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NATIONAL BUREAU OF ECONOMIC RESEARCH
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NATIONAL BUREAU
report



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NEW
STUDIES

During 1967 a number of studies were begun by the Bureau. Some were extensions of earlier research; others represented totally new investigations.

The Economics of Health. A program of research in this area, under the direction of Victor R. Fuchs, is being conducted with the support of the Commonwealth Fund. Michael Grossman, Morris Silver, and Kong Kyun Ro are currently examining separate aspects of this timely subject. In his study of the consumer demand for health, Grossman has developed a theoretical model to predict the effects of age, income, and education on the demand for both health and health services. Silver's study of Negro-white differentials in mortality examines mortality patterns by sex, age, and geographic area, and investigates their relation to economic and social factors. Ro is studying the socioeconomic determinants of hospital use.

Labor Markets. Philip Cagan has begun an investigation of long-run trends and short cycles in wages, prices, and output. The results thus far support the view that current wage rates are significantly affected by both past and current price changes. Past price changes are found to have a delayed effect, *i.e.*, anticipated increases cause wages to rise even after business conditions are depressed.

William D. Nordhaus, Cowles Foundation at Yale University, is formulating and testing a model designed to analyze price and wage behavior in a number of industrial sectors as well as in the economy as a whole.

International Economic Relations. In cooperation with the Office of Business Economics of the U.S. Department of Commerce, Robert E. Lipsey and Merle Yahr are investigating the effect on U.S. export trade of this country's

investment in manufacturing enterprises abroad. Considerable controversy surrounds this issue in connection with changes in the tax treatment of income from foreign investment and with the more recent direct restrictions on capital outflows. Opinions range from the view that such investment tends to replace U.S. exports to the view that it is a necessary concomitant of exports. The Lipsey-Yahr study, which is supported by a grant from the National Science Foundation, should help illuminate this question.

Business Cycles. Gregory C. Chow, Arthur F. Burns, and Geoffrey H. Moore are collaborating in the construction of an econometric model of business cycles. They intend, as a first step, to formulate and test a highly aggregative model that encompasses certain essential elements in economic fluctuations as described by Burns in a recent paper prepared for the new *International Encyclopaedia of the Social Sciences*. The model is divided into five major sectors and emphasizes the price-wage-profit mechanism in business fluctuations.

FELLOWSHIP
PROGRAM

Each year the National Bureau appoints a limited number of research fellows who spend one year working at the Bureau on a subject of their choice. The NBER fellowship program receives support from philanthropic organizations such as the Carnegie Corporation of New York and the Alfred P. Sloan Foundation. Fellows for the 1967-68 year are Yoel Haitovsky from Technion-Israel Institute of Technology, Mohammed I. Nadiri from Northwestern University, and Sherwin Rosen from the University of Rochester.

Imports of Labor Intensive Manufactures from Less Developed Countries

by HAL B. LARY

282 pages (approx.), Publication date: January, 1968

FORTHCOMING
PUBLICATIONS

The need of the less developed nations for foreign trade as a stepping stone to economic growth forms the basis for this study. Since countries in the developing world lack a rich accumulation of both capital and technical skills, any advantages they may attain in manufacturing for export will likely be concentrated in "labor intensive" manufactures—i.e., those that require large amounts of unskilled labor compared with both human capital (skills) and physical capital.

Lary's criterion for distinguishing between labor intensive and capital intensive manufactures is the value added by manufacture, per employee. Thus, the higher the value added per employee, the more intensive the industry in human and physical capital combined; the lower the value added per employee, the more labor intensive the industry. When this measure is applied, he finds that the same industries are relatively labor intensive in both rich and poor nations.

The report discloses that, although the trade of labor intensive manufactures is still small (amounting in 1965 to \$2.4 billion or less than 10 per

cent of total imports by developed nations from less developed areas), it has grown rapidly in recent years. In fact, if trade continues to expand at the present rate, imports from the developing nations are expected to reach \$10 billion by 1975.

