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Agriculture - Econ - Aspects

Part I

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PROCEEDINGS

Agricultural Economics Seminar

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INFLATION AND THE POOR *

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and J. Palmer

September 8, 1966

INTRODUCTION

In a recent paper 1/ we examined the relationship between inflation and unemployment and the effect of these upon the poor. The purpose of that study was to suggest that neither a tax increase or a cutback in government spending in FY 1967 is desirable or necessary unless the 3% unemployment level is approached. The logic involves three steps. We concluded that:

1. The acceleration of inflation may be both small and one-time only. There is neither a prior nor empirical justification for believing that price increases will enter a continuing spiral.

2. That further decreases in unemployment are very important to the poor, and

3. That inflation hurts the poor only very little.

This paper will discuss certain aspects of point 2 and then expand in detail and supplement the arguments underlying point 3. The discussion will be keyed less to the present condition of the economy than was the previous paper.

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*Please note special corrections on page 53

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1/ "Inflation and Unemployment: Their Effects on the Poor - Argument for Continued Economic Expansion" 8/18/66

BENEFICIAL EFFECTS OF REDUCED UNEMPLOYMENT ON THE POOR AND THEIR RELATIONSHIP TO INFLATION

Previous studies 2/ done by OEO's staff clearly demonstrate the high benefits accruing to the poor from reducing the level of unemployment. At low levels of unemployment (3-6%) the unemployment rate of the poor is at least double that of the national level. A percentage point reduction in the overall unemployment rate would mean a 2 point or greater reduction in unemployment of the poor. Accompanying this will probably be an increase in the labor foce participation among the poor. These two together should account for approximately one-half million more poor employed than before the one percent drop.

If the poor greatly benefit in terms of increased employment, what implication does this have for reducing the size, either relatively or absolutely, of the poverty population? To discover this, we ran a number of regressions to test the relationship between percentage of poor people, the unemployment rate, and inflation (ΔCPI). See Table 1. Poverty thresholds are defined in conslant dollar terms. The first regression tested was

$$\% \text{ Poor} = a + b_1 T + b_2 U + e$$

where T was a time trend (1947=0), U was the unemployment rate, and e, a random error term. The resulting equation was $\% P = 28.932 - .9107T + .749U + e$

$$R^2 = .96$$

$$Se^2 = .961$$

Both coefficients are highly significant at 1 percent confidence levels. The implications of the equation are that 1.7 million people are being moved out of poverty every year on true trend, and that a 1 percent reduction of the unemployment rate would move an additional 1.4 million people out of poverty. As Gallaway 3/points out, time trend as it is used here serves as a proxy for some other variable. This variable is probably some measure of economic growth and progress in the United States. He chooses median family income for this purpose, and with his data (with poor, families only, defined as under $3,000 income, 1963 prices without different cutoff for farm) regresses the unemployment rate and lagged median family income against the poverty elimination rate. The rrsult is a very tight fit with both coefficients significant at the .05 percent level. Adjusting for a lower (.6 to .7) farm cut-off will place less emphasis upon time and more upon the unemployment rate for reducing the percent of population which is poor.

2/ See Mooney and Metcalf, Aggregate Demand Model, and Metcalf, Poverty in the U.S.A. Since 1947.

3/ Gallaway, L. E., "The Foundations of the War on Poverty", A.E.R., March 1965.

TABLE I +

THE POOR SINCE 1947

	Poor People (Millions)	% Poor	% Unemployment Rate	% Change, Consumer Price Index
1947	43.1	30.2	3.9	+ 14.4
1948	45.4	31.1	3.8	+ 7.7
1949	48.6	32.8	5.9	- 1.0
1950	45.6	30.5	5.3	+ 1.0
1951	42.6	28.2	3.3	+ 8.0
1952	42.8	27.7	3.1	+ 2.2
1953	40.7	26.2	2.9	+ 0.8
1954	44.2	27.6	5.6	+ 0.4
1955	40.6	24.7	4.4	- 0.3
1956	37.0	22.1	4.2	+ 1.5
1957	37.5	22.1	4.3	+ 3.5
1958	39.3	22.7	6.8	+ 2.8
1959	37.8	21.4	5.5	+ 0.8
1960	38.4	21.4	5.6	+ 1.6
1961	38.4	21.2	6.7	+ 1.1
1962	37.5	20.4	5.6	+ 1.2
1963	35.3	18.9	5.7	+ 1.2
1964*	34.1	18.0	5.2	+ 1.3

*Current dollar basis. All others in constant dollars equivalent to 1963. 70% level used for farms.

+ Table 1 in Poverty in the United States Since 1947, Charles E. Metcalf, September 3, 1965.

A second regression tested the relationship of the trend coefficient to the unemployment rate

$$\% P = a + b_1T + b_2U + b_3TU + e$$

The purpose of this regression was to test whether the trend rate out of poverty varied with the unemployment rate. Would less people be raised out of poverty over time at a constant unemployment rate of 6% than would be at 4%, or 3%? The coefficient of the TU term which tests for the correlation between T and U was not statistically different from zero. This indicates that a lower unemployment rate probably would not increase the rate of movement out of poverty due to time, although there would be a decline in poverty resulting in the reduction to a lower unemployment rate.

A third regression was tested to determine whether changes in consumer prices would have an effect upon the level of poverty. The variable used was the annual percentage change in the consumer price index. The resulting equation was

$$\% P = 30.123 - .9478T + .649U - .1412 \ (\Delta \text{CPI}) + e$$

According to a t-test the price coefficient was significant at a 90% confidence level. Since the coefficient was negative, the implication is that a higher rate of inflation is conducive to a more rapid reduction in the rate of poverty. This is an interesting result. Since we have run a multi-variate regression the direct effects of reduced unemployment are filtered out. The negative correlation implies that the good done by the secondary effects of lower unemployment; namely increased participation in the labor force, and more part-time employment (not defined as employed) of the poor, more than offsets the harm caused by the inflation. This aspect of inflation will be examined in detail in the next section.

Even though the data are sparse and the tools of investigation are crude, the results are of large enough magnitudes to be persuasive. Reducing unemployment is very important for the poor. In a very gross way we may estimate that each reduction of the unemployment rate (at least until the 3% level is attained) of one percent will lift 1½ million people out of poverty who would not have been otherwise.

The Effect of Inflation on the Poor

It is granted that as we reduce unemployment we are likely to incur concurrent increases in the rise in the consumer price index. But just how harmful is this inflation, if it be so, likely to be upon the poor?

With reference to inflation we are continually subjected to the argument that the groups which are most detrimentally affected are the low wage earners and those who live on fixed incomes, particularly the aged. It is argued that in inflationary periods wage increases lag

price increases, therefore, the wage earners share of national income falls. The non-wage earners, who live on fixed incomes, particularly the aged with their pensions and accumulated savings, are hurt even more severely than wage earners. Almost all of the poor except the unemployed fall into one of these two categories. The unemployed are hurt because what little money they have is rapidly depreciating in its purchasing power.

These arguments need to be carefully evaluated in the light of the present and past conditions of the poor and aged. There are two ways in which the poor can be affected by inflation; on the income side and on the expenditure side.

Expenditures

Neglecting for the moment what is occurring to the income of the poor we shall investigate what happens to their purchasing power during an inflation. The common tools for this are the individual consumer price indices and the overall CPI. It is usually assumed that the real purchasing power of a fixed amount of money is reduced over a period of by the percentage that the CPI increases in that period. The overall CPI is constructed from the price indices of the individual categories (food, housing, transportation, etc.) by using weights which correspond to the percentages of total expenditures of each of these categories. The composition of expenditures which is used is that of a "typical" urban wage earner or clerical worker. We thought it might prove interesting to construct in a similar manner a Poor Price Index which reflects the expenditure pattern of a "typical" urban poor family. Then we would be able to investigate how this poor family fares under conditions of inflation as compared to those whose expenditure pattern underlies the CPI. To this end we chose an urban family of five with an income of less than $3,600. A detailed explanation of the data sources and methods of construction of this Poor Price Index is found in the Appendix.

