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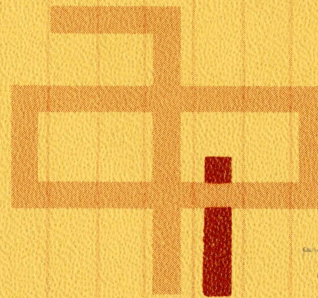
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CHANGING CONSUMPTION PATTERNS

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Personal consumption expenditures amount to nearly two-thirds of the gross national product in the American economy. Thus, among the major economic factors, they constitute the largest demand for goods and services. In addition, consumer expenditures provide a strong element of stability to the economy, since in the aggregate they vary relatively little from year to year. Even in the fluctuations of the business cycle, at least during the past quarter century, they provide support for the economy in a business downturn, while they exhibit few excesses in business prosperity. The salient characteristic of personal consumption expenditures is their steady upward trend, representing the fruits of economic growth and rising incomes.

However, this overall stability in the aggregate by no means reflects rigidity in detail. Consumer demand can shift sharply from time to time, from place to place, and from group to group in the population. Consumer buying patterns change with changes in income, in location, and in family circumstances. Young families exhibit one kind of buying pattern; aging families have quite another pattern.

One of the basic responsibilities of the Bureau of Labor Statistics throughout its existence has been the study of living conditions of workers and their families. A few years after the establishment of the Bureau in 1885, the Commissioner and his staff were engaged in a survey of the expenditures and living conditions of wage-earning families. These early studies were made in 1888-1891. Further studies were made in 1917-19 when the President of the United States instructed the Commissioner of Labor Statistics to develop the "cost-of-living" index, now called the Consumer Price Index. This index was developed in order to help solve industrial disputes over wages in war industries.

In 1934-36, another survey of expenditures of city workers' families was made in order to revise the Consumer Price Index and bring it up to date. Almost simultaneously, a much broader and more comprehensive survey of consumer purchases in 1935-36 was undertaken because of the increasing awareness of the importance of information about consumption for basic analytical and policy-making purposes. This latter survey was

not confined to families of wage and clerical workers, but included all types of families and covered both urban and rural areas. This was the first time that such comprehensive information became available on family expenditures in this country.

After World War II, another revision of the price index became necessary to take account of the changing buying patterns of consumers in the postwar period. So once again, the Bureau of Labor Statistics in 1950 conducted a major survey of family expenditures. The latest study was made in 1960-61, the results of which have already been published. In this paper, I am drawing upon the results of these surveys.

Incomes

One point stands out clearly, namely, that changes in incomes produce significant changes in consumer spending. When the BLS conducts its surveys of family expenditures, we obtain data on family income and family finances in order to be able to interpret and to check the expenditures reported by the families.

The Bureau of the Census conducts annual sample surveys of incomes in the United States. These are more widely known than the BLS figures. It is necessary to mention this, because there are important differences in the definitions and procedures used by the two agencies in collecting the income data. These differences affect the published averages and distributions of income. BLS obtains the previous year's income information for all members of each consumer unit (sometimes called the "economic" family) as it existed in the survey year. Census obtains the previous year's income information for all related persons in a household (a "demographic" family) as it exists at the time of the survey. Furthermore, the BLS figures are arithmetical averages for income both before and after taxes. Census publishes figures on median income before taxes only.

Since recent changes in consumer patterns -- that is, changes since World War II -- are of more immediate interest at the present time, I am concentrating primarily on the developments of the 1950's, even though I shall refer to earlier dates occasionally. Our surveys show that the average money income before taxes of urban families increased from about \$4,250 in 1950 to about \$6,700 in 1960-61, an increase of 58 percent. However, prices also rose substantially over that period; so if we wish to find the rise in real income, we must adjust for these higher price levels. For this purpose, we use the Consumer Price Index. On that basis, the rise in real incomes during the 1950's was 22 percent, which is about 2 percent a year. If we assume a

continuation of that trend up to date, real incomes should now be about 10 percent higher than they were at the beginning of the decade. This would give an average family income before taxes in 1965 of about \$7,400, expressed in 1960-61 dollars, or about \$7,700 in 1965 dollars.

