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Employees' Share of National Income, 1929 - 1941

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KANSAS STATE COLLEGE
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NUMBER FIVE

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VERNON T. CLOVER



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F. B. STREETER, Editor**

**Employees' Share of National Income,
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EMPLOYEES' SHARE OF NATIONAL INCOME, 1929-1941¹

By Vernon T. Clover

Data in this paper indicate that employees are receiving an increasing share of the national income. The reasons for this employee gain are discussed briefly. It will be shown that employees as a group have increased their share relatively and absolutely. This means that employers, enterprisers, and property owners as a group have experienced a relative, although not absolute, decrease in their share in the national income.

The findings of this study may be summarized as follows:

1. The group classified as employees in this paper received an increasing relative share of the national income payments during the period 1929 through 1941. Their share rose from 64.6 per cent in 1929 to 70.3 per cent in 1941. Their share in the year 1939, before war "prosperity" got under way, was 68.3 per cent, still a definite increase over 1929. (See Chart I)

2. The gain of the employee group was almost entirely accounted for by increasing government payrolls, social security benefits in the forms of aid to dependent children, assistance and pensions to the aged, unemployment compensation, work relief, and direct relief. Wages and salaries in private industry fell rapidly during the first years of the depression and even by 1939 they had failed to rise far enough to be responsible for any of the relative gain of employees. In the years 1940 and 1941 the abnormally large demand for workers in war industries increased the wages and salaries of employees, and thereby caused a rise in their relative share of the national income payments.

3. Groups classified in this study as enterprisers and property owners experienced a drop in their relative share of the national income paid out. In 1929 this group received

1. Elizabeth L. Kempton, graduate student, assisted the author in the compilation of the tables and the chart.

35.4 per cent. This dropped to 31.7 per cent in 1939 and to 29.8 per cent in 1941. Some of the reasons for this were higher taxes on industries, especially in the war years, the costs of changing over from peace time to war production, setting up large reserves for after-war maladjustments, retention of earnings instead of paying them all out to owners and stockholders, making large depreciation and obsolescence charges against earnings. It might be mentioned, also, that labor organizations greatly increased their membership and bargaining strength during these years. This condition may have enabled them to obtain higher wages at the expense of lower earnings and dividend payments by business.

4. Government has become an increasingly important source or medium of income for the employee and wage earning group. This may mean that workers in general will become more interested in governmental affairs, including elections.

5. The war years 1940 and 1941 did not bring a reversal of the 1929-39 trend toward a greater share of the national income payments going to the economic groups classed as employees. It accentuated the trend.

6. In the 1929-35 depression, at least, one condition that is used as a justification for high profits in prosperous years did not appear. Employees in private industry suffered a drop of 48.8 per cent in their income between 1929 and 1933. The income received by enterprisers and property owners dropped a little less, or 44.9 per cent. This is contrary to the theory that it is enterprisers and property owners who must suffer the greatest losses in bad years, and therefore they must be allowed profits in good years.

Discussion of Facts Shown in Tables and Chart

Table I, PERCENTAGE THAT EACH DISTRIBUTIVE SHARE WAS OF TOTAL NATIONAL INCOME PAYMENTS, 1929-41, shows that in 1929 the economic groups classified as employees received 64.56 per cent of the total income payments. This relative share increased slightly in the next three years and stood at 65.59 per cent in the depression year of 1933. Thereafter it rose steadily, with only a slight backward

TABLE I
PERCENTAGE THAT EACH DISTRIBUTIVE SHARE WAS OF
TOTAL NATIONAL INCOME PAYMENTS, 1929-41
(BASED ON TABLE III)

