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CHAPTER 2

Summary of Sources

I SOURCES OF INCOME DISTRIBUTION DATA

INFORMATION ON the distribution of income among individuals is derived from (1) reports obtained by governmental departments in collecting revenues, controlling disbursements, or in carrying on other activities; (2) special collections made to serve a variety of purposes or for use in studying specific economic or social problems. As governmental reports are continuous or periodic, information from them is available, so far as it is tabulated and published, for consecutive years. In contrast, surveys are ordinarily undertaken for specific objectives, then terminated; consequently the data they yield usually cover a single period.

The first group of data comprises income tax returns, employers' reports for social insurance records, and applications received from individuals or families by relief agencies, loan or loan insurance agencies, and housing authorities. The second comprises censuses or surveys, in which all persons or families in an area or population group are enumerated; and sample studies, in which information is collected for only some of the persons or families for whom an income distribution is desired. The following paragraphs indicate briefly the character of the data derivable from each of these sources and also what material from each source is described more fully in Part II.

Although most states collect income taxes, size distribution data from state returns are tabulated and published in only a few. Consequently, the income distributions derived from tax data described in this volume are confined to tabulations from federal returns and from state returns in Delaware, Minnesota, Montana, and Wisconsin. The character of the data collected in other states, but

which for the most part have not been tabulated by size, is described in Part II, Chapter 7.

Employers' reports for social insurance records are submitted to the Social Security Board in connection with old-age and survivors insurance and to the appropriate departments of the various state governments in connection with unemployment compensation. The Social Security Board supervises the tabulation of data from these reports and publishes certain income distributions derived from them. In Minnesota a state agency has tabulated income by size on the basis of unemployment compensation reports.

As a rule, the information concerning income that is gleaned from applications received from individuals or families by governmental relief agencies, loan or loan insurance agencies, and housing authorities is only incompletely tabulated. Among the tabulations of income by size published regularly, or accessible in the files of the agencies concerned, are the incomes of families (a) some of whose members were granted insurance on home loans by the Federal Housing Administration, (b) granted loans by the Farm Security Administration, (c) admitted to or living in housing projects financially aided by the United States Housing Authority or the former Resettlement Administration. All these tabulations relate to unique groups of families and are definitely unrepresentative of the general population. For this reason no body of data from these sources is described in detail in this volume.

The only federal census that collected information on income was the 1940 Population Census, and this was limited to two questions. A question concerning income was included in the 1934 Michigan Census of Population and Employment.

Three sample surveys made during the last decade have obtained income information from a relatively large number of families in many sections: the Financial Survey of Urban Housing, the National Health Survey, and the Consumer Purchases Study. A more elaborate sample study was made in Minnesota.

II SUMMARY OF INCOME DISTRIBUTION DATA

The main features of the bodies of income data by size selected for description in this volume are tabulated in Table I. Some refer

to individual, others to family income. Except for returns on which the combined income of husband and wife is reported, data from tax returns are for individuals. Data from employers' reports for social insurance records are for wages and salaries received by individuals. On the other hand, the special collections are for family incomes, or incomes of 'economic units', chiefly families (Table 2).

Table 3 shows the kind of income information reported on federal tax returns for 1936 and on Delaware, Minnesota, Montana, and Wisconsin returns. Table 4 describes the income data in the six sample studies and censuses.

The information contained in the bodies of data that are described more fully is summarized in the next five sections. Many details and qualifications noted in the specific chapters are necessarily omitted.

A INCOME TAX

1 *Federal*

Federal personal income tax data have been published in *Statistics of Income* for each calendar year beginning with 1916. Restricted to persons with incomes above legal filing limits, which have been changed from time to time, they have never included more than about one-fifth of all gainfully employed persons and in some years as few as one-fifteenth. Although the coverage of income is naturally greater than of income recipients, net income reported on returns has never exceeded one-third of the national income. This narrowness of coverage is the chief drawback of these data.

For 1940 and again for 1941 income coverage was greatly broadened by the lowering of personal exemptions. Nevertheless, except during periods of exceptional industrial activity and agricultural prosperity, fewer than half of those who receive income are required to file. From a statistical viewpoint, much of the gain from the broader coverage is counterbalanced by the introduction for 1941 incomes of a simplified return, for gross incomes of \$3,000 or under, which contains little detail.

The unit for which income is reported, determined as it must be by tax considerations, is far from satisfactory for purposes of

T A B L E I

General Description of the Bodies of Data

SOURCE	AGENCY IN CHARGE OF STUDY OR TABULATION	PERIOD COVERED	GEOGRAPHIC COVERAGE	POPULATION GROUPS TO WHICH INCOME DATA APPLY	NATURE OF INCOME DATA
Consumer Purchases Study Ch. 11 and 12	Dept. of Labor, Bureau of Labor Statistics & Dept. of Agr., Bureau of Home Economics	One-year period ending between Dec. 31, 1935, & Dec. 31, 1936	2 metropolises; 6 large cities, 14 middle-size, 29 small; 140 villages; 66 farm counties (20 sections), in all regions of U. S. except the Southwest	In 40 cities & 5 farm sections, all economic families; in 11 cities, villages, & 15 farm sections, native white unbroken families & native Negro families in the Southeast	Total income in detail by source
National Health Survey Ch. 13	Public Health Service	One-year period ending between Nov. 1, 1935, & March 31, 1936	83 cities ranging in population from 2,000 to 7,000,000 in all sections of U. S.	Families (related persons); also households	Total income estimate within 1 of 6 class intervals
Mich. Census of Population and Unemployment Ch. 14	Mich. Emergency Welfare Relief Commission	Income, 1934 Employment, 1930-34	Mich: all cities over 3,000; all metropolitan townships; $\frac{1}{2}$ of villages under 3,000; $\frac{1}{5}$ of rural townships	Individuals 15 years or more gainfully employed during 1934	Total income estimate within 1 of 11 class intervals
Financial Survey of Urban Housing Ch. 15	Dept. of Commerce, Bureau of Foreign & Domestic Commerce	Income for 1929, 1932, & 1933	61 cities, completed in 52	Urban families	Total family income, family income from lodgers & roomers, & from wages & salaries

T A B L E I (concl.)

