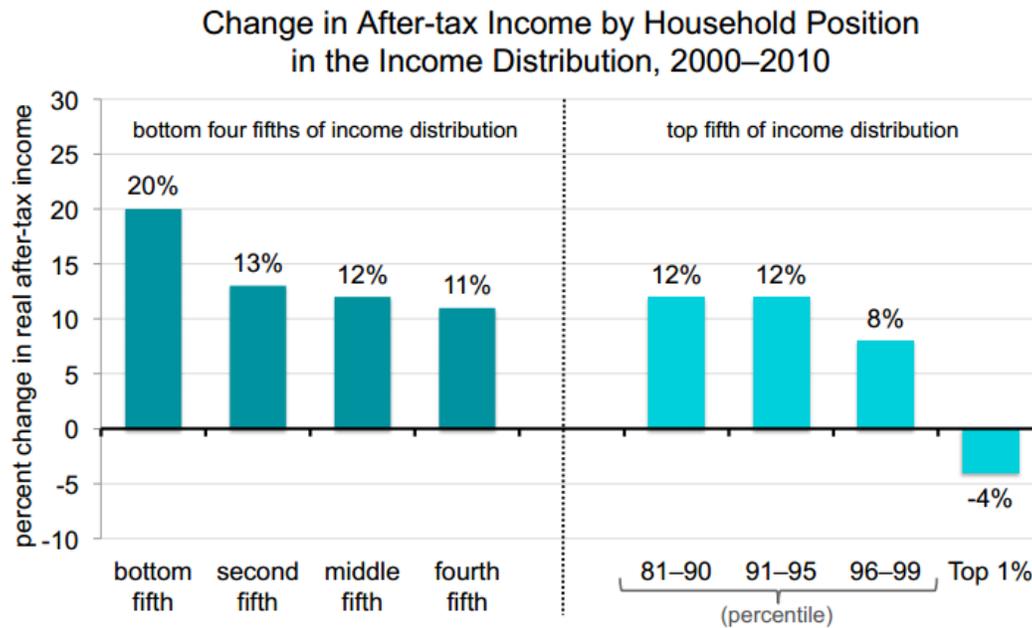


## Trends in After-Tax Income by Household Position in the Income Distribution, Medium- and Long-Term



Data note: Household position in income distribution is determined by rank in the before-tax income distribution.  
Source: Tabulations of CBO income distribution data via Gary Burtless, "Income Growth and Income Inequality: The facts may surprise you," Brookings Institution, January 6, 2014.  
Produced by Veronique de Rugy, Mercatus Center at George Mason University.

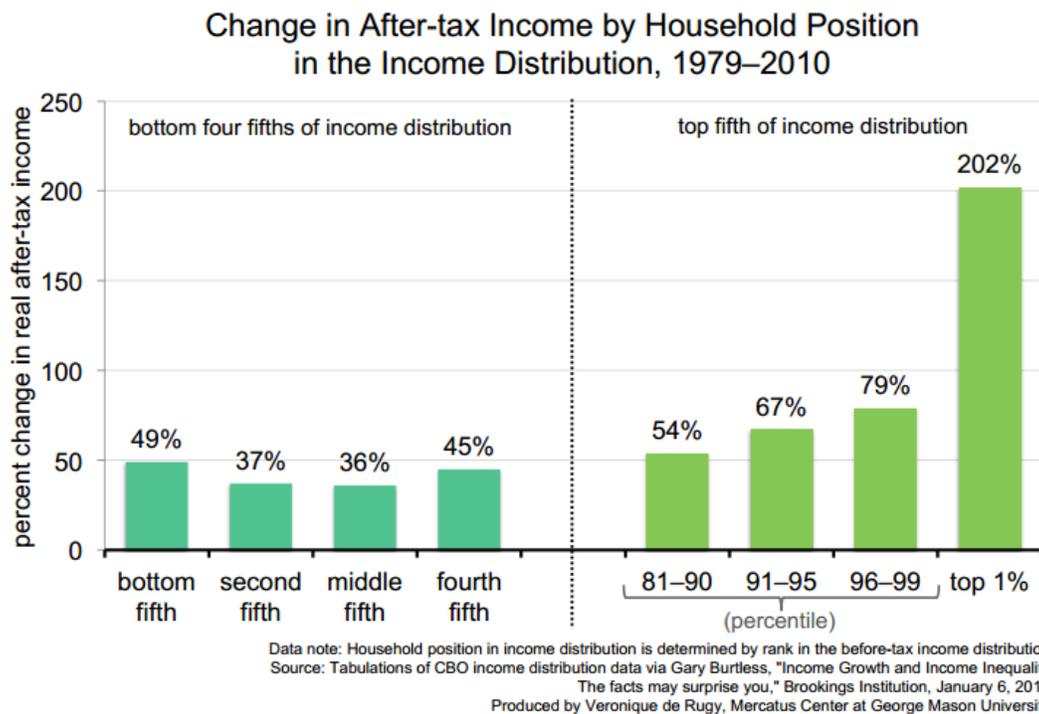
This week's charts use data from the [Congressional Budget Office](#) (CBO) assembled by Gary Burtless of the [Brookings Institution](#) to display trends in after-tax income changes by household income distribution in the medium- and long-term. Income equality and social mobility are important issues for many Americans. While many have been pessimistic about income distribution trends in recent years, arguing that the rich have gotten richer while low- and middle-incomes have been stagnating, the data reveal a more nuanced story.

