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CHAPTER 12

SUMMARY GUIDELINES

In its "Foreword" to this report, the Advisory Committee to the Wealth Inventory Planning Study has called attention to the existence of serious gaps in the basic data on both tangible wealth and financial claims, as documented in chapters 8 through 11. It has underscored the general advances in economic understanding and various specific uses that would flow from more comprehensive and detailed data and estimates of wealth, drawing from the discussion in chapter 1 and appendix I, part A.

The Committee has gone on to call for improvement and expansion in the collection of wealth data by the appropriate Federal statistical agencies as a basis for more adequate estimates of tangible wealth, by industry, and of national balance sheets, by sector. Recognizing that this report could not, and was not designed to, blueprint asset schedules to add to existing statistical programs, the Advisory Committee has suggested certain further procedural and substantive steps within the Federal statistical establishment to make this possible, if the necessary congressional support is obtained. In particular, leadership by the Office of Statistical Standards in the Budget Bureau will be needed to mobilize and coordinate planning efforts of the various Federal statistical agencies concerned.

Although not definitive, we believe that the staff report does provide a consistent and integrated framework for approaching most of the main conceptual and statistical problems posed by the processes of wealth data collection and estimation. When suggested solutions are not sufficiently specified, they will at least serve as a point of departure for further discussion and exploration within the various data-collecting and estimating agencies.

As an aid to further work, in this concluding chapter we provide an outline summary of: (A) general guidelines with respect to (1) tangible wealth data and estimates, (2) balance sheet data and estimates, and (3) the valuation of both tangible and financial assets; and (B) a summary of the agencies and reporting programs which appear to be logical vehicles for the wealth inventories in the various sector and industry groups of the economy. This is in line with the Advisory Committee recommendation that the wealth data be collected as far as possible by utilization of existing programs. Insofar as the general guidelines may not apply to particular sectors, the reader must go to the sector working group reports for specific recommendations, which we have not attempted to summarize other than by implication in chapters 9 through 11.

GENERAL GUIDELINES

This section summarizes the discussion in the report in terms of general guidelines for treatment of the major conceptual and statistical problems met in collecting wealth data and preparing wealth and balance sheet estimates. These may, of course, be modified in the course of the further planning work in the Federal statistical establishment.

1. *Tangible wealth data and estimates.*—To be complete, tangible wealth estimates should include both reproducibles and nonreproducibles. Because of special difficulties in estimating values of the latter category which comprises land, depletable natural resources, and collections of manmade nonreproducibles (such as art), top priority should be given to completing plans for collection of data on the reproducibles while advancing study of the special problems posed by nonreproducibles.

(a) Wealth data should be collected for each industry on an establishment basis wherever feasible, in general conformity with the "Standard Industrial Classification Manual" and thus with the OBE industry groupings. While not ideal, this is the best practicable approach for most purposes of tangible wealth analysis.

    i. If the SIC manual of 1957 as amended is to be reviewed and revised, this should be done, if possible, prior to the beginning of the wealth inventory cycle. This in line with the recommendation of the Technical Committee on Standard Industrial Classification to the Bureau of the Budget for a revision approximately every 10 years. Changes appear necessary, for example, in the agricultural services industries, and in the classification of leasing companies. Because of the overriding value of temporal continuity in economic data, however, changes should be made only when essential, and so as to preserve continuity at the highest possible level of detail.

    ii. Across-the-board wealth data, when collected on an establishment basis should be coded and tabulated in four-digit industry detail. OBE estimates are generally published in no more than 2 digit industry detail, but consideration should be given by OBE to three-digit detail for the benchmark year, since the efficiency of users in handling large bodies of statistics has increased greatly in recent years. Wealth data and estimates for governments should be classified in terms of the functional classes developed by the Bureau of the Budget, as well as by agency.

(b) In the basic data collections or surveys, data should be obtained for the broad classes of wealth: land and other natural resources; buildings and other structures; machinery and equipment; and inventories; and within each of these by such major categories as tests indicate can be obtained across the board. These categories should be consistent with the categories of new investment contained in the national product.

(c) For small samples in each industry, data on structures and equipment stocks should be gotten in extensive detail, and by year or period of acquisition, for use in developing estimates of de-

preciated replacement cost, as well as for analytical interest in the age-structure of capital stocks, by type. Pilot studies will be needed to determine the sorts of basic equipment records and property accounts maintained for establishments. Seven-digit census commodity-classification detail in important and clearly defined types of equipment may serve as a point of departure for discussion between agency and industry representatives in developing classification lists and codes for use by respondents in reporting stocks, if the pilot studies prove this feasible.

