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The National Bureau of Economic Research, Inc.
Annual Report of the
Director of Research
February 6, 1922

To the Board of Directors:

When we met in February, 1921, our organization seemed to us all a promising experiment, but still an experiment of uncertain issue. The plan of bringing together into one board men who represented so many and such divergent views of public policy, as are here represented, and of asking all these men to unite in assuming responsibility for the publication of such findings as the Bureau's staff might reach, was a very bold plan. We hoped that the staff could do work that would commend itself to honest opinion of all shades. We hoped that the Directors could agree upon the facts presented, however they might differ concerning the policies to which these facts pointed. But we could not be sure of success. For the field in which we were working was one that put our organization to a severe test. The National Income is not a magnitude that can be determined with precision. It must be estimated rather than measured, and in judging estimates personal equations inevitably play a considerable role. Moreover estimates of the size and distribution of the national income have been subjects of spirited controversy. It would have been by no means surprising had we found ourselves unable to work together in harmony.

Doubts about our form of organization

have been dispelled by this year's success

That we have not failed, that on the contrary all members of the Board have accepted the estimates made by the staff, with the exception of one director who was in Europe and could not read the MS., should be

a source of pride to every one connected with the Bureau. This agreement shows each of us that we may trust the fair-mindedness of all the others. It justifies us as a Board in facing the future with far more confidence than we could feel a year ago.

Our contribution to the working methods of democracy

More than that, the success of our enterprise has a large, impersonal significance. Our Bureau is seeking to raise the discussion of public questions to a higher level. We believe that social programs of whatever sort should rest wherever possible on objective knowledge of fact and not on subjective impressions. By putting this faith into practice we are making a contribution to the working methods of intelligent democracy. The practical demonstration we have given that men of otherwise divergent views can unite in the scientific investigation of controverted social facts will give a powerful stimulus to all movements like ours.

II

Completion of the report on Income in the United States

From this general statement concerning the accomplishments of the year I pass to details. It took us longer to complete the report upon the size of the National Income than we had anticipated. The staff was diligent in its work and the directors were prompt in examining and returning the MSS. sent them. But as the work went on we found that the mass of materials to be utilized was larger than we had foreseen, and that certain points required the collection of data never before assembled. Further, the comments of the directors brought to the attention of the staff some questions which required careful revision of our first draft. In studying the distribution of incomes among persons

Mr. Macaulay found that it was necessary to depart widely from hitherto accepted methods of treatment and to adopt a fresh line of attack.

The MS. of the Summary volume on Income in the United States was sent to the printer on September 10th, and the first copies of the book were received early in December. Meanwhile the staff was finishing the MSS. of Volume II, which of course is far more bulky and which contains a vast amount of laborious detail. The MSS. of Parts I and II of this volume were put in the printer's hands on December 24th. These parts prepared respectively by Mr. King and Mr. Knauth deal with the Estimate by Sources of Production and the Estimate by Incomes Received. Part III written by Mr. Macaulay and dealing with The Distribution of Personal Incomes has just been completed.

May I take this occasion to thank the Directors on behalf of the staff for their help in bettering the original estimates? Aside from their share in assuming joint responsibility for the competence and impartiality of the publications, several of the Directors were able to give the details close scrutiny and to make constructive criticisms. From the staff's point of view this opportunity to call upon a group of friendly critics, possessing a wide range of knowledge, for a review of their work before publication is one of the great advantages of our form of organization.

Of course we were much pleased by the way in which our figures came out. The plan of making two separate estimates of the National Income, quite independently of each other, set up a hard test of the work done by Mr. King and Mr. Knauth. We felt not a little nervous when the day came on which we first cast up the totals by Sources of Production and by Incomes Received. Our president, who has had wide experience in

Active participation by Directors in the work of the staff

Close agreement between the two estimates of the National Income

statistical research, told us we should be satisfied if the two estimates did not differ by more than 20 per cent. When the largest discrepancy in any one year proved to be only 7 per cent we felt a marked increase of confidence in our work.

Plan of publication

We have reason to be pleased also by the plan of publication. By issuing a little book that can be sold for \$1.50, and that anyone can read in an evening we are securing a wide circulation for our chief results. By issuing a second volume giving detailed results, sources and methods we provide adequately for the small group of statisticians and economists who are critically interested in work such as we are doing. This plan also makes simple the problem of future publication. We hope to revise our estimates of the National Income for recent years and to add new estimates for later years as the data become available. From time to time we should issue fresh editions of Volume I, giving the latest figures. Probably Volume II need never be re-published but appendices can be inserted in Volume I giving details in such form that the special student can splice them upon the tables now in the printer's hands.

III

Choice of next subject for investigation

When the staff was approaching the completion of their work on income in the United States, the Executive Committee considered what problem should be taken up next. After canvassing several proposals the Committee decided to choose Business Cycles as the topic.

Reasons for selecting Business Cycles

Several reasons justified this decision. First, the subject is one of great importance to all classes in the community. Second, it is a subject in which quantitative methods can be employed to great advantage. Third, while several institutions and individuals are

working on certain aspects of this subject the Executive Committee does not know of anyone who is planning a comprehensive survey of the whole. Meanwhile there is a strong demand for a treatise that puts together in concise, systematic, and readily comprehensible form the results of recent researches into the causes, character and consequences of these cyclical oscillations that affect the economic fortunes of everyone. Fourth, the staff of the Bureau seems qualified by past experience and present interest to fill this want. Finally, this new undertaking will enable the staff to make effective use of much of the special knowledge they have gained in studying the fluctuations of the National Income.

