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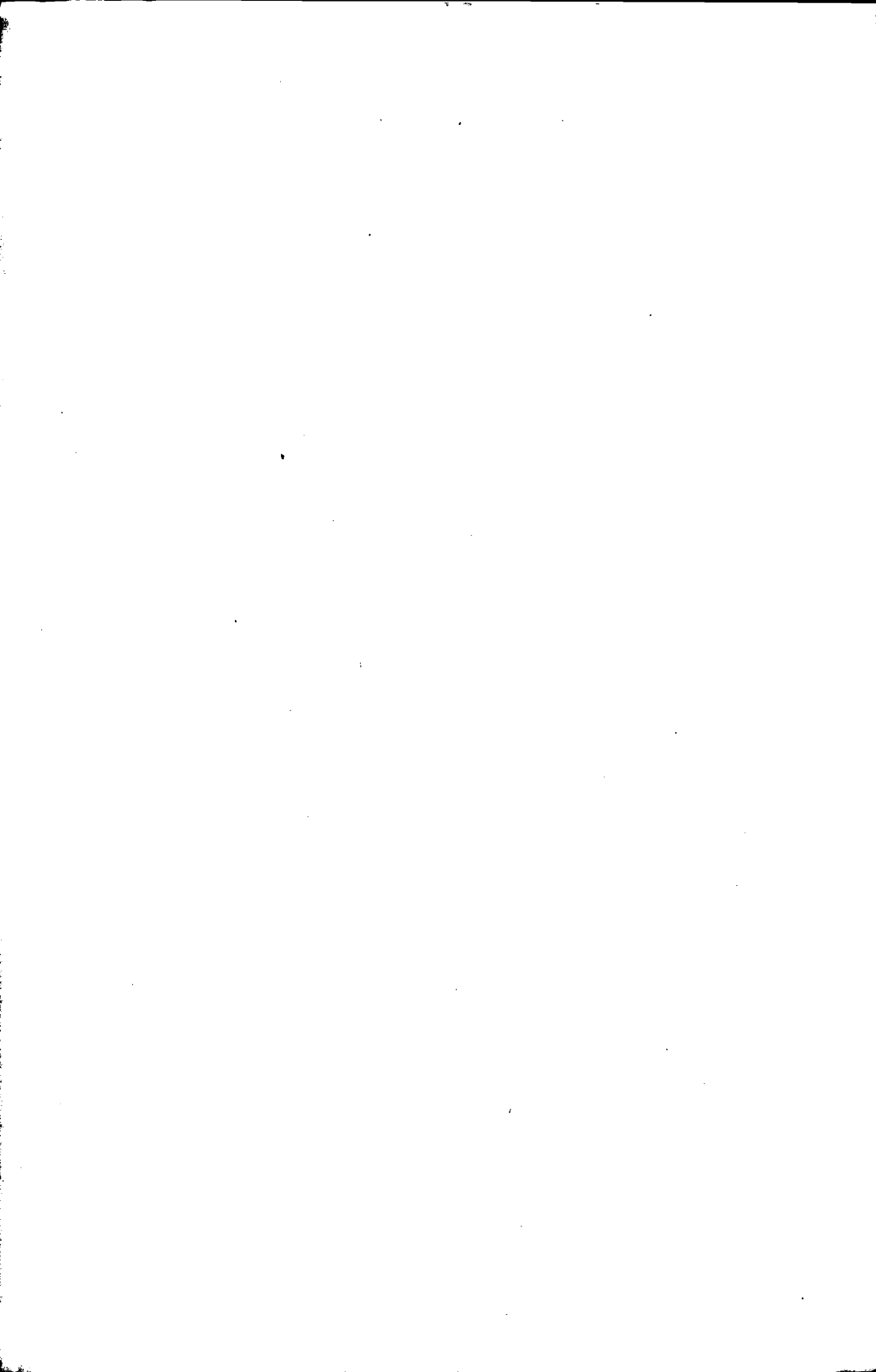
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Personal Income
during
Business Cycles



CHAPTER 1

INTRODUCTION

REASONABLY reliable annual estimates of aggregate income received by individuals in the United States begin with 1909. Since that date there have been two world wars and a contraction in business activity so long and severe that it is referred to as the Great Depression. It is not surprising that personal income—i.e. the income receipts of individuals¹—has fluctuated widely in the forty-odd years since 1909. The statistical record is shown in Chart 1.

In this chart the upper curve traces the course of total personal income in current prices.² Personal income has been pushed up twice by major wars and inflation and pulled down twice by major depressions. On balance, however, each peak, with the exception of 1937, has been much higher than the preceding one. The picture is different if we adjust for the changing value of money, i.e. price changes, and for the continuous increase in population. The lower curve, showing per capita personal income in constant (1935-1939) prices, incorporates both adjustments. This curve fluctuates less violently but the changes are substantial. The long-term upward movement of incomes between 1909 and 1939 is less marked, and the mild recession of 1948-1949 is replaced by two recessions starting in 1944 and adding up to a decline of major proportions.³ Aside

¹ For the detailed definition of personal income used in this study see Chapter 2.

² The estimates in Chart 1 comprise three discontinuous series prepared by different investigators. Although the concepts are made identical as far as possible, it seems best to present them as three discrete series, overlapping in 1919 and 1929. Since our main interest is centered in the relative movements, the differences in levels between series, which are not large in any case, do not constitute a serious problem.

