

Appendix B

The Distribution of Consumer Income and Ownership of Liquid and Other Assets

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Distribution of Consumer Income and Ownership of Liquid and Other Assets

The following appendix is intended to supplement the text section, "Consumer income, expenditure, and saving," page 6, mainly by presenting factual material from which the conclusions of the text are drawn. Topics relate to changes in the equality of the distribution of income between 1946 and 1947, the distribution of income before and after income tax, income increases and decreases between 1946 and 1947, saving and dissaving, and the distribution of ownership of liquid and other assets by consumers.

Equality of the distribution of income

The degree of equality in the distribution of money income has remained substantially unchanged between 1946 and 1947, according to a survey of consumers made early in 1948.¹ This is indicated by the fact that when the Nation's spending units are ranked according to their incomes, from lowest incomes to highest, the proportion of the total money income of the Nation going to each tenth of the spending units has remained almost constant.² This is shown in the following table:

The stability of the above distributions between 1946 and 1947 is in contrast to the significant decrease in income concentration from 1935-36 and 1941 to 1946 described in the Economic Report of January 1948. The reasons for the increase in the degree of equality over the war period have not been completely analyzed but the following factors were probably the most important: (1) The decrease in unemployment and underemployment, (2) the increase in the number of families with more than one earner, (3) the rise in farm income relative to the total, and (4) the narrowing of wage differentials.

¹ The 1948 Survey of Consumer Finances conducted for the Board of Governors of the Federal Reserve System by the Survey Research Center, of Ann Arbor, Mich. This survey was made for the third consecutive year. Extensive data on distribution of income, liquid asset holdings, consumer purchases of durable goods, etc., drawn from these surveys have been published in the *Federal Reserve Bulletin* during the last 3 years.

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

TABLE 1.—*Share of total money income received by each tenth of the Nation's spending units when ranked by size of income, 1946 and 1947*¹

Spending units ranked from lowest to highest income	Percent of total money income before taxes			
	By tenths		Cumulative	
	1946	1947	1946	1947
Lowest tenth	1	1	1	1
Second tenth	3	3	4	4
Third tenth	5	4	9	8
Fourth tenth	6	6	15	14
Fifth tenth	7	7	22	21
Sixth tenth	9	9	31	30
Seventh tenth	10	10	41	40
Eighth tenth	12	12	53	52
Ninth tenth	15	15	68	67
Highest tenth	32	33	100	100

¹ Income data for 1947 are based on interviews in January-March 1948; for 1946 on interviews in January-March 1947. It is possible that the proportion of income received by the highest tenth of income receivers is underestimated by several percentage points in all years. Samples of approximately 3,000-3,500 spending units have been used in these surveys; owing to the dispersion of higher incomes it cannot be expected that a completely representative sample of the highest dollar incomes was obtained.

² The slight change in concentration in these deciles may be due to sampling variations.

Source: Based on data from the 1948 Survey of Consumer Finances, conducted for the Board of Governors of the Federal Reserve System by the Michigan Survey Research Center. The methods used in the survey are described in the *Federal Reserve Bulletin*, June 1948, p. 643.

Between 1946 and 1947, some of the reasons for the previous trend toward an increased degree of equality continued, such as a continued rise in farm incomes and a further increase in employment. In the light of the development during previous years, it might have been expected that this trend would result in a continued improvement in the income distribution. However, the Survey of Consumer Finances indicates that the distribution of income by deciles has remained the same. An explanation may be that the favorable effect of employment conditions was offset by the unfavorable effects of inflation. Inflation *per se* tends to increase the inequality of income distribution, since many families, particularly in the lower brackets, have relatively or entirely fixed incomes.

Distribution of income before and after tax, 1947

The distribution shown above and the distributions shown for 1946 in the Economic Report of January 1948 relate to money income before tax. For some purposes, however, it is of more interest to know the distribution of income after tax. Until the present, data have been inadequate to present reliable distributions on an "after tax" basis. Through the co-operation of several agencies, distributions of families and of spending units by income level, before and after Federal income tax, are now presented for 1947 in table 2.

Families as well as spending units are included in table 2 for the sake of comparability with distributions for other years and from other sources. The family consists of related persons living in the same dwelling (persons

living alone are considered as separate families), and may comprise more than one spending unit if some of the members of the family manage their income separately.