Finally, studies show that incomes generally are underreported in household surveys -- usually from 6 to 10 percent in BLS studies. It is not necessary here to go into the reasons for this. Making allowance for this fact, it is evident that the money income of the average American family in 1965 will be over \$8,000 before taxes. The point of this updated estimating is to emphasize that incomes and levels of living of American families are rising steadily and substantially; and furthermore, that the average family is living in fairly comfortable circumstances.

Money income is not all available for family consumption; for example, taxes constitute the first charge on income. In view of the prevalence of the withholding system, most families never get their hands on the money which goes for direct taxes -- federal, state, or local. In 1960-61, the average tax paid was nearly \$800. Thus, the \$6,700 in total income became \$5,900 after taxes.

Income taxes increased nearly 2 1/2 times between 1950 and 1960-61, rising substantially faster than average incomes. Nevertheless, the average family income after taxes rose slightly more than 50 percent over the decade.

Expenditures

The expenditures on current consumption in 1960-61 amounted to nearly \$5,400. This was slightly more than 91 percent of income after taxes. The difference is explained by a combination of several factors. First, the average family receives some money which is not income; for example, inheritances, gifts, etc. Then, in addition to consumption expenditures, they will make other outlays, such as for personal insurance (including social security payments), gifts and contributions, and changes in their assets and liabilities, which can be described as "savings" in the broadest sense.

We relate current consumption expenditures to money income after taxes, because such incomes and current expenditures constitute the foundations of family finances. Over and beyond these current flows of funds, the average American family has a substantial volume of assets, which can be liquidated if necessary, and also a substantial volume of

liabilities, which have arisen from the family's use of mortgage and other credit.

I shall return to this subject of family finances after the discussion which follows on the major items in the budgets of American families.

1. Basic Necessities

The first research and fact-finding studies of family living conditions in the United States were carried out in 1874-75 by the Massachusetts Bureau of Labor under the direction of Carroll D. Wright, who later became the Federal Commissioner of Labor Statistics. In that period of rapid social and economic change, these studies undertook to measure the welfare of the workingman's family before and after migration to the United States. They compared the levels and manners of living of workingmen's families in Massachusetts with their counterparts in Europe. The rise in the American levels of living since that first study can be highlighted by simple comparison: in 1874-75, about 94 percent of total family spending went for food, shelter, fuel, and clothing, which can be considered the basic necessities of life; in 1960-61, these items comprised only 53 percent of the family budget. Stated another way, the average family with its higher income of the 1960's has 47 percent to spend on other consumer goods and services, for which only 6 percent was available in those early years.

2. Food

As incomes rise, the proportion of total family expenditures spent on food declines substantially. The actual amount of money spent on food increases, and the kinds of foods bought and consumed are significantly changed, but the expenditures on food consumption do not increase as fast as incomes.

This can be seen most dramatically if we compare American food budgets with those of families living in underdeveloped countries. I recall an expenditure study in a southeastern Asian country which showed that 56 percent of the average family's expenditures went for food only. In the 1935-36 Survey of Consumer Purchases, food represented almost one-third (32.4 percent) of the expenditures of the average urban family of two or more persons. In 1950, in a sample consisting of urban families and single consumers, the proportion dropped to less than 30 percent (29.7), while in 1960-61 there was a further decline to less than one-fourth (24.3 percent) of total expenditures. I shall not take the time here to make an analysis of the shifts which took place within the food budget. In brief,

there has been a substantial decline in the expenditures for bread, potatoes, and similar foods and a significant increase in meats, fresh fruits and vegetables, and prepared foods, such as frozen dinners, citrus fruit juices, instant tea and coffee, etc. These changes represent rising standards of food consumption.

3. The Home

Housing as a whole, including shelter, fuel, utilities, household operations, furnishings and equipment, amounted to nearly 30 percent (29.5) of city family expenditures in 1960-61. For the decade since 1950 this represented an increase from 27.2 percent. This increased proportion was due to a number of factors. One was that in 1950 there was still a substantial postwar housing shortage, including the continued existence of wartime rent controls in a considerable number of cities. During the past decade there has been a high rate of home construction, coupled with the elimination of rent control in all but a few communities. Home ownership among urban families increased from 48 percent in 1950 to 53 percent in 1960-61.

