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· REVIEWS ·

Trends in the Growth of National Income

National Income: A Summary of Findings. By Simon Kuznets. New York: National Bureau of Economic Research, Inc., 1946, 160 pp., $1.50.

Evidence of a decline in the rate of growth of national income per capita in the United States is presented by Dr. Kuznets in this book. Surveying data for the period 1869–1938, the author says that continuation of past trends would mean a decline in the rate of growth of national income per capita, and probably also in total national income. The decline would be moderate or sizable, depending on how one interprets the long run significance of the 1929–32 depression and of the incomplete recovery from it, he finds.

Statistics for the period show that the rate of growth in total national income declined from an average of 27 per cent per five-year interval in the first part to about 9 per cent in the last part. In population the decline in the rate of growth was from about 12 to about 6.5 per cent. In income per capita it was from 13.5 to less than 3 per cent.

Dr. Kuznets warns that whether we can assume a continuation of the trends depends partly upon the validity of taking 1869–1938 as a basis for forecasting, and partly upon the continuance of the type of social organization and the drives that have characterized this country. The estimates contribute only one datum of importance in evaluating the probable lines of growth of the economy, he points out.

Partly as a concomitant, partly as a result of the process of industrialization, national income and population grew rapidly during the sixty years before World War II, Dr. Kuznets reports.

Since 1869, national income has grown at the rate of almost 19 per cent per five-year interval, population at more than 9 per cent, income per capita at 8.5 per cent. From the midpoint in the first decade of the sixty-year period to that of the last, national income multiplied almost eightfold; population and income per capita almost tripled. Crude data suggest that the rates for these six decades are distinctly higher than those for 1800–1860.

The record, he says, indicates large growth in product per capita, in the country's capacity to produce, even when measured per member of its vastly greater population. Presumably, he adds, "this means a substantial increase in economic welfare or power per capita—but exactly how much cannot be said."

The evidence of a decline in the rate of growth of national income does not lead to the conclusion that the economy is in a long run trend toward stagnation, he points out. "The mere observation of retardation in the rate of growth in the past," he declares, and its simple projection into the future "no more constitutes a proof of the theory of secular stagnation than the observation and extrapolation of constant or accelerating rates of growth would constitute a disproof."

Certain long run trends in the contributions of various branches of industry to national income stand out, he reports. The share of agriculture in the first decade was moderate, 20.5 per cent, but had declined to less than half that by the last. The shares of mining and manufacturing rose at first, but in the last two or three decades did not rise further. The share of construction declined during the period as a whole. Transportation and public utilities account for a slightly declining share. Trade suffered a small and not too significant decline. The share of service declined from somewhat high levels in the Seventies and Eighties, then remained fairly stable, then rose appreciably in the Nineteen Twenties and Thirties. The share of government rose consistently throughout the period, but that of finance changed little.

Relative differences between industries in income per gainfully occupied person have remained fairly stable, at least for industries that loom large in the national total and thus determine its growth. There is a distinct upward trend in this ratio for mining, and a downward trend for construction, but these industries are small.

Of the total increase in national income from 1875 to 1925 of $59,000,000,000, $21,000,000,000 can be ascribed to the increase in the number of gainfully occupied, and $38,000,000,000 to the increase in income per gainfully occupied person, Dr. Kuznets reports. Thus, well over 60 per cent of the increase in the national income in that period can be associated with the increase in income per gainfully occupied person. Income per gainfully occupied person rose $822 in 1929 prices. Of this, $486, or 59 per cent, was due to the rise of income per gainfully occupied person within particular industries. $336, or 41 per cent, was due to shifts of workers from industries with lower to industries with higher income per gainfully occupied person.

A decline in the share of the national income devoted to capital formation is indicated by the data, but it is too small, considering the nature of the underlying estimates, to warrant confidence in its significance. Considered apart from the long run significance of the depression of the Nineteen Thirties, it can be said that if a long term decline in the proportion of net capital formation has occurred, it has been moderate so far, he declares. He finds evident long run trends in the composition of net capital formation away from construction and inventory accumulation and toward producer durable equipment and additions to claims against foreign countries.

During the sixty years the total increase in the value of construction and equipment was distributed about one-third to private industry, excluding public utilities and residential construction; about three-tenths to public utilities; about one-fifth to residential construction and about one-tenth to activities under public auspices. Of the total sixty years' accumulation of durable reproducible wealth, that is, the net stock of construction and equipment, more than one-third was added during the first twenty years and much less than one-third during the last twenty. This fact, Dr. Kuznets notes, suggest a retardation in the rate of growth of durable reproducible wealth.

