

DISTRIBUTION OF INCOME BY STATES IN 1919

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Distribution of income by states in 1919 by Oswald W. Knauth

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OSWALD W. KNAUTH

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BY
OSWALD W. KNAUTH
OF THE STAFF OF THE NATIONAL BUREAU OF ECONOMIC RESEARCH

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PREFATORY NOTE

The "Distribution of Income by States in 1919" is a by-product of the volumes on "Income in the United States" which have already been published by the Bureau. It is one of a series of studies which the Bureau is undertaking in connection with its main topics of research and which may later be collected in a formal volume. It is issued at this time in order to meet the special needs of many investigators concerned with the comparative capacity of the various states to bear increased taxes, to buy goods of various sorts, to absorb securities, etc. It also indicates the relative importance of agriculture in the different sections of the country.

The present study undertakes to distribute the aggregate income of the American people among the States on the basis of such official data and other indices as are available. This distribution is based on data for 1919, and no single year is "typical." The small incomes received by farmers in Montana after the bad weather of 1919 certainly do not represent average conditions and probably less striking anomalies exist among the figures for other States. However, the distribution must rest upon the State data gathered by the Census and those data are to be had only for 1919.

The reader who is looking for results, and is not interested in the method, will find these results presented in tabular form on pages 25 to 30.

Like all publications of the National Bureau of Economic Research, this paper has been submitted for criticism to the Bureau's directors and approved by them. Hearty thanks are due to members of the Board for their help in improving what remains at best a rough set of approximations.

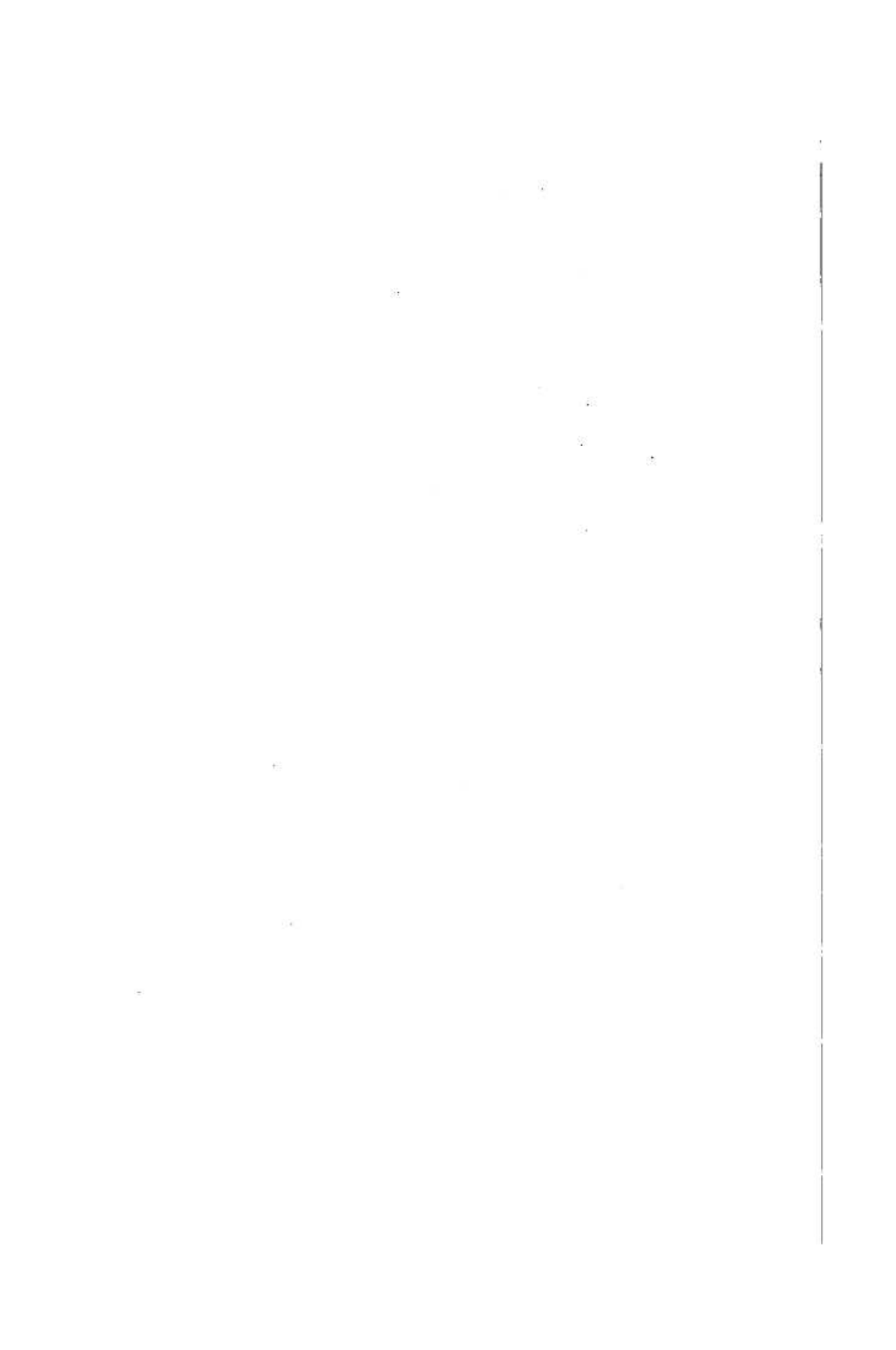
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THE DISTRIBUTION OF INCOME BY STATES

