POLITICAL ARITHMETIC
National Bureau of Economic Research

OFFICERS
Kathleen B. Cooper, Chairman
Martin B. Zimmerman, Vice Chairman
James M. Poterba, President and Chief Executive Officer
Robert Mednick, Treasurer
Kelly Horak, Controller and Assistant Corporate Secretary
Alterra Milone, Corporate Secretary
Gerardine Johnson, Assistant Corporate Secretary

DIRECTORS AT LARGE
Peter C. Aldrich
Elizabeth E. Bailey
John H. Biggs
John S. Clarksen
Don R. Conlan
Kathleen B. Cooper
Charles H. Dallara
George C. Eads
Jessica P. Einhorn
Mohamed El-Erian
Linda Ewing
Jacob A. Frenkel
Judith M. Gueron
Karen N. Horn
Robert S. Hamada
Peter Blair Henry
John Lipsky
Laurence H. Meyer
Michael H. Moskow
Alicia H. Munnell
Robert T. Parry
James M. Poterba
John S. Reed
Marina v. N. Whitman
Martin B. Zimmerman

DIRECTORS BY UNIVERSITY APPOINTMENT
George Akerlof, California, Berkeley
Jagdish Bhagwati, Columbia
Timothy Bresnahan, Stanford
Alan V. Deardorff, Michigan
Ray C. Fair, Yale
Franklin Fisher, Massachusetts Institute of Technology
Edward Foster, Minnesota
John P. Gould, Chicago
Mark Grinblatt, California, Los Angeles
Bruce Hansen, Wisconsin–Madison
Marjorie B. McElroy, Duke
Joel Mokyr, Northwestern
Andrew Postlewaite, Pennsylvania
Uwe E. Reinhardt, Princeton
David B. Yoffe, Harvard

DIRECTORS BY APPOINTMENT OF OTHER ORGANIZATIONS
Bart van Ark, The Conference Board
Christopher Carroll, American Statistical Association
Jean-Paul Chavas, Agricultural and Applied Economics Association
Martin Gruber, American Finance Association
Ellen L. Hughes-Cromwick, National Association for Business Economics
Thea Lee, American Federation of Labor and Congress of Industrial Organizations
William W. Lewis, Committee for Economic Development
Robert Mednick, American Institute of Certified Public Accountants
Alan L. Olmstead, Economic History Association
Peter L. Rousseau, American Economic Association
Gregor W. Smith, Canadian Economics Association

DIRECTORS EMERITI
Glen G. Cain
Carl F. Christ
George Hatsopoulos
Saul H. Hymans
Lawrence R. Klein
Rudolph A. Oswald
Peter G. Peterson
Nathan Rosenberg
John J. Siegfried
Craig Swan
Relation of the Directors to the Work and Publications of the National Bureau of Economic Research

1. The object of the NBER is to ascertain and present to the economics profession, and to the public more generally, important economic facts and their interpretation in a scientific manner without policy recommendations. The Board of Directors is charged with the responsibility of ensuring that the work of the NBER is carried on in strict conformity with this object.

2. The President shall establish an internal review process to ensure that book manuscripts proposed for publication DO NOT contain policy recommendations. This shall apply both to the proceedings of conferences and to manuscripts by a single author or by one or more co-authors but shall not apply to authors of comments at NBER conferences who are not NBER affiliates.

3. No book manuscript reporting research shall be published by the NBER until the President has sent to each member of the Board a notice that a manuscript is recommended for publication and that in the President’s opinion it is suitable for publication in accordance with the above principles of the NBER. Such notification will include a table of contents and an abstract or summary of the manuscript’s content, a list of contributors if applicable, and a response form for use by Directors who desire a copy of the manuscript for review. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied and the main conclusions reached.

4. No volume shall be published until forty-five days have elapsed from the above notification of intention to publish it. During this period a copy shall be sent to any Director requesting it, and if any Director objects to publication on the grounds that the manuscript contains policy recommendations, the objection will be presented to the author(s) or editor(s). In case of dispute, all members of the Board shall be notified, and the President shall appoint an ad hoc committee of the Board to decide the matter; thirty days additional shall be granted for this purpose.

