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CHAPTER 1

SUMMARY OF THE STAFF REPORT

The general objective of the Wealth Inventory Planning Study has been to analyze the problems and possibilities of a comprehensive inventory of national wealth, and to prepare guidelines for the collection of needed data and the estimation of wealth by significant categories. The major problems of a wealth inventory with which the staff has been concerned, and its tentative findings, will be previewed in this summary chapter.

The main purpose of the staff report has been to provide a consistent conceptual framework and general statistical guidelines for the subsequent detailed work of designing asset schedules for the various sectors. As stressed by the Advisory Committee in its foreword, it will be more practical, efficient, and economical to incorporate the wealth schedules into the existing reporting programs than to attempt a comprehensive one-time survey or census of wealth. This suggested approach will require coordination within our decentralized Federal statistical system, and the guidelines developed here should be of substantial help in that task.

The final chapter of the report contains a recapitulation of the general guidelines, and recommendations regarding the reporting vehicles which would be appropriate for collection of the required wealth data from the various sectors and industry groups of the economy. The summaries in this chapter are purposely brief, and do not contain the detailed reasoning behind the conclusions reached, nor the qualifications which must often be attached to them. The specialist or technician will wish to consult the rest of the report, and its appendixes, for full discussions of the many issues involved. We have not attempted to summarize the specific recommendation made by the various sector working groups, including recommendations for pilot studies and feasibility tests in certain sectors, which are contained in appendix II, parts A through O.

Scope of a Wealth Inventory (Chapter 2)

Broadly defined, the wealth of a nation consists of all resources which contribute to the production of goods and services that men want. As a practical matter, the Wealth Study has confined itself to nonhuman, tangible resources, and financial claims. The major types of tangible wealth are land and other natural resources, buildings and other structures, machinery and equipment, inventories, and manmade nonreproducible goods. They have been considered in terms of major sectors of ownership and/or use: Households, business (by industry groups), private nonprofit institutions, and governments. Regardless of type of asset or sector of ownership, the distinguishing characteristic

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of all wealth and the source of its value, is its capacity to contribute directly or indirectly to the production of goods and services, and thus to income, over future periods.

USES OF WEALTH ESTIMATES (CHAPTER 2)

Many important analytical uses can be envisioned for reasonably comprehensive and detailed national estimates of tangible wealth, by industry, and of complete balance sheets, by sector. Such estimates do not now exist on a continuing basis, although considerable use has already been made of occasional sets of estimates made for past periods, and of partial estimates currently available.

In economic analysis, the chief uses are for studies of demand, and of supply capabilities. Economists are placing increased importance on holdings of assets, both real and financial, as an element influencing the demand for final products by both consumers and producers. Productive potentials obviously depend on the quantity and quality of tangible resources. The changing relationship between output and real capital stocks is an important aspect of the study of changes in productive efficiency, or productivity, in the various industries of the economy.

Many other more specific uses are detailed in chapter 2, and some of these are highlighted in the Advisory Committee's statement. Certainly, study of past trends and relationships is a prerequisite for projections into the future on alternative assumptions, and thus for the formulation of policies designed to achieve the economic objectives of the community. Many economists feel that improvement of tangible wealth or stock estimates as an extension of the continuing national income accounts is the single most important step that needs to be taken to deepen their understanding of the functioning of the economy.

EXPERIENCE WITH WEALTH INVENTORIES AND ESTIMATES (CHAPTER 3)

Eight so-called censuses of wealth were taken in the United States from 1850 through 1922. The early censuses were largely based on the assessed values of all taxable real and personal property, blown up by estimated ratios of market to assessed values. The resulting estimates for taxable real estate were relatively reliable, but the personal property estimates were ambiguous as to coverage and little detail could be presented nationally by type of property. The later censuses, and some private studies in the 1930's, supplemented the assessment data by book value data from industry censuses and other sources. Unfortunately, valuations were not consistent, detail was still limited, and the estimates suffered from the lack of a social accounting framework to provide a more meaningful structuring of the estimates.

After World War II, several academic economists, notably Profs. Simon Kuznets and Raymond Goldsmith, prepared estimates of national wealth, in current and constant dollars, going back to the 19th century. The perpetual inventory method was introduced, which involves the cumulation of real net investment estimates, and their reflation to current prices. The same method is used by the Office of Business Economics for estimates of fixed reproducibles in a few major sectors. Because of possible progressive biases in cumulated net in-

vestment, the need for a comprehensive and reasonably detailed basic inventory of tangible wealth as a benchmark for the wealth estimates is recognized by all who have worked in this field.

