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CHAPTER 2

Composition and Patterns of Income

A COMPOSITION OF INCOME IN EACH INCOME GROUP

ALTHOUGH our data cover only the incomes of persons filing returns, the conclusions that can be drawn are valuable, first, because income tax returns in Wisconsin probably cover all incomes (except those of federal employees) above \$2,000,¹ second, because the returns below \$2,000 constitute a large, if somewhat selective, sample of the incomes below that level.² In Table 1, therefore, the incomes of persons at all points on the income scale can be compared. A striking pattern of variation in composition over the income scale is revealed:

- 1) Individuals with low incomes receive a preponderant share of their income in the form of wages.³ Wages are 77 percent of incomes reported below \$1,000 and 83 percent of those in the \$1,000-2,000 group. Above \$2,000, wages decline as a source until they are only 10 percent in the group above \$100,000.
- 2) Business and partnership profits bulk largest in the middle income groups, \$4,000-10,000, where they constitute between 20 and 22 percent of reported income.
- 3) Interest, dividends, and capital gains are relatively minor sources of income in the lower groups, but become larger sources

¹ Personal exemptions in Wisconsin were among the lowest in the country in 1936—\$800 for unmarried and \$1,600 for married persons. Wisconsin income tax assessors usually require a return from all persons receiving gross incomes above \$2,000.

² For the definition of 'total' income used in this study, see Part I.

³ Throughout this Part, 'wages' includes salaries.

TABLE 1
Percentage Composition of Income by Income Groups, 1936

INCOME GROUP	TOTAL	WAGES AND SALARIES	INTEREST	DIVIDENDS	BUSINESS & PARTNERSHIP PROFITS	NET RENTS	CAPITAL GAINS	OTHER SOURCES *
Total	100	69.77	3.63	6.23	13.17	2.06	2.75	2.39
\$1- 999	100	76.57	4.44	1.95	9.79	3.69	.37	3.19
1,000- 1,999	100	82.94	2.06	1.11	9.79	1.75	.33	2.02
2,000- 2,999	100	76.20	2.54	2.08	14.47	1.91	.80	2.00
3,000- 3,999	100	66.63	3.75	3.91	19.44	2.17	2.06	2.04
4,000- 4,999	100	60.48	4.85	6.02	20.99	2.38	3.25	2.03
5,000- 5,999	100	57.55	5.13	7.72	21.34	2.44	4.03	1.79
6,000- 7,999	100	53.30	5.58	9.72	21.51	2.44	4.99	2.46
8,000- 9,999	100	51.09	6.40	11.47	20.73	2.50	5.91	1.90
10,000-14,999	100	45.04	6.99	17.12	19.12	2.21	7.34	2.18
15,000-19,999	100	43.98	6.78	20.69	14.58	1.76	8.96	3.25
20,000-24,999	100	37.69	6.90	22.56	17.43	.86	11.45	3.11
25,000-49,999	100	31.87	7.60	32.75	10.70	1.31	12.43	3.34
50,000-99,999	100	24.97	6.61	43.52	4.18	.59	15.65	4.48
100,000 & over	100	10.19	8.07	46.97	1.33	.82	27.25	5.37

Unpublished tabulations of Wisconsin Income Tax Study, 1936.

* Includes royalties from copyrights and patents, value of merchandise, fiduciary income, insurance income, other labor income, and other income unclassified.

as individual incomes increase. At the higher levels dividends are the largest of these three receipts, constituting about 47 percent of the incomes above \$100,000. Capital gains are 27 percent, and interest, only 8 percent.⁴

4) Rent is a small and relatively constant percentage at all levels. Except for the under \$1,000 group, where it constitutes 3.7 percent, and the groups above \$20,000, where it is 1.3 percent or less, rent is from 1.75 to 2.5 percent of reported income.⁵

5) 'Other sources', which are largest at the very low and very high income levels, include receipts usually classified as labor and entrepreneurial incomes (other labor income⁶ and value of merchandise withdrawn from stock) and property incomes (royalties from copyrights and patents, fiduciary and insurance income). They decrease from 3.2 percent of the incomes under \$1,000 to 1.8 percent in the \$5,000 group, range from 1.8 to 2.5 percent in the \$5,000-10,000 group, and increase to 5.4 percent above \$100,000.⁷

