Appendix B

The Distribution of Income and Liquid Assets, and Personal Saving

Tables

The Distribution of Income and Liquid Assets, and Personal Saving

The distribution of income and liquid assets

According to information recently made available in the 1949 Survey of Consumer Finances,[1] there was no increase in the concentration of income between 1947 and 1948. In fact, the data indicate some decrease in the degree of concentration, but in view of various considerations mentioned below, this conclusion cannot be accepted unreservedly.

TABLE B–1.—*Share of total money income received by each tenth of the Nation's spending units when ranked by size of income, 1947 and 1948* [1]

Spending units ranked from lowest to highest income	Percent of total money income before Federal income tax				Percent of total money income after Federal income tax [2]			
	By tenths		Cumulative		By tenths		Cumulative	
	1947	1948	1947	1948	1947	1948	1947	1948
Lowest tenth	1	1	1	1	1	1	1	1
Second tenth	3	3	4	4	3	4	4	5
Third tenth	4	5	8	9	5	5	9	10
Fourth tenth	6	6	14	15	6	7	15	17
Fifth tenth	7	7	21	22	8	8	23	25
Sixth tenth	9	9	30	31	9	9	32	34
Seventh tenth	10	10	40	41	10	10	42	44
Eighth tenth	12	12	52	53	12	12	54	56
Ninth tenth	15	15	67	68	15	15	69	71
Highest tenth	33	32	100	100	31	29	100	100

[1] Income data for 1948 are based on interviews in January–March 1949; for 1947 on interviews in January–March 1948.

[2] Estimated liability on Federal income tax, excluding tax on capital gains. The tax liability was not obtained directly from interviews or from tax returns, but from comprehensive data on family composition and income obtained in connection with the Consumer Finances Surveys. Certain improvements in techniques of estimating the tax liability were made in the 1949 Survey so that the results should be somewhat more reliable than in 1948. (See the *Federal Reserve Bulletin*, July and August 1949.)

Source: Based on data from the 1948 and 1949 Surveys of Consumer Finances, conducted for the Board of Governors of the Federal Reserve System by the Survey Research Center of the University of Michigan. The methods used in the survey are described in the *Federal Reserve Bulletin*, June 1949, p. 642.

Table B–1 shows the percent of total money income received by each tenth of the Nation's spending units,[2] both before and after liabilities on the Federal income tax have been deducted. In 1947 the poorest three-tenths of the Nation's spending units received 8 percent of total income, while in 1948 the percentage of income received by these groups increased slightly. In contrast, the upper two-tenths received 48 and 47 percent in the 2 years, respectively. Of course, the upper groups do not necessarily consist of the same families in the 2 years. The effect of the Federal income tax was to

[1] This survey is conducted annually for the Board of Governors of the Federal Reserve System by the Survey Research Center of the University of Michigan. Through the courtesy of the Federal Reserve and the Survey Research Center these materials were made available prior to their publication in the *Federal Reserve Bulletin*. For a more extended treatment of the results of the survey, see the *Federal Reserve Bulletin*, June 1949 and forthcoming issues.

[2] A spending unit consists of related persons who live together and pool their incomes for their major items of expense.

make income after tax, or disposable income, somewhat more equally distributed than income before tax.

The liabilities for Federal income tax by income class were determined by estimating the liability for the families included in the Survey of Consumer Finances.[3] They were not obtained by direct interview or from tax returns, but are based on extensive data regarding family composition and income. Since certain improvements in estimating techniques were made between 1948 and 1949, we are probably not justified in inferring from the statistics that the effect of the tax in reducing income inequality was greater in 1948 than in 1947.

The Revenue Act of 1948 did make certain changes in the tax structure which affect the after-tax distribution. The provision that income of married couples may be split for tax purposes operates mainly to the advantage of those with incomes in the high surtax brackets. Its effect would not be appreciable for families below the top decile. As shown in table B–2, only 5 percent of the spending units have incomes before tax of $7,500 or over, and it is above this level that the split-income provision has a marked effect in reducing tax liabilities. Thus the provision may not change the entire after-tax income distribution greatly because of the small proportion of families affected. The Revenue Act of 1948 also raised exemptions, thus freeing many families of moderate income from paying taxes at all. Rate reductions were also somewhat greater in the low tax brackets.

In addition to changes in the revenue structure, the upward movement in income between 1947 and 1948 must be considered. Other things being equal, a general increase in incomes increases the effectiveness of a given progressive tax structure in increasing the equality of income after tax, since more people become subject to tax and many are taxed at higher rates. The relation between the distribution of income before and after tax is thus affected by changes in the tax structure and by changing levels of income.