Professor Goldsmith has also published two studies which provide balance sheets, by major sectors and types of financial assets and liabilities, through 1958. The Federal Reserve Board publishes partial balance sheets on a current basis. These, too, would benefit from improved basic data.

Wealth Inventories Abroad (Chapter 3)

Wealth estimates on a one-time or occasional basis, similar to those available for the United States, have been made in a number of other countries. Two countries, the Soviet Union and Japan, have conducted a wealth census and survey, respectively, that merit study as background for expanded wealth data collections here. The Soviet census covered all fixed reproducible assets in great detail, since its purpose was to provide consistent valuations and to improve balance sheets and cost accounts of establishments, as well as to provide a better statistical basis for national economic planning by industry and enterprise. Such a detailed census would not seem necessary in a predominatly market-oriented economy, where the wealth estimates would be used in analyses as background for decentralized decision-making.

More can be learned from the Japanese wealth survey of 1955 (later extended to 1960). Important features of the Japanese survey were the use of an national accounts framework; sampling, by sector; considerable type of asset detail; and consistent application of current valuations. Capital goods price data were inadequate, however, for reliable revaluations.

The Design of Wealth Inventories and Estimates (Chapter 4)

There is no question but what wealth estimates are of greater value when they are tied into the national income and product accounts to facilitate analysis of economic interrelationships. Thus, the design of the accounts with respect to sectors or industries and types of assets, affects the structure of wealth estimates and the design of the underlying collections of data.

Estimates of tangible wealth, by industry, should be distinguished from estimates of total assets as part of sector and national balance sheets, although both tie into the basic income and product accounts. Tangible wealth estimates, by industry, are primarily useful for analysis of the production function, and of productivity. For these purposes, data should be collected from establishments (as distinguished from companies, in the case of multiestablishment firms). The "Standard Industrial Classification Manual" furnishes the appropriate framework for industry classifications of establishments, since it is followed both by the data-collecting agencies and by the Office of Business Economics (with a few adjustments) in preparation of estimates of national income and product, by industry, and of inter-industry relationship tables. Because of their increasing importance, leased capital goods should be allocated to the industries of use, although basic data would have to be collected by industry of ownership.

In addition to the capital asset values, it would be useful to collect physical-unit data for those important asset classes which are composed of homogeneous units. If adequate questionnaires can be designed, it would also enhance the usefulness of asset-value data to collect respondent estimates of the associated capacity output (see app. I, pt. G).

With respect to types of tangible assets, data should be collected and estimates presented for at least major types, consistent with the new investment categories used in the gross national product estimates. But for small subsamples of firms, much greater detail should be obtained, not only for its intrinsic interest, but also (in conjunction with age data) as a basis for revaluation of book values, discussed below.

Much wealth data is now available on a county basis. Preparation of estimates at least by States and major standard metropolitan areas for the benchmark year seems feasible, and desirable for purposes of regional analysis.

THE DESIGN OF NATIONAL BALANCE SHEETS (CHAPTER 5)

Balance sheets for the various decisionmaking sectors of the economy are useful for financial analysis. These can be combined into a national balance sheet, or consolidated to show national net worth, consisting of tangible assets and net foreign claims. The Federal Reserve Board partial sector balance sheets show financial assets and liabilities, but not the value of tangibles and net worth. This underscores the need for expanding the collection of data on tangible assets. The tie-in between sector flow of funds (changes in financial assets and liabilities), balance sheets, and the national income accounts lies in deconsolidation for the same sectors of the saving-investment account. The difference between sector saving and tangible investment is net financial investment, as explained in chapter 5 and appendix I, part F. The FRB estimates and the OBE national income accounts have not yet been coordinated along these lines, however.

With regard to the FRB sectoring, there is need for better data to make possible more homogeneous and detailed sector estimates. For example, adequate data would permit personal trust funds and private nonprofit organizations to be shifted out of the household sector. Perhaps the most useful additional detail would be provided by breaking down the nonfinancial business sector into broad industry groups to permit analysis of differences among industries in financial structure and behavior. In this context, industries are composed of entire companies. A useful link between Internal Revenue Service company data and census establishment data has been provided by the Census Bureau as part of the 1958 enterprise statistics program.

Somewhat more detailed data on types of financial assets and liabilities would also be desirable. The additional data would most expediently be obtained for the inventory year by additions to existing IRS tax forms. Separate reporting of foreign claims on the forms is required for the rest-of-world account.

