

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Six Papers on the Size Distribution of Wealth and Income

Volume Author/Editor: Lee Soltow, ed.

Volume Publisher: NBER

Volume ISBN: 0-870-14488-X

Volume URL: <http://www.nber.org/books/solt69-1>

Publication Date: 1969

Chapter Title: Foreword to "Studies in Income and Wealth"

Chapter Author: Lee Soltow

Chapter URL: <http://www.nber.org/chapters/c4338>

Chapter pages in book: (p. -9 - -2)

## *Foreword*

LEE SOLTOW  
OHIO UNIVERSITY

IF ONE is to study the income and wealth of people by using empirical data, he must decide the level of aggregation most meaningful for generalization. The more one aggregates, the more easily can one offer broad conclusions. The danger therein is that broad generalization may only indirectly encompass many of the real problems of the world. The fineness of the microcomponent or basic unit of study is a crucial factor. The microcomponent may be the aggregate or average wealth of persons for the United States or one of its areas. Source of income and consumer expenditure analyses may often be made without really considering individuals as microcomponents. The income and wealth of the individual are important, however, if analyses are to include such variables as age, education, color, and family status. Thus, research in the size and the size distribution of income and wealth values of individuals becomes strategic.

A conference on Research in Income and Wealth was held at the University of Pennsylvania on March 24–25, 1967, under the auspices of the National Bureau of Economic Research. Guidance of the program was provided by Professor Irving Kravis of the University of Pennsylvania. Other members of the planning committee were Dorothy S. Brady, Edwin D. Goldfield, Robert J. Lampman, and Joseph A. Pechman. This was the first conference devoted to the size distribution of income and wealth since 1950. Of the six papers presented in this volume, the first two pertain to wealth and the last four largely to income. The papers have been arranged somewhat on a chronological basis according to the empirical data investigated. The first deals with wealth data of the nineteenth century and the second with 1950–62 wealth data using age cohorts. The next paper is an analysis of annual income distributions

since 1940. The fourth and fifth pertain more to the present; one investigation deals with sources of income of families in different income classes and the other struggles with the difficult problem of measuring low-income populations. The final paper is a survey of distribution theory not based on a specific body of statistical data. Rather, it is a qualitative presentation of the forces influencing the income and wealth of individuals, encompassing some of the results of the other papers. Comments will be made about certain salient features of the six papers in the stated order.

Robert Gallman has taken an initial sample of 1860 wealth declarations of families in the United States and finds extensive inequality. The Gini concentration coefficient was approximately .82, with about 50 per cent of families reporting no wealth. Inequality was even greater for the major cities; they had coefficients of about .90. The coefficient is greater but does not differ substantially from that of .76 for 1962, derived by Dorothy Projector and Gertrude Weiss<sup>1</sup> from a sample of the distribution of wealth of families in the United States in 1962. One might not have guessed that inequality was so large a century ago.

Gallman attempts ingeniously to say what might have occurred to the distribution of wealth from 1860 to the turn of the century by using urban and rural wealth distributions. He finds from his data that the relative movement of population from rural to urban areas does not particularly affect inequality. This is primarily because inequality differences between the two sectors are not great, as determined from his figures. He has some intractable but fascinating problems with his data because of slave property in 1860.

John Lansing and John Sonquist have used a cohort analysis in tracing changes from 1953 to 1962 in wealth holdings of groups classified by age, education, and color. With respect to twenty cohorts, the four representing those beyond age 65 in 1962 had decreases in the nine years in net worth while fifteen of the sixteen younger groups had increases. It is perhaps not unreasonable to state that net worth levels attained by cohorts in 1962 approximated those of the 1953 levels of those cohorts

<sup>1</sup> Dorothy Projector and Gertrude Weiss, *Survey of Financial Characteristics of Consumers*, Board of Governors of the Federal Reserve, 1966, p. 30. The Projector-Weiss coefficients for 1962 for specific age groups are about 10 per cent larger than those reported for specific age groups in 1953 and 1962 by Lansing and Sonquist in the second paper of this volume.

ten years older in age. This could be a key to using age as a proxy for time in measuring long-run rates of accumulation. One might examine averages of a younger and older age group in a given year in attempting to ascertain the trend of wealth of the younger group. Conversely, one could make inferences about the past trend of the older group. The Lansing-Sonquist tables show levels for Negroes which are depressingly low, even by standards of the grammar school group of white spending units. It is not difficult to argue from the data that Negro levels of accumulation for cohorts are considerably more than forty years behind those of whites, if one uses age as a proxy for time. There are also time implications with respect to education. Certainly the tables presented are extremely interesting.