in 1919

I. INTRODUCTION

In a previous publication of this Bureau, the income of the United States in 1919 was estimated at 66.7 billion dollars.¹ This estimate was based on the incomes received by gainfully employed persons, and was divided into the following categories—

INCOME OF THE UNITED STATES, 1919

	Billion dollars
Income of persons receiving over \$2,000 per year (excluding farmers and farm laborers).....	\$18.90
Income of persons receiving under \$2,000 per year (excluding farmers and farm laborers).....	32.65
Income of Farm Laborers.....	2.30
Income of Farmers.....	10.85
Corporate Surplus.....	2.00
Total.....	\$66.70 ²

Many of the items on which these estimates for the country rest are available also by States. The Bureau of the Census has published in its advance bulletins the number of gainfully employed persons on January 1, 1920 and most of the details concerning farmers. The Bureau of Internal Revenue has published by States the amount of income reported under the income-tax law. Where direct data of this kind are lacking, it is possible to construct index numbers which can be used to distribute parts of the total National Income among the 48 States. Such State estimates, of course, cannot have the same accuracy as the larger estimate of the National Income, if for no other reason than that a small error is more important in a small total than it is in a large one.

For many purposes, it is quite as important to know the proportions of income received by States as it is to know the total for the country. Cer-

¹ *Income in the United States*, Volume II, chap. 26. Harcourt, Brace & Company.

² The amount distributed in the summary table below is 66.2 billion dollars; the difference of one-half billion dollars being the amount paid to soldiers which it was impossible to distribute among states in 1919.

tain details of this State distribution are particularly interesting: for example, the variations of per-capita income, the varying proportions of farmers' income to the total income, and the distribution of farmers' income.

II. THE METHOD

A. The Income of Persons Receiving Over \$2,000 per Year. (Excluding Farmers)

The income of persons receiving over \$2,000 per year (excluding farmers) has been treated in the following manner: The amount shown for each State in the official *Statistics of Income*, 1919, has been listed. This amount requires adjustment for the present purpose in three ways: first, it includes a part, but only a part, of the incomes in the ranges between \$1,000 and \$2,000; second, it includes income due to agriculture; and third, it does not include income which should have been, but was not, reported. In order to make these adjustments, (1) the amounts reported in the income-range \$1,000-\$2,000 have been subtracted from the total of each state; (2) the amount reported as due to agriculture, \$1,211 million, has been apportioned according to the percentage of farmers' incomes in each state and the ratio which the average farmers' incomes of each state are to the average farmers' incomes of the whole country; and (3) the resulting income in each state as left by these two adjustments has been raised to bring the sum for all the States to the estimated national total of \$17,500 million. (See *Income in the United States*, volume II, Chapter 22.) The last adjustment appears to be the least satisfactory; it involves the tacit assumption that the evasion of income taxes by failure to report and under-reporting is uniform in all states—an assumption which may or may not be valid.¹