SOURCE	AGENCY IN CHARGE OF STUDY OR TABULATION	PERIOD COVERED	GEOGRAPHIC COVERAGE	POPULATION GROUPS TO WHICH INCOME DATA APPLY	NATURE OF INCOME DATA
Minnesota Income Study: field survey Ch. 10	Minn. Resources Commission	Oct. 1, 1938 to Sept. 30, 1939	Minn: samples of unincorporated areas & incorporated places with populations under 2,500; all incorporated places with populations 2,500 or more	All economic units	Total income in detail by source ●
Federal income tax returns Ch. 1-3	1) Treasury Department 2) Special studies	1) Annual, since 1916 2) 1934 & 1936	United States & territories	Individuals or married couples receiving minimum net or minimum gross income (as defined by law)	Total income in detail by source
Wisconsin income tax returns Ch. 5	Wisc. Tax Commission	1929, 1934, 1935, & 1936	Wisconsin	Individuals or married couples receiving specified minimum net or minimum gross income	Total income in detail by source
Delaware income tax returns Ch. 4	University of Delaware	1936, 1937, & 1938	Delaware	Persons 21 years or over and minors receiving net incomes of \$1,000 or more	Total income in detail by source

Minnesota Income Study: state income tax returns Ch. 10	Minn. Resources Commission	1938	Minnesota	Individuals or married couples receiving minimum net or minimum gross income	Total income in detail by source
Montana income tax returns Ch. 6	Mont. Agricultural Experiment Station, Dept. of Agr. Economics; Mont. State Board of Equalization	1933-38 inclusive	Montana	Individuals or married couples receiving specified minimum net or minimum gross income	Total income in detail by source
Employers' reports to the Social Security Board Ch. 8	Social Security Board, Bureau of Old-Age and Survivors Insurance	1937 to present, quarterly & annually	United States	Employees in 'covered employment'	Earnings up to \$3,000 from any one employer in 'covered employment'
Employers' reports Ch. 9	Social Security Board, Unemployment Division; state unemployment compensation agencies	1937 to present, different periods but at least annually	United States	Employees in 'covered employment' as defined by federal & state law	All earnings in 'covered employment'
Minnesota Income Study: state unemployment compensation wage records Ch. 10	Minn. Resources Commission	1937, 1938, & 1939	Minnesota	Employees in 'covered employment'	Earnings from employment in 'covered industries'

Unless specified, all agencies are federal. All chapter references are to Part II.

T A B L E 2

Definition of the Family (Economic) Unit

	CONSUMER PUR- CHASES STUDY	NATIONAL HEALTH SURVEY	MINNESOTA FIELD SURVEY	1940 POPULATION CENSUS	FINANCIAL SURVEY OF URBAN HOUSING
<i>Status in household or reason for ab- sence</i>					
Roomers & boarders	Sons & daughters rooming & boarding if their incomes could be ascertained	Roomers related to head of household	Sons & daughters when finances are not definitely separated	Roomers related to head of household	Detailed instructions not given
Guests	Guests in the household 26 weeks or longer if their incomes could be ascertained	(All excluded)	Guests in the household 26 weeks or longer if their incomes could be ascertained	Guests related to head of household & having no other place of residence	
Persons away on business or visiting	Family members temporarily absent	Related persons away from home less than one month	Family members temporarily absent	Household members, related to head, temporarily absent	
	<i>Family: Persons living in a household & dependent on a common income</i>	<i>Family: Persons living in a household & related by blood, marriage, or adoption</i>	<i>Economic Unit: One or more persons dependent on common or pooled income for the main items of expense & usually living in same residence</i>	<i>Family: Head of a private household & all related persons in the household</i>	<i>Family, not specifically restricted to blood relatives; single individuals living alone & keeping house</i>

Individuals included in the family according to definition

Persons away at school	Sons & daughters away at school if dependent on family income for at least 75% of their support	(All excluded)	Sons & daughters away at school if dependent on family funds for at least 51% of their support	Household members, related to head, attending schools or colleges in other districts, except student nurses & students in training schools operated by the War or Navy Department or Coast Guard	Detailed instructions not given
Persons in institutions	Sons & daughters in institutions if dependent on family income for at least 75% of their support	Related persons in institutions for chronic disease or impairment	Sons & daughters in institutions if dependent on family funds for at least 51% of their support	Household members, related to the head, who were temporarily in sanitariums or convalescent homes are included but persons in jails, prisons, mental hospitals, and homes for the aged, infirm, or needy are excluded	
Persons enrolled in CCC camps	(All excluded)	(All excluded)	(All excluded)	Household members, related to the head, enrolled in the CCC	Inapplicable

Partnership & fiduciary income	Income from partnerships, syndicates, pools, etc. Income from fiduciaries ²	Income from partnerships, fiduciaries, ² etc.	Distributive share of partnership profits Income from trustees & other fiduciaries ²	Income from partnerships or fiduciaries, ² etc.
Rents & royalties	Rents & royalties	Rents & royalties	Net rents & royalties from property in Wisc. Royalties received from patents & copyrights	Rents & royalties
Capital gains	Capital gain (or loss)	Capital gains from real estate, stocks, bonds, etc.	Profits from sale of stocks, bonds, personal property, or Minn. real estate	Profits from sale or exch. of real estate, stocks, bonds, etc.
Other income	Other income	Other income	Life insurance received by the insured, less cash surrender value on Jan. 1, 1911 & premiums paid since All other income (incl. maintenance received in addition to salary, income from roomers, boarders, children under 18, dependents, & cooperatives)	Other income

T A B L E 3 (cont.)

