

# demographer's page

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## Affluence and Equality in Postwar America

By Charles Hirschman

How well off have the majority of the American population become in the years since World War II? Has the prosperity of the 1950s and 1960s narrowed the gap between rich and poor? How bad were the economic recessions of the 1970s? There are, of course, no absolute answers to these questions. The controversy over the most relevant facts to address these questions and even the interpretation of the same evidence are the stuff of political debate. For instance, what level of unemployment is acceptable on the basis of economic, political, or humanitarian criteria? This doesn't mean these questions cannot be addressed with the data and methods of social science, only that different observers will attach varying importance or interpretation to the same set of data or findings.

The limited objective here is to examine trends in economic welfare and equality of the American population during the postwar era with income data gathered in Current Population Survey (CPS), a large household survey of the civilian noninstitutional population conducted by the U.S. Bureau of the Census. Although the CPS is taken monthly with the primary objective of gathering data on unemployment, certain additional questions are added to the survey in different months of the year. The March round of the CPS is known as the Annual Demographic Survey and is in effect a mini-census, with most of the basic census items including family and personal income received during the previous calendar year. The income data from the annual March CPS are published in the P-60 series of Current Population Reports by the Census Bureau and constitute our single most consistent annual time-series of income data, extending from 1947 to 1975.

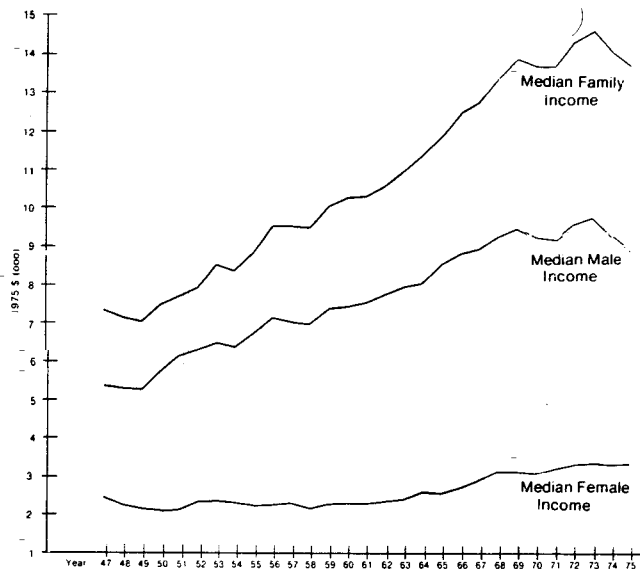
### Trend in Income Levels

There have been substantial increases in the level of social and economic welfare of the American people in the past three decades.<sup>1</sup> Figure 1 shows the trend in annual income levels of families and of men and women (only counting persons above age 14 who received any income) from 1947 to 1975. The summary statistic used in Figure 1 is the median, which divides the distribution into two equal groups with half of the persons or families receiving incomes above the median and half below the median. For instance the median family income was \$13,719 in 1975; 50 percent of families had incomes above this level while the other half received less than \$13,719. All income figures for previous years have been adjusted to 1975 dollars,

thus adjusting for inflation over the years.

The secular trend has been upward, reflecting the generally prosperous postwar era. Family income has experienced the most substantial rise, from \$7,303 in 1947, to \$13,719 in 1975, a gain of 88 percent. The median male income rose 66 percent over the same period and stood at \$8,853 in 1975. Far below were women, whose median income (only based upon those receiving income) was only \$3,385 in 1975, which was 38 percent above the 1947 level. Family income rose the most because it reflects the increasing number of workers per family, particularly increases in the number of working wives.<sup>2</sup> The very low levels of earnings for women are partially due to the fact that they are less likely to work full time and year round than men, but also because they are primarily in low paying jobs (clerical and retail sales) and receive less pay even when they have the same occupations as men.<sup>3</sup>

Figure 1: Trend in Median Family and Median Individual Income, by Sex: United States, 1947 to 1975 (in constant 1975 \$)