The first chart shows average cumulative after-tax income changes by income distribution from 2000 to 2010. The CBO measures after-tax income as "the sum of market income and government transfers, minus federal tax liabilities." The first four income quintiles, as determined by household position in before-tax income distribution, are displayed intact on the left side of the horizontal axis and the highest quintile in before-tax income distribution is separated into granular percentiles to the right side of the horizontal axis. The vertical axis measures the average percent cumulative change in real after-tax income for the decade analyzed.

The chart shows that contrary to popular belief, the richest 1% of Americans have not gotten richer

in the past decade. In fact, the richest 1% of Americans are the only group whose incomes have truly shrunk, falling by an average of 4 percent. The incomes of all other groups have grown during this same period, and in fact the incomes of the lowest quintile have actually grown the most at 20 percent. All other income quintiles or percentiles grew by a range of 8 percent to 13 percent during the first decade of the new millennium.

Burtless suggests that part of this trend can be explained by the 2008 recession. While all Americans were affected by the downturn, the richest 1% of Americans derived a larger share of their incomes from financial gains than other income groups and therefore stood to lose more in the downturn. Indeed, the CBO reports that incomes of Americans in the top percentile contracted by more than one third during the years of the recession. On the other hand, the top 1% of Americans also earned the highest portion of the income gains in 2010 as financial markets slowly recovered. In general, the highest earners in America were the only group who saw their after-tax incomes shrink on average in the past decade.



The second chart displays the same information over a long-term time horizon. From 1979 to 2010, the top 1% did indeed enjoy massive gains in average after-tax income growth, but the average incomes of all other quintiles grew considerably as well. The average income of the top 1% grew 202 percent. The average incomes of the bottom four quintiles also grew more modestly, but still substantially, ranging between 36 to 49 percent from 1979 to 2010. The average incomes of the second and middle quintiles respectively grew at rates of 37 percent and 36 percent, slightly lower

than average income growth of the bottom and fourth quintiles. Average incomes of Americans in the 81<sup>st</sup> through 99<sup>th</sup> percentiles grew at a slightly higher range of 54 to 79 percent.

One reason why so many Americans believe that the average incomes of middle- and low-income Americans have stagnated and that the average incomes of the top 1% always is that the commonly-cited income statistics from the [Census Bureau](#) only considers before-tax income. This measure understates the well-being of Americans who receive income tax subsidies and overstates the well-being of Americans whose incomes are heavily taxed. Analyzing after-tax income levels provides a clearer picture of income trends in the US, particularly as the tax code is [frequently employed to redistribute income](#) as a matter of policy.