The results, displayed in Table 2, were most revealing. In every major inflation from 1940 to the present the Poor Price Index increased less in percentage terms than the CPI. It is difficult to point to any one factor as an explanation for the occurence during all the inflationary periods. Each inflation has its own characteristics with regard to what sub-indices demonstrated the greatest increases. For this reason we should be wary concerning any generalizations about the nature of a particular inflation. Each inflationary period should be dealt with individually.

There are, however, some broad trends which can be fruitfully discussed. One of the characteristics of the poor is that both food and housing expenditures compose a larger total of the whole than for the non-poor (about 4-5 percent greater when compared to the urban non-poor families included in Table 2. During all of the inflations the food index increased by more than the CPI and the housing index by less. In fact these two appear to have offset each other more or less during most of the inflation, but where this is not so we would expect these

Table 2

PERCENT CHANGE IN INDEX

Inflation Period	Poor Index All Items	CPI All Items	Food	Housing	Clothes	Transp.	Medical	Personal	Reading and Recre.	Other
1940-3	21.6	23.6	42.9	8.3	27.5	12.1	8.3	26.3	17.3	5.5
1945-8	30.5	33.6	51.0	18.2	35.5	29.2	8.3	24.4	15.6	17.2
1950-2	10.2	10.4	13.2	8.1	7.9	13.4	21.4	10.6	3.5	9.7
1956-8	6.1	7.4	7.6	4.9	2.2	9.2	10.5	7.2	7.9	4.2
1965-6*	3.5	3.6	6.5	1.4	3.1	1.4	9.0	1.4	1.2	4.7
Weighting used to construct the poor index+ % of total expenditure			32.0	32.3	10.8	6.7	4.7	3.7	4.8	5.1
Weighting for urban family of five with income $6,000 - $7,499			27.2	28.9	11.6	13.5	6.1	2.0	6.1	5.2
Urban family of five $7500 - $8,999			26.5	26.1	12.0	14.1	6.1	2.8	7.3	5.2

* From March 1965 through June 1966

\+ Weightings computed from % of total expenditures of each item for an urban family of five with money income after taxes of $1,000 - 3.600

categories to dominate the overall price index. One useful speculation here is that the rural poor, especially farm but also nonfarm, will fare even better than the urban poor under inflation since food is a significant percentage less of their total expenditure. Also to the extent that rent control, which will hold down the cost of poor housing, is expanded the poor will be hurt less.

For more subtle explanation of the deviation of the Poor Price Index from the CPI we must look at the other categories. Specifically, clothes, transportation and medical are all smaller percentages of total expenditure for the poor than non-poor. There is an especially large jump in the proportion of total expenditures for transportation for the non-poor as opposed to the poor. Any inflation marked by large increases in this index will tend to hurt the non-poor less. Although it has not shown up too clearly yet in the 1965-6 data, recent months have been marked by huge increases in the medical index. This, again, will tend to hurt the poor less. One of the provisions of the medicare bill (which may be causing the rising medical costs) is that coverage be extended to the poor as well as the aged (also many poor). Thus, we would expect that medical expenditures for the poor will become even a lower percentage of total expenditures for the poor in the future, further widening the gap between the two overall price indices.

In dollar terms the amount that the poor have saved in these past inflations due to a different expenditure pattern than that of the non-poor is admittedly, not very large. Nevertheless, this exercise in figures does yield two valuable insights. First, the poor are hurt less on the expenditure side than the non-poor. Secondly, and most importantly, the exact nature of the inflation (i.e., which indices increase and how much) will differ from period to period and will determine where incidence of inflation will fall.

Income

The approach in this section will be rather haphazard. Due to lack of data, a thorough, systematic approach is nearly impossible. What we have done is to accumulate all relevant information and present it in as orderly a fashion as possible. First we will concentrate on the distributional aspects of inflation, then examine income sources and asset holdings of the poor, and finally income sources of the aged poor.

The argument concerning the wages of the poor has been that the share of labor in total income will fall in periods of inflation because prices rise faster than wages. In empirical studies of the past experience in the United States during periods of inflation, however, no major shifts were found in the share of labor in total income which could be said to be caused by inflation.4/ Further, it is important to

4/ See, for example, G. L. Bach and A. Ando, "Redistributional Effects of Inflation," Review of Economics and Statistics, Feb. 1957.

note that our own study of wage differentials suggests that in periods of inflation the wages of unskilled and low-paid workers gained somewhat in relation to skilled and high wage earners. Tables 3-a and 3-b show the percent of wages and salaries accruing to the lowest 20% of wage and salary earners both by job type and industry type for all males and females, 1948-1960.5/ We regressed the percent share of total wages and salaries for each of the 39 categories against the percent change in the consumer price index. While some of the correlations were negative and others inclusive, the preponderance of the results showed positive correlations at varying levels of significance. Figure 1 shows the percent shares accruing to the lowest 20% of males by industry as well as the change in CPI. (The ordinates are not valid for CPI curve. All that is important are the direction and relative magnitudes of the changes.) The graph is a bit messy but one can observe that most of the other curves follow the same general pattern as the CPI curve.

There is another method of getting at the same general problem of distribution; one which appears to be more meaningful and conclusive. Any definition of poverty is largely a relative one. What we are really interested in is how the lowest 15, 20, or 25% of the population fares in comparison to the rest. In figure 2 we have graphed against the percentage change in the CPI from 1947 to 1963:

1. The income of unrelated individuals with lowest 40% of aggregate income of unrelated individuals as a percent of this aggregate income, and

2. The income of families with the lowest 20% of aggregate income of families expressed as a percent of this aggregate income.6/

The fit is strikingly good. Both are highly positively correlated with the percentage change in the CPI. This is a highly significant result; one which seems to run counter to many popular conceptions (or we should say "misconceptions"). It is not so surprising, however, if we recall the strong negative correlation between unemployment and percent of population in poverty which we discussed earlier in the paper. Since the Phillips Curve phenomenon suggests that unemployment and percent change in CPI are highly negatively correlated, we would expect to see greater equality in the lower end of the distribution of income during inflationary periods.

What we would like to know now is how well the bottom 40% of unrelated individuals, and bottom 24% of families correspond with our definition of the poor. According to the Orshansky criterion, in 1964 42.0% of all unrelated individuals were below the poverty line. Thus, we are getting a close look at this group of the poor when we take the bottom 40%. For families the bottom 20% does not correspond quite as

5/ Data source: Trends in the Income of Families and Persons in the United States: 1947-1960, Bureau of the Census 1963.

6/ Op. Cit.

