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APPENDIX II: PART N
REPORT OF THE WORKING GROUP ON SERVICE
INDUSTRIES WEALTH

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PREFACE

The Working Group on Wealth in the Service Industries was formed as part of the Wealth Inventory Planning Study. Its purpose has been to analyze the problems connected with, and prepare proposals for, the improvement of basic data and estimates required for a comprehensive inventory of the tangible wealth of the service industries—profit and nonprofit.

The working group met on September 24 and November 11, 1963. Some members prepared memorandums on the existing data in sectors with which they are especially familiar. These memorandums were presented at the meetings and incorporated in the final report.

The working group wishes to thank John W. Kendrick of the Wealth Study staff and Robert W. Schiedel of the Census Bureau for their suggestions and comments made at the meetings they attended.

While this report is the responsibility of the secretary, every attempt has been made to present the consensus of working group opinion. However, no member should be held responsible for all the views and recommendations contained in the report.

JOEL POPKIN.

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THE SERVICE INDUSTRIES

I. INTRODUCTION

SCOPE

The scope of the sector assigned to the Working Group on Wealth in the Service Industries encompasses the following major groups, as defined in the 1957 "Standard Industrial Classification Manual" and its 1958 and 1963 revisions:

- 70 Hotels, rooming houses, camps, and other lodging places.
- 72 Personal services.
- 73 Miscellaneous business services.
- 75 Automobile repair, automobile services and garages.
- 76 Miscellaneous repair services.
- 78 Motion pictures.
- 79 Amusement and recreation services, except motion pictures.
- 80 Medical and other health services.
- 81 Legal services.
- 82 Education services.
- 84 Museums, art galleries, botanical, and zoological gardens.
- 86 Nonprofit membership organizations.
- 89 Miscellaneous services.

These thirteen 2-digit industries, plus major group 88, private households, which has been excluded from coverage here, comprise the services division, as defined in the SIC. The exclusion of major group 88 is based on the fact that it covers the services of domestic servants in private households. Since the tangible assets used to produce these services are largely owned by the household sector, they will be included in the scope of the Working Group on the Wealth of Households.

Certain service industries have important counterparts in the public sector. Examples are hospitals, educational services, and museums. Where provided by the Federal Government, these services are included in SIC 9180, 9182, and 9184, respectively; by State governments, in SIC 9280, 9282, and 9284; local governments, in SIC 9380, 9382, and 9384. The Working Group on Federal Government Wealth, and State and Local Government Wealth, have primary responsibility for these publicly provided services.

The services sector, as defined above, is a grouping of heterogeneous subsectors, data for which are sparse, incomplete, and collected by a number of different agencies—private and public. These data will be discussed in section II of the report.

USES AND NEED FOR WEALTH DATA

There are many analytical uses for wealth data. These uses are elaborated in the report of the Wealth Inventory Planning Study staff. Aside from these uses, there are several reasons why a wealth inventory is particularly important for the sector covered by this working group.

There is very little information on the services sector, particularly in the nonprofit area. The emphasis on, and growth of, educational institutions, the rising importance of research and other activities supported by foundations, and the overall increase in the importance of services, which is characteristic of well-developed, mature economies, create the need for more data in these areas.

Estimates of the gross book value, at historical cost, of the tangible assets of the various service sectors appear and are discussed (including data sources and the methodology used in making the estimates) in section II of this report. Estimates for the profitmaking service industries, religious bodies, nongovernmental hospitals, and private higher educational institutions are firm enough to be of some use in gauging the tangible wealth of the sector as a whole. These data, for either 1959 or 1960, totaled \$56 billion. This total compares with \$53 billion for the reproducible fixed assets of the Federal Government excluding the Department of Defense, as of June 30, 1962. This \$56 billion figure is, also, about 51 percent of the \$110 billion gross book value of depreciable and depletable assets of manufacturers as of December 31, 1957. It should be remembered that the tangibles of museums, libraries, charitable foundations and organizations, and non-public elementary and secondary schools and junior colleges cannot now be estimated satisfactorily and therefore have not been included in this estimate for the service industries.

While the need for wealth and other data in the service industries is unequivocal, great obstacles, unique to this area, exist, which compound the difficulty of collecting such information. The service industries comprise a large number of small organizational units. The staffs of these organizations are usually small and are unable to devote much time to recordkeeping and providing information, such as that which would be needed for wealth estimates. In addition many of the organizations included here are tax exempt and are not required to keep extensive records for tax purposes.

In the face of these difficulties it is apparent that wealth data collected for the sector cannot be as detailed as those for other sectors where data are better. Accordingly, in the recommendations of the working group, found in section IV of this report, priorities have been set for the data objectives. While not all of the data objectives can be attained in time for the first wealth estimates (around the end of this decade), the working group feels that important first steps can, and should, be taken, thus laying the foundation for continued improvement and strengthening of the data in subsequent years.

II. REVIEW OF EXISTING DATA

Since the sectors grouped together under the services division described in section I differ widely, it is convenient to regroup them in order to achieve a more consistent subsectoring. The regrouping which follows will serve as the framework for the remainder of this report:

(1) Private profitmaking service organizations—SIC 70 (except 704, organization hotels and lodgings on membership basis), 72, 73, 75, 76, 78, 79. (except 7947, golf clubs and country clubs with closed membership), 80 (except

hospitals, 806), 81, 824, 89 (except 892, nonprofit educational and scientific research agencies);

(2) Hospitals—SIC 806, broken down into private voluntary and proprietary hospitals;

(3) Private educational institutions including libraries—SIC 82 (except 824 which is composed of profitmaking correspondent and vocational schools, but including nonprofit educational and scientific research agencies—SIC 8921);

(4) Museums, art galleries, botanical and zoological gardens, not publicly owned—SIC 84;

(5) Labor unions and similar labor organizations—SIC 8631;

(6) Religious organizations—SIC 8661;

(7) Charitable organizations—SIC 8671; and

(8) Miscellaneous nonprofit membership organizations not elsewhere classified—business (SIC 8611), professional (SIC 8621), and political (SIC 8651) membership organizations, civic, social, and fraternal organizations (SIC 8641), organization hotels and lodgings on a membership basis (SIC 704), golf clubs and country clubs with closed membership (SIC 7947), and nonprofit membership organizations not elsewhere classified (SIC 8699).

