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The Beginnings of the National Bureau of Economic Research

*A Tribute to the Memory of Its Founder:
Malcolm C. Rorty*

I first met Malcolm Rorty early in 1915 at a hearing of the New York State Factory Investigating Committee, of which the then State Senator Robert F. Wagner was Chairman. Having made a study and prepared a report for the Committee on Minimum Wage Legislation I was testifying before the Committee in favor of the adoption of such legislation by the State of New York. Rorty was strongly opposed.

Our next contact (or conflict) took place across the table of the Mayor's Unemployment Committee in New York City to which its Secretary, the late John Shillady, had invited us as consultants. In advocating the expediting of as many public works projects as the City could undertake as an alternative or supplement to public soup kitchens, I again clashed with Rorty. He formed a definite impression of me as a dangerous radical.

In 1916 Scott Nearing published his pioneer study on the distribution of national income. He divided all income into service and property income and after an elaborate analysis of statistical data, in which he displayed considerable originality and ingenuity, came to the conclusion that national income was divided roughly 50-50 between the two types. Harry Laidler, at that time Editor of the *Intercollegiate Socialist*, a socialistic monthly intended chiefly for circulation among college students, asked me to review Nearing's book. My review grew into an article in which I took Nearing to task for his pseudo socialistic approach to the subject, and pointed out several large items of service income that Nearing ignored in his estimate. I arrived at the con-

clusion that the division between service and property income was approximately in the ratio of two to one (as the first publication of the National Bureau of Economic Research subsequently confirmed).

My article in the *Intercollegiate Socialist* caught the eye of Malcolm Rorty who made it his business to follow current labor and socialist publications. In line with his impression and the character of the magazine, he expected to find a "red hot" diatribe on the unjust distribution of income under capitalism. Instead, my article gave him a new slant on the "dangerous radical" and he invited me to lunch to talk things over. This was followed by several conferences which culminated in a warm friendship, although we continued to differ strongly on many public questions.

At our second meeting Rorty said: "Here we are considering a most important question which deeply affects the lives of every man, woman and child in this country, and despite a large fund of statistical data, there is no agreement on the purely arithmetical question what part of the national income goes to each element of society. Would it not be a great step forward if we had an organization that devoted itself to fact finding on controversial economic subjects of great public interest?"

I agreed that it would, provided the organization could command public confidence so that its findings were accepted as conclusive by all parties to the controversy.

He assented to my proviso and asked for suggestions. I said the organization should be started by a group of well known economists representing every school of economic thought from extreme conservative to extreme radical who should associate with them representatives of all the important organized interests in the country: financial, industrial, agricultural, labor, etc.

Rorty thought that some such plan would have to be adopted and believed he could raise the funds if he could promise the participation of outstanding economists. We agreed that men like Edwin F. Gay, Dean of the Harvard School of Business, Wesley C. Mitchell of Columbia University, and John R. Commons of the University of Wisconsin would make an excellent nucleus. He felt that in addition to published statistical data, his own American Telephone and Telegraph Company could make a valuable contribution of original data giving "a complete classi-

fication of families according to rents paid and rental value of properties occupied for the majority of cities of over 50,000 population in the United States."

Rorty lost no time in pushing toward the realization of the project, which filled his thoughts to the exclusion of everything except his official duties. The first people he approached were Dean Gay and Wesley C. Mitchell. Both were favorably impressed.

As a result of his conversations with them and some business leaders several plans were evolved. One favored by Dean Gay called for a three-fold program:

1. The establishment of a bureau of business research attached to the United States Chamber of Commerce, which should attempt most of the statistical work and might resort to approximations when necessary.
2. The utilization, if desired, of the Research Division of the Harvard Graduate School of Business Administration, for more exact and long continued investigations, which, in most cases, would require five years for completion.
3. The setting up of separate arrangements for the use of the accumulated statistics as the basis for economic writings.

In following out Dean Gay's suggestions, Mr. Rorty had conferences with A. W. Shaw of *System*, E. H. Goodwin, General Secretary of the United States Chamber of Commerce, Harry Wheeler, former President of the Chamber, and Magnus Alexander, President of the National Industrial Conference Board.