| YEAR | 1929 | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 | 1936 | 1937 | 1938 | 1939 | 1940 | 1941 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Income Payments (Billions \$) | 82.4 | 74.6 | 63.5 | 49.3 | 46.8 | 53.9 | 58.7 | 68.1 | 72.2 | 66.6 | 71.0 | 75.7 | 89.4 |
| Percentage of Total Share Going to Employees | 64.56 | 64.87 | 65.98 | 65.92 | 65.59 | 65.86 | 66.09 | 65.93 | 66.34 | 68.16 | 68.31 | 68.95 | 70.25 |
| Total Wages and Salaries | 63.34 | 63.40 | 62.67 | 62.67 | 62.17 | 62.52 | 62.35 | 61.23 | 63.43 | 64.26 | 64.50 | 65.12 | 67.00 |
| In Private Industry | 57.40 | 56.70 | 54.64 | 52.73 | 51.49 | 51.57 | 51.78 | 50.22 | 53.46 | 52.25 | 53.23 | 54.16 | 56.26 |
| Government | 5.94 | 6.72 | 7.87 | 9.74 | 9.19 | 8.34 | 8.34 | 7.78 | 7.75 | 8.86 | 8.59 | 8.72 | 9.23 |
| Work Relief | | .005 | .094 | .263 | .14 | 2.59 | 2.21 | 3.08 | 2.22 | 3.15 | 2.68 | 2.11 | 1.34 |
| Direct Relief | .072 | .126 | .23 | .60 | .13 | 1.48 | 1.87 | 1.02 | 1.10 | 1.50 | 1.55 | 1.45 | 1.23 |
| Social Security Benefits and Other Labor Income | 1.09 | .134 | 3.10 | 2.43 | 2.14 | 1.85 | 1.70 | 3.67 | 1.66 | 2.40 | 2.39 | 2.51 | 2.01 |
| Percentage of Total Share to Enterprisers and Property Owners | 35.43 | 35.12 | 34.10 | 34.08 | 34.40 | 34.14 | 33.90 | 34.06 | 33.65 | 31.83 | 31.69 | 31.04 | 29.75 |
| Dividends and Interest | 14.32 | 15.68 | 16.22 | 17.03 | 15.59 | 14.65 | 13.62 | 14.24 | 13.43 | 12.01 | 12.10 | 12.02 | 10.64 |
| Total Other Entrepreneurial Income | 20.99 | 19.42 | 17.79 | 17.03 | 18.80 | 19.48 | 20.27 | 19.82 | 20.22 | 19.64 | 19.44 | 19.03 | 19.12 |
| Agricultural | 9.33 | 8.31 | 6.30 | 5.27 | 7.69 | 9.09 | 9.88 | 9.54 | 9.83 | 9.00 | 9.01 | 8.72 | 9.62 |
| Non-Agricultural | 11.16 | 11.11 | 11.49 | 11.76 | 11.11 | 10.39 | 10.39 | 10.28 | 10.39 | 10.64 | 10.43 | 10.31 | 9.50 |

slip in 1937, to a prewar high of 68.31 per cent in 1939. In the war year 1941 it had reached 70.25 per cent. This was probably the highest percentage in the last twenty years or more. In fact, no other authoritative figures have even shown as high a percentage for employees. The relative share going to enterprisers and property owners has decreased from 35.43 per cent in 1929 to 31.69 per cent in 1939, and to 29.75 per cent in 1941.

According to Table I the gains in employee incomes were due almost entirely to increases in the following kinds of income: 1. "Government wages and salaries," which increased from 5.94 per cent of the total national income payments in 1929, to 9.28 per cent in 1941. 2. "Social security benefits and other labor income"² which rose from 1.09 per cent in 1929 to 2.01 per cent in 1941. 3. "Direct and other relief," which grew from 0.07 per cent in 1929 to 1.23 per cent in 1941; and 4. "Work relief," which was zero in 1929 and was 1.34 per cent even in the prosperous year 1941. When we look at wages and salaries in private industry, we find that they accounted for 57.4 per cent of the national income paid out in 1929. But by 1939 they had fallen to 53.23 per cent, and even for 1941, when they were 56.26 per cent, they were still short of the 1929 percentage.

