THE OWNERSHIP INCOME
OF MANAGEMENT
National Bureau of Economic Research

FISCAL STUDIES

1. Fiscal Planning for Total War
   WILLIAM LEONARD CRUM, JOHN F. FENNELLY, AND
   LAWRENCE H. SELTZER

2. Taxable and Business Income
   DAN THROOP SMITH AND J. KEITH BUTTERS

3. The Nature and Tax Treatment of Capital Gains and Losses
   LAWRENCE H. SELTZER

   JAMES A. MAXWELL

5. The Income-Tax Burden on Stockholders
   DANIEL M. HOLLAND

   C. HARRY KAHN

7. Dividends Under the Income Tax
   DANIEL M. HOLLAND

8. Business and Professional Income Under the Personal Income Tax
   C. HARRY KAHN

   NORMAN B. TURE

10. Employee Compensation Under the Income Tax
    C. HARRY KAHN

11. Executive Compensation in Large Industrial Corporations
    WILBUR G. LEWELLEN

12. The Personal Exemptions in the Federal Income Tax
    LAWRENCE H. SELTZER

13. Tax Changes and Modernization in the Textile Industry
    THOMAS M. STANBACK, JR.

14. The Ownership Income of Management
    WILBUR G. LEWELLEN
NATIONAL BUREAU OF ECONOMIC RESEARCH

OFFICERS

Arthur F. Burns, Honorary Chairman
Theodore O. Yntema, Chairman
Walter W. Heller, Vice Chairman
John R. Meyer, President
Thomas D. Flynn, Treasurer
Douglas H. Eldridge, Vice President—Executive Secretary

Victor R. Fuchs, Vice President—Research
F. Thomas Juster, Vice President—Research
Hal B. Lary, Vice President—Research
Robert E. Lipsey, Vice President—Research
Edward K. Smith, Vice President
Joan R. Tron, Director of Publications

DIRECTORS AT LARGE

Atheron Bean, International Multifoods Corporation
Joseph A. Beirne, Communications Workers of America
Arthur F. Burns, Board of Governors of the Federal Reserve System
Wallace J. Campbell, Foundation for Cooperative Housing
Erwin D. Canham, Christian Science Monitor
Robert A. Charpie, The Cabot Corporation
Solomon Fabricant, New York University
Frank W. Fetter, Hanover, New Hampshire
Eugene P. Foley, Dreyfus Corporation
Eli Goldston, Eastern Gas and Fuel Associates
Crawford H. Greenewalt, E. I. du Pont de Nemours & Company
David L. Grove, International Business Machines Corporation

Walter W. Heller, University of Minnesota
Vivian W. Henderson, Clark College
John R. Meyer, Yale University
J. Irwin Miller, Cummins Engine Company, Inc.
Geoffrey H. Moore, Bureau of Labor Statistics
J. Wilson Newman, Dun & Bradstreet, Inc.
James J. O'Leary, United States Trust Company of New York
Robert V. Roosa, Brown Brothers Harriman & Co.
Boris Shishkin, American Federation of Labor and Congress of Industrial Organizations
Lazare Teper, International Ladies' Garment Workers' Union
Donald B. Woodward, Riverside, Connecticut
Theodore O. Yntema, Oakland University

DIRECTORS BY UNIVERSITY APPOINTMENT

Moses Abramovitz, Stanford
Charles H. Berry, Princeton
Francis M. Boddy, Minnesota
Tom E. Davis, Cornell
Otto Eckstein, Harvard
Walter D. Fisher, Northwestern
R. A. Gordon, California
Robert J. Lampman, Wisconsin

Kelvin J. Lancaster, Columbia
Maurice W. Lee, North Carolina
Lloyd G. Reynolds, Yale
Robert M. Solow, Massachusetts Institute of Technology
Henri Theil, Chicago
Thomas A. Wilson, Toronto
Willis J. Winn, Pennsylvania

