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D Directions of Further Inquiry

An empirical investigation in economics often leaves more questions unanswered than it answers, opening a wider vista than the canvas originally covered and requiring further explorations. The main reason for this embarrassing situation is the changing complexity of economic reality and the paucity of data and resources available for empirical study, which together make it difficult to elaborate an acceptable theory, a tested framework that delimits an area of knowledge and fully defines its components. Had we such a framework, any empirical investigation would be seen to cover some of the field and to reduce the area of ignorance, rather than unveil new areas and new aspects of hitherto unrecognized ignorance. In the absence of such a framework, the more one learns the more one realizes one does not know.

This remark does not imply that economic research is not worth while: after all, what is learned can and should be used, no matter how much else we may be ignorant of. The remark is made here rather to show the impossibility, at the end of this investigation as at the end of many another, of listing all potential lines of further inquiry: there are too many for any list to be of much use. We try rather to mention the most obvious directions of further work, obvious because they are forced upon our attention by difficulties encountered in trying to establish our findings; are brought out by the data or techniques for areas we ourselves did not explore; or seem so logical an extension of findings to other sectors of the economy as to call for further study, even if different data and techniques are required.

1 *Testing the Findings*

Little is or can be said specifically in this summary about the reliability of our estimates or the technical steps taken to attain them. But it must be evident from our presentation that we encountered considerable difficulty in constructing estimates with a high degree of reliability and in unearthing data for checking the several hypotheses. Hence, the first and most obvious line of further inquiry is to test the findings in the light of new data for the future that will increasingly become our past or new data for the longer past.

The broad areas for testing are three. One is the comparability of data reported on federal income tax returns with those underlying the estimates of countrywide income receipts of individuals. This investigation and several others examined these two bodies of data and tried to improve their comparability, but the task is far from finished. Current steps providing for a more systematic audit of federal income tax returns will make possible for the first time a careful estimate of shortages in tax reporting by individuals. It is hoped that the use of these data, together with further scrutiny of the countrywide estimates, will resolve the discrepancies and assign them to the proper size classes and types of income. The results of such further work are not likely to upset the broad conclusions drawn in this investigation; nor would adjustments indicated by audits for current years necessarily apply to data for the past. But comparisons of totals on federal tax returns with countrywide estimates of aggregate payments to individuals are an obvious step toward a combined analysis of the two bodies of data, and perhaps the only valid basis for continuous estimates of the income shares of upper income groups. Hence, such further testing of the comparability of these data is needed not only as a further check upon the findings for the past, but even more as a base for continuous estimates and analysis for the future.

The effects of statistical and social characteristics of upper income groups upon their income shares constitute the second area for testing. Our analysis is patchy, partly because data are few and partly because only so many years and resources can be devoted to any empirical study. But limited as it is, it reveals how large the effect of taking income for a period longer than just the current year; of excluding from the income distribution groups who are either in the 'learning' stage or are already semi-retired or retired; of considering differences in purchasing power of money between the upper and lower income classes. The incomes men and women receive from their participation in economic activity, either by working or by lending their property, determine the effectiveness of their contribution to economic production in the future and are a major factor in shaping their actions as buyers and consumers. But any interpretation of the size distribution of income as influencing the behavior of people as producers and consumers requires not only measuring the shares but also associating them with the demographic, economic, and social characteristics of the several income size classes. Further work in this direction, even if confined to the upper income groups, is needed to lend more realism and permit more intensive analysis than was feasible in this investigation.

The third area for testing consists of the patterns of savings- (and the implied patterns of consumer expenditure-) income ratios for the upper and lower income groups. More information is needed on the temporal stability of savings-income ratios of upper income groups as compared with their variability among the lower income groups, as well as analysis to show more explicitly why these should be the behavior patterns. Data must be gathered for more checking, and related sectors in the distribution of income between savings and expenditures and within expenditures among outlays on different types of goods analyzed, so that we can understand why upper income groups allocate their income between savings and expenditures as they do.

2 *Extending the Analysis along Present Lines*

Measuring income shares of upper income groups by comparing data on tax returns with estimates of the income of the total population is a technique that can, without substantial modification, be extended in two directions. It can be applied, first, to each of the forty-eight states in this country or to combinations of them in regions; second, to other countries for which both individual income tax returns and estimates of total individuals' incomes are available.

State totals of income receipts by individuals have been estimated for 1919-21, and annually since 1929. The tabulations of federal income tax returns classify returns by the filer's state of residence throughout the years covered by the federal income tax, and in as full detail as for the country as a whole at least since 1926. To compare for each state the several variants in the detail employed here for the country would be unwarranted not only because of the labor involved and lack of detail for some years but even more because the margins of error are wider for the state units than for the nation in both the income tax data and the estimates for all individuals. Moreover, the state estimates for property incomes and the federal income tax data are partly interdependent, whereas federal tax data and the countrywide estimates of individual incomes are independent. But if the comparisons for the states were confined to the basic variant, dealt with shares in total income alone (disregarding shares in state totals of various types of income), and deliberately neglected some of the finer points in the procedures used here for the countrywide comparisons, the results, procurable with moderate labor, would still be of substantial value. They would permit us to associate differences in the shares of upper income groups, defined in standard percentage bands, for the several states at a given time with the economic and social characteristics of the states. Comparisons for several years would enable us to study differences in the movement of the shares of upper income groups in states and regions, and the factors that determine them.