The research suggests that trade policies permitting greater accessibility to the markets of developed nations are a prerequisite for growth in trade from the less developed nations.

Employee Compensation under the Income Tax

by C. HARRY KAHN

240 pages (approx.), Publication date: March, 1968

Wages and salaries, this study shows, have become the dominant form of income subject to the Federal income tax. In 1939, salaries and wages accounted for 66 per cent of total taxable income; by 1963, the figure had risen to 81 per cent.

Kahn points out that this increase stems from two factors: the rise in the share of wages in total income (from 71 to 75 per cent over the period) and, more importantly, the rise in the proportion of total wage and salary earnings that is reported on income tax returns (from 36 per cent in 1939 to 97 per cent in 1963). Moreover, contrary to the popular view that compulsory withholding of income tax is responsible for the marked rise in reporting of wages and salaries, Kahn's work suggests that most of the change occurred in the early years of World War II—before the introduction of withholding in 1943.

The book also examines special problems in the taxation of wages and salaries, such as taxes on the income of working wives, earned versus unearned income, excludable sick pay, and deferred compensation.

Executive Compensation in Large Industrial Corporations

by WILBUR G. LEWELLEN

480 pages (approx.), Publication date: Spring, 1968

This investigation covering the period 1940-63 provides a historical view of the shift in executive pay structure that has occurred in response to changes in our tax laws. It confirms the impression that salaries and bonuses subject to heavy taxation no longer comprise the major share of the corporate executive's total compensation.

However, despite this trend away from highly taxed forms of remuneration, Lewellen finds that overall compensation for corporate executives has barely kept up with changes in the price level since 1940. In fact, the economic position of the top echelon executives was found to be nearly the same in 1963 as in 1940.

By examining the pay package components of the five highest paid executives in 50 large manufacturing firms, Lewellen finds that items subject to

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lower tax rates than salary and bonus payments have become increasingly important as a means of remuneration. Stock options, for example, have come to comprise one third of the total compensation. The use of deferred payments, profit sharing benefits, and pension values has also increased in proportion to the decreased reliance on direct cash payments.

Another disclosure is that the tax advantages of supplementary payments have been used to maintain the relative pay structure among the five highest paid executives studied in each firm. Through an increasing reliance on less heavily taxed supplements to salary and bonus at successively higher positions, gains in direct cash payments to lower-paid executives have been offset. On the whole the total compensation relationship has thereby been kept constant.

The Lewellen report is part of a larger National Bureau project concerned with the influence of federal tax policies on economic growth. In a preface to the work, Daniel M. Holland of MIT describes it as providing one of "the links in a chain that runs from taxation on one end to economic growth at the other via an effect on personal effort."

FORTHCOMING
CONFERENCES

Plans for four conferences to be held under Bureau auspices in 1968 and early 1969 are well advanced. One will deal with education and income, another with public products, the third with technology and international trade, and the fourth with econometric models of cyclical behavior.

The Universities-National Bureau Conference on Technology and Competition in International Trade will be held at the Carnegie International Center in New York on October 11-12, 1968. The conference program is under the direction of Raymond Vernon of Harvard University. Five sessions are planned, beginning with a study of the technological factors in international trade. Several case studies in technological transfer will be presented. In addition, the conference will deal with the technological factor in trade and development, in the United Kingdom's international position, and in the theory of international trade.

The proposed program for the Conference on Education and Income, scheduled for November 15-16, 1968, consists of such topics as education and production functions, education and the distribution of income, determinants of growth in demand for education, and human capital in international economics. The program committee is headed by W. Lee Hansen of the University of Wisconsin.

A Conference on Production and Distribution of Public Products is scheduled for April 26-27, 1968 in Princeton, New Jersey. Chairman Julius Margolis of Stanford University and members of the planning committee have devised a program covering measurement and valuation of outputs, distribution of public outputs, the role of various government levels, and cost estimation.

