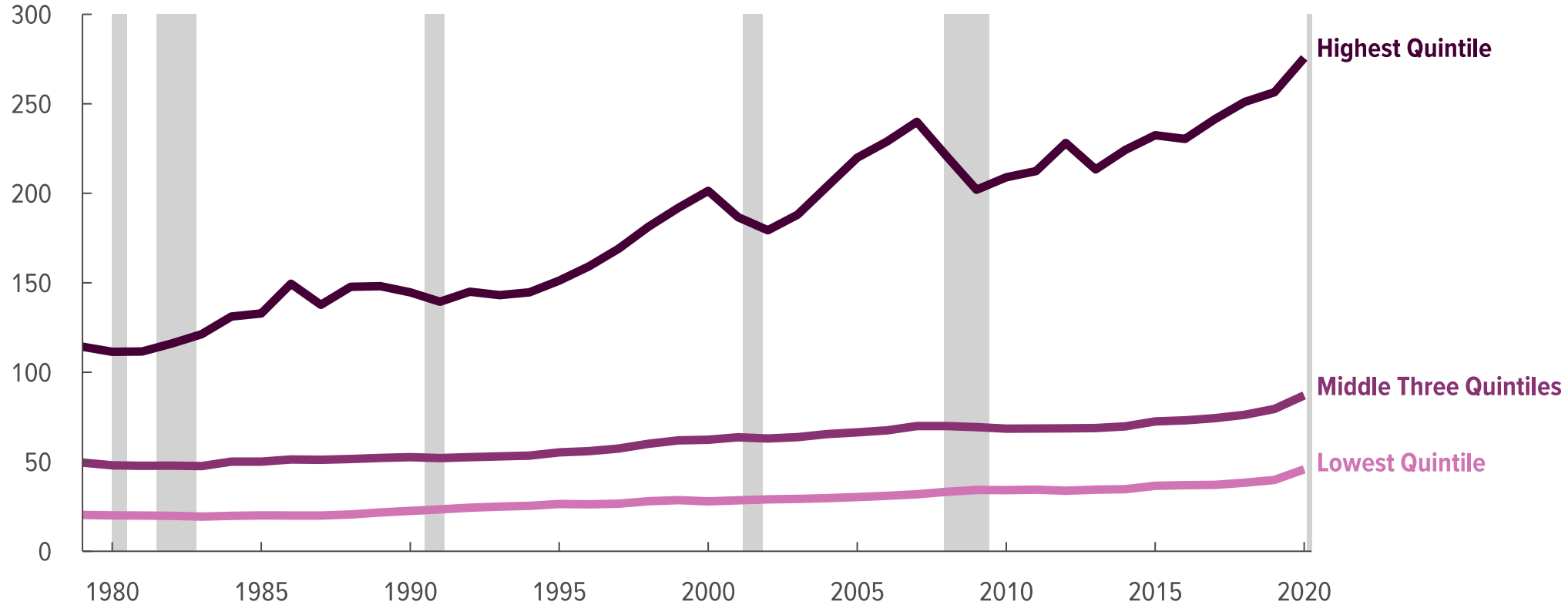
Income after transfers and taxes is income before transfers and taxes plus means-tested transfers minus federal taxes.

Both means-tested transfers and federal taxes are progressive—that is, low-income households receive a larger share of their income as means-tested transfers than high-income households do, and high-income households pay a larger share of their income in federal taxes than low-income households do.

