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Introduction

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THIS IS THE SECOND *Wealth* VOLUME TO APPEAR UNDER THE AEGIS OF THE Conference on Research in Income and Wealth. Through 1947, the Conference focused its attention primarily upon the measurement of national income and its variants, including the composition and distribution of the national product. The effort in *Volume Twelve*, containing a series of papers presented at the January 1948 meeting, was largely exploratory. Problems of concept and measurement were examined at length in the light of new bodies of data that had become available during the preceding decade or two, and first approximations of individual balance sheets for specific sectors of the economy such as agriculture, government, and manufacturing were published.

The results, while promising, were far from definitive. Techniques of valuation for the various sectors were significantly at odds with one another. Moreover, the original task force was unable to supply even rough approximations for assets held by the noncorporate sector for retail trade, construction, etc. Initial expectations of supplying a neatly articulated balance sheet for the national economy were not fulfilled.

Consequently, the Executive Committee decided to devote the April 1950 meeting to more intensive review of the national balance sheet as distinct from the emphasis upon sectors in *Volume Twelve*. In view of the growing use of balance sheet data in business and economic analysis the Conference sought to reconsider the role of asset holdings of individuals and business enterprises in the general framework that constitutes economic theory.

These targets have been well met in the seven papers published here. Raymond W. Goldsmith, who in *Volume Twelve* analyzed and proposed solutions for the vexing problems in the measurement of national wealth, submits a new set of wealth estimates spanning more than a half century. Using what he terms a perpetual inventory approach, i.e., a cumulation of depreciated capital expenditures, he presents detailed figures on the value of reproducible tangible assets in current dollars and offers tentative findings on changes in our 'real' wealth.

This is the first full scale attempt in more than a decade to determine

how the value of houses, commercial buildings, producer and consumer durable goods, and the assets of government comprising our national stock have changed. The summary of his findings, in Section C, may well prove of wide interest, particularly the conclusion that the rate of increase in 'real' wealth during 1946-50 was probably higher than for any like period since the late nineteenth century.

Daniel H. Brill's contribution, 'The Postwar Structure of Financial Claims', offers strong support for several of Mr. Goldsmith's conclusions. Mr. Brill deals with his problem from the claims side, using the 'moneyflows' approach originally conceived by Morris A. Copeland. His evidence suggests that private debt is not excessive relative to the income and asset position of debtors, despite its rapid expansion since the war's end. He examines also the 'overhang' of debt and debt service in the event of contraction in income and finds it less oppressive than in the past.

These companion pioneer attempts at analysis from the assets and debt-equity sides of our national balance sheet are followed by three papers dealing with the distribution of wealth. Horst Mendershausen, in 'Measuring Estate Tax Wealth', outlines a project nearing completion which measures through estate tax returns the concentration of wealth and changes in its distribution at the apex of the wealth pyramid. The methodology and shortcomings of the Estate Survey begun more than a decade ago are next reviewed by Dwight B. Yntema.

Allen D. Manvel proposes a further improvement in the measurement of real property assets. In earlier Wealth Censuses assessed values were raised to market price on the basis of existing legal requirements or after consultation with tax officials. By matching sales prices of specific traded properties with corresponding records of assessment sounder assessment ratios can be developed. The collection of such data on a sample basis in future Censuses of Governments would help toward firming up estimates for this substantial sector of the national balance sheet.

Messrs. Boulding and Klein make the balance sheet the point of departure in a reappraisal, if not reformulation, of economic theory. Exploring the significance of asset holdings upon behavior and motivations, they redirect professional attention to the necessity for more recognition of the importance of asset stocks as factors affecting the course and flow of income. These contributions jointly provoked the largest amount of discussion orally at the Conference and in commentaries submitted later for publication. Readers are referred to these, as well as replies by the authors, for further detail on points at issue.

In the main, substantial progress has been made since the first hesitant steps toward measurement in *Volume Twelve*. Mr. Goldsmith's work bids well to become a benchmark for future students. Likewise, the moneyflows

analysis of Mr. Brill and his colleagues has already yielded a rich harvest and gives promise of more to come.

While the 'strong' character of our postwar balance sheet, as revealed by these analyses, is likely to receive wide publicity, the qualifications of the authors and commentators are equally likely to be ignored or forgotten. It seems advisable, therefore, to underscore here the *tentative* character of the figures and preliminary conclusions. The extremely involved problems of measurement in these areas have by no means been resolved. As Simon Kuznets points out in his comment on Goldsmith's paper, the estimates of depreciation and capital consumption present particularly difficult and partly unsolved problems.

To the cautions stressed in the body of this book, I am impelled to add one final caveat. The most recent terminal figures presented in the various papers, particularly that of Mr. Goldsmith, are necessarily drawn from an economy still in the throes of acute postwar inflation. The 'real' value of much of the capital formation, both business and personal, of the postwar years is not yet determined. The costs of these facilities in the postwar market are accepted for balance sheet purposes. But do such figures provide an adequate basis for determining their worth over time, especially in a period of more active competition in which demand-supply relationships are in tighter balance than they were in the sellers' market of the past half decade?

It may rightfully be contended that the effects of the inflationary environment are eliminated by resort to deflated values. But this does not hit the nub of the problem. The question at issue goes far beyond mere correction for changes in prices. Its concern is rather with the adequacy of value figures in a period when cost considerations were necessarily subordinated, as in outlays for government plant, in capital expansion underwritten through certificates of necessity, and even in much of the expansion of capital facilities in the immediate postwar years when consumers' backlogs virtually assured acceptance of product in an easy sellers' market.

In terms of quantity there has undoubtedly been a substantial, if not record-breaking, increment in the stock position of both producers and consumers during the last quinquennium. But how much may yet prove to be at high cost, worth far less than the corresponding figure of initial expenditure adjusted for normal depreciation? The future earning power of these high cost additions to stock will have to be tested in competitive markets. Hence their 'real' value in terms of earning power is in many instances still indefinite and may bear little relation to values derived from original cost.

A similar reservation applies to consumer durables purchased during a period of inflation. Mr. Brill's analysis indicates a strong debt-equity rela-

tionship on a global or aggregate basis. The subsequent discussion emphasizes that the debt and asset holders may not be neatly paired in the same relationship; that is, the owners of assets may as a group be relatively free from debt and vice versa. Another reservation, also arising from the inflationary environment, concerns the process of redistribution of wealth during inflation and its relation to future earning power. Inflation eases the burden of past fixed debt. In a period when funds are being redistributed through such schemes as veterans' bonuses and government guarantees of housing contracts, the assumption of additional debt does not seem especially burdensome. But will the many veterans who purchased houses at values far beyond conventional rent-income relationships be in a position to maintain them in more competitive product and labor markets? A similar transformation of values is obvious in the heavy discount currently placed upon cars produced by entrants into that field in the first flush of postwar buying.

The purpose of these comments, in summary, is to suggest that an indeterminate element remains in a balance sheet drawn in a period of inflation. The utility of assets acquired during such a period will be decided in more competitive markets. Future cross-section analysis over the course of one or more complete business cycles should help to reveal the missing third dimension — the quality of assets — as distinct from quantity-cost.

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