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Introduction

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THE official national income estimates prepared by the Office of Business Economics of the Department of Commerce have been published in their present form for about ten years.[1] Despite the passage of so short a period of time, they have become widely accepted in this country and abroad by professional and lay users alike. The publication of new estimates is front page news in many newspapers; commentators, public officials, and politicians quote them freely; and the business and financial world eagerly awaits their arrival. Such a reception of a body of economic data is almost unprecedented—it can be explained only on the basis that the income and product accounts help to satisfy the urgent need for informative statistical data on current economic developments.

The accounts trace the course of the economy as a whole, measure changes in income and expenditures of various groups in the population, and gauge the ebb and flow of industry, trade, and commerce. By providing an organized statistical picture of economic events they reveal relationships that help us to understand economic problems and to communicate intelligently about them. It is a tribute to those who developed the accounts that this complicated set of statistics has achieved so prominent and respected a role.

The wide use of the accounts places a serious obligation on national income analysts both inside and outside the government. The concepts, methodology, and data underlying the estimates affect their meaning and their movements, and deficiencies in any one of these elements can lead to misleading results. Since nonprofessional users ordinarily do not concern themselves with technicalities, the hard task of appraisal and refinement necessarily falls on the technician. This volume, which records the papers and discussion at the meeting of the Conference on Research in Income and Wealth held in November 1955, is a contribution toward meeting that obligation.

[1] The estimates were first presented in *National Income Supplement, 1947, Survey of Current Business,* Dept. of Commerce. More complete statements of the concepts and methodology used appear in the national income supplements issued in 1951 and 1954.

The volume opens with an impressive paper covering many of the theoretical issues in national income accounting by George Jaszi, Chief of the National Income Division of the Office of Business Economics. Jaszi was a member of the team of four—others were Milton Gilbert, Edward F. Denison, and Charles F. Schwartz—who originated the system of accounts used by the Department of Commerce. His paper is, therefore, based on long experience devoted to both national income theory and practice. A mere listing of the major topics Jaszi covers indicates the scope of his contribution: accounting design, the concept of factor cost, imputations, intermediate product, capital formation and capital consumption, capital gains and losses, and the treatment of international transactions. And, as a windfall, he comments on various papers in the professional journals which have dealt with some of these issues. Jaszi reminds us that the views he expresses are his own. However, the reader will find in his paper—and in his comments on other papers in the volume—a reasoned statement of the rationale underlying the Department of Commerce position on most of the controversial issues.

Parts II and III are devoted to a discussion of the income and expenditure sides of the accounts. To assure coverage of the practical as well as theoretical problems, each side was assigned to business users as well as to economists. Raymond T. Bowman and Richard A. Easterlin examine the income side from the point of view of the economist, Morris Cohen and Martin R. Gainsbrugh from that of the business user. The same treatment is accorded to the expenditure side, with Everett E. Hagen and Edward C. Budd speaking for the economist, Kenneth D. Ross for the businessman. Each paper is concerned primarily with only one side of the accounts. But one cannot discuss most of the issues in social accounting without reference to both sides, and so the authors have delved into both where necessary.

The contributions appearing in Parts IV through IX were originally prepared as comments on issues raised in the papers in Parts I, II, and III. The authors were not limited to points already presented, and because some of their contributions are broader in scope and more elaborate than comments usually are, we depart from the custom of combining all the discussion of a paper and the paper itself in one section. It should be noted, however, that many of the discussion papers were not designed by their authors to cover a subject in a comprehensive fashion.

The first topic discussed in these supplementary papers is the design and content of the accounts. Although national income and product can be computed without setting up accounts of the transactions of different groups within the economy, such accounts have important methodological and analytical uses. T. C. Schelling, who opens Part IV, emphasizes their value in explanations of the economic process and points out that they are necessary if social accounting is to be consistent and complete. However, he cautions that if the accounts are used rigidly, important information may be lost through a hesitancy to show components of a total when the total cannot be estimated or through the enforcement of consistency, as, for example, by the exclusion of capital gains from disposable income. David W. Lusher urges the development of data to illuminate the interrelationship between the income of various purchasers and their expenditures. Morris A. Copeland proposes a revised set of accounts designed to add changes in financial assets and liabilities to the present income flows. And Budd discusses the problem of estimating the distribution of income to the factors of production from the available data on wages and salaries, entrepreneurial incomes, rents, interest, and dividends.