		MINNESOTA INCOME STUDY: STATE INCOME TAX			MONTANA	
		DELAWARE	WISCONSIN			
<i>Items excluded from the calculation of total (gross) income</i>						
	FEDERAL	Salaries from state & local governments	Salaries from federal government	Salaries from federal government	Wages & salaries of regular U. S. employees	Salaries, wages, & other compensation from U. S. (the exemption did not cover subsidiary corporations such as Public Works Administration or Home Owners Loan Corporation)
<i>Type of receipts</i>		Earned income from sources outside the U. S. by citizens non-resident more than 6 months				
		Value of housing received by ministers of the gospel & officers and enlisted personnel of the Army, Navy, Coast Guard, Coast and Geodetic Survey, & Public Health Service, & value of living quarters furnished for the convenience of the employer				
		Value of products produced & consumed on farm	Value of products produced & consumed on farm	Value of foods & goods produced & consumed by the taxpayer & his immediate family	Earnings from business outside state	Value of products produced & consumed on farm
		Earnings from business or profession incl. farming			Business & partnership losses	

Interest	On obligations issued under Federal Farm Loan Act	On obligations of the U. S. or its possessions	On obligations of the U. S., its possessions, agencies, or instrumentalities	On U. S. obligations	On federal securities
	On U. S. obligations issued on or before Sept. 1, 1917	On obligations of Delaware or its political subdivision or of the District of Columbia	On obligations of Minn. or of its cities, towns, villages, or other political or governmental subdivisions		
	On Treasury Notes, Bills, & Certificates of indebtedness		On postal savings accounts		
	On obligations of a state, territory or political subdivision thereof, of District of Columbia, or U. S. possessions				
	On postal savings accounts				
Dividends	Paid from earnings accumulated before 1913	Paid from earnings accumulated before 1920	Stock dividends	Stock dividends	Stock dividends
Rents & royalties	Net rental value of owner-occupied house	Stock dividends Net rental value of owner-occupied house	Net rental value of owner-occupied house Rent & royalties from property outside state	Net rental value of owner-occupied house Rent from property outside state	Net rental value of owner-occupied house

T A B L E 3 (cont.)

	MINNESOTA INCOME STUDY: STATE INCOME TAX				WISCONSIN	MONTANA
	DELAWARE	<i>Items excluded from the calculation of total (gross) income (cont.)</i>				
Type of receipts	FEDERAL	DELaware	MINNESOTA INCOME STUDY: STATE INCOME TAX	WISCONSIN	MONTANA	
Insurance (excl. annuities)	<p>Amounts paid by reason of the death of the insured</p> <p>Amounts received under other contracts if less than aggregate premiums</p> <p>Amounts received through health & accident insurance</p>	<p>Amounts paid upon the death of the insured</p> <p>Amounts received as return of premiums through health & accident insurance</p>	<p>Amounts payable by reason of the death of the insured</p> <p>Principal sum received on life insurance & endowment contracts</p> <p>Amounts received under accident or health insurance contracts</p>	<p>Amounts paid by reason of the death of the insured</p> <p>Amount equal to premiums paid (insurance losses are included in total income)</p>	<p>Amounts paid upon the death of the insured</p> <p>Amounts received as return of premiums through health & accident insurance</p>	
Annuities	<p>Amounts received under life insurance contract paid by reason of the death of the insured</p> <p>Amounts received under other contracts in excess of 3% of aggregate premiums paid until aggregate amount so excluded equals aggregate premiums</p>	<p>Amounts paid by reason of the death of the insured</p> <p>Amounts received under other contracts until aggregate receipts exceed aggregate premiums</p>	<p>Amounts paid by reason of the death of the insured</p> <p>Amounts received under other contracts in excess of 3% of aggregate premiums</p>	<p>Amounts paid by reason of the death of the insured</p> <p>Amounts received under other contracts until aggregate receipts exceed aggregate premiums</p>	<p>Amounts paid by reason of death of the insured</p> <p>Amounts received as return of premiums</p>	

Pensions & benefits

Workmen's compensation

Unemployment compensation

Mothers' pensions

Pensions to blind

Old age pensions that represent return of the recipient's payments

Veterans' pensions

All exempt

Workmen's compensation

Unemployment compensation

Pensions from U. S.

Pensions & retirement pay until aggregate payments exceed employee's contribution

Workmen's compensation

Pensions & family allowances received from the U. S. or the State of Minn.

Pensions based on private contracts until amounts received exceed pensioner's contribution

Workmen's compensation

Benefits received by insured or disabled members of U. S. military or naval forces

Inheritances & gifts

Value of property acquired by gift, bequest, devise, inheritance

Alimony or support received from persons who paid Delaware tax thereon

Value of property acquired by gift, devise, bequest, inheritance

Value of property acquired by gift or inheritance

Value of property acquired by gift, bequest, devise, descent

Capital gains & losses

Certain percentages of actual gain or loss depending on period during which asset was held; further limitations on losses

Capital gains accrued before Jan. 1, 1920

Capital losses

Profits from sale of real estate outside state

Net capital losses in excess of \$2,000

Gain or loss from sale of real property outside state

Capital losses

T A B L E 3 (concl.)

