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Volume Title: A Respect for Facts

Volume Author/Editor: Solomon Fabricant

Volume Publisher:

Volume URL: <http://www.nber.org/books/fabr60-1>

Publication Date: 1960

Chapter Title: Respect for Facts

Chapter Author: Solomon Fabricant

Chapter URL: <http://www.nber.org/chapters/c1279>

Chapter pages in book: (p. 1 - 9)

P A R T I

A Respect for Facts

Substantial progress has been made in advancing the economic welfare of our people.

Today's national income of 2,300 dollars per capita is twice what it was, in dollars of the same purchasing power, some forty years ago; and it is higher in the face of a 70 per cent increase in population and a 20 per cent reduction in the hours of paid work done per capita. Also important, output per man-hour—a measure of the source of income and of leisure—has grown over the past forty years at the average annual rate of 2.6 per cent, about a third greater than the long-term rate experienced by earlier generations. Further, the higher income of today is more evenly distributed than the lower income of earlier years. The share of disposable personal income received by the top 5 per cent of the nation's families, after some rise during the 1920's, fell back sharply during the 1930's and the early 1940's to a level somewhat under a fifth—below that of any previous year on record—and has remained there during the whole of the postwar period.

We know also that in recent decades the establishment and broadening of social security, unemployment insurance, and public assistance, as well as the development of various forms of private insurance, have lessened the economic difficulties of the aged and of those struck by disaster. Finally, income has become more stable. The four recessions since World War II are among the milder of our history, which means an unprecedentedly long period free of serious depression.

Not until the present generation has progress along each of these dimensions of economic welfare been witnessed.

Few of us feel complacent, however. Income is higher and more evenly distributed and stabler, but the advances in economic knowledge to which we owe this information have also made us conscious of the depth of present economic needs and the width of present disparities. We are keenly aware that

NOTE: This report was presented at the annual meeting of the Board of Directors of the National Bureau held in New York City, February 29, 1960. I am indebted to Arthur F. Burns and Geoffrey H. Moore for helpful suggestions.

many pensions and other incomes are small, that pockets of unemployment persist even in good times, that even mild recessions deepen and widen and multiply the areas of unemployment, that not all workers are covered by unemployment insurance, that strikes sometimes cause serious trouble to those directly involved and to many others as well, that monopoly interferes with the efficient allocation of resources, that inflation profits some and taxes others, that regulations bear unevenly on different sectors of the economy, that efficiency in this country appears to have grown during recent years less rapidly than efficiency in some other countries. Also, while there are grounds for believing that the advances in economic welfare made to date in our country will be retained, we want to strengthen these grounds, and we are eager for more and even speedier progress.

When we extend our gaze across the seas, we see on the whole less progress and far greater need. In older days, most of us could blink our eyes to dire poverty in far parts of the earth. Since the war, a vastly improved transport and communications network and a veritable revolution in world statistics have exposed and brought closer problems that can no longer be ignored.

This concern for the economic welfare of our fellow men—grown because knowledge of economic needs and disparities has increased, and also because economic progress has lifted the standards of decency we strive to meet—is reflected in a vast spread of public and private philanthropic activities over the globe.

It is reflected, also, in the increasingly critical view taken of existing economic institutions. Some men have always believed that these institutions greatly influence the level and rate of advance of economic welfare. This belief has spread over the years—very rapidly in our generation—and this, too, has served to sharpen men's sense of responsibility for the welfare of their fellows. It has made the drive to economic reform a moral force of great strength. In addition, men have acquired more faith in their capacity to improve social organization. The rise of new social systems to positions of power has contributed to

this trend, and competition with them for the world and for the generations ahead has intensified the sense of urgency attached to economic reform.

So a passion for social betterment has spread in ever widening circles within our country, as well as abroad. The establishment of newly invented economic institutions is strongly urged, and "crackpot" schemes are vigorously fought. Some busily plan improvements, while others—worried by the tampering that goes on—wish to progress by restoring the solid designs that served our fathers well.