The changes in income composition are gradual. Wages and salaries and entrepreneurial income both dominate the lower income levels and constitute surprisingly high percentages of aggregate income at fairly high levels, and property receipts, which dominate the high income levels, are fairly large also at the lower. Wages and entrepreneurial incomes still account for 55 percent of incomes between \$20,000 and \$25,000; only at the \$25,000 level do they account for less than half of reported income. On the other hand, receipts from property account for as much as 12 per-

⁴ Individuals filing tax returns need not report nontaxable interest on federal government bonds—estimated to aggregate \$6-14 million in 1936 (see Part I). No data are available to indicate how nontaxable interest is distributed among income groups. On the assumption that nontaxable interest is distributed in the same manner as taxable interest (see Part I, Table 1), the percentage that interest receipts are of aggregate income in the groups above \$25,000 would increase 1.3-3.0 percent.

⁵ Rent includes royalties from property such as oil and mineral royalties. Royalties from copyrights, patents, and other legalized privileges are included in other sources. See Appendix to Part I.

⁶ Includes compensation in services and in property, tips, and taxable pensions.

⁷ These receipts are so few that they were lumped together. 'Other labor income' and the value of merchandise withdrawn from stock should have been combined with wages and business income, respectively, and the two sums treated as labor or business income. The error involved in the failure to make this combination is minor.

cent at the \$3,000 level, 17 percent at the \$4,000 level, and 19 percent at the \$5,000 level.

Persons with very low incomes also receive substantial portions from property. Interest, dividends, rent, and capital gains account for 10.4 percent of incomes reported below \$1,000—more than at the \$1,000-3,000 level. The specific receipts differ considerably, however, from those of persons with high incomes. They are mainly rent and interest, while those of persons with high incomes are mainly dividends and capital gains.⁸

B THE HETEROGENEITY OF INCOMES AT SPECIFIC INCOME LEVELS

Composition of income is computed from the aggregates of the different receipts reported by a group of income recipients. Since the variations in income characteristics among members of the group are neglected, conclusions drawn from the composition of income implicitly assume that the individuals at a given income level constitute a homogeneous group.

The several types of receipt represent payments to individuals for performing different kinds of service or function.⁹ If composition adequately describes the income characteristics of all individuals at each income level, an individual's income and the functions he performs should be closely related; his income should indicate approximately his functional group. On the other hand, if composition conceals wide variations among individuals at the same income level, a classification of individuals by size of income would not be an adequate index to their functional characteristics.

⁸ The Australian Census of Wealth and Income, taken in 1915, and the Consumer Purchases Study for 1935-36 also indicate that persons at the lower end of the income distribution receive fairly large portions of their income from property (G. H. Knibbs, *The Private Wealth of Australia and Its Growth*, Commonwealth Bureau of Census and Statistics, Melbourne, 1918, and *Family Income in Nine Cities of the East Central Region*, Bureau of Labor Statistics, Bulletin 644, Vol. I, Washington, D. C., 1939; Table 2 for each city).

⁹ The distinction between receipts is, however, not precise because of the effect of corporate and other business institutions on the manner in which income payments are made. The owner of a closely-held corporation, for example, may pay himself a salary or dividend. This is discussed more fully below.

Composition depends upon two variables: the number of individuals in the income group who receive each receipt and the average size of each receipt. It can indicate functional grouping precisely only when every individual in the group receives the same combination of receipts in approximately the same amount. If, at a given total income level, some individuals received only wages, while others received only profits, composition would be determined largely by the ratio of the number of individuals in the first group to that in the second.¹⁰ Are compositions of income at the several income levels due to similar compositions for every individual at the same level or to diverse individual compositions? The greater the diversity, the smaller the value of these data for purposes of functional grouping.

Some of the data required to test the hypothesis that individuals in the same income group receive approximately the same types and amounts of receipt are shown in Tables 2 and 3.¹¹ The greater number of receipts per person in the higher income groups may be associated with greater diversity in the composition of individual incomes.¹² Individuals with less than \$1,000 income receive, on the average, 1.17 receipts, while individuals with incomes above \$100,000 receive 2.77 receipts.¹³

Tables 2 and 3 together may also be used to demonstrate that

¹⁰ Composition would depend also on the ratio of the average wage to the average profit.