DIRECTORS BY APPOINTMENT

Emilio G. Collado, Committee for Economic Development
Thomas D. Flynn, American Institute of Certified Public Accountants
Nathaniel Goldfinger, American Federation of Labor and Congress of Industrial Organizations
Harold G. Halcrow, American Agricultural Economics Association
Douglas G. Hartle, Canadian Economics Association

Dr Walter E. Hoadley, American Finance Association
Douglas C. North, Economic History Association
Charles B. Reeder, National Association of Business Economists
Murray Shields, American Management Association
Willard L. Thorp, American Economic Association
W. Allen Wallis, American Statistical Association

DIRECTORS EMERITI

Percival F. Brundage
Gottfried Haberler

Albert J. Hettinger, Jr.
George B. Roberts

Joseph H. Willits

DIRECTORS AT LARGE

Raymond W. Goldsmith
Jack M. Guttentag
Daniel M. Holland
F. Thomas Juster
C. Harry Kahn
John F. Kain
John W. Kendrick

Irving B. Kravis
Hal B. Lary
Robert E. Lipsey
John R. Meyer
Jacob Mincer
Ilse Mintz
Geoffrey H. Moore *

* On leave.

SENIOR RESEARCH STAFF

Gary S. Becker
Charlotte Boschan
Phillip Cagan
James S. Earley
Solomon Fabricant
Milton Friedman
Victor R. Fuchs

M. Ishaq Nadiri
Nancy Ruggles
Richard Ruggles
Anna J. Schwartz
Robert P. Shay
George J. Stigler
Victor Zarnowitz

Raymond W. Goldsmith
Jack M. Guttentag
Daniel M. Holland
F. Thomas Juster
C. Harry Kahn
John F. Kain
John W. Kendrick

Irving B. Kravis
Hal B. Lary
Robert E. Lipsey
John R. Meyer
Jacob Mincer
Ilse Mintz
Geoffrey H. Moore *
Relation of the Directors to the Work and Publications of the National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. The President of the National Bureau shall submit to the Board of Directors, or to its Executive Committee, for their formal adoption all specific proposals for research to be instituted.

3. No research report shall be published until the President shall have submitted to each member of the Board the manuscript proposed for publication, and such information as will, in his opinion and in the opinion of the author, serve to determine the suitability of the report for publication in accordance with the principles of the National Bureau. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied, the character of the data and their utilization in the report, and the main conclusions reached.

4. For each manuscript so submitted, a special committee of the Board shall be appointed by majority agreement of the President and Vice Presidents (or by the Executive Committee in case of inability to decide on the part of the President and Vice Presidents), consisting of three directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the manuscript is submitted to him. It shall be the duty of each member of the special manuscript committee to read the manuscript. If each member of the manuscript committee signifies his approval within thirty days of the transmittal of the manuscript, the report may be published. If at the end of that period any member of the manuscript committee withholds his approval, the President shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty days additional shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board who shall have voted on the proposal within the time fixed for the receipt of votes shall have approved.

5. No manuscript may be published, though approved by each member of the special manuscript committee, until forty-five days have elapsed from the transmittal of the report in manuscript form. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general or the special committee have passed on its validity in every detail.

6. Publications of the National Bureau issued for informational purposes concerning the work of the Bureau and its staff, or issued to inform the public of activities of Bureau staff, and volumes issued as a result of various conferences involving the National Bureau shall contain a specific disclaimer noting that such publication has not passed through the normal review procedures required in this resolution. The Executive Committee of the Board is charged with review of all such publications from time to time to ensure that they do not take on the character of formal research reports of the National Bureau, requiring formal Board approval.

7. Unless otherwise determined by the Board or exempted by the terms of paragraph 6, a copy of this resolution shall be printed in each National Bureau publication.