(*d*) We note the recommendations of certain working groups who, in order to study specific functions across the economy as well as in given industries, wish to have all industries report on their holdings of the following types of equipment: transportation, communications, construction, water processing, sewage treatment, and power generating.

(*e*) Geographical detail for the establishment data should be published for States and major SMSA's. In addition, when data are identified on a county basis, they should be preserved in such geographic detail on tapes or in basic records for those who wish to use them for analysis, or as a basis for allocating broader data to narrower regional groupings. When sample surveys are used, they should be designed where possible to provide estimates for States and the larger SMSA's.

(*f*) Data on assets must be collected from owners, but we recommend that such data also be published on an industry of use basis by reallocating the estimated value of leased assets to the user industry, for purposes of capital-output analysis. To accomplish this, data on rentals paid, by at least broad types of assets, should be obtained from users, while rentals recieved and the corresponding value of assets by the same types, should be reported by owners.

2. *Structure of the national balance sheets.*—The OBE and the Division of Research and Statistics of the FRB should jointly review the structure of an integrated set of national and sector appropriation and saving-investment accounts, and the related balance sheets. These agencies should then recommend to the Office of Statistical Standards the sector and item specification for basic data collections. In the meantime, the following guidelines emerged from Wealth Study discussion.

(*a*) *Sectoring of financial data.*—A number of changes and elaborations of the sectoring used in the Federal Reserve Board's flow of funds accounts and partial balance sheets appear desirable, as the availability of the required data permit, during the estimation phase of the wealth inventory.

i. In the household sector (consumers and nonprofit organizations), personal trust funds and private nonprofit organizations should be shifted out, and separate estimates provided for the farm household subsector. Consideration should also be given to distinguishing other subsectors, as by asset-size class, at least on an occasional basis.

ii. In the nonfinancial business sector, subsectors for broad industry groups (of companies) should be established to permit analysis of differences in financial patterns. For the

most part, breaks by two-digit SIC industries or combinations thereof would be sufficient. (See exhibit C in app. II, pt. O.)

iii. In the financial business sector, some additional subsectoring would be desirable, in view of the concentration of financial assets in this area. The suggested breaks come largely in the finance company subsector. The subsector for personal trusts would be added.

iv. A sector for nonprofit institutions should be added, and consideration given to providing subsectors for hospitals; educational institutions; museums, art galleries, and gardens; nonprofit membership organizations; charitable foundations; and charities supported by the public.

v. In both the Federal, and State and local governments sectors, corporations, and other government enterprises should be shown separately by major industry groupings. State and local governments should be split into separate sectors.

(b) *Asset types.*—Further detail on the various types of financial claims is desirable, above that which is currently available in the FRB flow of funds. The objectives of such detail are to provide data on all important types of claims and to minimize the size of the "all other" category. While some detail is generally applicable to the economy as a whole, claims categories must be tailored to suit particular sectors whenever necessary.

i. Cash should be separated from demand deposits to provide a clean total for the latter.

ii. Other noncurrent assets, deferred charges, and prepayments should be shown separately.

iii. Greater detail on short-term liabilities is required.

iv. Claims between parent companies and their nonconsolidated domestic subsidiaries, foreign branches, subsidiaries and affiliates, and other foreigners should be shown separately.

v. All claims should be broken down into the following maturity classes to permit analysis of liquidity: original maturity or due dates of 1 year or less, and claims with maturities of more than 1 year.

(c) *Company versus establishment detail.*—For purposes of revaluing the tangible assets of industries of companies, the Census-IRS "link project" should be continued on a recurring basis. By tabulating Census data for matched corporations, classified by IRS industries, but distributed by four-digit Census industries, the link tables make possible more detailed and accurate revaluation of company-industry aggregates by appropriate weighting of the reflators developed for the more detailed industry-of-establishments data.

3. *Valuation.*—Asset data should be collected in terms of actual or estimated market values where feasible, in addition to the usually available book values, plus related data which will make it possible for the estimating agency to develop approximations to market values. The market value approach is consistent with valuations used in the national income and product accounts. It is necessary as a basis **for**

meaningful comparisons among sectors, regions, and nations (when adjusted for differences in the purchasing power of currencies), and for historical comparisons of tangible wealth (when current values are deflated to common base-period prices). The problems in applying the general principle differ among the major asset categories.