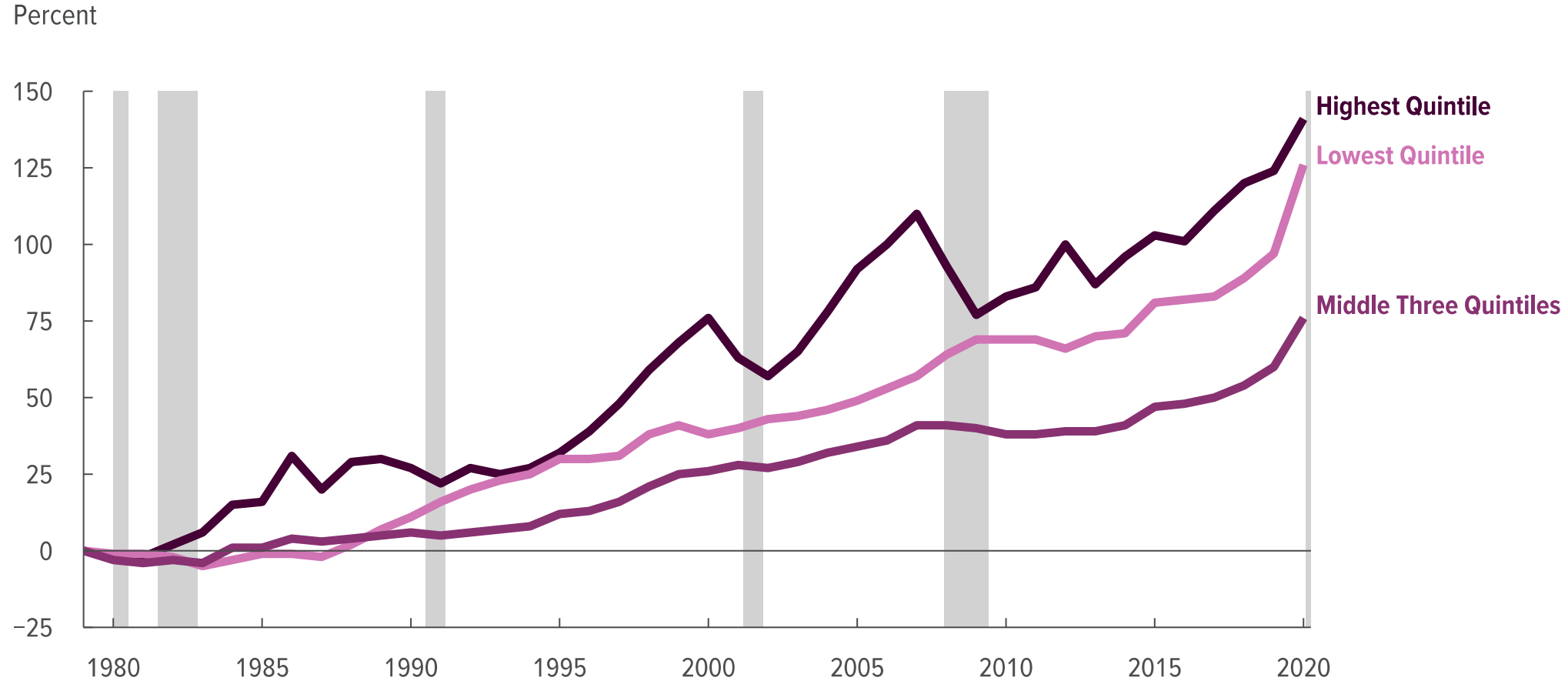
Because of that progressivity, income after transfers and taxes is less skewed toward households at the top of the distribution than income before transfers and taxes.