This framework creates a distinction, important for analytical purposes, between profit and nonprofit organizations. Item (1), above, and proprietary hospitals comprise the former; items (3) through (8) and private voluntary hospitals constitute the latter.

THE PRIVATE PROFITMAKING SERVICE SECTOR

The Internal Revenue Service tabulates data from a sample of all firms which file income tax returns. These tabulations are presented in industry detail roughly similar to that of the standard industrial classification. IRS detail is different for each legal form of organization, since, for example, industry breaks important to the description of the corporate sector are likely to be different from those important to the partnership sector.

For the 1959-60 tax year, IRS received a total of 2,250,198 returns from firms which it classified in the service industry, a classification with a composition similar to that outlined above for the private, profitmaking, service sector. Of the total number of firms filing these returns, 5 percent were corporations, 7 percent partnerships, and 88 percent sole proprietorships. The 2.3 million returns received by the IRS for 1959-60 compare with 975,000 establishments covered in the services section of the 1958 Census of Business. This significant difference is due to several factors. First, Census covers services classified in division 7 industries, IRS, divisions 7 and 8; this difference accounts for 67 percent of the excess of IRS service firms over Census establishments. Second, IRS figures cover the year ending June 30, 1960, while the Census figure is based on 1958. Third, Census excluded roominghouses (SIC 702), while IRS includes them. On the other hand, Census, which covers establishments, should show a higher total than IRS whose basic reporting units are tax-filing organizations which could be multiestablishment. However, in 1958, the Census found that 95 percent of the service establishments canvassed were operated by single establishment companies.

While IRS coverage is virtually exhaustive, actual balance sheet data were available only for corporations and 50 percent of partnerships for the 1959-60 tax year. Those 50 percent of partnerships reporting balance sheet data accounted for 71 percent of the total receipts of all partnerships in the services industry. The only asset data on

sole proprietorships are those collected in schedule C, "Profit (or Loss) From Business or Profession," part of the individual income tax form. A section of this schedule—C-1—requests data on the cost and date of acquisition of assets for which depreciation is being claimed. IRS has not tabulated this information. Inventory data, requested in this schedule, are tabulated.

Table 1 presents estimates of gross tangible assets, including inventories and land for profitmaking service industries. These estimates are based on information from tax returns filed with the Internal Revenue Service for fiscal years ending from July 1, 1959, through June 30, 1960. Since 50 percent of partnerships and all sole proprietorships do not file balance sheets, the missing gross book value data had to be estimated. The methods used are described in footnotes to table 1.

TABLE 1.—Gross fixed assets, inventories, and land at book values of profitmaking service industry firms with tax years ending between July 1, 1959 and June 30, 1960

[Millions of dollars]

Category and rough SIC equivalent	Total gross fixed assets and land	Gross fixed assets			Land corporations and partnerships
		Corporations	Partnerships ¹	Sole proprietorships ²	
Hotels, etc. (70 ex 704).....	8,126	3,591	1,082	2,780	673
Personal services (72).....	4,117	1,427	662	1,910	118
Business services (73).....	3,541	2,388	282	800	71
Auto repair, renting, parking and miscellaneous repair services (75, 76).....	3,710	1,861	821	880	148
Motion pictures (78).....	1,804	1,620	.....	.....	184
Amusement and recreation (79).....	3,768	1,483	548	1,561	176
Medical (80).....	2,596	.....	381	2,200	15
Legal (81).....	960	.....	180	778	2
Other services (824, 829, and 89).....	1,867	587	186	1,046	48
Total.....	30,489	12,957	4,142	11,955	1,435
Inventories.....	* 1,405	.....	.....	.....	.....
Grand total.....	31,894	.....	.....	.....	.....

¹ The data for partnerships represent the universe and were obtained by inflating gross book value data for depreciable and depletable assets, for those partnerships reporting balance sheets, by the ratio of their receipts to total receipts for all partnerships in each 2-digit class.

² The figures for sole proprietorships were obtained by inflating the depreciation expense figure available, by the ratio of depreciation expense to gross fixed assets of partnerships filing balance sheets.

* Inventory estimates for the partnerships universe were obtained in the same manner as the gross book value totals described in footnote 1.

Source: IRS Statistics of Income.

Based on the application of these methods to tax data filed between July 1, 1959 and June 30, 1960, tangibles of profitmaking service industry firms totaled \$32 billion, valued at acquisition cost for reproducible and land, and reported value for inventories.

The IRS, also, collects some data on rents paid and rents received. The relevance of these data in estimating the value of leased assets is discussed in section III. The IRS totals for rents paid and received are not complete. Some firms consolidate rents paid in cost of goods sold; others report rents received together with business receipts.

The Census Bureau currently collects data on SIC's 70-79 (except for 702 and 704). The "service" trades within the scope of the census of business are hotels, motels, etc.; personal services; business services; repair services; motion pictures; and amusements; i.e., Major Groups

70 (except 702 and 704), 72, 73, 75, 76, 78, and 79. There are approximately 1 million service trade establishments within the census scope, with total receipts of about \$35 billion, an annual payroll of about \$10 billion, and paid employment of about 3 million persons. Of the 1 million firms, 81 percent are individual proprietorships, 10 percent, partnerships, and 9 percent, corporations. The census, which is conducted at 5-year intervals, makes a mail enumeration of all employers; data for nonemployers, however, are derived from a 50-percent sample of the business schedule (c) of the Federal individual income tax returns.

Census results are collected and, for the most part, are tabulated in terms of the individual establishment rather than on a "firm" or "company" basis. For the service trades, the data collected consist primarily of information for classifying the establishments by kind of business, form of organization, and location. The data include annual receipts, annual payroll, and payroll and employment in mid-November.

There is little information normally collected for the service trades which would appear to be directly useful in a census of wealth. Among the inquiries which do have some bearing on facilities or equipment are the following:

- (1) For auto and truck rental and leasing establishments:
 - (a) The number of vehicles at the close of the year by type of vehicle (i.e., trucks, truck tractors, etc.) and by type of rental or leasing arrangement.
 - (b) The number and dollar value, by type of vehicle, purchased, sold, and traded during the census year.
- (2) For laundry and cleaning establishments, the number of vehicles owned and the number leased.
- (3) For a number of trades (e.g., personal services, repair services, business services, amusement, and recreation services)—the number of coin-operated amusement machines, service machines, and vending machines operated.
- (4) For auto repair services—the number of gasoline pumps operated.
- (5) For hotels—the number of guest rooms; availability of certain facilities (e.g., swimming pool, golf course, etc.).
- (6) For motion picture theaters—seating (or car) capacity.

