



The BOOK Trail

NATIONAL INCOME AND ITS COMPOSITION, 1919-1938

By Simon Kuznets

National Bureau of Economic Research, \$5.00 (2 vols.)

Probably the most important portion of this highly valuable study of our national income is the beginning, in which Dr. Kuznets asks the question, "What is income?" Nearly everyone thinks he knows; and yet it requires only the most casual study to force the conclusion that the word "income" cannot be unequivocally defined. Two women, neighbors, do their own washing; neither has any income. But if they take in each other's washing, even on a barter basis, they receive income under the law, and are liable to payment of income taxes. If I occupy an apartment and rent one of its rooms to a tenant, I receive income; if the roomer pays direct to my landlord, who makes a corresponding reduction in my rent, I have no income. The intangible, non-economic satisfactions of life may make it heaven, but they have no place on the income tax return.

Dr. Kuznets recognizes all this, and more: he reminds us that all our economic definitions necessarily reflect at bottom our social philosophy. This is a point that Georgists too often neglect, with the result that to the outsider, much of what they say must sound like gibberish. In Dr. Kuznets' study he finds that the proportion of the national income distributed as rent is about 6%—a figure commonly quoted as a disparagement of the Single Tax argument. Yet how many followers of Henry George have more than the vaguest idea of exactly what types of income should be classified as rent?—of what proportion (if any) of the income of a broadcast-

ing station, for example, belongs in this category? The word "profits" is decried as a mere bookkeeping term, devoid of economic meaning. Have the words rent, wages and interest, as commonly used in business practice, any more meaning? Is it not true that not one of our economic terms, as defined on the statute books, has any relationship whatsoever to any economic fundamental?

We are reminded of this by Dr. Kuznets' discussion of the proportion of the national income distributed to wages. On a twenty-year average, wages account for nearly two-thirds of the entire national income. But it is poor consolation to a workman if he receives a fat pay envelope and is immediately required to hand over an important portion of its contents to the landlord and the tax collector. To determine the extent to which hidden taxes—and hidden rent—inflate the prices of the things the worker buys would be like unscrambling an omelette. How much rent do you pay? How much taxes? You'll never know.

Possibly the most significant of the changes observed by Dr. Kuznets over the twenty year period was the decline in manufactures and the increase in so-called "national income produced by the government"—that is, taxes. The share of service industries on the whole increased, but transportation declined — although here we may question whether the diversion of passenger traffic from

public conveyances to privately owned automobiles should be called a decline in transportation. The common picture of industry being gobbled up by huge ogres of monopoly is negated by the finding that over half of our production is in fields where unincorporated producers predominate. But most interesting is the finding that though the money income fell to low levels during the depression thirties, the nation's real income, adjusted for the changes in price, remained about the same. (One wonders who got it!)

Of its kind, the work is without question authoritative and outstandingly thorough. But one cannot help asking the question: is it destined to be valuable in the sense of helping students of economics to fruitful conclusions? The prospect seems doubtful. As Dr. Kuznets acutely observes, every statistical study in economics of necessity incorporates the philosophy—nay, the whole background—of the statistician. How can we hope for a statistical study giving information about economic fundamentals—earned incomes, unearned incomes, total wealth produced, total capital set aside, rent, wages, interest—when we ourselves have only the foggiest notions of what we think these words mean? And until we arrive at clear-cut notions on this subject, all our study will be like that of the inventor of a new geometry who gave as Postulate One, "All red triangles are congruent." As a postulate, it is unexceptionable. But will it help build bridges? Can we expect a greater practical success from an economics as far removed from reality?



PAUL PEACH