(Resolution adopted October 25, 1926, and revised February 6, 1933, February 24, 1941, and April 20, 1968)
CONTENTS

Acknowledgments xv
1. Introduction 1
2. The Methodology and the Data 13
3. Executive Compensation Patterns 38
4. Stock Ownership and Income: Large Manufacturers 78
5. Stock Ownership and Income: Retail Trade 110
6. Stock Ownership and Income: Small Manufacturers 131
7. Summary and Evaluation 150

APPENDIXES
A. Numerical Example of Compensation Calculations 165
B. Corporations in the Three Samples 171
C. Sample Sizes, By Year and Executive Rank 173
D. Ownership Income and Compensation Within the Large Manufacturing Sample: Adjusted for Extreme Values 176
E. Ownership Income and Compensation Within the Retail Trade Sample: Adjusted for Extreme Values 182
F. Ownership Income and Compensation Within the Small Manufacturing Sample: Adjusted for Extreme Values 187

BIBLIOGRAPHY 193

INDEX 197
LIST OF TABLES

1. Average Salary Plus Bonus Earnings:
   Large Manufacturing Sample, 1940–63 39
2. Average Total After-Tax Compensation:
   Large Manufacturing Sample, 1940–63 41
3. Elements of After-Tax Compensation:
   Large Manufacturing Sample, 1940–63 45
4. Components of Total After-Tax Compensation:
   Large Manufacturing Sample, 1940–63 50
5. Average Salary Plus Bonus Earnings:
   Retail Trade Sample, 1940–63 54
6. Average Total After-Tax Compensation:
   Retail Trade Sample, 1940–63 55
7. Elements of After-Tax Compensation:
   Retail Trade Sample, 1940–63 58
8. Components of Total After-Tax Compensation:
   Retail Trade Sample, 1940–63 62
9. Average Salary Plus Bonus Earnings:
   Small Manufacturing Sample, 1940–63 66
10. Average Total After-Tax Compensation:
    Small Manufacturing Sample, 1940–63 67
11. Elements of After-Tax Compensation:
    Small Manufacturing Sample, 1940–63 70
12. Components of Total After-Tax Compensation:
    Small Manufacturing Sample, 1940–63 75
13. Average Market Value of Executive Stockholdings:
    Large Manufacturing Sample, 1940–63 79
14. Average Dividend Receipts:
    Large Manufacturing Sample, 1940–63 82
15. Mean Before-Tax Dividend Receipts as a Per Cent of Mean Before-Tax Salary Plus Bonus: Large Manufacturing Sample, 1940–63 83
16. Average Capital Gains: Large Manufacturing Sample, 1940–63 85
17. Average Absolute Capital Gains: Large Manufacturing Sample, 1940–63 88
18. Compensation and Ownership Income: Large Manufacturing Sample, 1940–63; Average for the Top Executive in Each Firm 89
19. Compensation and Ownership Income: Large Manufacturing Sample, 1940–63; Average for the Top Five Executives in Each Firm 90
21. Average Market Value of Executive Stockholdings: Large Manufacturing Sample, 1940–63; Extreme Values Deleted 98
22. Mean Before-Tax Dividend Receipts as a Per Cent of Mean Before-Tax Salary Plus Bonus: Large Manufacturing Sample, 1940–63; Extreme Values Deleted 101
23. Compensation and Ownership Income: Large Manufacturing Sample, 1940–63; Average for the Top Executive in Each Firm, Extreme Values Deleted 102
24. Compensation and Ownership Income: Large Manufacturing Sample, 1940–63; Average for the Top Five Executives in Each Firm, Extreme Values Deleted 103
25. Trends in Proportionate Ownership: Large Manufacturing Sample, 1940–63 105
26. Average Market Value of Executive Stockholdings: Retail Trade Sample, 1940–63 111
27. Average Dividend Receipts:
   Retail Trade Sample, 1940–63
   114
28. Mean Before-Tax Dividend Receipts as a Per Cent
    of Mean Before-Tax Salary Plus Bonus:
   Retail Trade Sample, 1940–63
   115
29. Average Capital Gains:
   Retail Trade Sample, 1940–63
   117
30. Average Absolute Capital Gains:
   Retail Trade Sample, 1940–63
   119
31. Compensation and Ownership Income:
    Retail Trade Sample, 1940–63;
    Average for the Top Executive in Each Firm
    120
32. Compensation and Ownership Income:
    Retail Trade Sample, 1940–63;
    Average for the Top Five Executives in Each Firm
    121
33. Average Market Value of Executive Stockholdings:
    Retail Trade Sample, 1940–63;
    Extreme Values Deleted
    124
34. Compensation and Ownership Income:
    Retail Trade Sample, 1940–63;
    Average for the Top Executive in Each Firm,
    Extreme Values Deleted
    126
35. Compensation and Ownership Income:
    Retail Trade Sample, 1940–63;
    Average for the Top Five Executives in Each Firm,
    Extreme Values Deleted
    127
36. Trends in Proportionate Ownership:
    Retail Trade Sample, 1940–63
    129
37. Average Market Value of Executive Stockholdings:
    Small Manufacturing Sample, 1940–63
    132
38. Average Dividend Receipts:
    Small Manufacturing Sample, 1940–63
    135
39. Mean Before-Tax Dividend Receipts as a Per Cent
    of Mean Before-Tax Salary Plus Bonus:
    Small Manufacturing Sample, 1940–63
    136
## LIST OF TABLES