Change in institutions that is prompted by desire for reform does not necessarily mean reform, however. Existing institutions may be critically viewed; they are not always critically examined. A drive to reform is essential if progress is to be made, but it is not enough. Faith in man's capacity to improve social organization is vital, but it is a mistake to assume the capacity to be already sufficient for all practical purposes.

The likelihood that change will bring real progress is strengthened if change is guided by intelligence armed with facts.

Men are frequently so full of the merits of their own proposals that they feel little need to encumber themselves with facts, except for purposes of illustration or as gestures to the hesitant. When attention is paid to "the facts of the case," it is often merely to those facts that support a case; or the attention is hurried and distracted, with little discrimination among facts of varying quality or between facts and sheer guesses. A proper attention to the facts requires not only an effort to become acquainted with them, but involves, as well, a recognition of the limitations on one's own knowledge, as well as on the knowledge of others, and of the uncertainties in one's own proposals as well as in the proposals of others. It even implies an admission that one's ends and one's values may themselves be subjects for analysis.

Men being what they are, an attitude toward economic facts that carries such wide implications is difficult to assume and difficult to hold. It is worth the effort, however, for

with it the prospects of further and less painful economic progress are brighter.

We at the National Bureau think we see, in the widening—though still narrow—support of the Bureau's activities, signs that more and more men are making the effort. It is to assist them that we devote ourselves to the determination and interpretation of the facts bearing upon economic problems.

To be as useful as possible, we concentrate on the facts bearing on large economic issues, the problems of national importance. To be helpful to thoughtful men, whatever their views of public policy, we limit ourselves to topics that are susceptible of scientific treatment; and we try to determine the facts objectively and interpret them impartially, by so organizing ourselves and our efforts as to minimize bias and other sources of error in the studies we pursue. To make our findings carry conviction to all sections of the nation, we issue scientific reports divorced from recommendations on policy, and assume no obligation toward anyone except to determine, interpret, and publish our results for the benefit of the nation at large.

If what I have stressed, in underscoring the need to apply objective knowledge to the resolution of important economic issues, were to be put in a brief phrase, it would read, "a respect for facts."

This phrase might serve to epitomize also the principles the National Bureau follows in its efforts to enlarge and improve objective economic knowledge. It is a respect for facts derived from a respect for the issues that confront the nation and for the men who try to use facts to resolve these issues.

Let me be more specific about the Bureau's research. Let me briefly note the kinds of facts we try to determine—that is, the kinds of things and relationships among things, the dimensions and proportions, the events and links between events, on which we try to get trustworthy estimates.

One important class of facts that we aim to determine is illustrated by the quick conspectus, with which I began, of advances in economic welfare since the National Bureau

was established forty years ago. In 1920 there was no reliable information at the disposal of government officials, businessmen, economists, or others on the national income, or its rate of growth, or its fluctuations, or its distribution among families, or its relation to the number of workers and hours of labor used to produce it. Each of these basic facts became available only as the Bureau turned its energies to establishing them. When the task of providing the information was taken up by the Department of Commerce and the Department of Labor, we directed our efforts to other questions in this sector of the frontier of economic knowledge.

This year we report on studies, under way or just completed, of national wealth and of its distribution among individuals; of productivity, in which industrial capital as well as labor is related to product; and of the trend of money wages, cost of living, and real wages over the past hundred years.

In the first group of studies we ask questions like these: What is the size of the nation's tangible wealth? How rapidly has it grown—since the war and before the war? How big is it in relation to income and how stable is this relationship? Of what does the wealth consist, and what changes have occurred in its composition? How is it distributed among industries and how does this distribution compare with the structure in other countries?

We ask also: How is wealth distributed among individuals and families? In what types of assets are the holdings of different wealth groups concentrated? How have these proportions changed over the years? How do they compare with similar information for other countries? What effects have changes in price levels had on the wealth of different groups of the economy? These questions are not aimed at immediate policy issues. But the answers that Kuznets, Goldsmith, and Lampman are getting—for example, that the richest one per cent of adults in the United States held about 32 per cent of the nation's personal wealth in 1922 and 26 per cent in 1956, and that both percentages are much lower than the most nearly corresponding percentages

for England and Wales—will be found scientifically interesting and important and sooner or later useful in dealing with many matters of policy.