¹¹ The distributions of receipts by size and by total income groups, the basis for this analysis, include only receipts that constitute the two largest sources on a return or that are tertiary sources of \$5,000 or more. Since we are concerned with the extent to which the composition of the income of specific individuals deviates from the average composition for each group, the elimination of the few tertiary receipts under \$5,000 does not seriously affect the analysis. The average tertiary receipt excluded is: wages, \$478; business income, \$555; dividends, \$163; interest, \$177; rents, \$119; capital gains, \$337 (*Wisconsin Individual Income Tax Statistics, 1936*, IVA, Table D, p. 15).

¹² Undoubtedly, low income recipients tend to underreport small amounts of property income (e.g., interest from savings accounts, income from roomers and boarders, etc.). Thus, the number reporting property incomes may be understated, and the average sizes overstated, at low income levels.

¹³ The average number of receipts per person was based on data underlying Table 3, and does not include all receipts reported on tax returns. Excluded from Table 3 are royalties, value of merchandise withdrawn from stock for personal use, fiduciary income, insurance income, other labor income, and 'other income unclassified'. The excluded receipts accounted for only 2.39 percent of aggregate income reported by filers in 1936 (Table 1).

TABLE 2
Percentage of Returns in Each Income Group
Reporting Selected Receipts, 1936

INCOME GROUP	WAGES AND SALARIES	BUSINESS & PARTNERSHIP PROFITS	NET RENT	INTEREST	CAPITAL GAINS	DIVIDENDS
\$1- 999	75.02	12.60	8.60	11.92	0.88	7.77
1,000- 1,999	86.72	12.24	7.34	8.55	0.96	6.99
2,000- 2,999	82.44	18.25	10.20	11.86	2.73	13.51
3,000- 3,999	75.03	24.79	10.05	16.19	6.17	21.20
4,000- 4,999	70.93	27.38	9.22	17.94	9.41	27.94
5,000- 5,999	69.70	28.18	8.28	18.06	11.72	32.71
6,000- 7,999	66.76	28.06	8.48	19.75	13.46	36.04
8,000- 9,999	65.93	26.98	7.24	19.99	15.81	41.56
10,000-14,999	62.56	24.95	6.44	20.21	18.63	49.19
15,000-19,999	65.66	19.53	5.05	18.97	18.52	58.82
20,000-24,999	62.95	23.75	3.56	19.00	22.80	60.57
25,000-49,999	59.68	15.61	3.46	25.43	29.69	75.00
50,000-99,999	65.05	7.76	2.43	29.13	42.23	85.44
100,000 & over	60.81	6.76	1.35	56.76	60.81	90.54
Total	81.25	14.46	8.27	10.87	2.06	10.32

Wisconsin Individual Income Tax Returns, 1936, IVA and B.
Tertiary receipts of less than \$5,000 excluded.

TABLE 3
Average Receipts by Income Groups, 1936

INCOME GROUP	WAGES AND SALARIES	BUSINESS & PARTNERSHIP PROFITS	NET RENT	INTEREST	CAPITAL GAINS	DIVIDENDS
\$1- 999	\$684	\$518	\$277	\$239	\$251	\$152
1,000- 1,999	1,380	1,149	311	315	427	192
2,000- 2,999	2,184	1,866	385	439	590	301
3,000- 3,999	3,012	2,647	610	662	984	518
4,000- 4,999	3,766	3,368	931	997	1,342	809
5,000- 5,999	4,463	4,065	1,289	1,219	1,597	1,095
6,000- 7,999	5,447	5,206	1,623	1,527	2,191	1,592
8,000- 9,999	6,838	6,737	2,392	2,248	2,801	2,146
10,000-14,999	8,561	9,069	3,114	3,159	3,973	3,780
15,000-19,999	11,286	12,499	4,252	4,136	6,888	5,498
20,000-24,999	13,226	16,150	2,509	5,854	9,563	7,673
25,000-49,999	17,271	22,791	9,772	8,071	12,786	14,343
50,000-99,999	25,713	35,812	11,348	12,541	24,089	34,017
100,000 & over	37,141	44,170	152,290	30,846	99,600	115,937
Total	1,572	1,645	400	522	2,199	1,022

Wisconsin Individual Income Tax Statistics, 1936, IVA and B.
Tertiary receipts of less than \$5,000 excluded.

composition of income figures covers up much individual variation. For example, in the income group below \$1,000, 75 percent of the individuals reported wages, while 13 percent reported business and partnership profits. The average wage was \$684 and the average business income \$518. As both were above \$500, wage earners and business men at this income level must have received relatively small amounts of secondary income. A large group of wage earners were almost entirely dependent upon wages and a (much smaller) group of business men almost entirely dependent upon profits from their business. Composition of income figures merely show that 77 percent of the aggregate income reported in the below \$1,000 income group was in the form of wages, and 10 percent in the form of business profits. They thus ignore the individuals who were almost entirely independent of wages. Similar examples can be cited for every income group.

