Shift in Income Distribution Is Reducing Poverty in U.S.


By WILLIAM F. MILLER

The United States has undergone a social revolution in the last four decades, and particularly since the late Thirties, in the distribution of income and wealth and in the process of modern capitalism. The gains to comfortable levels of capitalism, has been the greatest the National Bureau, will be dis-

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The median income of the city wage-earner families rose from $1,380 to $3,191 between 1939 and 1947, and then continued to rise to $3,608 in 1949. That of farm families rose from $1,243 in 1939 to $1,510 in 1947. Then it dropped to $1,202.

Relatively, it must be remembered, a farm income of $1,500 may be worth more than a city income of the same amount. Also, the existence of large numbers of subsistence farmers depresses the farm figure; if the income figures of commercial farmers alone were used, the picture would be different. But, estimating by city wage-earners, all farmers, wages outstriped farm incomes.

The largest share of total money incomes increasingly went to families in minimum, better or middle income brackets. About $2 of every $3 of families with high incomes increased only from an eighth to a fifth. The share going to families with sub-standard incomes declined as their numbers declined.

An important measure in income analysis is the composition of income per capita, which relates the growth of income to the growth of the number of people who have to share it. This makes allowance for the influence of the rise in population on the expansion of incomes.

It is a difficult feat to get down into the structure of income by steps of 1 per cent on this basis. However, Mr. Kuznets has succeeded in doing this for the top of the income scale. (At $2,624 per capita income (1948 dollars), the 1 per cent of the population received 1 1/2 times as much as the lowest income groups. This is illustrated by estimates by Mr. Miller of the distribution according to thirds of families and individuals. Mr. Miller points out that while the changes indicated by measures of inequality in incomes appear small, they signify great relative changes in the distribution of income.

The top third families lost ground between 1939 and 1949. The middle third families gained. The lowest income groups retained a greater share of proprietors' incomes than the upper 1 per cent.

Dr. Kuznets' most important analysis traces the types of income in the shares of total income that went to the top 1 per cent and the lower 95 per cent in 1929 and 1948. The greatest gains were in employee compensation—wages and salaries. The bulk of this went to the lower 93 per cent of income receivers. Entrepreneurial income—the gains from running a business of farm—became more equally distributed. Property incomes (rent, interest and dividends) decreased. But the lower 95 per cent retained a greater share of property incomes than the upper 1 per cent.

The greatest gains in wages and salary incomes occurred in the lowest income groups. This is illustrated by estimates by Mr. Miller of the distribution according to thirds of families and individuals.

Mr. Miller points out that while the changes indicated by measures of inequality in incomes appear small, they signify great relative changes in the distribution of income.
The gain in lower incomes is still
the loss in high incomes persists,
95 per cent of income receivers.
The loss of the upper 1 per cent
and the gain of the lower 95 per
the accident of birth or natural

The upper income group, Dr.
Kuznets found, is dominated by the
most productive age, sex and edu-
cational groups in the population.
To reduce the advantages that
some individuals have over others
by the accident of birth or natural
endowment, the income tax was
introduced. It has been a signifi-
cant factor in the changes in the
distribution of income. But how
significant? In some countries
affected it has reduced income in-
equality by leveling down even
moderate incomes.

What part did the Federal In-
come tax play in the changes in
income distribution? Both Dr.
Frederick C. Mills of productivity:
investigations, concludes that we
in America are involved in the ex-
planation. The growth of progressive
management and of free trade unions produced
a large increase in wage rates and
earnings, particularly of poor-paid
workers. The persistency of high
levels of employment increased an-
nual incomes and family incomes,
as did, to a lesser extent, social
legislation. Wage control operated
to reduce inequalities. Subsidies to
agriculture helped equalize entre-
preneurial incomes.

But probably the most impor-
tant factor is that three-quarters
of the great productivity gains of
the American economy were used to raise the living stand-
ards of the workers and particu-
larly the lowest paid workers.

The magnitudes of these gains,
which varied from year to year, was
indicated by estimates by Dr.
Frederick C. Mills of productivity:
gains, in the brackets where income is con-
sidered. The special feature prevailing in the previous
decade was the rapid growth of progressive management.
Distributions relatively increased the proportion of em-
ployees out of one income group into
another. Again the shifts, particu-
larly in the highest brackets, are
sharp but not substantial enough to
account for the changes. This
chart is given at the foot of this
article.

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shifted some family income receiv-
ers out of one income group into
another. Again the shifts, particu-
larly in the highest brackets, are
sharp but not substantial enough to
account for the changes. This
chart is given at the foot of this
article.

The record shows that the
United States has not completely
solved the economic problem of
poverty, no more than any other
nation. But it also shows that
modern capitalism, unlike some
other systems, has actually gone
a long way toward solving it.

Some inequality in incomes
needed in a democratic society
move labor and capital about to
the fields in which they are most
needed. But recent experience
shows that devices backed by con-
servative Republicans as well as
Liberal Democrats, by progressive
managers as well as responsible
labor leaders, can go far to re-
move inequities. Moreover, they
promise to bring greater gains in the
future than in the past.

To avoid misinterpretation of
the econometric findings abroad,
should be explained that some war-
rents the belief in some parts of
the world that the United States
has no surplus except for security at home and years of effort. * The 'credit for

The burden, therefore, imposes
hardships on many American fam-
ilies, as well as loss in living stand-
ards won by hard work and con-
siderable to all those in the
very lowest brackets. In the in-
terest of world peace, this burden
is borne cheerfully by most Ameri-
cans. But the statistics show that
it exists.

A final word should be said
about the reliability of the data.
One of the great obstacles in in-
come analysis is the incompara-
ble doubt usually found between esti-
mates on comparable bases, income
analysis frequently find it neces-
sary to work with the data of
one year rather than another, and ac-
cording to definitions patterned to
overcome statistical obstacles.

This difficulty has been avoided
in this report by keeping each
comparison autonomous, so that
the comparability of the estimates
used in each comparison is main-
ained.

Another obstacle is that the lim-
litations of the data, underlying
each group of estimates may make
it useful for one purpose and use-
less for others. This difficulty has
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GRAPH B

EFFECT OF THE FEDERAL INCOME TAX IN REDUCING THE AVERAGE CONSUMER MONEY INCOMES OF FAMILY INCOME GROUPS, 1941 AND 1947

0 2,000 4,000 6,000 8,000 $10,000

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<thead>
<tr>
<th>Income Level</th>
<th>1941</th>
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<tr>
<td>Highest</td>
<td></td>
<td></td>
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<tr>
<td>All Families</td>
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GRAPH C

PERCENTAGE DISTRIBUTION OF FAMILY UNITS RANKED BY CONSUMER MONEY INCOME LEVELS, BEFORE AND AFTER FED. INCOME TAX, 1941 & 1947

0 5 10 15 20 25%

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<th>Income Level</th>
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<tbody>
<tr>
<td>Under $500</td>
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<tr>
<td>$4,000-$4,999</td>
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<tr>
<td>$5,000 and over</td>
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<tr>
<td>$10,000 and over</td>
<td>Not Available</td>
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