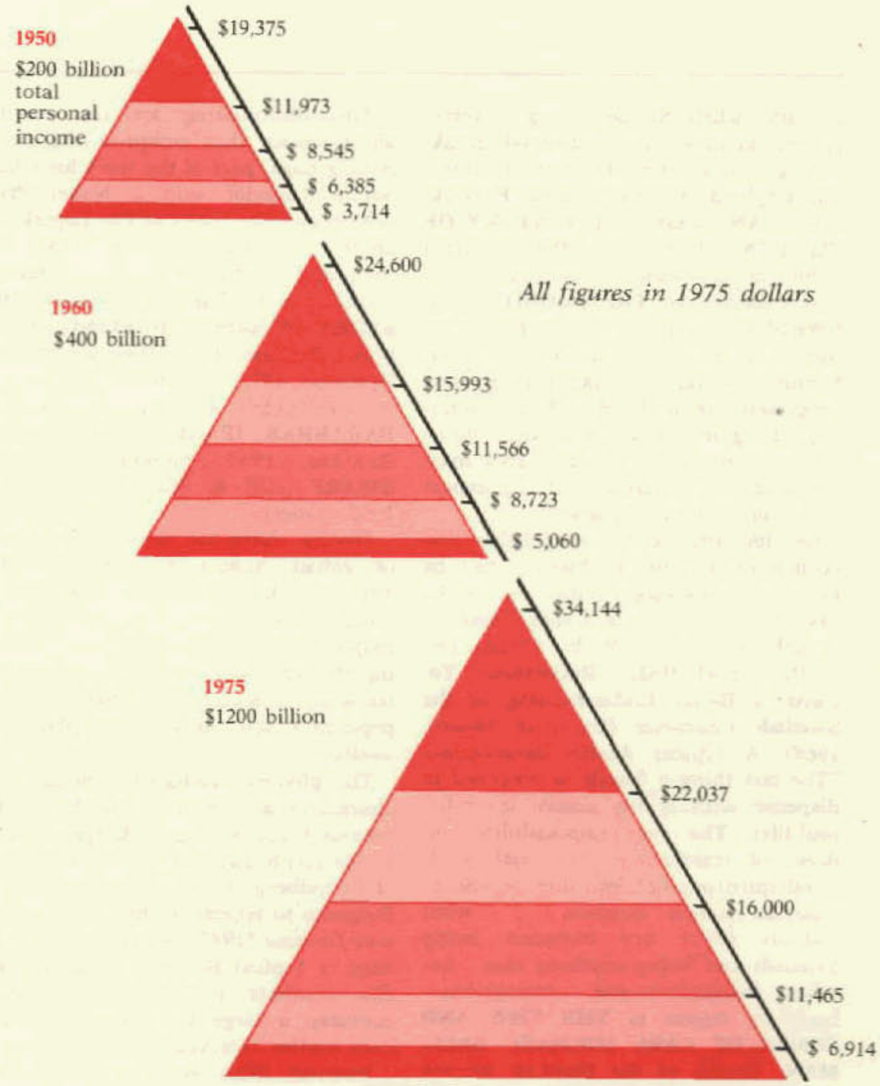

THE UNCHANGING INCOME PYRAMID

The postwar years have seen little apparent shift in the overall distribution of income. In the pyramids, each colored band represents one-fifth of all U.S. families, with the richest quintile at the top. The size of each band reflects its relative share of total personal income. Dollar figures at the right show the lowest income in the top 5 percent and the highest income in each of the lower four quintiles.

Source: *Statistical Abstract of the United States, 1976*, Washington: Government Printing Office, 1976, pp. 398 and 406.

Money and The Pursuit of Plenty in America

As the United States recovers from its worst recession since the 1930s, economists and other scholars continue to seek new data on the changing patterns of family earning, spending, and "status" in America. Scholars have reached general agreement on at least one point: In 25 years, for all its defects, the growing U.S. "consumer economy" has brought most American adults (and even most American *poor* adults) a level of material well-being that would have astonished their grandparents.

As the pyramids in the chart on the opposite page indicate, total personal income has grown since 1950, and all segments of the population have gained. But, as the chart also makes clear, the top two-fifths of all American families still get the lion's share of the total. As in the rest of the industrialized West (and in the Soviet Union), some people get far more than others.

How freely can Americans scale the pyramid? Academic studies of the "social mobility" of racial, ethnic, and other groups abound. But scholars differ on the factors that enable individual Americans to do better than their fathers in terms of income (see our Background Books essay). In the essays that follow, historian Edward Pessen looks at social mobility prior to World War II; economist Robert Lampman analyzes American economic growth and income inequality since the war; and economist Helen Lamale examines the impact of postwar changes on consumer spending, living standards, and definitions of "luxuries" and "necessities."

EQUALITY AND OPPORTUNITY IN AMERICA, 1800–1940

by Edward Pessen

America's current patterns of wealth, income distribution, and social mobility are the product of earlier trends as well as contemporary influences. Even a swift glance at the historical background will show how equality and opportunity have increased or diminished—or remained intact—over the course of time.

Pre-Civil War popular perceptions of America's distribution of worldly goods were shaped primarily by a small number of articulate commentators; by far the most influential was the Frenchman Alexis de Tocqueville. In the opening sentence of his universally acclaimed *Democracy in America,* the first part of which was published in 1835, Tocqueville reported that nothing struck him more forcibly than "the general equality of condition among the people"; this was "the fundamental fact from which all others seem to be derived."

Supplementing this general equality, which he believed to exclude only blacks, recently arrived Irish immigrants, and individuals who were lacking in industry and sobriety, was an equality of opportunity that awarded every manner of success to individuals on the basis of ability and diligence rather than inherited advantages. Scratch a rich American, said Tocqueville, and you will find a poor boy.

Henry Clay spoke for many of his countrymen when he observed that the wealthy businessmen of his acquaintance were self-made men. And because commoners in the New World supposedly had access to wealth and status not dreamed of by their European counterparts, they were said to wield a power over government and society similar (in Tocqueville's phrase) to "the power of the Deity over the universe."

Fortified later in the century by the inspirational novels of

Horatio Alger* and fed by national pride, the American success myth was widely accepted. Until recently most historians treated it as gospel. They had some reason to do so.

The foreign visitors and native American writers who propagated the image of an egalitarian American society did not create it out of whole cloth. They could all point to examples of well-fed, well-dressed working people, contented farmers, and successful businessmen who had risen from humble beginnings. But modern scholars, by immersing themselves in manuscript census schedules, probate inventories, tax assessment records, and genealogical materials have discovered that the reality was much grimmer than had been supposed. The revised version of our past is more authoritative than the old because it rests on comprehensive data rather than on examples selected haphazardly.

Rich and Poor in Brooklyn

In every geographical section and in every rural or urban social milieu, wealth in early 19th-century America was unevenly distributed and becoming more so with the passage of time. Brooklyn, New York, in 1810 was a village of fewer than 5,000 persons, engaged in a variety of agricultural and mercantile pursuits not unlike those in dozens of other American communities. Seven out of eight adults paid taxes on some property, but wealth—in the form of real estate, buildings, personal possessions, and money or liquid assets—was more unequally distributed than it had been a generation earlier at the close of the Revolution. Then the richest tenth of the adult population owned slightly more than 40 percent of urban wealth. By 1810, they controlled 60 percent, while more than half of all Brooklyn adults owned only 3 percent of the village's property. Still more dramatic changes occurred a generation later.

By 1841, Brooklyn had a population of more than 40,000. It was the nation's seventh most populous city and one of its wealthiest, but the wealth was more unequally distributed than ever. The wealthiest 1 percent of taxpayers owned more than 40 percent of the community's wealth, the richest 10 percent owned about 80 percent, and the poorest two-thirds of the population—individuals worth less than $100 each—owned less than 1 percent. Studies by Gavin Wright, Stuart Blumin, Robert E. Gallman, Lee Soltow, this author, and

**Ragged Dick* (1867), *Luck and Pluck* (1869), *From Farm Boy to Senator* (1882). The sustaining theme of these and other Alger books was that virtue and hard work were invariably rewarded with wealth and fame.

others show that patterns of wealth distribution in mid-19th century communities in the cotton and urban South, the Midwestern frontier, and the great cities of the Northeast were much like those in ante-bellum Brooklyn.

The new evidence does not mean that propertyless individuals were necessarily down and out. The farmers, who predominated, might have ample fare and serviceable (if less than lavish) accommodations, even when they possessed no real or personal estate worth assessing. The absence of cash reserves has always meant less to farmers than to city-dwellers, thanks to the availability of the food produced on the farm. Moreover, then as now, urban residents were not eager to disclose the true value of their property to tax assessors. Having "no property" meant having no property with any market value in an assessor's judgment. It did not, of course, preclude owning clothing, furniture, household goods, and utensils that were of immeasurable value to their possessors for all their lack of commercial value. And yet most evidence about workingmen and their lifestyles reveals a vast gulf separating the mass of 19th-century Americans from the possessors of status and wealth.