Next the non-taxable income must be apportioned. The income from homes owned by the individuals occupying them, amounting to 700 million dollars, has been distributed among the States according to the percentage of the total income-tax payers resident in each State. The remaining tax-exempt income, mostly interest on exempted bonds, amounted to 710 million dollars in 1919. This sum has been apportioned according to the total income of persons having \$25,000 or more per year in the several States. The reason for this is that the exempt income appears to be highly concentrated in the higher range of incomes.

¹ "I am enclosing my approval of the publication of the section on the Distribution of Income by States. I want to place myself on record, however, as believing that the facts are not in accordance with the presumption that there is an equal amount of failure to report and of under-reporting in every state. In my opinion there is evidence in the income tax statistics themselves that there are very large differences in the degree of accuracy of these figures in different states. Nevertheless, the question is so difficult, and is in particular so full of political dynamite that I do not see that the Bureau could possibly adopt any other course than the one it has followed."—Allyn A. Young.

TABLE 1
DISTRIBUTION OF NON-AGRICULTURAL INCOMES OVER \$2,000 BY STATES
1919
(Thousands of Dollars)

State	Reported total over \$2,000	Estimated farmers' income	Reported, less farmers' income	Adjusted for under-reporting	Tax-exempt income from homes	Other tax-exempt income	Total
<i>New England Division</i>							
Maine.....	\$ 93,741	\$ 6,559	\$ 87,182	\$ 96,667	\$ 4,550	\$ 2,403	\$ 103,620
New Hampshire.....	62,889	782	62,107	68,864	3,360	1,033	72,857
Vermont.....	38,801	2,782	36,019	39,960	1,750	1,300	43,010
Massachusetts.....	947,384	1,646	945,818	1,048,723	35,210	55,138	1,139,071
Rhode Island.....	120,132	150	119,982	133,038	5,250	7,128	145,414
Connecticut.....	289,666	1,193	288,473	297,683	14,480	11,537	323,710
<i>Middle Atlantic Division</i>							
New York.....	3,089,680	32,731	3,056,949	3,400,589	89,570	286,968	3,727,257
New Jersey.....	708,259	5,188	703,071	779,635	30,450	26,866	836,951
Pennsylvania.....	1,483,358	25,743	1,457,615	1,615,065	70,770	73,144	1,759,009
<i>East North Central Division</i>							
Ohio.....	899,400	46,216	853,184	942,765	40,460	34,577	1,017,732
Indiana.....	352,018	39,979	312,039	345,989	17,080	6,733	369,802
Illinois.....	1,488,282	97,055	1,391,227	1,520,304	55,440	53,803	1,629,637
Michigan.....	570,907	26,963	543,944	603,125	23,870	25,283	652,278
Wisconsin.....	275,289	33,075	242,214	263,023	13,860	5,859	282,742
<i>West North Central Division</i>							
Minnesota.....	314,568	40,632	273,936	303,740	16,240	8,839	328,819
Iowa.....	491,852	110,218	381,634	422,856	17,570	4,491	444,917
Missouri.....	407,376	34,485	372,891	413,462	16,450	13,930	443,842
North Dakota.....	62,890	22,155	40,735	45,167	3,570	236	48,973
South Dakota.....	119,766	30,552	89,214	98,920	5,040	541	104,501
Nebraska.....	242,628	81,831	160,807	200,357	11,480	3,102	214,939
Kansas.....	235,772	55,966	179,806	199,369	10,010	3,337	212,716