MINNESOTA INCOME
STUDY: STATE

	FEDERAL	DELAWARE	MINNESOTA INCOME STUDY: STATE	WISCONSIN	MONTANA
			INCOME TAX		
			<i>Items excluded from the calculation of total (gross) income (concl.)</i>		
Type of receipts					
Miscellaneous	Damages received on account of injuries or sickness Soldiers' bonus	Damages received on account of personal injuries or sickness Soldiers' bonus Patronage refunds of cooperatives	Compensation for personal injuries Soldiers' bonus Patronage refunds of cooperatives	Soldiers' bonus	Soldiers' bonus Patronage dividends of cooperatives

Items deducted from total income to obtain net income

	Capital losses, bad debts, not in excess of capital gains	Business, partnership, net capital, & occupational expenses, dividends from Wisc. corp.	Business, partnership, net capital, & occupational expenses, dividends from Wisc. corp.	Interest on business & personal indebtedness	Interest on personal indebtedness
	Interest on personal indebtedness	Interest on personal indebtedness	Interest on personal indebtedness	Interest on business & personal indebtedness	Interest on personal indebtedness
	Taxes except federal income tax, estate, inheritance, succession, & gift taxes, & taxes assessed against local benefits	Taxes except Delaware income tax & local assessments tending to increase value of property assessed	Taxes, except state income, special assessments, inheritance, & estate taxes	Income taxes paid, both state & federal	Taxes, except state income & special assessments
	Losses from fire, storm, shipwreck, or other casualty or theft not compensated by insurance	Losses from fire, storm, shipwreck, or other casualty or theft not compensated by insurance			Uninsured losses by fire, storm, etc.

Bad debts

Contributions not to exceed 15% of net income computed without this deduction

Contributions paid to Delaware institutions not to exceed 15% of net income calculated without deduction of contributions

Other (losses in transactions connected with trade or business, or entered into for profit)

Other

Contributions to organizations operating exclusively within Minn. not to exceed 15% of net income computed without deduction of contributions & tax exempt dividends

Sickness & accident expense
Other

Donations not to exceed 10% of net income computed without this deduction

Other

Bad debts

Contributions not to exceed 15% of net income computed without this deduction

Other

Measures of income tabulated in size groups

Net income
Net income excl. capital gains or losses

Net income
Total income minus capital gains or losses

Total income minus business losses, partnership losses, rental losses, capital gains

Total income
Net income

Total income minus business losses, partnership losses, occupational expenses, interest paid by business or professional persons, partners, & owners of income property

Net income

¹ The wording of the items in this section is substantially the same as on the tax returns. The order in which the items are listed has been changed to facilitate comparisons.

² The provisions for treatment of income received by and from fiduciaries are too intricate to attempt to summarize here.

T A B L E 4

Description of Income Data: Survey Studies

	CONSUMER PUR- CHASES STUDY	NATIONAL HEALTH SURVEY	MICH. UN- EMPLOYMENT CENSUS	FINANCIAL SURVEY OF URBAN HOUSING	MINNESOTA INCOME STUDY: FIELD SURVEY	1940 POPULATION CENSUS
<i>Items listed on the schedule form or covered in instructions *</i>						
<i>Receipts</i>						
Total income	The sum of receipts listed below	Total family income located within class intervals	Total income for each household member located in class intervals	Total annual family income incl. net income from investments (approx.)	Total income: the sum of all receipts listed below	Inapplicable
Wages & salaries	Money wages & salaries for each family member	(Wages, salaries)	(Wages from employment, odd job earnings, bonuses, other payments for services, money & in kind)	Total family wages & salaries	Economic income: total excl. capital gains, pensions, etc.	Money wages or salaries for each individual 14 years old or over except inmates of specified institutions
Earnings from profession or business	Net receipts on cash or accrual basis as estimated by respondent	(Business profits)	(Profits from business)		Net money receipts on cash or accrual basis calculated from gross income & expenses, itemized	All income other than money wages & salaries indicated by entry of 'Yes' or 'No' regarding the receipt of an amount equal to \$50 or more

Income from farm operation	Net money receipts from sale of farm products	Inapplicable	Inapplicable	Net money receipts from sale of farm products
	Value of food, housing, fuel, ice, & other products produced on farm & consumed by family			Value of food, housing, fuel, ice, & other products produced on farm & consumed by family
Income from roomers and boarders	Gross receipts from roomers & boarders less expenses for boarders' food	(Receipts from roomers & boarders)	Income from roomers	Gross receipts from roomers & boarders less expenses
Income from property	Interest & dividends from bonds, stocks, bank accounts, trust funds, etc. (excl. stock dividends)	(Returns on investments)	(Investments) (Rents)	Interest on bank accounts, bonds, mortgages, notes, trust funds, etc.
	Rent from property, less expenses (unless a loss)			Dividends on common & preferred stock, shares of cooperatives, etc. (excl. stock dividends)
	Net rental value of owner-occupied nonfarm dwellings, & rental value of farm dwellings			Rent from property, less expenses (unless a loss)
				All income other than money wages & salaries indicated by entry of 'Yes' or 'No' regarding the receipt of an amount equal to \$50 or more

T A B L E 4 (concl.)