Most people eked out a marginal existence, marked by minimal consumption, low wages, and irregular employment. They had little or nothing to fall back on during hard times. The *New York Times* in 1869 estimated that fully 75 percent of urban households earned a "meager subsistence wage or less." In contrast, the top mercantile, landowning, and professional elites lived in material splendor rivaling that of Europe's most fabled accumulators of wealth. Magnificent mansions, luxurious furnishings, platoons of servants, splendid fetes and balls were familiar features in the lives of the American rich a generation before J. P. Morgan and Commodore Vanderbilt flaunted their millions.

Equality of opportunity was no more prevalent then than equality of man's material condition. A recent investigation of

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the backgrounds of the 2,000 wealthiest individuals in the urban Northeast before the Civil War establishes that they had been neither the poor boys nor the self-made men that Tocqueville, Clay, and James Fenimore Cooper claimed they were. With few exceptions, they were born to families that combined great social prestige with wealth, usually dating back to Colonial times. Perhaps 2 percent were born of poor farm and working-class families. A less comprehensive study of rural Michigan in pre-Civil War days discloses similar backgrounds for rich men there.

It Takes Money to Make Money

We know far less about the mid–19th-century social movement of persons born to humble circumstances, although the information we do have suggests that it was not dramatic. In the fishing port of Stonington, Connecticut, before and after the Civil War the sons of local propertyless workers did not rise above their fathers. In Philadelphia, few persons found jobs or moved into neighborhoods that were more prestigious than the occupations or residences of their fathers in the years between 1820 and 1860. The expanding legal profession in that city contained a far higher proportion of young men of middle-class backgrounds (sons of clerks, shopkeepers, teachers, and civil servants) in 1860 than in 1800, but the new plebeians made few inroads in the lucrative practice that continued to be dominated by members of the Meredith, Wharton, Rawle, Wain, and Gilpin families and their ilk.

It is hard to disagree with Robert Gallman's generalization that "there were forces at work in the American economy during the 19th century that tended to produce greater inequality in the distribution of wealth over time." [1] Great fortunes were to be made as booms in transportation, cotton production and manufacture, shipbuilding, insurance and finance, and international commerce moved the country toward the mature industrialism of the post–Civil War years. These fortunes were made not by upstarts but by men whose parents and grandparents had already accumulated sizable estates. Only such men were able to survive the recurrent financial panics of the 19th century. They alone possessed the capital necessary to participate in the great entrepreneurial ventures that beckoned.

In short, winning the race for material success depended less on the possession of innate ability than on inherited wealth and standing. The available evidence bears out Robert

A. Dahl's comment on mid–19th-century New Haven, Connecticut, that the era was marked by a "cumulative inequality: when an individual was much better off than another in one resource, such as wealth, he was usually better off in almost every other resource."[2]

America's pre–Civil War patterns of wealth and social mobility appear to have persisted to a remarkable extent during the 75 years that followed the war, but, because of the lack of data, one can only guess at the distribution of *income* during the 19th century. Local tax assessors and censustakers estimated wealth, not income. (An exception occurred during the Civil War years when the levy of a tax on incomes disclosed that in New York City the top-salaried 1 percent received about one-third of all the income dollars.) After 1870, censustakers no longer asked individuals for estimates of the value of their real or personal estate. Local tax assessors asked only for taxpayers' own estimates of the worth of their real property.

Admittedly incomplete and imprecise scholarly studies suggest that the richest 1 percent increased slightly their share of the nation's wealth to more than 50 percent by the last decade of the 19th century. If the proportion they owned diminished over the next 30 years to between 30 and 35 percent, depending on whether individuals or families are studied, it may have been due, at least in part, to the decision by the greatest wealth-holders to divide their large holdings "among a larger number of heirs, donees, and beneficiaries,"[3] thus moderating the degree of inequality—among individuals, if less so among families.*

With historians joining sociologists in the increasingly popular pursuit of research in social mobility, studies of the 1865–1940 period have proliferated. Evidence is now available on the progress of diverse American communities, ethnic and racial groups, and persons of differing religious affiliations and social backgrounds, not to mention various states of emotional imbalance and levels of aspiration.

The late 19th century has been described as an Age of Big Business, characterized by the emergence of huge industrial corporations, finance capital, a national labor movement, continuing urbanization, and the influx of a horde of "new immigrants" from southern and eastern Europe, who provided

*This is why scholarly estimates of 20th-century distributions usually focus on income rather than wealth. Income disparities, no matter how dramatic, are not nearly so dramatic as the changes that have taken place in the distribution of wealth over the past several generations. From the disparate data, the unwary may conclude that wealth is distributed much more equally in this century than in the 19th.

cheap and usually docile labor for factories and urban sweatshops. These developments did occur, but it is useful to remember that most Americans in 1900 lived in rural communities and small towns rather than in great cities. Small business was more common than big; Paterson, New Jersey, Newburyport, Massachusetts, and San Antonio, Texas, were more typical of U.S. cities than New York and Philadelphia. Rates of vertical mobility varied, in part because of differences in the sizes of communities, their local economic structures, and the overall social context.

Like Father, Like Son

In the late 19th century, Paterson's leading iron manufacturers were, with few exceptions, men who had worked their way up from the ranks. Sons of Newburyport workingmen continued to wear blue collars, as did their fathers, but they were far more likely than their fathers to own a house. In San Antonio during the last three decades of the 19th century, native whites improved their lot more often than did new European immigrants, but both groups enjoyed far greater success than Mexican-Americans and (in particular) Negroes.[4] For that matter, Stephan Thernstrom's recent massive study of social mobility in Boston since 1880 discloses that, prior to World War II, blacks in that city rarely moved out of the most menial work, regardless of their geographical origins or how long they had lived in Boston.[5]

In other cities, too, race or color correlated significantly with the degree of success achieved, as did religion. But the pattern has always been complex. Protestants have by and large risen more regularly than Catholics, and Jews more rapidly than either. Yet, even as they prospered in the professions and as individual entrepreneurs, wealthy Jews have continued to be underrepresented among the nation's top corporate directors. National business and financial elites, regardless of ethnic background or period, come from poor or working-class families as rarely as did the urban rich before the Civil War. Yet, if plebeians continue to move into the most coveted entrepreneurial niches at a glacial pace, much upward movement onto less exalted plateaus has indeed occurred in fields ranging from small business and the professions to entertainment.* In brief, the social mobility picture in

*While this important conclusion rests on admittedly impressionistic data (see Christopher Jencks, *Inequality: A Reassessment of the Effect of Family and Schooling in America*, New York: Basic Books, 1972), studies are underway that are expected to provide authoritative evidence of this sort of upward mobility.

early 20th-century America is a complicated one.

Despite structural changes in a growing economy that increased "opportunity" by replacing manual labor and low-prestige agricultural jobs with more highly regarded white-collar work, social mobility rates remained remarkably consistent until World War II. Dozens of mobility studies note the persistence of earlier patterns.[6] For the most part, sons of successful fathers continued to be the nation's most successful men. Individuals made many changes in occupations, yet typically they were to occupations of similar standing: Men starting out, say, as manual workers, in the words of the most authoritative recent study, "ended up as adults, in the aggregate, [in occupations] little different from their fathers." [7]

What is the significance of the maldistributions of wealth and the often static social mobility patterns that prevailed during the century and a half following the adoption of the federal Constitution? For one thing, they indicate that present-day inequality, whether of condition or opportunity, represents not a lapse from an earlier state of social grace but a continuation of ancient inequities. The gulf in wage differentials between the societies of the New World and the Old has been found to be less wide than first believed—although the precise extent of the shrinkage can be known only after more research. Clearly, political reforms, including the increasing democratization of American government, appear to have had a negligible effect on the conditions of life, the status, and the opportunities of most Americans during the 19th century and the first half of the 20th.

1. Robert E. Gallman, "Trends in the Size Distribution of Wealth in the Nineteenth Century," in Lee Soltow, ed., *Six Papers on the Size Distribution of Wealth and Income,* New York: National Bureau of Economic Research, 1969, p. 11.

2. Robert A. Dahl, *Who Governs? Democracy and Power in an American City,* New Haven: Yale University Press, 1961, p. 85.

3. Robert J. Lampman, *The Share of Top Wealth-Holders in National Wealth, 1922–1956,* Princeton: Princeton University Press, 1962, pp. 237–38.

4. Herbert G. Gutman, "The Reality of the Rags-to-Riches 'Myth': The Case of the Paterson, N.J., Locomotive, Iron and Machinery Manufacturers, 1830–1880," in Stephan Thernstrom and Richard Sennett, eds., *Nineteenth-Century Cities: Essays in the New Urban History,* New Haven: Yale University Press, 1969; Stephan Thernstrom, *Poverty and Progress: Social Mobility in a Nineteenth-Century City,* Cambridge: Harvard University Press, 1964; and Alwyn Barr, "Occupational and Geographical Mobility in San Antonio, 1870–1900," *Social Science Quarterly,* Sept. 1970.

