

For Release on Delivery  
Tuesday, December 2, 1969  
1:00 p.m., E.S.T.

INFLATION AND INCOME DISTRIBUTION  
IN THE UNITED STATES

Remarks by

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Federal Reserve System

Before a  
Conference on "Input-Output, 1969"

Sponsored Jointly By

Pittsburgh Commerce Institute,

U.S. Department of Commerce,

and

Business Week

Pittsburgh Hilton Hotel  
Pittsburgh, Pennsylvania

December 2, 1969

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I am delighted with the opportunity to participate in this Conference on "Input-Output, 1969." The official presentation of the new input-output table showing the principal structural relations and trends in the economy represents another important landmark in the continuing effort to understand the behavior of our complex economic system. The several papers and workshops devoted to an analysis of the changing input-output relations among major sectors of the economy will obviously contribute further to this understanding.

As I understand the task assigned to me as the luncheon speaker, it was hoped that I would share whatever thoughts I might have concerning the campaign to check inflation in the United States. I am glad to do this, and I will sketch my views in the closing section of these remarks. But before sharing my own thoughts about the appropriate course of monetary policy in the current fight against

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\*Member, Board of Governors of the Federal Reserve System. I am grateful to a number of persons for assistance in the preparation of these remarks. Mrs. Susan Burch of the Board's staff developed the statistical estimates of income distribution. Mr. Henry Terrell of the Board's staff helped with the economic analysis of trends in income shares. Messrs. Robert Graham and Robert Bretzfelder of the Office of Business Economics, U. S. Department of Commerce, provided assistance in tracing the regional impact of inflation associated with the acceleration of the Vietnam War. The Bureau of the Census shared its information which permitted us to update through 1968 the income distribution series.

inflation, I would like to examine more closely the impact inflation has had on the rates of economic expansion in different regions of the country and on the distribution of income among major groups in the economy. The principal conclusions emerging from this analysis can be summarized briefly:

- During the first three quarters of this year, inflation had progressed so far that the rise in gross national product represented primarily price advances and very little growth in real output. This was almost the exact reverse of the experience in 1965 when the current inflation began.
- The acceleration of the Vietnam War and the resulting inflation greatly stimulated economic activity in those regions of the country where the rate of growth had been lagging. This was especially true of the Mid-West and the Middle Atlantic states.
- In terms of money income, the high level of economic activity during the last few years has reinforced the trend toward greater equality in the distribution of income in the United States.
- However, there has also been a substantial erosion in the real income of several important groups. As one would expect, the aged have lost significantly, and the same is true of farmers. But perhaps the most striking adverse experience has been that of a typical, semi-skilled worker in manufacturing: between 1965 and 1968, the gross weekly earnings of this worker rose by about 14 per cent; yet, all of the increase was eroded by higher taxes and the rise in prices.
- To a considerable extent, the further trend toward greater equality in the distribution of income seems to be due to a sharp rise in the number of families with multiple earners -- rather than simply to higher earnings by family heads.

- Nonwhites as a group have benefited substantially from the high level of economic activity in recent years. However, within the nonwhite community, there was no further trend toward greater equality in income distribution -- an experience counter to that in the economy at large.

### The Progression of Inflation

The origins of the current inflation have been commented on many times, and there is no need to provide details here. It is sufficient to remember that its mainsprings center in the acceleration of the Vietnam War in mid-1965, at a time when the economy was already on the eve of full employment. The rapid demand for goods and services for military purposes (unmatched by higher taxes to pay for the war) made the Federal Government a principal source of inflation in this country. For three years -- until the passage of the 10 per cent income tax surcharge in mid-1968 -- this situation continued. Under the circumstances, most of the burden for fighting inflation fell on monetary policy.

Perhaps the most convenient way to trace the progression of inflation is to analyze the composition of changes in gross national product (GNP) over the last few years, compared with trends before the Vietnam War accelerated. This is done in Table 1, attached, showing changes in GNP traceable to the growth of domestic demand vs. net sales abroad and changes in real output vs. changes in prices since 1961.

It will be noted that in the first half of the decade, the economy achieved a sizable increase in output and maintained a high

degree of price stability simultaneously. Between 1961 and 1965, GNP in current dollars rose at an average annual rate of over 7 per cent. Three-quarters of this increase represented the growth of real output, and only one-quarter was due to higher prices -- as the implicit GNP deflator (the most broadly based of the various price indexes) rose at an average annual rate of only 1.5 per cent. In sharp contrast, during the period 1965-68, GNP in current dollars expanded at an average annual rate of 8.1 per cent (only slightly more rapidly than in the first half of the decade). However, over two-fifths of the increase reflected higher prices, with the implicit GNP deflator rising at an average annual rate of 3.5 per cent. In fact, the pace of inflation has accelerated steadily. Last year, the general price level rose by 4.0 per cent, or double the increase registered in 1965. From the third quarter this year, the increase was 5.0 per cent. In the first nine months of 1969, the rise was 5.6 per cent at a seasonally adjusted annual rate. Thus, in the first three quarters of this year, well over two-thirds of the expansion in GNP represented inflation, and less than one-third represented a gain in real output.