The purpose of a conference scheduled for the spring of 1969, which will be sponsored jointly by the Social Science Research Council's Committee on Economic Stability and the Conference on Research in Income and Wealth, is to provide a vehicle for the interchange of research ideas between the builders of econometric models and the analysts of the business cycle. The planning committee, headed by Bert Hickman of Stanford University, has prepared a general outline of the conference:

- Business cycle simulation studies of quarterly econometric models;
- NBER analyses of the results of these model simulations;
- Comparison of the various models with respect to causal interpretability in the light of business cycle theory;
- Examination of various problems in this field - e.g., an analysis of a single econometric model fitted to monthly, quarterly and annual data to determine the effects of the time unit on the lag structure and dynamic behavior of the model.

Issues in Defense Economics

ROLAND N. MCKEAN, editor

Price: \$7.50, 286 pp.

Eight papers presented at a 1966 Universities-National Bureau conference are featured in this volume. The subjects under discussion include issues currently debated by defense analysts, notably, the economics of the missile race, nuclear deterrence and arms control, the organization of the Department of Defense, and the efficient administration of defense contracting.

Several contributions seek to determine the useful application of economic concepts and analysis to the defense sphere, while others deal with substantive problems of defense in the nuclear age. One paper argues for reliance upon the economic principle of comparative advantage as a means of distributing the defense burden throughout the Western alliance. Another details the strategy of inflicting costs. Here war is translated to an essentially economic arena in which the opponents impose ever greater financial burdens on each other's defense establishments.

Economists from the State Department, the RAND Corporation, the Institute for Defense Analyses, and leading universities participated in the conference and contribute to the resulting volume. The papers were written by Martin J. Bailey, Malcolm W. Hoag, Martin C. McGuire, Mancur Olson Jr. and Richard Zeckhauser, Jerome Rothenberg, Thomas C. Schelling, James R. Schlesinger, and Oliver E. Williamson.

RECENT
BUREAU
PUBLICATIONS

New titles issued by the National Bureau are distributed at the time of publication to subscribers and contributors. Nonsubscribers may order recent Bureau publications from Columbia University Press.

Yields on Corporate Debt Directly Placed

by AVERY B. COHAN

Price: \$7.50, 180 pp., 87 tables, 22 charts

New quarterly series on interest rates paid by corporations on bonds directly placed with lenders are provided in this report. Analysis of these new data dispels the belief held by many borrowers, lenders, and investment bankers that yields on directly placed securities are consistently higher than those on public offerings. Cohan finds that the rates are higher solely on issues of large, well known companies; for all others, yields on direct placements are about the same as, or lower than, those on issues offered to the public at large.

The report deals separately with the interest rates of industrial, public utility, and finance company direct placements. Investigation of the factors causing rates to vary reveals a marked distinction between industrial and utility bonds, on the one hand, and finance company issues, on the other. For the former, the size of the prospective borrower, interest coverage, and the average term of the proposed issue are the most important variables. For the latter, the principal factors seem to be size of issue, the earnings of the borrower, and the variability of those earnings.

The experimental statistical techniques employed by the author may be used to advantage by researchers dealing with similar types of yield data.

This past autumn JOHN R. MEYER, professor of economics at Harvard University, assumed his position as President of the National Bureau. Dr. Meyer succeeds ARTHUR F. BURNS, who has been named Chairman of the Board of Directors.

STAFF APPOINTMENTS

MARK S. REINSBERG, formerly of the U.S. Department of Transportation and Northwestern University, joined the staff as Publications Director, a newly-designated officer in the Bureau.

In September DONALD S. SHOUP of the Department of Economics at Harvard University was appointed Assistant to the President.

HENRI THEIL of the University of Chicago has been named to the Bureau's Board of Directors. Dr. Theil fills a vacancy created by the resignation of THEODORE W. SCHULTZ, also of Chicago.

JOAN R. TRON, a member of the Bureau's Editorial Department since 1960, has been appointed Editor-in-Chief, replacing James F. McRee who resigned in September.

JOHN F. KAIN, assistant professor of economics at Harvard University, has joined the Bureau staff on a part-time appointment and has agreed to form and supervise the staff of an Advisory Committee on Urban and Ghetto Research.