So, too, will the answers to the many questions we have raised in the studies of productivity and wages. In the productivity study, for example, Kendrick has established the fact—already mentioned—that output per man-hour rose much more rapidly on the average after World War I than before. This speed-up is found also—indeed, is sharper—in output per unit of real tangible capital, and in output per unit of labor and capital combined. Closely related is the fact that productivity—whether measured by output per man-hour or output per combined unit of labor and capital—rose more rapidly than input in the post-World War I period, and less rapidly than input in the period before World War I. If the increase in productivity is a measure of our ignorance of the factors other than input that account for increase in national output—which is one way it has been described—we may say that in uncovering the striking facts noted, we have also discovered that less is known about economic growth after World War I than about growth before that war. This, also, may be considered an advance in knowledge. It is one reason why the National Bureau is pursuing, and hopes to expand, the study of investment in education that Becker has in his charge.

As for real wages, Long and Rees have given us better estimates and a clearer view of the trend since 1860 than we had before. It was once believed, for example, that real hourly earnings in manufacturing industries had risen by 7 or 8 per cent between 1890 and 1914. We now know that the rise had been 40 per cent, for Rees took the time and trouble to reconstruct the cost-of-living index needed to deflate money wages. Thus, the new index contains information on the retail prices of clothing and home furnishings, gathered from mail order catalogues, rather than the formerly used wholesale prices adjusted to the retail level on the basis of margins in food distribution.

Rees also waded through newspaper ad-

vertisements in order to add information on rents, not previously included, and made still other of the changes reported in his forthcoming book. He could have accepted the best of the already available series on real earnings and spent his time speculating—as did others before him—on the puzzling relation of the earlier earnings series to trends in productivity and hours of labor. The decision to rework the series has largely eliminated the puzzle and advanced, beyond the stage at which he found it, knowledge of an economic trend important not only for understanding our economic history but also for understanding the workings of the contemporary economy.

Sometimes we are provided an opportunity to “audit” and assist in improving an important set of current statistics. This was the case, during the year, with the consumer price index of the Bureau of Labor Statistics. The present index is, of course, far superior to the one Rees has calculated for the pre-World War I period. But it is by no means perfect, as the BLS frequently warns its users. Even when the index was used as a rough indicator of the drift of retail prices, it was of some importance to subject it to occasional professional review. Now that the index appears in the escalator clauses of wage contracts covering millions of workers, the need is much greater. The National Bureau was therefore glad to respond to the Bureau of the Budget’s request for a review of this and other price indexes and statistics collected and issued by the federal government. A committee of experts, of which Stigler is chairman and McAllister secretary, has been appointed, and with the cooperation of the BLS and other governmental agencies and the aid of a staff, it is currently engaged in making the review.

Information on the organization of the economy constitutes another class of the facts we determine. In the area of industrial organization we have recently published Nelson’s study of mergers and related factors in American industry since 1895. It extends a basic record on mergers begun by Thorp thirty years ago in another National Bureau study—a record important enough to be currently

compiled by the Federal Trade Commission. Under way are studies by Gort of the trend toward diversification of products by large companies, which some people believe is altering the competitive situation in various industries; and by Stigler of the effectiveness of rates of return on capital in guiding new investment and the movement of capital from one industry to another—a matter of the highest importance in an economy in which investment is directed not from some central point but by private enterprise.

The remarkable growth of government is another aspect of economic organization that is engaging us. The study of the growth of governmental expenditure in the United Kingdom just completed by Peacock and Wiseman; the earlier studies of governmental employment in the United Kingdom by Abramovitz and Eliasberg, and of governmental employment and expenditures in the United States, to which Lipsey contributed; Copeland's study of trends in governmental financing in the United States, in press; and Brazer's study of city expenditures, published during the year—these provide some of the facts useful for assessing and understanding this great change in economic organization, a major trend not only in the United States and the United Kingdom but other countries as well. We also began, during the year, a study by Dickinson and Nelson of the magnitude and trend of philanthropic activity in the economy, including changes in the division of responsibility between public and private philanthropy, which have been altered greatly.