In connection with the 1958 census, a small sample survey was conducted to provide information on capital expenditures during the census year, with a breakdown into new structures and additions, new fixtures and equipment, and used structures, fixtures, and equipment. A similar survey is planned in connection with the 1963 census.

In the 1933 censuses form NC-K1, "Company Summary Form," will be sent to the approximately 10,000 firms which employ 250 or more persons. About 700 firms in the services sector (accounting for 21 percent of employment) will receive this form. They will report the gross (book) value and (net) depreciated value of depreciable and depletable assets, as of the beginning and end of 1963, for the company as a whole. In addition, the form calls for data on the components of change in gross book value during 1963—capital expenditures for plant and equipment, other acquired tangibles (due to mergers, etc.), depreciation and depletion charges, and assets sold or scrapped. Fi-

nally, a summary of total company assets will be requested, with a breakdown showing the net value of depreciable and depletable assets, all other domestic assets, and all foreign assets. Data on rental payments, shown separately for buildings and structures and machinery and equipment, will also be collected on the same form. The relevance of these rental data will be discussed in section III.

THE NONPROFIT SECTOR

IRS is a potential source of data for certain of the categories of nonprofit organizations, data availabilities for which will be discussed below. The Internal Revenue Code requires that annual income statements and balance sheets be filed by these organizations despite their tax-exempt status. The degree to which there is compliance with the code is not known. No tabulations of returns which have been filed have been made except for farm cooperatives. Nonprofit organizations exempted from filing are (1) religious organizations and certain affiliated organizations, (2) educational organizations maintaining regular facilities, (3) charities supported either by the general public or by the Federal Government or any political subdivision, and (4) fraternal organizations. All others must file annually one of the 990 series tax forms. Of all the tax-exempt organizations required to file annual returns for 1962, 276,000 returns were actually filed. IRS estimates that by 1980 it will have to process 581,000 such returns.

Where balance sheets are required, they provide for totals for depreciable and depletable assets, associated valuation reserves, and land.

The discussion which follows is mainly concerned with data, other than that of the IRS, which are available for the various categories of nonprofit organizations.

Private voluntary and proprietary hospitals

Hospital statistics are collected in an annual survey conducted by the American Hospital Association. The tabulations of the 1962 survey, the 17th in the series, appear in the August 1, 1963, issue of the Journal of the American Hospital Association. The survey covers registered hospitals which totaled 7,028 in 1962. Each hospital reports the total value of its plant which is defined as land, buildings, equipment, and reserves for construction, improvements, and replacement, less deductions for depreciation. Book cost is the basis of valuation. The total reported by the 4,613 hospitals privately operated in 1962 was \$7,650 million. This total included the tangible assets of both voluntary and proprietary hospitals, which accounted for 96 and 4 percent of the total, respectively.

It is understood that rough cost estimates for constructing new hospitals may be computed using \$20,000 per bed as a guide. On this basis, the gross replacement cost of the 557,047 privately operated beds would be \$11,141 million, compared with the \$7,650 million depreciated book value figure.

In the survey, data are obtained, also, on the intangibles of private hospitals, which were valued at \$2.9 billion at the end of 1962.

The Federal Government last collected data on hospitals as part of the 1935 Census of Business.

Private educational institutions including libraries and nonprofit educational and scientific research organizations

This section can be broken down into the following subsectors: (1) higher educational institutions, (2) nonchurch elementary and secondary schools, (3) church-operated secondary schools, (4) libraries, and (5) scientific research organizations.

The Office of Education of the Department of Health, Education, and Welfare has completed an exhaustive inventory of the facilities of higher educational institutions. The result of the survey are slated for publication under the title, "Inventory of College and University Physical Facilities, December 31, 1957," which will be part three of a five-part study, "College and University Facilities Survey." The survey forms the basis for a continuing inventory, building by building, of existing facilities at higher educational institutions. Responses to the survey were received from 85 percent of the higher educational institutions—public and private—in the United States and outlying areas which accounted for 96 percent of total enrollment in the fall of 1957. The data collected from the 1,664 respondents, covering 41,380 buildings, has been edited and coded for transfer to IBM cards. These data make possible the following breakdowns of buildings which are accompanied by their relevancy for wealth estimates:

1. Type of control (for sector of ownership detail);
2. Detail by State (for geographical detail);
3. Number of buildings by condition, function of assignable area, and size and capacity of various functional areas within each building;
4. Plant-fund investment (historical cost data);
5. Date of original occupancy and date of rehabilitation, if any (age distribution necessary for revaluation, and depreciation estimates);
6. Type of construction (for selection of appropriate price index for revaluation);
7. Estimated valuation (for comparison with derived current-day value estimates).

In another report, "Financial Statistics of Institutions of Higher Education," data are presented biennially on various financial magnitudes including the book value of plant and changes therein. The plant data are broken down into land, buildings (including fixed equipment), improvements other than buildings, and equipment. The total value of plant, for the 1,311 private institutions reporting these data for their 1960 fiscal yearend, was \$5.7 billion. The instructions for the valuation of these tangibles called for "cost (or appraised value at time of acquisition, if a gift) except that library books may be valued either at cost or at \$1 per volume or other reduced arbitrary value. The book value of service property (such as powerplant) and of properties used for auxiliary enterprises may reflect an allowance for depreciation, if replacement costs are to be met from reserve funds established for this purpose out of income."

The American Council on Education publishes "American Universities and Colleges" which presents selected data, including plant and endowment figures for those universities and colleges, some part of the total, which report this information.

The American Council on Education also publishes a register entitled "American Junior Colleges" which presents data on nearly 600 junior colleges. Valuation figures for buildings and grounds are given for some, but not all, schools.

A complete register of senior and junior colleges is found in the "Education Directory, Part 3," published annually by the Office of Education.

There are few data available on private elementary and secondary schools, church or nonchurch. The most comprehensive body of data available is a census, taken in spring 1962, of instructional rooms in school plants. These data are broken down by State, by completion date (before or after 1920), combustibility, and location—in permanent buildings, nonpermanent buildings or offsite facilities. The inventory, collected for civilian defense needs, includes data from 93 percent of the nonpublic schools which enroll an estimated 84 percent of nonpublic elementary and secondary school pupils.

