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SAVING IN THE UNITED STATES[1]

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These two monumental volumes constitute the first two-thirds of a trilogy, the preparation and publication of which have been rendered possible by a grant from the Life Assurance Association of America, which also appointed a committee, mainly of economists, to assist Dr. Goldsmith and his staff in their research. The result is a study which for magnitude and scope is surely without parallel.

My first impression, after reading a few pages of Goldsmith's Introduction to Volume I, was one of frank incredulity. Here was a man purporting to provide, for a period of over fifty years and in great detail, statistical series which in other countries are available, if at all, only in broad outline and for a few quite recent years. Before proceeding further with Volume I, I therefore turned at once to Volume II to find out how the miracle was worked.

There is no miracle, except one of labor and scholarship. It is true that Goldsmith had at his disposal a range of official and unofficial statistics and estimates which must be far greater than any which exists elsewhere, so that only occasionally has he had to dig for his own primary data. But the work of selecting, analyzing, correcting, collating, cross-checking, and calculating must have been stupendous, and the possibilities of misunderstanding and error, in matters both of principle and practice, must have been almost infinite. The main problems and difficulties, and the methods used to resolve them, are frankly explained in Volume II, and an attempt is made to give some idea of the margins of error involved.

Goldsmith's approach to saving is in general through the balance sheet rather than through the income account. Of the various possible definitions, which ideally should all come to the same thing, the one he makes most use of is that saving is equal to "changes in earned net worth"; that is to say, to changes in the value of assets other than changes due to the revaluation of existing assets. In general, he uses the income account only as a check on other estimates or when estimates of asset changes are not available. This enables him to classify savings not only according to the sectors which make them (non-agricultural households, farmers, unincorporated businesses, corporations, state governments, local governments, and the federal government) but also according to the investments in which they are employed. Thus net personal saving is classified into changes in eleven different types of tangible assets, plus nineteen different types of claims on other sectors, less changes in twelve different forms of liabilities to other sectors. In the consolidated national savings account the various intersector debts and claims cancel out, and national saving consists only of earned changes in the value of tangible assets plus changes in net claims on foreigners.

While there can be no doubt that, as a practical approach to obtaining meaningful statistics, Goldsmith's definition of saving as a net increase in tangible assets has enormous advantages, one could wish that he had, in his Introduction, given more than a passing glance at a wider definition. In some contexts there is a good deal to be said for the view that saving occurs whenever any part of the current flow of resources is used

[1] A review note of Raymond W. Goldsmith, *A Study of Saving in the United States*, Vol. I: *Introduction; Tables of Annual Estimates of Saving, 1897 to 1949;* Vol. II: *Nature and Derivation of Annual Estimates of Saving, 1897 to 1949*. Princeton, N.J.: Princeton University Press, 1955. Pp. xxx+1138; xxiv+632. $30.00.

to increase, not present satisfactions, but the future flow of resources. A net increase in the stock of tangible assets is often, no doubt, by far the most important way of increasing output and incomes, but it is by no means the only way. Expenditure on research (including perhaps the research which gave rise to these volumes) may on occasion do more to increase the future flow of income than if it had been used to increase the stock of buildings or machinery, even though it leaves behind no evidence on the balance sheet.

It is probably this basic approach which leads Goldsmith into what seems to be an inadequate treatment of "good will." It is treated merely as the capitalized value of the power to make monopoly profits, and, since this can be exercised only at the expense of other members of the community, it disappears in the consolidated national accounts. But this view is surely too narrow. It is, for instance, just as beneficial to the housewife to have discovered, often as the result of a prolonged period of trial and error, the shop where she can get the goods or service she prefers as it is to the shop to have the expectation of the continuance of her custom. Good will is, in fact, the result of the development of a widespread mesh of interpersonal knowledge and relationships, between firms and their customers, between firms and their suppliers, and between employees within the firms themselves, which enables business to be carried through with the maximum of confidence and the minimum of delay. It forms an important part of that whole system of knowledge and confidence which is, perhaps even more than the possession of physical assets, the hallmark of the "developed" economy and the relative absence of which is perhaps a greater barrier to the rapid raising of output in "underdeveloped" countries than the shortage of physical assets. We cannot, of course, measure even gross investment in these real but intangible assets with any accuracy, while the attempt to measure net investment would clearly be futile. Nevertheless, I should have welcomed from Goldsmith a recognition of the problem, in case he should be thought to be lending support to the widespread tendency to regard as real only those things which can be measured and to frame policies in disregard of the intangible assets from which income is so largely derived.