Another, and substantial, group of our studies deals with financial organization and financial markets. One subject is the towering structure of debt and ownership, as revealed by the national balance sheet. A second subject includes the character and rates of growth of various financial institutions, on which an over-all view is being provided by the studies of the flow of funds as well as of the national balance sheet; and detailed views of particular institutions, by the studies of pension funds, consumer finance, and mortgage companies, among others. And a third subject covers experience with particular se-

curities and the markets in which they are dealt, including corporate bonds, government bonds, and mortgages.

Both the consumer finance study, just begun by Shay and his associates, and the pension study, which Murray had under way at the beginning of the year, focus on financial developments of extraordinary speed and importance. These developments have therefore attracted much attention and raised important controversial issues and questions of fact. We may expect that many people will be interested in the answers that we seek to provide in the study of consumer finance—on the business of consumer financing, including sources of funds, charges, costs and earnings, and the effects of governmental regulations on the competitive position of different financial institutions; on consumers' use of credit in relation to the financial and other circumstances of families, which has a bearing on the impact of credit controls and regulations of various sorts on different families; on trends and fluctuations in consumer credit volume, terms and lending standards, and their relations to trends and cycles in consumer spending and in the production of consumer goods and services.

In the pension study, a number of significant results have already been obtained. One important question is the effect of the rise of pension systems on savings—whether these new institutions exert an effect on the total volume of savings as well as cause a shift in their composition. Cagan's preliminary finding suggests that participants in pension systems currently tend to put no less money into other forms of savings than nonparticipants of otherwise similar status. This result, if it stands up under closer inspection, may indicate only that families have not yet adjusted their consumption habits and financial planning to the new system, and it must therefore be interpreted with care. In any case, it is no longer possible to assume with any confidence—as some have in the past—that the introduction of pensions has no significant effect on the savings aggregate. Another example of the need for care and of our efforts to exercise it is given in Holland's progress

report. He points out that the surveys of private pension plans available until recently seemed to suggest that vesting provisions—significant in estimating the costs to employers and the advantages to employees—were not being liberalized over the years. A sample of plans designed specifically to answer the question suggests that in fact there has been a definite trend toward vesting after a specified term of employment. This is quite a different result—the significance of which depends, as Holland emphasizes, on the degree and pattern of labor turnover, into which inquiry will therefore have to be made.

This year's work includes also several studies dealing with still another aspect of economic organization, namely, international economic relations. Recently published are the study of international financial transactions by Morgenstern, of middleman transactions in world trade by Lichtenberg, and of fluctuations in trade balances by Mintz; and studies still under way include Woolley's of the structure of world trade and payments, Karreman's world transportation account, and Michael's analysis of international capital movements. These are all designed to trace the network of economic relations among countries and thus provide a basic record with which to approach pressing questions.

Of major importance among the tasks of economic organization is to lessen the susceptibility of the economy to depression. We have not neglected the problem. In 1920 the United States was hit by one of the sharpest business contractions on record. In the midst of the depression that resulted, a President's Conference on Unemployment was held to consider relief for the millions of unemployed, who perhaps numbered one out of every six or seven persons in the labor force. During the formulation of emergency measures, the members of the Conference—businessmen, labor leaders, economists, and government officials—proposed an investigation of the whole problem of unemployment and of methods of stabilizing business and industry so as to prevent the suffering that results from depression. The committee that was set up to consider the question asked the Na-

tional Bureau, which had been established the previous year, to investigate the relation of business cycles to unemployment. The Bureau agreed, and thereby was launched upon a series of studies of business cycles—their character, their causes, and the policies suitable for combating depressions—that has taken a good share of its energies ever since.

The study by Burns and Moore of the post-war business cycle, under way, is a major item in this long series. Consider the relatively greater stability of income, employment, and production enjoyed in this country since the war, which I listed among the important economic advances during this generation. This stability conceivably could be no more than a happy accident. The more clearly we can understand its causes, the more confidently may we make our plans and the better guard against sources of trouble. The study of post-war business cycles therefore attempts to explain why they differ from prewar cycles. A reasoned explanation, found in a combination of unplanned structural changes and of deliberate economic policies, was sketched in Burns' presidential address before the American Economic Association in December. The current work is designed to check this explanation with all the evidence that he and Moore, with Jane Kennedy's assistance, can add to the facts already gathered.