Differences in the receipts reported by individuals with approximately the same total income are obvious when the variability in each receipt at a given income level is examined. In the \$2,000-3,000 group, for example, the middle 50 percent of interest receipts has a range slightly more than twice the median interest receipt (Table 4). Although the receipts differ consider-

TABLE 4
Relative Interquartile Differences of Receipts
in Four Income Groups, 1936

TYPE OF RECEIPT	I N C O M E G R O U P			
	\$2,000- 3,000	\$5,000- 6,000	\$10,000- 15,000	\$25,000- 50,000
Wages & salaries	.18	.31	.61	.95
Business & partnership profits	.36	.52	.67	1.04
Net rent	1.47	2.22	1.90	.77
Interest	2.04	2.18	1.47	1.44
Dividends	1.62	1.21	1.34	1.28
Capital gains	2.23	2.32	1.37	.95

Wisconsin Individual Income Tax Statistics, 1936, IVA and B.
Tertiary receipts of less than \$5,000 are excluded.

ably in variability, all vary widely at all income levels, except wages and business incomes at the lower levels. Consequently, individual incomes at each level must be made up of different receipts in varying proportions.

The concept of 'composition' thus suffers from two deficiencies: first, it does not indicate the number of individuals who receive each type of receipt; second, it covers up variations in the size of individual receipts at a given income level. To analyze the incomes of individuals at the several income levels in more detail, 'patterns of income' tables were designed.

C A FUNCTIONAL CLASSIFICATION OF INCOME RECIPIENTS

In its most detailed form, a 'pattern of income' is the composition of the income of an individual; it shows the combinations of income receipts that add up to his total income. On the basis of the 1936 patterns-of-income data, the individuals who filed returns may be classified into three functional groups—wage earners, business men, and property income recipients—and cross-classified by total income groups. From these cross-classifications the characteristics of each functional group can be singled out. The cross-classifications show the differences in the average total income of the various groups, their respective income sources, and their distributions by size. More important, they make it possible to test whether it is meaningful to distinguish broad functional groups among income recipients on the basis of income size alone. Conceivably, the overlapping of receipts usually attributed to each group might well destroy the significance of the classification.

If the term 'pattern of income' were defined in its most inclusive sense, as the composition of the income of an individual, the patterns would be numerous, and two individuals would have the same patterns only if they received identical receipts. The problem of dealing with such minute groups would be overwhelming.¹⁴ To facilitate the handling of the data, a less rigid definition, designed to classify individuals by functional groups,

¹⁴ If the pattern of a given income were determined by ranking each type of receipt according to magnitude, the number of patterns theoretically possible is the number of permutations of the different types of receipt taken 1, 2, 3 . . . , n times, where n is the number of receipts. Where n is 7, the number of types of receipt differentiated in the basic patterns of income tables, the number of such patterns would exceed 13,000.

the primary basis of classification being the largest receipt, was adopted. Under it the number of possible patterns are fewer and the heterogeneous elements in a given pattern are held to a minimum. Seven main groups of patterns correspond to the seven types of primary income receipt: labor income (wages, salaries, compensation in services or in property, tips, and taxable pensions), entrepreneurial income (business and partnership profits, and the value of merchandise withdrawn from stock for personal use; business and partnership losses are ignored); interest, dividends, rent, capital gains, and other property receipts (royalties, fiduciary and insurance income, and unclassified). The members of each group are classified by the number of their receipts (1, 2, and 3 or more) and the nature of their secondary receipt. A frequency table for the patterns of income, thus defined, by size of total income is given in Appendix Table 1.¹⁵

This limited definition of a pattern gives the following information about the income of an individual:

- 1 His total income, within the limits of a group interval
- 2 The number of his receipts
- 3 The receipt that constitutes either his entire income or his largest source
- 4 The receipt that constitutes his second largest source of income, if any

The functional classification may be condensed further by combining recipients of any type of property income and ignoring distinctions in secondary income.¹⁶ This condensation reduces the functional categories to three: wage earners—individuals who receive only wages or whose largest source is wages; entrepreneurs—individuals who receive only business incomes or whose largest source is business income; and investors—individuals who receive only property receipts (interest, dividends, rents, capital gains, and other property income) or whose largest source is property.