Within the limits he has set himself, Goldsmith's definition of investment is extremely wide. Though he also provides estimates on narrower bases, in his main estimates he includes both durable consumers' goods in the possession of households and improvements in the soil and equipment of farms. The only major item which he is reluctantly obliged to omit is the stock of semidurables in the hands of consumers—a stock which, since the spread of the deep freeze, may well include an appreciable amount of what used to be regarded as nondurables. He also provides estimates of depreciation at replacement cost and adjusts for price changes (on a 1929 base) by means of a number of alternative price indexes, of which the one he prefers for general purposes is that for the whole of the national product. He also gives detailed comparisons between his present results and those of previous investigators, with explanations of the differences which emerge, as well as complete references to sources. Subsequent investigators will thus have the fullest opportunity of checking his figures and of improving on them as further information becomes available.

The sort of difficulties with which Goldsmith has had to deal may be illustrated by the following two examples, one of principle and one of practice, selected from very many. The first is chosen partly because it is one of the very few where I find Goldsmith's logic less than impeccable and partly because it provides an excellent illustration of the delicacy of some of the intellectual problems involved. The question, discussed in Volume II (pp. 59–62), is whether the costs involved in the resale of existing investments, whether tangible or intangible, should or should not be included in the consolidated totals of net national saving and

investment. Goldsmith's own conclusion is that

> the costs of distribution of saving must be regarded as part of national as well as of individual units' saving. This conclusion covers items such as investment bankers' and dealers' commissions or profits on the issuance of new securities, brokers' and dealers' commissions and comparable profits on transactions in outstanding securities, brokers' and dealers' commissions and profits on transactions in real estate, dealers' commissions and profits in transactions in secondhand producer and consumer durables and—less confidently—taxes on transactions in tangible or intangible assets [II, 61].

This conclusion is justified on the ultimate ground that "the costs of distribution, which are the subject of this argument, constitute remuneration for identifiable current services."

Let us examine these conclusions with the help of the simplest possible practical example. There is no doubt that the distribution costs on a new tangible asset are a part of its cost of construction and must be included in the total investments of the ultimate buyer and of the country as a whole. Similarly, the cost of raising capital for the finance of the purchase or construction of a new tangible asset can be regarded as part of its cost. I do, however, find difficulty in accepting as part of *net* national investment the costs incurred in the resale of existing assets, whether tangible or intangible. Let us take the example of a man who has just bought a new house, for which he has paid $19,000 plus $1,000 for transfer costs. The total investment, national as well as personal, is thus $20,000. As soon as he has paid for it, a change in his personal circumstances obliges him to resell it. The second buyer pays exactly what the first did—$19,000 plus $1,000 for transfer costs. It seems obvious to me that the net national investment is no more than it would have been if the second buyer had bought the house when it was new, namely, $20,000. It is true that the original cost plus two transfer fees amounts to $21,000, but, of this, $1,000 has been lost by the first buyer. It does not seem possible to regard this loss as a capital loss, for, by Goldsmith's own definition, a capital loss, like a capital gain, can occur only when there is a revaluation; and, since the second buyer paid exactly the same price as the first, there has been no revaluation. We must therefore regard the first buyer's loss of $1,000 as a cost on income account and not as a capital loss.

The first buyer's position seems to me to be analogous to what it would have been if, after taking delivery of the house, he had found that his wife did not like the color of the paint, so that he was obliged to have it redecorated at a cost of $1,000. The value of the house, after repainting, is no greater than it would have been if he had chosen the right color in the first place, and he must regard the extra cost as a form of repair and maintenance. Similarly, the value of the house is no greater than if it had been sold directly to the second buyer, and the first buyer must regard his loss of $1,000 as the cost, chargeable to income account, of making good the result of his lack of foresight. Thus, while costs of transferring new tangible assets and new securities can be regarded as investment, costs of retransferring existing assets should be treated as costs of maintenance, not contributing to net investment.