TABLE 2.—*Distribution of families and spending units, by income level, before and after Federal income tax,¹ 1947*

Money income class	Percent of families and single individuals		Percent of spending units	
	Before tax	After tax	Before tax	After tax
Under \$1,000.....	13	14	14	15
\$1,000 to \$1,999.....	18	20	22	25
\$2,000 to \$2,999.....	20	22	23	25
\$3,000 to \$3,999.....	17	18	17	17
\$4,000 to \$4,999.....	11	10	10	8
\$5,000 to \$7,499.....	13	11	9	7
\$7,500 and over.....	8	5	5	3

¹ Estimated 1947 Federal income tax liability, excluding the tax on capital gains.

Source: See table 1.

Technical notes to Table 2

Preliminary investigations indicate that the survey data as presented in table 2 are sufficiently reliable to show the approximate effect of Federal income-tax liabilities on the distribution of families by income level. In this connection, it should be mentioned that the tax liability was not based directly on information obtained in interviews or on tax returns, but on an estimate of the 1947 tax liability made from comprehensive data concerning family composition and income assembled in connection with the Survey of Consumer Finances. Further work must be completed to relate the distribution after tax to the adjusted distribution before tax for 1947 (see Table 2-a below), and to determine more precisely the effect of the tax on the concentration of income.

Study of available prewar data on the distribution of taxes by income level is also under way with the object of presenting in a future report a comparison of the effect of the Federal income-tax on the distribution of income between a current and a prewar year.

The distribution of families before taxes shown above is not comparable with that presented for 1946 on page 19 of the Economic Report of January 1948. The 1946 distribution was based on survey data which had been adjusted in such a way as to make it agree with certain independently determined national aggregates of income and of family numbers. For purposes of comparison, both adjusted and unadjusted distributions are shown below for 1946 and 1947:

TABLE 2-a.—*Distribution of families by income level, adjusted and unadjusted basis, in 1946 and 1947*

Money income before taxes	Percent of families			
	1946		1947	
	Survey data	Adjusted survey data ¹	Survey data	Adjusted survey data ²
Under \$1,000.....	15	12	13	11
\$1,000 to \$1,999.....	20	16	18	16
\$2,000 to \$2,999.....	22	20	20	18
\$3,000 to \$3,999.....	18	18	17	17
\$4,000 to \$4,999.....	10	13	11	12
\$5,000 to \$7,499.....	9	13	13	16
\$7,500 and over.....	6	8	8	10
All units.....	100	100	100	100

¹ Revised.

² Preliminary.

For a description of the methods of adjustment for 1946 and 1947 incomes, see the January Economics Report, page 102. As stated in that report, the estimated number of families and single individuals in the civilian noninstitutional population on December 31, 1946, was 43,330,000. The comparable figure for December 31, 1947, is 44,620,000, according to a preliminary estimate. Total civilian money income was 165.7 billion dollars in 1946 and 185.5 billion dollars in 1947, according to recently revised data. The percentage expansion of the distributions after adjustment for population coverage was 17 percent in 1946 and 10 percent in 1947. The adjusted distributions for both 1946 and 1947 are preliminary, since both the income aggregates and population numbers are subject to further revision.

Table 2 shows that about two-thirds of families (including single individuals) had money incomes under \$4,000 before taxes and 31 percent had money income below \$2,000. After payment of taxes, there was an increase in the number of families in all income brackets under \$4,000 and a decrease in all brackets above this. Nearly three-fourths of the families had incomes of less than \$4,000.

Increases and decreases in income, 1946-47

Although there was a general rise in personal incomes between 1946 and 1947, many families did not share in the increase. Of the spending units having increases in income, only 26 percent were in the under \$2,000 group, which includes 36 percent of total spending units. Only 50 percent were in the under \$3,000 group, which accounted for 59 percent of the spending units. Thus income increases were somewhat more frequent in the higher income groups in relation to the number of people in those groups.¹

¹ In evaluating table 3 it should be remembered that spending units have been grouped according to income received in 1947. Units with income increases between 1946 and 1947 are now classed according to the higher incomes received in 1947, while units whose income decreased are classed according to the lower income to which they moved. Thus the basis of classification exaggerates somewhat the impression that income increases were more concentrated at levels above \$2,000 or \$3,000.