The adverse effects of the current inflation can also be seen in the deterioration of our foreign trade balance. During the period 1961-65, U.S. exports of goods and services increased at an average annual rate of about \$1.3 billion faster than the rise in imports. Thus, in those years, not only were we able to cope with

the growth of domestic demand at essentially stable prices, but we also were able to provide needed support for our balance of payments through achieving a sizable current account surplus. However, in the 1965-68 period, the situation changed to exactly the opposite. Net exports of goods and services declined at an average annual rate of \$4.4 billion. Expressed differently, the growth in domestic demand in this period outstripped the rise in domestic output, with imports making up the difference. Thus, domestic inflation has been a major cause of weakness in the U.S. trade account and in the balance of payments as a whole. During the first nine months of this year, net exports showed a modest increase, but the fundamental situation has not improved appreciably. So, from the point of view of the balance of payments -- as well as for domestic reasons -- the need to check inflation remains pressing.

#### Regional Impact of Inflation

The acceleration of military activity in Vietnam and the inflationary pressures it generated have altered basic trends in income growth among the principal regions of the country. Although the change may be temporary, it cannot be overlooked if we are to understand the current inflation. Taking the period from first quarter 1960 to the first quarter 1965 as a fairly normal yardstick, three subsequent periods of sharply shifting regional patterns of economic expansion can be identified:

- The period between the opening quarter of 1965 and the closing quarter of 1966, which was characterized by a rapid expansion in production for military purposes and in response to the general tax cut of 1964-65.
- The period between the fourth quarter of 1966 and the fourth quarter of 1967, when the rate of increase in military purchases slowed and the advance in total output moderated.
- The current period, first quarter of 1968 through the second quarter of 1969 (which is as far as our data take us), when even though military expenditures have expanded only a little, continued increases in civilian demand have taxed the economy beyond its capacity with resultant inflation.

In general, under the impact of the Vietnam military build-up and the current inflation, the differences in regional growth rates have narrowed substantially. Such a narrowing of regional growth rate differentials has also been a characteristic of other periods of rapid economic growth and relatively full utilization of resources, especially labor.

Regional trends in personal income over the postwar period generally have produced a shift of income from the Northeast and Central regions of the country to the South and West. From 1948 to 1960, the growth rate in the three western and southern regions was 27 per cent above that in the other five major areas. Similarly, the differential continued nearly unchanged (at 25-1/2 per cent) from early 1960 through early 1965. Among the eight individual geographic sections, the pattern of regional growth in the two time periods just noted was

also quite similar. From early 1948 through early 1960, the Far West registered the greatest growth -- 7-1/4 per cent per year. The gains in both the Southeast and Southwest were above 6 per cent per year, while the Rocky Mountains, New England, the Great Lakes and Mideast all registered advances of above 5 per cent. The gain in the Plains was the smallest -- 4-1/4 per cent per year. The same regional pattern of income advances prevailed among the regions during the first half of the 1960's.

But, as mentioned above, the expansion of economic activity in response to the Vietnam build-up brought about considerable uniformity in regional growth during the seven quarters from the first quarter of 1965 to the fourth quarter of 1966. This period also reflected the stimulating effects of the 1964-65 tax reductions. In the three fast growing regions, income rose at an average rate of 9-1/2 per cent, while in the five slower growing regions it expanded at an 8-3/4 per cent pace -- a differential of less than 7 per cent. This differential was about one-third of the gap which prevailed over the postwar period as a whole, and just over one-quarter of the margin during the early 1960's. Moreover, there was considerable departure during the 1965-66 period from established trends among the individual regions. In the Far West, typically the fastest growing of the regions, income expanded at a less-than-average rate, while income growth in the New England, Great Lakes and Plains regions, which had been expanding at less-than-average rates from 1948 to 1965, exceeded that in the Nation.

The regional pattern of advance in personal income reverted to a more typical postwar configuration during the period of slow economic expansion registered from late 1966 to late 1967. During these four quarters, personal income in the U.S. grew at a 6-1/2 per cent annual rate. In the fast growing regions, income rose at more than 8 per cent per year, but the rise was only a little above 5-1/2 per cent in the slow growing regions. Among the individual regions, the gain in each of the three fast growing sections was above the U.S. average, and the gain in each individually exceeded that in each of the five slowly growing areas taken separately. Income expanded very slowly in the Great Lakes (more than a third below national average) and in the Plains (more than four-tenths below average) during this period. In contrast, the only major exceptions to the usual pattern were somewhat above-national-average gains in the Rocky Mountains and the New England States. In the remaining region (the Mideast) income went up at a rate slightly above that of the country as a whole.

In the final period, fourth quarter 1967 to second quarter 1969, regional personal income growth was unusually uniform. Income in the five typically slowly growing Northeastern and Central regions rose nearly as rapidly as it did in the three typically fast growing Southern and Western areas of the country. Total personal income in the U.S. over this 18 month period expanded at an annual rate of about 9-3/4 per cent; the average gain in the Far West, Southeast and Southwest

(the usually most rapidly growing regions) was just under 10 per cent, while the gain in the Rocky Mountain, New England, Great Lakes, Mideast and Plains regions (the usually slower expanding areas) was over 9-1/2 per cent.

A key factor underlying the narrowing of regional growth rates during 1965-66 was the pattern of military procurement. Before the Vietnam mobilization, a disproportionate share of military procurement (as measured by prime contract awards) was obtained from the West and South. In 1965 for example, about 45 per cent of military contracts were let in the three faster growing regions, although only 37 per cent of personal income originated in these areas. By the end of 1966, however, there had been a large shift away from these newer areas and toward the older and more conventionally industrialized regions of the Midwest and Northeast. In that year, only 42 per cent of the military contracts were awarded to the West and South.