5. The President shall present annually to the Board a report describing the internal manuscript review process, any objections made by Directors before publication or by anyone after publication, any disputes about such matters, and how they were handled.

6. Publications of the NBER issued for informational purposes concerning the work of the Bureau, or issued to inform the public of the activities at the Bureau, including but not limited to the NBER Digest and Reporter, shall be consistent with the object stated in paragraph 1. They shall contain a specific disclaimer noting that they have not passed through the review procedures required in this resolution. The Executive Committee of the Board is charged with the review of all such publications from time to time.

7. NBER working papers and manuscripts distributed on the Bureau’s web site are not deemed to be publications for the purpose of this resolution, but they shall be consistent with the object stated in paragraph 1. Working papers shall contain a specific disclaimer noting that they have not passed through the review procedures required in this resolution. The NBER’s web site shall contain a similar disclaimer. The President shall establish an internal review process to ensure that the working papers and the web site do not contain policy recommendations, and shall report annually to the Board on this process and any concerns raised in connection with it.

8. Unless otherwise determined by the Board or exempted by the terms of paragraphs 6 and 7, a copy of this resolution shall be printed in each NBER publication as described in paragraph 2 above.
Winner of the 1993 Nobel Prize for Economics, Robert William Fogel is the Charles R. Walgreen Distinguished Service Professor of American Institutions at the Booth School of Business, director of the Center for Population Economics, and a member of the Department of Economics and of the Committee on Social Thought at the University of Chicago. He is also a research associate of the National Bureau of Economic Research. Enid M. Fogel was associate dean of students at the Booth School of Business. Mark Guglielmo is assistant professor of economics at Bentley University. Nathaniel Grotte is associate director of the Center for Population Economics.

The University of Chicago Press, Chicago 60637
The University of Chicago Press, Ltd., London
© 2013 by The University of Chicago
All rights reserved. Published 2013.
Printed in the United States of America


Library of Congress Cataloging-in-Publication Data
Fogel, Robert William.
      pages ; cm. — (NBER series on long-term factors in economic development)
   Includes bibliographical references and index.
   HC110.IS564 2013
   339.3'2 — dc23
   2012031749

© This paper meets the requirements of ANSI/NISO Z39.48-1992 (Permanence of Paper).
Contents

PREFACE xi

Introduction: The Amazing Twentieth Century 1

1 The Rise of Academic Economists before World War I 10

2 The Early History of the NBER 21

3 The Emergence of National Income Accounting as a Tool of Economic Policy 49

4 The Use of National Income Accounting to Study Comparative Economic Growth 65

5 The Scientific Methods of Simon Kuznets 89

6 Further Aspects of the Legacy of Simon Kuznets 106

7 The Quarter Century since the Death of Simon Kuznets 115

ACKNOWLEDGMENTS 119

REFERENCES 121

INDEX 135
To Penelope Enid Anderegg and Maximillian Thor Pietraszewski, 
great-grandchildren of Enid and Bob
This book is about the scientific work of Simon Kuznets and his impact on economics as a discipline. Kuznets was the winner of the third Nobel Prize in economics, which he received in 1971 for his work on comparative economic growth. He was also an exceptionally inspiring teacher who influenced the research and teaching of some of the best economists in economics and demography.