5. Stephan Thernstrom, *The Other Bostonians: Poverty and Progress in the American Metropolis,* 1880–1970, Cambridge: Harvard University Press, 1973.

6. See Edward Pessen, ed., *Three Centuries of Social Mobility in America,* Lexington, Mass.: Lexington Books, 1974, which surveys the social mobility literature.

7. Otis S. Duncan and Peter M. Blau, *The American Occupational Structure,* New York: Wiley, 1967, pp. 401–18. See also Seymour M. Lipset and Reinhard Bendix, *Social Mobility in Industrial Society,* Berkeley: University of California Press, 1959, pp. 156–81.

GROWTH, PROSPERITY, AND INEQUALITY SINCE 1947

by Robert J. Lampman

People worried thirty years ago, even as they do today, about the future of the American economy. During World War II, the great surge in production had shown that the decade of the Great Depression had done no permanent damage, but after the reconversion of plant and labor force from war production, and after a brief response to pent-up demands for civilian goods, many feared the economy would again turn sluggish.

Memories of the breadlines of the 1930s and fears of postwar economic stagnation cast a pall over the hopes of many Americans for a better life for themselves and their children.

Few economists or politicians foresaw the prosperity and economic growth that the nation has experienced since 1947. President Harry Truman warned in January 1946: "Whether we fall into a period of great deflation because of unemployment and reduced wages and purchasing power, or whether we embark upon a period of great inflation with reduced production and spiraling prices—the results will be equally disastrous." *

As it turned out, with the exception of a few minor recessions and a serious jolt in 1974–75, the American record is one of continuing increase in production and rise in living standards. In 1977, the total output of goods and services, as measured by the gross national product, stood at $1,900 billion, more than two and a half times the 1947 level in constant purchasing power dollars when adjusted for inflation.

This increase reflects a compound growth rate of 3.5 percent per year, which compares favorably with that for any other 30-year period since the Civil War. The record, however, does not seem so remarkable when measured against that of other countries. Most West European countries, except Brit-

*Radio report to the American people on the status of the reconversion program, Jan. 3, 1946.

ain, have increased production at an annual rate of 5 or 6 percent, and Japan's growth rate has averaged 9 percent.

During this same 30-year period, U.S. population increased by half. Nevertheless, GNP per capita increased at a substantial rate (2.1 percent per year) and is now 81 percent higher, in constant dollars, than it was in 1947. The current per capita level of GNP—about $9,000—is among the highest in the world, but we no longer rank first. A few nations, including Sweden, Switzerland, and oil-rich Kuwait, have recently surpassed the United States, but our per capita production is still about twice as high as that of the United Kingdom and Japan, perhaps four times that of the Soviet Union, six times that of Mexico, and 20 or more times that of China, India, and the other less-developed countries, which hold half the world's population.

U.S. *national income** has increased along with production. The share of income going to labor—employee compensation plus an arbitrarily selected one-half of proprietors' income (e.g., that earned by farmers or sole proprietors in business or the professions)—has risen from 75 to 80 percent of the total. And the share of property income—profits, rent, and interest—has fallen from 25 to 20 percent since World War II. One form of individual income, though not counted as national income, is *transfer payments,* such as Social Security benefits, which have risen from 5 to 10 percent of all personal income after deducting payroll taxes paid by workers. Yet another form of personal "income," but one not ordinarily accounted for, consists of *transfers-in-kind,* including such noncash benefits as education, health care, public housing, and food stamps. These publicly provided noncash benefits have increased from 4 to no less than 10 percent of national income. The impact of this change on poverty in America will be discussed later.

Total money income received by families and unrelated individuals,† which excludes undistributed corporate profits and takes no account of individual income tax liabilities, has risen faster than national income. In fact, the median total money income of families has almost doubled since 1947 (it was $13,719 in 1975), as did the comparable median for unrelated individuals (it stood at $4,882 in 1975).

Some would argue that Americans' well-being gained from the increase in income is best shown by the 78 percent

*Consisting of wages or other employee compensation, rent, profits, and interest. By definition, national income equals production (the sum of goods and services produced).
†"Family" is defined as a group of people related by blood, marriage, or adoption who live together; an "unrelated individual" is a single person, not a member of any family.

POSTWAR ECONOMIC GROWTH IN AMERICA
Selected data on U.S. production, income, and consumption

	1947	1976	Percent Change
GNP *(billions of current dollars)*	$233	$1,692	626
GNP *(billions of 1972 dollars)*	$468	$1,265	170
GNP per capita *(1972 dollars)*	$3,250	$5,884	81
Population *(in millions)*	144	215	49
Median total money income of families *(1975 dollars)*	$7,303	$13,719[a]	88
Median total money income of unrelated individuals *(1975 dollars)*	$2,362	$4,882	107
Personal consumption per capita *(1972 dollars)*	$2,124	$3,779	78
All government nondefense purchases per capita *(1972 dollars)*	$347	$935	169
Personal consumption and government nondefense purchases per capita combined *(1972 dollars)*	$2,471	$4,714	91

Source: *Economic Report of the President, Together with the Annual Report of the Council of Economic Advisers* (Washington: Government Printing Office, 1977).
[a]For the year 1975.

rise in consumption per capita that occurred in the 1947–77 period. Others would say that at least some of the increase in government purchases of goods and services for nondefense purposes, such as aid to education, should be added to the increase in personal consumption to indicate the full gain to consumers. When this amount is included, the gain in per capita consumption is 91 percent.

Economic growth is not an automatic or painless process. It comes about through increases in expenditures for plant

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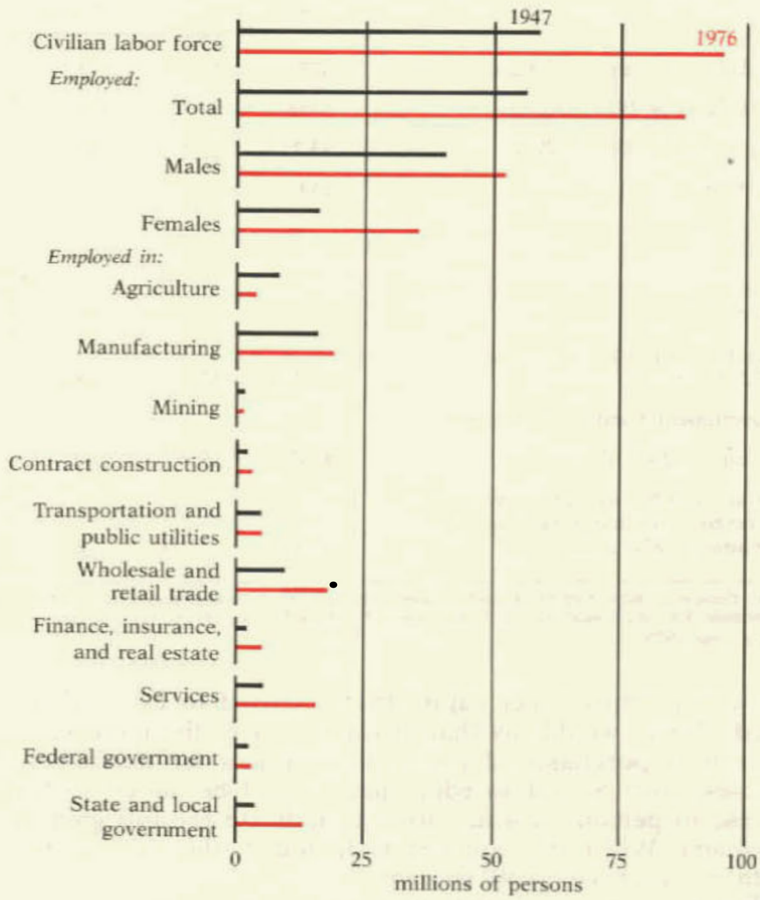
THE CHANGING JOB PICTURE
Selected Data on U.S. Labor Force and Employment, by Industry



Source: *Economic Report of the President, Together with the Annual Report of the Council of Economic Advisers* (Washington: Government Printing Office, 1975).

and equipment, through technological change, more education and training, more skilled effort by workers, improved management, and economies of scale.

In the abstract, growth can simply mean an increase in the capacity to produce an unchanging bundle of goods and services. But what has happened in America since 1947 is a drastic change in the composition of output, with more of some goods, less of others, and many altogether new products.

Consumption of food has gone up relatively little, of housing more, of health care still more. The share of the consumer dollar allocated to food declined from 34 to 21 percent. The share spent for clothing had a similar decline, but that for medical care went up from 4 to 8 percent. Interestingly, the share of income saved rose and fell over the years with no clear trend or pattern.

Production of services has grown faster than production of goods; more than half of all American workers now produce services by engaging in activities related to education, health care, recreation, transportation, and the like. There has also been a phenomenal increase in state and local government employment, most of which is devoted to services, and while the number of people so employed has risen to 3.4 times the 1947 level, the number employed in agriculture has been halved.