This shift was due to two factors. First, there was more excess industrial and labor capacity in the older manufacturing regions of the Northeast and Central areas. Secondly, there was a shift in the product mix of military procurement. Missiles and electronics, which had been accounting for about one-third of total military procurement, declined to one-seventh of the total in 1966. In contrast, the importance of aircraft, ordnance, and other more conventional equipment increased markedly as a percentage of total military purchases. Because

there is a heavy concentration of production facilities for conventional military equipment and its component parts in the slower growing regions, the shift in product mix contributed to the large gain in manufacturing payrolls in these areas. In sum, military prime contract awards rose by only a quarter in the fast growing regions, but spurted by more than 45 per cent in the slowly growing areas. Military contracting went up only 10 per cent in the Far West, but it rose by 85 per cent in the Great Lakes. Largely reflecting these developments, the acceleration in the growth of personal income in the Far West (at about 35 per cent) was the second smallest among the eight regions, while the acceleration of more than 80 per cent in the Great Lakes was the second largest.

The income effect of the shifting of prime military contracts on the economies of the regions was most directly transmitted through manufacturing payrolls. These effects were intensified by rising civilian demand. The upswing in factory payrolls, in turn, helped to stimulate demand and income in a wide variety of trade and service industries, and these gains also contributed to increasing total economic activity and personal income. All of these factors were felt most strongly in the typically more slowly growing regions.

Reflecting these increased demands, as well as higher pay scales, manufacturing wages and salaries rose at an annual rate of 9-3/4 per cent over the 1965-66 period, as compared with an average annual advance of 4-1/4 per cent during the preceding five years -- an

acceleration of more than 125 per cent. With both real demand and prices for a wide variety of hard and soft goods rising rapidly, there was a similar spurt in manufacturing payrolls from late 1967 through mid-1969. The pace of advance climbed from a 3 per cent annual rate in the fourth quarter 1966 to fourth quarter 1967 period to a 9-3/4 per cent rate over the last 18 months. Again, these increases in manufacturing payrolls played a key role in shifting the overall income advance toward the previously slow-growing regions.

#### Trends in the Distribution of Personal Income

At this point, we can turn to an examination of changes in the pattern of income distribution during the last few years of high level economic activity. For this purpose, it is convenient to consider the share of total income received by a given proportion of the total families and individuals. Trends in the income of families and unrelated individuals in the United States, 1950 through 1968, are shown in Table 2,<sup>1/</sup> for the country as a whole and also for whites and nonwhites separately. The figures in the table indicate the percentage share of aggregate income received by each fifth of families and individuals and by those in the top 5 per cent of the income class. In examining these data, it should be noted that in no year was the distribution of income equal in either the economy or in the white

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<sup>1/</sup> Estimates for 1968 were made at the Federal Reserve Board on the basis of information supplied by the Bureau of the Census.

or nonwhite community. If it had been, each fifth of the income recipients would have received 20 per cent of the aggregate income in each year.

The data in Table 2 show a striking similarity in the changing pattern of income distribution in the two periods 1961-65 and 1965-68. In both periods, there was a substantial increase in the proportion of income going to the lowest two quintiles at the expense of the highest quintile. Between 1961 and 1965, the lowest two quintiles increased their share by 0.9 per cent of the total while the share of the top quintile declined by 1.3 per cent. It should be noted further that this loss of 1.3 per cent in the top quintile was concentrated entirely in the share going to the top five per cent. The 1965-68 experience was remarkably similar. Here the lower two quintiles gained 0.7 per cent while the top quintile lost 0.7 per cent. During this same period, the share going to the top 5 per cent declined by 1.8 per cent, indicating that there was some income redistribution within the upper quintile. This finding will prove useful later when we examine the distribution of the various sources of personal income.<sup>1/</sup>

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<sup>1/</sup> For those interested in technical matters, another way economists have of measuring relative inequalities in the distribution of income is through the computation of Gini coefficients. A Gini coefficient is obtained by measuring the area between the actual cumulative distribution curve and the hypothetical cumulative distribution curve if all units had an equal distribution of income. A coefficient of zero would imply total equality in distribution since there would be no area between the actual curve and the curve of equal distribution, while at the other extreme a coefficient of 1.000 would imply a total inequality of distribution. The Gini coefficients are shown in Table 2. These ratios fell during both of the periods under consideration. This computation confirms in a formal sense that the distribution of income has continued to move toward greater equality among families despite rather wide divergences in the performance of the economy over the two periods.

Factors Affecting the Distribution of Income

Having discussed the recent trends in the distribution of income, we should try to explain why these changes took place. Since earnings are the primary source of income to individuals at the lower end of the income distribution, it is important to determine whether such earnings advanced rapidly enough to affect the distribution of income.

For purposes of analysis, I have focused on the experience of a factory worker with three dependents. This representative man saw his gross weekly earnings rise from about \$92 in 1961 to \$107.50 in 1965, and to \$122.50 in 1968. (See Table 3.) In percentage terms, his gross earnings rose at an impressive 3.9 per cent annually from 1961 to 1965, and then accelerated to a 4.4 per cent annual rise from 1965 to 1968. Essentially, the same pattern holds for workers in other industries, although at different levels of earnings and at slightly different rates of increase.