For total durable reproducible wealth as well as every category distinguished, the stock increased at a sharply declining rate, the rate for private industry declining from 166 per cent in the first twenty years to 8 per cent in the last twenty. The decline in the percentage rate of accumulation is shown even if the last twenty years are excluded. The data do not take adequate account of the improved efficiency of capital, but it cannot be assumed that this omission would provide a complete offset, Dr. Kuznets points out. All that can be said, he reports, is that "the total stock of capital in the country available for the production process grew at a high rate during the sixty years and the rate declined sharply from the early to the later part of the period."

Taken together with the decline in the rate of growth of the labor supply as represented by the gainfully occupied, this conclusion helps to explain the retardation in the rate of growth of national income, Dr. Kuznets concludes. Taken together with the reduction in the working hours of labor, it also suggests why the rate of increase in national income per gainfully occupied person should also have declined.

The results of many other significant analyses of the nature and characteristics of national income are reported in Dr. Kuznets's highly valuable monograph. Some of them are summarized in the following paragraphs.

Making allowances for differences in purchasing power of the monetary units, national income in the United States was record-breaking in the period between the two world wars. National income per capita, per gainfully occupied person, per person employed, or per consuming unit was not only one of the highest in the world and the highest among major countries, but the highest in the history of the country before World War II. The commodity producing industries accounted for 38 per cent of the national income. The service industries, governmental, professional, personal, etc., accounted for 42 per cent, commodity transporting and distributing for 20 per cent, agriculture for less than 10 per cent.

A relatively large share, well over one-half, is accounted for by industries dominated by individual firms, and a moderate share, about one-third, by those dominated by corporations. Total and service income per worker employed rise steadily as the industries with a large proportion of individual firms are compared with industries dominated by corporations more subject to governmental regulation. This association may be fortuitous, or due to causes apart from regulation, or it may well be that the more regulated industries can select their working forces more satisfactorily or that they enjoy more advantageous market positions, Dr. Kuznets says.

The share of national income retained as undistributed net profits of corporations and savings by governments ordinarily constitutes merely a minor fraction of national income. Roughly four-fifths of national income is distributed largely for personal effort and one-fifth as returns on invested capital, he says, and on the average compensation for personal effort accounts for at least three-quarters of national income and returns on property and enterprise for less than one-quarter.

Omitting tax payments, the upper 1 per cent of the population received, on the average, 14 to 15 per cent of total income payments; the upper 5 per cent between 26 and 29 per cent. Wage and salary payments to the upper 1 per cent accounted for less than 7 per cent of the total of such payments; dividend payments to them accounted for 70 per cent of all dividend payments. Dividends, interest and rents combined, on the average, accounted for almost half of the incomes of the upper 1 per cent of the population and far more than one-third of the incomes of the upper 5 per cent. For the lower 95 per cent they constituted less than one-tenth. Despite violent fluctuations in total income payments and income per capita, the distribution of income by size as reflected in the shares of the upper income groups seems to display a marked degree of stability, Dr.

Kuznets finds. Viewing the period 1900–1938 as a whole, there seems to have been stability or a slight decline in the share of the upper 1 per cent. The total share of the 2d through the 5th per cent seems to have risen. But the share of the lower 95 per cent seems to have remained stable or declined slightly. The data suggest a decline in the inequality of distribution within the top 5 per cent group and no significant changes in the shares of the top 1 per cent or the lower 95 per cent groups.

During the two decades 1919–1938 the flow of goods to consumers accounted for well over 90 per cent of national income, leaving only 6 to 7 per cent for net capital formation, Dr. Kuznets says. Of the total flow of goods to ultimate consumers, about 40 per cent is made up of perishable commodities, commodities lasting less than six months, including food, drugs, fuel, paper products, etc. An almost equally large share is accounted for by services. The two categories account for more than 70 per cent of national income. Of the current net product of economic activity, he points out, a very large proportion vanishes without leaving a trace in the stock of goods.

Savings, he finds, are mainly accumulated by individuals, who were responsible for more than 95 per cent of net capital formation over the period 1919–1938, and for almost 70 per cent even in the prosperous decade 1919–1928. Sample data suggest that such savings come primarily from the upper income groups.

Dr. Kuznets's monograph summarizes twenty-five years of research in the measurement and analysis of national income, a field in which research economists associated with the National Bureau of Economic Research have pioneered. The National Bureau was originally founded a quarter of a century ago as the Committee on the Distribution of Income. After a series of studies by Oswald W. Knauth, Maurice Leven, Willford I. King, Dr. Kuznets, William A. Shaw, Harold Barger and others had demonstrated the usefulness of national income estimates, the Senate in 1932 adopted a resolution instructing the Department of Commerce to prepare a report on it. The department borrowed from the National Bureau the services of Dr. Kuznets to supervise the work. Its report was published in 1934. Thereafter the department made the preparation of future estimates a part of its routine, relieving the private research agency of the laborious task. Since that time, in its work in this field, the National Bureau has concentrated on developing new techniques in income measurement and improving old ones. The present study is one of a series issued to mark the research organization's silver jubilee.

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