

★ One of the most significant facts in recent economic history has been the redistribution or equalisation of incomes, which has occurred in Australia during the last decade. While average consumer expenditure per head (adjusted for price rises) has increased by 20% since 1939, expenditure by lower income-earners has increased beyond this figure.

## The Silent Revolution

THE decade of the 1940's produced a remarkable transformation in the economic and social structures of the English-speaking countries. It was a silent revolution. It came about almost unnoticed. Its magnitude and meaning can only be adequately appreciated by contrasting the conditions prevailing today with those of little more than ten years ago. *Perhaps this decade of change, in its social sense, might be aptly described as the one in which Roosevelt's "forgotten man" became remembered.*

The changes have been so vast and so rapid that our thinking on social and industrial issues has not become fully adjusted to them. Attitudes of mind alter slowly and our approach to social problems is still very largely conditioned by a social-economic pattern that no longer exists.

Let us glance briefly at some of the more startling facts.

Before the war the income of every third family in the wealthy United States, because of more or less chronic underemployment and other reasons, was generally regarded as insufficient to maintain a decent standard of life. Today, protracted unemployment is virtually non-existent and less than 7% of American families are obliged to live on an income described by statisticians as inadequate.

In Australia, unemployment in the three pre-war years averaged 9% and about one in every three adult males received only the basic wage or less because of intermittent and short-time work and unprofitable prices for farm products. But now practically all adult males and a fair proportion of women workers earn considerably more than the basic wage.

Before the war, wages were more or less rigidly based on award rates. Since the war, practically every unskilled man in Australia has been able to look forward to a ready job and a substantial margin above the basic wage, over-time work, paid annual leave and many other benefits such as paid sick leave that he did not formerly get.

The whole range of social services in America, Britain and Australia, of benefit largely to the lower-income brackets, has been expanded and improved beyond measure. These new large-scale social services are financed largely out of heavy taxes on the higher incomes. Thus, whilst average consumer expenditure per head (adjusted for price rises) has increased since 1939 by 20% in Australia, by 30% in U.S.A. and shown little change in the U.K., expenditure by the lower income earners has increased by more than these proportions. In all three countries there has been a transfer of purchasing power favouring the mass of unskilled and semi-skilled workers by comparison with highly skilled artisans and white-collar workers, professional men and administrators, businessmen, shareholders and property owners. This massive redistribution, or equalisation, of incomes constitutes the most significant fact of the economic history of the last ten years.

#### INCOME DISTRIBUTION IN U.K.

An analysis of basic data published in the Inland Revenue Reports (taxation statistics) and the National Income Estimates, by the London and Cambridge Economic Service reveals the following distribution of personal incomes in the United Kingdom in 1938 and 1949.

**DISTRIBUTION OF PERSONAL INCOMES IN UNITED KINGDOM.**

1.	% of Total Income.				6. Income after Tax in 1949 as % of 1938 (in constant prices)
	2.	3.	4.	5.	
	Before Tax		After Tax		
	1938	1949	1938	1949	
<b>Upper Classes</b>	%	%	%	%	%
1. Richest 100,000	11.9	7.0	7.9	3.3	44
2. 2nd 100,000 ....	3.6	2.8	3.1	2.1	71
<b>Total</b> ....	<u>15.5</u>	<u>9.8</u>	<u>11.0</u>	<u>5.4</u>	<u>52</u>
<b>Middle Classes</b>					
3. Next 300,000 ..	6.3	5.2	5.8	4.4	81
4. 2nd ½ million ..	6.3	6.0	6.2	5.3	91
5. 2nd million ....	8.3	8.3	8.7	7.6	92
<b>Total</b> ....	<u>20.9</u>	<u>19.5</u>	<u>20.7</u>	<u>17.3</u>	<u>89</u>
<b>Lower Middle Classes</b>					
6. Next 3 millions	15.8	16.2	16.9	17.1	108
<b>Working Classes</b>					
7. Next 5 millions	17.0	19.5	18.3	20.8	121
8. Remainder* ....	30.8	35.0	33.1	39.4	127
<b>Total</b> ....	<u>47.8</u>	<u>54.5</u>	<u>51.4</u>	<u>60.2</u>	<u>124</u>
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>106</u>

\* 13 millions in 1938. 13½ to 13¾ millions in 1949.

**NOTES:**

- Gross Incomes increased as follows between 1938 and 1949.  
 Group 1.—£2,070 and over to £3,200 and over.  
 Group 2.—£1,260-2,070 to £2,150-3,200.  
 Group 3.—£685-1,260 to £1,275-2,150.  
 Group 4.—£450-685 to £375-1,275.  
 Group 5.—£300-450 to £330-375.  
 Group 6.—£184-300 to £408-630.  
 Group 7.—£123-184 to £290-408.  
 Group 8.—Under £123 to under £290.
- Columns 2 to 5 depict increases or decreases in relative terms whilst Column 6 shows absolute changes, i.e. total purchasing power available to each group after allowing for price changes and taxes in 1949 as compared with 1938. The bald statistics, however, tend to give a much too favourable picture because they don't measure the things people must now go without, not because of low incomes, but because some goods, many foodstuffs for example, are just not available over the counter. It should also be remembered that 1949 was a year in which substantial assistance was received from America under the Marshall Plan. The lower income groups are also benefitting from the National Health Service, food subsidies, low cost utility clothing and other government benefits not available in 1938.
- The designations are naturally very broad, e.g., female and junior salaried personnel may be included with the lowest income groups, designated as "working class."