Of the 441,000 persons filing Wisconsin income tax returns in

¹⁵ For the details of the methods used in the preparation of this table, see Appendix A.

¹⁶ One, probably infrequent, exception should be noted. Individuals with secondary and tertiary property receipts that aggregated more than the largest receipt could not be differentiated. They were classified as wage earners or business men.

1936, approximately 79 percent depended primarily on wages, 13 percent on entrepreneurial income, and 8 percent on property income (Table 5).¹⁷ Those who depended primarily on property income may be subdivided into five groups, corresponding to the five types of property receipt; interest was reported as the largest source by 36 percent of investors; rent, by 25 percent; dividends, by 19 percent; other property incomes, by 13 percent; and capital gains, by 7 percent.

TABLE 5
Distribution of Returns by Largest Receipt, 1936

LARGEST RECEIPT	NUMBER OF RETURNS	% OF TOTAL	% OF SUBTOTAL
Labor income	350,381	79.39	
Entrepreneurial income	55,974	12.68	
Property income	34,986	7.93	100.00
Interest	12,555	2.85	35.89
Net rent	8,799	1.99	25.15
Dividends	6,820	1.55	19.49
Other property	4,382	0.99	12.52
Capital gains	2,430	0.55	6.95
Total, all returns	441,341	100.00	

The average total income received by individuals in the three main groups indicates, roughly, how the groups are distributed throughout the income scale: wage earners received the smallest average total income, \$1,686; entrepreneurs received \$2,073; investors, \$2,892. In the lowest income groups, individuals are, in the main, dependent upon labor income (Table 6). In the higher income groups, labor income is the largest source for a smaller percentage. The entrepreneurial income group is largest at the \$6,000-8,000 level. Except for the group below \$1,000, the percentage of all returns at each income level reporting property receipts as the largest source increases continuously with income. In the \$1,000-2,000 group, about 4 percent of filers reported their largest receipt from property; in the over \$100,000 group, 92 percent.

¹⁷ Tax returns cover only 26 percent of all persons receiving incomes under \$2,000. When nonfilers are included, the distribution of income recipients is altered. Of an estimated 1,391,000 recipients in Wisconsin in 1936, 77 percent were wage earners, 20 percent, entrepreneurs (including farmers), and 3 percent, investors (Part I, Table 1).

TABLE 6
Percentage Distribution of Returns in Each
Income Group by Largest Receipt, 1936

INCOME GROUP	NUMBER OF RETURNS	L A R G E S T R E C E I P T		
		LABOR INCOME	ENTREPRENEURIAL INCOME	PROPERTY INCOME
\$1- 999	128,699	73.58%	11.96%	14.46%
1,000- 1,999	206,610	85.46	10.58	3.96
2,000- 2,999	66,151	80.43	15.41	4.16
3,000- 3,999	17,848	71.59	20.80	7.61
4,000- 4,999	7,280	66.50	22.34	11.16
5,000- 5,999	4,020	63.08	23.16	13.76
6,000- 7,999	4,137	58.93	23.54	17.53
8,000- 9,999	2,031	58.00	22.99	19.01
10,000-14,999	2,281	52.08	20.91	27.01
15,000-19,999	891	51.29	16.50	32.21
20,000-24,999	421	43.47	20.19	36.34
25,000-49,999	692	37.86	12.28	49.86
50,000-99,999	206	19.90	5.34	74.76
100,000 & over	74	6.76	1.35	91.89
Total	441,341	79.39	12.68	7.93

Individuals belonging to these three broad functional groups are distributed throughout the income scale. To divide the income distribution into three sections corresponding to the three functional groups would require an arbitrary selection of dividing points and would completely ignore substantial groups at each income level.

D HOMOGENEITY OF FUNCTIONAL CATEGORIES

May wage earners, entrepreneurs, and investors be treated as homogeneous functional categories? If all wage earners received only labor income, all entrepreneurs, only business income, and all investors, only property income; there would be no doubt that the three functional groups are distinct and homogeneous. However, if labor income constituted only 40 percent of the aggregate income of wage earners, or even 60 percent or 75 percent, an assumption of homogeneity would not be justified.

The homogeneity of a given functional group may be determined from the number of different receipts its members receive;

the types of receipt that are a secondary source; and the extent to which its members are dependent upon the largest and secondary receipts.