Cohort information is also given for balance sheet items, car ownership, income, and inheritances. Lansing and Sonquist conclude that inheritances are not a major factor in the saving of a cohort. The discussant, E. Scott Maynes, reports on a study of data from the Survey Research Center which specifically relates cohort income and net worth to saving or changes in net worth from 1953 to 1962.

T. Paul Schultz has applied regression analysis to annual income distributions from 1944 to 1965. Using income concentration as the dependent variable and price changes, real output changes, unemployment, and trend as four independent variables, he finds small regression coefficients which are, respectively, negative, positive, positive, and negative. His results for trend are more complex when applied to specific sex/age distributions. He concludes that the entry of women and the young into the income distribution has added to over-all inequality. "Were one to hold constant the weights of age and sex specific groups in the population, aggregate income inequality would decrease over the postwar period in the United States." The discussant, Eleanor Snyder, emphasizes that it is those in the lowest quintile class of each sex/color distribution who suffered relative to other groups, at least between 1951 and 1960. This low-income class, particularly in the nonwhite group, may itself have observed this phenomenon.

Dorothy Projector, Gertrude Weiss, and Erling Thoresen give us the opportunity of seeing the sources of income of various income classes. The design of the sample is particularly fruitful in giving detail about high-income groups. Inferences may be made concerning the impact of

radical changes in interest rates or dividends as compared with those of wages and salaries or pensions. The dominance of pensions among low-income groups and dividends among the very rich is striking. Aggregate pension and annuity income was almost as large as all property income of property holders. In fact, 42 per cent of heads of families reported no property income. The concentration coefficient of .93 for business and property income is perhaps of the same general magnitude as that which Gallman found for wealth in 1860.

It is intriguing to study types of income for young, middle and old age groups. Average wages and salaries follow the familiar curvilinear pattern, rising from the young to middle group and then falling from the middle to older group. The business and property income curve is less pronounced, and property income surprisingly is positively related to age for the three groups. In the latter two cases, the implicit growth rates are 2.6 per cent and 4.8 per cent per year of age. Many of the income values in the Projector-Weiss-Thoresen study could profitably be related to those from the admirable study by Projector and Weiss dealing with wealth data, derived from the same sample as that used for the present paper.<sup>2</sup>

Lenore Epstein explores the complex problems which arise when one attempts to measure the income of the poor. Very important from the standpoint of support is the fact that many families do not remain constant in size, in part because individuals move in and out of family units. How extended is the extended family? There are problems in classifying the young, the old, the part-time workers. There are errors of response. She considers consumer expenditure as an alternative to income because it can better reflect income periods of longer than a year. Another alternative for the aged would be to examine the wealth accumulation of the older age groups, including the asset information of the Lansing-Sonquist tables and the property income of the Projector-Weiss-Thoresen tables. Very interesting tables are presented by Miss Epstein showing some of the differences in results of studies of income distribution of various agencies. The discussant, Victor Fuchs, advocates a thought-provoking income standard for classifying a family as poor. This family would be one with an income less than one-half the median income of the group.

<sup>2</sup> *Ibid.*, tables with age classifications.

The theoretical paper by Melvin Reder is a decided contrast to the other empirically oriented papers. In fact, the author discusses many factors affecting inequality which he states are usually left unmeasured, including technology, tastes, abilities, resource utilization, economic growth, and monopoly power. It should be pointed out, however, that some of these factors are quantified, particularly in the papers by Gallman, Lansing-Sonquist, and Schultz. Reder deals with various demand and supply considerations in the determination of income, often with emphasis on small groups. One reads of artists, teachers, executives, and lawyers in elaborations pertaining to the importance of training, talent, intelligence, education, morale, and health. Aspects of transportation costs and market knowledge are placed in the framework of a growth model explaining inequality changes. All of the discussion can serve as a goad to further refinement of statistical investigations.

It is worthwhile to contrast the present conference on size distribution with the preceding conference in 1950. The changes in emphasis and direction of research in size distribution that have taken place in the intervening period reflect in some respects the changes occurring in research in general. At the 1950 conference, five of the seven papers dealt with income in conjunction with consumer expenditures and saving, led by a paper by Professor Friedman. Included were discussions involving the family consumption function and adjustment for size and age of persons in a family. In what ways have there been shifts in emphasis and direction in the last fifteen years?

In the earlier period there was frequent reference to the effect of the business cycle on income distribution. There was consideration of short-run lags of certain groups behind those of other groups. Has the shift in direction to the economics of growth weakened the interest in size distribution? Certainly not, when attention is focused on the causes of the persistence of certain people to have low, medium or high incomes for a long period.

