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A NON - PROFIT MEMBERSHIP CORPORATION FOR IMPARTIAL STUDIES IN ECONOMIC, SOCIAL AND INDUSTRIAL SCIENCE  
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February 6, 1936

Dr. Edmund E. Day, Director, The Social Sciences  
The Rockefeller Foundation  
49 West 49th Street  
New York City

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Dear Dr. Day:

I am enclosing with this letter copies of the reports of the various committees which did the major part of the work at our Conference on National Income and National Wealth on January 31 and February 1. These reports have been accepted by the Conference and constitute tentative instructions to the Executive Committee which the Conference has chosen to act during the time between its meetings. The Executive Committee includes myself as Chairman, Professors Crum, Copeland, Marget and Groves, and Messrs. Nathan and Director from the Department of Commerce and the Treasury. We are now circulating the preliminary draft of the minutes of the Conference, and I shall send you the final draft when it becomes available.

My personal impression of the Conference, I hope an unbiased one, was that it went off very successfully. The participants all had a common interest in the range of problems discussed, and I believe they all felt the value of such a meeting and the need for a continuing cooperative organization in the field. The Executive Committee has already held one meeting and is planning another one in March. Some plans already suggest themselves for cooperative activity during the coming year, but their prosecution is largely contingent upon the human and financial resources of the Committee this year.

I am giving you my impressions and sending you the materials in the belief that you were interested in the Conference and its outcome. I am sending a copy of this letter to Mr. Van Sickle for his information.

Yours very sincerely,

*Simon Kuznets*

Simon Kuznets

SK:RD

## REPORT OF COMMITTEE ONE

### Objectives, Concepts and Classifications in the Investigation of National Income and Wealth

M. A. Copeland, Chairman; R. G. Blakey, Solomon Fabricant, Milton Friedman, Henry Schultz, Carl Shoup, W. L. Thorp

Studies of national income and wealth necessarily serve a great variety of objectives. The concepts of income and of wealth and their classifications by various criteria are necessarily basic to the whole field of economics. In addition to the use of income and wealth estimates in economic research, there are numerous other uses, notably in connection with decisions on questions of public policy and business administration. This variety of purposes inevitably involves a great variety of concepts and schemes of classification of income and wealth, of which income produced, income received, income consumed, income realized, money income, and imputed income and wealth on a market value basis or a book value basis may serve as examples. To attempt to limit the variety of concepts and schemes of classification would, it appears to the committee, tend to limit the  
scope and restrain<sup>the</sup>/freedom of research.

The committee recognizes, however, that it is desirable: first, to provide for the reconciliation of various income and wealth estimates and schemes of classification; second, to adopt uniform terminology for identical concepts; and third, to provide convenient machinery for testing the general usefulness of various concepts and schemes of classification.

In order to facilitate an adequate reconciliation of the various estimates of income and wealth, the committee recommends: first, that a set of bench-mark years be established; second, that it be generally understood among the workers in the field that, whenever feasible, specially detailed breakdowns shall be made available for

Report of Committee One (Continued)

these bench-mark years; third, that, provided there be established a consistent set of detailed estimates for various income and wealth concepts for these bench-mark years in these fields, workers should attempt to present detailed reconciliations of their own estimates with these standards of reference. ~~The establishment of the~~ General <sup>should be</sup> acceptance of such standards/sought by the Conference on National Income and Wealth. The committee recommends that the Conference on National Income and Wealth consider the advisability of adopting as bench-mark years 1899, 1909, 1919, 1929 and 1935. In recommending that specially detailed estimates of income be made for the bench-mark years, the committee recognizes that, for many items, estimates will be necessary both for the beginning and for the end of each bench-mark year.

In order to promote uniformity in terminology, and to facilitate the maximum usefulness of the concepts and classifications employed by various workers, the committee further recommends that as part of a continuing organization growing out of this conference there be established a section to act as a clearing house for proposed terminology and concepts, and schemes of classification.

The committee suggests that one of the functions of such a clearing house should be to explore the possibilities of a standard skeleton classification sufficiently detailed so that, by appropriate combinations and omissions, an estimate could be arrived at for each of the chief income and wealth concepts. The committee believes that this would greatly aid in clarifying the various concepts of income, savings, investment, capital accumulation and wealth, as well as in providing for the reconciliation of the work of the various research groups.



## REPORT OF COMMITTEE TWO

### Data and Proceedings Relating to Industrial and Functional Classifications of Income and Wealth

C. R. Chambers, Chairman; Aaron Director, Lillian Epstein, R. R. Foster, W. M. Hoad, Hildegard Kneeland, Martin Krost, Simon Kuznets, Solomon Kuznets, Robert Martin, R. R. Nathan, C. M. Purves

#### I. Industrial Classification

##### A. The Committee recognizes that:

1. The industrial classification now used in current studies, limited largely by lack of data, is not satisfactory for many objectives such as distinguishing between durable and non-durable goods, or capital and consumption goods, or for goods at various stages in the process of production and distribution.