Average Income After Transfers and Taxes, 1979 to 2020

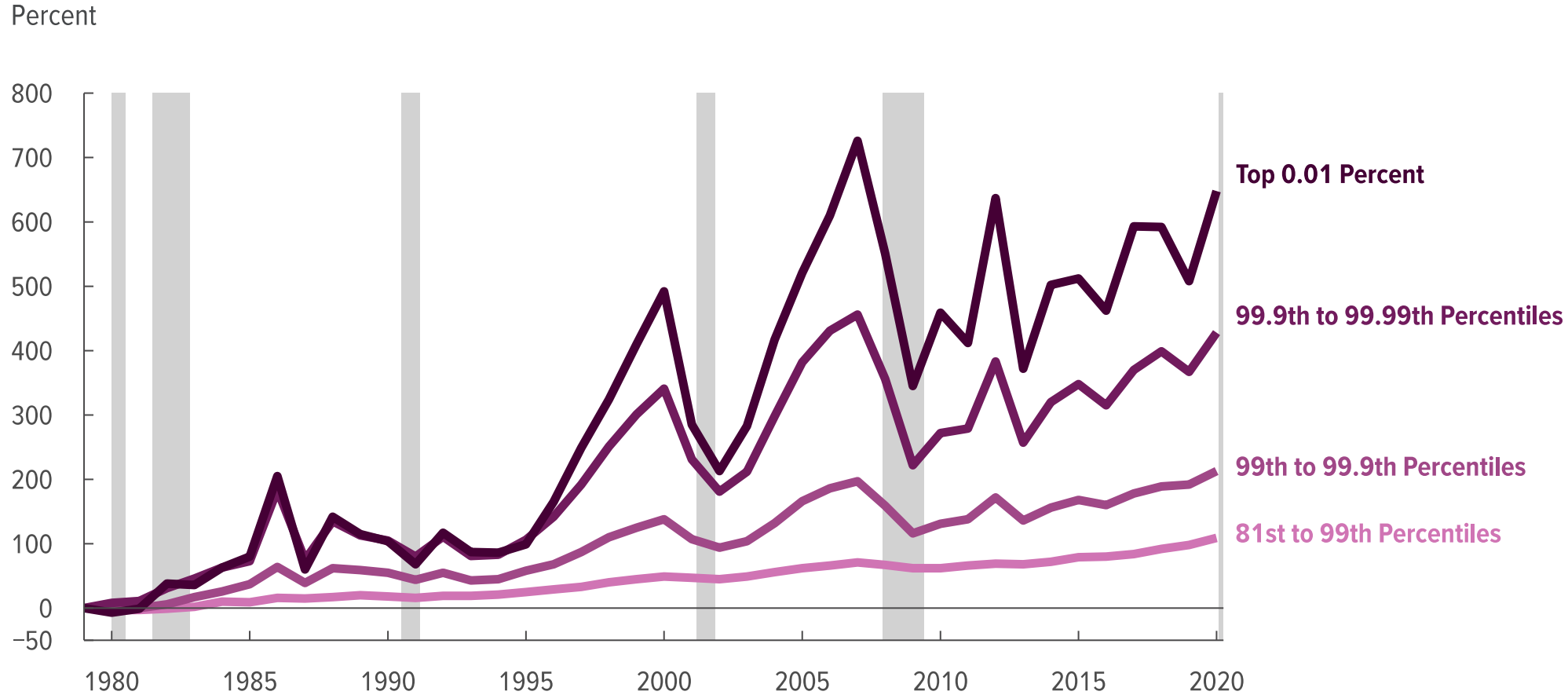
Thousands of 2020 dollars



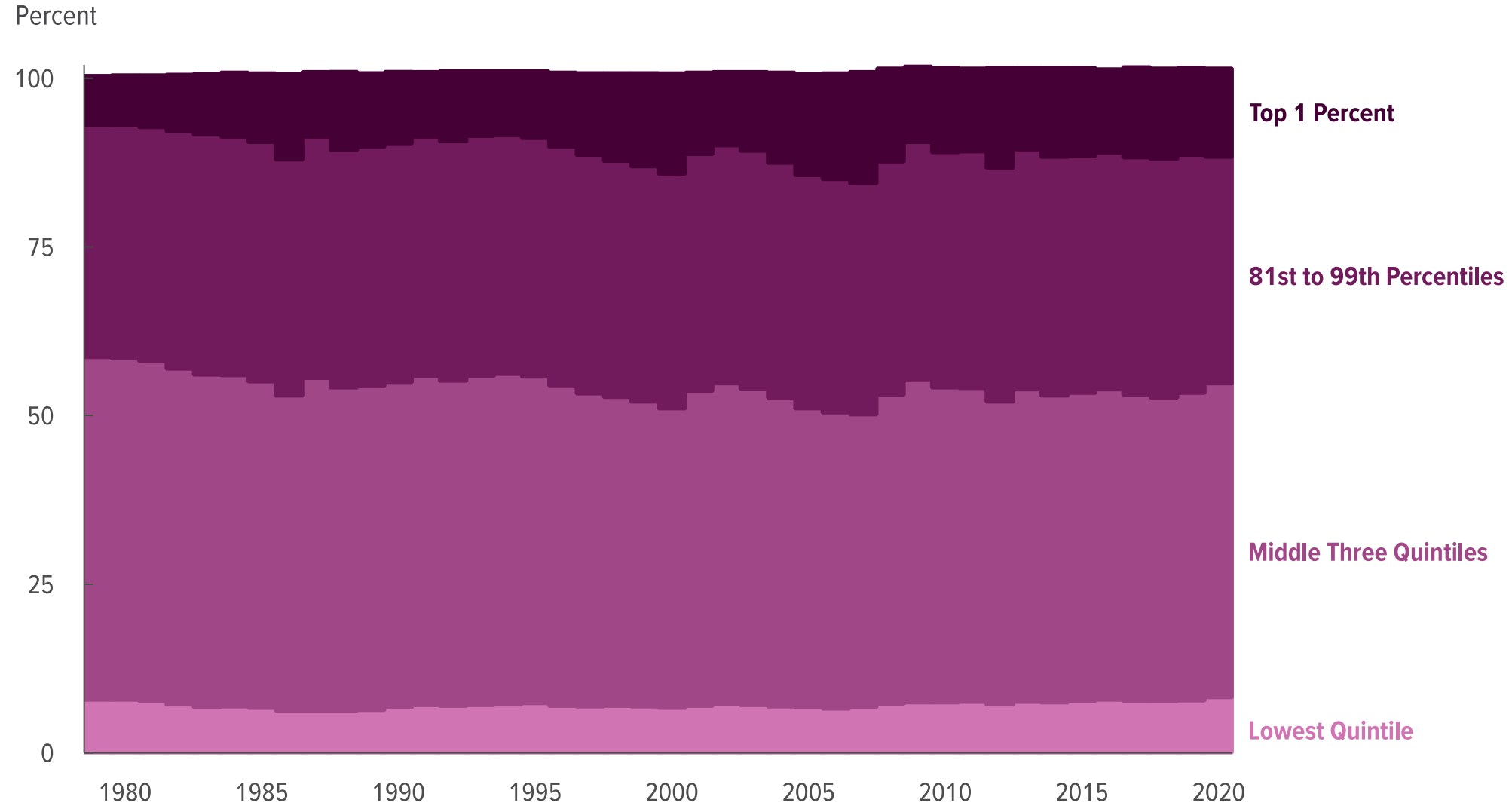
Cumulative Growth in Income After Transfers and Taxes, 1979 to 2020



Cumulative Growth in Income After Transfers and Taxes Among Households in the Highest Quintile, 1979 to 2020



Shares of Income After Transfers and Taxes, 1979 to 2020



Shares do not add up to 100 percent because households with negative income are not shown.