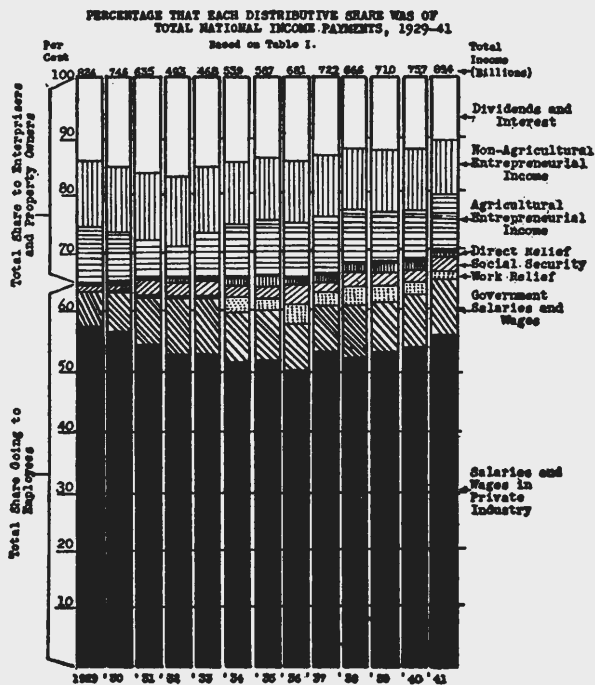
The relative share of "enterprisers and property owners" shows its most important decline in "dividends and interest" which dropped from 14.32 per cent in 1929 to 10.64 per cent in 1941, and "other entrepreneurial income" which records 20.99 per cent and 19.12 per cent for the same years. Agricultural entrepreneurial income was 9.83 per cent of the total in 1929, and it suffered a severe dive to 5.27 per cent in 1932. Nevertheless, by 1939 it had bounced back to 9.01 per cent, and it was practically equal to the 1929 proportion in 1941 when it was 9.62 per cent. Much of the responsibility for the recovery to the 1939 figure is probably

2. "Other labor income" includes pensions paid out by private industries and government, compensation for industrial accidents, and pensions to war veterans. See *Survey of Current Business*, July 1941, p. 18, table 21, footnote 5.

due to the crop control and lending-price pegging features of the government farm program.

The war brought unusual conditions and changes in our economic system in the years 1940 and 1941. Perhaps this study should cover only the years 1929 to 1939. It is interesting to see, however, that the war has not reversed

CHART I



the trends shown for the years 1929-1939; instead, it has accentuated them. Whether this will continue to be true cannot be determined on the basis of such a short period as two years. It is merely mentioned as a future possibility.

Chart I, PERCENTAGE THAT EACH DISTRIBUTIVE SHARE WAS OF THE NATIONAL INCOME PAYMENTS, 1929-41 is a bar graph presentation of the data given in Table I which has been commented upon in the preceding paragraphs. The trends can be seen more easily in this chart than in Table I.

Table II, INDEX OF NATIONAL INCOME PAYMENTS 1929-1941, BY DISTRIBUTIVE SHARES, contains information about the relative changes in the absolute amount