Can we conclude that the average American family is twice as affluent in 1975 as in 1947? Even though family income has almost doubled, many families may not feel twice as rich. Not only do many families need to pay for the transportation and clothing costs of two workers rather than one, but expectations have also risen. Many consumer goods, such as television, cars, and washing machines that were once considered luxuries are now counted as necessities. Also, a higher fraction of families now live in urban areas where more expenditures are probably necessary. The Bureau of Labor Statistics estimated that a family of four living in an urban area in Autumn 1975 would need \$15,318 for an intermediate budget (formerly labeled as a "Moderate, but Adequate Budget").<sup>4</sup> Thus the average American family may be better off now than a quarter-century ago, but still feel a painful economic squeeze.

Of equal importance to the overall rise has been the cyclical ups and downs in the economy. The recessions of 1947-1948, 1953-1954, and 1957-1958 are evident in the income trend, often wiping out the gains in previous years. Only the decade of the 1960s shows a consistent long period of uninterrupted prosperity. But

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the 1970s have been a unique recessionary period in the postwar era. The first mini-recession from 1969-1971 was followed by the election year recovery from 1971 to 1973. Then came the sharp economic downturn from 1973 to 1975 which was combined with inflation of over 20 percent for the same period. Median family income declined by 6 percent (in constant 1975 dollars) and stood slightly below the 1969 level. Thus for many Americans, the era of prosperity seems to have ended, with expectations and needs increasing, but incomes not keeping pace.

So far, we have only considered economic trends in terms of the mythical "median American family." The economic picture also includes the well-to-do and those far below the average. How have the postwar economic conditions affected the level of economic inequality in the United States? To address this question, a different sort of analysis is necessary.

**Trends in Income Inequality**

A simple way to examine income inequality is to compute the size distribution of income, which means the share of total income received by various percentiles of the population. Table 1 shows the trend in the distribution of total family income received by fifths of families arranged from richest to poorest. Over 90 percent of Americans live in families, which are the basic consumer spending unit and therefore the most appropriate category to study income inequality.

If income were distributed equally among all families, each fifth of all families would receive one fifth of the total family income. A glance at Table 1 shows the actual distribution of income is very unequal. The top 20 percent of all families receives over 40 percent of all income, while the bottom 20 percent only gets about 3 or 4 percent of the total income pie. The skewed distribution of income is even more evident with the top 5 percent receiving 16-18 percent of total income, more than that received by the bottom 40 percent of all families. The income distribution is summarized by the index of income concentration, more commonly known as the Gini Index, which ranges from 0.0 at perfect equality (each family has an equal share) to 1.0 at perfect inequality (one family has all the income).

The most interesting finding about Table 1 is the

virtual constancy of income inequality for the postwar era. The top 5 or 20 percent may have lost a percentage point or two to the next highest quintile — the differences are really too small to interpret. The rich seem to get about the same share in the early 1970s as they did in the late 1940s, and the poorest groups have not made any gains. In spite of the varying conditions and circumstances over this quarter century—wars and peace, prosperity and recession, Democrat and Republican administrations — the distribution of income doesn't seem to have changed very much at all.

A couple of qualifications need to be made about the interpretation of Table 1. First, it refers to the distribution of income for selected periods, not necessarily to the same individuals for these different periods. The people who were in the bottom quintile in 1965 are not necessarily there in 1970. In addition to deaths and births, changes result from income mobility as an individual income rises or falls at a different pace than the overall average. What has remained the same is the distribution, not necessarily the same people, although there is a sizeable overlap. Another point to remember is that average incomes have risen, though the shares have remained the same. The bottom 20 percent are now receiving 3-4 percent of a bigger income in the 1975 than in 1947, and thus have higher absolute incomes.

**Can The Data Be Believed?**

The attempts to explain income inequality in terms of economic or sociological theory have not been entirely successful.<sup>5</sup> The most obvious question is whether the data can be believed. Are all sources of income, including all of the government welfare programs of the last couple of decades, reflected in the CPS measure of income?