The book begins with a view of the great accomplishments of the twentieth century. Chapter 1 offers a history of the development of economics as an academic discipline prior to World War I. Chapter 2 describes the establishment of the NBER as an objective collector and analyzer of economic data that would be useful to policymakers. Chapter 3 describes the development of national income accounting at the NBER as a major tool for analyzing and assessing the performance of the economy and for guiding government interventions. It also describes the leading role played by Kuznets in demonstrating the power of this tool as a successful guide to the allocation of available resources between military needs and the civilian economy during World War II. Chapter 4 deals with Kuznets’s use of national income accounting to analyze the factors accounting for the differences in the rate of growth among nations, the specific work for which he was awarded the Nobel Prize. Chapter 5 reviews Kuznets’s scientific methods. Chapter 6 examines the continuing impact of Kuznets’s research and his influence on economics. Chapter 7 considers the global economy in the quarter century after Kuznets’s death with forecasts of the nature and future of both the domestic and the global economies.
Kuznets is introduced early in the introduction, then recedes into the background until chapter 3. To lighten that drought, we address now a question often put to us: What was Kuznets like as a person? To Robert Fogel, he was a beloved teacher who took a fatherly interest in both the intellectual and the personal aspects of his students’ lives. That interest did not end after those students completed their graduate work and were off teaching somewhere on their own. Kuznets encouraged them to keep in touch and come visit him at home whenever they were in town.

“And so we did,” said Fogel. Enid and Bob, with children in tow, often visited Simon either at his office or his home. After bouncing each of the boys on his knee and talking with them for a bit, he would settle back in his chair and ask, “So, Mr. Fogel, what have you been working on lately?” He listened to the answer carefully, sometimes probing for more detail, occasionally offering suggestions.

Kuznets had many students, all of whom wanted his help after they were launched on their own careers. When Fogel asked Simon to give a paper at his workshop in Chicago, Simon said, “You don’t need me.” But, when a less successful student issued the same invitation, Kuznets accepted without hesitation.

One day shortly after Simon’s death, Fogel was at Kuznets’s home, helping organize his papers for deposit at the Harvard Library. “Simon,” his widow, Edith, said, “was modestly immodest.” By that, she meant he was immodest in his desire to identify and measure the driving forces of economic growth but modest about his capacity to do so. He was always more focused on what he still had to learn than on what he already knew.

Born in Pinsk, Russia, on April 30, 1901, Kuznets received his education in primary school and gymnasium in Kharkov. He served briefly as a section head in the bureau of labor statistics of the Ukraine before emigrating to the United States in 1922. He entered Columbia University, where he received his B.A. in 1923, his M.A. in 1924, and his Ph.D. in 1926. His principal teacher at Columbia, and his lifelong mentor, was Wesley Clair Mitchell, a founder of the NBER and its director of research from 1920 to 1946.

Kuznets was a member of the research staff of the NBER from 1927 to 1961. It is there that he met Edith Handler. They were married in
1929 and had two children, Paul and Judith. Kuznets also held professional appointments in economics and statistics at the University of Pennsylvania (1930–54) and in economics at Johns Hopkins University (1954–60) and Harvard University (1960–71). During 1932–34, he served in the Department of Commerce, where he constructed the first official estimates of U.S. national income and laid the basis for the National Income Section. During World War II, he served as the associate director of the Bureau of Planning and Statistics of the War Production Board. He was instrumental in establishing the Conference on Research in Income and Wealth (which brought together government officials and academic economists engaged in the development of the U.S. national income and product accounts) in 1936 and helped establish its international counterpart, the International Association for Research in Income and Wealth, in 1947. He served as an adviser to the governments of China, Japan, India, Korea, Taiwan, and Israel in the establishment of their national systems of economic information.

Despite his extensive activities in the design of government programs of economic intelligence and his work in consulting with such private agencies as the Growth Center of Yale University and the Social Science Research Council, Kuznets was a prolific analyst of economic processes and institutions. During the course of his career, he produced thirty-one books and over two hundred papers, many of which set off major new streams of research. Among the fields in which he pioneered, in addition to national income accounting, were the study of seasonal, cyclic, and secular fluctuations in economic activity; the impact of population change on economic activity; the study of the nature and causes of modern economic growth based on the measurement of national aggregate statistics; the household distribution of income and its trends in the United States and other countries; the measurement and analysis of the role of capital in economic growth; the impact of ideology and other institutional factors on economic growth; changing patterns in consumption and in the use of time; and methods of economic and statistical analysis. Kuznets’s intellectual contributions were acknowledged by his colleagues in many ways, including his election as president of the American Statistical Association in 1949 and of the American Economic Association in 1954.