In 1938, the richest 100,000 people in United Kingdom had nearly 8% of total incomes (after tax)! By 1949, the share of the richest 100,000 had dropped to 3%. When account is taken of price changes this represented not only a relative decline, but also an absolute fall in income of over 50%.

Middle-class income earners (over £300 in 1938 and over £630 in 1949) including professional and small business men, salaried executives and so on, have also fared badly. In relative terms, their share of personal incomes (after tax) dropped from 21% to 17%. In absolute terms, their real purchasing power fell by about 10%. The lower middle classes appear, however, to have made a slight relative gain, with an absolute increase in purchasing power of possibly 10%.

In contrast to the substantial decline in the relative share of personal income accruing to upper and middle income receivers, there has been a considerable improvement in the share going to lower income earners (below £184 in 1938 and £408 in 1949). Statistics of working class incomes unfortunately only fall into very broad categories. The top 5 million working class income earners, including mostly skilled tradesmen, increased their relative share of personal income quite substantially. What is even more interesting from the statistics is the implication that the real purchasing power of their earnings increased by 21% between 1938 and 1949. This does not mean that their living standards have increased by 21%. Many commodities and foodstuffs are just not available to be bought in the same quantities as before the war and incomes must be spent on other less needed goods and services.

The great mass of 13-14 million workers at the bottom of the income scale have made substantial gains since 1938. Now fully occupied, better paid and provided with much expanded social service benefits, their share of personal income has risen from 33.1% to 39.4%. The absolute increase of 27% in real purchasing power is partly qualified by the fact that this group comprises half to three quarters of a million more workers than in 1938. But it seems reasonable to con-

clude that a large proportion of the British working population is clearly better off than ever before—and all this in spite of Britain's economic difficulties. This of course has been partly made possible by large dollar assistance and by the continuation of economic conditions favourable to British exports. How the transition to a world buyer market and the cessation of Marshall Aid will affect the position still remains to be seen.

An analysis of personal income in United Kingdom by source of earnings is also highly revealing.

**DISTRIBUTION OF PERSONAL INCOME (before Tax)  
BY SOURCE IN UNITED KINGDOM.**

	1938 % Total	1950 % Total
Wages .....	37.6	44.3
Salaries .....	24.0	24.8
Professional Earnings .....	1.8	1.8
Farmers Profits .....	1.4	3.0
Sole Traders and Partners .....	9.5	8.4
Dividends and Interest .....	15.0	10.3
Rents .....	9.0	4.9
Armed Forces .....	1.7	2.5
	<hr/> 100.0	<hr/> 100.0

Source: National Income Estimates, United Kingdom.

Complete details of incomes after tax are not available. However, as the share of wages in personal income, after tax, rose from 40% in 1938 to 47% in 1950 and the share of salaries remained unchanged, it seems clear that net receipts from small businesses, professional earnings, and certainly from property income—dividends, rent and interest—must have declined.

**THE TRENDS IN U.S.A.**

A most important analysis of income trends in U.S.A. has been recently completed by Dr. Kuznets and associates of the National Bureau of Economic Research, who have traced the relative share of personal income going to the top 1% and the lower 93% of income earners from 1929 to 1948. In 1929, the top 1% of income earners had 15% of all incomes; by 1948 this had dropped to 9%. But over the same

period the share of the lower 93% rose from 68% to 79%. This was primarily due to the great gains in wages and salaries and other employee compensation—from 60% to 66% of total personal incomes—the bulk of which went to the lower 93% of income earners. At the same time property income, which represents a large part of the income of the top 1% declined from 22.4% to 11.3% of all personal incomes. Cheap money and liberal credit policies reduced income from interest going to people in a private capacity from 8.8% to 4.2% of the total, whilst rent control reduced rental income of persons from 6.8% to 3.6%. Dividends paid to persons declined from 6.8% of all personal income to 3.5%. The greatest gains in wage and salary incomes were made by those on the bottom of the income scale—the unemployed and part-time workers of the 1930's.

The top third families lost ground between 1939 and 1949; although the middle third gained, the lowest third gained relatively twice as much. The researchers also found that income tax further sharpened the changes. They were emphatic that America had about reached the limit of the income tax as a device for re-distributing income.