As the American economy grew, workers have had to shift both jobs and locations. The most dramatic instance of this change has been the move out of agriculture caused by a relatively insignificant rise in demand for food and the technical revolution on the farm, which includes the development of new varieties of plants and animals, as well as new agricultural techniques and labor-saving machines. Today, only 3 percent of the labor force is needed to feed the entire U.S. population. Millions of people who would otherwise have been farmers are now city-dwellers working in factories, hospitals, and schools.

In this process, the population has become less self-employed and more urbanized; it has shifted from the South to the North and West, and there has been a relative growth in technical, professional, managerial and other high-skill jobs. The labor force has grown faster than the population as a whole as more women work outside the home. The typical American family is now smaller. More families are headed by women, and a larger share of adults now live as unrelated individuals.

All of these changes must be kept in mind when attempting to analyze the 81 percent rise in per capita GNP since 1947 in terms of American living standards. Even though this phenomenal growth has been accompanied by improved levels of educational attainment, better health, and greater leisure, it is not at all clear that Americans are happier or more satisfied with their lives today than they were in 1947. Some scholars believe that happiness stems from a sense of *relative* economic status rather than from the attainment of some

absolute level of income. In other words, happiness is earning more than your neighbor; keeping up with the Joneses is fine, but keeping slightly ahead of them is even better.

Disparities in Income and Wealth

The past three decades of progress and change were not marked by any increase in inequality in the overall distribution of income or wealth. While some individuals' fortunes rose and some fell, economic progress was widely shared. Interregional and some "intergroup" (e.g., black and white) differentials in family incomes narrowed. That part of the population living in what is now defined as poverty fell from almost a third in 1947 to 12 percent in 1975 when, as noted above, the median family money income was $13,719. In 1975, 60 percent of families were clustered in the narrow range between $6,914 and $22,037. The fifth of families below this range received only 5.4 percent of total incomes, while the fifth above it received 41 percent of the total. The top 5 percent, whose incomes started at $34,144 had 15.5 percent of all family income in America. The pattern for unrelated individuals—mostly the young and the old, of whom there were 20.2 million in 1975—is slightly more unequal than that for families, and turns around a median income less than half as great.

There appears to have been only a slight change in the degree of income inequality in the postwar period in spite of the rising levels of income and the changing composition of the population. However, inequality in the U.S. per capita distribution of income may have dropped more sharply. Family size declined more for the lowest fifth of families than for other families, and unrelated individuals increased as a proportion of the population. This decline in the size of poorer families was due to older people and young adults leaving the family unit to live alone.

Another development that contributes to greater equality is the increasing use of noncash benefits, such as food stamps, Medicare, Medicaid, and public housing, all of which tend to go to lower-income people, but whether there has been a "real" decline in inequality—after considering family size, noncash benefits, reporting errors, leisure, private fringe benefits, capital gains, taxes, and so on—is vigorously debated by scholars in the field.

The nature of existing *income* inequality is revealed when we analyze the most fortunate and the least fortunate

Americans—those at the top and bottom fifths of the income scale. The top fifth, with incomes starting at $22,038 per year, is disproportionately made up of families headed by white working males in their prime earning years (35–64), families with more than one earner, families in Northern urban areas, and families headed by highly educated persons in managerial, professional, and technical occupations. Not surprisingly, this group gets more than its per capita share of both wages and property income. This top fifth of families has 20 percent of all the children and 27 percent of the wage and salary earners.

The bottom fifth, with incomes no higher than $6,914, is disproportionately made up of families headed by the aged, nonwhites, and females, of southern and nonurban residents, and of persons with limited education and relatively unskilled occupations. Heavily represented are "unrelated individuals," a group dominated by the young and the old, many of whom are not fully in the labor force. About half of the income of this "lowest fifth" consists of transfer payments—welfare, Social Security, unemployment insurance, workmen's compensation, and the like.

While property income appears to have declined from 25

THE AMERICAN INCOME "LADDER"

Income Rank of Families	Income Limit *(current $)*		Percent of Total U.S. Personal Income	
	1950[a]	**1975**	**1950**	**1975**
	Upper limit			
Lowest fifth	$1,661	$ 6,914	4.5	5.4
Second "	2,856	11,465	11.9	11.8
Middle "	3,822	16,000	17.4	17.6
Fourth "	5,355	22,037	23.6	24.1
Highest "	——	——	42.7	41.1
	Lower limit			
Highest 5%	8,666	34,144	17.3	15.5

Source: *Statistical Abstract of the United States, 1976* (Washington: Government Printing Office, 1976), Tables 651 and 652.
[a]$1.00 in 1950=$2.14 in 1975.

to 20 percent of total American personal *income,* inequality in the distribution of *wealth* (real and personal property, such as land, structures, stocks, bonds, and other financial assets) has changed very little. The top 1 percent of persons ranked by wealth held 27.5 percent of net worth (e.g., savings, real estate, stocks and bonds) in 1953 and 26.6 percent in 1972. However, this group's share of one important type of asset—corporate stock—fell sharply from 86 to 57 percent. (Wealth, of course, is much more highly concentrated than income.) Almost half of all adults have virtually zero net worth. Only 12 million adults, as of 1972, had as much as $60,000; 485,000 had $500,000 or more; and 184,000 were millionaires.*

Intergroup Inequalities

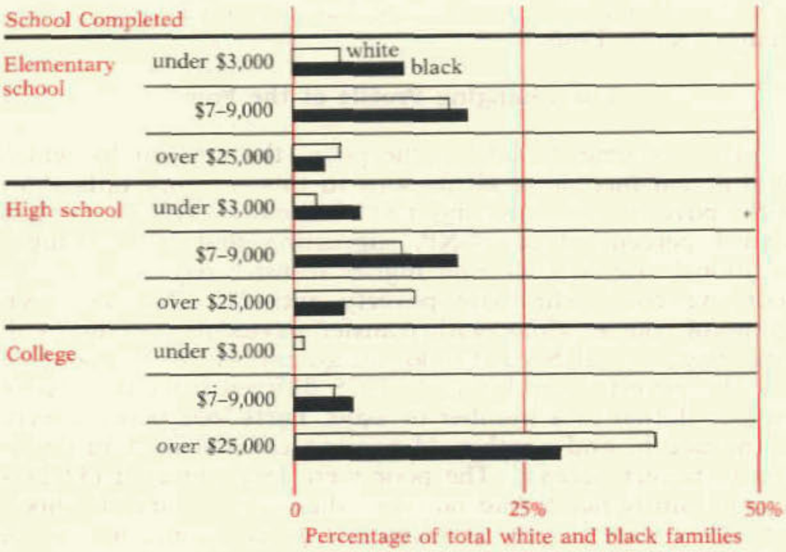
When we compare households in the highest and lowest fifths of the income scale, overall inequality of wealth and income does not seem to have changed very much, but other ways of thinking about the matter suggest that inequality *has* changed. For example, the black-white income difference has narrowed substantially. Black family median income used to be 51 percent of white family income; now it is 62 percent. Similarly, farm residents' income used to average 50 percent of nonfarm residents'; now it is 80 percent. The North-South per capita income spread, formerly 25 percentage points, is now only 15. And, although there are no definitive studies to prove it, the rising level of government benefits under social insurance and public assistance has probably narrowed the income gap between those who are not at work (including the retired) and those who are working.

On the other hand, income differences by age are relatively unchanged. The peak earning years are ages 45 to 54, and Americans in that age group have twice the income of those under 25 or those over 65.

In spite of a considerable increase in average years of schooling and a moderate equalizing of differences in years of school attendance, variations in earnings by levels of education have not changed much in the past 30 years (although this may recently have started to change). There has been, in fact, a "slight but persistent" trend toward *more* inequality of men's earnings in the 1958–70 period. This may reflect a shift of greater numbers of men into higher-paid occupations, including perhaps those fields, like medicine, where profes-

*See James D. Smith and Stephen D. Franklin, "The Concentration of Personal Wealth, 1922–1969," *American Economic Review,* May, 1974.

FAMILY INCOME DISTRIBUTION BY EDUCATION AND RACE OF FAMILY HEAD, 1975



The black-white income difference narrows substantially at upper income levels for the college-educated. But the black family head with only an elementary school education is more likely than his white counterpart to be earning less than $3,000.

Source: U.S. Census Bureau, Current Population Reports, Series P–80, No.-105.

sionals receive salaries rather than proprietor's income. The most startling increase in intergroup inequality is probably in women's earnings. White women working full-time the year round earned incomes amounting to 65 percent of those of men in 1955. The figure had fallen to 57 percent by 1974, although even more women were entering the labor force.