Income Inequality

Income Inequality

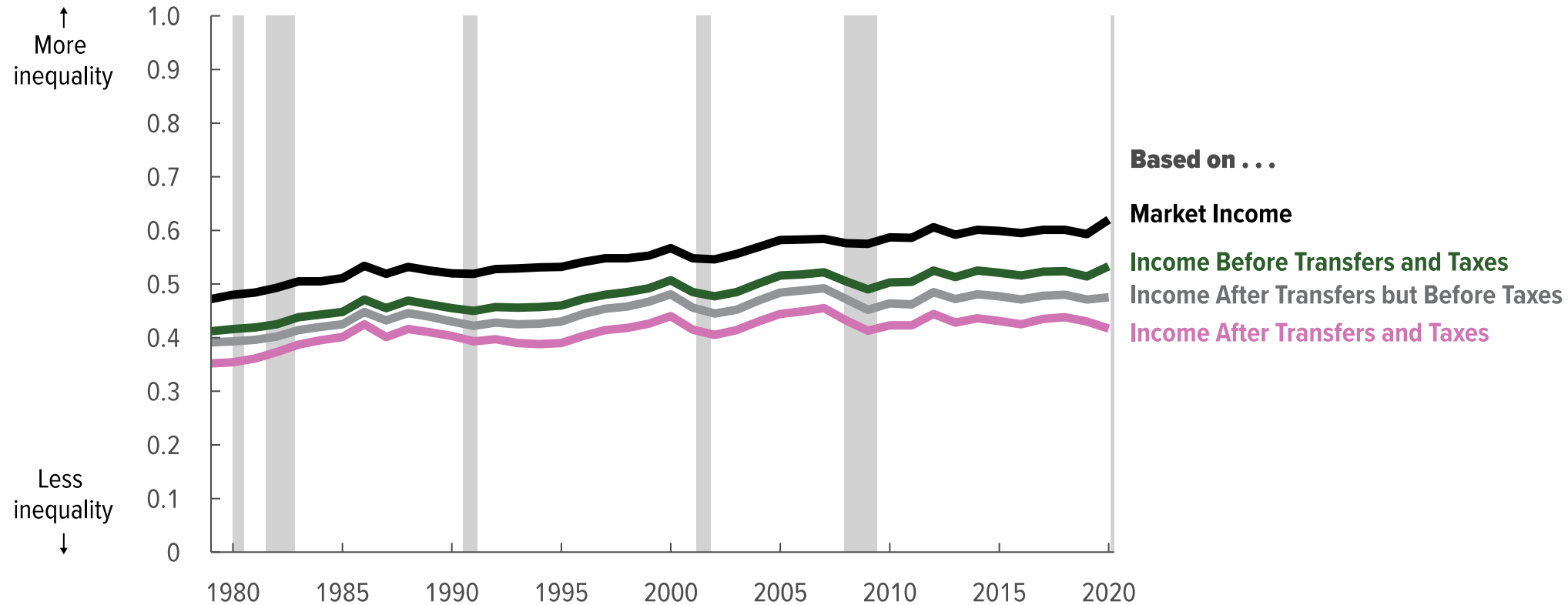
The Gini coefficient summarizes an entire distribution in a single number that ranges from zero to one. At the theoretical extremes, a value of zero means that income is distributed equally among all income groups, whereas a value of one indicates that all income is received by the highest income group (and none is received by any of the lower income groups).

This analysis compares Gini coefficients based on four different income measures: market income, income before transfers and taxes, income after transfers but before taxes, and income after transfers and taxes.

Those Gini coefficients indicate that income inequality rose between 1979 and 2020. Increases in market income at the top of the distribution drove much of that rise in income inequality.

