

Income Tax Reports as Bases of the Income Estimates

The National Bureau of Economic Research, in making its estimates of income, is forced to depend very largely upon sources of information other than the figures furnished by the United States Bureau of Internal Revenue for individual income. That this is the case, is shown by the following table:

Year	Number of Income Tax Returns Filed	Number of Persons Gainfully Occupied	Net Income Reported to Income Tax Authorities	Estimated Total Current Income	Estimated Per Cent of Total Income Reported to Income Tax Authorities
	(Thous.)	(Thous.)	(Millions)	(Millions)	
1916	437	38,101	\$ 6,298	\$39,200	16.1
1917	3,472	38,681	13,652	48,500	28.1
1918	4,425	39,981	15,924	56,000	28.4
1919	5,332	40,282	19,859	67,254	29.5
1920	7,259	40,008	23,735	74,158	32.0
1921	6,662	40,819	19,577	62,736	31.2
1922	6,787	41,330	21,336	65,567*	32.5
1923	7,698	42,163	24,840	76,769*	32.4
1924	7,370	43,140	25,656	79,365*	32.3

*Preliminary estimate.

The figures in the first two columns indicate that but one in six of the persons gainfully occupied in the United States files a report of his income to the Federal tax authorities, and that the income reported on such schedules amounts to slightly less than one-third of the total current income of the people of the United States.

It is interesting to observe that, since 1920, the proportion of the total current income reported to the income tax authorities has been practically constant, the lowest figure being 31.2 per cent in 1921 and the highest 32.5 per cent in 1922. While, then, for information concerning the two-thirds of the income falling in the lower ranges it is necessary to look to sources other than reports on individual incomes as given by the Bureau of Internal Revenue, it appears that it is possible to estimate the total amount of such income with a fair degree of accuracy on the basis of the aggregate reported for taxation. Unfortunately for the estimator, however, the constancy of this ratio will presumably be destroyed by the changes in income tax law since 1924.

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Two bound volumes have recently been issued—*Business Annals* on September 13 and *Migration and Business Cycles* December 15.

Dr. Wesley C. Mitchell has in final stages of preparation the manuscript of the first volume of his new treatise on business cycles.

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Results of an inquiry conducted by the National Bureau of Economic Research, with the help of the U. S. Bureau of Markets and Crop Estimates and the Bureau of the Census, for the President's Conference on Unemployment; women in the study of labor conditions. Gives full details of investigation summarized in *Business Cycles and Unemployment* to which it is companion volume. Size 9x6 inches, 147 pages, illustrated with 75 tables, 11 charts, and indexed. Bound in cloth. (Out of print.)

BUSINESS CYCLES AND UNEMPLOYMENT

Results of an investigation made for the President's Conference on Unemployment. By the staff of the Bureau with 16 collaborators. Twenty-one topics covered. This report summarizes the known facts of unemployment and describes the various methods suggested to control the business cycle and alleviate cyclical unemployment. Size 9x6 inches, 405 pages, with 56 tables, 56 charts, and indexed. Bound in cloth. \$4.10 postpaid.

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Volume I. A Summary of an investigation of the Amount and Distribution of Income in the United States, 1909-1919, intended for readers who are primarily interested in the results. Size 7½x5¼ inches, 152 pages, with preface, 29 tables, 31 charts, and indexed. Bound in cloth. (Fifth printing.) \$1.58 postpaid.

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NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.
474 West 24th Street, New York

An Organization
for Impartial
Investigation

NEWS-BULLETIN

of the

National Bureau of Economic Research, Inc.

To Find Facts
Divested of
Propaganda

No. 23

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February 21, 1927

1926 American Income, Almost 90 Billions, Breaks Records

Jump of 27 Billions since 1921, shown in figures of National Bureau of Economic Research

"Real" Income Growing 7 per cent per annum

Average income per person gainfully employed now over \$2,000; will buy one-third more than average income of 1921.

THE total "current income" of the American people rose from \$62,736,000,000 in 1921 to the record breaking total of \$89,682,000,000 in 1926, according to preliminary estimates presented in a statement made public today by the Executive Committee of the National Bureau of Economic Research.

This gives the advance results of work upon which Dr. Willford I. King, and a corps of assistants, all under the general direction of Dr. Edwin F. Gay and Dr. Wesley C. Mitchell, directors of research, have been engaged since the summer of 1925.

Although the national income has increased 40 per cent since 1921, this growth, the statement points out, is not merely a fictitious quantity resulting from an increase in the price level, for the average price of direct or consumption goods was actually slightly less in 1926 than in 1921.

Economic Welfare Increases

Per capita income in 1926 is estimated at \$770 or one third more than in 1921. Expressed in dollars of constant purchasing power, per capita income increased 36 per cent since 1921.

