Econ. Income
(Bulky)
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YOUR INCOME AND MINE

TRUE OR FALSE?

	T.	F.
A man's income is determined largely by his occupation	...	...
Business men have higher incomes than doctors.	...	...
Labor unions raise wages	...	...
Hourly wages in 1936 were lower than in 1929	...	...

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No. 20 1938

Your Income and Mine*

WE ARE all interested in money, because we need it to buy the things we want in this life. We require money for necessities—food, clothing, and shelter—and we also need it for many of the extras that make life worth living—books, travel, entertainment, and cultural pursuits. All of us know that there are wide differences in money income, both between individuals and for the same person from year to year. Few of us, however, have taken the time to ask where these incomes are derived, why they are unequally distributed, or how this distribution changes from year to year. These questions can be answered best by examining our income, as individuals, as groups, and as a nation, in order to see what factors influence it. With these facts in mind, it may be possible to make some observations which will clear up misunderstandings in this, one of the most controversial of fields.

What we do for a living largely determines how much money we earn. This does not mean that all machinists or all physicians earn the same amount of money each year. On the contrary, there are wide differences of income among machinists, and an even wider spread among physicians. But a man's occupation tends to limit his income within a fairly narrow range. It reflects his opportunities and his handicaps, as well as his interests and abilities. If it were easy for a machinist to become a physician, and earn a physician's income, the present differences in income would not long remain. Machinists would have to be paid more and physicians would probably earn less as their numbers increased. But since it is difficult to

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*This pamphlet is a summary prepared by Maxwell S. Stewart of a recent study published by the Brookings Institution entitled *The Income Structure of the United States* by Maurice Leven. The original study was done under a grant by the Falk Foundation of Pittsburgh.

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shift from one occupation to another, each occupation tends to carry its own income limits.

Income and Occupation

The influence of occupation can be seen best, perhaps, by comparing the incomes of a few broad groups. In the chart on pages 16-17, we find a comparison between the earnings of (1) farmers; (2) owners of independent businesses; (3) professional men; and (4) male wage earners and salaried workers, exclusive of professional and executive employees.

Although the groups are not strictly comparable—women being included in two and not in the other two—the actual situation is much as pictured. Farmers clearly earn the least money. One-half of all the farmers had incomes of less than $700 in 1929, while one-half of all city and other nonfarm workers had incomes of more than $1,100. It would be a mistake, however, to jump to the conclusion that city folks are better off than the farmers. The farmer has advantages which tend to balance the larger cash incomes of city people. Both food and shelter cost considerably less in the country than in the city. Although a city dweller gets certain other things, such as electric light and transportation, more cheaply than a farmer, it is doubtful, when all factors are considered, whether a farmer is any better or any worse off than a man of similar capacities in the city. It is important to remember, however, that a large proportion of the farmers with extremely low cash incomes are illiterate or semiliterate mountaineers and sharecroppers who, because of lack of opportunity, fail to fit into a more productive rôle in our economic life.

"Independent" Business Men

One hears so much of the advantages of owning one's own business that it is somewhat surprising to discover that half of the independent business men have incomes that are definitely

under the average for other groups. In fact, there seems to be a larger proportion of self-employed with very low incomes than is the case with the wage earners and white collar workers. This may be partly explained by the existence of a number of business men who actually lose money over any given period of time. But more important is the tendency for many misfits and persons who were generally unsuccessful as job holders to set up shop for themselves. Such individuals rarely make better business men than they did job holders.

To balance the low incomes at the bottom, we find a larger proportion of high incomes among the self-employed than among any other group except executives and professional men. For the term "independent business man" covers every one from the corner peanut vender to Henry Ford.

The record of professional men is far more consistent. Lawyers, doctors, and engineers tend to have higher incomes than any other group. Here the highest incomes are usually made by those in business for themselves. While salaried professional men are well paid as compared with other employed persons, their earnings average considerably less than those who have hung out their own shingles.

High Incomes

A study of really large incomes reveals that they come from four distinct sources: (1) the high occupational earnings obtained by favorably situated or unusually able executives and professional men; (2) the gains of business men or speculators resulting from favorable changes in prices; (3) business profits due to monopoly, outstanding business ability, or administrative genius; (4) returns from capital or property acquired through savings, inheritance, or even through fraud, theft, and the like.

Often the same individual will receive a large amount of money from several of these sources in a given year. Investors are likely to be the same individuals as successful business and

professional people. Moreover, some of these same persons, because of their relatively good incomes, make a considerable amount in lucky speculation. In 1929 there were about a million persons whose incomes from their businesses or occupations was more than $5,000. Yet it is estimated that approximately 1,700,000 persons had incomes exceeding this figure. This indicates that some 700,000 individuals reached this level through income received, at least in part, from investments, or from inflationary or speculative gains. The net profit from the sale of securities and real estate in 1929, which was an exceptional year, has been estimated at some six billion dollars. While part of this was obtained by individuals with modest earnings, the great bulk of it was received by those with otherwise large incomes.