Number of Receipts

Of the 441,000 persons filing returns in Wisconsin in 1936, 299,000 or 68 percent reported only one income receipt. Of these, 256,000 were wage earners, 34,000 business men, and 9,000 recipients of some one of the five types of property receipt.¹⁸ Thus slightly more than two-thirds of all filers were clearly dependent upon one source of income and can be classified definitely into their proper functional groups.¹⁹ Individuals with only one source of income are concentrated mainly in the lower income groups, regardless to which functional group they belong (Table 7).²⁰ Larger incomes are composed of receipts from more than one source, as a rule, and classification at these levels is more difficult.

Secondary Receipts

Most wage earners and business men are in the lower income group and are dependent solely upon income from their jobs or business (Table 8). The 95,000 wage earners with receipts other than wages reported dividends, interest, and rent most frequently as secondary sources; the 22,000 entrepreneurs reported rent, interest, and wages.

The figures in Table 8, like all totals, hide large differences among income groups. Below the \$5,000 level, the secondary

¹⁸ A return with two or more property receipts is classified as a double or multiple source return. The figures just cited, therefore, understate the number of individuals who receive only property receipts. The basic data are not sufficiently detailed to permit more than a rough estimate of the number whose sole source of income was from property. Of the 35,000 investors, about 9,000 received one property receipt, and 9,500 received two (App. Table 1). Of the remaining 16,500, 10,000 reported their two largest sources as property. Thus for 81 percent of the investors, the sole or two largest sources were property.

¹⁹ If the 19,500 investors who reported two property receipts only, or two from property as the largest sources, are added to the 299,000 single source returns, the percentage of all persons who are dependent upon one source of income becomes 72.

²⁰ As a result of the probable underreporting of property income, the number of double and multiple source returns at the lower income levels may be understated; see note 12.

TABLE 7

Percentage Distribution of Wage Earners, Entrepreneurs, and
Investors in Each Income Group by Number of Receipts, 1936

INCOME GROUP	W A G E			E A R N E R S			E N T R E P R E N E U R S			I N V E S T O R S		
	SINGLE SOURCE RETURNS	DOUBLE SOURCE RETURNS	MULTIPLE SOURCE RETURNS	SINGLE SOURCE RETURNS	DOUBLE SOURCE RETURNS	MULTIPLE SOURCE RETURNS	SINGLE SOURCE RETURNS	DOUBLE SOURCE RETURNS	MULTIPLE SOURCE RETURNS	SINGLE SOURCE RETURNS	DOUBLE SOURCE RETURNS	MULTIPLE SOURCE RETURNS
\$1- 999	86.60	10.42	2.98	73.13	16.95	9.92	39.79	38.61	21.60			
1,000- 1,999	75.90	17.44	6.66	63.68	21.04	15.28	15.84	35.66	48.50			
2,000- 2,999	57.46	25.97	16.57	53.37	23.66	22.97	11.73	29.13	59.14			
3,000- 3,999	43.47	28.52	28.01	42.50	26.47	31.03	8.11	22.62	69.27			
4,000- 4,999	33.86	29.27	36.87	38.07	24.23	37.70	5.29	20.17	74.54			
5,000- 5,999	29.38	28.23	42.39	29.65	23.74	46.61	4.34	19.89	75.77			
6,000- 7,999	24.32	30.15	45.53	28.13	20.64	51.23	5.38	19.72	74.90			
8,000- 9,999	20.80	26.40	52.80	21.63	19.27	59.10	3.89	19.95	76.16			
10,000-14,999	14.98	27.53	57.49	19.92	16.35	63.73	2.60	17.21	80.19			
15,000-19,999	7.00	22.76	70.24	16.33	17.69	65.98	3.14	12.89	83.97			
20,000-24,999	6.56	22.40	71.04	10.59	14.12	75.29	0.65	13.73	85.62			
25,000 & over	4.55	14.61	80.84	13.40	5.15	81.45	0.88	9.70	89.42			
25,000-49,999	4.20	15.65	80.15	15.30	5.88	78.82	0.87	12.75	86.38			
50,000-99,999	4.88	9.76	85.36			100.00		6.49	93.51			
100,000 & over	20.00		80.00			100.00		4.41	95.59			
Total	72.95	17.64	9.41	60.05	20.78	19.17	26.53	34.07	39.40			

sources most frequently reported by wage earners were interest and dividends (Table 9).²¹ Entrepreneurs reported rent and interest most frequently. At the higher income levels, members of both groups reported dividends most frequently as a secondary source.²²