In 1964, President Lyndon Johnson set the poverty line for a family of four at $3,000 and declared "War on Poverty." Official poverty levels, of course, vary by family size and shift with changes in the consumer price level.* In 1975, the poverty line for a family of four was $5,500; for an unrelated individual it was $2,724; and for a family of seven or more it

*President Johnson first used the expression "poverty line" in his 1964 State of the Union Message. Contrary to popular belief, there is no single poverty line, rather a set of poverty thresholds that vary according to family characteristics such as size, number of related children, and farm or nonfarm residence. Based on studies of family budgets, which revealed that about one-third of cash income, after taxes, went for food, the poverty thresholds were originally established at three times the "economy" food budget, a minimally adequate food budget for the very poor.

was $9,022. In 1947, 30 percent of all Americans were below these "absolute" poverty lines; 21 percent were below those lines in 1962. By 1975, only 12 percent of the population, or 25.9 million persons (one out of every eight Americans), was considered poor. The percentage has remained virtually unchanged since 1968.

The Changing Profile of the Poor

The "income deficit" of the poor—the amount by which total actual income of all persons in this category falls short of the poverty line—was about $15 billion in 1975. This is less than 1 percent of our GNP, suggesting that with a slight additional rise in GNP and higher transfer payments to the poor, we could eliminate poverty entirely. GNP has been rising, of course, along with transfer payments, but many of these (e.g., Social Security) do not go entirely to the poor.

The poverty population in 1975 differed from the rest of the population in a number of ways. Forty-four percent were in the South, and another 44 percent concentrated in designated "poverty areas." The poor were less educated (32 percent of family heads had no more than eight years of schooling). They were largely nonwhite (31 percent), and half of all the poor were single women or members of families headed by women. One-fifth were unrelated individuals. Half the poor families were headed by a person not in the labor force.

For the following groups the frequency of poverty was two or more times as high as the overall average of 12 percent: unrelated individuals, female heads of families, Negroes, persons of Spanish and Mexican origin, families with five or more children, farmers and farm laborers, and, not unexpectedly, families where the head did not work during the year. Interestingly, for families headed by a person 65 years of age or older, the frequency of poverty was near the national average, and for families in which the head was unemployed, it was only slightly above average (16 percent).

The composition of the poverty population has changed significantly since 1965. It includes fewer aged, more unrelated individuals, and more female heads of families. The last two groups have increased relative to the total population, but the aged have been taken out of poverty in substantial numbers by cash transfers. The poor are now more heavily concentrated in metropolitan areas; the poor population in such areas rose from 47 to 59 percent of the total poverty group.

Between 1965 and 1972, there was almost no decline in

the number of persons in "pre-transfer" poverty (i.e., those persons whose incomes, aside from cash transfer payments, were below poverty levels). Presumably, the failure of this number to decline was due to the slowdown of the economy.

Noncash transfers in the form of food, housing, and health care, a large part of which goes to the poor, increased from a value of $7 billion in 1965 to $30 billion in 1972. If we count these benefits as money, then we can realistically say that income poverty has been virtually eliminated in America. However, if poverty is to be viewed as "relative deprivation," the poor are still poor, and there has been little progress.

Where Do We Go from Here?

The foregoing description of the level and distribution of income may suggest that "nothing changes but everything is different." Production per capita increases at an average rate of about 2 percent per year. Consumption moves with income in quite predictable ways. The fortunate top fifth of families get about eight times as much money income as the unfortunate bottom fifth. The distribution of wealth remains highly unequal. The income advantage of being male, white, well-educated, and middle-aged persists.

On the other hand, the dynamics of economic growth can be highly disruptive to certain industries, occupations, skills, and locales. Changes in consumer preferences and new production techniques, even shifts in government policy (e.g., affirmative action programs in behalf of women and minorities), can create new opportunities for some at the same time that they reduce economic chances for others.

The narrowing of income differences by region and race only hints at the impact of some radical changes taking place. Altered family patterns and longer life after retirement have a major influence on income distribution. Thirty years ago, far more old people and young adults remained within the family than joined the ranks of the poor as unrelated individuals attempting to subsist on their own. On the other hand, the expansion of federally funded education and health care programs profoundly influences opportunity and social well-being.

Classical economists—led by David Ricardo—and Karl Marx and his followers argued that the most interesting questions about income distribution involve the division of income between laborers and owners of land and capital. Ricardo feared that the landowner's share of income would

rise relentlessly over time, leaving less for the factory owner. Marx believed that profit was not only an unjustifiable return on the labor of others but one that made capitalism inherently unstable and doomed it to total collapse. Various schools of income distribution theory have since explored other issues.

Vilfredo Pareto concluded 70 years ago that income inequality existed in all societies because of fundamental differences among people and because of society's need for competent, responsible leadership. Others, like John Stuart Mill, argued that inequality is a manmade phenomenom and subject to change. This notion leads some scholars to the belief that income inequality arises out of restraints (such as those imposed by labor unions and monopolies) on free and open competition among self-interested buyers and sellers in the labor, capital, and consumer markets.

Other scholars seek explanations in deeply rooted patterns of discrimination with regard to race, age, sex, and family and educational background. In an effort to overcome unequal opportunity, some would limit the head start some individuals receive through the inheritance of capital from a parent or grandparent. (Senator George McGovern suggested imposing limits on inherited wealth when he campaigned for President in 1972, but there was a strong adverse reaction from blue-collar workers as well as from the wealthy.)

The Price of Equality

Part of the current, confusing argument about income inequality has to do with distinctions between inequality of condition or result and inequality of opportunity. Most of the income inequality cited in this essay has to do with inequality of result. Many Great Society initiatives proposed by the Johnson administration were aimed, in part, at correcting imbalances in opportunity (e.g., the 1964 Civil Rights Act). It is clear, however, that this sort of inequality is very difficult to measure.

Another phase of the argument pertains to the consequences of changes in the degree of income inequality. Some argue that income inequality can only be alleviated at the price of reduced efficiency and slower economic growth. Others emphasize a tradeoff between lessened inequality and restrictions on personal liberties. Still others warn that failure to reduce economic inequality endangers the prospects for political and social equality, widely seen as a prerequisite for a genuine and viable democracy. Some would reduce this

issue to the question: Would the United States be a better place if it were more like Sweden? But social and economic inequality exists in Sweden too [see p. 121].

Current research by economists in this complex field includes "social accounting," which seeks to explain the "real" nature of income inequality by determining how much of measured inequality depends upon arbitrary definitions of "income," "income receiving unit," and "income accounting period." In particular, one school of thought emphasizes that inequality of "lifetime incomes" is much less than that of annual incomes. Associated with this is the notion that a substantial amount of labor income is really a deferred return on "investment in human capital" (i.e., the individual pays for advanced education and training and much later receives the benefits in terms of higher salary).

Other economists suspect that low lifetime earnings are due to the existence of secondary or peripheral labor markets in which employers offer essentially no training or experience of value (e.g., migrant farm labor and low-level restaurant jobs). Are there reforms of the labor market, perhaps through a higher minimum wage, that will alter the process whereby some workers always wind up in the secondary as opposed to the primary labor market?

In recent years much effort has been concentrated on determining the desirability and effectiveness of the negative income tax as a means of reducing income poverty. Related research involves assessing the undesirable side effects of current social insurance programs.

While research proceeds in academia, lively controversies periodically well up in Congress and the media. The "income distribution" issue intrudes in the growing debates about unemployment, inflation, taxation, education, health insurance, welfare reform, and even environment and energy policy.

The fact remains that, while many deplore inequality of opportunity, no American President has ever made it his declared intention to reduce inequality of income in the United States. As a people, we are concerned about inequities, but there seems to be no consensus for a commitment to any particular change in the overall pattern of income inequality.

SPENDING

by Helen H. Lamale

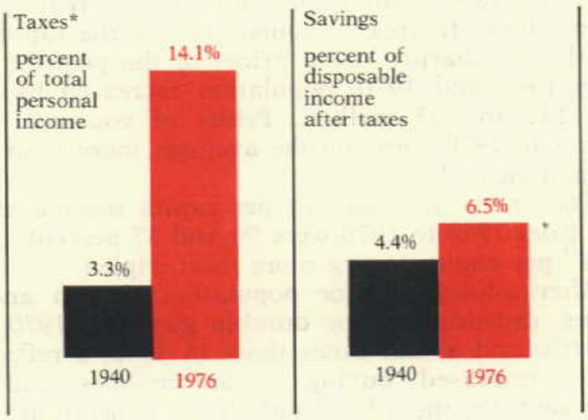
During the depths of the Great Depression of the 1930s, Harvard sociologist Carle Zimmerman took a close look at the "American standard of living" and made some startling predictions for the future. In regard to the increased urbanization, commercialization, and social mobility of that time, Zimmerman wrote:

> If a standard of living consists of values to be found entirely in the *goods* which the individual consumes, we shall probably continue our present sensational type of life as long as goods can be made available to the individual. . . .
>
> However . . . I have reached the opinion that a system of living includes absolute values to be found in the social organization as well as the goods of life.
>
> Consequently, it is my present belief that we have gone so far toward an over-emphasis of sensationalism, individualism, and conspicuous consumption that we will be forced sometime in the twentieth century to emphasize many anti-sensational (i.e., non-material) characteristics of life which are not popular now.*

Public officials and economists of the Depression era were more optimistic and less philosophical in their appraisals of American lifestyles. They conducted the first nationwide survey of consumer incomes, expenditures, and savings to cover all groups in the population and used the resulting data to develop the household sector of "The National Income and Product Accounts," by which the Commerce Department has measured trends in personal income, taxes, consumption expenditures, and saving from the 1930s to the present. With this tool they were able to trace the economic welfare of the

*Carle C. Zimmerman, *Consumption and Standards of Living*, New York: Van Nostrand, 1936 (Arno, 1976, reprint), p. 580. See Background Books, p. 168.