VALUATION—GENERAL APPROACHES (CHAPTER 6)

Asset data must be collected from firms and other organizations in terms of book values, which generally reflect original or acquisition cost. Because of changes in prices and changes or differences in de-

preciation practices, book value data are not comparable among industries. It is generally agreed that market values or approximations thereto are more meaningful for economic analysis, since market values reflect the present value of the expected net income from the use of the assets, which in the case of new reproducibles, equals production costs plus markups of sellers.

Markets for many secondhand durables are not extensive enough, however, to permit the respondent to give a fair estimate of current value along with data on book values. Consequently, the estimating agency is confronted with the problem of using book-value data together with relevant collateral data in order to estimate market values, or approximations of market. The same valuation principle is used in the national income and product accounts.

If direct estimates of market are not feasible, estimates may be attempted from the demand and supply sides alone. By the former approach, the expected future net income from the use of the asset may be projected, and discounted to the present. By the supply approach, gross and net (depreciated) replacement cost can be estimated in the case of fixed reproducible goods (see below). If appropriate price indexes and depreciation curves can be obtained, then depreciated replacement cost will be a good proxy for market price. Other approaches are discussed in chapter 6 and in some cases, current values can and should be estimated by more than one approach.

VALUATION—MAJOR CLASSES OF ASSETS (CHAPTER 7)

Every effort should be made to extend as far as practicable the collection of estimates of market values by owners or appraisers or the application by the collection agency of market prices or unit values, where available, to physical-unit data. For much of the fixed reproducibles, however, gross and (depreciated) replacement cost will have to be estimated by the statistical agency. This requires, in the first instance, basic data on acquisition cost by type of asset by year or period of acquisition as noted above. Capital goods price indexes would also need to be supplemented to some extent, and more studies made of the service lives and depreciation patterns of durable goods.

Requirements are much less burdensome for improving estimates of inventories at market prices. In the farm sector there are already virtually complete data on physical units and prices of crop and livestock inventories. The reflation of book values by OBE could be improved by obtaining more information for the benchmark year as to types of inventories and inventory accounting methods of respondents in nonfarm industries.

Manmade nonreproducible goods, such as paintings and other art objects, are an interesting special case. Markets for these and most other collectors' items are generally active enough that owners or appraisers could produce fair estimates of market values, although further exploration of problems and possibilities in this field are needed. The category does not command high priority in a national wealth inventory, however.

Natural resources also pose special problems as nonreproducible assets, and their value is great enough to justify considerable effort to collect adequate data. Owner estimates, valuations by appraisal

boards for certain types of public resources, and the discounting of projected net income, are all avenues that have been used and could be expanded. Annual price indexes are badly needed for nonfarmland and other natural resources with active markets, such as oil reserves, in order to extrapolate the estimates from the inventory year. Better physical volume data would be useful.

With respect to financial claims, markets exist for many types of instruments. In the case of short-term claims, where they do not, book values are generally good approximations to market values. For longer term nonmarketable claims, market value estimates could be constructed by methods outlined in chapter 7 and appendix II, part O.

THE FEDERAL STATISTICAL SYSTEM (CHAPTER 8)

Since the Federal Government has traditionally performed the function of collecting data and preparing estimates of general interest, expansion of work in the field of wealth data and estimates would fall largely on the Federal statistical agencies. A review of the Federal statistical system in chapter 8 indicates several practical features that must be built into a possible wealth inventory, and sets the stage for a review of wealth data availabilities and requirements by sector.

The Federal statistical system is decentralized. There are "general purpose" statistical agencies which collect, compile, and publish statistics in various fields for general use; there are administrative and regulatory agencies that collect data mainly as a byproduct of their primary responsibilities; and there are analytic and research agencies that prepare composite estimates and analyses using statistics collected by the first two types of agencies. The Office of Statistical Standards in the Budget Bureau provides coordination and leadership in working toward an integrated and adequate system of Government statistics.

Some of the reporting programs are on an annual basis. But the key Census Bureau economic census programs are on a 5-year cycle, while the population and housing censuses are taken decennially. A few areas of the economy are not now covered by any systematic reporting program. The existing reports differ widely with respect to the amount of wealth data collected.

Three conclusions may be drawn from the review of the Federal statistical system: (1) It will be more practical to graft additional questions on wealth onto the existing reporting systems for the various economic sectors than to conduct a comprehensive one-time survey; (2) this approach will necessitate the active leadership of the Office of Statistical Standards, possibly through an interagency wealth committee, in starting the necessary preparatory work and carrying forward the work of this study in providing guidelines for the various participating agencies in order to achieve consistency of method and result; (3) the active cooperation of the wealth-estimating agencies, primarily the OBE and FRB, will be needed in refining the guidelines, and advising with the Office of Statistical Standards and the data-collection agencies as to data required for reasonably accurate wealth estimates, within a national economic accounting framework.

