Recent Developments In Estimating The Distribution Of Income In The United States

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1. Introduction

For more than forty years, the Bureau of the Census has had a major responsibility for collecting and disseminating data on the distribution of income. For most of this period, the Census Bureau has published annual estimates of the distribution of income based on responses to questions about the receipt of money income that are asked each March in a supplement to the Current Population Survey. There has long been some concern about the adequacy of these estimates. It is recognized that respondents tend to understate the receipt of certain types of income, particularly income received in the form of interest and dividends. More recently, concern has been expressed about the omission of noncash income from the official income series. Policy makers and analysts have also expressed a need for data on the distribution of after-tax income, data on subannual income, and longitudinal data.

The purpose of this paper is to review the Census Bureau's program to measure the distribution of income, describe recent efforts to go beyond the traditional annual measures of money income before taxes, and outline an agenda for future improvements.

2. Background

The Census Bureau issues an annual report on the distribution of income and the prevalence of poverty. The report, usually issued in August, is based on information collected in a supplement to the March Current Population Survey (CPS). The questions asked in March concern the income received during the previous calendar year. The CPS, the basic labor force survey, is conducted monthly on a rotating sample of approximately 60,000 households. The official income and poverty estimates are released in the P-60 series of publications.
The first P-60 was issued in January, 1948 and presented data on the distribution of income among nonfarm persons and families for the years 1944, 1945, and 1946. The report did not contain poverty estimates because a generally accepted definition of poverty did not emerge until the mid-1960's. The first published data on the income distribution among all persons and families, both farm and nonfarm, is for 1947. That year marks the beginning of the official CPS time series on the distribution of income.

The concepts used in the annual income supplements have changed little over the years, but there have been changes in the amount of detail obtained on specific sources of income. Surprisingly, the annual income supplements that were asked in 1945, 1946, and 1947 obtained relatively detailed information. In contrast, the 1948 to 1957 supplements asked about only three categories of income; (1) wages and salaries, (2) self-employment income, and (3) all other income. Additional detail was added to the 1958 supplement, but even then it was not possible to identify persons who received Social Security income or public assistance income. The detail that made it possible to identify these groups did not appear until the March 1966 supplement. There was a certain evolution towards more detail from March 1966 to March 1978, and then, in March 1979, the Census Bureau introduced what is essentially the current design. That design obtained very detailed information about income sources and about the statuses that are associated with the receipt of certain types of income (e.g. asset ownership status and disability status).

The income concept that is the basis for the Census Bureau's official series on income and poverty has not changed over the years. Income is defined to include all money income with the exception of capital gains or losses and with the exception of lump-sum payments such as inheritances or insurance settlements. Respondents reporting wage or salary income are asked about the gross amount received, that is, the amount before taxes or other deductions.

This concept of income has served most of our needs over the years, but in the past decade or so there has been a growing awareness that it is useful to consider other concepts when making income comparisons over time or between population subgroups.

The current March supplement design collects the data that makes it possible to produce income and poverty measures based on alternative concepts of income. The income supplement now obtains information about the following benefits: (1) the value of food stamps received during the year, (2) the number of children who participated in the school lunch program, (3) the number of persons covered by the Medicaid program, (4) the number covered by the Medicare program, (5) the number with employer-provided health insurance, (6) whether the household lived in public housing or received some other type of government rent subsidy, and (7) the amount of benefits received from the energy assistance program.

The interest in income and poverty measures based on alternative income concepts was a result of the establishment and growth of several major programs that...