40. Average Capital Gains:  
Small Manufacturing Sample, 1940–63  

41. Average Absolute Capital Gains:  
Small Manufacturing Sample, 1940–63  

42. Compensation and Ownership Income:  
Small Manufacturing Sample, 1940–63;  
Average for the Top Executive in Each Firm  

43. Compensation and Ownership Income:  
Small Manufacturing Sample, 1940–63;  
Average for the Top Five Executives in Each Firm  

44. Average Market Value of Executive Stockholdings:  
Small Manufacturing Sample, 1940–63;  
Extreme Values Deleted  

45. Compensation and Ownership Income:  
Small Manufacturing Sample, 1940–63;  
Average for the Top Executive in Each Firm,  
Extreme Values Deleted  

46. Compensation and Ownership Income:  
Small Manufacturing Sample, 1940–63;  
Average for the Top Five Executives in Each Firm,  
Extreme Values Deleted  

47. Trends in Proportionate Ownership:  
Small Manufacturing Sample, 1940–63  

48. The Importance of Ownership Income to Senior Executives: A Summary for the Years 1940 Through 1963 for the Top Five Executives in Each Firm,  
Extreme Values Deleted  

A-1. A Representative Compensation Experience  

A-2. Analysis of a Representative Compensation Experience  

C-1. Large Manufacturing Sample  

C-2. Retail Trade Sample  

C-3. Small Manufacturing Sample  

D-1. Average Dividend Receipts: Large Manufacturing Sample, 1940–63; Extreme Stockholdings Deleted
LIST OF TABLES

D-2. Average Capital Gains: Large Manufacturing Sample, 1940–63; Extreme Stockholdings Deleted 178
D-3. Average Absolute Capital Gains: Large Manufacturing Sample, 1940–63; Extreme Stockholdings Deleted 179
D-4. Average Total After-Tax Compensation and Its Components: Top Executives of Large Manufacturing Corporations, 1940–63; Extreme Values Deleted 180
D-5. Average Total After-Tax Compensation and Its Components: Top Five Executives of Large Manufacturing Corporations, 1940–63; Extreme Values Deleted 181
E-1. Average Dividend Receipts (Retail Trade Sample) 183
E-2. Average Capital Gains: Retail Trade Sample, 1940–63; Extreme Stockholdings Deleted 184
E-3. Average Absolute Capital Gains: Retail Trade Sample, 1940–63; Extreme Stockholdings Deleted 185
E-4. Average Total After-Tax Compensation: Retail Trade Sample, 1940–63; Extreme Values Deleted 186
F-1. Average Dividend Receipts (Small Manufacturing Sample) 188
F-2. Average Capital Gains: Small Manufacturing Sample, 1940–63; Extreme Stockholdings Deleted 189
F-3. Average Absolute Capital Gains: Small Manufacturing Sample, 1940–63; Extreme Stockholdings Deleted 190
F-4. Average Total After-Tax Compensation: Small Manufacturing Sample, 1940–63; Extreme Values Deleted 191
LIST OF CHARTS