REVIEW AND EVALUATION OF WEALTH DATA (CHAPTERS 9, 10, 11)

Here we recapitulate the summaries of the sector group reports, which comprise chapters 9, 10, and 11, within the framework of an appraisal of the relative adequacy of wealth data for the various sectors.

FINANCIAL CLAIMS

In general, data on financial assets and liabilities are more comprehensive in coverage than data on tangible wealth. This statement is predicated on the assumption that surveys of financial characteristics of families such as that conducted by the Federal Reserve Board in 1963, will continue to be made periodically for the household sector (which holds almost half of total financial assets). In fact, it is to be hoped that for the inventory year the sample can be expanded significantly, using the 1970 decennial census records as a universe for the selection of the sample housing units.

Adequate data are generally available for the public sector, on a recurring basis, from the Treasury Bulletin and the Census of Governments. Only four major classes of assets are shown for State and local units in the latter source, however, and somewhat greater detail would be required in the inventory year.

In the business sector, the chief source of information is the Internal Revenue Service which tabulates balance sheets from income tax returns of corporations and partnerships at the three-digit SIC level, and publishes summaries for two-digit industries. Since less than half the partnerships file balance sheets with IRS, the regulations requiring all partnerships to file balance sheets should be enforced for the inventory year, as well as requiring somewhat more detail from all firms.

No balance sheet data are collected for sole proprietorships. This means that financial claims data are relatively least adequate in those sectors in which proprietorships predominate, such as agriculture, real estate, and services. It is suggested that the required data be obtained through the household survey.

Portions of the nonprofit institutions sector are not covered with respect to both tangible and financial assets. Some of these can be covered by enforcing, for the inventory year, the requirements that they report balance sheets to IRS. Others could be covered by expansion of census or private association programs.

In addition to financial items, IRS balance sheets also contain data for tangible assets—land, depreciable, and depletable assets, and inventories. But since balance sheets perforce relate to industries-of-companies, they cannot be looked to as sources of data for tangibles for use in production function analysis except, perhaps, in those several industries in which single-establishment firms predominate. Given the existence of establishment as well as company surveys, periodic work along the lines of the IRS-Census link project would make it possible to use the more detailed establishment data for analysis, revaluation and possible allocations of the company data.

TANGIBLE ASSETS

There are some major gaps and deficiencies in tangible asset data for all major sectors. Stated briefly with respect to coverage, data are extensive for the Federal Government (except for personal property) but seriously lacking for State and local governments. In the household sector, data are obtained for houses and some major durables, but are largely lacking for other types of goods. Some major classes of private nonprofit institutions are not covered. In the business sector, coverage is good for some industry groups such as the regulated or supervised industries, agriculture, and manufacturing; for other industry groups, coverage is largely lacking, as for construction, mining, real estate, and parts of the service industries. For a few industries, there is not even an existing reporting program into which asset schedules could be tied. For example, the Census Bureau has not covered construction and some major categories of the service industries since the 1930's, and resumption of surveys is indicated.

Even in the industries for which reporting coverage is good, there is much variation with respect to the degree of detail in which the asset data are obtained. Several dozen property accounts (by type) are maintained for the regulated industries; some detail is gotten for major types of real property and equipment in agriculture, and extensive detail is available on farm inventories. For the enterprises in minerals, manufacturing, trade and service industries covered by the Census enterprise statistics, the book values of tangible assets are obtained only for the several major categories. Clearly, considerable asset detail will have to be obtained for all industries, not only for its intrinsic interest but also for revaluation purposes. In this connection, it must be emphasized that in almost all cases, data on the age-distribution of assets, by types, will have to be obtained in the inventory year at least for small samples of establishments in the industry detail recommended.

The agencies and reporting programs which appear to be logical vehicles for the wealth inventories are detailed in the final section of the guidelines set forth in chapter 12, and will not be repeated here. In general, expansion of the existing reporting programs and a few new programs are recommended.

SUMMARY GUIDELINES (CHAPTER 12)

In addition to recommending specific reporting programs for the various sectors, chapter 12 contains a recapitulation of the general guidelines developed in the body of the staff report. Many of these have been implied in this summary, and the reader wishing to see them in systematic form may consult the concluding chapter. The formulation of the guidelines has been an important part of the Wealth Study. They will serve as a basis for the blueprinting of consistent wealth questionnaires and reporting instructions by the various Federal statistical agencies that will be involved if the wealth inventory becomes a reality. The guidelines, as refined by further discussion in the Government, will also be helpful to those agencies which will be responsible for the final wealth estimates.