EARNINGS IN SPECIFIC OCCUPATIONS

Railway Employees

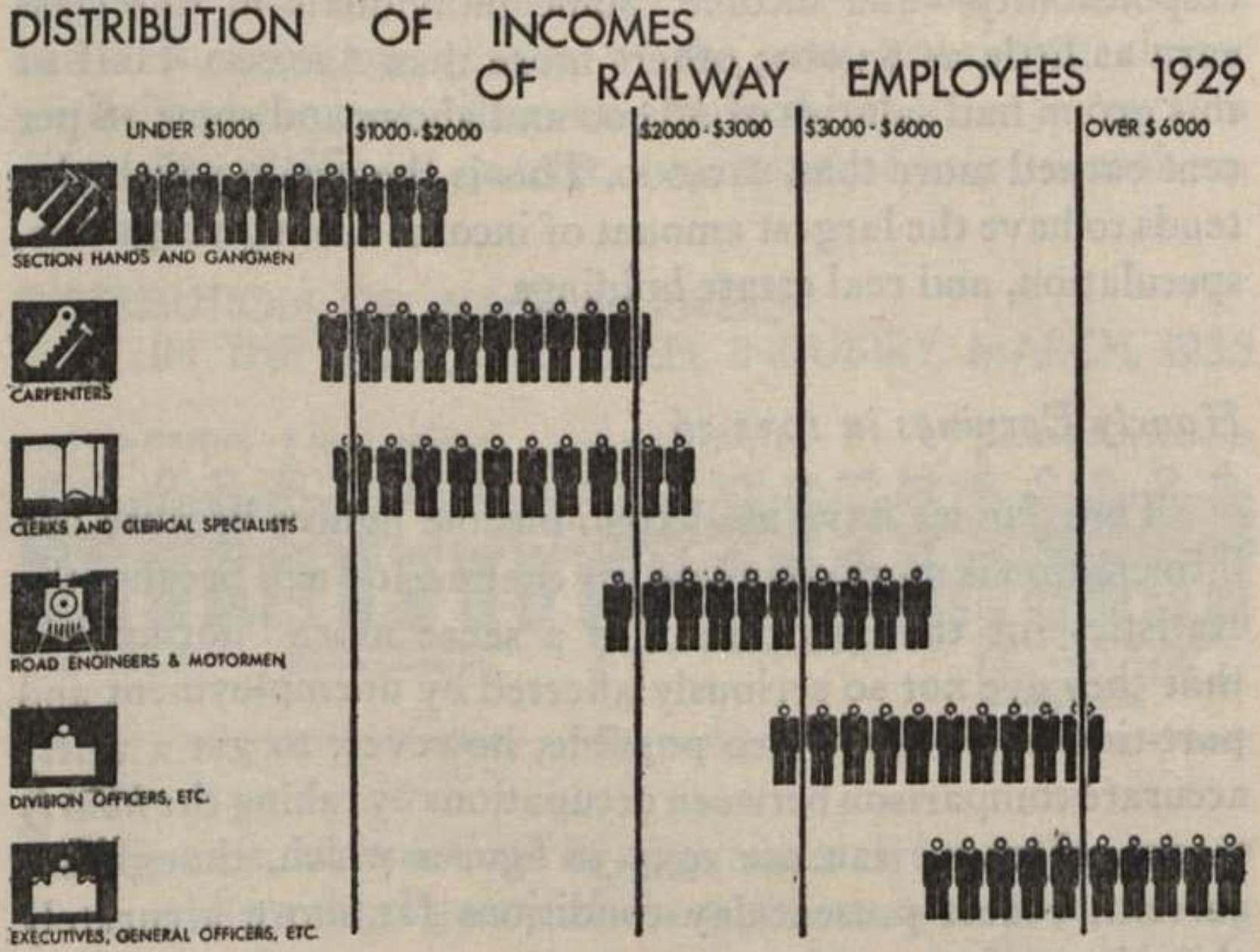
AS GOOD an illustration as any of the sharp limits of income of different occupations may be found among railway employees. Some 88 occupations are represented on the railway pay roll. At the bottom, in terms of income, are the messengers and office boys with average earnings of $930 in 1929. On practically the same level are the section hands and gang men. None of the workers in this group earned as much as $2,000 in 1929, and only 2 per cent received more than $1,500. Nearly 80 per cent got less than $1,000.

Just a step higher—with earnings between $1,000 and $1,250—are laborers, train attendants, coach cleaners, and apprentices. Some laborers, helpers, and apprentices may also be found in the $1,250 to $1,500 range, along with baggage agents, and truckers.

In the $1,500 to $1,750 bracket we encounter such skiiled trades as carpenters, painters, and stationary firemen, as well as switch tenders, gang and section foremen. We also find

many white collar employees, such as clerks and stenographers. The earnings of the individuals in these occupations were about typical for the railroads in 1929, but considerably higher than the $1,400 average for all wage earners in mining, manufacturing, and transportation.

Well above the average in income are 57 trades which might be described as the "aristocracy" of the railway em-



ployees. The fact that these "aristocrats" have so many occupations should not be taken to suggest that they constitute the majority of railway workers. On the contrary, it merely indicates a high degree of specialization, necessitating considerable skill.

The spread of income within each trade depends on how clear cut that occupation is. Carpenters, for example, represent a sharply defined trade. Most had incomes, as railroad employees, of about $1,500, and practically none earned as

much as $2,300. The group listed as "clerks and clerical specialists," on the other hand, is less clearly limited, their earning running from a typical wage of about $1,650 to more than $3,000. In every occupation there is some variation on account of differences in skill, opportunity, and other factors.

Highest in the income scale are the executives and general officers. Although this group is one of the smallest of all, it includes individuals with a wide range of ability, training, responsibility—and income. Some individuals in this class earn as little as $3,000; others more than $20,000. Half of this group had salaries of $6,000 and above and some 18 per cent earned more than $10,000. This is the group which also tends to have the largest amount of income from investments, speculation, and real estate holdings.

Hourly Earnings in 1935-36

Thus far we have used 1929 income figures because our information is more complete for that period and because the statistics for that period are in a sense more "normal" in that they are not so seriously affected by unemployment and part-time work. It is also possible, however, to get a fairly accurate comparison between occupations by taking the *hourly* wages. Here we can use 1935-36 figures which, though not current, reflect present-day conditions far more accurately than those of 1929.

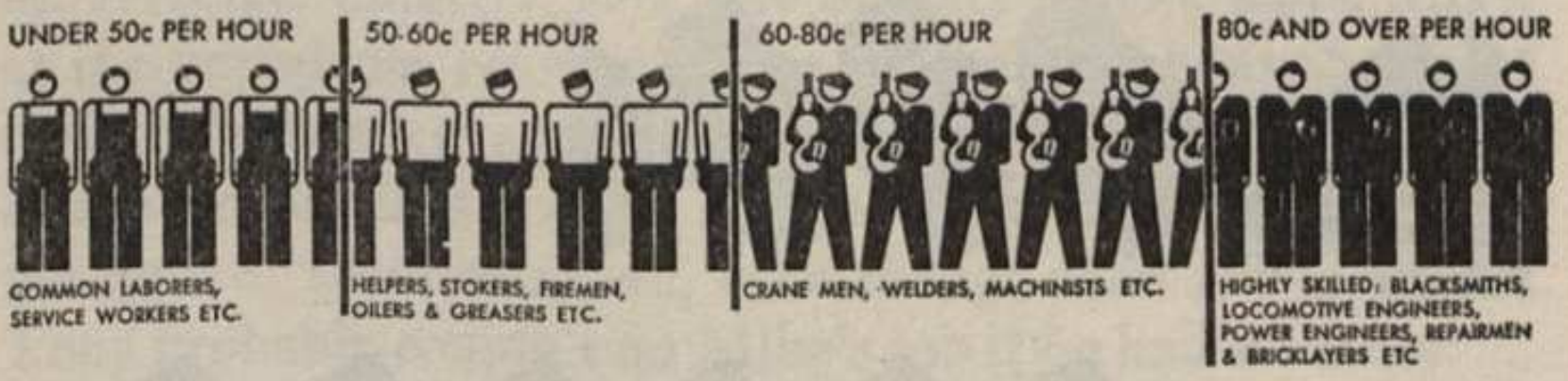
If we take three of America's major industries—iron and steel, railroads, and building construction—we find occupations with average hourly wages as low as 30 cents, and others with an average as high as $2.26. The range of individual earnings is even greater, running from 15 cents to $3.50 an hour.

