

# HENRY GEORGE NEWS

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## What Is National Income? By WILL LISSNER (A Review)

"THERE are three and only three factors utilized in the production of wealth, namely, land, labor and capital. The production of all wealth thus naturally flows into three streams as returns to land, labor and capital. Until an attempt is made to translate this theory—which is the elementary theory of economics—into mathematical facts (and no attempt has been made to do so up to this time), we shall have confusion in understanding the science of the production and distribution of wealth, and that natural laws must exist in this field as they exist in all other fields of science."

This is the thesis that Mr. Foulke expounds in this thought-provoking monograph. Mr. Foulke, vice president of Dun & Bradstreet, Inc., is one of the country's outstanding analysts of corporate reports and, in the accounting field, is a leader in the effort to improve accounting practices to bring about more meaningful information on the performance and financial status of corporations. His critique of the concept of national income as it is used by some income analysts deserves, therefore, our thoughtful consideration.

Mr. Foulke takes his stand with the classical theorists of economics. In his view, economics is the science which seeks to discover the "laws of nature" concerning the production and distribution of wealth. Wealth is any material thing produced by man from the land or the products of land, which has exchange value.

From this point of view he criticizes attempts to collect data on the distribution of national income in the United States. The first overall coordinated study, made by Dr. Charles B. Spahr in 1896, was defective because Spahr set out to study "The Present Distribution of Wealth . . ." but gave no definition or explanation of what he meant by the term wealth, according to Mr. Foulke. The pioneering study of the wealth and income of the people made by Dr. Wilford I. King in 1915 pointed out that different authorities defined wealth and income in different ways. It, too, suffered from basic confusion but served to make clear the distinction between individual wealth and national wealth. Studies of wealth over the years have confused this important distinction, Mr. Foulke holds.

A parallel confusion existed, he reports, with respect to national income as distinguished from individual income. The studies of Spahr, Streightoff, King and Kuznets, which have been carried on currently by the Department of Commerce, have achieved "with ever-increasing refinements and thoroughness" valuable data on the aggregate income of the people. But they have not yielded data on the distribution of national income.

"The redefinition of national income to represent the net production of national wealth, and gross national product to represent the gross production of national wealth are concep-



Roy M. Foulke

Author of "A Study of the Concept of National Income" published by Dun & Bradstreet, Inc., New York, 80 pp. Copies obtainable on request.

tual changes which would seem to be based on logic," Mr. Foulke argues. If, then, we went on to estimate the contribution of each of the factors of production to the net product, "for the first time in our history, we would then know which part the first charge on the production of wealth, namely imputed economic rent, fills in our economics, and how the remaining wealth is divided between labor and capital," he explains.

Mr. Foulke is, in effect, pleading with economists to return to attempts to make a factorial analysis of the distribution of income and wealth. Modern income analysis developed from the theoretical interest of the nineteenth century economists in the distribution of wealth. Only in the twentieth century did economists realize that income is a *flow* of goods, wealth a *stock* of goods. Current measures of stocks of goods present difficulties with which the statistical procedures of the time could not cope. Hence analysts concentrated upon the distribution of income.

### Georgist International Calendar

**Eighth Annual Conference of Henry George School of Social Science, July 10-13, Queens Hotel, Montreal. Colonel E. C. Harwood of the American Institute for Economic Research, Great Barrington, will discuss "A Modern Economic Scientist Looks at Henry George." Senator A. W. Roebuck of the Canadian Senate will also speak.**

**Eighth International Conference to Promote Land Value Taxation and Free Trade, July 29-August 4, Odense, Denmark. Speakers and visitors from a dozen countries, with competent interpreters to insure easy-flowing discussions.**

But factorial analysis of the distribution of income also presented insuperable theoretical and practical difficulties. This led to the development of present-day functional analysis. It has contributed greatly to our economic knowledge. But the so-called laws of economics, based on theoretical factorial analysis, could not be described quantitatively through data derived from study of the incomes distributed to the functionaries in production. This has indeed been a great stumbling block in the development of economics as an exact science of human behavior. Mr. Foulke has rendered a valuable service in emphasizing this. It is to be hoped that he will go on to show how, through present or more advanced accounting techniques, a set of national income accounts can be computed which can be used to analyze the distribution of income among the factors of production.

Analysis of the distribution of wealth is another matter. The Conference on Research in Income and Wealth devoted a whole meeting to the problem of measuring national wealth for the first time in 1948. It took thirty-odd years of research to achieve our present methods for estimating distribution of income. In a decade or two measures may be developed which in the course of time will yield the data needed for analysis of the distribution of wealth and wealth claims. The conference at its outset addressed itself to the problem of the definition of national wealth. The question is still an open one and it is to be hoped that Mr. Foulke will take part in its solution.

Some adverse criticisms remain to be noted. In the interest of simplifying his presentation, Mr. Foulke made it appear that he rested his case upon classical economics. His definition of land, however ("The whole universe except man and the things produced by man which have exchange value"), is derived from a body of thought so modern that it has not yet been incorporated into the body of economic theory except in the writings of the most advanced economists. The definition rests basically upon Henry George. For an adequate exposition of the case for it one must turn to Dr. George Raymond Geiger's historic work, *The Theory of the Land Question*.

In employing the phrase, "laws of nature," Mr. Foulke raises a profound philosophical issue, one that is no more settled for the physical sciences than it is for the social or human sciences. If one must raise the issue in the present chaotic state of philosophy, one should indicate how it is being interpreted. Otherwise it is left without meaning.

It is to Mr. Foulke's credit that his study raises important theoretical issues, such as where land in the sense of unimproved land is to be categorized in a system of social accounts. Economics would be the better for more thought-provoking criticism of this kind.