Of course, paychecks are always smaller than gross weekly earnings because of various compulsory and voluntary withholding programs. Only two such programs are required of almost all employees; specifically, Federal income and social security taxes. Allowance for tax liabilities provides an estimate of net spendable earnings or for purposes of illustration, an average current dollar paycheck.

After allowing for tax withholding, the paycheck of a factory production worker with three dependents averaged \$82 in 1961,

nearly \$97 in 1965, and nearly \$107 in 1968. As to be expected, the growth rate of his spendable earnings changed direction when taxes were taken into account. Over the 1961-65 period, paychecks had grown at a 4.2 per cent annual rate, compared with a 3.9 per cent average annual increase in gross earnings. In this instance, the difference reflects to a large extent the beneficial effect of the income tax reduction of 1964. Since 1965, however, tax changes have operated in the other direction. Paychecks rose by 3.3 per cent annually between 1965 and 1968, compared with a 4.4 per cent annual advance in gross earnings. In other words, rising taxes -- including both social security tax changes and the income tax surcharge -- absorbed one dollar of each four dollars of additional gross income.

When the paycheck estimate is adjusted to reflect changes in the Consumer Price Index, however, the picture changes dramatically. Because of the 1965-68 acceleration of price increases, there was no increase in the average factory workers' "real" purchasing power during this period. In contrast, between 1961 and 1965, real purchasing power advanced by 2.8 per cent annually. Thus, after a period of sizable real gains in purchasing power, the average worker hit a treadmill in 1965. Growing increments to gross income were fully absorbed by rising tax liabilities (1/4 of his gross increase) and accelerating price increases (3/4 of his gross increase).

We are now confronted with an apparent paradox: although the real wages of a factory worker failed to grow in a period when

real disposable income grew at an annual rate of 4.6 per cent, the share of income received by the lowest two segments of the population has continued to increase rather consistently. Two factors appear to explain this seeming paradox; these are a rapid increase in the number of multi-earner families and a more rapid ungrading of labor.

Table 4 presents historical evidence on the trends in the distribution of families by number of earners. Compared to the 1961-65 period, the 1965-68 period has witnessed a virtual cessation in the growth of zero earner families, a dramatic increase in the rate of decline in the absolute number of single earner families, and a rapid acceleration in the rate of increase in the number of two and three or more earner families. These data are important because they show that families with earnings income have offset the impact of stagnant real wages by increasing the number of workers per family.

A second factor reinforcing the trend toward income equality in the 1965-68 period is the acceleration in the occupational upgrading of the employed labor force. The 1961-65 period saw greater overall employment gains than the 1965-68 period because there was a pool of unemployed labor to draw upon, while the 1965-68 period had to rely primarily on new entrants to the labor force. The relative labor shortage in the 1965-68 period meant that the excess demand for labor resulted in an occupational upgrading in the available labor force.

This upgrading can be seen most clearly by comparing the rates of growth of the various components of the labor force in the two different periods. (Table 5) At the higher paying white collar level, the average annual rate of increase in the second period was roughly 1-1/2 times as great as in the 1961-65 period -- despite a marked slowdown in the growth in total employment. This accelerated growth in the highest paying component was made possible by a decline in the rate of growth of blue collar and service workers and an acceleration of the rate of exodus out of farm employment. Clearly the upgrading of the labor force in the 1965-68 period has led to an increase in the equality of income because it has reduced the fraction of the population which derives its income from lower paying occupations.

Thus, in general, we can say that the 1961-65 period witnessed a more equal distribution of income because the unemployed were able to obtain employment. The greater equality in the distribution of family income which occurred in the 1965-68 period of excess aggregate demand is attributable to a relative increase in the number of multi-earner families and a more rapid upgrading of the employed labor force.

#### Experience of Principal Income Recipients

The preceding analysis has attempted to explain the major trends in the overall income distribution, comparing developments in a period of emerging full employment and one of excessive aggregate

demand characterized by a high degree of price inflation. At this point, we should see what happened to different final recipients of personal income to determine which segments of our population fared relatively the best in an expansion of the 1961-65 variety and which segments are able to increase their share in an expansion of the 1965-68 variety. One way of making this comparison is to examine changes in the distribution of total personal income among major groups according to their sources of income. The results are shown in Table 6.

The most striking feature of Table 6 is the almost total lack of change in the distribution of personal income by type between 1961 and 1965. The only significant change appears to be a decline in the share of proprietors' income by one full percentage point--which seems to conform to the observed down-trend in proprietors' income in the postwar era. This decline was offset by a rise of 0.4 per cent in the share of income received in dividends and a 1.2 per cent increase in the share of total income received as personal interest. These two offsets to the decline in proprietors' income are results of structural shifts in the economy toward the corporate form of operation as distinct from individual proprietorships. It should be noted that in this same period the share of personal income going to wages and salaries stayed virtually constant with an increase in the share going to service and government workers offsetting a decline in the share going to commodity producing and distributive workers.

In contrast to the earlier years, the 1965-68 period showed rather marked changes in the distribution of the types of personal income. The share received in the form of wages and salaries advanced rather sharply, due to increased demand for labor which made possible an increase in the number of multi-earner families and occupational upgrading noted earlier. In particular, one should note the sizable increase in the category of Government wages and salaries, which partly reflects the Vietnam War, and the increase in the share of earned income in the service industries.