Too much emphasis should not be given to small year-to-year shifts in the percent of income received by any decile. More data on the distribution of income in the postwar period will become available when the Statistics of Income for 1947 and 1948 are published by the Bureau of Internal Revenue. Further, the existing body of data provided by the Census Bureau and other Government agencies,[4] as well as the Survey of Consumer Finances, has not yet been fully analyzed.[5]

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[3] Samples of 3,000 to 3,500 spending units have been used in the consumer finance surveys. Owing to the dispersion of higher incomes it cannot be expected that a completely representative sample of the highest dollar incomes was obtainable, and it is possible that the amount of income received by the highest tenth is underestimated.

For the sampling and interview methods employed in the Survey, see the *Federal Reserve Bulletin*, June 1949, p. 642.

[4] See Current Population Reports, Series P–60, No. 1 and No. 5, U. S. Census Bureau. Also publications by the Bureau of Labor Statistics, Bureau of Agricultural Economics, and the Bureau of Human Nutrition and Home Economics.

[5] For an analysis of trends in income distribution before and after Federal income tax from the prewar to the postwar period, see the Annual Economic Review by the Council of Economic Advisers, January 1949, appendix B.

TABLE B-2.—*Distribution of spending units by income levels, before and after Federal income tax* [1], *1947 and 1948*

Money income class	Percent of spending units			
	1947		1948	
	Before tax	After tax	Before tax	After tax
Under $1,000	14	15	12	12
$1,000 to $1,999	22	25	18	21
$2,000 to $2,999	23	25	23	25
$3,000 to $3,999	17	17	20	19
$4,000 to $4,999	10	8	12	11
$5,000 to $7,499	9	7	10	8
$7,500 and over	5	3	5	4
All income levels	100	100	100	100

[1] See table B-1, footnote 2.

Source: See table B-1.

Table B-2 shows the distribution of spending units by income level. As prices and incomes rose from 1946 to 1947, and from 1947 to 1948, spending units moved upward along the income scale. However, even in 1948 a third of the spending units had income after taxes of less than $2,000. It is to be noted that the distribution contains many single-person spending units whose income is on the average lower than that of families of two or more, as well as retired families, and persons whose income is temporarily low for one reason or another.[6] Total income may also be more ample than money income; for example, farm families receive considerable income in the form of home-produced fuel and food.

TABLE B-3.—*Distribution of spending units, by size of liquid asset holdings, in early 1947, 1948, and 1949*

Amount of liquid assets [1]	Percent of spending units		
	1947	1948	1949
None	24	27	29
$1 to $499	26	27	28
$500 to $1,999	28	24	22
$2,000 to $4,999	14	13	12
$5,000 and over	8	9	9
All units	100	100	100

[1] Includes all types of U. S. Government bonds, checking accounts, and savings accounts in banks, postal savings, and shares in savings and loan associations, and in credit unions.

Source: See table B-1.

A high concentration of saving and of asset holdings is one consequence of an unequal distribution of income. The proportion of spending units with no liquid assets has increased from 24 percent in 1947 to 29 percent

[6] An investigation of the characteristics of persons and families in the lower income groups is contemplated by the Joint Committee on the Economic Report. The results of this survey should aid in appraising the social, economic, and individual causes of low-income status.

in 1949 as is shown in table B–3. Due to the increase in the number of spending units over the period, however, the absolute number of spending units with liquid assets has increased.

TABLE B–4.—*Components of net personal saving, 1946, 1947, and 1948*

[Billions of dollars]

Components	1946	1947	1948 [1]
Liquid saving:			
Currency and bank deposits (net change) [2]	+11.8	+4.1	0
Private insurance and pension reserves (net change)	+3.4	+3.7	+3.5
Securities (net change) [3]	+.1	+3.7	+4.4
Liquidation of mortgage debt [4]	−3.2	−4.1	−4.1
Liquidation of consumer debt [5]	−3.3	−3.3	−2.5
Total liquid saving [6]	+8.8	+4.1	+1.3
Liquidation of business debt:			
Nonfarm	−2.4	−3.4	−.8
Farm	−.2	−.8	−.6
Total liquidation of business debt	−2.6	−4.2	−1.4
Investment:			
Nonfarm residences [7]	+3.5	+5.4	+7.1
Inventories:			
Nonfarm	+1.1	+.6	+.7
Farm	−.3	−2.1	+.8
Nonfarm plant and equipment	+4.2	+4.8	+4.5
Farm construction and equipment	+2.6	+3.7	+4.9
Total gross investment	+11.1	+12.4	+18.0
Depreciation	−5.3	−5.9	−6.9
Total net investment	+5.8	+6.5	+11.1
Statistical discrepancy [8]	−.2	+2.4	+3.9
Total personal saving	+11.8	+8.8	+14.9

