

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Fifty Years of Economic Measurement: The Jubilee of the Conference on Research in Income and Wealth

Volume Author/Editor: Ernst R. Berndt and Jack E. Triplett, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-04384-3

Volume URL: <http://www.nber.org/books/bern91-1>

Conference Date: May 12-14, 1988

Publication Date: January 1991

Chapter Title: Luncheon in Honor of Individuals and Institutions Participating in the First Income and Wealth Conference (December 1936 - January 1937)

Chapter Author: Roy Blough, Solomon Fabricant, Martin Feldstein, Milton Friedman, Robert R. Nathan, Carl Sumner Shoup

Chapter URL: <http://www.nber.org/chapters/c5972>

Chapter pages in book: (p. 9 - 18)

---

## 2 Luncheon in Honor of Individuals and Institutions Participating in the First Income and Wealth Conference (December 1936–January 1937)

Roy Blough, Solomon Fabricant, Martin Feldstein, Milton Friedman, Robert R. Nathan, and Carl Sumner Shoup

### Martin Feldstein

This fiftieth birthday party for the Conference on Research in Income and Wealth is an occasion to recognize and honor some of those who were present in the beginning and who helped to establish and put this organization on the very productive track that it has been on for these 50 years.

Let me begin by recognizing the honored guests here today who participated in the first Income and Wealth conference and whose work appears in *Studies in Income and Wealth*, volume 1.

The first is my friend Sol Fabricant, who indeed was there at the creation and contributed a paper to the first volume: "On the Treatment of Corporate Savings in the Measurement of National Income." Sol, of course, has had a lifetime attachment to the Conference on Research in Income and Wealth and to the National Bureau of Economic Research. He was the director of research at the NBER from 1953–65. He has been a member of the Board of Directors at the bureau ever since I have been associated with it. He is an emeritus research associate at the present time and continues to be an active participant in board meetings.

Next is Carl Shoup. I think of myself as a bit of a student of Carl Shoup's, although I never sat in his classroom. I had his big book on public finance on my shelf, I read through it, and I considered it a very critical part of my education as a public finance economist. His early participation in the Conference on Research in Income and Wealth shows how some of the issues that

Roy Blough is S. Sloan Colt Professor Emeritus of Banking and International Finance at Columbia University. Solomon Fabricant is the late professor emeritus at New York University and senior research staff emeritus for the National Bureau of Economic Research. Martin Feldstein is professor of economics at Harvard University and president of the National Bureau of Economic Research. Milton Friedman is a senior research fellow at the Hoover Institution at Stanford University. Robert R. Nathan is chair of Robert R. Nathan Associates, Inc. Carl Sumner Shoup is professor emeritus at Columbia University.

were being dealt with in the tax area were also being discussed at the same time in the national income measurement area. Indeed, the paper that he wrote for volume 1 was called "The Distinction Between 'Net' and 'Gross' in Income Taxation."

There was a young man at that first conference who was a discussant of Carl Shoup's paper, and he is here today also. He is known to us much more as a distinguished professor of economics at Columbia, and that is Roy Blough.

One of the great strengths of this organization has always been its ability to bring together people from the government and people from academia. The next person from the first income and wealth conference is an example, because Robert Nathan, at the time that he attended the first meeting as a member of the executive committee of the Conference on Research in Income and Wealth, was the director of the National Income Division of the Department of Commerce, having worked earlier with Simon Kuznets on the development of national income accounts. In the second conference he collaborated on a paper: "Problems in Estimating National Income Arising from Production by Government."

Simon Kuznets' personal devotion to measurement and to the understanding of the broad issues of income growth and capital formation made him the natural patron saint for the Conference on Research in Income and Wealth. Simon's early research assistant and the first secretary/editor of the conference, Milton Friedman, could not be with us, but his letter, reproduced below, describes his and Simon's roles in those early days.

## Solomon Fabricant

There has been some talk at the conference and elsewhere about the aging of the population. I am amazed at the number of people that returned for this fiftieth reunion. I've been worrying about the hundredth anniversary of this outfit and how many people will be able to come after another 50 years. There is going to be a financial problem, Marty.

What happened at the first conference that might be mentioned to you people? Well a couple of things stick in my mind. One, which Martin mentioned, was that Milton Friedman was the first secretary of the conference and the first editor of the conference volume. I still remember him as a remarkably good editor, the best I have ever encountered. And I have been thinking over the years that if he had only stuck with that . . . [laughter] . . . if he had only stuck with that he might have amounted to something!