³ The 13 per cent decline in real per capita income between 1944 and 1947 may seem unduly large to those who recall those years. For those who may be inclined to attribute the largeness of the decline to faulty adjustment for price changes, we point to the following considerations, which suggest some of the factors that contributed to such a decline:

a. Labor force, including armed forces, declined from 65,890,000 in 1944 to 61,608,000 in 1947, or by 6.5 per cent (see *Statistical Abstract of the United States, 1953*, Bureau of the Census, Table 206, p. 186).

b. Average hours worked per week in nonagricultural industries declined from 46.2 in 1944 to 42.3 in 1947, or by 8.4 per cent (see *Current Population Reports—Labor Force*, Bureau of the Census, Series P-50, No. 13).

c. Population increased from 138.4 million in 1944 to 144.1 million in 1947, or by 4.1 per cent (see *Statistical Abstract of the United States, 1953*, Table 7, p. 13).

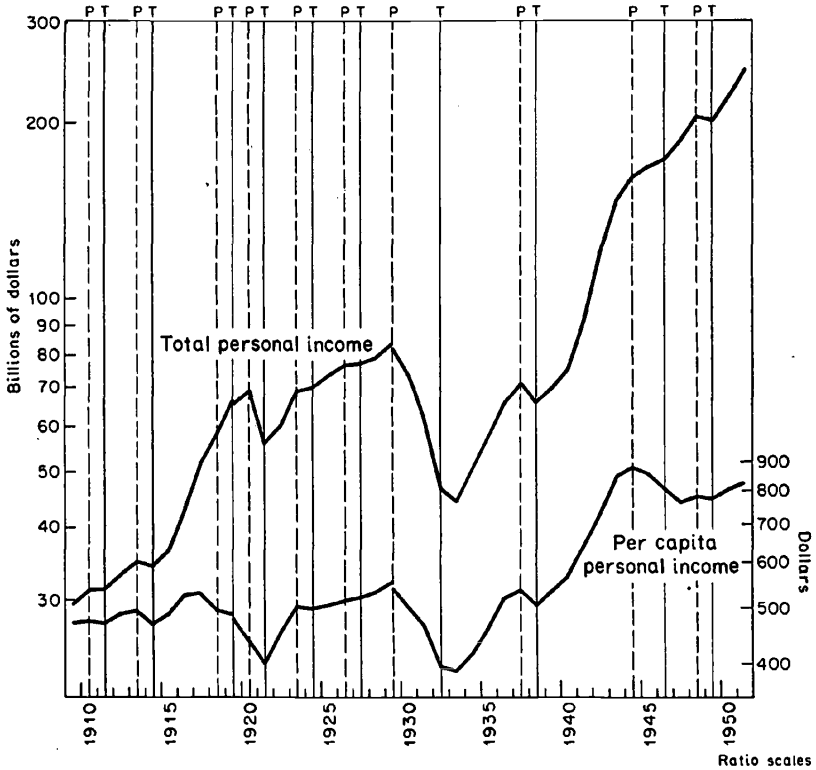
It must be noted, too, that we are discussing real income, not real consump-

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from this and a similar alteration during and immediately after World War I, the cyclical configuration is much the same as in the current-price curve.

CHART 1

Total Personal Income in Current Prices and per Capita Personal Income in Constant (1935-1939) Prices, 1909-1951



Broken and solid vertical lines represent business cycle peaks and troughs, respectively.

Source: See Appendix Table A-1 for personal income in current prices. Per capita personal income in constant prices estimated by dividing total personal income in constant (1935-39) prices (Appendix Table A-4) by population for continental United States including armed forces overseas as of July 1 (*Statistical Abstract of the United States: 1948*, Bureau of the Census, Table 7, p. 9 for 1909-1939 and *Statistical Abstract of the United States: 1953*, Table 7, p. 13 for 1940-1951).

What happens to the income structure during these swings in personal income? How do the movements in labor income during business cycles compare with those in the net income of proprietors

tion. The rise in the latter (in 1939 dollars) from \$81.1 billion in 1944 to \$98.3 billion in 1947 was possible because of the sharp drop in personal savings from \$35.4 to \$3.9 billion (see *National Income Supplement, 1951, Survey of Current Business*, Dept. of Commerce).

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and in property income? What happens to executive salaries as compared with wages? When total income is rising, do the incomes of upper income groups increase or decline in relation to those of lower income groups? Over the years, what has happened to the relative position of families with high, with moderate, and with low incomes?

These questions suggest one of the two areas explored in this study, namely, shifts in the relative importance of the major types of income. The other is the timing of the rises and falls in personal income. While there is a consensus among economists that a fall in personal income does not usually precede a business recession, it is still necessary to ask whether the fall in personal income coincides or follows, and by how much. Similar questions may be asked about the timing of revivals in personal income and in business activity. And—perhaps of greater significance—to what extent do the major components of personal income differ from the aggregate in their timing patterns? Do these differences help to explain the behavior of the aggregate?

Since the statistics on personal income extend over four decades, we can preface the cyclical analysis with certain queries about changes in the income structure. Beginning with 1909, can we discern any long-term shifts in the relative importance of the various types of income? Have the operations of our economy over these forty years favored the owners of property, or the recipients of wages and salaries, or the independent professional people and the proprietors? Or have all marched along at the same pace? To investigate these trends is our first task.