Table 3-a

PERCENT OF WAGES AND SALARY ACCRUED TO LOWEST 20% OF WAGE AND SALARY EARNERS BY JOB TYPE FROM 1948-1960

	% change in CPI	MALE													FEMALE									
		Private household workers	Service workers, except private household	Farmers and farm managers	Farm laborers and foremen	Laborers, except farm and mine	Operatives and kindred workers	Craftsmen, foremen and kindred workers	Sales workers	Clerical and kindred workers	Managers, officials and proprietors, except farm	Transport equipment operatives	Laborers, except farm and mine	Farmers and farm managers	Private household workers	Service workers, except private household	Clerical and kindred workers	Sales workers	Operatives and kindred workers	Managers, officials and proprietors, except farm	Laborers, except farm	Professional, technical and kindred workers	Craftsmen, foremen and kindred workers	Farmers and farm managers
1948	+7.7	2.1	9.7	–	–	–	–	–	–	–	–	–	–	5.6	7.5	–	–	–	–	–	–	–	–	5.2
49	-.9	2.0	10.3	–	–	–	–	–	–	–	–	–	–	3.7	8.8	–	–	–	–	–	–	–	–	4.3
50	+.9	–	9.2	6.0	5.2	5.5	7.0	3.8	7.8	7.1	–	5.1	9.8	9.9	5.0	5.8	4.3	3.5	6.0	4.2	5.6	8.6	4.7	9.2
51	+8.0	1.8	10.1	7.2	5.1	6.4	8.3	5.6	8.6	7.9	–	4.7	9.1	9.8	4.2	6.0	6.0	4.1	6.4	3.8	5.7	8.3	4.3	9.7
52	+2.2	–	9.6	8.0	4.7	6.5	7.9	3.9	9.0	7.0	–	5.1	9.9	4.5	6.0	8.6	4.3	4.1	6.1	4.0	5.9	8.0	3.8	9.0
53	+.8	–	10.0	6.8	4.6	6.9	8.1	3.9	8.6	7.1	–	5.1	9.3	9.9	4.4	6.8	4.1	3.5	5.9	3.7	6.2	6.8	3.9	9.2
54	+.4	–	10.8	6.7	4.3	6.3	7.6	3.0	8.0	6.8	–	4.6	9.2	3.6	9.1	6.9	5.0	–	5.6	3.3	5.5	7.2	4.0	4.5
55	-.32	–	10.5	6.9	5.0	5.7	7.7	3.5	8.6	6.9	–	4.7	9.2	3.5	9.7	6.0	4.9	3.9	5.7	3.8	6.1	7.1	3.8	9.1
56	+1.5	1.7	9.7	7.0	5.5	5.2	7.9	3.5	8.9	6.8	–	4.9	3.8	3.5	5.1	5.8	3.9	4.2	5.7	3.5	5.8	7.3	3.5	3.9
57	+3.5	1.9	9.6	7.2	4.3	6.0	7.4	3.4	7.9	6.9	–	4.1	3.7	3.9	4.3	7.1	4.3	4.2	5.6	3.1	6.4	7.1	3.9	3.8
58	+2.8	1.9	9.5	6.0	4.0	5.6	6.7	2.5	7.8	5.9	–	3.8	4.5	3.1	3.8	5.6	3.8	4.0	4.8	2.9	5.5	6.7	3.3	3.6
59	+.8	2.1	10.3	6.9	3.9	6.1	6.6	2.9	7.8	6.0	–	3.3	3.4	3.3	4.0	7.0	4.9	4.1	4.9	2.9	5.6	6.5	3.5	4.0
60	+1.6	2.4	8.9	6.6	3.9	4.7	6.7	2.5	7.7	6.2	–	3.4	3.6	3.2	4.7	6.3	4.3	5.0	5.0	3.0	5.7	6.5	3.9	3.9

Table 3-6 PERCENT OF TOTAL WAGES AND SALARY ACCR. TO LOWEST 20% OF WAGE AND SALARY EARN. BY INDUSTRY TYPE FROM 1948-1960

		MALE									FEMALE					
	% change in price level	Agric., Forestry Fisheries	Mining	Construction	Manufacturing	Trans.-Commun. Public Utilities	Wholesale	Retail	Finance, Insur. Real Estate	Business & Service Repairs	Personal Services	Manufacturing	Trans.-Commun. Public Utilities	Wholesale	Retail	Finance, Insur. Real Estate	Personal Serv.
	+7.7	4.5	9.2	5.4	8.0	8.3	7.0	4.6	6.5	7.0	9.2	7.5	6.2	5.5	3.8	7.5	6.2
	-.9	4.7	9.3	5.2	6.7	7.7	6.6	3.8	5.3	6.1	2.8	6.1	8.7	6.5	3.9	9.1	6.3
	+.9	3.9	8.7	5.3	7.0	7.4	5.8	9.2	6.0	4.7	2.8	5.7	7.3	4.7	3.8	6.1	6.6
	+8.0	3.5	9.7	6.2	8.3	9.0	8.4	4.2	7.8	7.2	3.2	6.3	6.9		3.2	5.4	5.7
	+2.2	3.9	8.8	6.3	7.7	7.9	8.1	3.8	6.3	5.9	3.8	6.8	6.6	5.8	3.4	5.7	5.4
	+.8	3.2	8.5	6.0	7.4	8.7	6.4	9.4	6.3	5.6	3.4	6.9	6.6	5.9	3.3	6.4	5.0
	+.9	3.4	5.5	5.8	6.9	7.8	6.6	3.8	5.6	4.3	2.7	6.7	6.9	9.8	3.7	7.0	5.5
	-.32	3.0	6.6	4.9	6.7	8.7	6.6	3.1	5.1	6.0	2.4	6.4	6.4	5.8	3.2	5.1	5.0
	+1.5	3.1	5.8	5.6	7.5	8.0	6.6	3.9	4.3	5.0	2.8	5.9	6.8	6.2	3.2	5.9	5.2
	+3.5	2.8	7.5	6.1	7.5	7.7	6.6	3.7	4.8	5.1	2.3	7.0	6.9	4.9	3.1	6.8	4.8
	+2.8	3.1	7.8	5.6	6.9	8.5	5.8	3.5	5.8	5.3	1.8	6.5	7.1	4.1	3.1	5.3	4.8
	+.8	2.9	6.6	5.6	7.2	8.2	6.0	3.3	5.5	4.8	2.0	6.8	5.8	3.6	3.8	5.1	4.6
	+1.6	2.5	5.6	5.5	7.3	8.3	6.0	3.2	4.7	4.5	2.3	7.0	5.2	4.5	3.8	6.5	4.4

Figure 1

Percent of total wages & salaries accruing to bottom 20% of wage and salary earners by industry from 1948-1960 - males o