While these conferences were going on Mr. Rorty proceeded to enlist economists. On February 16, 1917, the day after he had written Dean Gay, he wrote Professor Mitchell:

"I enclose herewith a copy of a letter that I have written to Mr. Gay . . . I am entirely in your hands and his as to any action that may be taken, and agree with you that the plan should be carried through on an absolutely scientific basis and without any attempt, on the part of those financing it, to control either the findings or the composition of the Committee. I have, therefore, written to Professor Commons, and am arranging to meet Mr. Stone in Washington on Sunday with the idea of going ahead actively . . . I will also

continue actively to solicit contributions to the Committee's fund."

With Professor Commons and myself, the enlarged committee of four elected additional members and the plans originally envisaged in our first talks on the subject came to fruition in the following memorandum.

*The Committee on the Distribution of Income
Its Organization and Purposes*

The Committee on the Distribution of Income is in process of organization to meet a growing demand for a scientific determination of the distribution of national income among individuals and families, as well as by basic sources—wages and other returns for personal service, land rents, interest, and profits in excess of a normal interest rate.

A knowledge of this distribution is of vital consequence in the consideration of almost every important political and social problem, and will be of particular value in relation to the many special problems of taxation, legislation, and industrial readjustment that will necessarily arise during and after the present war.

The Committee will concern itself wholly with matters of fact, and is being organized for no other purpose and with no other obligation than to determine the facts and to publish its findings.

The initial members of the Committee were Edwin F. Gay, Dean of the Harvard Graduate School of Business Administration, and Professor Wesley C. Mitchell of Columbia University. These two have since associated with them Professor John R. Commons of the University of Wisconsin, President of the American Economic Association, Dr. N. I. Stone, now connected with the Institute for Government Research at Washington and one time Statistician of the United States Tariff Board, Professor Allyn Young of Cornell University, President of the American Statistical Association, Mr. John P. Frey, Editor of the *International Molders' Journal*, and Professor T. S. Adams of Yale University, formerly Tax Commissioner of the State of Wisconsin; and these seven will in turn choose representatives of business and agricultural interests to complete the Committee.

The Committee is already assured of hitherto unavailable data of a sort that should make it possible to publish a preliminary report of findings well within twelve months of the date of beginning its investigations.

The Committee is now seeking preliminary pledges of financial support. It estimates that the minimum sum required for its purposes will be \$10,000, and that effective use can be made of added amounts up to a total of \$25,000. It makes its appeal for support, not only to business men, manufacturers and employers, but to all others who believe that sound national progress along industrial and social lines must be founded upon a definite knowledge of those basic and vital facts which concern themselves with the income and welfare of the individual.

The Committee has no conclusions or theories to advance and assumes no obligation to any subscriber other than to make and publish its determinations of fact. This freedom of action and impartiality of attitude is an essential element in the undertaking, and for this reason the Committee is seeking widely distributed support rather than large contributions from individual sources.

No call for the payment of subscriptions will be made until the sum of \$10,000 has been pledged, and a formal organization has been effected.

June 4, 1917

The reader will note that \$10,000 was considered sufficient to launch the undertaking, although there was a pious wish for as much as \$25,000, less than the National Bureau now spends in one month.

Although the committee was organized to study the distribution of income, we had thought of Business Cycles as the second project. Rorty was greatly impressed by and enthusiastic about Professor Mitchell's *Business Cycles* which had recently been published.

Shortly after this memorandum was written, Rorty joined the General Staff of the Army. When later in the year I saw him in Washington in the uniform of a Lieutenant Colonel, he told me he was about to sail for France, but that the new organiza-

tion for the study of National Income was foremost in his mind as the unfinished business to be taken up as soon as the war was over.

It was several months after the end of World War I before Colonel Rorty was able to resume his efforts on behalf of the project. With the Committee of Economists who were to constitute the first Board of Directors fully organized, he went energetically about raising the necessary funds. By the end of the year he had completed the task single-handed. On December 29, 1919 advantage was taken of the presence of a majority of the Board of Directors—Adams, Commons, Mitchell, Stone, and Young—at the Annual Meeting of the American Economic Association in Chicago to hold a meeting at which the By-laws of the National Bureau of Economic Research were adopted. Rorty acted as Secretary, and the National Bureau of Economic Research was formally launched.

On May 17, 1920 the staff met for the first time with Wesley C. Mitchell as Director of Research.

I have told the story of the origin of the National Bureau from its conception in the mind of its founder to its birth. I leave to the Director of Research the account of its growth from its early beginnings to its present state.

N. I. STONE

Chairman of the Board

February 20, 1945