CONSUMER PUR- CHASES STUDY	NATIONAL HEALTH SURVEY	MICH. UN- EMPLOYMENT CENSUS	FINANCIAL SURVEY OF URBAN HOUSING	MINNESOTA INCOME STUDY: FIELD SURVEY	1940 POPULATION CENSUS
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Receipts

*Items listed on the schedule form or covered in instructions * (concl.)*

Profits not included under wages, salaries, business, or professional income (incl. capital gains from property bought & sold during the year)
 Losses not deducted elsewhere

Net rental value of owner-occupied nonfarm dwellings, & rental value of farm dwellings
 Profits not incl. under wages, salaries, business, or professional income

All income other than money wages & salaries indicated by entry of 'Yes' or 'No' regarding the receipt of an amount equal to \$50 or more

Pensions, annuities, etc.
 Pensions, annuities, benefits (incl. pensions from employers, payments from sickness & accident insurance, workmen's compensation, veterans' pensions, unemployment compensation, annuities)
 (Income from annuities)
 (Income from annuities)

Net realized capital gains or losses
 Losses not deducted elsewhere
 Pensions, periodic payments (retirement allowances, pensions from employers)

Benefits, periodic payments (illness & accident benefits, workmen's compensation, veterans' pensions)

<p>Unemployment compensation Annuities, periodic payments</p>					
	(Receipts from relatives)				
<p>Gifts, inheritances, insurance</p>		<p>Gifts in cash for current use from persons not members of the economic family (incl. the portion of gifts and inheritances used for current living expenses; excl. amounts received from insurance policies settled or surrendered)</p>			<p>All income other than money wages & salaries indicated by entry of 'Yes' or 'No' regarding the receipt of an amount equal to \$50 or more</p>
<p>Other</p>		<p>Other money income (incl. prizes, rewards, gambling gains, mothers' pensions, other noncontributory pensions; excl. value of relief in kind)</p>		<p>(Public and private relief grants) relief agencies)</p>	<p>Other income (prizes, rewards, gambling gains) Relief & welfare assistance</p>

* Items not appearing on schedule but covered in instructions are indicated by parentheses.

statistical analysis. Returns by unmarried persons ordinarily cover the income of one person; returns by married persons may cover the income of one spouse alone, of both spouses, or even of both spouses and their children. Married persons with separate incomes have an incentive to file separate returns only when the combined income exceeds certain amounts; consequently, returns covering the incomes of both spouses tend to be concentrated in the lower income groups. In eight so-called community property states earnings and certain other items of income are automatically divided equally between spouses so that the income reported for a single income unit may be entirely earned or received by another. These deficiencies would be less serious if separate returns of spouses could be combined or jointly reported incomes separated. This cannot be done from the published data. However, the Study of 1936 Federal Returns, which matched separate returns, gives some indication of the error involved in using the regularly published data.

The data are classified by size of 'net income', total receipts less allowable deductions. 'Net income' is a legal concept affected by every change in the treatment of income items. It includes most receipts ordinarily considered income, but some, such as capital gains and losses, may be included only in part, and others, such as pensions and income from certain government bonds, may be excluded entirely. Similarly, allowable deductions include some items, such as contributions or interest paid on personal debts, that are more nearly analogous to expenditures for consumption than to expenses of obtaining an income. The Study of 1936 Returns, however, is classified by net income or deficit excluding statutory net capital gain or loss.

Despite the legal compulsion to file and the penalties imposed for misreporting, it is inevitable that ignorance, carelessness, and desire to escape taxation lead to errors that on balance understate receipts and overstate deductions. Checks from disinterested sources and official auditing bring in delinquent payments, but corrections are not incorporated in the published statistics.

All returns reporting a net income of \$5,000 or more and a sample of all other returns are tabulated and, there is every reason

to believe, carefully and accurately. Amounts and frequencies of the main sources of income and deductions are cross-classified with size of net income. Net income classes range from 'under \$1,000' to '\$5,000,000 and over', the number of intervals and of tables varying. Size distributions of net income by states are given but not details on sources and deductions. Finer geographical breakdowns are not regularly made but were a part of the studies of 1934 and 1936 federal returns described in Part II, Chapters 2 and 3. Returns are classified by sex or as joint, but no entries on the return make possible classification by age, color, race, etc. A serious drawback of federal income tax data is the absence of satisfactory information on occupation and industry.

In the studies covering virtually all individual federal income tax returns for 1934 and 1936, the data on the returns were tabulated in greater detail than has been possible for annual publication. Only the tabulations of most general interest from these studies have been published. The rest are contained in the Source Book, which may be consulted by qualified students at the Bureau of Internal Revenue in Washington.

2 *State*

Most states now have income taxes which, though patterned on the federal law and subject to many of its defects, differ sufficiently in coverage and definition of terms to claim a position of their own as sources of data, and have both potential and actual elements of superiority. At present, since their coverage has in general been exceeded by the federal, they are valuable chiefly for detailed study of the areas they cover. Little of the information reported on the returns has been published, and classification has not been fine, or cross-tabulations extensive enough, to realize the full potentialities of the material. Growing interest, however, has led to more complete, more numerous, and more useful presentations; some of special value are described in Part II.

The Delaware data hold a unique position as a source of income information. Delaware is the one state whose data cover most recipients since it requires all income recipients, not only those who receive more than a specified amount, to file returns. All returns

for 1936 have been studied and samples of 1937 and 1938 returns. Tabulations are by sources, patterns of income, and occupational, industrial, and geographical classifications.

Though not so comprehensive in coverage as the Delaware, the Wisconsin income tax has applied to a larger proportion of all income recipients in the state than the federal; exemptions have been considerably lower and filing requirements more stringent. Well established and administered, it has yielded exceptionally full income information. To capitalize upon these possibilities, data on returns for 1929-36 have been tabulated. Because both total and net taxable income often seem unsatisfactory as bases for classification, a concept more in line with the definition of income used in economic analysis was adopted. Sources of income and types of deduction were tabulated and published in detail; separate returns of husbands and wives for 1936 were matched; detailed geographical breakdowns (including one for nonresidents) and occupational and industrial classifications were made; and changes in the income of identical taxpayers during the period tabulated.

Montana returns for 1933-38, also covering lower income classes than the federal, were classified by gross, total, and net income, and by occupation and industry. Sources and deductions were tabulated in detail.