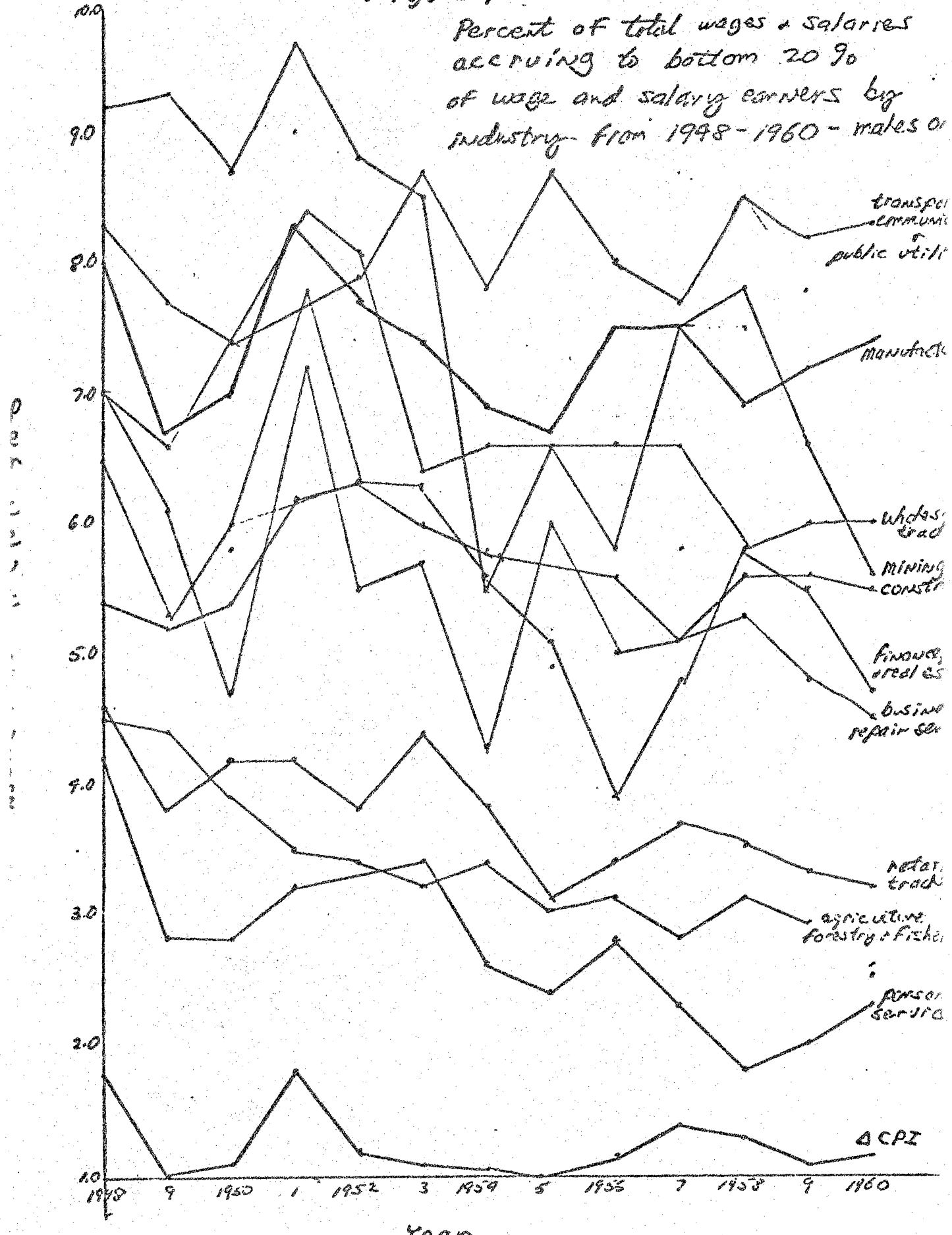
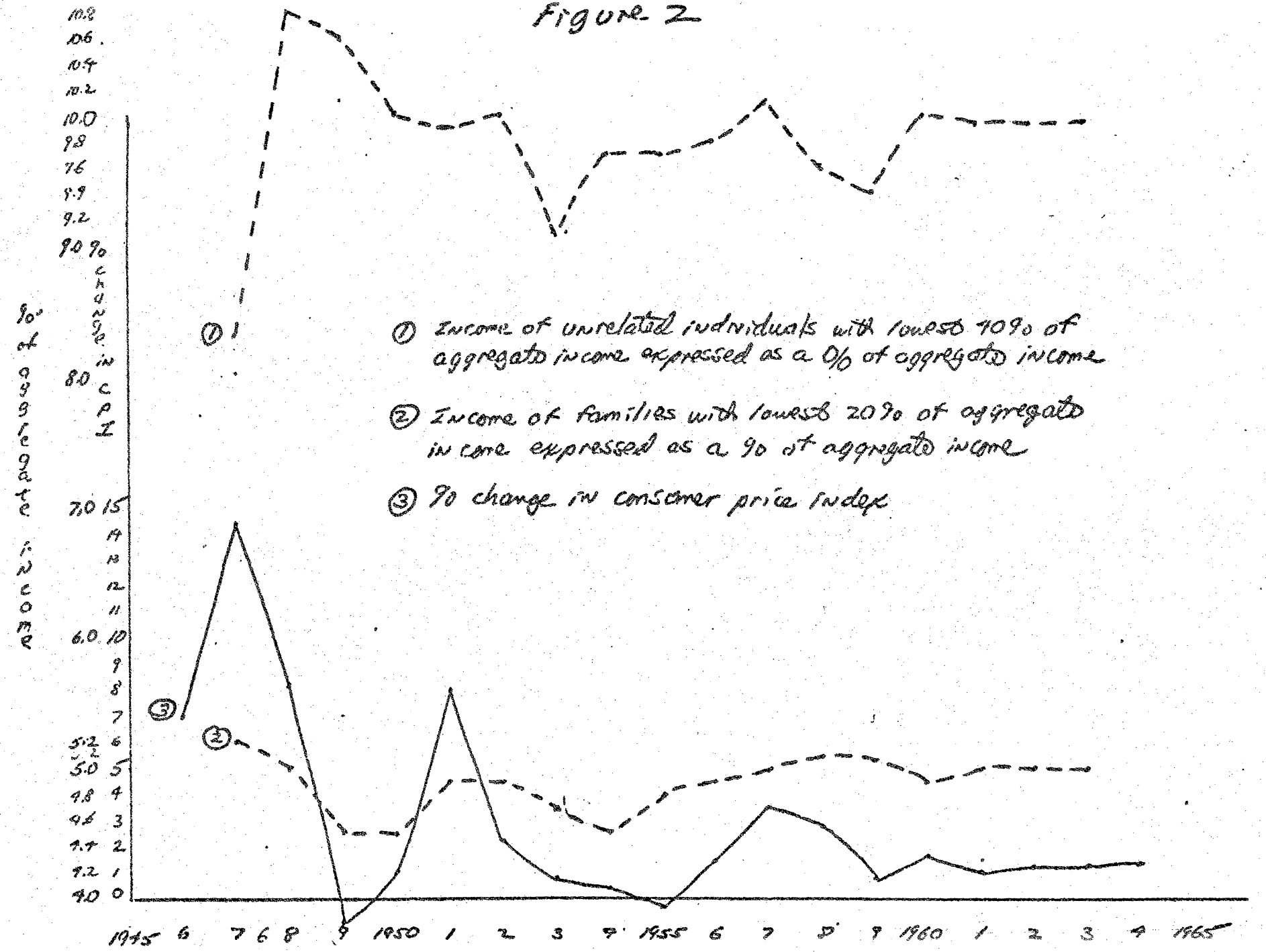


Figure 2


① Income of unrelated individuals with lowest 10% of aggregate income expressed as a % of aggregate income
② Income of families with lowest 20% of aggregate income expressed as a % of aggregate income
③ % change in consumer price index
% of aggregate income
% change in CPI
1945 6 7 8 9 1950 1 2 3 4 1955 6 7 8 9 1960 1 2 3 4 1965

well with the poverty definition. Again, according to the Orshansky criterion, in 1964 14.3% of families were below the poverty line. The upper limits of this lowest 20% of family income earners, which are displayed in Table 4, correspond fairly well to a constant $3,000 level in 1965 prices. The 30% lower farm cutoff for the poverty line must, therefore, account for the majority of the discrepancy between the 14.3% and 20%. Thus, the portion of the family universe which we are observing contains all poor families (except some large member urban families), and these poor families comprise approximately 74% of this group. Our results should be fairly indicative of poor families, as defined by the Orshansky criterion. More complete data and a detailed analysis would enable us to look more closely at the exact poverty population, but there is no reason to believe the conclusions would differ from those above. It is unlikely that all of the relative gains in income shares during inflation are accruing to families which fall into the 15-20% bracket.

We have observed that in the past the share of labor in total national income showed no significant change due to inflation, and also the share of the lowest 20% of wage and salary earners within labor has tended to increase during these same periods. These gains are not only relative, but also absolute since real national income increases nearly every year, and in fact, tends to rise faster during periods of low unemployment and greater increases in the CPI. But wages and salaries are just a portion of the income of the poor. We would like to know what percentage of the total this category of income comprises, what the other sources of income are and how they are likely to be affected by inflation.