The record of non-wage and salary income in the 1965-68 period shows considerable change. The share of proprietors' income declined by 1.7 percentage points in only three years, with the decline borne proportionately by businesses and farm proprietors. The share of total personal income received as rental income and dividends also fell. The only two types of non-earned income which rose were personal interest, which reflects the high interest rates in this period, and transfer payments, which resulted in large part from increases in social security benefits.

In summary, then, the 1965-68 period did witness a marked shift in the distribution of personal income. The decline in the share going to proprietors' income, dividends, and rental income in the 1965-68 period, which amounted to 2.9 per cent, certainly accounts in large part for the 1.8 per cent decline in the share of income going to the top 5 per cent of the income distribution noted above, since these three sources weigh relatively heavily in the incomes of the highest income class.

Income Experience of Nonwhites

We can now turn to an analysis of the income experience of minority groups in the economy. This is typified by the experience of nonwhites. Table 7 shows that in the 1961-65 period the nonwhite share of aggregate income rose from 5.3 per cent to 6.2 per cent -- and rose again to 6.9 per cent in 1968. It appears that the second period of economic expansion did not have a marked differential impact on the growth of the nonwhite share of total income.

But, when the question is examined in terms of median family income, a somewhat different picture emerges. (See Table 8.) Between 1961 and 1965, the median family income of nonwhites increased only from 53 per cent of the white median to 55 per cent of the white median. However, from 1965 to 1968, it increased by 8 percentage points to 63 per cent of white median family income. These trends are somewhat difficult to reconcile with the trends in nonwhites' share of aggregate income shown in Table 7. But they do seem to suggest that nonwhites have been able to benefit from occupational upgrading of the labor force and from the increased number of workers per family.

Having discussed the overall relative income position of nonwhites, it is instructive to compare the changes in the income distribution among nonwhite families with the record for white families as presented in Table 2. When this comparison is made, a striking dissimilarity becomes readily apparent. For white families, the income distribution became more equal in both the 1961-65 period and the

1965-68 period. For nonwhite families, the same trend toward greater equality was evident in the 1961-65 period, it remained roughly constant in the 1965-68 period. This finding suggests that a movement toward full employment helps the lowest income nonwhite families get jobs but the economic forces of job upgrading and a rise in the number of earners per family appear to be widely dispersed through the nonwhite community. Since the upper income members in the nonwhite income distribution tend not to have primarily wage and salary income (i.e., they tend to receive little from personal interest, dividends, proprietors income, and rental income), they tend not to be affected by the declines in the share of income going to sources other than earnings. In other words, the decline in the overall share of nonearned income did not affect the income of the upper income nonwhites, and it appears that the effects of the increase in multi-earner families and the gains in occupational status were spread fairly evenly throughout the nonwhite community.

#### Income Experience of the Aged

Another instructive comparison to make is that for the elderly, as defined by those families headed by an individual over 65. Table 9 shows aggregate and median income data for the elderly population. Between 1961 and 1964 (unfortunately, tabulations for 1965 were not available), the share of aggregate income going to the aged declined by 0.9 per cent while the total fraction of families headed by a person aged 65 or over declined by 0.4 per cent. Between 1964 and 1968, the share of total income going to the aged dropped a

further 0.9 per cent, but the share of the aged in the total population remained relatively stable. In general, the ratio of the median income of a family headed by an individual over 65 to the total median income remained about constant.

These data suggest that a large fraction of the decline in the total income to the aged in the 1961-65 period can be explained by the decline in the percentage of families with an aged head. Secondary importance may be attached to a slight decline in the relative median family income of the aged. The explanation of income experience of the aged in the 1964-68 period is quite different. During this period, the median family income of aged in the total population stayed relatively constant. Yet, there was a large drop in the share of total income received by the aged. The explanation of this seeming paradox would appear to be the decline in the total income of the aged going to the upper 5 per cent of the aged and a substantial rise in the share of the aged income going to the lowest quintile of the aged. (See Table 10.) This greater equality of income among the aged explains why the median income of a family headed by someone over 65 can gain relative to the total, while at the same time the share of aggregate income accruing to the aged could decline faster than their share in the population.

Although hard data on the causes of the greater equality of income among the aged are not available, it seems safe to speculate that the decline in the share of aged income going to the upper end of

the range is probably in large part due to the increase in transfer payments and the decline in the share of proprietors' income, dividends, and rental income. These sources most certainly make up a relatively large share of the income of the more affluent aged. In general, we can conclude that the aged have fared less well in the 1965-68 period than they did in the first half of the decade. While this experience was paralleled by an increase in the equality of income among the aged, on the whole they appear to have fallen behind income recipients in the economy at large.

#### Income Experience of Farm Families

Finally, we should analyze recent changes in the relative income position of families with farm residence. Table 11 shows the income trends of farm families in the two periods under examination (Again we lack tabulations for 1965.) The 1961-64 period saw a virtual stagnation in total farm income, with the nonfarm share of the population dropping by 1.0 percentage point, and the farm share of total income declining by 0.7 percentage point. The 1964-68 period brought a marked reversal in the trends observed in the earlier period. Farm income advanced, although not nearly as rapidly as total income. Yet, the share of farm families in the total dropped another 1.3 per cent. This rise in farm income combined with a rapid decline in the share of farm families in the 1964-68 period permitted the remaining farmers to make rapid relative gains compared to the rest of the population. Between 1964 and 1968, the ratio of median farm income to the median income of all families rose from 0.54 to 0.67, after having declined from 0.56 in 1961.

