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.

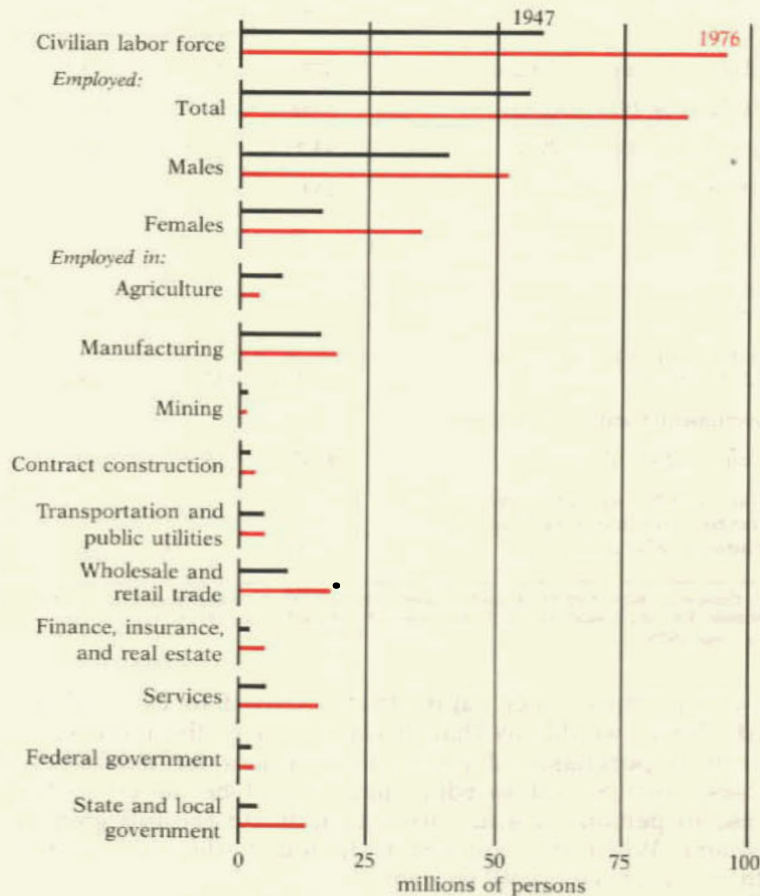
rise in consumption per capita that occurred in the 1947–77 period. Others would say that at least some of the increase in government purchases of goods and services for nondefense purposes, such as aid to education, should be added to the increase in personal consumption to indicate the full gain to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

Robert J. Lampman, 56, is professor of economics and a Fellow of the Institute for Research on Poverty at the University of Wisconsin—Madison. Born in Wisconsin, he received his B.A. (1942) and Ph.D. (1950) from the University of Wisconsin. He was research associate at the National Bureau of Economic Research in New York, 1957–58, and a staff member of the Council of Economic Advisers, 1962–63. He is the author of The Low Income Population and Economic Growth *(1959),* Top Wealth-Holders' Share of National Wealth *(1962), and* Ends and Means of Reducing Income Poverty *(1971).*

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

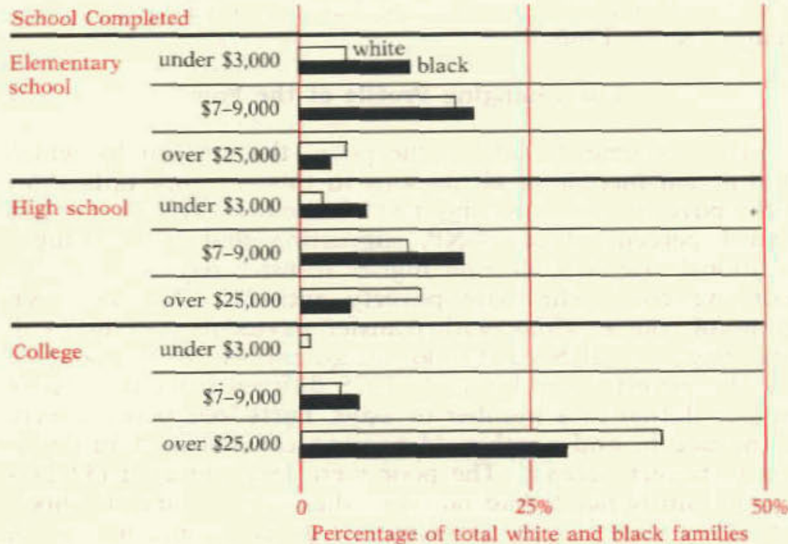
When we compare households in the highest and lowest fifths of the income scale, overall inequality of wealth and income does not seem to have changed very much, but other ways of thinking about the matter suggest that inequality *has* changed. For example, the black-white income difference has narrowed 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.