The changes that have taken place in U.S.A. in the distribution of income are not only important as measures of the performance of democracy and modern capitalism, they give heart to the thought that spending power spread throughout the American community should contribute to stability and high employment in the United States and thus in other countries.

## THE AUSTRALIAN INCOME POSITION

Because of the absence of uniform taxation before the war, any statistical picture showing the shift in Australian incomes can at best be very approximate. An analysis of data made available by the Commonwealth Statistician and other authorities suggests the following distribution in 1938/39 and 1948/49:

	% Total Income (Before Tax)		% Total Income (After Tax)	
	1938/9	1948/9	1938/9	1948/9
Top 1% .....	12	10	10	7
Middle 9% .....	23	21	23	19
Lower 90% .....	65	69	67	74
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

The redistribution of income in Australia has not been quite as drastic as in United Kingdom. Incomes were more equally distributed in Australia before the war than in United Kingdom and there has also been an influx of primary producers into the top income brackets as a result of highly profitable prices for farm produce. The share of personal income attributable to different sectors of the Australian community tends to be dominated by fluctuations in farm prosperity. Farm incomes ranged as low as 5.4% of personal incomes in 1930/31, when wheat averaged 2/4 per bushel and wool 8d. per pound, and as high as 26% in 1950/51, when wheat was 17/4 per bushel (export price) and wool 144d. per pound. This leads to the distorted impression that wages and salaries in 1950/51 received only 51% of national income as contrasted with 64% in the depth of the depression. If farm incomes are excluded, the picture is approximately as follows:—

DISTRIBUTION OF NON-FARM INCOME.

	1938/39 % of Total Non-Farm Income	1950/51 Income
Wages and Salaries .....	66.5	69.3
Social Service Benefits .....	4.5	6.7
Total .....	<u>71.0</u>	<u>76.0</u>
Business and Professions .....	12.4	14.8
Dividends .....	3.7	3.7
Rent and Interest .....	12.9	5.5
Total .....	<u>100.0</u>	<u>100.0</u>

Source: National Income Estimates 1950/51.

The lumping together of wages and salaries tends to conceal the fact that the share of wages in total personal income is greater than shown above because of the tendency for salaries to lag behind wages. Unfortunately, the only comparative statistics of wages and salaries are for manufacturing industry.

% Value of Production—Victoria

	1938/39	1950/51
Salaries .....	8	8
Wages .....	47	51
Wages and Salaries .....	55	59

Source: Manufacturing Industry Statistics, Victoria.

Salaries paid to managers, clerks, chemists, draughtsmen and research staff (males) have increased from an average of £356 in 1938/39 to £817 in 1950/51—an increase of 130%. Over the same period, average wages paid to all other factory workers increased from £211 to £586 for males—an increase of 180%—and from £105 to £352 for females—an increase of 240%. When the effects of taxation are taken into account salaries appear to be getting a smaller share of net personal income than before the war, compared with a much higher share for wages.

The share of personal income received by unincorporated businesses and the professions increased from 12.4% in 1938/39 to 14.8% in 1950/51. However, most of this increase came from greatly expanded turnovers of shopkeepers, builders, contractors and similar entrepreneurs, rather than from increased professional earnings. Thus in 1938/39 professional men running their own practices in Australia—lawyers, doctors, engineers, architects and accountants—earned an average income (including income from property) of about £800. By 1947/48 they had reached an average income of £1,100, which represents an increase of under 40%. In contrast, others running their own businesses increased their average incomes over the same period of time from about £300 a year to £600—an increase of 100%.\* As most businesses keep pace with inflation through increased turnovers and rising stock values, but few professional fees are adjusted nearly as much as the increase in prices, the disparity revealed in 1947/48 would be much greater today.

It is clear, therefore, that while business proprietors are somewhat better off than before the war, professional men as a whole appear to be much worse off.

\* Pre-war averages are based on the only statistics available—that is for Queensland; 1947/48 figures are from the Commonwealth Taxation Commissioner's Report.

Despite record turnovers and the flotation of many new companies the share of dividends in personal income has remained at the 3.7% ruling in 1938/39. As a percentage of shareholders' funds, dividends paid by public companies, excluding banks and other financial companies, averaged 5.9% in 1951, roughly the same as in 1939. But bearing in mind the rise in prices since 1939, the real value of company dividends to shareholders is much lower than before the war, particularly when taxation is taken into account. As share values are now 50% above pre-war (90% above at the peak of May, 1951), admittedly original shareholders have made some capital gain since 1939 and to this extent are better off. The pegging of rents and low interest rates has resulted in a marked decline in the share of personal income attributable to rent and interest.

THE conclusion that emerges from a study of the relevant statistics in all three countries—Australia, United Kingdom and United States—is that the “hewers of wood and the drawers of water” are now receiving a much greater share of production than they obtained in pre-war days, whilst the skilled worker, whether of brain or hand, the investor and the risk-taker are getting a smaller share. The great economic problem today consists not in redistributing national income, but in securing a vast increase in the total national product available for distribution.