(a) *Depreciable assets.*—Estimates of both gross replacement value and net replacement or market value should be prepared, if feasible. Gross values are believed to be more closely associated with output; net values, with capital compensation. For some assets with active secondhand markets, such as houses, automobiles, and selected consumer durables, agricultural equipment, and a few other producers durables, respondents should be asked for estimated market value and/or the estimating agency can apply average prices to physical units by age classes. For the other assets, gross book values by sector and industry should be broken down into asset types, by year or period of acquisition, based on small-sample distributions, unless broader data are available. Each period's surviving acquisitions should then be revalued by appropriate composite length-of-life data and depreciation curves. These indirect procedures call for improvement in the associated data required for such estimation.

i. Capital goods price indexes need to be improved and broadened in coverage for purposes of revaluation and deflation. The machinery and equipment prices in the BLS wholesale price index need to supplemented in the areas showing low coverage such as special industry machinery (see app. I, pt. J, table 1), where these are not available from other sources (as in the case of much transportation equipment). Further thought and effort needs to be devoted to improving the construction cost indexes now used by OBE for deflating the various types of new construction activity, with particular regard to modifying those that do not now reflect changes in productivity in the construction industry. Where new capital goods prices indexes are developed, attempts should be made to extend these back in time for at least several years.

ii. Additional data should be collected on lengths of life of depreciable assets. This could be accomplished in connection with the sample industry surveys of period of acquisition of surviving assets if data on previous periods' capital outlays by the same classes were also collected. Or special surveys of discards, by type of asset, by age, in the prior year could be conducted. For some types of equipment, such as automobiles, trucks, tractors, and selected equipment in the regulated industries, existing physical unit data by age classes in conjunction with prior year's acquisitions permit computation of survival curves.

iii. Further studies of the type made by the Machinery and Allied Products Institute are needed of the patterns of depreciation as durable goods age. Collection and assembly of data on used equipment prices by type, by age, where organized markets exist are the basis for such studies. Due to the lack of organized markets for many types of durables, imputation of depreciation curves is inevitable.

iv. If collection of gross book-value data by period of acquisition proves not to be feasible in some industries, past capital outlay data can be used to construct rough age distributions of current book value for purposes of revaluation. This suggests the desirability of improving capital expenditure data with particular regard to obtaining more detail by industry and type for certain sectors.

(b) *Inventories.*—In order to revalue more precisely the reported book values of inventories, the Census and other agency sources of basic data should obtain additional information from a small sample of respondents on type of accounting method used, particularly with respect to the use of LIFO-type methods; and additional detail on the product composition of inventories, where significant, particularly at the purchased materials stage.

(c) *Land and natural resources.*—In general, private owners of land and other natural resources should be asked to estimate their current market values. For public lands not now estimated at market value, regional appraisal boards should be set up to establish "shadow prices" using general guidelines formulated to insure comparability of method. Procedures would be similar to those now used to estimate the current values of over four-fifths of the Federal public lands (public domain and donated lands)—reference to sales prices of similar private lands, capitalization of projected net income, and appraisals. It would be very useful in extending estimates, and for revaluations, to have official price indexes for major types of nonagricultural land by regions. Nothing exists in this area now except price indexes for major types of agricultural land, by region, which are used widely.

(d) *Financial assets.*—In general, financial assets for which there are markets should be revalued. This is particularly important for long-term assets, while little distortion would be introduced by carrying short-term assets at book. Alternative total asset valuations for private firms should be estimated by adding to the financial liabilities (at book) the market value of equity. The difference between the going-concern value of firms and the sum of the values of component assets would be shown separately on national and sector balance sheets. The comparative levels and fluctuations in these differences may have considerable significance in economic analysis. (See app. I, pt. H.)

(e) *Revaluations.*—Estimates of changes in valuation (including depreciation) of sector and national balance sheet items should be calculated from one date to another, since new investment and revaluation together account for the total change in assets. Between benchmark wealth inventories, the cumulation of new investment plus revaluations would be the chief approach to estimating yearend balance sheets. This underscores the need for improving the price indexes of both capital goods and other assets, and the gross capital outlay and the depreciation estimates, mentioned above.

Sector Recommendations

The following agencies and reporting programs appear to be logical vehicles for the wealth inventories in the various sectors and industry groups of the economy. Brief notes are given to indicate major features of the reporting programs required to obtain the necessary data, and new reporting programs or extensions of the existing ones which seem to be required for areas presently uncovered.