Another thing about the first conference was recalled to me by a story in the *Times* only a few weeks ago about the Pennzoil-Texaco problem. You remem-

ber Texaco had to pay several billion dollars to Pennzoil, and the story said that the Federal Reserve's computers couldn't handle the transfers because the computers were limited to \$999,999,999.99—they could not handle a billion dollars. There is another very similar story that occurred in the 1930s. I was thumbing through *Statistics of Income*—thumbing through is not quite the word, I was working very hard on it—in the middle 1930s, and I took some first differences. The figures did not look right. I wrote to Edward White, who was then the chief statistician of the Internal Revenue Service, and asked him what was wrong. Well, he looked into it, which took some time in those days, and then wrote back and told me. All the figures were right, except the first two digits [laughter]. They were right down to the last penny—except the first digits. And the reason was very simple. The computer at that time—punch card equipment, rather—could not handle the number of digits that were involved in adding up the total net worth of all the corporations in the United States. So they had to make back-of-the-envelope calculations on the first two digits. They finally published a correction on it.

Well, I have got to admit that there has been a lot of progress in the Income and Wealth Conference. In the 1930s I remember having to argue with economists as to whether inventories were a part of the capital stock and whether the services of inventories ought to be included in measuring the services of capital. Their argument was: Inventories just sit there. They do not do anything, how could they provide services? And the same kind of question came up in connection with salaried employees. Salaried employees do not do anything, they are just Civil Service, they just sit there.

The National Bureau and the conference have been great educational institutions. Looking at it from another point of view, and my participation in them, they have been great adventures. So I want to express my thanks and appreciation for the good luck of being involved in all of this. Thank you.

## Carl Shoup

Let me just reminisce briefly about the early days at the first conference. Certainly the Conference on Research in Income and Wealth did a great deal to inform public finance about the need to take into account national income in all its branches in designing public finance instruments and public finance policy. Of course, the data collected for use in tax policy come largely from national income definitions and we have to ask ourselves to what extent they are compatible; if not, what changes do we need to make? Beyond that, my own personal experience was that that first Conference on Research in National Income and Wealth propelled me into a sector of economic activity I

probably would never have gotten into otherwise, and for better or worse led to the publication of a book, *Principles of National Income Analysis*. More to the point, I like to think that it informed a good deal of the work that I and my colleagues did and many of our tax reports.

The atmosphere at the early days, as I recall the first conference, was very, very congenial and encouraged a younger person to get into the intellectual fray and try to develop ideas. It was a permissive and stimulating atmosphere, which I always remember with very fond memory indeed. And, of course that goes back to, among other people, Simon Kuznets, and the sort of open, free, investigative atmosphere in the sense of research that prevailed there. I like to think, anyway, that public finance in the United States at least has been greatly influenced, and influenced for the better, by that early formation of the Conference on Research in Income and Wealth. Thank you.

## Roy Blough

If I had not found the book [Studies in Income and Wealth, vol. 1] and found the article I discussed, I would not believe I was ever there!

I wish the Conference had come into existence about 10 years earlier. I was at Wisconsin and we had some wonderful statistics there, which later on were taken over by Joe Pechman and others. We could have done a lot more with them.

In fact, we did try to do something with them but socialism made it impossible. And I will tell you how that is. We got Hollarith machines in, in order to analyze the three-year averaging provision we had in the law. However, the Capitol had an electrical system which had been put in somewhat earlier, and was direct current. It fluctuated so widely that the Hollarith machines refused to behave, and our cross-classifications, which had all the good meat in them, were completely useless. So we could have used the conference, because an amateur like I was in those days was not really able to do much.

I had a piece in Studies in Income and Wealth, volume 1, and I had a piece in the second volume but I did not have anything after that because I went to the Treasury Department, and in one way I became less concerned with national income statistics and in another way I became more concerned with them. Anyway, I greatly appreciated the opportunity to be at the first conference. I owe it, I think, to Carl Shoup who was one of the first people to recognize that I was even alive in the economics profession and I have always appreciated that. And by the way, I appreciate the fact that, while I was there, I am still here! Thank you.

## Robert R. Nathan

I really owe a tremendous debt of gratitude to Simon Kuznets because I had the privilege of being a student of his. Then when I decided to leave the University of Pennsylvania and came to Washington I walked into the Division of Economic Research and I saw Simon and said, "What are you doing here?" and he said, "What are you doing here?" Fortunately that afternoon he asked that I be assigned to him, and I was, and I worked on that first national income study and followed through with it for years.