These types of data are not presently available for the poor, although it will be shortly. A more detailed study of this nature will soon be undertaken. The best approximation we could find was the income structure of all urban families and individual consumers with incomes after taxes of 0-$3,000 in 1960-61.7/ The data were cross-classified by $1,000 income categories so we had to average the statistics for the three sub-groups of 0-$999, $1,000-$1,999, and $2,000-$3,999, 1960-61 income. The results are displayed in Table 5. Using urban families with incomes of 0-$3,000 in 1960-61 income will not deviate too far from the Orshansky definition of urban poor families. But Table 5 also includes unrelated individuals with incomes up to $3,000 which is definitely an overstatement of the poor in this category. By looking at income statistics of the $2,000-$2,999 group as compared to the $1,000-$1,999 we can reach a fairly definite conclusion regarding the bias introduced by looking at a larger group of which the poor unrelated individuals form a subset. This conclusion is that the wage and salary earnings and self-employment income comprise a larger percentage of total income than it would if we were able to look explicitly at the poor, and the public employment and social security benefits plus public social assistance and private relief comprise a lesser percentage. The other categories show little deviation.

7/ Data source: Consumer Expenditures and Income, Supplement 3-Part A to BLS Report 237-38, July 1964.

TABLE 4

	FAMILY		UNRELATED INDIVIDUALS		% CHANGE CT.
	Upper Limit of Lowest 20% in Current Dollars	% of Aggregate Income	Upper Limit of lowest 40% in Current Dollars	% of Aggregate Income	
1947	1,584	5.1	716	8.3	+ 14.4
1948	1,655	5.0	775	10.8	+ 7.7
1949	1,543	4.5	795	10.6	- 1.0
1950	1,661	4.5	787	10.0	+ 1.0
1951	1,953	4.9	842	9.9	+ 8.0
1952	2,053	4.9	995	10.0	+ 2.2
1953	2,139	4.7	949	9.1	+ 0.8
1954	2,012	4.5	889	9.7	+ 0.4
1955	2,221	4.8	952	9.7	- 0.3
1956	2,438	4.9	995	9.8	+ 1.5
1957	2,488	5.0	1,100	10.1	+ 3.5
1958	2,558	5.1	1,112	9.6	+ 2.8
1959	2,715	5.1	1,159	9.4	+ 0.8
1960	2,795	4.9	1,244	10.0	+ 1.6
1961		5.0		9.9	+ 1.1
1962		5.0		9.9	+ 1.2
1963		5.0		9.9	+ 1.2
1964					+ 1.3

TABLE 5

INCOME AND ASSET STRUCTURE FOR AVERAGE OF URBAN FAMILIES AND INDIVIDUAL CONSUMERS 1960-61 WITH ANNUAL MONEY INCOME AFTER TAXES UNDER $3,000

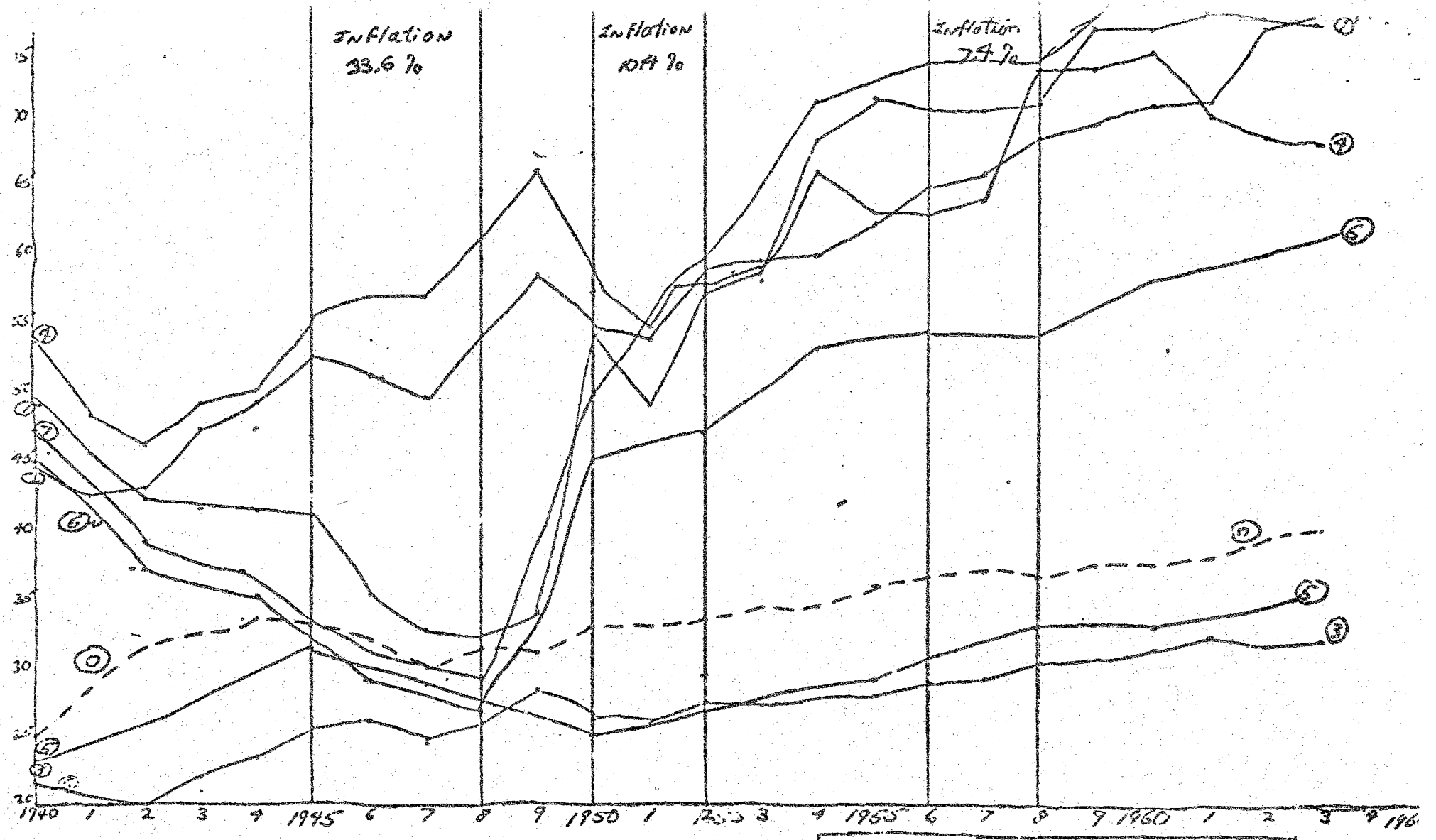
	$	%
Money Income Before Taxes, Total	1,950	100.0
Wages and Salary Earnings	844	43.3
Self-Employment Income	67	3.4
Income from Roomers and Boarders	29	1.5
Income from Rents	41	2.1
Profits from Stocks and Bonds	0	0.0
Profits from Business Owned and Operated	4	.02
Interests	46	2.4
Dividends	18	.9
Public Unemployment and Social Security Benefits	560	28.7
Private Pensions and Retirements	26	1.3
Private Insurance Annuities and Trust Funds	7	.4
Public Social Assistance and Private Relief	135	6.9
Gifts of Cash	49	2.5
Military Allotments, Pensions, etc.	68	3.5
Other	47	2.4
Personal Taxes	68	
Money Income after Taxes	1,882	
Net Change in Asset and Liabilities	-250	
Net Change in Assets	-172	
Cash in Bank, owed to family, on hand	-166	
Investment in Business	- 77	
Stocks and Bonds	- 60	

Two striking facts which emerge from the figures in Table 5 are that wage and salary earnings comprise 43% and public welfare about 35% of total income. Together they account for nearly 4/5 of these people's income. Wages and salaries of this group we have discussed, but what of public welfare? Figure 3 shows the time trends of various public assistance payments from 1940-1963. It should be noted that the ordinates are all in 1963 dollars, i.e., they are measured in real purchasing power since current dollars are deflated by the CPI. The very fact that all of these curves have a positive slope indicates that the real value of all these forms of public assistance has increased. This trend is especially strong since 1950. In addition, we have graphed the time trend of disposable income/per capita in 1963 dollars. This is a possible proxy for the standard of living. Since we have stressed the importance of distribution it is important to evaluate the gains in public assistance payments in these terms. The fact that all of the curves have a slope at least as great or greater than that of the disposable income/capita curve indicates that not only have public assistance payments more than offset the increases in the CPI, but they have also been large enough to promote equality in the income distribution.