SHARING THE CONSUMER'S DOLLAR: TAXES AND SAVINGS



Aggregate personal income rose from $78 billion in 1940 to almost $1.4 trillion in 1976. Income and other personal taxes took an ever increasing bite—3.3 percent in 1940 and 14.1 percent in 1976. Personal saving, as a percentage of disposable personal income after taxes, rose from 4.4 to 6.5 percent.

*Includes federal, state, and local income taxes; estate and gift taxes; real estate and personal property taxes; and such "nontax" items as licenses, fees, and fines.

American consumer in relation to the economic health of the nation.

In the 1930s, both economists and public officials agreed on the urgent need to find ways of releasing the country's "potential productive power and of using it fully and continuously to further the well-being of the American people." In brief, they recognized the obvious: The nation's capacity for mass production had to be matched by a capacity for mass consumption.

There is no doubt that America became a rich mass consumption society in the 30 years that followed World War II. Aggregate personal income increased from $78 billion in 1940 to $801 billion in 1970 and passed the $1 trillion mark in 1972.* Income and other personal taxes increased even more—from about 3 percent of personal income in 1940 to about 14 percent in 1970.

Despite these tax increases, disposable personal income

*Personal income is the income received by individuals, nonprofit institutions, private noninsured welfare funds, and private trust funds from all sources—from participation in production, from transfer payments from government and business, and from government interest, which is treated like a transfer payment.

(income available to Americans for spending or saving) increased almost tenfold over the three decades—from $75 billion to $686 billion. In addition to "real" increases in income, these figures, of course, reflect the rapid population growth and sharply rising prices of the postwar period. Between 1940 and 1970, population increased by 55 percent, from 132 to 205 million. Prices of consumer goods and services in 1970 were, on the average, more than three times higher than in 1940.

The "real" increases in per capita income and expenditures from 1940 to 1970 were 96 and 87 percent, respectively. "Real" per capita saving more than tripled.

After adjustment for population growth and price increases, expenditures for durable goods in 1970 were more than two and a half times those in 1940, a reflection of the greatly increased buying of automobiles and household equipment. On the other hand, "real" expenditures per capita for nondurables such as food and clothing were only 52 percent higher.

In 1940, expenditures for nondurable goods accounted for 52 percent of consumption expenditures, while expenditures for services (housing, public transportation, health and other personal services, insurance, etc.) represented 38 percent and expenditures for durable goods, primarily automobiles, 10 percent.

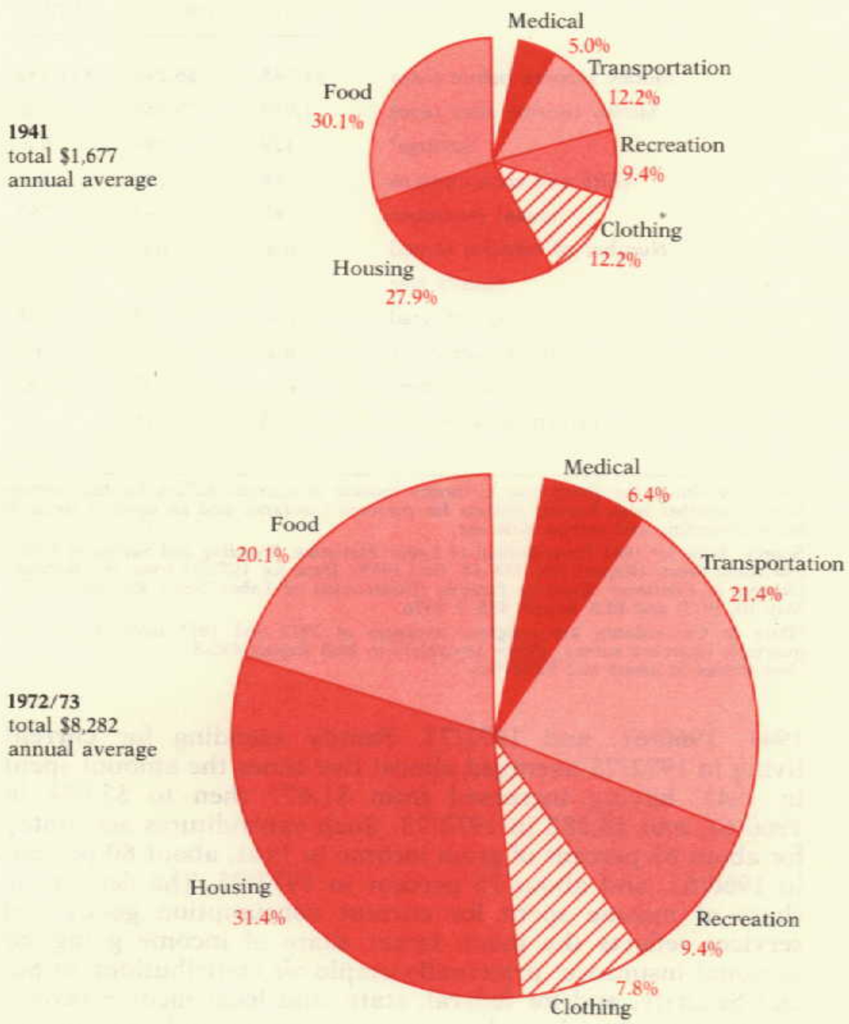
By 1967, the situation was reversed. For the first time, per capita consumption of services exceeded that of nondurable goods—services accounting for 44 percent, nondurables, 43 percent, and durable goods, 13 percent. We were now a mass consumption "service economy." In 1970, per capita consumption expenditures for services plus those for durable goods accounted for 58 percent of total spending.

The level and pattern of average family* spending over approximately three decades was reported in three nationwide surveys of consumer expenditures, income, and saving in

*As used here, the term "family" includes persons living alone as well as families of two or more persons.

Helen Humes Lamale, 65, retired in July 1972 after 30 years as an economist in the Office of Prices and Living Conditions of the Bureau of Labor Statistics, where she was chief of the Division of Living Conditions Studies, responsible for studies of consumer expenditure and family budgeting. Born in Pennsylvania, she received her B.A. from the College of Wooster (1934) and her M.A. from the University of Pittsburgh (1941). Numerous articles by Mrs. Lamale have appeared in Monthly Labor Review *and other publications.*

U.S. FAMILY SPENDING PATTERNS, 1941 AND 1972/73



The average American family now spends less for food than for either housing or transportation. Over the past three decades, the percentage of expenditures devoted to recreation and personal care have remained virtually unchanged, while spending for clothing has dropped and that for medical care has risen slightly.

Source: Data for 1941 from Bureau of Labor Statistics, *Spending and Saving in Urban and Rural Areas* (Report 238–14, Oct. 1965). Data for 1972/73 from the Bureau's *Changes in Consumer Spending Patterns* (Department of Labor News Release 77–428, May 10, 1977) and BLS Report 455–3 (1976).

THE AVERAGE FAMILY'S FINANCIAL AND OTHER CHARACTERISTICS

	1941	1960/61	1972/73[a]
Money income before taxes	$1,985	$6,246	$11,289
Money income after taxes	1,959	5,557	n.a.
Savings[b]	129	199	n.a.
Gifts and contributions	88	280	417
Personal insurance	89	299	792
Number of vehicles owned	n.a.	n.a.	1.4
Family size	3.3	3.2	2.9
Age of head	n.a.	48	48
Children under 18	n.a.	1.2	1.0
Percent home owners	n.a.	57	62
Percent auto owners	58	76	80

The table shows the sharp rise in money income in current dollars for the average family, together with heavier outlays for personal insurance and an upward trend in home ownership and private auto use.

Source: Data for 1941 from Bureau of Labor Statistics, *Spending and Saving in Urban and Rural Areas,* (Report No. 238–14, Oct. 1965). Data for 1972/73 from the Bureau's *Changes in Consumer Spending Patterns* (Department of Labor News Release 77–428, May 10, 1977) and BLS Report 455–3, 1976.

[a]Data in this column are weighted averages of 1972 and 1973 information from quarterly interview survey, shown separately in BLS Report 455–3.
[b]Net change in assets and liabilities.

1941, 1960/61, and 1972/73. Family spending for current living in 1972/73 averaged almost five times the amount spent in 1941, having increased from $1,677 then to $5,054 in 1960/61, and $8,282 in 1972/73. Such expenditures accounted for about 85 percent of gross income in 1941, about 80 percent in 1960/61, and about 75 percent in 1972/73. The decreasing share of income spent for current consumption goods and services reflects the much larger share of income going for personal insurance, principally employee contributions to Social Security, and for federal, state, and local income taxes.