Proposed plan
of publica-
tion

In this projected work on Business Cycles we expect to begin with two or three special studies of topics that have never been adequately investigated. The magnitude and yearly fluctuations of savings is one such topic; the changes in the efficiency of labor is a second; and the relation between fluctuations in the current supply of certain staples for which we have good statistics and of the prices at which they sell is a third. Our present expectation is that we shall publish brief monographs on each of these topics and perhaps on others, while we are preparing the systematic treatise. The latter will incorporate of course our own fresh results along with the results reached by other investigators.

IV

The request for
our help made
by the Presi-
dent's Con-
ference on
Unemployment

While we were formulating these plans for work on Business Cycles, we were requested by Secretary Hoover to undertake a special job in the public interest. Four members of this Board had served on the Advisory Committee of the President's Conference on Unemployment.

Before that Conference adjourned it recommended that an effort be made to frame a practical program for preventing the recurrence or at least mitigating the severity of future periods of wide-spread unemployment. To supervise this work the Conference appointed a Standing Committee of which Secretary Hoover is Chairman. This Committee recognized that a careful investigation must be made into the cyclical fluctuations in employment and into the merits and defects of various remedies proposed before they attempted to formulate a policy. The Conference on Unemployment had no organization ready to make such an investigation. So Secretary Hoover wrote to our President asking whether the National Bureau of Economic Research would prepare a report on Unemployment and the Business Cycle within six months.

Conditions on which the Executive Committee agreed to the request

In view of the obvious service that we might thus render to the country and in view of the fact that the topic proposed falls directly in line with the work we had already planned, Mr. Gay after consulting with other members of the Executive Committee replied that we would undertake the work, provided that our report should be submitted to our own Board of Directors for approval before being sent to the Standing Committee of the Unemployment Conference, provided that we should be free to publish our findings separately if we so desired, provided that our work should be confined to ascertaining facts needful to be considered, and provided that money should be found to meet all the increase of expenses which the Bureau would incur in doing this work within the brief time allowed.

These provisos were all acceptable to Mr. Hoover. Accordingly he applied to the Carnegie Corporation for a grant of \$50,000 to finance

Plans for
financing this
investigation

the undertaking. The meeting of the trustees of the Carnegie Corporation to consider this and other applications has been unexpectedly delayed, but we are now told that a decision will be reached on February 9th, and we have reason to expect that the decision will prove favorable.

Preliminary
planning of
the work

While this decision has been pending we have devoted considerable time to planning the proposed study. In order to get results quickly we have asked for the cooperation of several other agencies, notably the Russell Sage Foundation and the Bureau of Railway Economics. We also hope to get the services of various individuals who are especially conversant with particular aspects of the subject. By this scheme we hope to avoid duplication of effort and to turn out a well-considered report in a much briefer time than would otherwise be possible. The readiness of other research organizations and investigators to cooperate with us has been most gratifying.

Prospective
activities
in the coming
year

If all goes as we expect, then, we shall begin this week the study of Unemployment and the Business Cycle with the expectation of spending not more than six months on the job. Then we shall turn to other phases of the Business Cycle. If on the other hand Mr. Hoover's application for funds is not granted by the Carnegie Corporation, we shall take up at once the special studies of savings, efficiency of labor, and the relation of supply to selling prices.

V

Other work
done by
the staff

Besides the main projects with which I have dealt, the staff has done various minor pieces of work growing out of the investigation into the National Income or preparatory for the work on Business Cycles. To mention only the main headings:

(1) Mr. Knauth is making a tentative estimate of the National Income in 1920, on the basis of incomes received. Of course these figures

are subject to revision when more complete data --- especially the Income Tax returns --- become available.

(2) Mr. Knauth has also prepared a report on the geographical distribution of income by States. This report after submission to the Directors, will probably be published in a separate pamphlet, and sold at a price which will yield some profit. Information of this character has commercial value to all business enterprises which have a wide market for their products.

(3) Mr. King has prepared the first draft of a study of annual savings in the United States, which he will revise and extend before submitting it to the Directors.

(4) Mr. King is also collecting data bearing upon average hourly output per employee in certain industries to see whether the available data make possible any definite conclusions regarding industrial efficiency in active and in dull times.

(5) Finally, Mr. King has prepared brief memoranda regarding several of the topics which will come up for more extended study if we are enabled to make the investigation into Unemployment and the Business Cycle.

VI

I think it is clear from this record of the past year that the National Bureau of Economic Research is an institution that should be perpetuated. We have proved that our peculiar form of organization works well in practice. The fact that we can all agree in finding the facts concerning social issues is the best practical demonstration that any group of men have given that scientific method can be applied to the treatment of social problems. Our first publication has had a most favorable reception. We have been asked by a member of the President's Cabinet to help in the solution of a grave national issue. We have

The problem
of future
financing

before us a program of future work not less important than the work we have already done. We are confident that we can do this work well, because we are a going concern with an efficient organization and a valuable good will.

Despite all this, our prospects for survival are not certain. Unless we secure and secure promptly a considerable addition to our income we shall be forced to shut up shop. The fundamental difficulty in raising funds for our enterprise is that we serve only the public welfare. We offer to donors no specific quid pro quo. Men who give us money must do so not because we can promise them a business service, not because we will make out a case in favor of their views, but because they believe in finding and promulgating facts on which everybody can build. If we are to secure the support necessary to continue our work, we as Directors must stand ready to help carry out the program arranged by our financial secretary.

Respectfully submitted,

Wesley C. Mitchell

Director of Research