TABLE 8
Wage Earners and Entrepreneurs Classified
by Second Largest Receipt, 1936

SECOND LARGEST RECEIPT	NUMBER		% OF TOTAL
	W A G E	E A R N E R S	
Dividends	29,357		30.97
Interest	23,807		25.12
Net rent	18,288		19.30
Other sources	13,785		14.54
Entrepreneurial income	5,551		5.86
Capital gains	3,987		4.21
Individuals with Secondary Receipts	94,775		100.00
Individuals without Secondary Receipts	255,606		
Total	350,381		
	E N T R E P R E N E U R S		
Net rent	5,771		25.81
Interest	5,426		24.27
Labor income	4,158		18.59
Dividends	3,425		15.32
Other sources	2,464		11.02
Capital gains	1,116		4.99
Individuals with Secondary Receipts	22,360		100.00
Individuals without Secondary Receipts	33,614		
Total	55,974		

Of the 35,000 investors who filed returns, 9,000 received only one receipt. Of the remaining 26,000, either labor or entrepreneurial income was the second largest source for about a fourth, and some type of property receipt for the other three-

²¹ It will be recalled that the figures are not corrected for nonreporting or underreporting. Since income from roomers and boarders is probably underreported, it may well be that rents are actually received by wage earners as a secondary source more frequently than dividends.

²² The three groups above the \$25,000 level were combined because there were few returns in each. Details for the groups above \$25,000 are given in Appendix Table 1.

fourths. The most frequent combination of receipts for investors was interest and dividends. Many investors at the higher income levels reported some labor income, but few reported entrepreneurial income; capital gains were frequently combined with dividends at all income levels. For example, of the investors with incomes above \$25,000, wages or salaries were a secondary source for 39 percent; only 2 percent received entrepreneurial income as a secondary source; and 14 percent received capital gains (see App. Table 1).

TABLE 9
Receipts Most Frequently Reported as Second Largest Receipt by
Wage Earners and Entrepreneurs in Each Income Group, 1936

INCOME GROUP	W A G E E A R N E R S			E N T R E P R E N E U R S		
	Most Frequent	Second Most Frequent	Third Most Frequent	Most Frequent	Second Most Frequent	Third Most Frequent
Total	Dividends	Interest	Rent	Rent	Interest	Labor
\$1- 999	Interest	Dividends	Rent	Interest	Rent	Labor
1,000- 1,999	Interest	Dividends	Rent	Rent	Interest	Labor
2,000- 2,999	Dividends	Interest	Rent	Rent	Interest	Labor
3,000- 3,999	Dividends	Interest	Rent	Rent	Interest	Labor
4,000- 4,999	Dividends	Interest	Cap. gains	Rent	Interest	Dividends
5,000- 5,999	Dividends	Interest	Cap. gains	Dividends	Labor	Interest
6,000- 7,999	Dividends	Interest	Cap. gains	Interest	Dividends	Labor
8,000- 9,999	Dividends	Interest	Cap. gains	Dividends	Interest	Labor
10,000-14,999	Dividends	Cap. gains	Interest	Dividends	Interest	Cap. gains
15,000-19,999	Dividends	Cap. gains	Interest	Dividends	Interest	Labor
20,000-24,999	Dividends	Cap. gains	Interest	Dividends	Interest	Labor
25,000 & over	Dividends	Cap. gains	Interest	Dividends	Cap. gains	Interest

*Composition of the Income of Wage Earners, Entrepreneurs,
and Investors*

By definition, the members of each group obtain most of their income from the receipts that characterize the functional categories. However, wages constitute 94 percent of the aggregate income of wage earners; entrepreneurial incomes, 88 percent of the aggregate income of entrepreneurs; and receipts from property, 82 percent of the aggregate income of investors.²³