One general point, which does not stand out in the summaries, should be made here. Internal Revenue Service records will serve two important purposes. One is as the source of "universe" mailing lists for industries not now covered by reporting programs. Second, the IRS tax returns will provide the benchmark or control totals for a large part of the small-establishment universe. These are the totals which would serve as the bases to be adjusted by the results of the sample surveys obtaining the more detailed distributions referred to above.

The following notes are brief since the general guidelines of section (A) will apply. The reader may consult the sector working group reports for detailed discussions and recommendations.

1. Federal Government

The General Services Administration should inventory all tangible assets of the Federal Government, at least on a one-time basis for some major types, thus augmenting its current program for real property. The Treasury should continue its collection of data on the financial claims of the Federal Government, domestic and foreign, and broaden its coverage of short-term liabilities. The Departments of Agriculture and Interior should continue to have primary responsibility for developing data on federally owned natural resources.

2. State and local government

In those areas not currently covered by the Census Bureau or other agencies, such as the Office of Education and the Bureau of Public Roads, the Census Bureau's census of governments should be expanded to cover tangibles as well as financial items. The direction of the expansion rests heavily on badly needed pilot studies to determine the data on reproducible tangibles and natural resources available from State and local government records.

3. Households

Samples of households drawn from the 1970 Census of Housing, conducted by the Census Bureau should be used to obtain data on the major classes of household assets. Data on farm households could be collected along with those on farms generally in the census of agriculture. The survey should include financial assets of sole proprietors (to be broken out later where business assets can be clearly identified) and householders' foreign claims, to the extent that data on foreign income reported to the Internal Revenue Service cannot be used.

4. Agriculture

The Census Bureau's quinquennial census of agriculture is the appropriate vehicle for tangible asset data, with current extensions provided by the Department of Agriculture's crop reporter estimates and other sample surveys. It is recommended that in the 1969 census the inventory of farm machinery and equipment be expanded (with

possible farmer estimates of value), acreage and value-per-acre data to be gotten by type of land, all data by size-class of farm, and the census extended to cover agricultural services. The Agriculture Department's "Balance Sheet of Agriculture" should be coordinated with the national income and product framework.

5. *Financial claims, domestic and foreign, of nonfarm corporations and partnerships*

Either through a special balance sheet for the year selected for the financial claims census or through additions to existing forms, the IRS should conduct a balance sheet inventory, obtaining beginning- and end-of-year totals. Data on the flows associated with foreign claims for the inventory year should also be obtained to provide data for the balance of payments. The direct investment surveys of the Balance of Payments Division of the Office of Business Economics should be continued. A special survey is needed to cover claims of foreigners which are in the form of unregistered securities or securities held in the names of domestic nominees.

6. *Forestry*

The basic data needed to estimate the value of timber resources can be obtained by expanding the data collected in the periodic survey conducted by the U.S. Forest Service of the Department of Agriculture.

7. *Fisheries*

For commercial fisheries, data on assets are being obtained by the Census Bureau for the Bureau of Commercial Fisheries for the first time in 1964; this program should be continued. The Department of Interior's Bureau of Sports Fisheries and Wildlife, in cooperation with State fish and game agencies, should conduct studies of hunting and fishing to determine a basis for valuing fish and wildlife and the data needed to accomplish the valuation.

8. *Mining*

The various censuses of mineral industries conducted by the Bureau should be used to obtain required data on privately owned mineral resources and the tangible reproducibles separably and inseparably associated with them.

9. *Construction*

Collection of needed information on contract construction should be accomplished as part of a census of construction which should be resumed. This proposed Census Bureau program should provide data related to both wealth and flows. Together with similar information on noncontract construction and construction-related activities, collected with data from the various industries in which these activities occur, a census would provide an urgently needed, comprehensive picture of construction in the U.S. economy.

10. *Manufacturing*

The data collection framework used by the Census Bureau in the census of manufactures, the annual survey of manufactures, and enterprise statistics is appropriate for the collection of data on manufacturing wealth, on an establishment basis for manufacturing facilities, and on a company basis for manufacturers' central offices, auxiliaries, and other nonmanufacturing establishments.

11. *Transportation*

The major sources of wealth data on the transportation sector should continue to be the annual reports filed with Federal regulatory agencies. However, where there is no regulatory responsibility there often is no statistical coverage. Each major element of transportation is reviewed below and statistical gaps are pointed out. In general, extension of coverage should be provided through new Census Bureau programs.

(*a*) Each business unit within railroad transportation reports to the Interstate Commerce Commission.