There does not appear to be any particular relationship between the trend of public assistance payments and rises in the CPI. The magnitude and scope of these payments are policy variables. If we are concerned about the short term effects of inflation upon this income source of the poor we could tie public assistance payments to increases in the CPI, or at least make them more responsive. The long-term effects of inflation on public welfare are no problem, since they are more than offset.

It is thus doubtful that inflation hurts those who derive a major portion of their income from either wage and salary earnings or public assistance or both. But our averages in Table 5 should not mislead us into neglecting certain groups within the poor such as the fixed income poor. Income which derives from accumulated assets is the major source of revenue upon which those depicting the deleterious effects of inflation upon the aged and other fixed-income poor concentrate. It is useful, therefore, to attempt to evaluate the importance of the magnitude and distribution of asset holdings in the income of the poor and aged groups. This presents some difficulties because data on the holding of assets are scare. Those that do exist are not presented in convenient form and, moreover, are open to some questions regarding their reliability. However, bearing these limitations in mind, some general features of asset holding among these groups can be pointed out.

For the poor as a whole, including the aged and others, the assets which would be adversely affected by inflation are ones which have a fixed monetary value--for example cash, checking and savings deposits, life insurance, fixed value pensions and bonds. On the other hand, balancing the deterioration of such assets is the gain which accrues to individuals holding fixed value debts. Thus, to the extent the poor hold fixed value asset they are hurt by inflation, but to the extent they have fixed value debts, inflation reduces the real burden of these debts. The asset figures in Table 5 are not very meaningful, but during 1960-61 the poor as a whole went further into debt and could only have been aided by inflation in this respect.



① Retired-workers-monthly payments/capita OASDI

② Old age assistance/recipient - aver. monthly cash

③ Aid families w/ dependent children/recipients - monthly

④ General assistance/case - monthly

Various public assistance payments 1940-1963 in 1963 dollars

⑤ Disposable income/capita

Table 5-A

TABLE 30.—Average monthly payments under the old-age, survivors, and disability insurance and selected public assistance programs in current and 1963 prices,[1] December 1940–63

Calendar year	Consumer price index (all items) (1957–59 = 100)	Average monthly old-age benefit under OASDI: Workers who retired in 1940[2]		Average monthly old-age benefit under OASDI: All retired workers with benefits in current-payment status		Average monthly payments under—: Old-age assistance, per recipient[3]		Aid to families with dependent children, per recipient[4]		General assistance, per case[5]	
		Current dollars	1963 dollars	Current dollars	1963 dollars	Current dollars	1963 dollars	Current dollars	1963 dollars	Current dollars	1963 dollars
	48.1	$22.60	$49.55	$22.60	$49.55	$20.26	$44.45	$9.85	$21.60	$24.28	$53.25
	53.9	22.60	45.10	22.70	45.30	21.27	42.43	10.21	20.40	26.40	48.78
	58.8	22.60	41.40	23.02	42.15	23.17	42.26	10.83	20.00	25.23	46.20
	60.7	22.60	40.05	23.42	41.55	26.56	47.25	12.36	21.90	27.76	49.20
	62.0	22.60	39.25	23.73	41.20	28.43	49.35	13.41	23.30	28.77	49.93
	63.4	22.60	38.35	24.19	41.05	30.80	52.25	15.16	25.70	32.72	55.53
	74.8	22.60	32.45	24.85	35.25	35.31	50.75	18.11	26.00	32.47	46.70
	81.7	22.60	29.80	24.90	32.80	37.62	49.30	18.39	24.25	42.79	56.40
	83.9	22.60	29.00	25.35	32.50	42.02	53.85	20.92	26.80	47.39	60.75
	82.3	22.60	29.55	26.00	34.00	44.76	58.50	21.76	28.35	50.47	66.00
	87.1	21.40	24.55	43.84	34.30	43.95	34.35	21.12	26.10	46.65	57.65
	92.2	21.40	23.20	42.14	45.15	46.00	43.70	22.38	26.10	47.09	54.95
	93.9	46.60	63.95	48.25	57.00	50.90	54.90	23.98	27.75	49.52	57.64
	93.6	46.60	53.55	52.10	55.75	51.50	59.70	23.77	27.30	50.53	58.10
	93.2	51.60	59.60	59.14	63.30	51.90	57.95	23.98	27.65	57.29	66.15
	93.5	51.60	59.40	61.90	71.25	53.93	62.05	24.25	29.00	45.04	62.30
	96.2	51.60	57.70	63.09	70.55	57.92	61.85	25.78	28.85	55.14	62.30
	99.1	51.60	56.00	64.58	70.10	60.69	61.00	26.90	29.20	59.74	64.85
	100.8	51.60	55.05	[6] 66.35	[6] 70.80	64.08	63.40	28.29	30.20	63.34	73.00
	102.3	55.00	57.85	72.78	76.55	65.99	69.40	29.02	30.55	69.81	72.10
	103.9	55.00	56.95	74.04	76.65	66.45	70.85	30.07	31.15	71.62	74.15
	104.5	55.00	56.65	75.65	77.90	65.75	70.85	31.29	32.20	67.96	70.00
	105.5	55.00	55.95	76.19	77.50	76.35	76.65	31.06	31.60	67.06	68.20
	107.6	55.00	55.00	76.88	76.88	77.02	77.02	31.75	31.75	68.01	68.01

[1] Calculated by dividing current-dollar amounts by the consumer price index (1957–59 = 100, converted to December 1963 base). 1963 dollars rounded to nearest 5 cents.

[2] Data from the Bureau of Labor Statistics.

[3] Data reflect for the worker retiring in 1940 with the average primary benefit then payable the subsequent changes in his benefit resulting from legislative liberalizations.

[4] A case may represent a family group or a single person. The average number of persons per case in 1963 is estimated to be 2.8; it may have changed significantly since 1940.

[5] November data (December data for OASDI not available); consumer price index for November was 101.6.

Table 5-B

TABLE 23.—Family benefits in current-payment status: Average monthly benefits in current-payment status at end of year, for selected family groups, 1940–63

[Estimated for 1940–48; based on sample for 1949–63; average benefits shown to nearest 10 cents]

Year	Family classification of beneficiaries: Retired-worker families: Worker only: Total	Worker only: Male	Worker only: Female	Worker and wife (aged 62 and over[1])	Survivor families: Aged widow (6)	Widowed mother and 1 child	Widowed mother and 2 children (2)	Widowed mother and 3 or more children	Disabled-worker families,[2] Worker only: Total	Worker only: Male	Worker only: Female	Worker, wife (under age 65[1]), and 1 child	Worker, wife (under age 65[1]), and 2 or more children
1940	$22.10	$22.80	$18.40	$36.40	$20.30	$33.90	$47.10	$51.30					
1941	22.20	22.90	18.50	36.50	20.20	33.70	46.60	51.00					
1942	22.50	23.30	18.70	36.80	20.20	33.90	46.80	50.70					
1943	22.90	23.80	18.10	37.50	20.20	34.20	46.90	50.40					
1944	23.00	24.10	19.30	37.90	20.20	34.40	47.30	50.10					
1945	23.50	24.50	19.50	38.50	20.20	34.10	47.70	50.40					
1946	23.90	24.90	19.60	39.00	20.20	34.60	48.20	51.40					
1947	24.20	25.30	19.90	39.60	20.40	35.40	48.80	52.20					
1948	24.60	25.80	20.10	40.40	20.80	36.00	49.80	53.00					
1949	25.30	26.50	20.60	41.40	22.50	36.80	50.40	54.00					
1950	42.20	44.60	34.80	71.20	38.60	76.90	93.90	92.40					
1951	40.30	42.20	32.00	70.20	36.90	77.30	93.80	93.00					
1952	47.10	50.70	39.10	81.60	40.70	87.50	106.60	101.30					
1953	48.80	52.90	40.60	85.00	42.90	90.10	111.90	109.00					
1954	54.50	61.60	47.00	99.10	46.30	103.90	120.60	120.80					
1955	59.10	64.60	49.80	103.80	48.70	106.80	125.40	123.20					
1956	60.90	66.10	51.10	103.80	50.10	108.60	121.80	126.60					

