

Preface

U.S. Federal taxation of asset transfers at death began in 1916. Since the beginning of the tax, the Statistics of Income (SOI) program of the Internal Revenue Service has prepared informative summaries at fairly regular intervals from the estate tax returns filed. These SOI tabulations and accompanying interpretive material have, over the years, appeared in many forms — ranging from a chapter in the annual Statistics of Income reports to a separate supplementary report series. Estate tax statistics are now published in the quarterly *SOI Bulletin* and available electronically through the SOI Electronic Bulletin Board ((202) 874-9574).

In some ways, this Compendium might be thought of as a part of a set of publications. The second volume in the set, tentatively entitled *The Estate Fact Book, 1916-1950*, provides details of the estate tax in its early years. This “Fact Book” is based on a reprocessing of the old estate returns which IRS had retained in storage. It, therefore, provides an opportunity to give a modern look to the work done, often by hand or with punchcard tab equipment in the days before computers. The Fact Book is planned for early 1995 and should be available both on paper and in an electronic form.

Despite the long history of the estate tax and its SOI statistics, this is the first Compendium to be produced. Brought together here are not only data taken directly from the returns, but also estimates prepared from them of the asset holdings of the wealthy. Some time series information is included; however, the emphasis is on recent results. Not only does the present Compendium emphasize estate statistics from the last few decades, but it also gives notable prominence to the role estate tax returns have had in estimating the wealth of the wealthy. Wealth statistics in the United States have a long lineage — quite apart from the estate tax; nonetheless, it has been true, and remains true today, that they simply have not been given the attention of their natural complement, income statistics.

Aside from estate tax estimates of wealth, sustained efforts to balance overall U.S. income and wealth statistics have been largely lacking. Two big exceptions are the Survey of Income and Program Participation (SIPP) and the Survey of Consumer Finances (SCF).

Begun in the 1970's and conducted by the Census Bureau, SIPP has become an important regular source of information on the assets held by households. While it provides some insight, SIPP's uses for wealth estimates are somewhat limited, since wealth is highly concentrated and SIPP is not stratified by wealth (or income). It does not really address (nor was it intended to) the holdings of the very rich.

Fortunately, the Federal Reserve Board (FED) decided to resume, in the early 1980's, its Survey of Consumer Finances (SCF). The first such survey done by the FED was in 1963. At that time, IRS assistance was obtained to construct a frame to allow for oversampling of the well-to-do. The early cooperative efforts between IRS and the Federal Reserve Board in the 1960's were resumed in the 1980's (with, of course, suitably updated and made even more stringent procedures to protect taxpayer's rights to privacy and confidentiality). The modern SCF represents, at present, the best source for those interested in looking at the wealth distribution as a whole — particularly at the full range of asset holdings across net worth classes. Some of the work done by SOI staff on the Survey of Consumer Finances appears in this Compendium. The SCF, though, is not a primary focus here; instead, the wealth statistics presented come mainly from estate tax returns and are based on the estate multiplier method.

The so-called estate multiplier method was devised in the 19th century as a way of using death duty tax records to estimate wealth in Great Britain and France. To obtain an estimate of the wealth of the living, the decedent's wealth was multiplied by the inverse of the mortality rate for the individual. Overall mortality rates were used initially. Later on, these were adjusted for social class differentials and characteristics of obvious importance to mortality rates, like age and sex.

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There is some evidence that SOI tabulations, from the beginning, may have been designed for possible use in estimating personal wealth. Dr. Edward White, the first Director of the SOI programs, probably knew of the estate multiplier method. For one thing, much of what was done at IRS in those early days was modeled after Great Britain's Inland Revenue, which had an active program based on estate duty records. Another source of supporting information, besides the tables themselves, is the important role that the *Journal of the American Statistical Association (JASA)* had in the founding of the SOI program. In December 1915, *JASA* published complete income statistics from the tax returns filed in 1913, the first year of the modern income tax. Not incidentally, that *JASA* article by Roland Falkner recommended the legislation passed in 1916 that established SOI. In its earlier volumes, dating back to at least the 1890's, *JASA* had articles on the estate multiplier method.

Estate tax wealth estimates were not actually produced in the SOI program until the 1960's. Prior to that, the work had been done by independent scholars, like Robert Lampman. In fact, it was on the initial SOI wealth estimates, done for 1962 (included in this Compendium) that I got my start as a statistician in IRS. Since then, estimates of personal wealth have appeared at regular intervals as part of the SOI program. One contribution of this Volume is that it brings together the highlights of that nearly thirty-year effort.

It seems fitting to dedicate this Volume to two friends from those days, now long ago: Staunton Calvert and Jim Smith, both of whom labored mightily to start the SOI wealth series. Also, it is appropriate to commend to you those who still labor to produce estate and wealth statistics. In particular, I hope that, under the leadership of Barry Johnson and Marvin Schwartz, supported by Louise Woodburn, Elizabeth Nelson, Cathy Deale, Mike Alexander, and Dan Skelly (among others), this important SOI tradition will continue.

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