Tony, Nick, and Mike, common laborers, are invariably found at the bottom of the scale. They earn from 15 to more than 60 cents an hour, depending on location and the industry. During 1935, Tony and his gang, typical unskilled labor-

ers in industrial communities, ordinarily received from 40 to 50 cents an hour. Helpers, attendants, and apprentices for many of the skilled trades got about the same during their period of training. The highest hourly earnings for wage workers were obtained by rollers in the steel industry, engineers and motormen, bricklayers, electricians, and hoisting engineers.

The relative wages of different occupations in the iron and steel industry are shown in the following chart. We see that about one-quarter of the total, consisting almost entirely of common laborers, obtained less than 50 cents an hour. An additional quarter, consisting of helpers, stokers,

DISTRIBUTION OF WAGE EARNERS
IN THE IRON AND STEEL INDUSTRY, MARCH, 1935



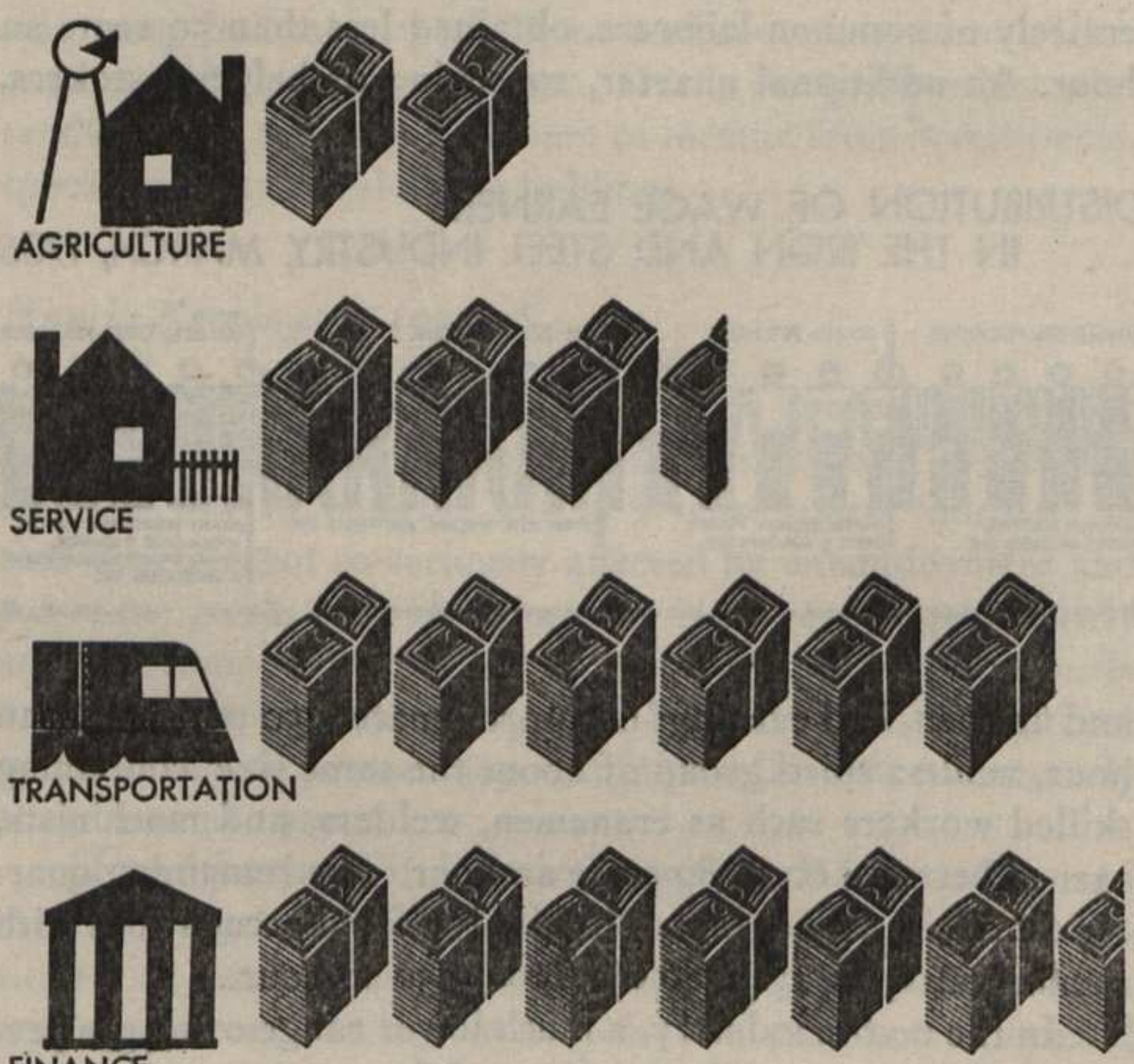
Each symbol represents 5 percent of all male plant wage earners in 21 departments of the industry PICTORIAL STATISTICS, INC.

and firemen, had earnings of approximately 50 to 60 cents an hour, while a third group of about the same size, containing skilled workers such as cranemen, welders, and machinists, earned between 60 to 80 cents an hour. The remaining quarter contains a large number of highly skilled occupations with earnings varying from 80 cents to $3.50 an hour.

In the textile industry, a much lower range of wages prevailed. Northern workers averaged from 35 to 50 cents an hour, and those in the South from 30 to 40 cents an hour. In contrast to the steel industry, where half of the workers earned more than 60 cents an hour, foremen and loom fixers were practically the only ones to earn more than this figure in textiles.

Industrial Differences

At first glance it would seem that a man's income is also largely influenced by the type of economic activity in which he is engaged or the industry in which he happens to work. The



average yearly earnings of employees in agriculture are only $525, as compared with $933 for persons employed in personal service, $1,551 in the transportation industry, and

$1,677 in financial institutions. The difference is striking. Employees of banks, insurance companies, and similar organizations earn approximately three times as much, on the average, as those engaged in agriculture. The average for financial institutions is also about $400 more than for the manufacturing industries. Does this mean that banks and similar organizations pay better than other industries? This is by no means the case when workers of similar qualifications are compared. Agricultural and domestic workers are relatively unskilled and highly competitive, while the majority of positions in a bank, for example, require at least a modest amount of skill and training.

Against this it might be urged that there are wide differences in the amount paid newly employed unskilled workers in different industries. We find, for instance, that Tony, in the fertilizer industry, gets only 36 cents an hour while Mike, at the petroleum refinery, earns 61 cents an hour. Some of these differences are probably accounted for by the location of the industries, but there are also important distinctions in the type of labor required, even though both are unskilled. Tony probably couldn't do Mike's job if he had a chance.

