The Rise and Fall of Income

by ALAN ST. DENIS

CORPORATE profits are higher than ever. So is the general level of monetary wages. Bank vaults are bursting with money on deposit. Despite inflationary pressures, goods and services are plentiful, and consumer desires are great. Yet, paradoxically, governmental and industrial statistics show that the rise in the American standard of living has been slackening noticeably, and that retail sales throughout the nation are slowly but steadily declining.

However, a brief investigation of prevailing economic conditions indicates that this so-called paradox — that is: large incomes on the one hand and curtailed consumption on the other — is a phenomenon readily explained. All one has to do is examine the basic premise, which is the nature of these large incomes. That they do exist cannot be denied, but where and how far they go is another matter. Are they, can they be, wholly and directly devoted to the satisfaction of their earners' economic desires? Unfortunately, the answer is "No."

What we glibly call "income" actually should not be so described, except to a limited extent. It is obviously illogical to call it *all* income when a considerable portion just evaporates, much of it before it is received. In fact, with characteristic adroitness in the use of language, Americans have cleverly come up with a new phrase. They rarely speak of "income," "salaries" or "wages." Instead, they substitute the term "take home pay," which is the only part of income that counts, the only part that can be spent, the only part that means anything economically.

By the time the ever-increasing "tax bite" is deducted from one's income, considerably less remains available for purchasing. Consumer spending normally depends on money in the pocket, not money in the bank. There is a tendency to "pay as you go," which accounts for the widespread prevalence of installment buying. According to George W. McKinney, Jr., vice president and economist of the Irving Trust Company (as quoted in The Wall Street Journal), "Over the years, there's been a very close relationship between real income and retail sales." (Note the words "*real* income," which mean take home pay, money in the pocket, funds one can *spend*.)

It is clear that today's large incomes are ultimately not so large after all, and for that reason cannot buy so much. And there is still another hurdle in the consumer's path: higher prices. Thanks to taxes, tariffs, monopolies, private land-rent and growing inflation, the monetary cost of goods and services keeps rising inexorably. The question is not how much money one has to spend, but what can be acquired for it. A man with ten dollars in his hand can buy a five-dollar hat and a five-dollar shirt; but when the price of each goes up to ten dollars, he can buy only one of the two.

There it is in a nutshell: retail sales fall in the face of large incomes, and living standards resultingly decline, because taxes erode the income and high prices lessen buying power. Eliminating taxation (through the community collection of land-values) and lowering prices (through the institution of a free market-place economy) are the only solution. Effective consumer demand would inevitably ensue, creating the greatest possible impetus to production, which, thus enhanced, would bring welcome economic benefits to all.