Many illustrations of the uses of the wealth of material supplied by the national income accounts can be cited. The papers in Part V by V Lewis Bassie and Paul Kircher deal with two of them. Bassie discusses the suitability of the data for short-term analysis. Kircher reports on the uses to which the data are put by some three hundred firms, as revealed by a questionnaire sponsored by the Committee on National Income of the American Accounting Association.

Among the most difficult problems in national income measurement is that of obtaining "real" national product. To correct the current dollar series for price changes, the national income practitioner must often improvise because he lacks suitable price data; at the same time, he must come to grips with some of the most complicated questions in national income theory. John W. Kendrick's paper, which appears in Part VI, covers many of these practical and theoretical questions in the light of his experience with the compilation and analysis of estimates of real product.

Part VII is devoted to an analysis of the investment and saving components of the accounts. Eric Schiff summarizes the comparative merits and limitations of the figures included in the national product totals on gross private fixed investment and those on business plant and equipment expenditures as estimated in the quarterly and annual surveys conducted jointly by the Securities and Exchange Commission and the Department of Commerce. He also discusses several of the difficult conceptual problems involved in measuring capital formation, such as the treatment of capital outlays charged to business expense, research and development expenditures, consumer durables, replacement outlays, and obsolescence. Solomon Fabricant urges the elimination of government "intermediate" product from the national total and the adjustment of business accounting figures to conform with concepts more appropriate to national income accounting, particularly for the information on capital formation and capital consumption. Raymond W. Goldsmith provides a list of changes that he thinks would improve the conceptual and statistical basis of the current saving estimates.

The basic data underlying the national income estimates are not collected for national income purposes, and it is no small miracle that this information is eventually hammered into the shape to which we have become accustomed. A volume at least as large as this one would be required to evaluate the large number of series appearing annually in the national income number of the *Survey of Current Business.* Five such evaluations are included in Parts VIII and IX of this volume. Karl A. Fox examines the agricultural income and product estimates; Stanley Lebergott, the nonfarm entrepreneurial income estimates; Joseph Lerner, the treatment of the extractive industries; Clark Warburton, the treatment of financial intermediaries; and Geoffrey H. Moore, the adjustments of the data for seasonal variation. The choice of these areas for discussion was dictated largely by the availability of qualified individuals. Other areas—inventories, rental income, and numerous components of personal consumption expenditures—are at least as troublesome, and one hopes that they will be subjected to the same critical analysis in the professional journals or in future volumes of this series.

I believe that an impartial observer at this stimulating Conference would have come away with the following conclusions:

1. National income experts are almost unanimous in their opinion that the estimates of the Office of Business Economics reveal a brand of workmanship and scholarship of the highest quality. As Cohen and Gainsbrugh put it, "National income accounting as developed by the National Income Division is admirable for the neatness and logical consistency of its approach and for its thorough cultivation of all available sources of information." To be sure, there is room for improving the reliability of the estimates, but the deficiencies that do exist are the result primarily of deficiencies in the basic data rather than in the statistical methodology.

2. Everyone wants more rather than less data from the national income accounts. Not a single voice was raised for substantially reducing

the volume of statistics now shown in them. Rather, the emphasis was on the need for finer breakdowns and more detail, and for greater speed in the production of the statistics. There are, of course, limits beyond which it would be undesirable to go—even if unlimited resources were available—but apparently we are far from these limits at the present time. If the participants in this Conference were in control of the purse strings, it is clear that they would vote for a large increase in appropriations for the Office of Business Economics and for those agencies that supply the primary data on which the national income estimates are based.