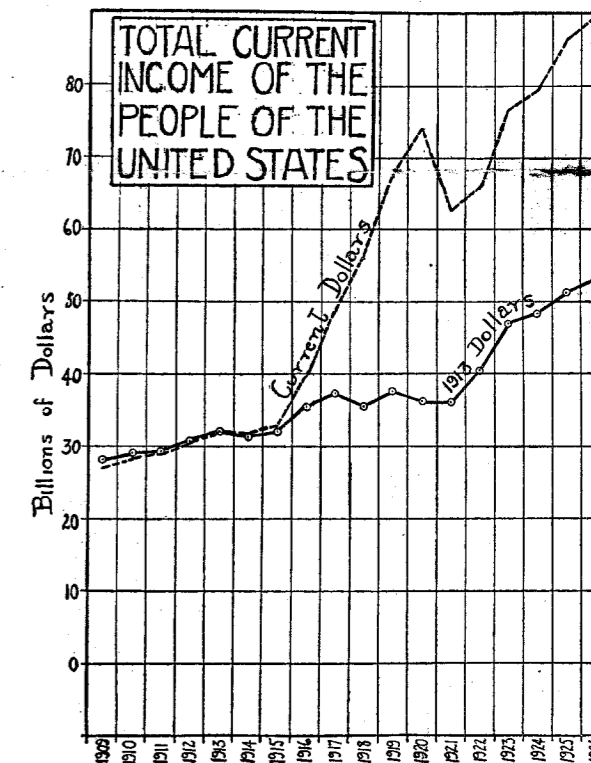
Incomes of the gainfully occupied in 1926 averaged \$2,010 as compared with \$1,537 in 1921. In terms of money of constant purchasing the gainfully occupied person received one fourth more than in 1917, and about 44 per cent more than in 1909.

New inventions and greater skill and organization are among the causes to which is ascribed this general increase in economic welfare in the face of a constantly growing population and a relatively inelastic supply of natural resources.

Income Estimates in Demand

The statement in full as authorized by the Executive Committee follows:

Repeated requests have been made that the National Bureau of Economic Research should issue preliminary estimates of income in the United States for the years since 1921.



The income estimates for the years 1909 to 1921, already published by the National Bureau, are composed of several thousand separate items and are arrived at by means of complicated and laborious computations. Because of the limited number of workers available for this study and the amount of work involved, it has proved impracticable to complete the estimates until a considerable period has elapsed after the publication by the United States Bureau of Internal Revenue of the volume entitled *Statistics of Income*, and this volume does not appear until many months after the income tax schedules are filed.

The necessary result has been that the careful income estimates of the National Bureau have appeared several years late, and it is this retardation which has given rise to the demand for current estimates.

The preliminary figures which are here presented for years since 1921 are based upon a limited number of indicators consisting of such items as wage rates, numbers of employees, dividend and interest payments, and volume of trade. For the years 1922,

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1923, and 1924, the income tax reports are available and the figures in those have been utilized as fully as possible. It is by no means certain that these indices constitute reliable gauges of the variations in income. It is possible, therefore, that the figures presented for the year 1926 may be as much as 10 per cent in error, but the probabilities are that the error is not as great as that. The chances of error increase with the distance from the year 1921. All users of the figures here presented should keep in mind the necessary shortcomings of preliminary estimates of this type.

The National Totals

If these estimates are approximately correct, the total income has shown a remarkable increase since 1921, the growth in dollars amounting to over 40 per cent. Furthermore, this growth is not merely a fictitious quantity resulting from an increase in the price level, for the average price of direct or consumption goods was actually slightly less in 1926 than in 1921.

TOTAL CURRENT INCOME OF PEOPLE OF UNITED STATES

Year	Current Dollars (Millions)	1913 Dollars (Millions)
1909	27,100	28,200
1910	28,400	29,100
1911	29,000	29,300
1912	30,600	30,800
1913	32,000	32,000
1914	31,600	31,300
1915	32,700	32,000
1916	39,200	35,500
1917	48,500	37,300
1918	56,000	35,500
1919	67,254	37,600
1920	74,158	36,300
1921	62,736	36,200
1922	65,567*	40,400*
1923	76,769*	46,900*
1924	79,365*	48,400*
1925	86,461*	51,100*
1926	89,682*	52,900*

*Preliminary estimate.

It should be understood that the figures as here presented are for "current" income. This concept is defined on p. 28 of *Income in the Various States, Its Sources and Distribution*, 1919, 1920, and 1921 in the following words:

"Current income may be defined as the excess of cash receipts over business expenses, plus the money value of income received in the form of commodities. It is estimated by summing (1) wages, salaries and pensions, (2) profits withdrawn from business, (3) dividends, interest, and rent received by individuals, (4) the rental value of homes occupied by their owners, (5) interest upon the sums invested in household furnishings, clothing, and the like, and (6) the value of commodities which families produce for their own consumption."