1. Average Total After-Tax Compensation:
   Large Manufacturing Sample, 1940–63 42

2. Average Total After-Tax Compensation: Large Manufacturing Sample, 1940–63 (Stock Option Data Smoothed) 44

3. Elements of Total After-Tax Compensation:
   Large Manufacturing Sample, 1940–63 46

4. Components of Total After-Tax Compensation:
   Large Manufacturing Sample, 1940–63 51

5. Average Total After-Tax Compensation:
   Retail Trade Sample, 1940–63 56

6. Elements of Total After-Tax Compensation:
   Retail Trade Sample, 1940–63 59

7. Components of Total After-Tax Compensation:
   Retail Trade Sample, 1940–63 63

8. Average Total After-Tax Compensation:
   Small Manufacturing Sample, 1940–63 68

9. Elements of Total After-Tax Compensation:
   Small Manufacturing Sample, 1940–63 71

10. Components of Total After-Tax Compensation:
    Small Manufacturing Sample, 1940–63 76

11. Market Value of Executive Stockholdings:
    Large Manufacturing Sample, 1940–63 80

12. Average Annual After-Tax Capital Gains:
    Large Manufacturing Sample, 1940–63 86

13. Market Value of Executive Stockholdings:
    Retail Trade Sample, 1940–63 112

14. Average Annual After-Tax Capital Gains:
    Retail Trade Sample, 1940–63 118
15. Market Value of Executive Stockholdings:
   Small Manufacturing Sample, 1940–63 133
16. Average Annual After-Tax Capital Gains:
   Small Manufacturing Sample, 1940–63 138
17. Ratio of Ownership Income Items to
   Fixed-Dollar Executive Earnings, 1940–63 153
ACKNOWLEDGMENTS

THE RESEARCH EFFORT described on the following pages has benefited greatly from the generous assistance of a number of individuals and organizations during the past several years. A particular debt is owed to Professor Daniel M. Holland of the Sloan School of Management at the Massachusetts Institute of Technology for his early and continuing help in formulating both objectives and strategy. The counsel of my colleagues at the Krannert Graduate School of Industrial Administration at Purdue University, Professors Robert W. Johnson and Blaine Huntsman, was invaluable throughout the investigation, as was the advice and encouragement of Professor John Lintner of the Harvard Graduate School of Business Administration. Conversations at various stages with V. Henry Rothschild II of New York City, Winthrop T. Lewis of the John Hancock Mutual Life Insurance Company in Boston, and Raymond J. Sullivan of the Public Reference Section of the Securities and Exchange Commission in Washington aided materially in refining the analysis and securing the necessary background information for its execution. Direct assistance with data collection and computer programming was provided by James Bauer of the Krannert School and Ira Miller of the Sloan School, both of whom performed in the capacity of research assistants at a level of competence substantially in excess of any reasonable expectation.

The staff of the National Bureau played a similarly vital role. Geoffrey Moore's initial support for the concept of the study was a pivotal factor, while the effective administration of the subsequent undertaking by Victor Fuchs smoothed the author's path considerably. Dr. Fuchs' suggestions ably complemented the incisive commentary of the Bureau's staff reading committee, comprised of William Landes, Richard Ruggles, and Neil Wallace, and the perceptive critique by Erwin D. Canham, George Cline Smith, and Robert J. Lampman of