3. From among the many things that need to be done to improve the income and product accounts, several were given priority:

Estimates of savings should be improved and expanded.
Estimates of depreciation should be made on a replacement-cost as well as on an original-cost basis.
Government purchases should be separated into purchases of durable goods and of other goods and services.
Depreciation of government capital equipment should be estimated to permit the calculation of government net capital formation.
Exports and imports should each be shown on a gross basis and by type of product and service, not as a single item reflecting their net balance.

Beyond these three points, there were a number of unsettled questions on which opinions differed sharply. These are questions arising mainly from the desire or propensity of analysts to use the data to measure changes in the efficiency of the economic system or in the welfare of the individuals who compose it. The national income accounts seem to provide the necessary tools, since they contain measures of output as well as input of factors used in the production of that output. On closer examination, however, we find that the concepts now used are by no means precise enough for this purpose. This does not invalidate their use as indicators of short-run changes in income and output, but the conceptual problems become important when comparisons are made between countries or, for a single country, between periods that are far apart. For such comparisons, some attempt must be made to allow for the effect of changes in the scope of market activity, in the quality of output, and in institutional and business arrangements, and it is in this connection that most of the controversial questions arise.

The problem mentioned most frequently in these pages is the treatment of government. The Office of Business Economics counts all government purchases of goods and services as final product, on the ground that there is no basis for distinguishing purchases which merely facilitate further production (intermediate product) from those enjoyed directly by consumers (final product). Since the value of government intermediate product is eventually embodied in some final product, some argue that the Office of Business Economics overstates the nation's output by varying amounts at different times, depending on the nature and scope of the services provided by government to business.

This point of view is expressed in the papers by Bowman and Easterlin, Hagen and Budd, Fabricant, and Warburton, and in Easterlin's comment on Jaszi's paper. Jaszi points out that the duplication problem is not confined to the government sector alone. In fact, for every type of government purchase that might be singled out as "intermediate" product, he finds a close analogue in the present measures of private consumption. He also argues that, in theory at least, changes in government services over time should be allowed for when current dollar output totals are deflated, although he recognizes that our deflation techniques are inadequate to accomplish this. Proponents of the two viewpoints remain unreconciled, but both groups agree that it would be desirable to have a detailed functional classification of government expenditures. Such a classification might help to identify which government services could be regarded as intermediate products and how large an output is involved.

A second question that provoked considerable discussion was the need for the imputation of factor returns for services not recompensed in cash and the methods to be used in imputing. The treatment of the banking sector of the economy—in which imputation bulks large—receives the most attention in this volume (see the papers by Jaszi, Bowman and Easterlin, and Warburton), as it does on any occasion when imputations are discussed. But the discussion was directed to broader questions as well. Those who write from the business user's viewpoint—Ross, and Cohen and Gainsbrugh—argue that the inclusion of nonmonetary returns makes it difficult to use the national income aggregates for market analysis and urge that subtotals free of imputations be provided. Those who write from the economist's viewpoint unanimously support imputations on the grounds that imputed incomes do influence market behavior and that national income totals would be meaningless without them. However, they differ over the criteria to be used in selecting the activities requiring imputation (see the interchange between Jaszi and Easterlin in Part I) and the method of handling specific imputations (see the Bowman and Easterlin paper and Jaszi's reply).

Since this was the first Conference devoted to a systematic and critical analysis of the Office of Business Economics estimates, it is not surprising that it reveals these differences of opinion. As in the case of all other meetings of the Conference on Research in Income and Wealth, no attempt was made to obtain agreement on any of the issues that were debated. Nor would the attempt have been desirable. The questions at issue involve matters that cannot be handled in the present state of economic theory, and those who are groping for solutions are thus working with inadequate tools. Perhaps the publication of this volume will stimulate further thought and discussion of these unsettled problems.

I should like to take this opportunity to express my appreciation to my colleagues on the Editorial Committee, Richard Easterlin and Harlowe D. Osborne, who assisted in the organization of the volume; to Mildred E. Courtney, Secretary of the Conference, who patiently performed the numerous secretarial chores involved in assembling a volume as large as this; to the members of the editorial staff of the National Bureau for their editorial assistance; and to H. Irving Forman who prepared the charts.

December 12, 1956

PART I