B SOCIAL SECURITY

The records of earnings of most gainfully employed persons made necessary by the system of benefits and contributions incorporated in the Social Security program provide the one major source of continuous income data other than tax returns. The program has two distinct parts which yield somewhat different data.

Old-Age and Survivors Insurance is a nationwide program, centrally administered. Though sizable groups are outside the system, the bulk of the gainfully employed are covered. Those excluded are the self-employed and employees in agriculture, domestic service, governmental service, steam railways, and some other smaller categories. Employers report quarterly the earnings of each worker up to a maximum of \$3,000 of wages or salaries paid during the

calendar year, together with his name and Social Security number. These data, together with some pertaining to the employer, are punched, one card per employee per quarter per employer. These cards are filed together, and at the end of the year a summary card is punched for each individual and certain data carried over to a cumulative card containing the history of his earnings since he came under the system.

The chief limitation of these data is that they relate solely to the wages and salaries of individuals. Neither total family earnings nor total income from all sources can be computed. The employee's sex and age as well as the employer's industry and location are noted, but not his occupation. Annual tabulations based upon a sample of approximately one-fifth of all persons covered are published some eighteen months after the close of the year.

The second part of the program, Employment Security (unemployment insurance), consists of a separate plan in each state with a central organization for the United States whose functions are largely supervisory or advisory. The federal law in effect forces the states to establish programs of their own on a more or less uniform basis. The coverage is virtually identical with that of Old-Age and Survivors Insurance except that firms employing fewer than 4 and even 8 are quite generally excluded. The reports of individuals' wages and salaries made to the states vary in detail, but ordinarily contain the worker's name, Social Security number, covered wages and salaries, and the employer's name and address. The types of payment taxed, with possibly minor exceptions, are those taxed for Old-Age and Survivors Insurance; however, total wages and salaries paid each employee must be reported, even though the first \$3,000 is alone subject to tax. Some states require a separate statement of payments in kind and some of length of employment during the quarter. Industrial and geographical classifications are somewhat more detailed than those used by the Old-Age and Survivors Insurance, but no occupational identification is required. Procedures for handling reports, and for tabulation and publication vary considerably among the states, but all are under the general supervision of the Social Security Board.

C SURVEYS

The two types of source described so far yield income data as a by-product of reports required for administrative purpose: either a tax return filed by the income recipient or a wage report made by the employer. They have the advantage of being continuous, the disadvantage of being determined by administrative rather than scientific needs. Surveys and censuses, the third major source, are ordinarily designed primarily to yield information needed for a better understanding of the economic and social system, not to aid administration. Consequently, they are likely to cover specific years better but are not continuous. In most cases income is merely one of many subjects investigated and what information on income is obtained depends upon the primary purpose of the study.

1 *Michigan Unemployment Census*

The Michigan Unemployment Census, as might be inferred from its title, was concerned chiefly with individuals in the lower income classes. A house-to-house canvass early in 1935 covered the entire state, though largely on a sample basis. Respondents were requested to give their age, sex, rent, education, and employment history, 1930-34, and to specify in which of certain designated brackets the 1934 income of each member of the family over 15 years of age in January 1935 fell. Income was so defined as to include little except wages and salaries. So few returns reported incomes over \$3,000 that they were grouped with those over \$2,000. The basic individual income data, cross-classified by age, sex, and broad geographical and industrial groups, were published without analysis.

2 *National Health Survey*

The National Health Survey requested the respondent to indicate one of six selected intervals in which the income, in this case of the family, fell. The highest class is '\$5,000 and over'. Organized to gather data on the health of the nation's urban dwellers, the study covered by a house-to-house canvass either completely or on a sample basis households in 83 cities selected to represent all types

of urban community. Income, for most families for the calendar year 1935, was defined to include net money receipts from work and property, except, to an undetermined extent, relief funds and all drafts on capital. The type of dwelling and rent or, if owner-occupied, value, were also ascertained, together with the age, sex, color, nativity, education, occupation, employment status, and a detailed health record of each member of the family. The material of chief interest has been published and much, including the relationships between income and the other variables about which information was collected, carefully analyzed.

3 *Financial Survey of Urban Housing*

From a sample of all families in 52 widely scattered cities the Financial Survey of Urban Housing ascertained total family income from wages and salaries, lodgers and roomers, and from all sources (including investments but not imputed income from consumer durable goods) for 1929, 1932, and 1933. Since income was not the subject of primary interest, greater detail in definition and tabulation was not sought, and total income alone was tabulated; the treatment of many types of receipts and perhaps of deductions may have varied considerably. Business income, for example, was not defined precisely; nor was the number of income recipients determined. This survey gathered more detail on incomes above \$5,000 than the two described above. One of its chief advantages is that the relation between incomes in a depression and a prosperity year can be examined. Color, occupation, type of dwelling, and rent or, if owner-occupied, value, were noted but not fully tabulated.

4 *Study of Consumer Purchases—National Resources Committee*

In many respects the most complete and useful income information was gathered by the Study of Consumer Purchases. From a sample carefully selected to represent both urban and rural families throughout the nation, income received during a twelve-month period covering parts, but not always the same parts, of both 1935 and 1936 was ascertained by direct interview.

Income was defined more precisely and noted in greater detail

than in the previously-mentioned studies; it includes the imputed rental value of an owner-occupied urban or farm dwelling and of home-produced, home-consumed food of farm families as well as money receipts. The data are better suited for the purposes for which they were compiled, namely, study of family expenditure, than for some other purposes. The National Resources Committee, combining these data with those from federal tax returns for incomes above \$7,500 and from studies of individuals' incomes, constructed estimates of the distribution of family incomes (and of those of individuals living alone) for the entire country.