TABLE 5-C

STATE UNEMPLOYMENT INSURANCE ACTIVITIES
FOR SELECTED YEARS 1940-1963

	Average Weekly Benefit For Total Unemployment	
	Amount (5)	As % of Average Weekly Wage
1940	$10.45	39.1
1945	18.77	41.6
1950	20.76	34.4
1955	25.04	32.1
1956	27.02	33.3
1957	28.17	33.5
1958	30.58	35.3
1959	30.41	33.4
1960	32.87	35.2
1961	33.80	35.4
1962	34.56	34.9
1963	35.28	34.6

A look at Table 6 indicates that the asset holdings of the $0-2,999 income group are not as large as we might expect. About 75% have assets worth $10,000 or less. In 1962 the median value of the net worth of spending units (families and individuals) with incomes below $3,000 was estimated as $2,760. If, for purposes of example, we assume this net worth yields a yearly rate of return of 5 percent, this median value new worth would yield $138 a year. However, not all of the net worth is vulnerable to inflation--only fixed value assets. For this same group, fixed value assets when netted against personal debt (not including auto debt), amounted to 17 percent of net worth on the average. Seventeen percent of the $138 yield on all assets amounts to $23.50 of average yearly income of the poor which is based upon fixed assets and, thus, vulnerable to inflation. Of equally small value is the annual amount of depreciation of the capitalized value of these fixed value assets from which future income must be obtained.

For the aged a different type of data must be used. The most important feature of the income of the aged as a whole (poor and non-poor) is that a large portion comes from social security and other public benefit programs. In 1962, 45 percent of the income of people over 65 came from such public benefit programs (and 32 percent from earnings). In 1965 an estimated 75-80 percent of the aged received social security benefits. But, as we have observed above, public policies have kept social security benefits increasing more than in proportion to the cost of living and the rise in per capita income combined. In 1950 average yearly benefits under OASDI were equal to 38% of disposable income per capita. By 1963 these benefits equalled 43% of DPI/capita.

Should policy continue to follow this line, the effects of inflation on the aged as a group could be offset, or more than offset, through increased public benefits and coverage.

Those who are both aged and poor receive very little of their income from fixed value sources, outside of social security, veterans benefits and other forms of public assistance. Taking the lowest third, by income, of the aged population (amounting to just over 4 million in 1962, which is slightly less than Orshansky's total for the aged poor) we find that roughly 1 percent of their 1962 income came from "private pensions" and about 4½ percent from "interest dividends and rents." For this group of aged poor, then, less than 5½ percent of their income was directly vulnerable to inflation. A 5 percent per annum inflation would reduce their yearly income by less than 3/10 of one percent if public policy kept social security and public assistance in step as in the past.

Table 6

NET WORTH OF CONSUMERS
INCOME OF 0-$2,999 IN 1962

Net Worth	% Distribution of Families by Net Worth
Negative	12
0-$999	31
$1,000 - $4,999	16
$5,000 - $9,999	15
$10,000 - $24,999	17
$25,000 - $49,999	8
$50,000 - +	1
Mean	$8,875
Median	$2,760

Table 7

MEAN AMOUNT OF SPECIFIED ASSETS OR DEBT
HELD BY FAMILIES WITH INCOME 0-$2,999 in 1962

Total Net Worth	$8,875			
Tangible Assets		$3,901		
Own Home			$3,752	
Automobile			$ 149	
Business, Profession (farm and non-farm)		$1,418		
Life Insurance, Annuities, Retirement Plans		$ 190		
Liquid Investment Assets		$3,458		
Liquid Assets			$1,330	
Investment Assets			$2,128	
Stocks				$1,480
Marketable Bonds				$ 201
Other				448
Miscellaneous Assets		$ 113		
Less: Personal debt (excludes auto)		$ 205		

TABLE 4.—Proportion of income from specified sources, by income group: Percent of units aged 65 and over having specified proportion of total income from specified source, 1962

Percent of total income from specified source	Married couples			Nonmarried men			Nonmarried women		
	Low-income third	Middle-income third	High-income third	Low-income third	Middle-income third	High-income third	Low-income third	Middle-income third	High-income third
Number reporting (in thousands)	1,569	1,573	1,578	735	708	730	1,808	1,810	1,860
Having income from—									
Earnings:									
0–49 percent	93	86	47	92	96	68	96	96	77
50–94 percent	5	12	40	5	3	20	2	2	18
95–100 percent	2	2	12	2	1	12	2	2	5
Public pensions (including OASDI):									
0–49 percent	32	35	86	46	36	58	52	39	71
50–94 percent	41	52	13	19	39	20	12	33	26
95–100 percent	27	6	2	36	25	5	30	28	3
OASDI:									
0–49 percent	35	45	96	47	42	77	50	45	78
50–94 percent	40	53	4	18	38	23	11	31	21
95–100 percent	25	1	(*)	35	20	(*)	29	24	(*)
Private group pensions:									
0–49 percent	100	98	97	100	99	98	99	100	100
50–94 percent	(*)	(*)	3	(*)	1	2	(*)	(*)	(*)
95–100 percent	(*)	(*)	(*)	(*)	(*)	1	1	(*)	(*)
Veterans' benefits:									
0–49 percent	94	98	100	95	89	97	98	97	96
50–94 percent	5	1	(*)	(*)	11	3	(*)	2	3
95–100 percent	1	(*)	(*)	4	1	1	2	1	1
Public assistance:									
0–49 percent	89	93	100	75	87	99	84	78	91
50–94 percent	5	1	(*)	2	5	(*)	1	8	4
95–100 percent	6	(*)	(*)	23	8	1	15	14	5

* Less than 0.5 percent.

TABLE 5-A

TABLE 1.—Shares of money income from specified source: Percentage distribution of aggregate income, by source, for units aged 65 and over, by income group, 1962

Income source	Married couples			Nonmarried men			Nonmarried women		
	Low-income third	Middle-income third	High-income third	Low-income third	Middle-income third	High-income third	Low-income third	Middle-income third	High-income third
Number reporting (in thousands)	1,569	1,573	1,578	735	708	730	1,808	1,810	1,860
Total mean income	$1,521	$2,924	$7,621	$960	$1,376	$3,618	$417	$1,033	$2,745
Total percent	100	100	100	100	100	100	100	100	100
Earnings	9	21	52	2	7	41	4	6	26
Retirement benefits	66	61	25	59	63	34	55	57	30
OASDI benefits	62	47	14	57	55	21	53	52	23
Other public pensions	3	8	7	1	8	8	2	3	6
Private group pensions	1	6	4	(*)	2	5	1	1	2
Veterans' benefits	5	7	2	6	9	5	3	3	4
Interest, dividends, and rents	4	8	19	1	7	16	7	9	25
Public assistance	12	2	(*)	30	13	1	24	20	5
Other	2	2	3	2	2	3	5	5	10

* Less than 0.5 percent.

TABLE 5-B.