Despite sharply rising consumer prices and the smaller share of gross income available for current consumption, the average American family greatly increased its consumption of goods and services over these three decades. "Real" expenditures for current living increased 68 percent, or over 2 percent a year, and 1970 patterns of spending and saving are vastly different from those prevailing in 1941.

Traditionally, in a low-level, developing economy, food, shelter (including heat and utilities), and clothing have been considered necessities, or basics, and spending for these categories has been referred to by statisticians as "nondiscretionary." Other current consumption expenditures were considered luxuries, and spending for luxuries was referred to as "discretionary." No such simple distinction can be used to characterize the consumption spending of modern American families, and many of the problems in legislating, financing, and administering present-day welfare programs stem from a failure to recognize this fact. For example, is an automobile a luxury if no public transportation is available? Is a TV set a luxury for an elderly shut-in? A comparison of the change in the slice of total spending devoted to the basics in the chart and the change in the slice of spending going for other categories of goods and services graphically illustrates the progress from austerity to relative affluence achieved by most American consumers during the years since World War II.

The "Good Life"

Total housing and transportation expenditures, which were 40 percent of current living expenses in 1941, were 52 percent in 1972/73. For the first time in a Bureau of Labor Statistics expenditure survey, the average family reported spending more for transportation than for food. One cannot understand these housing and transportation expenditures without reference to the greatly increased home ownership and suburban living, which, for many families, have linked these two expenditures.*

The proportion of home-owning families is not available from the 1941 study, but home ownership increased from 57 percent in 1960/61 to 62 percent in 1972/73. Auto ownership increased from 58 to 80 percent, and about two families in five owned two or more cars. In the 1972/73 survey, 3 percent of families reported expenses for owned vacation homes and 62 percent reported taking vacation pleasure trips.

For renters as well as home owners, dwellings were furnished with an array of labor-saving household appliances—washers and dryers, refrigerators and freezers, dishwashers and disposals, air conditioners and the like. Perhaps

*Of major importance to home ownership was the 1944 Veterans Home Loan Program (VA-insured mortgages), which enabled veterans to purchase homes without down payments at lower interest rates, and sooner than they could have under conventional financing.

the best illustration of the affluence of American consumers is the tremendous increase in the number of television sets, radios, phonographs, and hi-fi units purchased by American families.*

Credit and Insurance

Since World War II, American families have greatly expanded their use of credit, primarily to finance purchase of homes, through fixed-payment mortgages, and automobiles and household durable goods, through short-term loans, but also to improve their homes, to finance their children's education, and to meet other large or unexpected expenses. By the 1970s, the credit card had become a way of life for many consumers in paying for almost anything from a meal in a restaurant to a trip abroad.

Through this widespread use of credit, families have acquired financial resources with which to supplement current income and to build up an equity for the future. Home ownership has provided a hedge against inflation for many families, and use of credit has enabled them to acquire not only homes but consumer items, particularly household durables, far sooner than would be possible with only current income. They have also been able to spread their costs over a longer period of time.

The responsible use of credit has had a stabilizing effect on consumer demand and hence on the nation's overall level of economic activity. Expanded use of credit is not without its perils, however, and the number of Americans filing for bankruptcy under federal statutes rose from 10,000 in 1946 to 255,000 in 1975.

Government measures designed to protect workers and their families from the financial risks of unemployment, illness, old age, and premature death have immeasurably affected family spending and saving patterns. Despite these buffers, Americans have not looked exclusively to government for protection but have increased purchases of private insurance of all types: insurance on homes, automobiles, and other personal property; health insurance and prepaid medical plans; life insurance and annuities; personal liability insurance; and disability income insurance.

*In 1952, almost 47 percent of American homes had black and white TV sets; in 1973, the figure was 99.9 percent, and 67 percent had a color set as well. Other indications of rising standards of living can be seen in the following data: In 1950, almost 37 percent of American dwelling units were rated substandard (lacking hot and cold water, a shower or tub, and a flush toilet); in 1970, the figure was 9.5 percent. In 1950, 62 percent of American homes had a telephone; in 1973, the figure was 94 percent.

In addition, most workers and their families, particularly those in metropolitan areas, are covered by health insurance, life insurance, and pension plans paid for wholly or in part by employers. More than 9 out of 10 workers in metropolitan areas are employed in establishments providing life, hospital, surgical, and medical insurance plans, and about 4 in 5 have retirement pension plans as well. In the 1972/73 Bureau of Labor Statistics survey, 97 percent of all urban and rural families in the United States reported expenditures for health care that averaged about $475 annually and included expenses for both private insurance premiums and employee contributions to group plans.

A Chance for Retirees

Between 1940 and 1973, the number of Americans receiving Social Security increased from less than 250,000 to almost 30 million. Approximately half these beneficiaries in any one year were retired workers, whose average monthly benefit rose from about $23 in 1940 to $166 in 1973. These benefits are now escalated annually by the Consumer Price Index, and for an increasing number of retirees Social Security payments are supplemented by private pensions.

In 1967, the Bureau of Labor Statistics prepared three budgets for an urban retired couple, based on the cost of three standards of living—lower, moderate, and higher. The cost of the lower budget in 1967 was $2,671 for the 35 percent of retired couples with incomes below that amount. By 1972, only 22 percent of retired couples had incomes below the lower budget cost, which by then had been raised to $3,442 to reflect inflation. The annual costs of the three standards of living for a retired couple as of spring 1967 and autumn 1975 are:

RETIRED COUPLE'S BUDGET LEVEL

	Low	*Moderate*	*High*
Spring 1967	$2,691	$3,857	$6,039
Autumn 1975	4,501	6,465	9,598

Source: *Statistical Abstract of the United States, 1976,* Washington: Government Printing Office, 1976, pp. 398 and 406.

After World War II, general affluence and government subsidies distributed through the G.I. Bill opened up opportunities for higher education and specialized training to thousands of Americans. In the early 1940s, fewer than 25 percent of persons aged 25 and over had finished high school. By 1975, more than 62 percent were high school graduates. In 1950, 35 percent of adult women had at least graduated from high school, compared to 62 percent in 1975. Although there were appreciable gains between 1950 and 1975 in women receiving college training, such gains were much greater for men, but the effect on earning power and living standard, at least for some women, was profound.

Improved access to higher education has also played a role in the dramatic increase in employment of women outside the home since World War II. Between 1950 and 1975, the proportion of women 16 years and older in the labor force increased from 34 to over 46 percent.

American women have always made substantial contributions to the family's money income, but prior to World War II this was money earned within the home, frequently from taking in roomers and boarders. Since the war, thanks to the employment of married women outside the home, wives have assumed an entirely new role in the family.

Working Women

Although much has been said of the advantages and disadvantages of such employment and its effect upon family life, working wives have contributed appreciably to the rise in "real" income of families. Their employment has meant higher living standards, including home ownership and a better education for children than would otherwise have been possible. By 1969, the proportion of families with incomes below the lower budget level was reduced by half (from 16 to 8 percent) by earnings of family members—mostly wives—other than the head. The proportion of families with incomes above the higher budget level was increased from 26 to 43 percent by such earnings. The long-run contribution of working wives may be enhanced if their employment entitles them and their families to participate in health and life insurance and retirement plans, and their earnings could provide a needed cushion in case the husband is unemployed.

"Real" personal income, consumption expenditures, and savings are still increasing, albeit at a slower rate than in the 1960s. The material standard of living achieved by most

Americans has few parallels in the world. Yet, with double-digit inflation and high unemployment, economists and consumers alike have lost faith in the power of a dynamic, expanding economy and an ever increasing GNP to provide the good life.

Sterling E. Soderlind, writing in the *Wall Street Journal* on March 28, 1972, described the reactions of economists at that time: "Clearly, we consumers cannot be counted on to do our thing—consume—in a fashion that will make for tidy economic forecasting. . . . Once belittled for 'conspicuous consumption' . . . we're now suspected of inconspicuous disconsumption." By the end of 1974, the University of Michigan Survey Research Center's "Index of Consumer Sentiment" had fallen so low that the Center's analysts concluded: "The ordinary citizen is far more likely to feel that life in the United States is getting worse than he is to feel it is getting better."

The unprecedented growth of the typical American family's resources since World War II has provided greater freedom of choice in work, in consumption of goods and services, in manner of living, and use of time. On the other hand, "Affluence has not lifted American society to utopian levels of social harmony and personal fulfillment." * Similar appraisals are being made in other highly industrialized nations. Three decades of preoccupation with maintaining economic growth and accommodating the ever rising demands of consumers have left little time for concern with the nonmaterial elements that often determine the quality of life. Affluence has been accompanied by:

¶ Increasing strain on the family, as evidenced by escalating living costs, the expense of raising and educating children, rising divorce rates, alterations in the traditional roles of wives, husbands, and children, and sharply declining birth rates.