What I regard as one of the great, great benefits of the national income work had to do with World War II's mobilization effort. As you remember, those of you that were around then, President Roosevelt had promised that he would never get the United States into the war, but in 1940 when I moved over to the Defense Advisory Commission, the main problem immediately was: What if we got into a war? So we did something that amounted to a full-employment national product, to see what the economy's requirements would be at full employment. One of the first bottlenecks we foresaw was the fact that we would have to expand our steel capacity. The steel industry said "You're crazy! Six years ago we were running at 15%–20% capacity, we're now at about 60%, and you're talking about expanding capacity." Well we did get an expansion, but that approach really helped.

Then in 1941 we never could get military requirements from the army and navy. And when we finally did, they said they would need 300,000 airplanes, 200,000 tanks or something, and before you knew it, the military ran to the Congress for unlimited appropriations, and they had probably 150 million tons of steel requirements scheduled instead of the 90 available. We were in a mess.

By that time Simon Kuznets had come down to Washington to work with us in the planning committee. I do not think many people recognized he was such a militant warrior, military oriented person. But he was magnificent. We did a little feasibility study, this study was geared to national income analysis. We gave this study to the War Production Board. Most of them were impressed, but they sent it over to the military. There was a general, very able but he thought all civilians were slightly cracked, and the military had the only real capability. Anyhow, he wrote a memo saying that he had reviewed this study, and he was unimpressed and therefore it should be kept from the eyes of thoughtful men [laughter]. In our reply, we went through and explained how you had to schedule things out, and we did it by years, and we explained all that to him again. I ended up by saying, "Your conclusion, that you are unimpressed, and therefore that it should be kept from the eyes of thoughtful men, is a non sequitur." If I could have been shot, I guess it legitimately could have been then.

The national income approach in the war mobilization effort—I think

everyone who was involved there would agree—made a major contribution, because while Europe was hanging on by its fingernails it was American production and the promptness of that response to the victory program that made it possible that Britain was saved and the war ended. That was of major, major significance. So anybody interested in this field can look back on one very, very significant contribution right off the bat. Thanks.

## Milton Friedman

The Conference on Research in Income and Wealth was a brainchild of Simon Kuznets. That explains my own connection with it. At the time of its first meeting, I was working as a research assistant to Simon Kuznets. We were working on the book that was later published under the title *Professional Incomes in the United States*. It in turn was an offshoot of Simon's work at the Department of Commerce in developing the original national income estimates. As part of that project, he had arranged for the collection of questionnaire data from lawyers, physicians, engineers, accountants, and other independent professionals to use as a basis for estimating their contributions to national income. Our joint project was to exploit that data for a broader purpose.

When he and others set up the conference, he asked me to serve as its secretary, which I did for some years, in particular editing volumes 1–3. At the time, the Keynesian revolution was in its infancy and national income accounting was in an early and highly transitional stage with many unresolved issues. All of the pioneers in that field participated in the Conference on Research in Income and Wealth. Needless to say, for a young man in his mid-twenties not long out of graduate school, my own participation proved an extremely stimulating and fascinating experience. Simon Kuznets's extraordinary tolerance and breadth of vision explains the wide range of persons who were involved in the work of the Conference, from highly statistical types at one extreme to highly theoretical types at the other extreme. Personally, I was a product of the University of Chicago, which gave me an extremely strong orientation toward theory, but also of Wesley Mitchell at Columbia and at the National Bureau, which emphasized a statistical and empirical orientation. As I recall it, what impressed me was the fruitfulness of combining the two strands of work, a view that I know Simon shared, although his orientation was far more statistical and empirical than my own.

As in any new venture, the early years are unquestionably the most exciting and productive. One of the most important developments instituted during those early years was emphasis on the distribution of income reflected in the various studies of Delaware and Wisconsin incomes as well as in a number of volumes of the conference proceedings.

My own involvement with the conference changed greatly when I left the National Bureau in 1940 to spend a year at the University of Wisconsin and then, when the war broke out, in government. As I recall it, I continued to participate in a desultory way in the activities of the Conference, even though my work turned in a very different direction. Yet I never again was as closely related to it as I was in its first three or four formative years.

It is impressive that it has continued to be a productive and important organization for enough years to justify a jubilee celebration. Clearly, the problems it deals with are not transitory and will not go away. New issues arise and new issues must be dealt with. More power to the conference.

## Martin Feldstein

On an anniversary occasion like this it is important not just to look back but also to take a moment to look ahead, and so I will comment briefly on what I see as the future of the Conference on Research in Income and Wealth.

Even before I became actively involved with the National Bureau, I thought of the Conference on Research in Income and Wealth as one of the central activities of the National Bureau. I continue to believe that the Conference on Research in Income and Wealth is a very special part of the National Bureau's activities, in two unique ways.