The second example I take, as illustrating the practical difficulties of these estimates, especially for the earlier years of the period, is from Goldsmith's own account (II, 306–57) of the process of estimating net personal investment in common stocks, one of forty-two separate items in one of seven sectors. To begin with, there were no collected figures available at all for new issues of common stocks in the earliest years of the period and only very inadequate and partial figures for more than half of it. It was therefore necessary to compile an entirely new series, often from very intractable primary data, taking care to eliminate issues made otherwise than for cash or with the purpose of financing the purchase of existing assets from individuals.

After the herculean task of devising this

new series, it was necessary to undertake what Goldsmith calls "the laborious but relatively straightforward task" of estimating annual changes (other than valuation changes) in holdings of common stocks by non-individual investors. The great bulk of these holdings are believed to be in the hands of financial corporations of one kind or another, and for these reports are available, though usually not in a form providing the information desired without a great deal of work in eliminating changes due to capital gains or losses. Estimates of changes in foreign holdings have been made with the, often very inadequate, balance-of-payments statistics, but it has not proved possible to arrive at any reasonable basis for estimating the holdings of domestic non-financial corporations. However, as samples seem to indicate that changes in these last are relatively small, Goldsmith hopes that their omission will not seriously affect the validity of the main estimates.

Having obtained, on the one hand, a series for net annual new issues of common stock for cash and, on the other, a series for annual non-valuation changes in the holdings of non-individual owners, Goldsmith obtains, by difference, changes in the holdings of individuals. Although he does not claim that the resulting estimates of net personal investment in common stocks are anything but very rough, especially for the earlier years, he considers that the great effort employed is worthwhile, because "such a series is essential for any over-all estimate of saving, and because it represents one of the most important, controversial and yet in quantitative terms least explored aspects of the entire field of saving and investment."

The fruits of five years' work by Goldsmith and his staff are embodied in nearly nine hundred pages of tables, while the main conclusions to be drawn from them are set out in more than two hundred pages of Introduction, with the help of another hundred tables and charts. It is possible here to mention only a very small fraction of the points that arise. Perhaps the most important is that net saving in the United States, in spite of large annual and still larger cyclical fluctuations, shows a quite remarkable consistency of long-term trend. From 1897 to 1929, and indeed probably far back into the nineteenth century, real saving per head of population has shown an average annual increase of about 2 per cent, though, as the percentage growth of population has been rather slower in the twentieth century than in the nineteenth, the rate of increase in aggregate real saving has also probably been rather smaller. This upward trend was interrupted between 1929 and 1945, first by the great depression, when net national saving for a time became negative, and then by the second World War, during which the greatly increased saving of other sectors was largely, though not entirely, offset by the dissaving of the federal government. With the end of the war, however, the level of saving seems to have returned with a leap to its long-term trend line, though one would have liked a longer period than four years (1946–49) on which to base so important a conclusion. Perhaps in due course a supplementary study will be able to cover a larger number of postwar years.

Not only has the long-term trend in real net saving per head of population remained remarkably stable but so, too, has the proportion of national income saved. From 1897 to the end of the 1920's, the nine-year moving average (designed to smooth out the effects of cyclical fluctuations) shows net national savings fluctuating only between 12 and 15 per cent of net national income, if expenditure on consumers' durables is included in investment, and between 11 and 13.5 per cent if it is excluded. During the 1930's even a nine-year moving average of net saving became negative for several years, while during the war it stood at about 4 per cent of net national income; but the average of the four years 1946–49 recovered to 15.5 per cent of national income including consumers' durables and nearly 12 per cent excluding them. For the whole half-century, including the two world wars and the great depression, net savings averaged nearly 11 per cent of net national income, including

consumers' durables, and over 9.5 per cent if they are excluded.