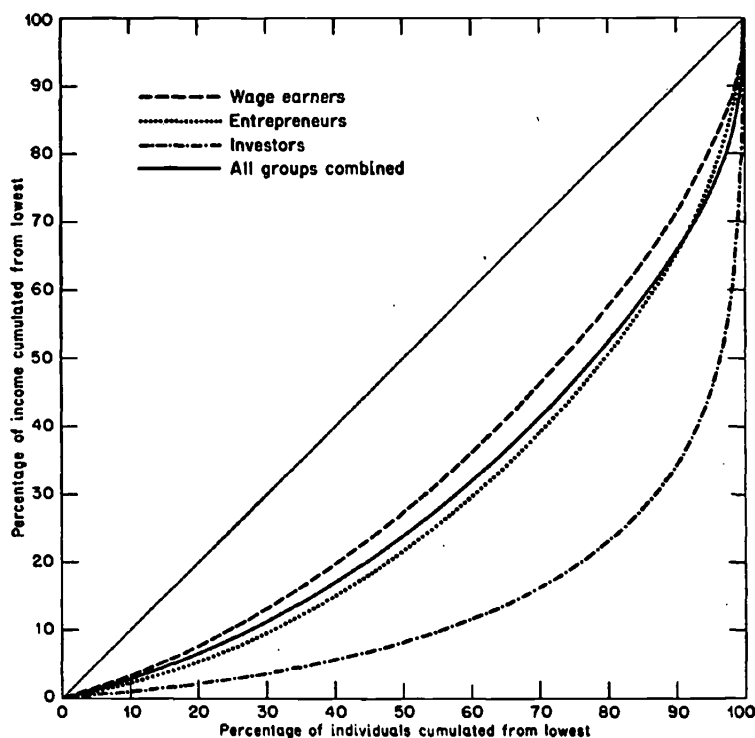
²³ This percentage is understated—how much has not been estimated—to the extent that property incomes are received by investors as tertiary sources and are not classified by type.

The composition of income figures for the various income groups gives a more complex picture (App. Table 2). For all three groups, the largest receipt which gives the group its name, is a high percentage of aggregate income in the lowest income groups. But as the income scale is ascended, this percentage decreases and at the upper end of the distribution, the largest receipt accounts, in some cases, for as little as 60 percent of the income of the group as a whole.

Relative Distributions

The aggregate income of investors is less equally distributed than the aggregate income of either entrepreneurs or wage earners (Chart 1). The ratios of concentration based on these Lorenz

CHART 1
Lorenz Curves for the Distribution of Total Income
Wage Earners, Entrepreneurs, and Investors
Individual Income Tax Returns, 1936



curves are: wage earners, 0.34; entrepreneurs, 0.43; investors, 0.73.²⁴ These measures indicate large differences in the incomes of persons dependent upon the same receipt as a primary source. This is more true of investors than of either wage earners or entrepreneurs. It is clear, therefore, that the size of total income does not depend exclusively upon the kind of receipt that is the largest source.

E EVALUATION OF A FUNCTIONAL CLASSIFICATION OF INCOME RECIPIENTS

In evaluating the usefulness of a functional classification of income recipients, the effect of business practices and institutional arrangements on the form of receipts should be kept in mind. A wage earner would ordinarily have no other sources of income unless he had acquired property through savings, gifts, or inheritance. A business man, on the other hand, may report withdrawals from his business either as a salary or as a business profit. About 10,000 of 1936 filers reported labor and entrepreneurial incomes as their two largest receipts, and for more than a half they were the sole source of income. Although many may have worked for others and conducted a business at the same time, a considerable number undoubtedly reported net income from the operation of a single business in both forms. From the information on income tax returns individuals reporting both labor and entrepreneurial incomes, but receiving both receipts from the same enterprise, cannot be separated from those who receive the two types of receipt from different enterprises.

A business man who incorporates his business changes the types of his receipts but not the actual source of his income. Before he incorporates, he reports his income as business (or partnership) profits, as wages, or as both. After incorporation he can no longer report an entrepreneurial income. Instead, he reports

²⁴ A measure based on the Lorenz curve, computed by expressing the area between the line of equal distribution and the Lorenz curve as a ratio to the entire area below the line of equal distribution. A ratio of concentration of 1.00 would indicate that all income went to one person; one of zero would indicate that every individual received the same income.

wages or dividends, or both.²⁵ In exceptional cases he might report rents or interest. Obviously, all wage and dividend receipts are not in this category, but probably this combination of sources is frequent. Of the 30,000 individual filers in 1936 who reported dividends and wages, 1,600 had incomes above \$10,000 (slightly more than one-third of all persons with incomes above \$10,000). It is at these high income levels that the greatest difficulty is encountered in grouping income recipients functionally.

²⁵ For tax reasons, there is an incentive to receive income as wages, rent, or interest, not dividends. Nevertheless, wages and dividends are reported more frequently than wages and rent, or wages and interest, at all levels above \$2,000; see App. Table 1.