Geographic Differences

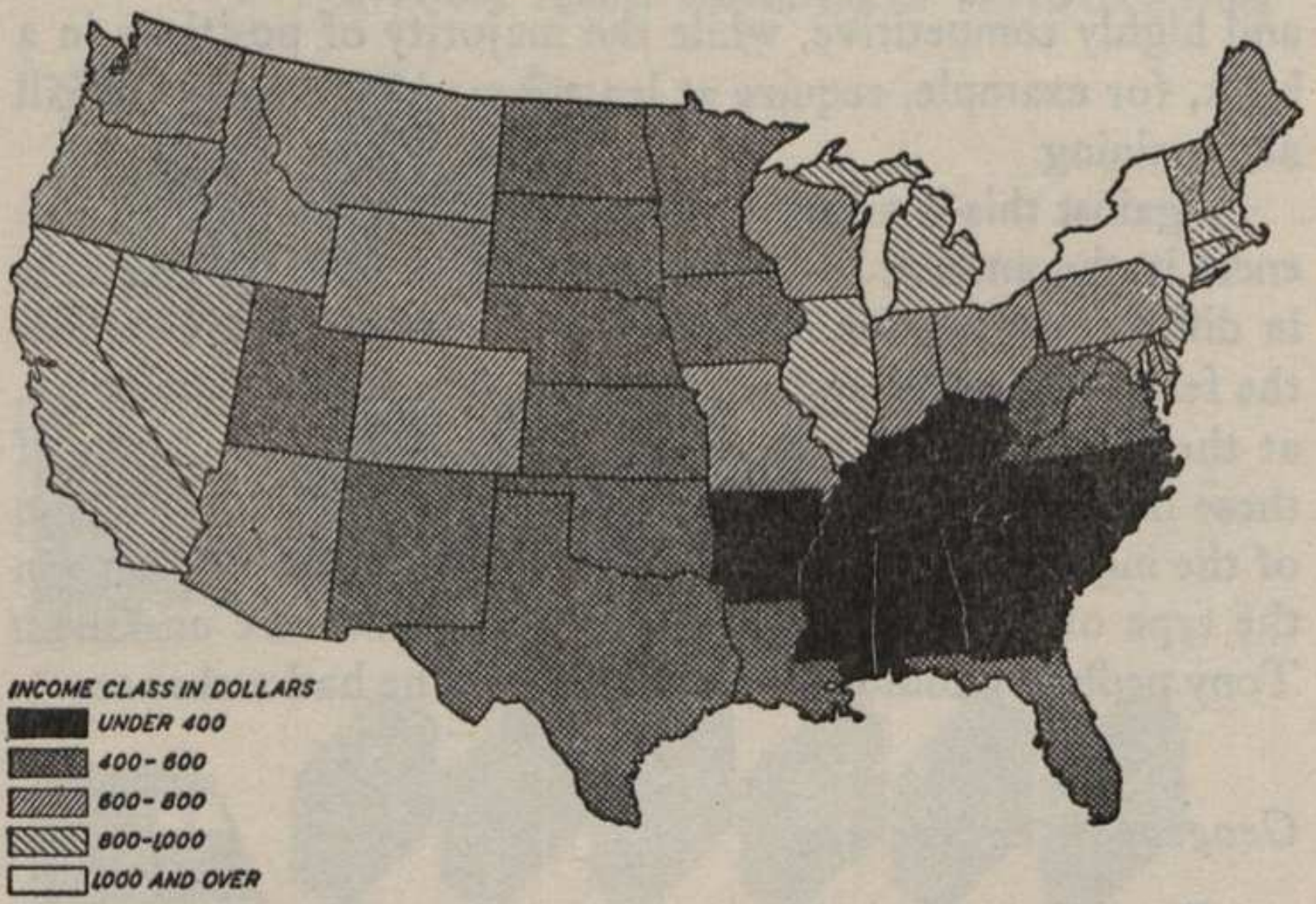
The differences in income in various parts of the country are striking. Average incomes in the South are less than half of those in New York, New Jersey, Massachusetts, California, and some of the other more favored states. Incomes are also quite low in the Central West and Southwest, as a glance at the map below will show.

It is not solely a matter of climate or natural resources. Many of the regions with the lowest income are relatively rich in resources. Nearness to seaports and other transportation facilities is perhaps more important, but even this is not necessarily decisive. Far more significant is the quality of the population, its size with relation to resources, and its indus-

trial and occupational make-up. In other words, income is dependent primarily on productivity.

The average income in the South, for instance, is lowered by the presence of stranded populations engaged in industries which are no longer suited to the resources of the area or which are no longer needed. For all practical purposes, the Appalachian hill farmers live outside of our present-day in-

PER CAPITA INCOME BY STATES IN 1929[a]



[a] Figures from Maurice Leven, Harold G. Moulton, and Clark Warburton, *America's Capacity to Consume*, p. 174. The income is exclusive of profits from the sale of property and also imputed income from durable goods (other than homes) in hands of consumers.

dustrial economy. The South's average income is also lowered by the inclusion of some hundreds of thousands of tenant farmers whose production is low because of poor use of working time, small resources, and lack of proper machinery. Competition from these underprivileged groups tends to reduce the wages paid unskilled labor. There is also an indirect effect on all business. A low purchasing power for large sections of the population means limited opportunity for trade and the professions. As a result, the more energetic members

of the population are likely to move elsewhere, leaving a condition of social and economic stagnation.*

Low wages also make for a relatively low cost of living. So that in addition to being less productive, the regions with low incomes are likely to have different scales of prices which tend to understate the true income of the people. If it were possible to make adjustments for differences in living costs, it might be found that incomes are not so dissimilar as they appear. But even as it is, earnings representing the same quality of work are not so very different in different parts of the country. The difference between the wages of skilled labor in the North and the South is not nearly as great as it is for unskilled labor.

Some of the differences of income between regions can be attributed to the existence or absence of large cities. For in every part of the country we find very striking differences both in income and costs of living between the city and country. In a study made in Michigan in 1934, it was found that individuals living in cities of 40,000 and over received, on the average, twice as much money as those living in rural townships. And the difference was relatively greater for business and professional men than for wage earners. This is probably but a reflection of the fact that these groups have a much wider spread in income.

Age and Income

Most persons start work in their 'teens at very low wages, and gradually increase their earnings until middle age. From then onwards their earning power slowly decreases until retirement or death. Hence, difference in age is in itself a factor making for inequality of income. For example, Tom Smith, Sr., a draughtsman, makes $180 a month; his son, Tom Smith, Jr., 20, who is just starting in on the same work, gets

* For a detailed description of this problem see "The South's Place in the Nation," Public Affairs Pamphlet No. 6.

$85. A recent survey in Ohio indicates that the average earnings of minors under 18 are only about 40 per cent of those for adult wage earners and white collar workers. The peak of earnings, which closely follows that of physical and mental vigor, is ordinarily reached somewhere between the ages of 38 and 40. Persons who had reached the age of 70 and were still gainfully employed tend to have only about half the average income received by those of 40.

There is rather remarkable uniformity among the various occupations on this point. Except for clerical and professional workers, the peak age is practically the same for all groups. For clerical employees it is between 40 and 45, and for most professional men and women it is just below 50 years. Engineers do not reach the height of their earning capacity until they are about 60.