2. A <sup>single - see letter March 5-36 from Martha Anderson</sup> (simple) industrial classification of national income totals serving all objectives would be too detailed for practical purposes and is not feasible.

3. Detailed classifications would render more difficult the solution of problems arising from joint costs, in income studies, and joint use in wealth studies. For example, the corporation is a unit, and where multi-functional activities of a corporation are concerned neither the property income nor the use of the property can be classified strictly by function.

4. The classification of certain activities, such as government or finance, as industrial, leads to difficult conceptual problems, in connection with both wealth and income investigations.

##### B. The Committee recommends:

1. The appointment of a committee to consider various objectives of income and wealth estimates and to prepare appropriate indus-

trial classifications which the Conference can consider at some future date.

2. As more detailed classification as is feasible with the data. For example, even with the present data labor income in certain industries can be <sup>classified</sup> ~~grouped~~ in more detail.

3. Further analysis of such divisions of income and wealth as government and finance in which the conceptual difficulties are pronounced.

4. The classification of industrial census data not only by plants but also from time to time by enterprises for comparability with Treasury data.

5. Provision, in the Censuses where complete coverage is attempted, for tabulations designed to facilitate comparability <sup>with - see letter 3-5-36 from Martha Anderson</sup> (of) other Censuses of limited coverage.

## II. Type-of-Payment Classification

### A. The Committee recognizes that:

1. The present practices of showing total labor, property, and entrepreneurial incomes as major classes lead to obscuring significant differences in payments for different functions.

2. The treatment of property income flowing indirectly to individuals through "associations of individuals" subjects the income paid out estimates to important qualifications.

3. There is a need for further analysis and clarification of certain incomes flowing to individuals from the government, such as old age pensions.

### B. The Committee recommends that:

1. In so far as possible the compensation of employees be

classified into the following categories: salaries of principal officers or executives, salaries of other employees, wages, and other types of compensation arising from past or present employment. This last category should be subdivided into such constituent items as pensions, compensation for injuries, gratuities, unemployment insurance benefits, etc. Also it is desirable to classify payrolls further by the size of individual earnings.

2. Consideration be given to the possibility of attempting a more detailed classification of property income, distinguishing between interest, dividends on preferred stock, and dividends on common stock.

3. An effort be made to estimate the payments to individuals by "associations of individuals" (such as a mutual life insurance company) as well as the accrual to individuals through these channels.

4. Estimates for and the treatment of such items as the net international flow of incomes be more clearly presented and identified in connection with the national income totals.

### III. Inadequacies in the Data

A. The Committee recognizes that the lack of data and the inconsistencies in the available data affect seriously the adequacy of the following estimates currently made.

1. Estimates for government, finance, service, independent professions, parts of transportation, construction, and the miscellaneous industries.

2. Estimates of income of entrepreneurs in unincorporated establishments.

3. Estimates of income from long-term obligations held by corporations.

4. The conversion of certain expenses in agriculture and other industries from a payable to a paid basis.

5. The comparability of property income estimates for each industry owing to changes in income tax laws affecting consolidated returns.

6. The ratios of net to gross rent and the resulting estimates of the rental item.

7. Estimates of labor income totals for holding companies.

8. Estimates of full-time equivalent number of employees in most industries.

B. The Committee recommends that:

A committee be appointed to investigate the gaps and weaknesses in existing data that are essential in the preparation of adequate estimates of national income and wealth items according to proposals for changes made by this Conference. The problems relating to the data are too numerous to be discussed in detail in this report to the Conference.



### REPORT OF COMMITTEE THREE

Cooperation in Research on the Distribution of Income by Geographic Regions and by Size (among families or individuals) and on the Amount and Distribution of National Wealth

A. W. Marget, Chairman; Charles Bliss, A. F. Burns, W. J. Carson, Lauchlin Currie, H. M. Groves, A. F. Hinrichs, Edward White, D. L. Wickens

1. It is recommended that a Committee be established on a continuing basis which shall have the responsibility - within the field of the problems associated with distributions of income by geographical regions and by size, and with the amount and distribution of national wealth - of instigating new investigations which might take any one of the following forms:

(a) For example, the inclusion of a question on income in the census of population, or some other general census, might be recommended. Such a census might have the advantage of providing any desired number of cross-tabulations with respect to data on the distribution of income, which might be further subdivided by size of family, type of occupation, etc., and would have the advantage of providing also a new type of data to be set side by side with data of the inferential sort necessarily used hitherto. It is not suggested that these inferential studies be discontinued. On the contrary, it is hoped that the two types of study will be carried on simultaneously, one acting as a check on the other and providing material where neither approach provided adequate data.

(b) The Committee's suggestion with respect to the possibility of a census of incomes should not be regarded as precluding the possibility of using other methods to obtain new data: for example, the use of sampling techniques, the requiring of income-tax returns from all groups in the population, regardless of whether they are subject



to the income tax, or any other method of obtaining new data which may prove practicable.

(c) A similar census might be considered for urban residential and commercial real estate and for other forms of wealth susceptible to measurement by census methods.