Units with relatively fixed incomes are found most frequently in the lower income brackets. The proportion of persons in the lower brackets whose income is fixed, such as pensioners and annuitants, widows, etc., has undoubtedly increased over the war period and during the subsequent inflation. The income of low-wage earners and marginal farmers has increased in relation to that of retired persons and those receiving Government stipends or allowances, changing the composition of the lowest income groups.

TABLE 3.—*Distribution of spending units by income level and type of income change, from 1946 to 1947*¹

1947 money income before taxes	Percent of spending units			
	Total	Change in income, 1946 to 1947		
		Increase in income	Same income	Decrease in income
Under \$1,000.....	14	8	20	18
\$1,000 to \$1,999.....	22	18	23	27
\$2,000 to \$2,999.....	23	24	23	22
\$3,000 to \$3,999.....	17	20	16	15
\$4,000 to \$4,999.....	10	12	6	8
\$5,000 to \$7,499.....	9	12	8	6
\$7,500 and over.....	5	6	4	4
All units.....	100	100	100	100

¹ Based on changes in amount of annual income received as reported by spending units in early 1948. Income which had not changed by more than 5 percent in either direction was considered to "remain the same."

Source: See table 1.

Saving and dissaving

In 1947, almost three-fourths of all spending units saved, while one-fourth spent in excess of income. The proportion of families dissaving was not very different from that of 1946, but the amounts involved increased considerably. Since saving on the part of people who saved remained fairly constant, net saving declined between 1946 and 1947. (See appendix C, table 5.) Saving took the principal forms of an increase in currency and bank deposits, life insurance, corporate securities, and in homes and other direct investments. Purchasers of durable goods such as automobiles are not considered as saving. Dissaving was mainly in the form of an increase in consumer debt and decreases in holdings of liquid assets such as Government bonds and bank deposits. The amounts of selected components of personal saving or dissaving in 1946 and 1947 were as follows:

TABLE 4.—*Selected components of saving, 1946 and 1947*
 [Billions of dollars]

Item of saving	Amount of saving	
	1946	1947
Currency and bank deposits ¹	+10.4	+4.4
U. S. Government securities ¹	-3.2	+.2
State and local government securities ²	-.4	+.3
Corporate and other securities ²	+.4	+1.0
Private pension and insurance reserves.....	+3.4	+3.3
Liquidation of debt:		
Mortgage debt ³	-3.3	-3.8
Installment debt ⁴	-1.6	-2.2
Other consumer debt ⁴	-1.9	-1.0
Nonfarm dwellings ⁵	+3.9	+5.8

¹ Excludes holdings by unincorporated business and trusts.

² Includes holdings by unincorporated business and trusts.

³ Debt on 1- to 4-family non-farm-residential structures.

⁴ Installment sale credit and installment loans.

⁵ Single-payment loans, charge accounts, and sale credit.

Also includes a small amount of construction of 1- to 4-family nonfarm dwellings, less net acquisition of properties by non-individuals.

NOTE.—Minus items indicate dissaving.

Sources: Board of Governors of the Federal Reserve System (currency and bank deposits, U. S. Government bonds, installment debt, and other consumer debt). Securities and Exchange Commission (insurance, reserves, State and local and corporate securities, mortgage debt, and nonfarm dwellings).

Ownership of liquid and other assets

The accumulation of liquid assets is only one form of saving, but, as the text of this report states, it is the form of saving which is most clearly anti-inflationary. Furthermore, a cushion to future downward fluctuations in demand is provided by a wide dispersion of liquid-asset holdings among all groups of the population and all income levels. The distribution of liquid assets by income level is at present very unequal, although substantial amounts are held by families at every level. As shown in table 5, 31 percent of the families whose incomes were less than \$2,000 had only 13 percent of the liquid assets in 1947.

TABLE 5.—*Proportion of liquid assets held by spending units and family units in early 1948, by income level¹*

1947 annual money income before taxes	Family units		Spending units	
	Percent of families	Percent of liquid assets held	Percent of spending units	Percent of liquid assets held
Under \$1,000.....	13	5	14	6
\$1,000 to \$1,999.....	18	8	22	10
\$2,000 to \$2,999.....	20	9	23	12
\$3,000 to \$3,999.....	17	10	17	13
\$4,000 to \$4,999.....	11	9	10	9
\$5,000 to \$7,499.....	13	19	9	16
\$7,500 and over.....	8	40	5	34
All units.....	100	100	100	100

¹ The 1947 income data and early 1948 liquid assets data are based on interviews in January-March 1948. For comparable spending unit data in early 1947 and 1946, see the Federal Reserve Bulletin, July 1947, table 14, p. 801. Comparable family unit data are presented in table 18, p. 802.