Sex

Women's earnings are almost invariably lower than men's, averaging less than 60 per cent as high. This is frequently said to be due to sex discrimination or to the inferior bargaining power of women. Both exist, but not in quite the sense usually meant. Employers do not ordinarily pay different rates for the same work. Women, however, are usually found in work that is dissimilar to that performed by men. They enter these fields partly from choice, partly because of their special aptitudes, and partly because they are discriminated against in certain fields, particularly skilled manual labor and the professions, which are reserved by tradition for men. The fact that women are confined to a limited number of occupations reduces their bargaining power. Moreover, women are still fighting for a place in our economic life. They exert great pressure on a restricted number of openings, while men's positions are relatively well established.

When the earnings of men and women are compared for

the same occupation, the differences are relatively small. Such as exist, moreover, are likely to be due to the fact that men have more favored positions rather than to unequal pay for the same work. Where women do receive less for identical work, the difference in pay rarely exceeds 10 or 20 per cent.

The low income of women is at least partly influenced by their age. Most employed women are under 30, which means that the majority leave work before they have attained their full earning power. This age difference should not be overlooked. It suggests that there is perhaps more difference in productivity between the sexes than one would suppose at first glance. None of these considerations, however, should blind us to the fact that women frequently suffer injustice in the matter of wages.

Color

The average income of Negroes is so far below that of the country as a whole that colored people may be said to be living on a lower economic level. There are many reasons for this. They are social and historical, as well as economic. Differences in opportunities and training, if not in general ability, have resulted in strikingly lower incomes, both in the South and the North.

Some of the handicaps under which the Negro must struggle are well known. Illiteracy in some of the Southern states runs as high as 26 per cent among Negroes of over 10 years of age. Roughly 80 per cent of the Negro population live and work in the South and nearly 40 per cent obtain their living from agriculture. Less than a quarter of the colored farmers own their land, while the size of their farms is only about one-fourth the size of those operated by white farmers. These facts in themselves would cause Negro incomes to average much lower than those of the general population.

Even in the Northern cities, the opportunities of Negroes are limited. A majority of colored women workers, and a number of colored men, are employed in domestic service, and most of the remaining men are engaged as common laborers.

Although the average wages paid Negro laborers is about 20 per cent less than that paid white laborers, it is doubtful whether this is primarily because of color. The same considerations are involved as in the case of women, though they are even more serious. Inequality exists, but it is of opportunity rather than wages. If two workers apply for the same job, one a Negro and the other white, both men having the same qualifications, the white worker is much more likely to be chosen. The result is that the better jobs are likely to be taken by whites, leaving many Negroes in undesirable, low-paid jobs.

Negro workers fare particularly badly in some of the Southern states. In Louisiana, Florida, Kentucky, Georgia, South Carolina, and North Carolina, for example, the entrance wages of Negro labor are from 20 to 25 per cent less than those paid to white labor. In the North, the wages paid the two races are usually the same for similar work. Opportunities for Negroes in the better-paid clerical and professional occupations are, however, relatively few.

WAGE CHANGES SINCE 1929

THE YEARS since 1929 have brought two fundamental changes in the position of the typical wage earner. Weekly and yearly incomes, in terms of money, have declined substantially. At the same time, there has been a marked reduction in working hours and a substantial increase in wages per hour. Before we can say whether the individual is better or worse off as a result of these changes, it is necessary to examine them separately.

Most men value their time highly. They are willing to exchange it, within limits, for money and the things that money will buy. Hence they regard any reduction in working hours as a distinct gain. It is impossible to express this gain in terms of money. We can, however, set forth certain general principles. A reduction of working hours which is not accompanied by a lowering of purchasing power is equivalent to an increase in income. But a reduction of hours that is attended by loss of earnings or a rise in living costs is resented by labor, even though the loss of buying power is no greater than the drop in hours. Few workers feel that they have sufficient income to forego part of it willingly for additional leisure.