The "College Blue Book" series, published privately every 3 years, contains a register of secondary schools and institutions of higher education. The data on plant and equipment value for institutes of higher education provide less detail than those published by the Office of Education. The series, however, does provide a list of junior colleges and private elementary and secondary schools—church and nonchurch—but no data are given which could be used for wealth estimates.

The "Porter Sargent Handbook" provides similar information for almost 1,000 private, church and nonchurch, elementary and secondary schools. Value of plant, endowment, number of dormitory rooms, laboratories, books in library, and classrooms are given for many schools.

The most complete listing of nonpublic secondary schools, including both independent and church-related schools, is the Office of Education's "Directory of Nonpublic Secondary Schools, 1960-61."

Another approach in the church area is to obtain data directly from various religious groups which sponsor schools. This approach was used in connection with the 1936 "Census of Religious Bodies." The questionnaire for the census asked for the value (original cost) of church-operated school facilities but the information apparently was not tabulated. It is understood that currently some religious bodies do have fairly extensive data assembled on their school systems. These data include figures on the dollar value of physical facilities.

Fire insurance valuation data, if broad enough in coverage, is another possible source of data for nonpublic elementary and secondary school systems.

Nonpublic museums, art galleries, botanical and zoological gardens

Fragmentary data exist on the tangibles of this group. They consist mainly of figures on square feet of total floor space broken down by major use, and information on new additions, including cost, cost per cubic foot and type of construction. These data were collected (but have not been tabulated), through a survey questionnaire sent to almost 6,000 museums, etc., in 1958. A little more than 3,000 responses, covering either 1959 or 1960, were received.

An annex to this report contains a report on the assessment of the possibilities for valuing the collections of the institutions in the "museum" group.

Labor unions and similar labor organizations

Labor unions and related pension funds have been required, since 1960, to submit asset data to the Office of Labor-Management Reports of the Department of Labor. For large labor unions (annual receipts of \$30,000 or more), a fixed asset schedule requires information on land by specific location, buildings by specific location, automotive equipment, office furniture and equipment, and other fixed assets. A column is provided for depreciation taken up to the reporting date. Currently, only total assets are summarized, but totals on the detail for 1962 will be available soon.

For pension funds, data on operated real estate are collected. In addition, the funds report "other fixed assets" which is composed mainly of plant and equipment items used in connection with operating the pension fund; the total of these assets presumably is quite small. The detail contained in the schedule was not tabulated for 1960. Tabulations of total fixed assets have been completed, however, and the detail for 1962 will be available shortly. The total assets—tangible and financial—of labor unions, for their 1960 fiscal yearends, amounted to \$700 million, of labor union pension funds, \$33 billion.

Business Week magazine, in its issue of June 4, 1960, published data taken from the forms filed with the Labor Department by 32 international unions which had filed by mid-May 1960. These unions accounted for about 40 percent of union membership at that time. They reported land and buildings of \$29 million and net assets of \$321 million. These figures lead to the conclusion that labor union pension funds have larger and more important holdings of tangibles than the unions themselves. These holdings would probably be in the category of operated real estate for which a separate line item, mentioned above, has been provided, though not yet tabulated.

Religious organizations

Data on the tangible wealth of religious bodies were formerly collected by the Census Bureau. Figures on the number and value (original cost) of religious edifices and parsonages and the associated debt were collected by sect for the years 1906, 1916, 1926, and 1936, after which enumeration was discontinued.

According to the census, the value of religious edifices and parsonages at the end of 1936 was \$3.7 billion. From 1937 through 1962, \$10.5 billion worth of construction, excluding regular church schools, was put in place.

Aside from data on construction put in place, there is currently no further information available on the tangibles of religious bodies. "The Yearbook of American Churches," published by the National Council of Churches of Christ in the United States, contains a presumably exhaustive list of religious bodies. This reference volume, published annually, could serve as a register for obtaining wealth data from religious bodies.

The business enterprises of religious organizations are presumably picked up when they fall into the scope of existing censuses, or are required to file tax returns with IRS.

Charitable organizations

Some data on the assets of this group of charities are found in "The Foundation Directory" compiled by the Foundation Library Center. These data are gathered from existing IRS records and through direct contact with some of the foundations. In the 1964 edition of the directory, total tangibles and intangibles of these foundations, based on records available in 1963, were \$14.5 billion, at a mixture of book and market values. The 1964 edition of the directory lists 6,007 foundations of the more than 15,000 which account for virtually all foundation assets. The asset total published in the 1964 directory is 26 percent higher than that published in the 1960 edition reflecting an increase in assets, the establishment of new foundations, and an increase in the coverage of the survey.

There are no centrally available data on charitable organizations primarily supported by the general public. These charities are required, generally, to submit data to local boards which conduct the contribution drives in each area. These local boards are usually members of the United Community Funds and Councils of America to which about 1,300 United Funds and Community Councils and 400 Community Health and Welfare Councils belong. It is estimated that there are about 35,000 agencies which seek support through one or more of the 1,700 councils. The United Community Funds and Councils of America has a suggested financial form which member councils can use in obtaining financial data from agencies requesting support. This form has separate line items for the following tangibles: Land, buildings, equipment, inventories, and miscellaneous.

A recent estimate by the National Conference of Christians and Jews put total assets—tangibles and intangibles—of charitable institutions, including churches, at \$53 billion. About half of this seems to be accounted for by the tangibles of religious bodies (1936 stock plus subsequent additions through 1962) and the total assets of foundations covered in "The Foundation Directory."

Miscellaneous nonprofit organizations not elsewhere classified

There are no data available for these organizations. In 1935 a census of "Nonprofit Organizations, Office Buildings and Miscellaneous" was part of the census of business. Among other sectors, the census covered trade and professional organizations, civic organizations, war veterans organizations, trade unions, golf and country clubs, and welfare and relief organizations. While no wealth data were collected, the Census Bureau obtained employment and payroll figures for 43,330 establishments and published them by State. These data were regarded as incomplete since there was no way to enforce responses. Subsequent to 1935 this part of the census of business was discontinued.

