How Definitions of Income Affect Trends in US Inequality

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- **Contribution**: I review four key decisions to make when defining income, show the effects of the major possible choices, and recommend a minimalist, common-sense definition.
- **Takeaway**: The economics literature suggests some plausible additions to the basic income concept (roughly, wages + profits). Including those other components generally slows trends in inequality. However, many of these choices are dubious. Using my suggestion, the trend in inequality is larger than using any other definition.

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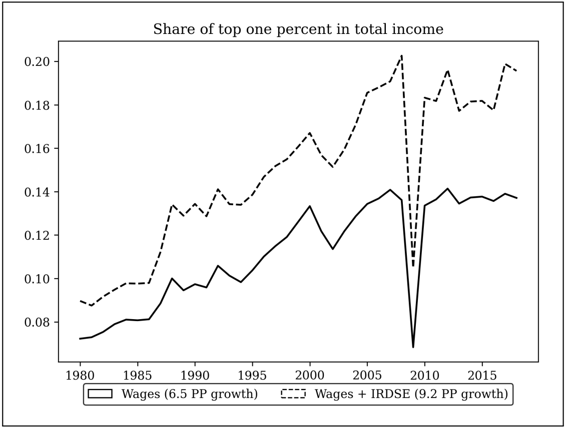

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  - If people borrow against those gains, we need to later count their debt payments as negative income (rarely done).

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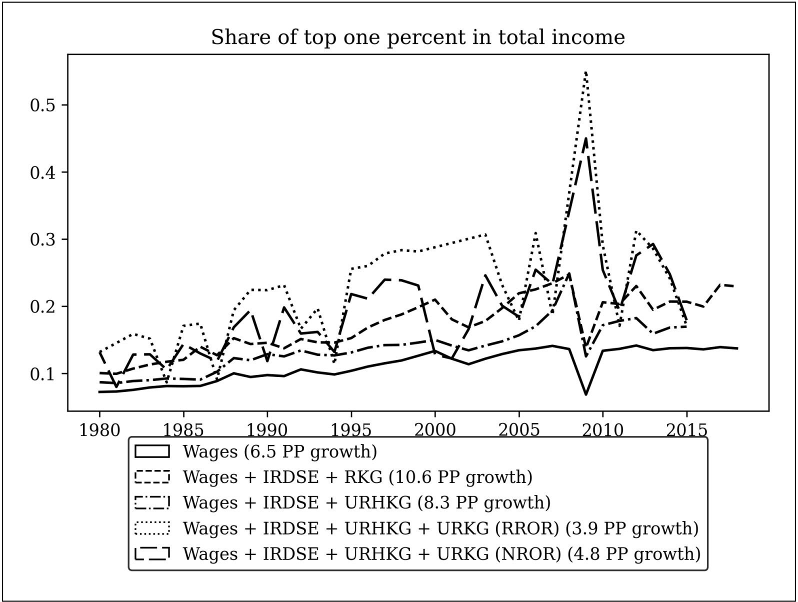
Effects of different approaches to capital gains



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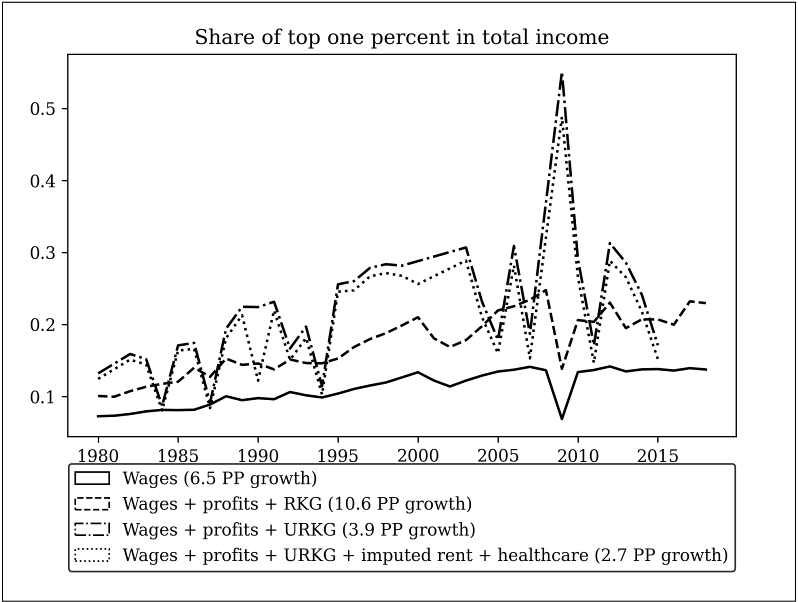
Effects of different approaches to capital gains



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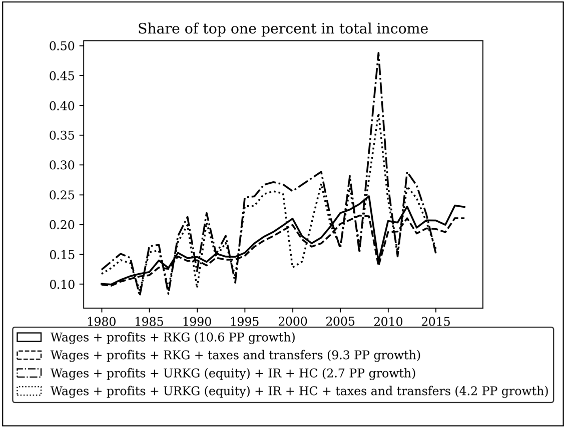

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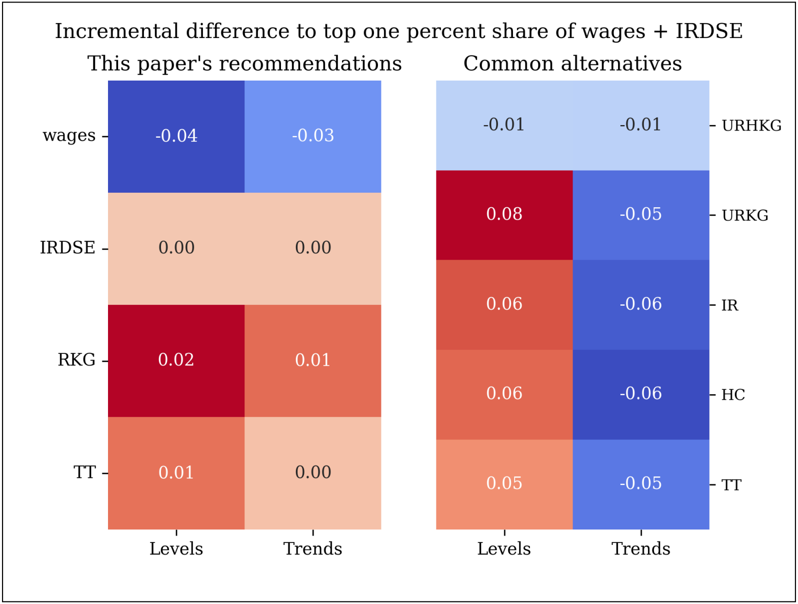
Using this paper's definition produces sharpest upward trend



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- Most authors are pretty loose with whether they care about growth of mean income, average differences in the top p share of income, or differences in the average growth of the top p share of income.
- Relatedly, the order in which elements are added to income changes the marginal effect. Most authors simply don't mention this; this paper has a theoretical logic to it, but it's not simple.