Corrections

It has been pointed out to us that there is an error in our argument at the points noted on page 46, Figure 3, and page 45. In an article entitled "EASDI Benefits, Prices and Wages: A Comparison" by S. Waldman in the Social Security Bulletin, August 1966, it is shown that concentration on the rise in average OASDI payments may be misleading. Part of the rise in average benefits is due to the fact that recent retirees receive greater benefit payments as a result of a higher wage history during their working years. If benefits to retirees in a specific year are examined, they may show a rise which is smaller than the rise in average benefits. It is demonstrated in the article cited that benefits to a worker retiring in 1950 have risen sufficiently to more than offset the rise in the CPI, but that they have not risen as fast as wages.

Our arguments with respect to public welfare payments must be qualified to some extent in light of this evidence. Our argument on page 45 that payments have risen fast enough to promote equality in the income distribution does not hold for particular cases receiving OASDI, though it seems to hold for other forms of public welfare payments. However, this does not affect the overall force of our argument. Payments generally have kept pace with rise in the price index. More importantly, the object of this part of the analysis was to illustrate that with the proper social policy decisions the poor receiving welfare payments could be protected against the effects of price rises and erosion of their relative income position. The argument still remains that a conscious decision to adjust welfare payments could equalize, or more than offset, any adverse effects of inflation.

SUMMARY AND CONCLUSIONS

Let us summarize the major points made in this study and then we will try to point out a few of the policy implications of the study.

We have first shown that reducing the level of unemployment is very beneficial to the poor. Each percentage point drop in the unemployment rate, at least down to the 3% level, may remove as many as 1½ million people from poverty that would not have been removed otherwise.

We then sought to demonstrate that the harm done to the poor by the inflation which may accompany a movement to a lower level of employment is likely to be quite small. An examination of past movements in a "poor price index" (based on weights derived from the expenditure pattern of urban poor families) relative to the Consumer Price Index suggests that on the expenditure side the poor are likely to be hurt less by inflation than the non-poor. The degree of poor versus non-poor impact of inflation depends on the exact nature of the inflation. On the income side, we noted that the share of national income going to the poor tends to increase during inflationary periods - due primarily to the favorable employment effects. In addition, it was pointed out that a large percentage of poor incomes come from wages and salaries and from public welfare payments. With respect to wages and salaries it was indicated that the share of income going to the lowest 20% of earners classified both by job-type and industry tends to increase with increases in the CPI. It was shown that, over time, public welfare payments have increased more than enough to offset both the rise in the Consumer Price Index and the rise in average disposable income. Other sources of income for the poor are of minor importance in so far as the adverse effects of inflation are concerned. Thus the broadest sort of generalization which can be made is that in terms of both expenditure and income the relative position of the poor seems more likely to improve than to worsen during periods of inflation.

A point of view emerges from the findings of this study which yields some important implications for policy. The basic element of this viewpoint is that there are both a variety of types of inflation and a variety of policy instruments which can be used to reduce the impact of inflation on various groups. The choice of policy instruments to be used needs to be made in light of the type of inflation and in terms of the groups which the policy aims to aid. With respect to the poor as a group, an inflation marked by high increases in food prices will harm the urban poor more than the farm poor. An inflation accompanied by high unemployment rates (such as 1956-58) will hurt those poor families with members in the labor force more than those aged and others without labor force participants. Similarly, the incidence of negative inflationary effects between the poor as a group and the non-poor group will vary with the nature of the inflation.

In periods when inflationary pressures mount, one of the most common arguments put forth in support of strong and immediate anti-inflationary policies is that the adverse effects of inflation are most heavily borne by the poor and aged. The findings of this study lead not only to a questioning of the validity of this argument but also to the observation that some inflation remedies are likely to be more harmful to the poor than the inflation itself. If we are worried about the relative position of the fixed-income poor they can usually be adequately protected by a conscious policy decision to raise the levels of OASDI and other forms of public welfare payments. Trying to aid the poor by putting general downward pressure on aggregate demand is likely to generate higher unemployment rates which may bear relatively more heavily on the poor than inflation.

Different types of inflation will have different impacts on the poor and on the non-poor; similarly different anti-inflationary policies will have a differential impact on the poor. From the point of view of the poor, the choice among policy instruments in a period of inflation can make a big difference.

APPENDIX

This appendix explains the method of construction of the Poor Price Index referred to in the main body of the paper. The data source for consumer expenditures was Consumer Expenditures and Income (Supplement 3 Part A to BLS Report 237-38, July, 1964). This booklet synthesizes the information gathered in the 1960-61 Survey of Consumer Expenditures.

The expenditure pattern of an urban poor family of five was chosen for reasons previously explained. Hereafter, when referring to "family" we mean an urban family of five. The expenditure pattern of these families is broken down into ten income classifications. Only the lowest four are of interest to us: under $1,000, $1,000-$1,999, $2,000-$2,999, $3,000-$3,999. These figures all represent annual money income after taxes. Average current consumption expenditure for the under $1,000 group is $6,307.74. Average investment in business for this same group is $7,252.92. Thus, it would seem that this group is dominated by families owning their own businesses; they should not be included in the poor because their loss is only temporary and not at all indicative of their standard of living. There are only 16,000 families in this group, so their omission will not reduce our final universe too greatly.

The current Orshansky poverty line for urban families of five is $3,600. In order to have our universe coincide as closely as possible with this definition and still be meaningful, we, therefore, included all urban families of five with an income of $1,000-$3,600 for 1960-61. To arrive at the necessary figures for families with incomes of $3,000-$3,600 we used the method of linear interpolation with a factor of .6 on all the $3,000-$3,999 family income data. Our final universe has 66,000 families with $1,000-$1,999 income, 171,000 with $2,000-$2,999, and 208,000 with $3,000-$3,600.

All of the expenditure figures in the BLS report are means. In order to arrive at the correct total for each category of expenditures for our total universe, it was necessary to multiply the means by the number of families in each group and then add the three group sub-totals together. The overall mean was then obtained by dividing these totals by the number of families in the universe. The total expenditure for current consumption for the universe of families is computed similarly, then the amount spent on each category of expenditure can be expressed as a percent of total expenditure for the universe. These final percentages are the weights which are used to compute the Poor Price Index from the individual price indices of each expenditure category. Just as the CPI is derived by weighting the individual price indices by the average percent expenditures of urban wage earners and clerical workers we have constructed a Poor Price Index of a "typical" poor family by weights computed from its expenditure pattern.

Data for consumer price indices by major categories are readily available. The table we used for 1940-1965 is on page 261 of the 1966 Economic Report of the President. The 1966 price indices are found in monthly issues of Current Economic Indicators. The categories here coincide with the ones in the BLS data with minor exceptions. We included Education as listed in the BLS data along with Reading and Recreation. Alcoholic beverages and Tobacco and Miscellaneous in the BLS we grouped together and assumed that this corresponded to the "Other goods and services" category of the consumer price indices. While there may be some discrepancies due to these procedures they will be of minor significance since these two categories are such a small percentage of total expenditures of the poor.

The more important drawback to this procedure of constructing a Poor Price Index is this: The weights used were derived from the 1960-61 expenditure pattern of an urban family of five. These weights, however, were applied to the individual consumer price indices for every year from 1940 to the presen t. Obviously, the resulting Poor Price Index is only an accurate indication of the real cost to a poor family of a bundle of 1960-61 goods. The Poor Price Index will deviate from the "true" Poor Price Index for all other years; the further from 1960-61 the greater the deviation presumably.

This fact should not discourage us much though. It is not likely that the expenditure pattern of a poor family has changed too significantly since 1940. Also, we are comparing our Poor Price Index to a CPI which only adjusts its weights every ten years. The really significant factor is that housing and food expenditures differ so greatly for the poor from the non-poor as a percent of total expenditures. We were looking for broad trends such as the result we obtained that the Poor Price Index increased less percentage wise than the CPI in every case of inflation. A result such as this would appear to have validity despite the small discrepancies which might exist due to the particular method of construction of the price index.