(*b*) Highway passenger carriers are covered in part by the ICC and the census of transportation surveys. Taxicabs, school-buses, and service facilities related to highway passenger transportation are not covered. The same holds true for local transit companies, other than bus companies.

(*c*) Most elements of motor freight transport and public ware-housing report to the ICC or the Census Bureau's business or transportation censuses. Missing segments to be covered include service facilities relating to highway freight carriage.

(*d*) Water transportation and related services are covered only in part by ICC, Federal Maritime Commission, and Maritime Administration programs. Major gaps that must be filled exist in connection with deep-sea and inland carriers; also local water transportation and services ashore.

(*e*) Most of the air carriers are covered through Civil Aeronautics Board reporting.

(*f*) The ICC receives reports from most oil pipeline companies. No reports are filed by the comparatively few intrastate pipelines, which should be required to do so for 1 year.

(*g*) Private carlines report to the ICC as do some freight forwarders. Other forwarders report to CAB. Some forwarders are not regulated by either agency and must be covered. Stock-yard operators file data with the Department of Agriculture. No statistical program exists for the five remaining transportation services industries. Each is relatively unimportant, but thought should be given to possible coverage, possibly by the census of business.

12. *Communications and public utilities*

The great bulk of the communications and public utilities industries should continue to report on the forms filed with regulatory agencies, and in some cases, trade associations. These are reviewed below. To achieve total coverage of an industry may require the use of reports filed with more than one organization; however, reports are generally compatible. Provision will have to be made for industries not covered by any reporting vehicle. In general, the wealth data reported to regulatory agencies are relatively good.

(*a*) Communications industries will continue to be covered by the Federal Communications Commission, State regulatory agencies, and the United States Independent Telephone Association. Not reporting to any of these are "relay" broadcasters who might be required to report to the FCC in the inventory year. Coverage must also be provided for a few not-elsewhere-classified communications firms.

(*b*) Electric utilities are substantially covered by the Federal Power Commission and the Rural Electrification Administration.

(*c*) Nearly total coverage of the gas industry is achieved by the American Gas Association statistical program. More detailed information on gas companies is found in reports to the FPC and the various State regulatory agencies.

(*d*) Four-fifths of the States require reports from water utilities and provision should be made to assemble these in the inventory years. The Public Health Service receives periodic reports from water and sewerage companies; no wealth-related data are now collected but could be required for the key year. Irrigation systems are covered by every other census of agriculture.

(*e*) No reporting vehicle exists for refuse companies, certain not-elsewhere-classified sanitary service firms, and steam supply companies. Thought must be given to their possible coverage.

13. Trade

The quinquennial census of business is the logical data collection vehicle for the retail and wholesale trade sectors. The scope of the current questionnaire will need to be broadened considerably at least on a sample basis to cover all large firms and a representative selection of smaller ones, since very limited data on wealth are now collected through this Census Bureau program.

14. Finance, insurance, and real estate

An early evaluation of the usefulness of Internal Revenue Service data derived from tax returns is required in connection with estimating wealth in this sector. Other statistical programs cover most of the banking and insurance industries, but these account for the minor part of the sector's tangible wealth. The present IRS program could be supplemented to cover the real estate industries. The other industries are covered by the programs of the Federal Reserve Board, Federal Deposit Insurance Corporation, the Treasury Department (for banking) ; Federal Home Loan Bank Board, Farm Credit Administration, Bureau of Federal Credit Unions (HEW) (for other credit institutions) ; and the Commodity Exchange Authority (USDA) and Securities and Exchange Commission (for most brokers). The scope of information on tangibles will have to be extended somewhat for the inventory year. Coverage of the insurance industries is provided through the reports required by State insurance commissions, which could be supplemented and assembled (possibly through the insurance associations) for the inventory year.

15. Services

The many gaps in existing data for the service industries should be covered by the IRS to the extent possible. The Office of Education and American Hospital Association should expand and/or initiate data-collection efforts in their areas. The Census Bureau should resume its census of religious bodies and assume responsibility for overall coordination of the entire sector. The Foundation Library Center, United Community Funds and Councils of America, and the American Museum Association should be looked to if IRS data prove inadequate in these areas.

This partial summary of the sector working group recommendations from appendix section II again underscores two basic points made earlier: (1) the need for further work in developing and testing wealth-data collection plans by the various statistical agencies named here; and (2) the need for leadership and coordination in this endeavor by the Office of Statistical Standards, with advice from those agencies charged with responsibility for preparation of comprehensive wealth estimates for the United States.