TABLE II
INDEX OF NATIONAL INCOME PAYMENTS, 1929-1941,
BY DISTRIBUTIVE SHARES
1929=100

| YEAR | 1929 | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 | 1936 | 1937 | 1938 | 1939 | 1940 | 1941 |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Income | | | | | | | | | | | | | |
| Payments (Billion \$) | 82.4 | 74.6 | 63.5 | 49.3 | 46.8 | 53.9 | 58.7 | 68.1 | 72.2 | 66.6 | 71.0 | 75.7 | 89.4 |
| Total Income Payments Index | 100. | 90.5 | 77.0 | 59.8 | 56.8 | 65.3 | 71.2 | 82.6 | 87.6 | 80.8 | 86.2 | 91.9 | 108.5 |
| Total Share Going to Employees .. | 100. | 90.9 | 78.7 | 61.0 | 57.7 | 66.7 | 72.9 | 84.4 | 90.2 | 85.8 | 91.2 | 98.1 | 116.2 |
| Total Wages and Salaries | 100. | 90.6 | 76.2 | 59.2 | 55.7 | 64.6 | 70.1 | 79.9 | 87.7 | 82.0 | 87.7 | 94.4 | 110.9 |
| In Private Industry | 100. | 89.2 | 73.3 | 54.9 | 51.2 | 58.8 | 64.3 | 72.3 | 81.6 | 73.6 | 79.9 | 86.7 | 106.4 |
| Government | 100. | 102.4 | 102.0 | 98.0 | 87.8 | 91.8 | 100. | 108.2 | 114.3 | 120.4 | 124.5 | 134.7 | 169.4 |
| Work Relief* | | 100. | 1500. | x | x | x | x | x | x | x | x | x | x |
| Direct Relief | 100. | 158.0 | 250.0 | 500.0 | x | x | x | x | x | x | x | x | x |
| Social Security Benefits and Other Labor Income | 100. | 111.1 | 222.2 | 133.3 | 111.1 | 111.1 | 111.1 | 277.7 | 133.3 | 177.7 | 188.8 | 211.1 | 200.0 |
| Total Share to Enterprisers and Property Owners | 100. | 89.7 | 74.0 | 67.9 | 55.1 | 63.0 | 68.2 | 79.5 | 83.2 | 72.6 | 77.0 | 80.5 | 91.1 |
| Dividends and Interest | 100. | 99.1 | 87.3 | 71.2 | 61.9 | 66.9 | 67.8 | 82.2 | 82.2 | 68.0 | 72.9 | 77.1 | 81.4 |
| Total other | | | | | | | | | | | | | |
| Entrepreneurial Income | 100. | 83.8 | 65.3 | 48.5 | 50.8 | 60.7 | 63.8 | 78.0 | 84.4 | 75.7 | 79.7 | 83.2 | 98.2 |
| Agricultural | 100. | 76.5 | 49.4 | 32.1 | 44.4 | 60.5 | 71.6 | 80.2 | 87.7 | 74.1 | 79.0 | 81.5 | 106.2 |
| Non-Agricultural | 100. | 90.2 | 79.3 | 63.0 | 56.5 | 60.3 | 66.3 | 76.0 | 81.5 | 77.1 | 80.3 | 84.7 | 91.8 |

SOURCE: Based on Table I.

*—1930 = 100.

x—These were as follows: Work Relief 1932—3,250; 1933—17,500; 1934—35,000; 1935—32,500; 1936—52,500; 1937—40,000; 1938—52,500; 1939—47,500; 1940—40,000; 1941—30,000. Direct and Other Relief 1933—1,000; 1934—1,333.3; 1935—1,833.3; 1936—1,166.6; 1937—1,333.3; 1938—1,666.6; 1939—1,833.3; 1940—1,833.3; 1941—1,833.3.

of the several shares of the national income paid out in each of the years 1930 through 1941 as compared with their amounts in 1929. The total income payments were 82.4 billion dollars in 1929. They fell rapidly each year afterwards until they reached a low of 46.8 billion dollars in 1933, or 56.8 per cent of what they were in 1929. The total share going to employees declined to 57.7 per cent, and the total for enterprisers and property owners went down to 55.1 per cent of their 1929 amount.

The greatest losses for employees were in wages and salaries in private industry. Here the index dropped to 51.2. Increases in government payrolls, work relief, direct relief, social security benefits, and pensions, we see, were the reasons why the total income of the employee group did fall below the 57.7 index number. Private industry was unable directly to keep the employee's share from dropping more than that of enterprisers and property owners. But private industry, indirectly through payment of taxes to support government, did assist government in making payments to employees in the forms mentioned.³

The largest decline in the component parts of the share going to enterprisers and property owners occurred in the index number for agricultural income. It crash dived to 32.1 in 1932, and was still very low at 44.4 in 1933. If agricultural income payments had been excluded from the index for enterprisers and property owners it would have fallen much less than the amount given in Table II.

Referring again to Table II we find that when recovery began, the amounts of the shares going to employees began to increase until the total in 1941 reached 116.2 per cent of their 1929 figure. Salaries and wages in private industry had risen to only 79.9 in 1939, but the war effort increased them rapidly to 106.4 in 1941. Government wages and salaries increased to 124.5 for 1939, and were up to 169.4 in 1941. Other sources of income to employees as an economic group were up greatly by 1939 and remained

3. For example, employers pay more than half the payroll taxes which go to build up the reserves from which are paid unemployment compensation and pensions under the government social security program.

high in 1941. Table III shows that the absolute amounts for work relief, direct and other relief, and social security benefits and other labor income were .96 billion dollars in 1929, 2.3 billion dollars in 1933, 4.7 billion dollars in 1939, and 4.1 billion dollars in 1941.