(d) The reworking of material might be suggested, possibilities of which, in the opinion of some members of the Committee, have not yet been adequately explored. This may be true, for example of wage and employment data; it has been suggested also that data that are not published by governmental authorities, such as information returns now supplied by employers to Federal and state authorities, are available.

Our conception of this committee is that precisely because it should regard itself as a kind of steering committee it would be unwise to limit its functions too drastically at the outset.

2. It is to be expected that the Committee will recommend a definite research project on the basis of its survey. It is felt that the most promising field for a cooperative research project is represented by a study of the regional distribution of income, including the task of subdividing these regional figures into substantially the same groups as those used on a national basis. To this end, it is proposed that a second committee be established which should have the specific task of laying down in more detail the lines which such an investigation should follow.

One question that the Committee will need to decide is whether the regional study should aim mainly at a breakdown of national income data by states and other geographical units, or at

the use of regional data along with other types of data to frame a distribution of incomes of: persons or families by states.

It was the feeling of the Committee that the regional study should be preceded by a preliminary examination of what some members of the Committee termed the 'methodological' aspects of the problem. That is to say, a study would be made of such questions as the logical basis for the drawing of regional lines, for example, the separation of industrial and farming areas, the subdividing of farming areas into major types -- the treatment of income produced and income received when both categories cross state lines and so on. The Committee would also proceed to survey the field with a view to ascertaining what material was available at present or could be secured without too great difficulty.

It is felt that in this way much new material could be uncovered which would be not only available for the special problem of the regional distribution of income, but also helpful as a supplement to figures for income computed on a national basis which might otherwise have been unavailable. The Committee, that is to say, feels that at least two major purposes would be served by a project of the kind that we recommend. It would, first, provide material of interest on its own account for an appraisal of different standards of well-being in different parts of the country; second, provide material which could be used for purposes of supplementing and checking figures assembled on a national basis. The Committee feels, moreover, that an entirely satisfactory interpretation of personal and family income distribution on a national basis will be greatly aided if it is combined with a breakdown of the distribution on regional lines. The Committee also would be charged with the function of devising

methods for enlisting the interest of tax commissioners and other state officials in the project of accumulating new data and of making additional tabulations of existing data; and especially for obtaining a greater degree of cooperation between State and Federal tax agencies.

The Committee feels that this regional project should be extended to problems in the field of studies of wealth wherever reasonable possibilities are open; for example, it is felt by some members of the Committee that a study of state experience in the administration of inheritance taxes would afford a great deal of valuable information with respect to the personal distribution of property. It is possible also that other problems involving the measurement of wealth, such as the valuation of physical property of certain types within a given area, might also be handled by the co-operating agencies on a regional basis.

## REPORT OF COMMITTEE FOUR

### The Organization of Cooperative Activity

W. L. Crum, Chairman; R. G. Blakey, C. R. Chambers, M. A. Copeland, Aaron Director, A. F. Hinrichs, Simon Kuznets, A. W. Marget, W. L. Thorp

The Committee proposes the following resolutions:

I. That the Conference on National Income and Wealth be constituted a continuing body; that for the present it consist of representatives from the following institutions: Central Statistical Board, Bureau of Foreign and Domestic Commerce, Treasury Department, Bureau of Agricultural Economics, National Resources Committee, Federal Reserve Board, Bureau of Census, Dun and Bradstreet, National Industrial Conference Board, Institute of Advanced Study, Brookings Institution, Harvard, Columbia, New York, Pennsylvania, Chicago, Wisconsin, Minnesota Universities, and the National Bureau of Economic Research; that its membership be revised from time to time by its Executive Committee as interests of these and other institutions with respect to income and wealth research undergo change; and that it hold general meetings occasionally upon call of its Executive Committee.

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II. That an Executive Committee of not more than seven members be created; that the membership be elected by the Conference; that this Committee hold office for a one-year term or until the succeeding general meeting of the Conference; that the Executive Committee may fill vacancies ~~xxxxxxxxxxxx~~ in its membership during intervals between general meetings of the Conference; and that the Executive Committee be charged with the following responsibilities:

1. To secure and record information concerning research in progress or contemplation, in the field of income and wealth.



2. To suggest specific research projects in this field, and stimulate their development through setting up special committees or by other devices.

3. In particular, to arrange special committees on the topics specified by this and succeeding Conferences.

4. To facilitate exchange of information among workers in the field of income and wealth research by

a. Maintaining an information circular, on a periodical or occasional basis;

b. Initiating plans for conducting, in cooperation with proper authorities within the appropriate professional associations, round table meetings at their annual conventions;

c. Making similar plans with reference to regional conventions of such associations or their subdivisions.

5. To assist with specific plans incident to the conduct of research definitely involving cooperation among institutions.

6. To solicit funds for the use of the Conference and its committees, and arrange with the National Bureau of Economic Research to act as fiscal agent of the Conference.

7. To call general meetings of the Conference, and draft preliminary agenda for them.