The acceleration in the rate of decline in the number of farm families in the second period reinforces the earlier conclusion about the increase in the rate of abandonment of farms mentioned above. Table 12 presents some enlightening data on the distribution of income among families reporting farm residence. These data show a clear and continued trend toward greater equality of income among farm families. Combining this information with the increase in the relative median income of farm families suggests rather convincingly that this equality within farm families and between farm families and others is being achieved by an outmigration of marginal farm families with relatively low incomes. The general conclusion for farm families is that they advanced their relative income position (although not their total income) because the accelerated rate of outmigration enhanced the position of the remaining farmers.

#### Concluding Observations

The mixed income experience of different groups, examined in some detail above, points up some of the reasons why many observers are having a difficult time reconciling themselves to the need to persist in the fight against inflation. Some groups have benefited from the high rates of economic growth in the last few years. Lagging regions have experienced an acceleration in activity, and lagging industries have enjoyed a strong demand for their output. There has been considerable upgrading in occupations, and marginal groups in

the labor force have found jobs. These developments have convinced many people that our main objective should be to preserve these gains -- rather than risk seeing them lessened through a moderation in the pace of economic growth as a precondition for bringing inflation under control. I personally recognize the absolute and relative improvements which have occurred among some groups of income recipients. But I must also stress the need to avoid confusing the benefits of real economic growth with the distortions of inflation. Our continuing aim should be to preserve the former while correcting the latter.

I am personally deeply troubled by the rising tide of comment urging the Federal Government to abandon -- or at least curtail sharply -- the national commitment to bring inflation under control. I can understand the arguments made by many of these observers: in their view, the combined impact of restrictive fiscal and monetary policies pursued during the last year and a half has brought about a marked slowdown in the rate of economic growth; in fact, some of them say, the moderation in production may have already gone so far as to risk a recession. Thus, they argue, to prevent a serious decline in output and a substantial rise in unemployment, there should be a prompt and sizable relaxation of monetary restraint. For the most part, these observers do take note of the fact that, despite the reduced pace of economic expansion, little or no headway has been made in dampening the rise in prices or in weakening the public's

expectations of continuing inflation. This delayed response of prices is to be expected, we are told, and we are cautioned against maintaining monetary restraint until the evidence is clear that the pace of price advances has slowed appreciably.

While I obviously cannot speak for my colleagues on the Federal Reserve Board or on the Federal Open Market Committee, I can express my own position: on the basis of my assessment of recent economic trends and the outlook during the months ahead, I think we still have to win the battle against inflation. From the point of view of monetary policy, we have made considerable progress in restricting the availability of credit, and this in turn has helped to moderate the rate of economic expansion. However, the basic objective for which the policy of monetary restraint was instituted about a year ago -- that is, to check the accelerating inflation in this country -- still has not been accomplished. Thus, in my opinion, the fundamental task remains the same: we ought to remain steadfast in our commitment to this goal. This need to persevere in the use of monetary policy is made even more pressing because of the declining contribution which fiscal policy is making to the overall stabilization effort.

Having made clear my own willingness to stick with the task, let me stress that I also realize that some further rise in the level of unemployment (which is currently in the neighborhood of 4 per cent)

cannot be avoided if we are to restore a reasonable degree of price stability. This is obviously an unfortunate and unwelcomed by-product of the effort to check inflation. Rather than pretend that it can be avoided, we should get on with the modifications in public policies that will be necessary to ensure that the burden of restoring price stability does not fall excessively on those least able to bear it. These policy measures should include a substantially strengthened unemployment compensation system and greatly expanded training and retraining facilities. But we should also realize that even these improved arrangements would not cushion the impact of a significantly reduced rate of economic activity on young people and on some members of minority groups who have not acquired the rights to benefits derived from a long history of gainful employment. For the latter groups, we will simply have to find ways of providing income directly -- perhaps even having the Federal Government serve as an employer of first instance for this relatively small proportion of the labor force. This, too, we should be prepared to accept if it is a precondition of continuing the fight against inflation until it is won.

In the end, the budget costs of all of these defensive moves would be far less than the cost of continued inflation for only a few weeks. And the benefits accruing to this country in human terms cannot be measured.