The total shares paid out to enterprisers and property owners increased less rapidly than the amounts going to the employee's group. By 1939 the index number for enterprisers and property owners had risen to 77.0 as compared with 100 in the base year of 1929. In 1941 it stood at 91.1 This compares with 108.5 for the national income payments, and 116.2 for the total share received by employees. Within the entrepreneurial class we find dividends and interest payments had increased to 72.9 in 1939, and 81.4 in 1941. Corporations were retaining some of their earnings for future contingencies, and, of course, higher taxes. Other entrepreneurial income had reached 79.7 by 1939, and rose to 98.2 in 1941. Agricultural entrepreneurial income moved up to 79.0 in 1939; in 1941 it was at 106.2 per cent of its 1929 level.

Table III, NATIONAL INCOME PAYMENTS 1929-41, BY DISTRIBUTIVE SHARES, is the main source table of this study. It shows the absolute amounts in billions of dollars that have been paid out to the income receiving groups discussed in this survey. The main purpose of this paper is to show trends rather than absolute amounts, and therefore no separate discussion of this table is given. The reader, however, should realize that Table III is basic to all the other tables and the chart, and he might well study it if he is interested in absolute amounts of the various shares.

Reasons for Trends Indicated

Why have employees been able to receive a rising proportion of the national income paid out? These reasons are suggested:

(1) Increased organization of workers which resulted in greater bargaining strength; (2) increased government employment, including regular governmental activities, and (3) work relief, and direct and other relief (which are considered here as going to that economic group which is

TABLE III
NATIONAL INCOME PAYMENTS, 1929-41,
BY DISTRIBUTIVE SHARES (In Billions \$)

| YEAR | 1929 | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 | 1936 | 1937 | 1938 | 1939 | 1940 | 1941 |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Total Income Payments | 82.4 | 74.6 | 63.5 | 49.3 | 46.8 | 53.9 | 58.7 | 68.1 | 72.2 | 66.6 | 71.0 | 75.7 | 89.4 |
| Total Share Going to Employees .. | 53.2 | 48.4 | 41.9 | 32.5 | 30.7 | 35.5 | 38.8 | 44.9 | 47.9 | 45.4 | 48.5 | 52.2 | 62.8 |
| Total Wages and Salaries* | 52.2 | 47.3 | 39.8 | 30.9 | 29.1 | 33.7 | 36.6 | 41.7 | 45.8 | 42.8 | 45.8 | 49.3 | 59.9 |
| In Private Industry | 47.3 | 42.3 | 34.7 | 26.0 | 24.1 | 27.8 | 30.4 | 34.2 | 38.6 | 34.8 | 37.8 | 41.0 | 50.3 |
| Government | 4.9 | 5.02 | 5.0 | 4.8 | 4.3 | 4.5 | 4.9 | 5.3 | 5.6 | 5.9 | 6.1 | 6.6 | 8.3 |
| Work Relief | | .004 | .06 | .13 | .7 | 1.4 | 1.3 | 2.1 | 1.6 | 2.1 | 1.9 | 1.6 | 1.2 |
| Direct and Other Relief | .06 | .09 | .15 | .3 | .6 | .8 | 1.1 | .7 | .8 | 1.0 | 1.1 | 1.1 | 1.1 |
| Social Security Benefits and Other Labor Income† | .9 | 1.0 | 2.0 | 1.2 | 1.0 | 1.0 | 1.0 | 2.5 | 1.2 | 1.6 | 1.7 | 1.9 | 1.8 |
| Total Share Going to Enterprisers and Property Owners | 29.2 | 26.2 | 21.6 | 16.8 | 16.1 | 18.4 | 19.9 | 23.2 | 24.3 | 21.2 | 22.5 | 23.5 | 26.6 |
| Dividends and Interest | 11.8 | 11.7 | 10.3 | 8.4 | 7.3 | 7.9 | 8.0 | 9.7 | 9.7 | 8.0 | 8.6 | 9.1 | 9.6 |
| Total Other Entrepreneurial Income | 17.3 | 14.5 | 11.3 | 8.4 | 8.8 | 10.5 | 11.9 | 13.5 | 14.6 | 13.1 | 13.8 | 14.4 | 17.0 |
| Non-Agricultural | 9.2 | 8.3 | 7.3 | 5.8 | 5.2 | 5.6 | 6.1 | 7.0 | 7.5 | 7.1 | 7.4 | 7.8 | 8.4 |
| Agricultural | 8.1 | 6.2 | 4.0 | 2.6 | 3.6 | 4.9 | 5.8 | 6.5 | 7.1 | 6.0 | 6.4 | 6.6 | 8.6 |