Similar estimates of current income may be obtained from Volume II of *Income in the United States, Its Amount and Distribution*, 1909-1918 by deducting from the estimates of total income as there given,

figures for business savings appearing in the last column of Table 20H. The reader should note that the term "current income" does not include the savings of business enterprises. It may well be, therefore, that the figures for total income would run materially higher throughout. The estimated amounts in terms of the purchasing power of 1913 have been obtained by dividing the current income figures by index numbers representing the average prices of goods purchased by consumers—in other words, they represent the total amount of direct or consumption goods which the people could have purchased for their entire current income if they had spent it all for such commodities or services.

Per Capita Income

The figures become much more significant when they are reduced to a per capita basis. It appears that, in 1926, the average inhabitant of the United States had an income of \$770 or one-third more than in 1921. When this per capita income is expressed in dollars having the purchasing power which they possessed in 1913, we find that the increase has been about 36 per cent. It appears, then, that from the economic point of view, the condition of the average inhabitant has been improving at a rate of about 7 per cent per annum.

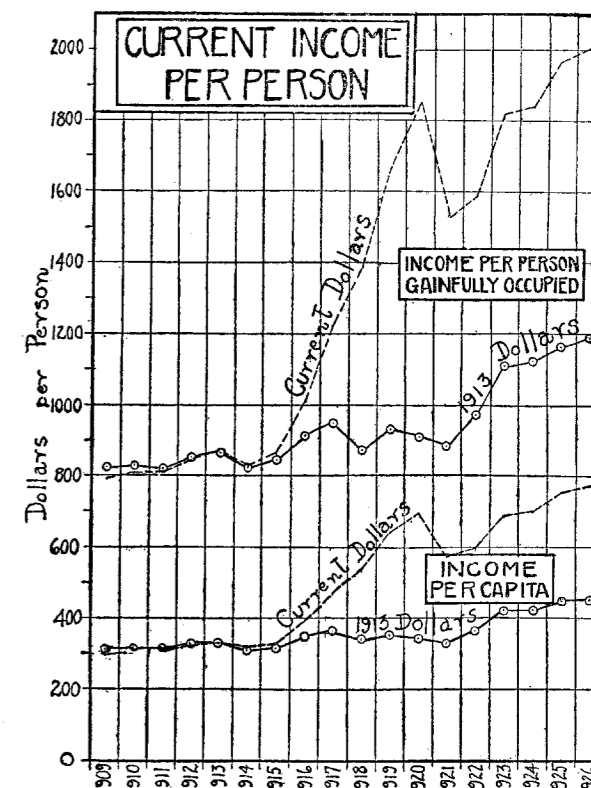
The startling nature of this change is indicated by the fact that the annual increase since 1921 has been as great as the entire increase during the 12 years from 1909 to 1921. The fact should be noted, however, that the difference in slope is partially accounted for by the fact that 1921 was a year of depression, while 1926 has been one of unusual prosperity. A fairer comparison may be made by dividing the entire period into two parts—1909 to 1917, and 1917 to 1926.

During the first period of eight years the per capita income, in terms of 1913 dollars, increased 15 per cent, while during the last nine years it increased 26 per cent. If the preliminary estimates are correct, there has, then, been a sharp upward turn in the trend of economic welfare in the United States.

ESTIMATED CURRENT INCOME PER CAPITA

Year	Current Dollars	1913 Dollars
1909	\$299	\$312
1910	307	315
1911	309	312
1912	321	323
1913	329	329
1914	320	316
1915	326	319
1916	385	349
1917	470	361
1918	537	340
1919	640	358
1920	697	341
1921	579	334
1922	597*	369*
1923	689*	421*
1924	700*	426*
1925	752*	445*
1926	770*	455*

*Preliminary estimate.



Income Per Person Gainfully Occupied

To many persons, figures showing the income per person gainfully occupied, seem more significant than do those reporting income per capita. In the United States, in 1926, there were some 44,600,000 of the inhabitants who belong in the category designated by the Bureau of the Census as gainfully occupied—that is, they were engaged in activities yielding them direct money incomes. Some of these were employers, many more were employees, and some were simply working on their own account. The figures exclude housewives and women and children helping the head of the family on the home farm.

For every person gainfully occupied in 1926, there appears to have been an income of slightly over \$2,000. When reduced to terms of 1913 purchasing power, we find that the average person working for a money income received about one-quarter more for his services than he obtained in 1917, and about 44 per cent more than he could have secured in 1909. The indications are, then, that despite the constantly growing population and the relatively inelastic nature of the supply of natural resources, new inventions and greater skill and organization are still enabling the average inhabitant to progress steadily upward on the scale of economic welfare.

Year	Income Per Person Gainfully Occupied		Year	Income Per Person Gainfully Occupied	
	Current Dollars	1913 Dollars		Current Dollars	1913 Dollars
1909	\$791	\$823	1919	\$1669	\$934
1910	809	829	1920	1851	907
1911	812	821	1921	1537	887
1912	844	850	1922	1586*	979*
1913	864	864	1923	1821*	1113*
1914	836	828	1924	1840*	1121*
1915	861	843	1925	1971*	1165*
1916	1014	919	1926	2010*	1186*
1917	1232	947			
1918	1386	879			

*Preliminary estimate.