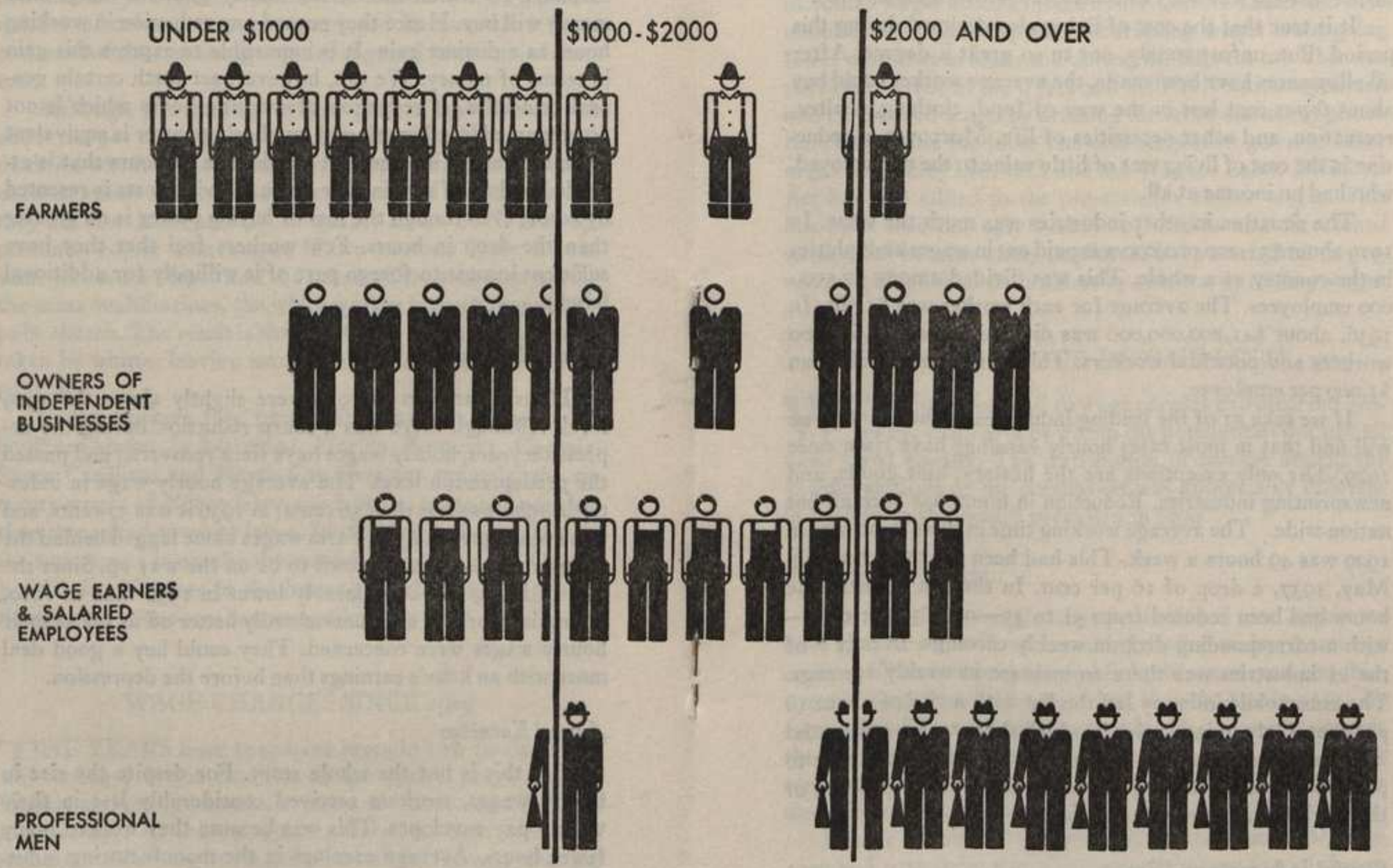
Hourly Earnings in 1936

Hourly earnings in 1936 were slightly above the 1929 level. Although there was a sharp reduction during the depression years, hourly wages have since recovered and passed the predepression level. The average hourly wage in industry in 1929 was less than 56 cents; in 1936 it was 57 cents, and was even higher in 1937. Farm wages alone lagged behind the 1929 rates, and these seemed to be on the way up. Since the cost of living was considerably lower in 1936 than in 1929, industrial workers were undoubtedly better off as far as their hourly wages were concerned. They could buy a good deal more with an hour's earnings than before the depression.

Annual Earnings

But this is not the whole story. For despite the rise in hourly wages, workers received considerably less in their weekly pay envelopes. This was because they worked many fewer hours. Average earnings in the manufacturing industries were only 84 per cent as large as in 1929. The loss is even greater when the total wages are divided by the total number of wage earners normally dependent on manufactur-

DISTRIBUTION OF OCCUPATIONAL INCOMES, 1929



Each symbol represents 10 percent of total in specified occupational group

NOTE: Groups are composed mostly of men

PICTORIAL STATISTICS, INC.

ing for a living. On this basis, the average income per wage earner in 1936 was $963 as contrasted with $1,500 in 1929.

It is true that the cost of living also declined during this period. But, unfortunately, not to so great a degree. After all allowances have been made, the average worker could buy about 6 per cent less in the way of food, clothing, shelter, recreation, and other necessities of life. Moreover, a reduction in the cost of living was of little value to the unemployed, who had no income at all.

The situation in other industries was much the same. In 1929 about $51,200,000,000 was paid out in wages and salaries in the country as a whole. This was divided among 37,500,000 employees. The average for each worker was $1,365. In 1936, about $41,200,000,000 was divided among 41,600,000 workers and potential workers. This comes out to less than $1,000 per employee.

If we take 21 of the leading industries of the country, we will find that in most cases hourly earnings have risen since 1929. The only exceptions are the hosiery, knit goods, and newsprinting industries. Reduction in hours has been all but nation-wide. The average working time in these industries in 1929 was 49 hours a week. This had been cut to 41 hours in May, 1937, a drop of 16 per cent. In the silk industry the hours had been reduced from 51 to 35—over 30 per cent—with a corresponding drop in weekly earnings. In only 7 of the 21 industries was there an increase in weekly earnings. The automobile industry led the list with a rise of about 10 per cent. Only in industries in which there was a substantial increase of productivity, or where the industry was able to pass on increased costs to the consumer, was the position of the worker maintained or improved.

Special Influences on Wages

In recent years, to a greater extent than any other time in history, wages have been influenced by governmental policy.

The effect of the NRA is obvious. Most of the codes specified minimum wages and maximum hours. Government relief also undoubtedly played a part in preventing wages from going lower than they actually did during the depression. This was particularly true of the CWA and the PWA which supported and even raised wages by draining the labor market of potential competitors for jobs. The encouragement given to labor organizations by the NRA and the Wagner Labor Relations Act has also added to the pressure for higher wages. This has been true not only because of strikes and threatened strikes, but because many employers have attempted to prevent unionization of their plants by voluntarily raising wages.

CHANGES IN GROUP INCOME SINCE 1929

WHAT has happened to wage earners has occurred generally to all groups within the population. But not all have fared equally. The distribution of income among the various sections of the population was appreciably different in 1936 from that which prevailed in 1929.

Professional Groups

We find, for example, that professional men appear to have lost more heavily as a result of the depression than wage earners. The same proportion of physicians earned less than $700 in 1936 that had earned less than $1,000 in 1929. By comparing different income groups in this manner, it appears that the 1936 incomes of physicians were from 18 to 30 per cent lower than in 1929. Similarly, lawyers' incomes were down from 18 to 38 per cent.

Income tax statistics show even greater losses. Between 1929 and 1935 there was a decrease in income for all classes submitting returns of approximately 35 per cent. The drop was particularly pronounced in the case of high incomes. For those with incomes of $10,000 in 1929 the average decline was

42 per cent; for incomes of $25,000 it was 51 per cent; and for incomes of $100,000 it was 62 per cent.

Incomes of Urban Families

A picture of the changes in income of groups receiving less than $5,000 may be found in the recent Urban Study of Consumer Purchases, conducted by the Bureau of Labor Statistics. We find that the same proportion of the population which received less than $1,000 in 1929 obtained less than $725 in 1935-36. An income of $3,000 in 1929 was replaced by one of $2,500, and an income of $5,000 by $3,750. From the relative rates of decline in each class, we may be tempted to conclude that families with very low or very high incomes suffered the greatest loss as a result of the depression, while the middle-income groups more or less held their own. Such a conclusion, however, is not necessarily justified. The increased number of persons with very low income is a natural result of unemployment, which was by no means limited to the low-income groups.

Sources of Income

If we compare the source of the American people's income in 1936 with that in 1929 we see at least one striking change. In 1929 only 8 per cent of the total national income was derived from federal or local governments. By 1935 almost 15 per cent of the total income was thus obtained, and there was a 43 per cent increase in the amount of governmental expenditures.

In contrast, the building industry, which had contributed 4 per cent of the total income in 1929, paid out only 1.7 per cent in 1936. Manufacturing, mining, trade, and agriculture remained close to their 1929 percentages, which means that their losses were about the same as that suffered by all industries. The electric light and the service industries contributed

larger portions than in 1929 but substantially less in actual money.

Very little change occurred in the proportion of income going to labor and business in 1936 as compared with 1929. The United States had a total income in 1936 of approximately $62,000,000,000 which was 79.4 per cent of the pre-depression amount. If work-relief payments are counted as wages, the total paid in wages and salaries in 1936 was $41,-200,000,000 or 80.6 per cent of the amount paid in 1929. Excluding work relief, wage earners and salaried employees received 76.5 per cent of the 1929 total. "Entrepreneurs"—which includes business men and farmers—received 79.3 per cent as much as in 1929, or almost exactly the same proportion as before the depression.