SOURCE: Based on Table 21 in Survey of Current Business, July, 1941, pp. 16-18. For the year 1941 see same for Feb. 1942, p. S1, Monthly Business Statistics table. The listing of the distributive shares here follows the titles used in Table 21 of source except that the item Total Salaries and Wages "In Private Industry" is found by excluding government and work relief wage and salary payments from Total Salaries and Wages. Agricultural Income is found by subtracting the total non-agricultural income from total income payments as shown in Table 21 of source.

*—Includes income in kind as well as cash income.

†—In addition to benefits payable under the Social Security program, this item includes pensions paid out by private industries and governmental agencies, compensation for industrial accidents, pensions to veterans, and also loans to World War veterans on their adjusted service certificates.

composed of employees, although some of them may be idle temporarily); (4) the beginning and growth of social security benefits and pensions; (5) in the last two years, the abnormally large wartime demand for workers. The share paid out to employers, enterprisers and property owners has been held down in the last two or three years by the (6) retention by business of an increased proportion of its earnings instead of paying them all out to owners and stockholders; (7) increased taxes on business, especially in the war years 1940-1941. (This is true of employees also, but it is not shown in the statistics used. The share of employees is overstated, therefore).

Each of these seven points is dealt with briefly in the following paragraphs.

(1) Increased organization of workers. The National Labor Relations Act of 1935⁴ and the action of the Federal Supreme Court in declaring it constitutional in 1937, have encouraged and made it possible for union organization of workers to increase greatly. In 1930 it is estimated that about 9 per cent of all workers were organized into unions. By 1940 the number had increased to 25 per cent. If agricultural workers are excluded, the amount for 1930 is 10 per cent and for 1940 it is 27 per cent.⁵ Employees who can bargain collectively with their employers in setting wage rates ordinarily possess much more bargaining power than can be exercised by individual employees.

2. Increased government employment. Although the number of employees of state and local governments has been increasing rather steadily due mainly to the organization and administration of the unemployment compensation and social security benefit systems, the most spectacular increase in government employees and payrolls has occurred in the federal government. The civilian employees of the national government numbered 559,618 at the end of 1929. They increased slowly to 607,936 on

4. For a brief summary of the provisions of this act see the *World Almanac*, 1942, p. 841.

5. Daugherty, C. R., *Labor Problems in American Industry*, p. 408.

December 31, 1933. Thereafter they increased rapidly to 932,305 at the end of 1939, and by June 30, 1941 they stood at 1,358,150. The war has caused a further increase. In addition, the creation of large military forces will naturally cause a great rise in the number of our population paid by the government.⁶

Some indication of how state government employees have gained in number may be had from the fact that in Kansas there was almost a 100 per cent increase between 1929 and 1938. The absolute figures are from 6,437 to 12,551.⁷ The average monthly payrolls increased from \$670,520 in 1934, the first year for which complete data are available, to \$1,048,734 in 1938.⁸ The average monthly pay of an employee of the Kansas State Government was, according to these figures, \$83.60 in 1938.

3. Work relief, direct and other relief. The absolute totals for these speak for themselves. They are best shown in Table III. These shares of the national income are of recent origin, having become significant in size in the depths of the 1929-1935 depression. They bolstered the share of the income paid out to employee groups. They have continued to be large both absolutely and relatively, even through the recovery period and in the prosperous years 1937, 1940, and 1941. The question arises, Will they be a permanent share?

4. Social security benefits and pensions. This item includes not only old age assistance, pensions and survivors insurance, aid to blind and aid to dependent children, but also workmen's compensation (accident insurance), pensions and bonuses to war veterans, and pensions to retired employees of private business. All except the last mentioned are payments made under government financed programs. Social security benefits of one kind or another have probably doubled the amount of income under this heading

6. See tables shown in the *World Almanac, 1942*, p. 766.

7. *State, County, and Municipal Survey, Government Employment and Payrolls 1929 through 1938, The State of Kansas.* United States Department of Labor, Bureau of Labor Statistics, p. 3. See Table.