[1] Preliminary.
[2] Includes saving and loan shares.
[3] Excludes armed forces terminal leave bonds.
[4] Mortgage debt to institutions on 1-to-4 family nonfarm dwellings.
[5] Largely attributable to purchases of automobiles and other durable consumer goods, although includes some debt arising from purchases of consumption goods.
[6] Differs from the Securities and Exchange Commission's concept of liquid saving in that it excludes additions to Government life insurance or pension reserves and armed forces leave bonds.
[7] Construction of 1-to-4 family nonfarm dwellings, less net acquisition of properties by nonindividuals, plus construction of nonprofit institutions.
[8] The statistical discrepancy arises out of the attempt to reconcile liquid saving, as estimated by the Securities and Exchange Commission, with personal saving as estimated by the Department of Commerce. Statistical errors and omissions may be in liquid saving, personal saving, or in the other items. However, the data underlying liquid saving are considered somewhat more satisfactory than the items of reconciliation. Personal saving is a residual figure obtained by deducting personal consumption expenditures from disposable personal income.

NOTE.—Data presented here include recently revised series of the Securities and Exchange Commission. Revisions of the Department of Commerce data will appear in the *Survey of Current Business*, July 1949.

Source: Securities and Exchange Commission and Department of Commerce.

Personal saving

Tables B–4 and B–5 present the data underlying text Charts 8 and 9. The most conspicuous characteristic of table B–4 is the postwar growth in gross personal investment, and the decline in current saving in liquid form. Increases in expenditures for nonfarm residences and for farm construction and equipment were substantial between 1947 and 1948. The increase in inventory accumulation is mainly due to farms, where a liquidation of over 2 billion dollars in 1947 was followed by almost a billion of net accumulation in 1948. The accretion of farm inventories is included in both farm income and saving, although such accumulation may not reflect a voluntary decision to save so much as a bountiful harvest. The accumulation of nonfarm inventories may also be involuntary at times and was probably so in some types of business toward the end of 1948. The increase in real personal investment in 1948, while striking, is somewhat less so when the inventory situation is taken into account.

As table B-5 shows, there was a small amount of liquid saving in the first quarter of 1949. In interpreting the significance of the quarterly changes in liquid saving it must be kept in mind that the figures are not adjusted for seasonal variations. Thus, it is comparisons with the same period in the previous year that are significant. Liquid saving declined steadily throughout 1947 and the first half of 1948. This trend was interrupted in the middle of 1948, and in the final quarter of 1948 and the first quarter of 1949 net liquid saving rose above the levels of the previous year.

Net liquid saving in the first quarter is always low because currency and bank deposits are drawn down to pay taxes. The change in net liquid saving from the first quarter of 1948 to the first quarter of 1949 is due principally to the fact that in the first quarter of 1949 for the first time repayments on consumer debt exceeded consumer borrowing. This largely reflects changes in the demand for consumer durables. Withdrawals of currency and bank deposits were also less than last year, and the rate of increase in mortgage debt was less.

TABLE B-5.—*Components of net personal liquid saving, 1947, 1948, and 1949*

[Billions of dollars, not adjusted for seasonal variation]

Component	Net change								
	1947				1948				1949 first quarter [1]
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	
Currency and bank deposits [2]	−1.6	+1.0	+2.6	+2.0	−3.9	+.5	+1.8	+1.6	−3.3
Private insurance and pension reserves	+.9	+.9	+.9	+1.0	+.9	+.9	+.8	+1.0	+.9
Securities:									
United States savings bonds	+.8	+.3	+.3	+.3	+.8	+.2	+.8	+.3	+.7
Other U. S. Government [3]	+.7	0	+.1	−.3	+.8	−.5	−.5	−.7	+.6
State and local government	+.1	+.1	+.2	(4)	+.5	+.2	+.1	+.4	+.4
Corporate and other	+.1	+.1	+.1	+.6	+.8	+.6	+.3	+.4	+.4
Liquidation of mortgage debt [2]	−.8	−1.1	−1.1	−1.1	−.9	−1.2	−1.1	−1.0	−.5
Liquidation of consumer debt [2]	−.2	−.9	−.5	−1.8	−.1	−.8	−.5	−1.1	+1.0
Total liquid saving [5]	0	+.6	+2.7	+.8	−1.2	+.1	+1.6	+1.0	+.1

[1] Estimates based on incomplete data.
[2] See footnote on corresponding item in table B-1.
[3] Excludes armed forces terminal leave bonds.
[4] Less than 50 million dollars.
[5] Differs from the Securities and Exchange Commission's concept of liquid saving in that it excludes additions to Government life insurance or pension reserves and armed forces leave bonds.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Securities and Exchange Commission.