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.

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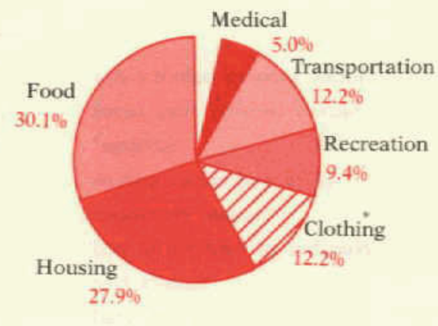
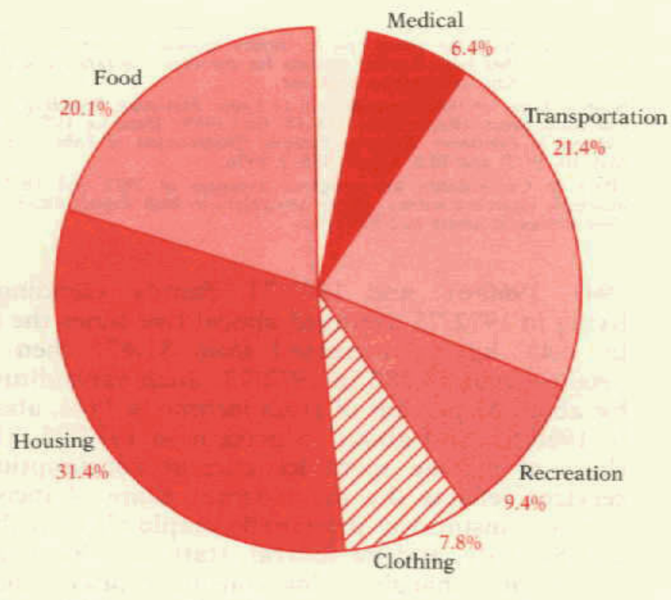
U.S. FAMILY SPENDING PATTERNS, 1941 AND 1972/73

1941
total $1,677
annual average



1972/73
total $8,282
annual average



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."