III. EVALUATION OF GROSS BOOK VALUE AND SUPPLEMENTARY DATA REQUIRED TO MAKE WEALTH ESTIMATES

GROSS BOOK VALUE DATA

The most important obstacle to the preparation of wealth estimates for the services sector is the lack of gross book value data for many subsectors. For the profitmaking subsector, gross book value figures

are currently lacking for about half of partnerships, which accounted for about 29 percent of total receipts in the 1959-60 tax year, and all of sole proprietorships. Coverage of the partnership sector can be increased if the IRS makes a special effort, in the year for which wealth estimates are to be made, to enforce the requirement that partnerships file information returns. For sole proprietors, gross book value could be obtained from a tabulation of the depreciation schedule (C-1) in the individual tax return. Land would have to be estimated, but is probably a relatively small item. Inventory data are available for all legal forms of organization.

In the nonprofit sector there are serious gaps in the gross book value data. These data are available and sufficient for higher educational institutions, hospitals, and labor unions and union pension and welfare funds. No organized bodies of data are available for nonpublic elementary and secondary schools, junior colleges, and charitable institutions, but directories and registers exist where the data, if reported, may be found. In most of these cases, however, tangibles and intangibles may be mingled, and the valuation bases are not explicit.

Another approach, as yet unexplored, to data on charitable foundations may be through the IRS, which subject to explicit regulations, requires the submission of balance sheets annually by certain tax-exempt foundations. It is understood that compliance with these regulations may not be widespread. No tabulations of existing data have been made. Data for nonpublic museums, art galleries, and botanical and zoological gardens are even sketchier than those on charitable foundations and private schools below the college level, but seem to be improving. The American Museum Association has expanded its collection of such data and has a register; IRS may be another avenue of approach. No data are available for religious bodies or miscellaneous nonprofit membership organizations, although some types of organizations in the latter group are required to file tax returns.

DETAIL ON GROSS BOOK VALUE DATA

The three basic types of detail desirable in the preparation of wealth estimates are detail by industry, by geographic area and by asset type.

Geographic and industry detail are a natural outgrowth of census and IRS data collection efforts. The Census Bureau publishes data by county and SMSA, in as much as four-digit detail for some industries. Data collection on an establishment basis facilitates more accurate industry detail. IRS, which covers relevant industries in both SIC 7 and 8, presents three-digit and some four-digit detail on an industry-of-companies (defined for tax reporting purposes) basis.

Because most firms in the profitmaking service sector are single-establishment companies—95.2 percent of those covered by census are in this category—IRS data distributed by industry should not be too different from those collected by census. For the same reason, IRS could provide regional data, for as many as 63 IRS districts with which tax forms are filed. With respect to both bodies of data there is one problem in industrial classification which merits mention. Some service trade establishments have a substantial portion of their tan-

gibles devoted to associated retailing operations. There is no inexpensive way of dealing with this problem and the current method, classification of establishments by primary activity, seems most feasible. Data on retail sales by major lines, collected in the 1963 Census of Business, may be of some help in eliminating this problem.

In the nonprofit area, industry detail, sufficient to be meaningful, would not be difficult to obtain as a byproduct of the collection of gross book value data. Any census would have to approach each of the major nonprofit areas separately, so industry detail would be given. On geographic detail, less information would be available, unless the establishment was the basic data unit. For schools, hospitals, libraries, museums, art galleries, botanical and zoological gardens, and most charitable foundations, the tangibles are probably located at the headquarters of the organization and there would be no problem in getting regional detail. But for organizations with establishments nationwide such as religious bodies; labor unions; certain charitable organizations such as the Salvation Army; civic, social, and fraternal organizations; and business, professional, and political membership organizations, this would not be true.

Asset-type detail is generally lacking. Where detail is available it is rarely greater than a breakdown into land, buildings and structures, machinery and equipment, and inventories. For institutions of higher education the detail is greater, with subtotals for different types of buildings and machinery and equipment. In the profitmaking industries, IRS balance sheets, when available, contain land, inventories, and depreciable assets. For proprietorships, the C-1 schedules could be analyzed to obtain greater detail for depreciable assets. For labor unions, the tangibles are broken down into land, buildings, automotive equipment, office furniture and equipment, and other fixed assets. For hospitals there is some physical volume data, such as number of beds, to augment the aggregate gross book value totals.

In summary, detail is much more readily available for some sectors than for others. The presentation of wealth estimates in detail increases the effort required by the responsible agency. Each additional item of detail compounds, multiplicatively, the number of data cells to be filled. In addition, where the information required to revalue gross book data (discussed below) is to be obtained on a sample basis, the sample size must be larger.

SUPPLEMENTARY DATA REQUIRED TO MAKE WEALTH ESTIMATES

Gross book value data have limited usefulness for analytical purposes because they reflect the influences of changes in the acquisition cost of tangible capital over time. For this reason many types of intertemporal or cross-sectional analyses of series on wealth cannot be accomplished. Adjustments for price changes in the underlying data are necessary in order to broaden the uses of the estimates. These adjustments can be made by applying appropriate price indexes to the gross book value data, arrayed by groups of year of acquisition. These price indexes can be based on any year, but if they are based on the most current year, the resulting estimates are those of replacement cost, and thus, are useful for additional analytical purposes.

To make these estimates, age distributions of tangible assets by type, and relevant price indexes for each type, are required. The age distribution, ideally, should be by year, but years could be grouped if other considerations so dictated. Asset-type classes should be narrow enough to permit the use of price indexes which are not overly gross. On the other hand, adequate price indexes would be required for each asset class.

As noted above, asset-type detail for the service industries is generally lacking. Sufficient age distributions are presently available only for higher educational institutions. The availability of price indexes cannot be evaluated without prior knowledge of the asset-type classes important in the service industries. The general topic of price indexes is treated in the Wealth Inventory Planning Study staff report. The lack of suitable construction cost price indexes for structures, and the unavailability of price indexes for certain types of capital equipment which are infrequently purchased throughout a year, are two major deficiencies which should be mentioned, however.

