Distributing Personal Income: Trends Over Time

Dennis Fixler, Marina Gindelsky, and David Johnson

Abstract

This project will build on our previous paper, "Improving the measure of the distribution of Personal Income", forthcoming in *Papers and Proceedings* of the American Economic Association (May 2019). In that paper, we develop a national account-based measure of the distribution of household income for 2007 and 2012 from the commonly used Census based concept of money income, which has been the subject of earlier research. To obtain the distribution we used: i) IRS 1040 to address the top incomes "missing" from the Current Population Survey and thereby adjusted for the well-known skewness of the distribution and ii) publicly available survey and administrative data to construct a distribution of BEA household income; Personal Income less the activity of Non-Profit Institutions serving Households (NPISH). From that exercise, we conclude that inequality measures are fairly sensitive to the definition of income contemporaneously and across time. This exercise will build on earlier work in the following ways:

1) We will construct a distribution of personal income (rather than household income). This will involve developing a methodology to allocate the income of NPISH, an important contribution to the literature. Additionally, we intend to distribute National Income, which will not only provide an additional measure of well-being, but also allow us to construct inequality measures and place our distributional results in the context of other key studies in the literature (e.g., Piketty et al. 2018 and Auten & Splinter 2018).

2) We will construct the above distributions for all years between 2007 and 2012 (and subsequent years as data becomes available). This will allow us to not only capture snapshots of the distribution (as we did in previous work), but to more thoroughly examine important changes taking places over a full business cycle (from peak to trough and the beginnings of the recovery). Moreover, we will utilize internal and public-use survey data, administrative data, and other big data sources (both micro and macro).

These important additions will lay the groundwork for further work in extending these new series forward and mapping the evolution of economic inequality over time, with an eventual goal of producing an annual measure. By using households as the base unit of analysis and focusing on a more inclusive definition of income than most inequality studies (i.e., including health, transfers, and financial assets), we are able to improve on existing economic measures of inequality in a meaningful way and bridge the gap between micro data and macro statistics, informing about results from other studies, such as Piketty et al. (2018). Our work will also help to shed light on the importance of addressing definitional and measurement issues through construction of distributions of income measures, rather than through simply analyzing various inequality metrics, as is frequently seen in the literature.