¶ Increasing strain on the environment, on natural resources, on financial resources, and on our governmental and social organizations, as reflected in the pollution and energy crises, bankruptcies, crime, and drug abuse.

Relief from these strains will necessitate shifting our resources and efforts from the enhancement of economic

*Angus Campbell, Philip E. Converse, and Willard L. Rodgers, *The Quality of American Life: Perceptions, Evaluations, and Satisfactions*, New York: Russell Sage Foundation, 1976.

well-being toward the restoration of our social and psychological well-being. But it is almost axiomatic that American families strongly resist any reduction in living standards, once achieved. Spending and saving patterns are not quickly or easily changed.

The have-nots—that shifting group of Americans who live in or near poverty—are certainly not likely to abandon their quest for a larger share of material things. Success in their efforts is dependent on continued economic prosperity and equitable solutions to our economic and social problems.

One can only wonder whether Carle Zimmerman's prediction of 41 years ago is ready to be fulfilled, and whether the time has at last come when we will be compelled "to emphasize many anti-sensational (i.e., non-material) characteristics of life which are not popular now."

BACKGROUND BOOKS

MONEY

Future scholars, using computers to sort the masses of data now being gathered, may, for the first time, be able to write the full story of the factors that determine success or failure in the pursuit of material well-being in America. Such a synthesis would be an invaluable addition to existing accounts, some of which are described below, of how Americans earn and spend and change their economic status.

Most professional journals and textbooks on economics give more attention to growth, full employment, and balance of payments than to matters of distribution. Yet, the radical economists are quick to argue, inequality is what economics *should* be all about.

Distribution theory has enjoyed cycles of popularity in the past. More recently, war, depression, and John Maynard Keynes have combined to encourage a preoccupation among U.S. economists with economic growth and the creation of wealth, rather than with its distribution.

Defying this tide, A. B. Atkinson, economist at the University of Essex, has produced the first college text on the differences in income among individuals (as opposed to the division of income between Labor and Capital). In **THE ECONOMICS OF INEQUALITY** (Oxford, 1975, cloth & paper), he examines the available evidence on post-World War II distribution trends in Britain and the United States, and, while finding a decline in the share of wealth owned by the rich, he concludes that the relative poverty of the poorest third of society "is unlikely to pass rapidly away, and that it cannot be regarded as simply a problem of exceptional circumstances or minority groups."

Annual statistics published by the U.S. Census Bureau show a marked stability in the distribution of income in America since World War II. In recent years, however, these figures—the major source of data on personal income—have come under heavy criticism. Some economists have asserted that inequality has declined substantially over the past three decades but that Census Bureau figures fail to reflect the income-equalizing impact of such important factors as education and nonmonetary transfers (e.g., food stamps and health care). A report prepared by Michael K. Taussig of Rutgers and Sheldon Danziger of the University of Wisconsin, **CONFERENCE ON THE TREND IN INCOME INEQUALITY IN THE U.S.** (Institute for Research on Poverty, Madison, 1976), finds a consensus among conference participants; although the Census Bureau data may be flawed, these hidden benefits for the poor have little impact on *overall* income distribution trends.

Indicative of the sharp disagreements that arise among specialists in income distribution theory, Jacob Mincer's **SCHOOLING, EXPERIENCE, AND EARNINGS** (National Bureau of Economic Research/Columbia, 1974) concludes that variations in educational background and job experience "accounted for close to two-thirds of the inequality of earnings of adult white urban men in the U.S. in 1959." This hypothesis is in marked contrast to recent arguments in which the role of "human capital investment" (e.g., in schooling and job training) is relegated to a less prominent position.

One of the elemental premises asserted by Wesleyan University's Stanley Lebergott in **THE AMERICAN ECONOMY: Income, Wealth, and Want** (Princeton, 1975) is that a distinction must be drawn between *absolute* and *relative* poverty. The absolute poverty endemic in many developing countries has never existed in the United States—where, with an economy "that bursts with productivity, that produces so fantastic a volume and variety of goods, poverty comes to be defined as relative to what the typical American enjoys." Government policies designed to foster economic growth and more equitable income distribution may have in fact exacerbated social tensions by creating unfulfilled expectations among the poor.

Few books give an overall picture of American consumption patterns and living standards. The most comprehensive data, of course, come from the federal government: the aggregate personal consumption expenditures and savings series of the Department of Commerce, and the periodic cross-section surveys of expenditures, incomes, and savings of the Bureau of Labor Statistics and Department of Agriculture.

For an understanding of consumer spending, saving, and living standards at different times and in different societies and of the psychological, social, and economic concepts and theories of consumption, Carle C. Zimmerman's **CONSUMPTION AND STANDARDS OF LIVING** (Van Nostrand, 1936; Arno, 1976, reprint) remains a classic. This first comprehensive interdisciplinary approach to the analysis of family budgets was the product of 16 years of in-depth research by Zimmerman, a professor of sociology at Harvard. The facets of his research range from the so-called laws of consumption and the roles of various categories of consumption—food, housing, etc.—to the then novel and popular idea of "spending for prosperity" and an appraisal of the prevailing American standard of living.

This attention to consumer purchasing power received new impetus with the publication of **CONSUMER EXPENDITURES IN THE UNITED STATES** by Hildegarde Kneeland and the staff of the National Resources Committee in Washington (Government Printing Office, 1939), the first nationwide survey of consumer income, expenditures, and savings to cover all groups in the population.

The Bureau of Labor Statistics' **HOW AMERICAN BUYING HABITS CHANGE** (Government Printing Office, 1959; Greenwood, 1969, reprint) is written in popular style and traces changes in the consumption and living conditions of American workers over the first half of the 20th century. Concentrating on the broad middle group of mass-market consumers, this Department of Labor publication follows the ever rising expectations of urban families—from the immigrant tenement-dweller's modest dream of a flat with a private entrance and plenty of light (Chapter I, "The Bell and the Bay Window") to the 1950 VA-mortgaged home in the suburbs (Chapter III, "From the Slums to Suburbia").

George Katona, one of the founders of Michigan's Survey Research Center and a pioneer in the development of psychological or behavioral economics, argues in **THE MASS CONSUMPTION SOCIETY** (McGraw-Hill, 1964) that American consumers are unique and impose new requirements on economic thought and economic policy. Our mass consumption society, he says, is marked by: *affluence* (the majority of families now have discretionary purchasing power and constantly replace and enlarge their stock of consumer goods); *consumer power* (cyclical fluctuations,

inflation or deflation, and the rate of growth of the economy—all now depend to a large extent on the consumer); and *consumer psychology* (discretionary demand is a function of both ability to buy and willingness to buy, which, in turn, is a reflection of consumer motives, attitudes, and expectations).

A how-to-do-it approach to wise spending is found in Arch W. Troelstrup and Jack R. Critchfield's **THE CONSUMER IN AMERICAN SOCIETY: Personal and Family Finance** (McGraw-Hill, 1974). This is the fifth edition of a text on consumer education for American undergraduates and graduate students of family economics that approaches the life of the consumer as a whole rather than in its separate parts.

In democratic societies, where equality of opportunity is an important ideal, however imperfectly realized, the question of the extent to which class and ethnic origin determines career chances has a special significance. **THE AMERICAN OCCUPATIONAL STRUCTURE** by Peter M. Blau and Otis Dudley Duncan (Wiley, 1967) summarizes the first systematic effort to collect data on U.S. socioeconomic mobility and opportunity by surveying a large national cross section of the population. The value of the 1962 survey data is now mostly historic, but given the high degree of "permeability" of American society—the weak ties between social background and achievement—which the plainly stated conclusions document, the authors call into question the notion, popular in the mid-1960s, of a "culture of poverty," in which the disadvantaged were compelled to remain disadvantaged.

There are as many descriptions of what produces inequality of opportunity in America as there are prescriptions for its remedy. **SCHOOLING IN CAPITALIST AMERICA: Educational Reform and the Contradictions of Economic Life** by Samuel Bowles and Herbert Gintis (Basic Books, 1976) offers the view of "radical economists" of social stratification and mobility in contemporary America. While the analysis is controversial, it does provide a provocative assessment of the role of schools in preserving the socioeconomic hierarchy between generations.

Lester Thurow's **GENERATING INEQUALITY: Mechanisms of Distribution in the U.S. Economy** (Basic Books, 1975, cloth & paper) advances a theory that challenges the neoclassical microeconomic theorists in regard to such "exceptional" phenomena as: the persistence of economic inequality in the face of declining educational differences among workers; simultaneous rising unemployment and rising earnings; earnings differentials among persons working full-time all year in the same occupation. Thurow contends, for example, that increasing the formal training of the unskilled is not an effective way to equalize incomes.

Like Thurow, Christopher Jencks finds little hope that economic inequality can be overcome through education. **INEQUALITY: A Reassessment of the Effect of Family and Schooling in America** (Basic Books, 1972, cloth; Harper, 1973, paper), which Jencks coauthored with seven others, argues that, at the individual level, schooling accounts for few of the income differences among Americans, although formal education has a greater effect than parents' social status on an individual's income.