It is possible that income distributions, but more particularly wealth distributions, can tell us much about long-run growth trends. This can be achieved by using age as a proxy for time. Lansing and Sonquist give wealth averages for five different age classes from an age of about 30 to 75 for white and Negro groups in 1962. Projector, Weiss, and Thoresen present property income figures for essentially the same age

range in the same year. Embedded in these figures is the history of persons living more than forty years longer than others. A linear exponential form fitted to these data shows that a person one year older than another has on the average 4.8 per cent more property income or, alternatively, 2.6 per cent more business and property income. The differential for wealth of the white college graduate is 3.4 per cent.

It is very possible that classifications of wealth by age class for very homogeneous groups can reveal much about past growth since wealth accumulation is in part the product of past incomes. A further look at existing inheritance data can help bridge the gap between generations. It is true that an analysis of a cohort over a period of time measures directly the effect of time, but often one is unable to conduct his study for very many years. All papers in this volume, except that of Professor Gallman, cover a period essentially of not more than twenty years since World War II.

There is a greater emphasis on the study of low-income groups today than fifteen years ago. Part of the phenomenon is due to the very change in the income distribution itself. Most studies indicate the relative improvement of the middle-third of income recipients from the 1930's to the 1950's. This has made the problem of the lowest-third more glaring. Paul Schultz concludes that inequality in the United States has not changed substantially since World War II but Eleanor Snyder points to deterioration in the position of those in the lowest quintile range. Lenore Epstein has grappled with the problem of measuring the income of the poor.

A main impetus to the study of low-income groups has come largely from writings and national events outside the field of economics, perhaps highlighted by Michael Harrington's *The Other America*. A further classification, the world or global distribution of income among individuals, is little studied except in making per capita comparisons between countries. It may very well be that the distribution of world income will become the dominant problem in size distribution in the next fifteen years. International events may make the problem of low-income groups in the world an exaggerated extension of the problem of low-income groups in this country.

A third shift in emphasis is toward the study of human capital, human wealth, or investments which improve skills, knowledge, or health. Since

individuals are not bought and sold in the same sense as nonhuman wealth, one looks to the size distribution of income, particularly in the form of labor income, for clues concerning human wealth. Alternatively, one may examine wealth distributions if he considers them the product of past income. Age-specific wealth groups classified by other factors, such as education, are instructive in the absence of finer classifications. The wealth accumulation levels of younger college graduates are similar to levels of older high school graduates, as shown by the Lansing-Sonquist data. Are the college graduates the progeny of the nongraduates a generation earlier? Professor Kuznets has suggested that thorough study of intergenerational changes should be made. These necessitate long periods of time. Cross-classification of wealth and income values for the present period may be enlightening when related to age if these are coupled with studies of other cross-classifications in populations. In another vein, Melvin Reder treats the relationship of age and earnings using an interesting qualitative model. He considers the effect of unemployment on skilled and unskilled or "permanent and temporary" employees. The role of the employer in training different groups is considered in ascertaining levels of inequality.

A fourth shift is toward the study of the income and wealth of individuals in the United States in the nineteenth century. Some might believe that American economic growth of the past is of value in understanding present-day underdeveloped countries. It may be more important as an aid to understanding differences rather than similarities.

Part of the stimulus of research is the dissemination since the 1950's of the microfilm of the manuscripts of the nineteenth century federal censuses. These data are substantial enough to encourage research in this field for at least ten years. The censuses of 1850, 1860, and 1870 are particularly fruitful because each individual was asked to declare his wealth. One studying certain aspects of the current period may easily look with envy at these century-old data. Details allow one to probe more deeply into intergenerational links, locational differences, and characteristics of political leaders. A detailed study of age-specific wealth groups can give understanding of growth rates in the first half of the last century. Professor Gallman's paper is an imaginative beginning.

Each investigation in this volume has a distinct focus within the framework of many variables. Consideration is given in the first and

third papers to wealth and income areas within or outside the United States and this gives rise to investigations of industries or occupations. The third, fifth and sixth papers cover in some fashion the formation and economic activity of households and families. Attention is placed on low-income groups in the third and fifth papers. The relationship between the two wealth papers, the first and second, is intriguing because of the apparent drop in inequality of wealth in the last century. It would be an injustice to stress too much the similarities of the various studies in this volume even though each has a central goal of measuring and explaining differences in wealth or income of different individuals or groups of individuals. Subsets of individuals were chosen using different procedures in each study and information about the subsets must be treated in a unique fashion. All add to the diversity of the framework within which the study of wealth and income distribution must be treated.

The Bureau editor of this volume is Gnomi Schrift. She merits thanks for her meticulous efforts. Mildred Courtney, secretary for the conference, was very helpful in maintaining procedures.