LEASED ASSETS

For many analytical purposes, the tangible capital used, rather than owned, by an industry is the relevant variable. The extent to which the two tangible capital measures differ varies from industry to industry. There are very few data on the extent of leasing in the services industry. Those which are available relate to the profitmaking services industries and are described in section II. Some additional insight into the extent of leasing can be gained by an analysis based on rent data reported to the IRS. Rental payments made by sole proprietorships, active partnerships, and active corporations, for their fiscal years ending between July 1, 1959, and June 30, 1960, totaled \$2.1 billion. If these are capitalized at 10 percent, the resulting figure—an estimate of the gross book value of leased capital—is \$21 billion. This is 70 percent of the estimated gross book value of land and fixed reproducible assets owned by the sector, as shown in table I. (The rental payment figure of \$2.1 billion does not include rental payments which respondents may have combined with "cost of goods sold" for income tax purposes.) The 70-percent figure compares with 13 percent for the manufacturing sector as of the end of 1957, computed in a similar way.

The seemingly substantial amount of assets leased by firms in the services industries does not seem high, intuitively. The sector is characterized by small-scale operations with limited access to capital, relative to its cost. Leasing is appealing under such conditions. The operations of many establishments, such as those of professional people, are too small to fill a structure of usual size. Accordingly, the rental of space in large office buildings is widespread.

Despite its importance, there is little information on which estimates of asset leasing can be made. Ideally, such data should consist of figures on rents paid, obtained from lessees, and figures on the gross book value of leased assets and the rent received for leasing them, obtained from lessors. These data should be arrayed by asset type. The rents received and gross book value data can be used to compute a capitalization rate for each asset type, and then this rate

can be applied to the rental payments. As currently collected, the IRS data on rents paid and received are inadequate for meaningful estimates of leased assets. The main deficiencies are (1) the incompleteness of the figures because some rental payments are combined in cost of goods sold, and some receipts, in total business receipts; and (2) rental data contain, in varying degrees, amounts paid for such items as maintenance of the leased property.

IV. RECOMMENDATIONS

The group urges that wealth estimates—at depreciated replacement cost or current market prices—be developed for the services sector as defined above. Because of the heterogeneity of the composition of the sector and the paucity of data in many subsectors, the group is aware of the ambitiousness of the goal. Accordingly, it has set priorities, which reflect its assessment of the relative importance of the various aspects of wealth estimates.

Top priority should be given to the preparation of a national total, broken down into two sectors—profit and nonprofit, by use and ownership. The second priority is for a breakdown of these two subtotals into asset-type categories which would show land, structures, equipment, and inventories separately. The third ranking objective is detail by industry to the greatest extent possible while maintaining the separation between the profit and nonprofit sectors. This detail could also yield breakdowns by legal form of organization at little or no additional cost. Fourth in importance is detail by region on a four- or nine-region basis. Fifth, and finally, a breakdown by asset size would be desirable for certain service industries.

In order to achieve the objectives set out in the first priority—national wealth totals, at replacement cost, gross and net of depreciation or current market—it will be necessary to obtain comprehensive gross book value data, price indexes covering the broad types of reproducible tangible assets found in the services industries, and information on the average ages and remaining useful lives of these tangibles. To obtain these required data, the following recommendations are made:

1. For those industries for which IRS collects data, the IRS data should be used where applicable to the greatest extent possible. A determination should be made of the extent to which IRS data can be made more useful in preparing wealth estimates by (a) tabulating data already collected (viz, schedule C-1 for sole proprietors), (b) obtaining balance sheets from a larger number of partnerships and nonprofit organizations, and (c) adding additional questions to tax forms. An alternative approach, to be explored if the former does not prove feasible, is to broaden the scope of the census of business to include profit-making industries in the SIC 8 classification and to add an inquiry on gross book value to the census questionnaire. Land and inventory figures, small relatively, could be estimated based on balance sheets filed with the IRS.

2. The Office of Education should obtain gross book value data on fixed assets from private elementary and secondary schools and junior colleges, thus extending the scope of the comprehensive data it has collected on higher educational institutions.

3. The American Association of Museums should be encouraged to extend the scope of its previous survey to obtain gross book value data on fixed assets for museums, art galleries, and botanical and zoological gardens.

4. The Census Bureau should resume its census of religious bodies in order to obtain gross book value data on their fixed assets but, for the purposes of wealth estimation, it is not necessary to tabulate or publish these data by religious sect, as was done previously.

5. There are two possible vehicles for obtaining gross book value data on the tangibles of charitable foundations—either (a) enforce the legislation requiring tax-exempt organizations to file annual balance sheets with IRS or, (b) obtain the cooperation of such organizations in submitting their balance sheets to the Foundation Library Center in conjunction with its publication of the Foundation Directory.

6. Obtain the assistance of the United Community Funds and Councils of America in obtaining balance sheets from charities supported by the general public through local campaign organizations which currently require such data of charities wishing to become beneficiaries of local drives.

7. The Census Bureau should obtain a register of nonprofit organizations not covered above, perhaps through social security employer identification numbers, and collect gross book values for the fixed assets of these organizations.

8. It is recommended that the Census Bureau have general overall responsibility in the planning and coordination of the efforts put forth by the public and nonpublic organizations just mentioned.

9. Land and inventory estimates should be made for the private, nonprofit sector, using available information to make extrapolations.

10. Data on the asset-type composition, for broad classes, of the reproducible tangibles of major sectors of the services industry, along with average ages and useful lives of these asset types, should be obtained on a small sample basis, for use in converting the gross book value data to gross and depreciated replacement cost estimates, as well as for their intrinsic interest.

Once the gross book value data have been collected, the next step is to recast the estimates for reproducible tangibles to replacement cost, both gross and net of depreciation, and to revalue land and inventories in accordance with the recommendations contained in the Wealth Inventory Planning Study staff report.

The revaluation of reproducible tangibles requires data on asset ages, prices and the depreciation curves which are appropriate. Since the estimates given top priority are broad aggregates, gross book value data by age (using appropriate intervals of years) for structures and facilities, and machinery and equipment, should be obtained from a sample of organizations in each major sector. These data can then be reflated using appropriate, though rather aggregative price indexes, to a gross replacement cost basis.

Through the use of data obtained in other sectors of the economy, depreciation curves could be constructed for both the structures and

facilities and machinery and equipment classes. With these curves and the age distribution collected on a sample basis, estimates of depreciation could be made, and depreciated replacement cost stock estimates, prepared. These data could then be added to the revalued land and inventory data to arrive at national totals at current values, shown separately for both the profit and nonprofit sectors, on both an ownership and use basis.