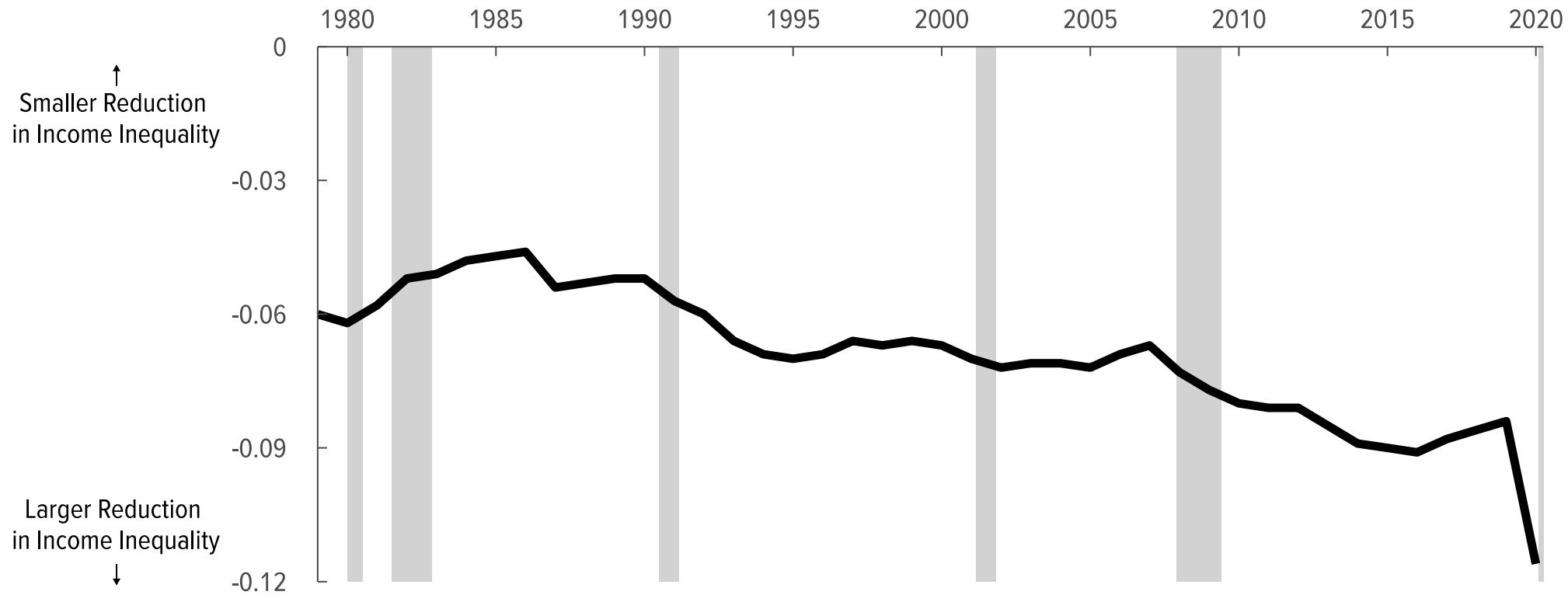
Income Inequality As Measured by the Gini Coefficient, 1979 to 2020

Gini coefficient



Reduction in Income Inequality Stemming From Means-Tested Transfers and Federal Taxes, 1979 to 2020

Change in Gini coefficient



To measure the effect of means-tested transfers and federal taxes on inequality in each year, CBO subtracted the Gini coefficient for income before transfers and taxes from the Gini coefficient for income after transfers and taxes. A Gini coefficient value of zero indicates complete equality, and a value of one indicates complete inequality; thus, the negative changes in the Gini coefficient shown in the figure indicate that inequality was reduced in each year of the period. The more negative the change, the greater the reduction in inequality.

Additional Files Related to the Distribution of Household Income

For a detailed review of changes to income in 2020, see *The Distribution of Household Income in 2020* (www.cbo.gov/publication/59509).

These additional resources are posted along with this document:

- Data underlying the figures—an Excel file containing the data used to make each figure in this document;
- Supplemental data—an Excel file containing 12 additional tables of data related to the distribution of household income;
- Additional data for researchers—a zipped archive of CSV files containing the supplemental data, with household rankings based on alternative definitions of income and with each ranking disaggregated by household type; and
- A “table builder”—an interactive Excel-based tool that allows users to create customized tables.

About This Document

This document was prepared at the request of the Chairman of the Senate Committee on Finance. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the document makes no recommendations.

Ellen Steele and Bilal Habib of CBO's Tax Analysis Division prepared the document with guidance from Edward Harris, John McClelland, and Joseph Rosenberg. Naveen Singhal contributed to the analysis, and Eshika Kaul and Omar Morales fact-checked the document.

Robert Sunshine reviewed the document, Christine Bogusz edited it, and Casey Labrack formatted it and created the graphics.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.