Table 1. Composition of Changes in  
Gross National Product, 1961-1969

(Billions of dollars; seasonally adjusted annual rates)

Period	GNP (Current dollars)	Change in GNP (Current dollars)	Source of Change in GNP		Composition of Change in GNP (Per cent change)		
			Domestic Demand	Net Exports	GNP (Current dollars)	Real Output	Prices
1961-1965	-	164.8	163.5	1.3	7.1	5.6	1.5
Year 1965	684.9	52.5	54.1	-1.6	8.3	6.3	1.9
1965-1968	-	180.8	185.2	-4.4	8.1	4.6	3.3
Year 1968	865.7	72.2	74.9	-2.7	9.1	4.9	4.0
Third quarter, 1968 to Third quarter, 1969		66.4	67.3	-0.9	7.6	2.5	5.0
Fourth quarter, 1968 to Third quarter, 1969		50.3	48.8	1.5	7.6	2.2	5.2

Table 2. Trends in the Income of Families and Persons  
in the United States: 1950 to 1968

INCOME RANK	1968	1967	1965	1961	1950
<u>FAMILIES</u>					
TOTAL - ALL RACES					
PER CENT	100.0	100.0	100.0	100.0	100.0
LOWEST FIFTH	5.7	5.4	5.3	4.8	4.5
SECOND FIFTH	12.4	12.2	12.1	11.7	12.0
MIDDLE FIFTH	17.7	17.5	17.7	17.4	17.4
FOURTH FIFTH	23.7	23.7	23.7	23.6	23.5
HIGHEST FIFTH	40.6	41.2	41.3	42.6	42.6
TOP 5 PER CENT	14.0	15.3	15.8	17.1	17.0
Gini Coefficients	.343	.356	.358	.376	.375
<u>WHITE</u>					
PER CENT	100.0	100.0	100.0	100.0	100.0
LOWEST FIFTH	6.0	5.8	5.6	5.2	4.8
SECOND FIFTH	12.7	12.5	12.5	12.1	12.2
MIDDLE FIFTH	17.7	17.5	17.7	17.3	17.3
FOURTH FIFTH	23.4	23.5	23.4	23.2	23.1
HIGHEST FIFTH	40.3	40.7	40.8	42.2	42.5
TOP 5 PER CENT	14.0	14.9	15.5	17.3	17.6
Gini Coefficients	.336	.347	.347	.364	.372
<u>NEGRO AND OTHER RACES</u>					
PER CENT	100.0	100.0	100.0	100.0	100.0
LOWEST FIFTH	4.8	4.4	4.6	4.0	3.5
SECOND FIFTH	10.5	10.4	10.7	9.7	10.2
MIDDLE FIFTH	16.5	16.4	16.5	15.9	17.6
FOURTH FIFTH	24.6	24.1	24.7	24.3	25.2
HIGHEST FIFTH	43.6	44.7	43.5	46.0	43.5
TOP 5 PER CENT	16.1	17.5	15.5	17.4	16.6
Gini Coefficients	.390	.402	.388	.414	.402
<u>UNRELATED INDIVIDUALS</u>					
PER CENT	100.0	100.0	100.0	100.0	100.0
LOWEST FIFTH	3.2	3.0	2.6	2.6	2.3
SECOND FIFTH	7.8	7.5	7.6	7.0	7.0
MIDDLE FIFTH	13.8	13.3	13.5	13.0	13.8
FOURTH FIFTH	24.4	24.4	25.1	24.2	26.5
HIGHEST FIFTH	50.8	51.8	51.2	53.3	50.4
TOP 5 PER CENT	20.4	22.0	20.2	22.7	19.3
Gini Coefficients	.477	.501	.488	.507	.483

Table 3. Changes in Average Weekly Earnings, 1961-1968

	Levels			Percentage Changes			
				1961 to 1965		1965 to 1968	
	1961	1965	1968	Total	Average annual	Total	Average annual
<u>Private</u>							
Gross earnings							
Current dollars	\$82.60	\$95.06	\$107.73	15.1	3.6	13.3	4.3
Real (1957-59 dollars)	79.27	86.50	88.89	9.1	2.2	2.8	0.9
Net spendable earnings, worker with 3 dependents							
Current dollars	74.48	86.30	95.28	15.9	3.8	10.4	3.4
Real (1957-59 dollars)	71.48	78.53	78.61	9.9	2.4	0.1	0.0
<u>Manufacturing</u>							
Gross earnings							
Current dollars	92.34	107.53	122.51	16.5	3.9	13.9	4.4
Real (1957-59 dollars)	88.62	97.84	101.08	10.4	2.5	3.3	1.1
Net spendable earnings, worker with 3 dependents							
Current dollars	82.18	96.78	106.75	17.8	4.2	10.3	3.3
Real (1957-59 dollars)	78.87	88.06	88.08	11.7	2.8	0.0	0.0

Table 4. Distribution of Number of Families,  
by Number of Earners, 1950-1968

Earners	Percentage Distribution					Average Annual Percentage Rates of Change in Families by Number of Earners			
	1950	1953	1961	1965	1968	1950-53	1953-61	1961-65	1965-68
0	6.4	6.3	7.8	8.4	8.2	0.5	4.3	2.9	0.6
1	54.5	51.7	45.9	43.1	38.2	-0.7	0.0	- .5	-2.5
2	30.4	32.4	35.7	36.2	39.2	3.2	2.7	1.4	4.2
3+	8.7	9.6	10.6	12.2	14.3	4.4	2.7	4.7	7.1
Total Families	100.0	100.0	100.0	100.0	100.0	1.1	1.5	1.0	1.5

Table 5

Employed Persons 16 Years and Over,  
by Broad Occupation Groups, 1961-1968  
(Number in Thousands)

	1961		1965		1968		Per cent Average Annual Growth	
	Number	Percent	Number	Percent	Number	Percent	1961- 1965	1965- 1968
White Collar Workers	28,884	43.9	31,849	44.8	35,551	46.8	2.5	3.7
Blue Collar Workers	23,683	36.0	26,246	36.9	27,542	36.3	2.6	1.6
Service Workers	8,261	12.6	8,936	12.6	9,381	12.4	2.0	1.6
Farm Workers	4,917	7.5	4,057	5.7	3,464	4.6	-4.7	-5.1
Total Employed	63,036	100.0	71,088	100.0	75,920	100.0	3.1	2.2