Source: See table 1.

The proportion of spending units with no liquid assets increased from 24 to 27 percent between 1947 and 1948, and the proportion with no assets or less than \$200 worth of assets increased from 38 to 42 percent. In early 1948, 55 percent of spending units had less than \$500 in liquid assets, as shown in Table 6.

TABLE 6.—*Distribution of spending units by size of liquid asset holdings in early 1947 and 1948*

Amount of liquid assets ¹	Percent of spending units	
	1947	1948
None.....	24	27
\$1 to \$199.....	14	15
\$200 to \$499.....	12	13
\$500 to \$999.....	14	12
\$1,000 to \$1,999.....	14	12
\$2,000 to \$2,999.....	7	6
\$3,000 to \$4,999.....	7	6
\$5,000 to \$9,999.....	5	5
\$10,000 and over.....	3	4
All units.....	100	100
Median holdings of all units.....	\$470	\$350
Median holdings of units with assets.....	\$890	\$820

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

Source: See table 1.

Table 7 presents an analysis of decreases in asset holdings over the past year. The main reasons for decreasing asset holdings are shown for three income ranges, under \$2,000, \$2,000 to \$5,000, and \$5,000 and over. Purchases of nondurable consumer's goods and services (living-expense items) were given as the sole reason for reducing liquid assets by 70 percent of the under \$2,000 groups, and by 48 percent of the \$2,000 to \$5,000 income group. Of those having over \$5,000 income, living-expense items were less important than acquisition of durable goods, homes, and other investments. Thus, in a large proportion of cases in the upper income groups, liquid assets were converted into other types of saving.

TABLE 7.—*Proportion of spending units reducing liquid assets in 1947, by purpose of withdrawal and by income level*

1947 money income before taxes	Percent of spending units reducing liquid assets				
	All purposes	Non-durable goods and services ¹	Automobiles and other durable goods	Houses and investments ²	Several purposes ³
Under \$2,000.....	100	70	7	7	16
\$2,000 to \$4,999.....	100	48	15	14	23
\$5,000 and over.....	100	28	16	24	32
All units.....	100	54	13	13	20

¹ Includes living expenses, emergencies and sickness, repair of houses, and other nondurable consumption (repairs of automobiles and other durable goods, purchase of luxury goods, moving, travel, amusement, education, and taxes).

² Includes purchases of real estate, investment in business or securities, and repayment of debt.

³ The distribution of spending units reducing liquid assets for several purposes is as follows:

	Percent
Nondurable consumers goods, etc., and durable goods.....	8
Nondurable consumers goods, etc., and houses and investments.....	5
Durable goods and houses and investments.....	4
Other combinations.....	3

Total..... 20

Source: See table 1.

Table 8 presents data on ownership of various types of non-liquid assets in early 1948 by income groups. The ownership of almost all types of assets increases as income rises, with the exception of homes. The proportion of persons owning homes appears to be larger in the under \$1,000 group than in the \$1,000 to \$2,000 to \$3,000 intervals. In the lowest income group, only 45 percent of spending units have life insurance and only 44 percent own any kind of liquid assets.

TABLE 8.—*Distribution of spending units holding various types of assets, by type of asset held in early 1948 and by income level*

1947 money income before taxes	Percent of spending units holding assets					
	Liquid assets ¹	Life insurance	Automobile	Home ²	Unincor-porated business	Stocks and bonds ³
Under \$1,000.....	44	45	24	43	2	3
\$1,000 to \$1,999.....	59	67	29	35	5	5
\$2,000 to \$2,999.....	73	84	50	36	8	5
\$3,000 to \$3,999.....	83	90	61	45	8	8
\$4,000 to \$4,999.....	90	89	65	46	11	10
\$5,000 to \$7,499.....	97	93	75	53	21	21
\$7,500 and over.....	99	91	80	73	36	49
All units.....	73	78	50	43	9	9

¹ Checking accounts and savings accounts in banks and saving and loan associations, postal savings, and shares in credit unions, and U. S. Government bonds.

² Percent of non-farm population occupying their own homes.

³ Excluding U. S. Government bonds.

Source: See table 1.