Those who depend on dividends and rents fared less well. The 1936 income from rents was only 62 per cent as high as in 1929. After a very bad record in 1932 and 1933, the receipts from dividends recovered to 76.6 per cent of the 1929 level. Interest payments, being largely determined by contract, were least affected by the depression. The 1936 payments were 86 per cent of those of 1929.

Investment income as a whole—consisting of rent, dividends, and interest—was 77 per cent as high as in 1929. The average income from all sources was 79 per cent of the 1929 total. Thus, although the depression greatly reduced the amount of income available for all groups in the population, it did not greatly change the distribution among them.

GROUP ACTION

MANY FACTORS contribute to the shifts in incomes and earnings which we have described. Basically, they are the result of the actions of a multitude of individuals and firms, each attempting to sell goods or services as advantageously as possible. Workers and professional people are affected by the manner in which individuals with particular

abilities or aptitudes happen to be distributed at a particular time or place. It may happen, for example, that there are too many unskilled workers, but too few masons and carpenters; too many lawyers, but too few economists. The same sort of maladjustments occur in trade. There may be a shortage of meat but an over-abundance of copper. Under such conditions the producers and distributors of meat might prosper while mining companies faced bankruptcy.

Ordinarily, the price which is paid for a commodity is just high enough to bring about a "natural" adjustment between the demand for that commodity and its supply. Frequently, however, this adjustment is modified by the joint actions of groups endeavoring to make conditions more favorable for their members. There are three main ways in which this may be done: (1) Groups, such as manufacturers, farmers, or workers, may agree to bargain as a group, hoping thereby to get more favorable terms than they could obtain individually; (2) they may take steps to limit the supply of goods or services and thus increase the value of each unit; (3) they may use their united strength to bring pressure on the public or the government to obtain special treatment.

Business Groups

We think of the business class first because its position gives it opportunities for leadership and the exercise of considerable political power. By the very nature of our economic system, it is the philosophy of this class which has dominated the legal and political structure of the country. Doubtless this position of leadership has affected the incomes of this class, but not as the direct result of group action.

As a matter of fact, it is impossible to discover the precise effect of trade associations, business lobbies, and similar organizations upon the distribution of income. Many of the activities of these agencies are defensive. Where they are not

defensive, as in tariff lobbying or the establishment of agreements with regard to prices and trade conditions, the effect on profits is indirect. In the case of tariffs, the initial advantage obtained by existing industries is soon reduced or eliminated by the formation of new firms. About all that we can say is that the tariff has brought about an entirely different industrial set-up from that which we would have otherwise had. This affects incomes, but not in a way that can be measured.

Trade associations can lobby to increase prices or otherwise improve conditions, but they cannot prevent nonmembers of the association from sharing in the benefits nor can they prevent new firms from coming into the field. Some of the NRA codes attempted to restrict competition of this type, but it is doubtful whether they could have been enforced even if the NRA had not been outlawed.

Farm Groups

Since the close of the World War, group action among farmers has developed to a high degree. It has taken three distinct forms: (1) cooperation with a view to raising efficiency and reducing the costs of marketing; (2) cooperative and governmental action directed toward the raising of prices of farm commodities; (3) direct government aid in the form of low interest rates, nonrecoverable loans, and benefit payments.

Cooperatives have been particularly successful in the case of citrus fruits, milk, and other products where the farmers in a small area could control the supply. Since such conditions do not exist for most agricultural products, the majority of farmers have turned to governmental action as a means for achieving their economic aims. At first, efforts to raise prices were concerned chiefly with marketing. When this proved ineffective, attention was directed more and more to methods of limiting production. In addition, farmers have obtained

direct cash payments from the government for the purpose of "stabilizing" the agricultural situation. In recent years such payments have exceeded $500,000,000 annually and have added from 10 to 15 per cent to the net income of farmers.

Although the restriction of production injures other groups by raising prices, benefit payments, being derived from borrowed funds, have not caused a corresponding loss of income to other groups. Eventually, however, when the public debt is paid, the greater part of the burden will presumably be borne by groups other than farmers.

Labor Groups

As individuals, workers are in as weak a position as farmers—if not a weaker one—to affect the price of their services. All that they have to sell is a fixed amount of time and skill. Labor unions represent an effort to overcome this handicap. For the weakness of the individual, they substitute the strength of the group through collective bargaining and, in some cases, restriction of supply.

Such statistics as are available indicate that unions have been successful in achieving their primary objective. Wage rates tend, in almost every case, to be higher for union members than for nonunion members in the same occupations. This is particularly noticeable in the building trades. Examination of the earnings of workers in 31 occupations in the building industry shows that in every instance the hourly earnings of union men were higher than for nonunion workers. For all 31 occupations combined, the hourly earnings of the nonunion men were 31 per cent lower than for union members. The difference may be ascribed partly to skill—union men being ordinarily regarded as better workmen—but the main factor is undoubtedly to be found in the superior bargaining power of union members.

As long as unions were primarily of the craft variety and

membership was restricted to a small proportion of the total population, specific unions could obtain very substantial gains without very much effect on the general cost of living. But as industrial unionism develops, involving millions of hitherto unorganized workers, it is evident that the possibility for gain is diminished. If all workers were to double their money wages simultaneously, the cost of living would presumably double within a short time, leaving them with little or no net advantage. It is true that the workers might achieve small gains at the expense of merchants, farmers, and professional men, but these would be limited by the relatively small number of these individuals. It is not possible to bring pressure solely against profits. Profits are never evenly distributed among different firms, and union pressure cannot be directed entirely against the successful plants.

Like all other classes, labor must rely on growing efficiency and productivity for permanent gains in income. For the possibility of increasing the workers' plane of living through bargaining or restrictions becomes progressively less as the number of organized workers increase.

THE EBB AND FLOW OF BUSINESS ACTIVITY

WE HAVE noted that all groups within the population are affected by a depression such as the country suffered between 1929 and 1936, but that all are not affected equally. There is even more inequality in the effect on individuals. Some persons are able to hold their own or even make progress while others are being reduced to bankruptcy. The impact of the depression on personal incomes is shown especially well in a survey covering 7,436 families made by the United States Public Health Service in 1933. In 1929 one-half of these families had incomes of more than $1,650. By 1932 only 18 per cent had incomes as high as this, and 50 per cent obtained less than $870. Yet a few families forged

ahead. Of those whose incomes in 1929 were less than $600, 20 per cent had advanced to a higher group in 1932. Similarly, about 7 per cent of those with incomes between $600 and $1,200 improved their position. An overwhelming majority, however, lost ground in accordance with the general decline in national income.

Industrial Disputes

Strikes also have an effect on both the amount and the distribution of income. In 1927, for example, 26 million days of work were lost as a result of industrial disputes. The number of lost days declined to 3 million in 1930, but rose to 20 million in 1934. In 1937, as a result of the automobile and steel strikes, it is estimated that at least 28 million days were lost. These figures represent only the direct losses. There are no statistics on the number of persons who are thrown out of work as a result of strikes in which they are not directly involved. Such losses may extend to industries which are seemingly remote from the one in which the strike occurs.