8. *Ibid.* Table 4, p. 10.

going to employees as a group. Table III shows that this classification paid out .9 billion dollars in 1929, and for the years after 1935, when the Social Security Act went into effect, the totals ranged from 1.2 billion dollars in 1937 to 1.9 billion dollars in 1941. In 1938, 1939, and 1940, they were 1.6 billion dollars, 1.7 billion dollars, and 1.9 billion dollars, respectively. This share undoubtedly will be of increasing absolute and relative importance.

5. The abnormally large wartime demand for workers. Whenever there is an increase in demand for any factor of production without an equal increase in the supply of that factor, that factor will be likely to find that it can ask and receive a larger share of the national income. This situation began to develop in the last quarter of 1939, and became strong in 1940 and 1941. It is a condition which will not be permanent, and it is necessary to realize that employees will suffer a postwar weakening in their bargaining power. This will be true even though unions retain most of their membership, and unemployment compensation can help to keep workers from desparately competing for a declining number of jobs. The war demand for workers is a temporary one and will last only as long as the war.

6. The retention by business of a proportion of its earnings instead of paying them all out to owners and stockholders. The earnings retained in business are not included in income payments. During depressions enterprisers and property owners are able to receive a larger income because some of the surplus funds retained in the business in good times make it more likely that dividends and interest can be paid in bad times. In prosperous periods part of the earnings of business are retained for expansion and future contingencies. Ample charges for depreciation⁹ and obsolescence are likely to be made at all times whenever it is possible to make them. The corporation income tax laws are an encouragement to corporations to

9. The importance of depreciation reserves and charges may be illustrated by the fact that in 1930 the net income of corporations having profits was reduced for taxation purposes by 31 per cent by depreciation charges allowed by the tax authorities. Lutz, H. L., *Public Finance*, 3rd edition, p. 485.

keep their taxable net income as low as expert accountants and lawyer can make it. This does not mean that they do not strive for large earnings, but that all allowances and bookkeeping devices are employed to keep net income for tax payment measurement as low as legally possible. Depreciation charges have increased as a result of the war effort. Industry is also building up contingency reserves to help it face the postwar uncertainties.¹⁰ The government is allowing management to depreciate war plants at the high rate of 20 per cent a year and this cuts down on their net earnings available for distribution.

Business, after recording large deficits in many of the depression years after 1929, shows surpluses (savings) of 1.3 billion dollars in 1940 and 2.6 billion dollars in 1941.¹¹ The advisability of conservative dividend policies and adequate reserves is not questioned here, although it might be pointed out that surpluses or losses are often a matter of accounting practice rather than a definite economic loss or gain.¹²

It should be pointed out, too, that net earnings of industries in 1940 and 1941 have been reduced, in some cases sharply, by the costs of changing over from peace time production to war time production. After these conversion costs have been met, profits should rise again. On the other hand, a sizable number of business firms may be forced into losses and bankruptcy because of their inability to change over to armament production. A recent survey by the officials of the War Production Board discloses that 85 per cent of the 100 billion dollars in war contracts are held by 350 industrial firms. An additional 5,100 concerns hold the other 15 per cent. Subcontracts have been let by these

10. N. Y. Times, Financial Section, April 5, 1942, "14 Year Review of Industry Shows Many Records Set in 1941," Austin, Kenneth L.

11. Survey of Current Business, February, 1942, Table 5, p. 12.

12. American Economic Review, December, 1939, "Corporate Surpluses, Income, and Employment," by C. G. Ruggles, p. 724. *Ibid*, June 1938, "The Relation of Surpluses to Income and Employment During Depression," p. 223 and especially p. 224.

companies bringing in additional thousands of manufacturing firms. But even so, out of the 186,000 manufacturing plants in the country, 125,000 or 67 per cent had no direct part in the war effort as late as April 1942.¹³

7. Increased taxes on business, especially in the war years 1940 and 1941. A survey of 758 corporations in 1941 indicated that Federal taxes on income and excess profits were six and three-quarter times greater in 1941 than in 1929.¹⁴ There is some possibility that taxes will go higher. These taxes reduced the amounts of income that business had available for distribution in 1941. It should be mentioned, however, that even though the earnings had not been taxed to support the war effort of the country, there is no likelihood that they would have all been paid out to enterprisers and property owners.