To an Englishman, these proportions look very high. On the basis of official estimates of saving plus depreciation, and Redfern's[2] estimates of depreciation at replacement cost, net saving in the United Kingdom, excluding consumers' durables, seems to have averaged less than 6 per cent from 1948 to 1951 and, even after the remarkable recovery in personal saving in 1952–53, is probably still not much more than 8 per cent. All such international comparisons must, of course, be treated with the greatest reserve, since the bases of estimation for both gross investment and depreciation may differ widely from one country to another. But it is difficult to avoid the conclusion that, at least since 1914, the proportion of national income saved has been much greater in the United States than in the United Kingdom.

Another feature of Goldsmith's results which looks unfamiliar to English eyes is the consistently high proportion of national saving contributed by personal saving. In none of Goldsmith's "normal" periods (1897–1908, 1909–14, 1922–29, and 1946–49) was net saving by individuals ("non-agricultural households") less than 60 per cent or more than 70 per cent of the total, if we include consumers' durables among investments. If these are excluded, the proportion falls from nearly 70 per cent in 1909–14 to 62 per cent in 1922–29 and to 52 per cent in 1946–49. For total personal saving, including that of farmers and non-incorporated businesses, the proportion including consumers' durables is even more consistent, at 72 per cent in 1897–1908, 74 in 1909–14, 69 in 1922–29 and 70 in 1946–49, while excluding consumers' durables it falls from 71 per cent in 1909–14 to 64 in 1922–29 and 60 in 1946–49. Of the remaining savings, the bulk has been supplied by the undistributed profits of corporations, the share of which has varied from a minimum of 18 per cent in 1922–29 to maxima of 25 per cent in 1897–1908 and 1946–49, while the share of local and state governments has varied between 5 and 10 per cent. Federal government savings have been small even in normal periods, while during the two wars and the depression the government was a very large dissaver.

On the question of the share of personal saving contributed by the different income groups the conclusions are less definite, though it is believed that the great bulk is contributed by a relatively small proportion of income-earners. One estimate is that at present 80 per cent of individual savings are supplied by the 10 per cent of households with the highest incomes and that in earlier years the proportion was even higher. The rise in the share of the lower-income groups is attributed partly to the growing importance of investment in consumers' durables and partly to the growth of pension and retirement funds. The rise in net personal saving through consumers' durables is, of course, less than the rise in total national saving in this form because of the rapid rise in debts owed by consumers to other sectors.

It will be observed from the foregoing paragraphs that, while the proportion of income saved is much higher among the higher-income groups, the country as a whole does not, in the long run, save a higher proportion of its income as it grows richer, although, in the short run, cyclical fluctuations in the level of national income are naturally accompanied by much larger fluctuations in the level of saving. It would therefore seem that, at any rate in the United States, saving is a function, not of absolute real incomes or even of changes in income, but of incomes in relation to other incomes at any given time.

Goldsmith concludes his study with a chapter on the national capital of the United States. In this he gives detailed estimates of the size and composition of the national wealth at different dates and of the relative shares, under a number of separate heads, of

[2] Philip Redfern, "Net Investment in Fixed Assets in the United Kingdom, 1938-1953," *Journal of the Royal Statistical Society*, Ser. A, Vol. CXVIII (1955).

saving and capital appreciation (or, in 1930–33, of dissaving and capital depreciation) in the changes between dates. He also examines in detail the changes in the assets structures of the different sectors through time, demonstrating, among many other changes, the great growth in the proportion of liquid assets held by all main groups of savers as the result of the rise in the debts of the federal government, especially during the second World War. Finally, he estimates the distribution (in 1950) of different types of capital by age of owner. His figures show an average rise in capital per "spending unit" (there were 52,000,000 spending units in the United States) from very little in the eighteen to twenty-four age group to about $20,000 in the fifty-five to sixty-four age group. Capital per spending unit declines to about $15,000 for the age group over sixty-five, mainly as the result of a rapid fall in the asset labeled "interest in business." The fall after age sixty-five is confined to those with estates valued at under $60,000; those with estates over $60,000 seem to go on getting richer the longer they live.

It is to be hoped that the few samples which are all that it has been possible to present in this review will be enough to show how rich and extensive is the mine which exists in these two massive volumes. It may be surmised that nothing can hereafter be written on anything in any way connected with this subject which will not owe a very great debt to the devoted labors of Goldsmith and his staff and, ultimately, to the Life Assurance Association of America. Other countries please copy.