The income questions in the CPS cover almost all regular receipts of money income, including wages and salary income, self-employment income (farm and nonfarm), property income (dividends, interest, rent, and royalties), alimony or child support, pensions, various government cash transfer payments, social security, veterans payments, unemployment compensation, and public assistance or welfare payments. This is a fairly inclusive measure of most sources of pretax income plus transfer payments. However, there are several sources of income that are

**TABLE 1**  
**PERCENTAGE SHARE OF TOTAL FAMILY INCOME RECEIVED**  
 By Each Fifth and the Top Five Percent of Families.

Families	1947	1950	1955	1960	1965	1970	1975
All Families	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Top 20%	45.5	44.9	43.9	44.0	43.6	44.1	44.5
Next 20%	23.6	24.1	24.6	24.7	24.8	24.7	24.9
Middle 20%	16.8	17.3	17.6	17.6	17.5	17.2	16.7
Next 20%	10.6	10.6	10.6	10.6	10.6	10.3	9.9
Bottom 20%	3.5	3.1	3.3	3.2	3.6	3.6	3.9
Top 5%	18.7	18.2	17.5	17.0	16.6	16.9	17.0
Index of Income Concentration	.418	.417	.408	.410	.403	.407	.411

Source: U.S. Bureau of the Census Current Population Reports, Series P-60, No. 185, "Money Income in 1975 of Families and Persons in the U.S." Washington, D.C. 1977, Table 13.

excluded from the CPS concept. These exclusions include capital gains, whether realized or unrealized, as well as all sources of income-in-kind. This latter category includes farm produced goods for self-consumption, nonmonetary fringe benefits provided by employers (company cars, insurance policies, pension programs, etc.) and noncash government transfer payments such as food stamps, health benefits, or subsidized housing. There is really no conclusive estimate of the effects of these various exclusions on the distribution of income. Additionally there are biases of underreporting of income in the CPS. While wages and salary appear to be very reliably reported, other sources of income, especially property income and self-employment farm income, are very substantially underreported.

While some analysts feel that these problems of measurement make it impossible to make any precise determination of the trend in income inequality,<sup>6</sup> there is general consensus that any changes have been very small.<sup>7</sup> The combined effects of the tax structure, including a slightly progressive federal system and regressive state and local policies, seem to have little effect on income inequality.<sup>8</sup>

### Concluding Comments

There have been improvements in income levels of the American population over the past quarter-century, though much less than is commonly believed. The general upward movement in family income has been periodically retarded or reversed by several recessions in the postwar era, and there has been little cumulative gain since the late 1960s. A major factor in accounting for the rise in median family income has been a substantial increase in the number of working wives.

In spite of the rise in average incomes, there appears to have been no change in the level of income inequality in the United States. The topic of persistent inequality may become a topic of political debate in future years if the overall economic pie does not grow fast enough for the majority to experience real gains in their economic welfare.

### FOOTNOTES

1. For a comprehensive overview of changes in social and economic indicators, see Executive Office of the President: Office of Management and Budget, *Social Indicators, 1973*. Washington, D.C.: U.S. Government Printing Office, 1973.
2. Elizabeth Waldman "U.S. Women in the Workforce: An Overview" *INTERCOM* 5(6) (June 1977): 8-9
3. Larry Suter and Herman Miller. "Income differences between men and career women" *American Journal of Sociology* 78 (January, 1973): 962-974.
4. *Monthly Labor Review*. 99(7) (July 1976): 40-44.
5. For a particularly critical examination of conventional economic theories, see Lester G. Thurow *Generating Inequality: Mechanisms of Distribution in the U.S. Economy*. New York: Basic Books, 1975.
6. Michael K. Taussig. "Trends in the Well-Offness in the United States since World War II" *Conference on the Trend in Income Inequality in the U.S.* Institute for Research on Poverty University of Wisconsin-Madison, October 29-30, 1976.
7. See papers in Maurice Zeitlin, (ed), *American Society, Inc.* 2nd Edition Chicago: Rand McNally, 1977, Part Two.
8. Morgan Reynolds and Eugene Smolensky "Public Budgets and the U.S. Distribution of Income: 1951, 1961 and 1970" in Maurice Zeitlin, *op cit*.