It should not be overlooked, either, that there was an increase in the taxes that employees had to pay. These should be deducted from their income received if the total share going to employees is to be treated on a completely comparable basis with the net income (after taxes) earned by businesses.

Explanation of Classifications and Terms Used

Income payments were chosen to indicate trends in the national income because income payments are in the form of actual, realized income. Some objection to this choice may be raised by those who contend that it understates the shares of enterprisers and property owners in the national income created in those years when surpluses are built up by retaining business earnings in the business rather than distributing them to owners and stockholders. This seems to be correct. Nevertheless, it is realized income, income that is actually received by persons, that is most important in determining the welfare of the respective recipients. This is not to say that surpluses of prosperous years do not benefit enterprisers and property owners.

13. N. Y. Times, April 11, 1942, Financial Section, U. P.

14. N. Y. Times, April 5, 1942, Financial Section, Austin, Kenneth L. See also The National City Bank Letter, April, 1942, "Effects of 1941 Taxes," p. 45.

These surpluses, whether put into plant improvements or expansion, or invested in stocks and bonds of other industries and governments, can and do make it possible for property owners and entrepreneurs to receive a steadier income through good years and bad than would be possible otherwise. The survey of income payments tabulated in Table II shows that the item dividends and interest fluctuated less than any other item in private industry.¹⁵

A word, now, about the reasons for including in the "Total Share Going to Employees" the various items shown in the tables; namely, total wages and salaries: in private industry, government, work relief; direct and other relief; social security benefits and other labor income, which includes pensions of retired employees of private industry, government, work relief; direct and other relief; social security benefits and other labor income, which includes pensions of retired employees of private industry and government, as well as pensions to war veterans and workmen's compensation. Employees, whether working, unemployed, or retired, form an economic group that is for the most part distinct from the other main economic group classified in this study as "Enterprisers and Property Owners." There is some overlapping of the classes, of course, but not enough to obliterate the essential differences of the groups.

A more serious weakness of this attempt to classify all persons into these two general groups is that the terms "salaries and wages," and "employees" cover very great extremes in income received. A corporation president is an employee even though his annual salary is \$150,000. An unskilled worker with a yearly income of \$600 is also an employee. Likewise, a retired executive with a \$10,000 pension from his former employing company is included in the same class as a \$240 a year pension receiver under the old age assistance provision of the Social Security program. It

15. Dividends, alone, do fluctuate widely, but interest does not. The person who receives dividends is also the receiver of interest, so it is justifiable to lump the two items together in a study of individual income sources.

must be admitted that these extremes include employees who, on the basis of the size of their incomes and perhaps economic interests, should be classified in the economic group of enterprisers and property owners.¹⁶ As soon as the available data are compiled such a reclassification might be advisable. As yet, no data are available to make an adequate reclassification.

A final point should be made. The fact that an increasing relative share of the national income payments are going to employees as a group does not necessarily mean that the average employee is receiving an increasing share. One of the main reasons for the long run increase in the share of employees is that a rising percentage of the economically active persons in the United States are employees rather than enterprisers or employers. If the number of employees rises by a certain percentage, in order for each individual employee to continue to receive the same percentage of the national income, there must be an equal increase in the share of the national income going to employees. Available statistics indicate that between 1910 and 1929 the proportion of wage-earners to the total number of gainfully employed (occupied) increased by about 10 per cent and their share in the national income also increased by about 10 per cent.¹⁷

It is likely that this trend continued between 1929 and 1941, but it probably does not account for all the increase in the relative share going to employees as a group.

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16. On the other hand, of the six million farmers who are classified as enterprisers and property owners, undoubtedly at least four millions of them have such small incomes that they could be grouped with employees as far as the size of their incomes is concerned.

17. Daugherty, C. R., *Labor Problems in American Industry*, 5th edition, p. 151-2.

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