Secretary Hoover, in his foreword to the report of the committee of that early President's Conference, stressed the importance of information on the trend of business and took the position that the necessary information "must be systematically recruited." The Bureau has made an effort also in this direction by seeking, in its studies of business cycles, to develop facts helpful to the many persons who must follow the course of business conditions and try, as well as they can, to sense its drift. The large report on *Business Cycle Indicators* that Moore has edited, now in press, draws these together in a single volume, gives a revised and extended list of indicators of cyclical revival and recession, provides the evidence required to judge their value, suggests how they may be used, and appends the statistics needed for current ap-

plication and for further research. The volume will, I think, impress upon its readers the cumulative character of the Bureau's work. So also will the final report on the postwar cycle study, which would not have been possible without the facts gathered and tested over the years by many Bureau investigators.

Other studies of the year contribute both to the scientific analysis of business cycles and to the development of practical business indicators. An example is Stanback's study of postwar cycles in inventory investment. The study, near completion, was originally designed to test Abramovitz' pioneering analysis of the interwar data. Some interesting differences were discovered between the behavior of inventories during the interwar period and their behavior in the postwar period, particularly a tendency for inventory investment to lead rather than to coincide with turns in general business.

This seems in part to be due to the increased relative importance of those classes of inventory investment that typically lead, particularly investment in purchased materials and in goods in the process of being manufactured into durable products. In part, it seems, it may also be due to an increased sensitivity of holders of inventories to cyclical changes in business and a greater determination or ability on their part to adjust their inventories promptly to these changes. It may reflect, as well, an improvement in the statistics of inventories—a change, that is, not in inventory behavior, but in the estimates that can be made of this behavior—but unless the improvement in the statistics explains them fully, we have learned of some significant differences between postwar and prewar cycles. We have also found another useful business indicator, and Moore has included the series on inventory investment in his new list.

In addition to checking and adding to the list of indicators, some of this year's work has been aimed at trying to explain the behavior of the indicators, particularly those that turn up or down before troughs or peaks in general business. If we can understand their behavior, our confidence in them is strengthened.

An effort in this direction appears in Bry's recent paper, in which he explains a fact first noted in 1937 by Mitchell and Burns—that the average workweek usually turns down before the peak is reached in general business, and up before the trough. Bry's explanation points to such factors as the ease with which hours can be adjusted as compared with adjustments in labor force, and the desirability—in view of the uncertainties confronting businessmen about the course of business conditions—of postponing a reversal of employment policy until several months' evidence in support of such a change has accumulated. His explanation is persuasive because it is consistent with the facts known about business organization, policy, and behavior.

Among other studies with similar objectives—to explain the cyclical behavior of leading indicators—is Burns' analysis of cycles in decisions to invest in fixed plant, which he was forced to put aside some years ago. We may hope that it will soon be revised, brought up to date, and made generally available.

In these, as in the studies I have not been able to mention—studies of the character and causes of long swings in economic growth, of the trends and the cycles in money supply and demand, of fluctuations in costs and profits, of the individual income tax, of consumer purchases and the factors that determine them, and of still other aspects of economic life—we try to determine the facts objectively. This means, among other things, being willing, and going to the trouble, to make one's data available for inspection and use by others. Hickman's forthcoming third volume, which concludes his basic study of corporate bonds, as well as the elaborate appendixes to Moore's volume—and to Kuznets' and Kendrick's and Ulmer's and those of still others of our Staff—are examples of the value, and of the cost, of following this policy.

It means, also, taking the pains to ensure, as well as it can be ensured, the accuracy of one's results, and to lessen—one cannot eliminate—the possibility of misunderstanding and misuse of them. This is the reason why the National Bureau requires each member of its

Staff to subject his work, before it is published, to scrutiny from every side. After each reading—by other members of the Staff, outside experts, and members of the Board—improvement usually follows. Sometimes a considerable rewriting is stimulated and the improvement is very great indeed. On occasion, our critics suggest a drastic restudy of the subject involved. When they are right, as they are at times, this painful course is followed if resources and patience permit; otherwise the study is abandoned. When no serious questions are aroused in our critics, we do not consider the time we have waited to be wasted, for we gain confidence in the results and in the clarity with which they have been expressed.