Perhaps the single most important thing is that it is a partnership between economists in government and economists in the university. The early history of the conference, contained in this volume, makes it clear how at that time those two groups worked together. The Conference on Research in Income and Wealth continues to provide a unique forum for that kind of interaction within our profession, a unique opportunity to work together—government statisticians, government economists, academic economists—to improve economic statistics, to improve their conceptual and operational basis.

The subjects that have been discussed at the Conference on Research in Income and Wealth over the years are really central to what I think of as the mission of the National Bureau. Unfortunately that stands rather in contrast to much of the work of the economics profession today. As you all know, the Conference on Research in Income and Wealth focuses on improving economic measurement, not only measurement of income and wealth, strictly speaking, but also on the activities that contribute to the generation of income and wealth in the economy—improvements in the measurement of employment and unemployment, productivity, trade, and the like.

I think the need to improve our economic statistics in these areas is as important today as it was 50 years ago, although I agree with Sol Fabricant's comment that progress has been made. In the past 50 years we have seen a great many improvements, not only in our conceptual understanding but also



in the availability of data and the availability of resources for the analysis of that data. Who could have imagined at those early Conference on Research in Income and Wealth meetings that now, 50 years later, we would have mountains of machine-readable data with the first two digits correct, that we would have computers that did not fail because of direct current, and that we would have these kinds of statistical tools in the hands of every graduate student.

Yet, I continue to think that there is as much need today for the work of the Conference on Research in Income and Wealth as there was 50 years ago—perhaps even more. The interests of the economics profession as a whole have strayed from the issues that impelled the Conference on Research in Income and Wealth in its original days. The profession has strayed from measurement and from serious empirical work to a greater emphasis on theory and to empirical studies that are often much more interesting methodologically than they are substantively. In addition to this shift within the profession, there have also been important changes in the economy itself. A more complex and a more sophisticated economy presents new challenges to economic measurement.

This is well illustrated by two measurement innovations that are among the principal research tools developed historically within the National Bureau. The most central of these is the National Income and Product Accounts. As you all know, that has been one of the seminal contributions of the National Bureau to the economics profession, to national policymaking, and was also the focus of much of the early work in the Conference on Research in Income and Wealth. But over the years, as the character of the economy's output has changed, I think we need to change and improve our measurement tools.

Consider services, for example—health care output, educational output, output of financial services. Services, as Victor Fuchs' book pointed out some years ago,<sup>1</sup> are an ever-increasing share of employment in the economy and now about two-thirds of all of the employment. How well do we actually measure the output in the service sector? If we do not do it very well, then what is the meaning of the GNP that we attribute to those sectors, or the productivity of the employees in those sectors? Or, what is the meaning of the measure of inflation that we use?

A second aspect is the quality of products. When economic growth meant largely more of the same products, it was relatively easy to think about measuring growth and inflation; now, so much of the year-to-year change is change in the quality of products, either improvements or, occasionally, deterioration. An increasingly affluent society wants better products—style and quality—not merely more products, and we see that when we talk as individuals about automobiles, or about hi-fi equipment, or about restaurants, or

1. Victor R. Fuchs, ed., *Production and Productivity in the Service Industries*, NBER Studies in Income and Wealth, vol. 34 (1969).

about clothing. How capable are we as a profession of measuring quality changes? Yet, allowing for quality change is clearly critical to the basic measurement of output, productivity, and inflation.

Another one of the major measurement tools that came out of the National Bureau is the flow of funds accounts. The FOF is a very useful tool for anybody concerned with financial market analysis. Today, there is a major new challenge to the flow of funds accounts, and that is the internationalization of our financial markets. Last year, as you know, we had about a \$150 billion net capital inflow into the United States—that represented more than a third of all the net savings flow accumulated in the country. On a gross basis, the international capital flows were substantially larger. To undertake the analysis for which the flow of funds accounts were originally intended, we need to go beyond domestic flow of funds accounts to understand better interflows of funds in international markets.

I hope these two examples indicate why I think the kind of fundamental work of the Conference on Research in Income and Wealth deserves a bigger role in the profession and deserves a bigger role at the National Bureau. With this collaboration of academic economists and the talent in the government service, we can make real progress, and I think there is a need to do more of that. It is also very important for the Conference on Research in Income and Wealth to focus on these measurement issues. There is always the temptation to become another one of the dozens of conferences or projects that try to explain economic behavior, try to model the economy as a whole, try to analyze the effects of alternative government policies. Obviously those are very important activities and they are activities in which the National Bureau also plays a significant role, but I think the Conference on Income and Wealth is really unique and has a unique function. The conference provides the bedrock conceptual and quantitative work on which all further economic analysis must be based. I hope that we can continue and strengthen that tradition for the Conference on Research in Income and Wealth's second 50 years.

This Page Intentionally Left Blank