The extension of the analysis to other countries is contingent upon the availability of reliable and independent sets of data for both terms of the comparison. Lack of knowledge about data for other countries makes me hesitate to speak about this matter with assurance. However, in most industrially advanced countries where fairly effective individual income tax systems have long existed, total individuals' incomes are likely to be estimated. The big question is whether the two sets of data are independent, particularly whether the countrywide totals are not themselves based in large part upon income tax data; and the other bases of estimates are perhaps of doubtful validity. Whatever the case, comparisons similar to those in the report may well be feasible for other countries; and application to them of this or similar techniques should yield results of high value. The results might lengthen the period over which changes in the income shares of upper income groups could be observed, and reveal these changes for economies that differ significantly from ours—in the phase of their development, in social and economic structure, and in the degree to which the state, through taxation or other measures, has tried to shape the distribution of income and wealth.

3 *Extension to Other Sectors of the Income Distribution*

Through most of the period studied here, federal income tax data cover a relatively small proportion of the population, and we can measure the income shares of the top groups alone. Even for the few recent years for which the coverage reaches much further down the size distribution of income there are grounds for believing that the relative error in reporting increases as we descend the income scale.

Consequently, it is still safer to measure the shares of a relatively small top percentage group alone.

Obviously the main direction of further inquiry is to analyze income shares and the determining factors for sectors below the small top group; and it is equally obvious that for this purpose new data and techniques are requisite. It is neither possible nor appropriate to discuss them at length here. Were they easily available, we would have used them, and this summary would cover a much larger segment of the income size distribution.

But some general comments can be made. Public interest in the size distribution of income has tended to emphasize the upper and the lower extreme tails, the top groups that derive large incomes and the groups at the bottom that suffer from inadequate incomes. Such emphasis arises from natural apprehension about a possibly dangerous concentration of economic power at the top, and from concern about the human misery that may result from the shortcomings of our economic and social system at the bottom. But the emphasis may be justified even if one is merely interested in the causes and consequences of income size, regardless of welfare, justice, or power. For it is at the extremes that the causes and effects of income size are most conspicuous.

The most natural supplementation of this investigation would be to study the income shares of low income groups, if there is need to limit the study instead of trying to cover the full range of the income size distribution. Whether or not there is any advantage in studying the low income groups before other sectors, much of what has been said in this summary concerning the upper income groups is, by analogy, relevant to an analysis of groups at the bottom of the income scale. Their income shares may vary over time much more than do those at the top; and over the short term of business cycles, they would move counter to upper income shares. But statistical and social characteristics seem just as relevant in interpreting the low average level of incomes at the bottom of the scale as in interpreting the high level incomes at the top: the low income groups may have a disproportionately large component of transitorily depressed incomes, of learner and retired groups, and of people residing in areas with an appreciably lower price level or cost of living. Likewise, the observations concerning the temporal stability of savings-income ratios at the upper income levels bear with them the complementary consequence of high variability at the very low income levels.

In all these respects a study of shares in income and savings of income groups at the bottom of the income size distribution would in a sense be a continuation of this investigation, serving both to complement and test our findings. It would necessarily have to employ different data, for the groups involved are not covered by income tax statistics, no matter how wide the coverage of the law. On the other hand, sample field studies are likely to cover these groups more fully. And the attention of society, directed at such of these lower groups as need assistance, has yielded and will continue to yield data not forthcoming for either the middle or the upper ranges of the income size distribution.

For reasons explained at the beginning of this section, we could easily list many more topics for further study in the field. But the many of importance not even mentioned, e.g., the internal shifting within the distribution of income, will be recognized if one basic concept emphasized throughout this investigation is kept in mind. We conclude this summary by trying to express this concept in a few words.

A distribution of income by size is an integral part of a rather complex set of interrelations in a country's economy, a set that functions amidst continuous change, whether long or short term. An economy is a system of interrelated parts whose relative weights and influences change in different ways, even if some pattern can be observed. Differences in size of income are one aspect under which differences in the components of the economy—among occupations, industries, age and sex groups, education, etc.—emerge, and these differences, whose combined effects are reflected in the size distribution of income, shift both in the long term growth and in the short term changes associated with business cycles. Hence, to conceive differences in income as significant in and of themselves, as having a meaning outside the structural differences in a country's economy that find expression in them is to overlook their most telling aspect. To justify a given inequality in the distribution of income by general references to inequality in ability, or to condemn it by general references to egalitarian principles, is equally superficial. In a dynamic society the various structural components (industries, occupations, etc.) grow at different rates and undergo different changes in the short run; hence income will always be unequally distributed, and inequality will change in smaller or greater degree over time. But this does not mean that all present income differentials are indispensable to satisfactory growth in the long run or to adaptation in the short run. The essence of the matter is not in the inequality but in what it stands for—differences in production and consumption power and incentive among the various groups and the bearing upon the functioning of the economy as judged by its basic purposes.

It is this concept of the income size distribution as a summary expression of various components of a changing economy that is the chief concept of the investigation summarized here. The unfolding of all its implications would perhaps yield the best general guide for further research in the field.