The plans we have for the future accept as premises the principles that constitute the fundamental basis of our organization and our work: objectivity in the determination of the facts, impartiality in their interpretation, concentration on topics of national importance that are susceptible of scientific treatment, divorce of our findings from recommendations on policy, control by a Board of such character and composition that our findings will carry conviction to all sections and groups of the nation.

To pursue our objectives effectively we intend to follow a research program in future years that focuses on the major economic problems before the American people and that seeks to extend tested knowledge for dealing with these problems. More specifically, our research program is designed to meet essential needs—for authentic information on central economic facts that bear on questions of national policy; for knowledge of the persistent and shifting patterns of economic behavior with which policy must cope; for understanding of the implications, for policy, of important changes in the structure and organization of our economy and the economies of other countries; and for careful and objective analysis of alternative proposals for economic policy, so necessary if enduring human progress is to be made.

To meet these needs has also been the pur-

pose of our research in the past. The departure from our previous program lies mainly in a greater emphasis on the analysis of policy issues, in giving more attention to countries other than the United States, and in devoting more of our resources to topics, such as economic growth and the role of government in economic life, that are not only of great importance but the study of which may be expected to profit abundantly from research in the National Bureau's tradition. We have already made a start in these directions.

In line with the stated objectives, we expect to concentrate effort on four interrelated areas: (1) the development and interpretation of new economic data, and the improvement of important existing series that still fall short of desirable standards, so that the pressing needs of our people for economic intelligence may be better met; (2) study of the process of economic growth and the conditions and policies—both public and private—that favor it under varying conditions; (3) analysis of the character and causes of economic fluctuations, and of the policies pursued or proposed for dealing with them; and (4) study of the impact of the rising trend of governmental activity on the growth, efficiency, and stability of the economy. If resources should permit it, we would add (5) study of the international economic relations of the United States, to assess the place of the country in the international economy, the developments that have brought us to our present position, and the tendencies that are moving us in desirable or undesirable directions.

Research on these lines, pursued objectively, can be counted on to advance knowledge useful in coping with both recurring and special problems.

This program of research is purposely put broadly in terms of areas of research rather than as proposals for specific studies. For the particular questions to which we can devote ourselves in any year, the order in which studies will be undertaken, the amount of time that can and should be given to any question—these must remain uncertain when funds are limited and plans are sketched for years ahead. And the uncertainties multiply when

the plans deal with basic research. An element of flexibility is, clearly, essential to true research.

The time is ripe for some of the studies that we have in mind, however, and we may hope that the plans we have prepared—for studies of interest rates, of the federal tax system in its bearing on economic growth, and of international differences in productivity levels and trends—can soon be put into effect.

The problems of economics have shifted as the economy has changed and the science advanced. So have the particular problems to which the National Bureau devotes itself. The demand for objective determination of important economic facts persists, however, and grows; and we continue to devote ourselves to meeting all we can of this demand.

How well the officers and Staff of the Bureau succeed is in the end decided by the public we serve, through the support provided our work and the use made of the results.

In the first instance, however, it is the duty

of the Bureau's Board of Directors to watch our research and determine whether we are adhering to our principles or departing from them—to approve and encourage, if our work deserves it; to reprove and correct, if that be needed. The more thoroughly the Board performs its task, the more likely it is that the vote of the public will be as favorable in the future as it has been in the past.

It is with this responsibility in mind that the Board will judge the eighteen studies published during the year, the seventeen studies in or on the way to press, the eight studies now or soon to be in the hands of the Board for review, and the brief accounts given in later sections of this report on the various studies under way.

If we have attained a measure of success in our endeavors, it is because we strive to keep warm in our hearts the respect—and the passion—for facts that constitute the true love of science.

SOLOMON FABRICANT
Director of Research