One of the interesting aspects of home ownership comes to light when we compare this factor with the range of family incomes in 1960-61. Thus, among families with after tax incomes below \$2,000 the ratio of home ownership was about 40 percent. How could home ownership be possible with such low incomes? The answer becomes evident when we look at the average age of family heads in this group, namely, approximately 65 years. These were families of old persons, who had already retired (as shown by the fact that only one family in ten in this group had a full-time wage earner). These were families which had purchased their homes long before and which were continuing to live in them during retirement.

Going up the income classes, we find that about half the families are home owners in the \$5,000 - \$6,000 class. About two-thirds of the families were home owners in the \$6,000 - \$7,500 class, more than three-fourths in the \$10,000 - \$15,000, and 86 percent in the \$15,000 and over.

The vital significance of these figures consists of the evidence that rises in incomes, particularly above \$6,000, have greatly expanded home ownership, plus all the attendant expenditures for utilities, household services, furnishings, etc.

4. A Nation on Wheels - the Automobile

Recent population growth -- and increased home ownership -- has been mainly in suburbs of large cities. The automobile has been an important factor in this development -- more than 85 percent of the suburban families owned one or more cars in 1960-61 compared with 63 percent of central city families.

The average urban family spent \$700 on auto purchase and operation, but families with incomes of \$10,000 or more spent at least twice the average. Therefore, it is not surprising to discover that in 1960-61 over one-eighth (13.0 percent) of total family expenditures went into the purchase and operation of a family car (or cars). All other transportation amounted to only 1.7 percent.

Auto ownership rises sharply with incomes, as shown by the following table.

Classes	Percent
All incomes (urban families)	73
Under \$2,000 (majority, old folks)	15-18
.. \$2,000 - \$2,999	40
.. 3,000 - 3,999	62
.. 4,000 - 4,999	77
.. 5,000 - 5,999	86
.. 6,000 - 7,499	90
.. 7,500 - and over about	95

5. Clothing (all kinds of apparel, including materials and upkeep)

The proportion spent on clothing by the average family does not vary much from time to time. It amounted to 10.7 percent in 1935-36; 11.5 percent in 1950; and 10.4 percent in 1960-61. This 10-11 percent relationship has existed for a long time.

However, our statistics show that the proportion of expenditures spent for clothing increases significantly with higher incomes, which is contrary to the patterns for food and shelter.

Thus, in the income classes under \$2,000 the average annual expenditure on clothing of about \$100 represented 5-6 percent of total expenditures; in the \$2,000 - \$3,000 class it was over \$200, or about 8 percent. In higher income families with \$10,000 and over, the proportion rises to about 12 percent, or nearly one-eighth of total expenditures. The actual expenditures for the above \$10,000 classes ranged from \$1,000 to \$2,000 per family.

6. Medical Care

The proportion of expenditures on medical care is climbing. It was 4.8 percent in 1935-36, 5.2 percent in 1950 and 6.6 percent in 1960-61. This rise in expenditures has occurred in spite of the fact that health insurance has become a major "fringe benefit" for workers during the past decade. Of course, these fringe benefits are mostly for the employed worker, and rarely cover those no longer employed because of lay-offs or retirement.

About one-fourth of the 1960-61 medical expenditures of families were for prepaid medical care, including hospitalization, surgical, or other forms of health insurance. Three out of four urban families had some form of health insurance in 1961. The average family expenditure of \$355 did not include amounts contributed to health insurance plans by employers. Neither did it include the value of free medical care (for example, provided by the Veterans Administration, military services, unions, public and private welfare agencies, etc.).

Medical expenses fall most heavily on the low income groups. For the income classes under \$1,000 the annual expenditure was \$121, or 9.3 percent of total expenditures. In the \$1,000 - \$2,000 class the expenditure of \$141 was equal to 8 percent of the total spending. At \$15,000 and over, the average expenditure was \$917, but this was only 6.2 percent of the total.

7. Education

In view of the tremendous excitement about education (and particularly higher education) in the United States today, it is somewhat surprising to note the small fraction of expenditures on education -- only 1.1 percent in 1960-61. These family expenditures for education include music and dancing lessons, as well as tuition, books, etc., yet the average expenditure per family was well under \$100 in 1960-61 for families with incomes below \$10,000. In brief, education is almost completely free in this country.