Table 6. Level and Percentage Distribution of Personal Income, By  
Major Category of Income Recipients, 1947-1968

<u>Type of Income</u>	<u>1947</u>	<u>1961</u>	<u>1965</u>	<u>1968</u>
<u>Total Personal income</u>				
Amount (Billions of dollars)	191.3	416.8	538.9	685.8
Percentage distribution	100.0	100.0	100.0	100.0
Agricultural income	9.6	4.0	3.6	2.9
Nonagricultural income	90.4	96.0	96.4	97.1
<u>Labor income</u>				
Wages and salaries	64.3	66.7	66.6	68.3
Commodity-producing	28.4	27.1	26.8	26.5
Manufacturing	22.2	21.5	21.5	21.1
Other industries	6.2	5.6	5.3	5.4
Distributive industries	18.4	16.6	16.1	16.0
Service industries	8.4	10.6	10.8	11.7
Government	9.1	12.5	12.9	14.1
Civilian	-	10.1	10.5	11.4
Military	-	2.4	2.3	2.6
Other labor income	1.2	3.0	3.5	3.5
<u>Property incomes</u>				
Rental income	3.7	3.8	3.5	2.9
Personal interest	3.9	6.0	7.2	7.9
Dividends	3.3	3.3	3.7	3.3
<u>Proprietors' income</u>				
Business and professional	10.6	8.5	7.9	6.7
Farm	7.9	3.1	2.7	2.2
<u>Transfer payments: Total</u>				
Less: Personal Contributions	6.1	7.8	7.4	8.7
for social insurance	1.1	2.3	2.5	3.5
Net transfer payments	5.0	5.5	4.9	5.2

Table 7

Aggregate Income of Families  
by Color, for the United States  
1961 - 1968

Year	Aggregate Money Income (Billions)			Per Cent		
	Total	White	Nonwhite	Total	White	Nonwhite
1961	\$306.6	\$290.4	\$16.2	100.0	94.7	5.3
1962	320.1	301.8	18.3	100.0	94.3	5.7
1963	337.2	316.6	20.7	100.0	93.8	6.2
1964	355.8	333.1	22.7	100.0	93.6	6.4
1965	380.1	356.7	23.4	100.0	93.8	6.2
1966	408.8	381.9	26.9	100.0	93.4	6.6
1967	449.5	418.3	31.1	100.0	93.1	6.9
1968	488.4	454.5	33.9	100.0	93.1	6.9

Table 8

Median Family Income  
by Color for the United States  
1961 - 1968

Year	All Families	White	Nonwhite	Ratio of Nonwhite to White
1961	\$6,671	\$6,957	\$3,709	0.53
1962	6,851	7,170	3,825	0.53
1963	7,101	7,443	3,940	0.53
1964	7,367	7,691	4,303	0.56
1965	7,666	7,995	4,419	0.55
1966	8,040	8,366	4,994	0.60
1967	8,318	8,625	5,352	0.62
1968	8,632	8,936	5,590	0.63

Table 9. Aggregate Income of Families With  
Head 65 & Over, For The United States  
1961 - 1968

Year	Aggregate Money Income (Billions)		Per Cent of Aggregate Income Received by Families Head 65 & over	Per Cent of all Families with Head 65 & Over	Ratio of Median Income 65 & Over families to all families
	Total	65 & over			
1961	\$306.6	\$33.0	10.8	14.5	0.53
1964	\$355.8	\$35.4	9.9	14.1	0.51
1968	\$488.4	\$43.9	9.0	14.0	0.53

Note: Tabulations for 1965 were not available from the Bureau of the Census.

Table 10. Income Distribution Among Families  
With Head 65 & Over, 1961-1968

	<u>1968</u>	<u>1964</u>	<u>1961</u>
TOTAL			
PER CENT	100.0	100.0	100.0
LOWEST FIFTH	5.5	4.6	4.1
SECOND FIFTH	9.3	8.7	8.0
MIDDLE FIFTH	14.8	13.0	12.4
FOURTH FIFTH	22.2	21.3	19.9
HIGHEST FIFTH	48.2	52.4	55.6
TOP 5 PER CENT	21.8*	24.5	29.5

\* It was impossible to compute the share of total income to the top 5 per cent in 1968 so this figure refers to 1966.

Table 11. Money Income of Families with Farm Residence,  
1961-1968

		Farm income	Per cent of total income	Per cent of all families	Ratio of median income to all families
Total-All Families (billions)					
1961	\$306.6	\$14.6	4.8	7.5	0.56
1964	355.8	14.5	4.1	6.5	0.54
1968	488.4	17.8	3.6	5.2	0.67

Table 12. Income Distribution Among  
Farm Families, 1961-1968

	1968	1964	1961
<u>Families</u>			
Total			
Per cent	100.0	100.0	100.0
Lowest fifth	4.2	3.8	3.3
Second fifth	10.7	9.4	9.2
Middle fifth	17.4	15.5	15.3
Fourth fifth	23.8	24.7	24.1
Highest fifth	43.9	46.6	48.2