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INCOME STATISTICS.*

BY M. C. RORTY.

In these troubled days, when almost every element of governmental policy, and even the fate of whole peoples, hinges upon the completeness and reliability of statistics, it is not necessary to argue the practical value that may lie in knowing the basic facts in regard to our national economy.

The question is not whether we shall have statistics, but how the statistics that the inexorable logic of events has forced, and will force, us to set up may be made most accurate and most pertinent to our national purposes.

Income statistics have their immediate use in determining and controlling state and federal policies in respect to income taxes. Such taxation, in one form or another, is apparently with us to stay, and the needs of the taxing authorities are, in themselves, sufficient justification for a thorough analysis of the facts.

This need, while the most obvious, is not, however, the most important. Opinions may differ widely as to the ultimate outcome of the present world upheaval, but skilled observers are almost unanimous in predicting radical internal changes of a semi-socialistic type in the nations most directly involved. Such changes can hardly fail to be reflected by a period of political unrest and political experimenting in our own country, and this experimenting, directly or indirectly, must center, in the end, around that ever present and greatest of problems—the family income.

It is idle to ask whether the average voter may be trusted to give sane answers to questions of government ownership, of land nationalization, of labor legislation, of social insurance, and many others that will arise. The sufficient answer is that he must be trusted, since he has the power and the will to decide.

The second and greatest purpose of income statistics is, therefore, to furnish a sound basis for popular consideration of social and political problems.

* Paper read before the American Statistical Association at New York, April 20, 1917.

From the standpoint of taxation, the special requirement is for knowledge of the upper range of incomes, including those subject to proposed as well as present taxes. Within this range, which may be assumed to extend from \$1,000 or \$1,500 per annum upward, it is rather obvious that no census return, for any given individual, is apt to be more accurate than a sworn statement filed with and checked by the Collector of Internal Revenue. This being the case, the next problem is to determine how far below the range of actual taxation it may be desirable to extend the requirement for sworn returns, as a check against omissions and to provide advance indications as to the results that might be obtained from any proposed lowering of the limits of exemption. The answer will depend, to a considerable extent, on the general information that is available as to the lower range of incomes and the difficulties that are experienced in reconciling the income tax returns with such general data in the range of overlap.

A practical solution at this time might be to require returns from all persons having incomes within, say, \$500 of the lower limit of exemption, and to require returns to be filed, in addition, regardless of income, by all heads of families and others occupying living quarters renting for, or having a rental value of, more than a specified amount. The latter provision would very considerably simplify the checking of the total number of returns filed, and would be in line with common knowledge that 10 per cent. or more of the average family income is paid in rent or its equivalent.

With these or other similar modifications of the existing laws in effect, the only remaining problem, from a statistical standpoint, would be that of determining the analysis that should be given to the returns as received. This matter is now being studied by a joint committee of this Association and the American Economic Association, in coöperation with the Commissioner of Internal Revenue, and there is every reason to believe that, within the limits fixed by permissible expense for tabulation, a very satisfactory analysis of income tax returns will soon be available.

Considering next the use of income statistics as the basis for popular and legislative consideration of social and political

questions, an entirely different statistical viewpoint is required. The problem in this respect is almost as largely one of publicity and education as it is of economic data.

The average worker today, as the most superficial inquiry will show, has a conviction, deeper and more firmly seated than his theology, that, if justice were done, he would receive at least two or three times his present wage. This conviction is also largely, if not so intensely, shared by educated and professional men of all classes; and the most curious feature of the whole situation is that, while each employer can prove that he, personally, is not a party to such injustice, a large part of employers themselves firmly believe that "big business," or the "money trust," or the "system" is at fault, and that they, as well as their employees, are being systematically robbed through some hidden kink in the general scheme of things.

It is this prevalent sense of a great social injustice that today offers the most fertile field for the efforts of the extremist and the I. W. W. agitator, and that a true and widespread knowledge of income distribution will have its greatest value in tempering to a point where sounder and more constructive counsels may be heard.

The differences between popular impressions and the real facts are, however, so great that the immediate need is not for an extreme elaboration of census procedure or for extreme exactitude of statistical results, but rather for breadth, impartiality, and comprehensiveness of viewpoint, and flexibility of approach. It is much more important, from the standpoint of the major uses of national statistics, that they shall tell a complete, coherent, and essentially truthful story of our national life, than that they shall be 100 per cent. exact in all details.

It is this point of view, among others, that led to the adoption, by the Chamber of Commerce of the United States, at its recent annual meeting, of resolutions in favor of the appointment of a Federal Statistical Commission to correlate and weld into a coherent whole the unrelated, although otherwise excellent, statistical work of the several federal departments, bureaus, and commissions.

Should such a commission be appointed, I have no doubt that it would assume, as a part of its task, the setting up, through the proper federal departments, of statistics covering the whole range of individual and family incomes, rather than the taxable range alone; and these statistics might properly be supplemented by a distribution of the total of such incomes according to basic sources,—wages and other returns for personal service, land rents, interest, and profits* in excess of a normal interest rate.