In December, THOMAS J. SARGENT of the Graduate School of Industrial Administration at Carnegie-Mellon University was appointed to the staff on a part-time basis to investigate certain aspects of the term structure of interest rates.

Early in 1967 Victor R. Fuchs, Associate Director of Research, was appointed a member of the Health Services Research Section at the National Institutes of Health.

Geoffrey H. Moore, Director of Research, has been elected President of the American Statistical Association and took office in January. The December issue of *The American Statistician*, a publication of the American Statistical Association, carried an article by Dr. Moore on "Some Needed Improvements in Economic Statistics."

In November, Chairman Arthur F. Burns, along with Senator Jacob K. Javits and Charles J. Hitch of the University of California, served as a guest speaker at the Moscowitz Lectures, an annual lecture series held at New York University. The theme of the 1967 series was "The Defense Sector and the American Economy," and Dr. Burns presented an address entitled, "The Defense Sector: An Evaluation of its Economic and Social Impact."

In mid-December, Hal B. Lary, Associate Director of Research, attended a conference in England on trade, aid, and development that was sponsored by the Ditchley Foundation.

Present and former members of the National Bureau's research staff have prepared 44 of the articles on economics that will be included in the new *International Encyclopaedia of the Social Sciences*. Twenty-three of the articles pertain directly to research that the authors conducted for the Bureau, with the remainder devoted to diverse areas of economic knowledge.

F. Thomas Juster is a member of the editorial board of a new quarterly survey, *Consumer Buying Prospects*, published by the Commercial Credit Company. The bulletin is based on Census Bureau data and makes use of a forecasting methodology developed jointly by that government agency and the National Bureau. It is intended as an aid to understanding the spending and savings patterns of the American consumer.

At the annual meeting of the American Economic Association, held in Washington, D.C. during the last week of December, Bureau staff members served as chairmen of individual sessions, speakers and discussants. Milton Friedman, 1967 president of the Association, devoted his presidential address to the topic: "The Role of Monetary Policy."

STAFF
ACTIVITIES

Gary Becker, who in 1965 received the W. S. Woytinsky Lectureship Award for his NBER book, *Human Capital*, was awarded the John Bates Clark Medal by the American Economic Association. This award is made biennially to an economist under the age of forty who has made "a significant contribution to economic thought and knowledge."

Exposition Press recently published *Closed Doors*, a first novel by Roberta Watson of the NBER clerical staff. The book recounts the struggle of a Southern Negro family to establish a new life in the North.

NEW
COMPUTER
PROGRAMS

New general series programs include a moving seasonal adjustment program for quarterly data and a stable seasonal adjustment program for short series. In addition, the program determining cyclical turning points for time series has been refined.

OFFICE
EXPANSION

To accommodate its growing staff and to provide space for additional computer equipment, the National Bureau has expanded its office space in the present building by about one third. 10,350 square feet have been rented on the fifth floor at 261 Madison Avenue where offices and data processing equipment have been installed.

National Bureau of Economic Research is a private, nonprofit organization founded in 1920 as a center for independent and impartial economic research. In the belief that such research can contribute significantly to the sound treatment of economic problems, it has sought to conduct its activities under conditions that safeguard the scientific nature of the findings and that help make them authoritative and acceptable to persons of different interests and opinions. The National Bureau is supported in part by grants from philanthropic foundations and business associations for particular studies, in part by investment income on capital-sum grants, and in part by unrestricted contributions and subscriptions from companies, banks, labor organizations, foundations, and individuals.

Further information regarding contributions and subscriptions may be obtained from the office of the National Bureau's Executive Director, Douglas H. Eldridge.

OFFICERS: Arthur F. Burns, Chairman; Theodore O. Yntema, Vice Chairman; John R. Meyer, President; Donald B. Woodward, Treasurer; Geoffrey H. Moore, Director of Research; Douglas H. Eldridge, Executive Director; Hal B. Lary, Associate Director of Research; Victor R. Fuchs, Associate Director of Research; Mark S. Reinsberg, Director of Publications.

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