Details were obtained also on family composition, age, occupation, industry, length of employment during the period covered, rent paid or value of dwelling if occupied by the owner, and, for some families, expenditures and savings. Most of the material has been published.

5 *Minnesota Income Study*

The first attempt to combine the three main types of income data, tax return, Social Security, and field survey, was made by the Minnesota Income Study. The field survey gathered from a carefully selected sample of Minnesota economic units (families and individuals living alone) income information for a twelve-month period ending September 30, 1939. Moreover, this material was the primary, not a secondary objective. Efforts were made to obtain details concerning all items usually treated as income from labor and property; in addition, receipts of somewhat different types were listed and tabulated: value of owner-occupied urban and farm dwellings and of food produced and consumed by the economic unit, relief, insurance, and annuity receipts, net income from roomers and boarders, gifts and inheritances, capital gains and losses, and refunds from cooperatives. Great care was taken to distinguish between gross and net receipts from business, including farming. Most of the data are classified by 'total income excluding capital gains and losses', approximately total receipts minus business expenses, and by 'economic income', essentially income from labor and property.

From the data published, more accurate adjustment can be made

to other concepts than from any other set described in Part II. Occupation, industry, family composition, number of earners, and the age and sex of each, color and nativity of the head, relief status, and the physical characteristics, value, and monthly rent of the dwelling were ascertained.

Tax data, from a tabulation of returns for the years covered by the field survey, supplement those from the survey, especially in the upper brackets. The income concepts, the recipient units, and the periods differ in many vital respects, and the success with which the two studies can be integrated will be awaited with interest. The conditions are much more favorable than those faced by the National Resources Committee when it combined Consumer Purchases Study and federal income tax data.

In addition, unemployment compensation figures will be used for comparison, checking, and supplementation. Employees of all firms, except agricultural and those in the other categories excluded by the federal law, employing one or more persons were covered. Wage record data were separately tabulated as a means of constructing a link between covered earnings and income. The findings will be unique, and, it is hoped, of more than historical value. Another link between covered earnings and income as reported on tax returns will be constructed if possible. The final result should be the best and, except for the Delaware and Wisconsin series, the sole complete size distribution of income received by the residents of a state.

6 1940 Census of Population

In 1940 the Census of Population for the first time contained questions on income, but unfortunately not in detail. Each person 14 years old or over, except inmates of specified institutions, on April 1 was asked how much he had received during 1939 in money wages and salaries up to \$5,000, and whether he had received other income of \$50 or more. One feature that makes the data especially useful is that they can be studied in conjunction with the great variety of data that were collected by the Census on other characteristics of the persons covered. Some are available for all persons in the United States, others for only a 5 per cent

sample. Individual income is being tabulated, and family income tabulation plans have been prepared.

III RELIABILITY OF DATA

As the preceding summary indicates, the data described in this survey have been collected in different ways, by different agencies, from different groups, and for different purposes. These differences naturally spell differences in the reliability of the data. The factors affecting the reliability of each body of data are appraised in some degree in Part II. In the main, however, the appraisals are qualitative rather than quantitative. Satisfactory quantitative estimates of the margin of error must await careful and thorough analysis. The investigator embarking on such an analysis will find numerous ways of testing his data by their internal consistency and by comparisons with a wide variety of other data, many of them extremely fragmentary. Such tests cannot be blueprinted in advance or their results predicted. The kinds of test made and the features tested will be, however, determined chiefly by the method by which the data were collected, the groups covered, the kind of information obtained, and the sources.

A INCOME TAX DATA

The great virtue of tax data, for the range of income they purport to cover, is that returns are mandatory and that there are penalties for misstatements. Counterbalancing this advantage is the substantial financial incentive to understate or fail to report income. In the highest income brackets the tax collector has an obvious interest in enforcing complete and accurate reporting; consequently, understatement and nonreporting are difficult. In the lower income brackets, most of the individuals who do not report are probably among those who are either liable for merely a small or no tax though supposed to file a return. Consequently, it does not pay to press for returns.

Understatement is probably fairly general. Many taxpayers are poorly informed about what they should report; their records, if they keep any, are haphazard; and returns are often filled out carelessly. To some extent these errors are doubtless rectified by audit-

ing. Unfortunately, we know little about the kinds and magnitudes of errors uncovered by audits. A careful study of how audit changes affect items would be of considerable value.¹ Reports from payers enable tax administrators to verify some of the information reported by income recipients, particularly on wages and salaries, dividends, and interest. The Delaware Income Study has made some comparisons that indicate the extent of incomplete coverage and the point on the income scale below which federal returns are apparently incomplete.²

B SOCIAL SECURITY DATA

Social Security records are probably more dependable, by and large, than any other series described in Part II. They are based upon business records which are subject to easier and more precise check than tax returns or field survey schedules; the reporter has slight incentive to misrepresent the facts; the definitions, which follow common usage, are fairly precise; record keeping and tabulation are highly mechanized. Since the effects of auditing should be cumulative, the data should get better and better. The amount of underreporting and its significance have been studied and because the program has been stable since its initiation, the margins of uncertainty can be steadily narrowed.

C SURVEYS

The techniques for organizing and administering large scale surveys have vastly improved in the last decade and can perhaps be said to have reached a relatively high point of efficiency. Statistical theory has contributed the basis for selecting samples whose representativeness can be fixed in advance. The problems of defining satisfactorily the constituents of income and the recipient units are more clearly recognized than a decade ago, and correspondingly better solutions are possible. Nevertheless, the survey, however carefully planned and ably administered, is never completely successful in getting all the information desired.