Second in order of priority in the opinion of the working group, is to firm up the asset-type detail. This would involve obtaining from respondents, on a census basis, a breakdown of their gross book value data into land, structures, equipment, and inventories. This step should improve the reliability of the underlying asset-type classes, data on which were to be collected on a sample basis only in preparing the estimates given first priority. These data would facilitate the collection of greater asset-type detail—perhaps machinery, office equipment, transportation equipment, office buildings, plants, etc.—on a sample basis.

Third priority is given to obtaining the greatest possible industry detail. The following detail is suggested as being useful for analytical purposes:

- (1) Three digit SIC detail for the profitmaking services sector;
- (2) Hospitals, broken down into voluntary and proprietary;
- (3) Four-digit SIC detail for educational services;
- (4) Three-digit SIC detail for museums, art galleries, botanical and zoological gardens;
- (5) Labor unions and similar labor organizations broken down into the unions themselves, and their pension funds;
- (6) Religious organizations, excluding their schools which will be shown inseparably as part of each relevant four-digit break under (3) above; and excluding their business enterprises which fall into the scope of existing business censuses.
- (7) Charitable organizations, broken down into those supported by certain individuals, i.e., foundations, and those supported by the general public;
- (8) Miscellaneous nonprofit membership organizations, not elsewhere classified, broken down into (a) business, (b) professional, and (c) political membership organizations, (d) civic, social and fraternal organizations, (e) organization hotels and lodging houses on a membership basis, (f) golf and country clubs with closed memberships and (g) nonprofit membership organizations, not elsewhere classified.

The presentation of wealth data in this detail presents no problem from the point of view of collecting gross book value data, since presumably each respondent could designate the appropriate industry. The agency preparing the wealth estimates would have the added task of coding and processing more data and, probably, would have to refine the reported classifications. The size of samples used to obtain asset-age data would have to be increased. An outgrowth of industry detail would be a breakdown by legal form of organization, which could be obtained at little additional cost.

Fourth priority is given to regional detail on either a four or nine region basis, depending on which is more feasible. Regional detail

may prove to be readily obtainable in some service industries which are characterized by single-establishment firms or organizations. In addition, it may prove feasible to impute greater regional detail for certain industries, for which finer breakdowns of other data, such as receipts, are obtainable from existing censuses.

Fifth, for some industries, it would be useful to have wealth data arrayed by asset-size classes. Preparation of these estimates would entail additional work in data processing, though not necessarily in data collection.

A final recommendation relates to leased assets. Figures on leased assets are necessary for analytical purposes requiring data on capital used. While the task of obtaining wealth estimates on an industry-of-use, as well as an industry-of-ownership, basis is great, some estimates of the former are required because of their importance in this sector. Pilot studies should be undertaken to assess, within the services industries, the relative importance of asset leasing in the various subsectors. Where important, leased assets should be estimated. Provision should be made to obtain the data required for these estimates—rents received and gross book value of leased assets, from lessors, and rents paid, from lessees, by appropriate asset-type breaks—on a sample basis, if necessary. The recommendation to construct estimates of leased assets applies to all the priorities discussed above.

ANNEX A

THE VALUATION OF MANMADE NONREPRODUCIBLE WEALTH

In some organizations within the services sector, notably museums and art galleries, manmade nonreproducible tangibles—art objects—comprise a greater proportion of total wealth than other tangibles. While art objects are owned by the household, public and business sectors, these holdings are not important relative to the total wealth of these sectors. Because of the significant allocation of resources by museums and art galleries and their patrons to obtain such wealth, the Working Group fell heir to the task of giving special attention to these assets. However, the Working Group as a whole did not feel qualified to pass judgment on the feasibility and merit of taking an inventory of art in monetary terms. Accordingly, it passed the responsibility for an exploratory investigation to Mrs. Carolyn Wells, member of the Working Group and assistant for special projects, American Association of Museums, and to John Kendrick and Joel Popkin of the Wealth Study staff. It was understood that the findings of the investigation, whatever they might be, would be annexed to the report of the Working Group.

The exhibits which appear in this annex represent the bulk of work that was done in eliciting information about the feasibility of such an inventory. A luncheon meeting was held to get the views of some individuals in the Washington area familiar with art and museum administration. The minutes of this meeting, prepared by Mrs. Wells, appear in exhibit A.

With the cooperation of Mrs. Wells and the American Association of Museums, a questionnaire on the feasibility of an inventory of art, drawn up by Messrs. Kendrick and Popkin, was sent to 35 museums. A copy of the questionnaire, together with a tabulation of the responses which were received from a total of 20, appears in exhibit B.

Mr. Richard H. Rush, noted as author of "Art as an Investment," was contacted and asked to comment on the possibilities of an inventory. His statement appears in exhibit C.

In addition, a general discussion of the problems, conceptual and practical, of valuing manmade nonreproducible assets is found in chapter VII of the wealth inventory staff report.

EXHIBIT A

REPORT TO THE WORKING GROUP ON WEALTH IN THE SERVICE INDUSTRIES ON A SPECIAL MEETING FOR THE MUSEUM FIELD

A luncheon meeting was held at the National Gallery of Art on November 12 to discuss the problems and possibilities of making a wealth inventory in the museum field. In addition to the staff director of the Wealth Inventory Planning Study, Professor Kendrick, and the secretary, Mr. Joel Popkin, the participants were: Miss Kathryn Bloom, Cultural Affairs Branch of the Office of Education; Carter Brown, assistant to the Director, National Gallery of Art; Mr. Paul Oehser, Editorial and Publications Division, Smithsonian Institution; Mr. Donelson Hoopes, curator, Corcoran Gallery of Art; and Mrs. Wells, American Association of Museums.

The basic problem in attempting to evaluate museum collections was immediately recognized: should cultural values be translated into monetary terms? The general reaction was that they should *not* be, because especially in the art field we are dealing with an area which cannot be reduced to this denominator. It was pointed out that this would apply also to churches and libraries. Museum collections consist mainly of *irreplaceables* whose value cannot be expressed in dollars.

Upon further discussion, it was, however, agreed that it would not be wise to leave museums entirely out of a national wealth inventory. Buildings and equipment would naturally be included; but if art, science, and history collections form a part of the Nation's wealth, then the information as to the monetary value of such collections should be accessible to the American public.