These figures relate to 1960-61. During the coming five years when a much larger number of young people will be attending college (which is not so free), these educational expenditures may increase substantially.

Another point is that the average family pays significant amounts for education in other forms of expenditure. Local school budgets depend in a considerable degree on real estate taxes, which are paid directly by home owners and indirectly by renters. Likewise, federal aid to education comes out of federal taxes. Finally, many expenses for a student living away from home, such as room and board at college, may be classified in our expenditure surveys as food or shelter rather than as education.

Family Finances

Anyone looking at our tables on the incomes of these families will be tempted to ask: How can anyone live on less than \$1,000 a year? The answer is that low income families don't live on their income. Thus, in the under \$1,000 income class, there was an average of 1.3 persons per family, with an average income of \$654, but their consumption expenditures amounted to \$1,307.

We have to look to their assets and liabilities to see where they got the money. Speaking in general terms, this average family sold over \$900 of assets and bought about \$300 worth, which means a net reduction of \$600 through liquidation of assets. In addition, they had some increase in liabilities, although their borrowing capacity was obviously very limited. In fact, it is interesting to note the extent to which even the poorest families have assets, which they buy and sell, and have access to credit, which they can use to substitute for temporary loss of income.

Positive savings, as measured by net changes in assets and liabilities, increase rapidly after the family income passes \$5,000. With incomes of \$6,000 and above, average consumption expenditures fall well below income after taxes; while both borrowing and selling of assets occur among these higher income groups, there is a surplus of income to devote to improvement of family finances. Thus, on the average, net savings occur primarily among the families with incomes higher than the national average. Of course, among individual families we can find examples of net savings with incomes of \$4,000, \$3,000, or even lower.

Urban and Rural Families

In addition to surveys of the urban population, the BLS (in cooperation with the Agricultural Research Service, U. S. Department of Agriculture) conducted surveys of rural nonfarm and rural farm families in 1961. These rural families had lower average incomes and expenditures than urban families. The income after taxes of urban families was \$5,900; the rural nonfarm average was \$4,700, or 80 percent of urban; the rural farm income was a little over \$4,400, or 75 percent of urban.

However, there is a marked difference in the patterns of living between the nonfarm and the farm families in rural areas. The rural nonfarm families spent \$4,300 for current consumption, exactly proportionate of the amount spent by urban families in relation to income. Likewise, the net change in assets and liabilities of rural nonfarm families was practically the same as that of urban families. The rural nonfarm families behave like urban families in their expenditure and savings patterns.

On the other hand, the rural farm families are quite different from either of the other two groups. They spent only \$3,600 for current consumption, far less proportionately than the others, and their net change in assets and liabilities was three times as high as the urban and rural farm families. Rural farm families spent less and saved more.

An adequate interpretation of these differences would require more analysis than can be made here. All that I want to point out is that the average rural farm family with an income of \$4,400 saves far more than an urban family at \$5,900. At the same time, it may be equally significant that a rural farm family can live on \$3,600 while an urban family requires \$5,400. It should be noted, however, that the farm families' expenditures would be higher if they were not able to supplement their food purchases with home produced food.

Some clue to the differential living patterns of these three groups is provided by their ownership of homes and automobiles.

	<u>Home owners</u>	<u>Auto owners</u>
	<u>(percent)</u>	
Urban	53	73
Rural nonfarm	67	82
Rural farm	71	91

It seems clear that the purchase of these two significant major assets of living leads to a marked difference in the expenditure patterns of rural and urban families.

There is one last point worth noting. The rural population, as a whole, is shrinking. Such families constituted 42 percent of the population in 1935-36 and only 27 percent in 1960-61. Even more dramatic is the shrinkage in the rural farm families -- from 23 percent of the total in 1935-36 to only 6 percent in 1960-61. The rural nonfarm families are holding their own -- 19 percent in 1935-36 and 21 percent in 1960-61. It is possible that these rural nonfarm families are being increased from both directions -- the shift from the farm and a shift out from the city by families which can use the automobile for transportation to urban jobs.