Increased Efficiency

Although new machinery and advances in technical efficiency cannot be held responsible for general unemployment or a resulting decline in the national income, as some persons allege, such progress does create shifts in the flow of income. It does so in two ways: (1) It uproots workers from their regular jobs and forces them to look for new and often less profitable work; (2) although most of the population is benefited by technical improvements, there are often large numbers who are left behind at a lower level of living. This is due to the fact that population may be concentrated in one area while the opportunities may lie many miles away.

Usually it is the middle-aged or older workers who are the victims of progress. A new machine may render the skill

which they have acquired through years of experience wholly unnecessary. Yet they are frequently unaware of the cause of their plight. As a result they may spend months in an unremunerative and futile search for jobs which no longer exist. The country as a whole may not lose as a result of the new machine, but some individuals lose their incomes while those of others are being raised. Such is the pattern of progress.

Stranded Populations

Although the United States has perhaps the most highly developed industrial equipment in the world, there are vast areas in which the populations have been left stranded on more primitive levels of economic activity. A recent study of population distribution designated four such regions. They include the southern Appalachian coal plateaus, the old cotton belt of the South, the cutover regions of the Great Lakes States, and the Great Plains. In each of these regions poverty exists because the existing resources are inadequate to support the population. Productivity is low not only because of poor resources, but because tools and methods of working are inefficient.

Each region has its own peculiar background and problems.* But most of their inhabitants live, particularly in the Appalachian hill area and the cutover regions—outside our highly developed money economy. They are of necessity largely self-sufficient. Although they are poor, their well-being cannot very well be measured by their money incomes. The mountaineer who leads a primitive existence may enjoy his life more than a city worker, and to that extent may have a great deal of psychic income. But his opportunities for producing goods for exchange are very limited. Hence, according to the only measure which we have for income—that of money—his receipts are very small.

* For details see "Restless Americans," Public Affairs Pamphlet No. 9.

INDIRECT INCOME

A MAN'S well-being, even on an economic plane, is not determined solely by the amount of money which he receives. What really counts is the food, clothing, shelter, education, recreation, and other benefits which he is able to obtain. This is largely affected by the amount of his money income. But every person receives certain things for which he does not pay. Many services are rendered free by the government or nonprofit organizations. These include education, recreational facilities, police protection, some medical care, private charity, and relief. Some people also acquire nonsocial income through fraud and theft.

This "secondary" income is to a large extent a redistribution of the direct income which we have been discussing. Mr. Smith, with an income of $100,000, pays, let us say, $50,000 in taxes. This $50,000 goes for national defense, for roads and bridges, education, public housing, and, in part, for relief of the underprivileged. A substantial portion of this comes back as "secondary" income to Mr. Smith. He gets the benefit of police and military protection; his children receive free education in the schools; he gains from an improvement in the public health; he uses the roads and bridges. But as these benefits are shared with persons who pay little or no taxes, Mr. Jones and others with small incomes tend to gain by this "secondary" income, while the original incomes of Mr. Smith and other large taxpayers are reduced.

Savings and investment also affect the true division of income. If Mr. Smith spends only half of the $50,000 which he has left after paying taxes, he is foregoing immediate enjoyment of his income. If he invests his money, it may be used by someone else to buy the necessities of life. Much savings is ultimately lost to the person who does the saving. In many cases this means that someone else has obtained the benefit, by foresight, luck, or fraud, of the money which had been saved. A similar reshuffling takes place as a result of gains and

losses in the trading of securities and real estate. These gains or losses do not affect the national income one way or the other, but they do affect individuals materially.

It follows, therefore, that money income is not always an accurate index of economic well-being. This is reflected much more accurately by actual consumption. What a man eats, what kind of a house he lives in, what opportunities he has for education and recreation are what really count. It is estimated that the six million American families with incomes of less than $1,000 in 1929 consumed more than $5,000,000,000 worth of goods and services, although their money income was only $2,900,000,000. The ten and a half million families with incomes between $1,000 and $2,000, on the other hand, had a total consumption of $14,562,000,000 as against a money income of $15,364,000,000. At the top of the income scale, the 24,000 families who had incomes of over $100,000 consumed only about $3,000,000,000 of the $8,750,000,000 received as income. If account were taken of free services, an even greater readjustment of income would be found to have taken place.

This is, of course, in no sense a justification for the obvious inequalities of incomes which exist. On the contrary, a good case could be made showing that such an uneven distribution is detrimental to our economic system. Nevertheless, it is significant to note that when we deduct savings and capital gains and make allowance for "secondary" income, the differences between 1929 and subsequent years are somewhat smoothed out. This, perhaps, answers the question as to how we survived the depression with less damage than would seem to have occurred, judging by the income figures.

THE NATURE OF INCOME

CERTAIN FACTS stand out in this brief analysis of current income statistics. It shows us something of the nature of income which is not generally understood. When we

say, for example, that the national income in a given year amounted to eighty billion dollars, we do not mean that there were eighty billion dollars to divide up at any one time. Income is not an accumulation but a flow. It is produced in small units from minute to minute and day to day, and, broadly speaking, it is distributed as it is created. And it is evident that income is very closely connected with production. The two are often simultaneous, the product being valued at the time that the effort for its creation is put forth. This is particularly evident in the case of a day laborer. If he receives $5 for a day's work, it means that the day-to-day value put on his service is $5. His annual income consists merely of the addition of his daily wage income.

The valuation of any individual's product, however, whether it be a day's labor or a business man's profits, is subject to many influences, both physical and economic. Chance undoubtedly plays a large part. It is chance which determines the place where an individual is born; chance largely determines his occupation, and the relative importance of that particular occupation at a given time and place. The operation of chance, however, is limited by the environment which is man-made.

Distribution of Income

But there are a number of other factors influencing the distribution of income. It is affected, as we have seen, by the age of a worker, by the part of the country or the size of the city in which he or she lives, by sex, by race, by skill, and by training. Above all, it is affected by the type and quality of the service rendered. Luck plays a particularly important rôle in trade. Combinations of circumstances bestow unexpected profits on some and losses on others. All persons are affected, finally, by the ebb and flow of business activity which affects virtually everyone, although different classes and different individuals are influenced unequally.

In Conclusion

It is not the purpose of this analysis to point the way to any specific political or economic program. We have seen that what we call income is really a composite of many parts, each influenced by a different set of factors. Inequalities of income are only partly due to factors applying to the nation as a unit. To a large extent they represent inequalities of distinct sections of the population, each of which must be dealt with separately. The solution is, therefore, complex. Efforts must be directed toward improving the productive efficiency of the country as a whole, toward broadening the opportunities of certain sections of the population, as well as toward extending the "secondary" income in the form of free services, social insurance, and other activities designed to promote general economic welfare.

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