Assuming then that it might be desirable to evaluate museum collections, would it be possible? The following points were brought up:

1. Insurance policies would not offer a method of determining values. Museums generally do not insure their collections except when traveling; and seldom does the insurance coverage reflect to any degree the actual value.

2. Market values in art are constantly changing. If art museums could give out the cost to them of objects which were purchased in former years, the market price would have to be marked up tremendously over the cost because of the current situation; the great works of art in Europe can no longer be exported, for instance.

Auction prices by their very nature may be misleading and may not take into account questions of attribution and condition; on the other hand, it could be assumed that the bidders are knowledgeable in the field and that the final price would therefore give some indication of current value.

3. It would be difficult to establish a *basis* for evaluation in the art field. For example, the National Gallery recently purchased a Fragonard at public auction for \$875,000. This would not mean that a museum having a Fragonard of the same size could say that its painting was also worth \$875,000.

4. Many museums might consider the value of their collections confidential information. However, the American Association of Museums has in the past collected confidential information and used it only for statistical tabulations. In this case also all data would be kept confidential. The service industries working group had previously agreed not to go into regional detail.

There are some museums (i.e., the Denver Art Museum, and the North Carolina Museum of Art) which have published valuations of their collections in annual reports. A larger number of museums publish figures for the annual expenditure for new acquisitions. This would, of course, represent only a percentage of the total value of the collection, but might serve as a starting point.

If it were both desirable and possible to collect information from museums for a national wealth inventory, how might this be done, and what purpose would such information serve?

1. It is not known at this point how many museums are willing, or if willing, are equipped, to estimate the current value of their collections. The first step would be to get some indication of this, and then to collect the data through a brief questionnaire.

2. It was felt by most of the participants that the figures collected would not be meaningful, in view of the *uniqueness* of the items in museum collections, and their irreplaceable nature. Two years ago, for instance, the National Trust for Historic Preservation dropped value reporting on the grounds that there can be no valuation where there is no market.

However, it was agreed that other museums should be asked to give opinions on the desirability, feasibility, and significance of a wealth inventory in their field.

To sum up the views of the participants :

1. No monetary evaluation of museum collections should be allowed to obscure the cultural significance of museums.

2. The need for public support of the cultural and educational activities of museums must not be deemphasized by the publication of the value of museum collections.

3. Knowledge of the value of museum collections might, on the other hand, stimulate donations for the custodial care, preservation, and display of such collections.

4. Information on the wealth of the Nation's museums might have some public relations benefits.

5. Such information might serve to illustrate the increase in the cultural resources of our country. Deficiencies in such resources in certain areas might also be determined.

It was decided that available information in published annual reports would be checked ; that an inquiry would be made to find out how such published figures had been arrived at ; and that a small number of museums would be sampled for their reaction to the Wealth Inventory Study in terms of their willingness to assist in it and of the availability of the necessary data.

CAROLYN H. WELLS,
Assistant for Special Projects,
American Association of Museums.

NOVEMBER 14, 1963.

EXHIBIT B

[Questionnaire sent to 35 museums: tabulation of 20 responses received]

AMERICAN ASSOCIATION OF MUSEUMS, WASHINGTON, D.C.

DECEMBER 13, 1963.

DEAR ———: Under a grant from the Ford Foundation, the Wealth Inventory Planning Study of the George Washington University is studying the problems and possibilities of a national benchmark inventory of wealth, to be taken by 1970.

The Wealth Study staff seeks guidance as to whether to include, in addition to land, structures, and equipment, the nonreproducible assets represented by the collections of museums (as well as of individuals). This brief questionnaire is being sent to several dozen museums to test the feasibility of getting meaningful cost or value estimates of the collections, and the desirability of doing so.

We shall appreciate very much your cooperation in helping the Wealth Study come to a determination in this area.

A. Would you be able to report the following from present records or estimates ; or could you, without undue burden, prepare at least rough estimates of the following :

	Yes	No
1. Cost of additions to collection during the past year.....	13	4
2. Approximate market value of items donated during the past year.....	10	7
3. Proceeds from sales of works of art during the current year.....	4	10
4. Historical cost of all purchased items in current collection.....	4	11
5. Current or recent market value of purchased items.....	6	11
6. Approximate market value of donated items.....	4	13
7. In rough terms, the percentage of the total value of collections accounted for by purchased items.....	5	11

B. Would you favor attempting a one-time national survey of the value of museum collections (only aggregates to be published, on a regional and national basis)? Yes, 7; No, 8.

C. General or specific comments on the proposed survey (feasibility and desirability):

Please return to the AAM, attention Mrs. Wells.

EXHIBIT C

STATEMENT OF RICHARD H. RUSH, RYE, N.Y.

First, I would like to comment on some of the criticisms which might be leveled at the taking of an inventory of works of art in monetary terms.

1. It is true that in a sense art is above money. Art inspires and represents beauty whereas money is considered by the art intelligentsia to be something of a rather low level.

2. Art is the product of a group of people who have had to ask for money in return for the production of the art.

3. If these works of art had money value when the artist produced them in order to exist, they have had value since that time—either more or less—and that value is all we are talking about.

Now here are my general comments:

A. Almost every item of art in every museum at one time or another had a price tag on it. The National Gallery of Art collection, for example, consists primarily of the Mellon Collection, the Kress Collection, the Widener Collection, and the Chester Dale Collection. I published most of Mellon's purchase prices of the items in the gallery. The Kress figures are available, and I think the Widener and Dale figures can be unearthed.

B. Value of these items can be brought up to date by a competent valuer; this same procedure can be followed for all museums in the United States.

C. Nobody is talking about flooding the market with the contents of any one museum or all of them. We are talking about an orderly offering of the art objects, and if they are marketed in this way the price can be forecast fairly well and thus recorded for your survey.

D. This procedure would be far more difficult in Europe where the art is much better and much rarer than in the United States. How do you value the Winged Victory, or Michelangelo's Pieta or Michelangelo's Sistine Chapel ceiling? These things are unique. But we have nothing to compare with these items in this country. Let us say that the National Gallery has 550 paintings in all. The Louvre has 3,500 hanging and 25,000 in all. Our job here is not so hard.

E. The valuation should be done independently, using published reports and photos of the paintings in each gallery in this country. The same will have to be done with sculpture and antiquities, etc., and where these are not traded on the market the job will be much harder. I am talking about what I am familiar with—paintings. But even here a fairly good job can be done with not much error.