Such an analysis would have a practical value that will be appreciated at once by the members of this Association, and, in time, should be quite as fully appreciated by all those less technically trained who are interested in an orderly national evolution.

In approaching this analysis, I must differ, however, with Dr. King and others who would apply strict census methods throughout. My impression is that the final accuracy of results will be greater, and the expense much less, if census methods, as to certain basic elements in the determinations, are supplemented by skilled sampling processes for the establishment of related figures. For example, as to the element of land rents, the use of existing figures as to assessed valuations, in combination with skilled local estimates of the relation of site rents to such valuations, should give much more accurate results than could be obtained by any direct process.

Similarly, as to profits and interest charges in trade and industry, direct census methods might give much less exact results, even as to actual investment, than would be obtained by applying properly determined constants to basic figures as to average annual sales or output, number of employees, etc., for each class of establishments. Profits, in particular, vary so widely from year to year that only studies covering long periods, such as those recently made public by J. E. Sterrett, may safely be used, and the application of such long term

* In making this distribution, care should be taken to avoid combining "profits" and the "entrepreneur's wage." Profits should be defined as the excess of capital return over a normal interest rate, or, perhaps, over the average capital return in the marginal, or price fixing, group of establishments. The entrepreneur's wage should be treated simply as one class of returns for personal service. This distinction is particularly necessary in order to avoid giving false impressions as to social possibilities through profit sharing with employees, and might be carried a step further by making a distinction between profits of corporations and profits of individual entrepreneurs.

percentages to properly classified investment values might give more accurate general results than could be obtained by summing a great mass of individual returns in which the errors might readily be cumulative rather than compensatory. In this connection, it is especially important to note the vital distinction between interest and profits distributed in cash to individuals, and profits accumulated in a growing business or paid to other corporations. It is only interest and profits distributed in cash to individuals that become income of individuals. Undistributed profits may ultimately increase the volume of distributed profits and the total of individual incomes, but very frequently they become lost through the accidents of business before distribution is possible.

Considerations similar to the preceding hold true of the lower range of family incomes. Streightoff has suggested that the closest approximation as to city dwellers might be obtained through a census of actual and equivalent family rents. Such studies are privately made on an extensive scale as the basis for certain classes of engineering work and their practicability has been fully demonstrated. The range and distribution of family incomes associated with any given house rent undoubtedly varies in different communities, but the combined expense of a house rent census and the required special determinations should be very much less than that involved in any direct investigation; and the final results should be much less subject to systematic and cumulative errors. Figures as to house rents already at hand indicate that, within certain easily established classes of cities, there is so great a uniformity of distribution of families, in relation to either the median or the average rent, that it approaches an absolute law.

A further source of information as to individual incomes lies in the payrolls of the larger employers. These indicate, of course, earned incomes only, and cover only a fraction of the population, but I have reason to suspect that, under proper statistical analysis, they will reveal a law of distribution of such incomes, in relation to the average or median, that may be of great service in checking other figures.

All of the preceding are, of course, nothing but rough suggestions as to sources and methods. They may serve, how-

ever, to emphasize the fact that, for the broader uses of national income statistics, the first and most essential thing to have is what an eminent British statistician has aptly described as a "Central Statistical Thinking Office," and not a mere expansion and elaboration of uncorrelated statistical effort.

With this intelligent planning of our national statistical program we will need, also, an intelligent publicity, to which your own organization may contribute not a little.

A speaker at one of your dinners said, not long ago, that he had no interest at all in statistics, but was forever hunting for *the* statistic that had the punch and would carry conviction.

Let me conclude by giving rough illustrations of this point out of my own very sketchy study of income statistics.

First, as to earned incomes, large payrolls show that, if the excess of all salaries above \$5,000 per annum were distributed among those getting less than \$5,000 per annum, the average increase in pay in the lower range would be only 3 cents per day, and this increase would be only 11 cents per day if the limit were fixed at \$1,500 per annum. War conditions may have shifted these figures somewhat, but cannot have changed the essential fact that no appreciable gain to the average worker can result from any conceivable evening up of earned incomes. An interesting side light on this point is that the average worker may doubt the propriety of some of the higher earned incomes, but, if questioned as to the relative industrial values of different classes of workers in the lower range, will very commonly indicate a greater spread in such values than is reflected in the average payroll.

Second, as to urban house rents, the average rent in typical large cities is only 20 per cent. or, say, \$3.50 per month, higher than the median rent, and, if all sums now paid in excess of 150 per cent. of the average rent were distributed among families in the lower rental range, they could increase their present payments by less than 20 per cent.

Third, as to profits in trade and industry, the average real investment per employee is probably under rather than over \$3,000, with book profits and interest charges of perhaps 14 per cent., and an actual cash distribution of perhaps 10 per cent. The excess of 4 per cent. above a normal 6 per cent.

interest rate corresponds to not more than \$120 per annum, or somewhat less than 40 cents per day per employee.

These may sound like "stand pat" arguments, but they are indicative of facts which conservatives and radicals alike must face. It is reasonably clear, in any case, that the problem of a more equitable distribution of individual incomes, whatever that problem may be, lies in the unearned rather than the earned element, and is closely associated with the concentration of income producing wealth.