## 'Making it Legal' --1977 Style

As state courts across the country begin to uphold property agreements made by persons living together though unwed, and as cohabitation is no longer illegal in most states, lawyers report a rush by unmarried couples to draw up contracts protecting their property rights.

In California, singles bars advertise the availability of notary publics--on duty until 2 a.m.

Unmarried persons who draw up such contracts may be better protected than many married persons and should have them to avoid lengthy litigation when they split up, attorneys attending a recent American Bar Association conference observed.

Historically courts have held that there was no contract in marriage, that no value could be placed on homemakers' services and that one partner, nearly always the male, held all the property; but, the attorneys said, contract law in this area is changing. Value is now often being placed on the services of homemakers, in both society and the courts.

In the far-reaching cohabitation ruling by the California Supreme Court last year, actress Michelle Triola won the right to sue actor Lee Marvin, with whom she had lived for 6½ years, for support and a share of the wealth he accumulated during the period, a decision that many attorneys see as the beginning of a legal trend that will spread in U.S. law.

### Recent PRB Library Arrivals:

As space limitations prevent reviewing all important new population-related books in INTERCOM's Current Readings page, a listing of selected additions to PRB's Library will appear each month in this space:

- Steen, Edwin B. *HUMAN SEX AND SEXUALITY*. New York: John Wiley & Sons, 1977. xi, 338 pp. \$9.95. ISBN 0-471-82101-2. LC 76-21654.
- Kilpatrick, S. James, Jr. *STATISTICAL PRINCIPLES IN HEALTH CARE INFORMATION*. Baltimore: University Park Press, 1977. xv, 285 pp. \$14.50. ISBN 0-8391-1107-X. LC 77-359.
- Portney, Paul R., Ed. *ECONOMIC ISSUES IN METROPOLITAN GROWTH*. Baltimore: Johns Hopkins University Press, 1976. x, 143 pp. ISBN 0-8018-1885-0. LC 76-15906.
- Kuroda, Toshio. *THE ROLE OF MIGRATION AND POPULATION DISTRIBUTION IN JAPAN'S DEMOGRAPHIC TRANSITION*. Honolulu, Hawaii: East-West Center, 1977. 17 pp. LC 77-10524.
- Arnold, Fred. *THE DEMOGRAPHIC SITUATION IN THAILAND*. Honolulu, Hawaii: East-West Center, 1977. 35 pp. LC 77-24403.
- Concepcion, Mercedes B. *THE DEMOGRAPHIC SITUATION IN THE PHILIPPINES*. Honolulu, Hawaii: East-West Center, 1977. 75 pp. LC 77-22585.
- Heer, John E. *ENVIRONMENTAL ASSESSMENTS AND STATEMENTS*. New York: Van Nostrand Reinhold, 1977. \$17.95. xiii, 367 pp. ISBN 0-442-23030-3. LC 76-10536.
- Blaxall, Martha and Barbara Reagan, Ed. *WOMEN AND THE WORKPLACE*. Chicago: University of Chicago Press, 1976. x, 326 pp. \$3.95. ISBN 0-226-05822-0. LC 76-10536.
- United Nations Fund for Population Activities. *POPULATION PROFILES* 1-5. No. 1: Singapore. No. 2 Law and Population. No. 3. National Censuses and the United Nations. No. 4; People in Population, No. 5; Labour and Population.
- Sai, Fred T. *POPULATION AND NATIONAL DEVELOPMENT*. International Planned Parenthood Federation, 1977. 31 pp. ISBN 0-900924-91-8.
- Sai, Fred T. *DEFINING FAMILY HEALTH NEEDS, STANDARDS OF CARE AND PRIORITIES*. International Planned Parenthood Federation, 1977. 32 pp. ISBN 0-900924-96-9.
- Mass, Bonnie. *POPULATION TARGET: THE POLITICAL ECONOMY OF POPULATION CONTROL IN LATIN AMERICA*. Brampton, Ontario: Charters Publishing, 1976. 299 pp. ISBN 0-88961-034-8.