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CHAPTER 21

INTRODUCTION

§ 21a. The Problem

The estimate of the National Income on the basis of incomes received attempts to find and summate the money values of the incomes of all persons who are reported by the Census as "gainfully employed." The theory underlying this estimate is that all of the National Income in every year must be received by some person. An addition must, however, be made for the surplus incomes of corporations which are carried forward after the current distributions to stockholders have been made. Owing to the form in which our data are available, it has not been possible to distribute these amounts among individuals, and it is therefore necessary to add them in a lump sum to the individual incomes in order to arrive at the total National Income. If the data were perfect and the methods impeccable in both cases the results of this estimate would agree with the results of the Estimate by Sources of Production presented in Part I.

Needless to say, neither the data nor the methods are perfect in either case. The theory on which the two estimates are based is discussed in Section iv of Chapter II, Volume I, but it may save misunderstanding to note again the omission of certain items that contribute to the economic welfare of the community, and the intention to omit one item that counts as money income to individuals. It is not feasible to include items of income on which a money value is not commonly placed. For example, no allowance is made for the services rendered the community by such public works as roads and bridges, beyond the income received by those who work upon them. Nor is any attempt made here to set a money value upon the services rendered by housewives to their families. On the other hand, we do include two items which do not enter into exchange, but which may apparently be measured with reasonable accuracy. These are the rental values of homes owned by the persons who occupy them, and the produce of the farms directly consumed by farmers. In addition, we include some spurious income arising from accretions to the money value of property unchanged in quality and quantity. Such items as the rise in the prices of building lots do not increase the volume of serviceable goods at the disposal of the Nation and therefore such items should not be in-

cluded in a statement of the National Income. But the individuals who own these lots may get personal income from the rise in land values, and income resulting from sales of property at enhanced prices, is supposed to be included in the income-tax returns on which this estimate is largely based. During the period covered by the present investigation, however, it seems probable that the error arising from this source is not serious, for the high rates of taxation imposed at the time when prices were rising to their maximum discouraged the sale of property that had appreciated in value, and encouraged "loss-taking" sales of property that had fallen in value.

§ 21b. The Method and Data

The method adopted in making the Estimate by Incomes Received was determined largely by the character of the data that were available. The largest and most accurate body of material is found in the income-tax returns. Here are definite figures regarding the number and aggregate amount of personal incomes above the exemption limits set by law—\$3,000 from 1913 (when the present income tax was first levied) to 1916, and \$2,000 from 1917 onwards. These returns have well-known defects, but defects which can be corrected in some measure. A second great body of material is the mass of wages data collected by federal, state and city governments. Such data make it possible to estimate the aggregate incomes of the millions of those wage-earners and others gainfully employed who make no income-tax returns.

The income-tax data have to be supplemented by estimates for income exempt by law from taxation—especially certain state salaries, interest on tax-free securities, and the rental value of houses occupied by their owners. More important and more speculative are the corrections that must be made for failure to report incomes subject to tax and for understatement of reported incomes. Similarly in the chapter dealing with incomes less than \$2,000 per year, we cannot accept wages earned as equivalent to income received. Here the chief supplements include the rental value of owned homes, income from property and pensions.

The character of these materials, it will be noted, makes it necessary to divide the Estimate by Incomes Received into two sections, persons receiving more and persons receiving less than \$2,000 per year. This division at the \$2,000 line is probably as satisfactory as any other arbitrary division that could be selected. A little below this line we approach the minimum budget on which a family can maintain efficiency, while a little above \$2,000 we enter the range of modest comfort. For an individual without dependents we have on the lower side sufficiency, on the upper side, ease.

Of course, any arbitrary line of division maintained through a period of such wild fluctuations in the cost of living as occurred during the war is open to the objection that the economic welfare represented by it was constantly changing. This defect we remedy so far as possible by computing the average per capita income of income-receivers, and by showing the fluctuations in the purchasing power of their current receipts.

A third large body of data and, therefore, a third section of this estimate concerns the incomes of farmers. Relatively few farmers make income-tax returns, so that we can learn little about their affairs from the Internal Revenue Bureau's publications. Chief reliance must be placed upon the annual estimates of the "gross value of wealth produced on farms" made by the Department of Agriculture. But these estimates confessedly include a vast amount of duplication which must be corrected as well as may be by resort to various special studies of farm economics. Farmers are less accustomed to keep books than perhaps any other large class of business men; and to keep their books correctly is peculiarly difficult because the value of the food and fuel they produce for their own consumption must be estimated, as well as the rental value of their owned homes. What is difficult for the individual farmer to do accurately is impossible for the outside investigator to do accurately for six and a half millions of farmers. Hence the estimate of farmers' incomes and especially the number of farmers having incomes above the \$2,000 line and consequently also of those below this line is subject to a considerable margin of error.

The last section of the estimate is concerned with a type of income about which there is much discussion—corporate surpluses. There are those who deny that these surpluses are to be regarded as in any true sense part of the National Income. For this reason, we keep this item separate and give totals both for all individual incomes and for individual incomes plus corporate surpluses. Our investigation of corporate finance inclines us to believe that some 80-90 per cent of corporate surpluses are genuine income, invested in the extension of plant and equipment in the same way as is fresh capital raised by stock or bond issues.

Since the amount of income reported to the Bureau of Internal Revenue as due to sales of property is a negligible item, we conclude that these surpluses have not been shown in individual incomes during the prosperous years covered by this report. In years of depression, the surplus accounts of corporations suffer a great decline, and may turn into deficits. If we did not include this item in our estimates, we should make the National Income more stable than it actually is.

After the manuscript of Volume I was sent to press, certain additional data have become available which have enabled us to make minor revis-

ions in the Estimate by Incomes Received. It is our hope to make further revisions of this sort in our published reports whenever materials and opportunity permit. Even the present revised results for 1910-1919 are not final, but merely the best approximations which we can make from the data now at hand.