The special studies described in Part II have resorted to various devices to make up for faulty reporting, which has two aspects. (1) Incomplete—For some of the units drawn in the sample the

income data cannot be obtained; e.g., households that could not be interviewed or that refused to answer some or all questions. The number will be known, if the survey keeps accurate sampling records, and it is ordinarily possible to ascertain something concerning the income level of those missed. (2) Inaccurate—Under or overstatement of income by respondents is generally acknowledged but is practically impossible to demonstrate. Incomplete reporting is probably most serious in a survey trying to gather details, since the chances of partial answers increase with the number of questions. Inaccurate reporting, on the other hand, is doubtless more frequent when only a total figure is requested.

The relative number of enumerated units whose income was not ascertained has been recorded by nearly all the surveys described in Part II. It amounted to about 7 per cent in the Financial Survey of Urban Housing and 5 per cent in the National Health Survey, canvasses in which an estimate of total income alone was requested, and to about 15 per cent in the Minnesota Field Survey. The proportion of households whose income was not ascertained was probably at least as great in the Consumer Purchases Study as in the Minnesota Field Survey. The records of the National Health Survey and the Consumer Purchases Study reveal a wide variation in the proportion whose income was unknown in communities canvassed by both.

Some evidence on the income status of the groups not reporting income has been assembled. A tabulation by the National Health Survey indicates that failure to report income is positively associated with rent levels. By checking the schedules it collected against directories and similar sources, the Consumer Purchases Study concluded that the proportion of enumerated households it failed to get a schedule from was larger among business and professional families than among the wage earner and clerical.³ Both bits of evidence establish a presumption that the upper income groups are underrepresented in income data collected in surveys. In addition, they provide some basis for measuring the bias. If similar tabulations were made as a matter of course in every survey, the information gathered would be more useful.

In certain cities the Consumer Purchases Study experimented

with substituting families whose income was known for those whose income could not be ascertained. The schedules were divided into two groups at random, one to constitute the final sample, the other, a reserve from which substitutes could be made. For each incomplete schedule in the group of schedules that was to constitute the final sample a substitute was chosen on the basis of residential district, rent, occupation, and other characteristics that could be made to correspond. These substitutions naturally reduce or eliminate the bias in the sample with respect to the characteristics used to select the substitutes. Whether this procedure 'corrects' the income bias, i.e., whether the final result, based upon a smaller but 'corrected' sample, is sufficiently better to compensate for the disadvantage of using a small sample, cannot be determined.

Inaccurate reporting must probably be accepted as unavoidable in a survey. The respondent, in the majority of interviews the housewife, may not be the person who earns or receives the income. Records are lacking or in any case are not consulted during the interview. Minor items, although they may amount to relatively large sums during a year, are forgotten. Since there is, in general, no way of judging whether a schedule is complete, editing cannot do more than delete patent absurdities, unless access can be had to other sources of information. Replies can sometimes be checked against reliable aggregates, such as AAA benefit payments, but few items can be verified in this way and adjustment by income classes is seldom possible.

Since no objective check on the accuracy of a survey schedule comparable with a tax return is ordinarily accessible, a second interview, in which the same questions are asked of the same or another member of the family, is the one type of verification that can be uniformly used. It was used, however, more to test the enumerator's honesty than to substantiate the respondent's statements. Since every entry on the schedule is not checked, second interviews are not of much help in validating the income information. The respondent, however, does not ordinarily have the same incentive to understate his income as when reporting for tax purposes.

Incomplete reporting also is often due to the inadequacy of the

respondent's information. More often than not, in the absence of accurate records, reliance must be placed on estimates and memory. The margin of error may sometimes be uncomfortably great. For example, a regularly employed salaried worker with no other income should have no difficulty in giving a precise figure, whereas a person paid by the hour with fluctuating employment, some of which is overtime, may have only a rough idea of his compensation during the preceding year. Are earnings reported as accrued or after Social Security taxes, group insurance premiums, or pension contributions have been deducted? The respondent may not know how much children or other members of the economic unit earn, and the difficulties of distinguishing between gross and net income, e.g., from a rented dwelling, stand in the way of correct replies.

Field surveys have found it hard to get an exact figure on income from independent businesses, especially farms. The respondent may have merely a vague notion of the withdrawals from the business for family living, of changes in inventory, of depreciation. What value should be imputed to an owner-occupied dwelling or to home-grown food?

The investigator's personality, appearance, persistence, familiarity with the language and with the general economic situation of the respondent, and numerous other factors all affect the success of the canvass. Competent investigators and supervisors are not always to be had. Typically a survey lasts only a few weeks in a given community. Such temporary employment does not often attract suitable applicants. The terms under which the project is financed may further narrow the choice to those on relief rolls, and impose conditions of employment. Consequently, those in charge may not have much choice in recruiting a staff, being forced, perhaps, to employ investigators in whose ability and integrity they do not have complete confidence.

The effect community response has on the validity of the results cannot be assessed, but there is little *a priori* reason to doubt the conclusion of at least some supervisors that cooperation depends in noticeable degree upon the attitude of community leaders and the press. Reactions may range all the way from hearty disapproval to enthusiastic approval. WPA sponsorship, for example, may antag-

onize some respondents and not others. Refusals may run high, but are the completed schedules any less good? No blanket answer is possible. Surveys that have experienced these embarrassments have not yet attempted to analyze them in detail and it may well not be feasible. A case in point is the 1940 Census. Before it was taken, certain political opposition to the income questions received front-page notice. Were respondents consequently less truthful than they would otherwise have been, or did the publicity so focus attention on these questions as to make for more carefully considered replies?

N O T E S

¹ For a discussion of the effect of auditing on nonreporting and underreporting see Part II, Ch. 1.

² See Part II, Ch. 4, Sec. VIII and IX.

³ These tabulations are described in the Study of Consumer Purchases, Urban Series, U. S. Bureau of Labor Statistics (various Bulletins).