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## CHAPTER 5

# The Effects of Occupation and City Size on Investment in Financial Assets

AMONG factors other than income which have a systematic effect upon the distribution of financial asset ownership and which play a part in determining what types of financial assets are held by particular individuals, both the occupation of the individual involved and the size of city in which he resides appear significant. For example, about one-third of the reason why individuals with incomes of \$10,000 and over, as a group, hold a greater proportion of their financial assets in traded stock than the group with less than \$5,000 income appears to be the concentration in the higher income group of certain occupations that seem naturally to involve large holdings of traded stock. Partly the analysis of occupation and city size supplements the study of the relation between income and financial investment behavior; in the language of correlation analysis, the correlation is improved by the addition of these variables. But analysis of them also adds new dimensions to the study, each of which is of interest and importance in itself.

In general, the investor's occupation and the size of the city in which he resides apparently influence financial investment patterns in such a manner that it is impracticable to treat them as continuous variables having a direct effect upon financial behavior. Systems of classifying persons according to occupation are not stated in terms of continuous variables, and the effect of occupation on individual investment practices appears to operate more through the form (and financing requirements) of business associated with different occupations than through the occupational factor itself. Similarly, although size classifications of communities may be stated as continuous variables, the effect of city size on the practices of investors appears to be less that of population density directly than that of differences in the characteristics of business organization in communities of different sizes. The latter factor in turn reflects variations in resource distribution of which the distribution of the population is but one part. Thus the classification of individuals by size of city of residence is less an attempt to relate population density to investment behavior than to use

the factor of city size as a substitute for a whole set of less measurable influences.

There appears to be some degree of correlation among the income level of an individual, his occupation, and the size of the city in which he lives. The income level of professional and managerial persons is, of course, higher, and that of unskilled labor lower, than the average for all earners, and these differences are also noticeable in total family income. Similarly, persons and families living in rural areas and small communities have lower incomes than do those residing in metropolitan areas. To some extent community size differences in income are a product of the occupational "mix" of the community, although they are evident even within certain occupations. Because of the correlation between income level and these other factors, the analysis attempts to isolate the effect of income on asset composition and to consider separately the effect of occupation and city size. It was not practical, however, to remove the interaction between occupation and city size, because the detailed subclassification required for such an analysis might have produced too few cases in many of the cells, so that the statistical reliability of observed differences would have been doubtful.

The examination of such additional factors and their influence on the investment practices of individuals is necessarily incomplete. Many other factors affecting investment preference patterns undoubtedly exist—such as age, sex, education, and dependency status—that may have a greater or lesser importance than occupation and city size. But the attempts that were made to explore their effect on financial investment were not fruitful, partly because of difficulties involved in measuring the variables from information stated on tax returns and partly because the effects of some of them were apparently slight.

#### *Occupation*

All individuals in the Wisconsin sample were classified according to occupation as given on their tax returns. In the case of joint or combined returns of husband and wife both reporting income, if both were gainfully employed, the classification chosen was that of the husband, except in one or two cases where it was apparent that the husband had worked only intermittently during the year. In many cases the classification had to be quite arbitrary and the difference between some classifications, such

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as the skilled and semiskilled on the one hand, and unskilled labor on the other, was not at all precise. Persons stating their occupation as "laborer" were put in the unskilled category, as were those stating certain types of menial occupation (janitor, helper, "odd jobs," etc.). On the other hand, persons stating specific occupations such as "press operator" or "core maker" were placed in the skilled and semiskilled category, even though the degree of technical skill necessary in the particular job was unknown. In a few instances the occupational category appeared not to match the income reported in a particular situation; in some of these cases occupation was not taken as stated. A tendency for some persons to "write up" their occupations—bookkeepers, for example, listing themselves as accountants—was apparent.

The greatest difficulty encountered was in attempting to classify high income individuals on the basis of a relatively simple occupational scale designed, in the main, for low income individuals. Thus a \$40,000-a-year "sales agent" was classified as "clerical and sales" even though his duties may have been largely executive or managerial. Some individuals in the sample listed themselves as "investor" or "capitalist"; these were placed in the catch-all group—"all others and unspecified." Although the catch-all group also contains students and unemployed persons, as well as persons not specifying their occupation, it is heavily weighted by the financial assets of persons specifying "investor" or "capitalist" as their occupation. Widows are included in the category of housewives, as are single women without occupation deriving their income mainly from property.

Country-wide data on the frequency of ownership of financial assets, derived from the 1949 Survey of Consumer Finances, show the proportion of spending units headed by persons with various occupations that hold different types of financial assets.<sup>1</sup> Summarized in Table 18, this material reveals that only about half of the units headed by unskilled laborers held one or more types of "liquid assets" (savings accounts, checking accounts, and federal bonds), whereas almost nine-tenths of the units headed by professional and managerial and self-employed persons held such assets. In the case of corporate stocks, 15 per cent of all units headed by persons in professional and managerial pursuits held

<sup>1</sup> For a definition of a spending unit, see Chapter 2, footnote 10. Some units consist of a single person, and the expression "headed by" is not intended to imply their exclusion.

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TABLE 18

Frequency of Ownership of Liquid Assets and of Corporate Stock  
for Occupational Groups of Spending Units  
in the United States, Early 1949

OCCUPATION	PERCENTAGE OF UNITS HOLDING:	
	<i>Liquid Assets</i> <sup>a</sup>	<i>Corporate Stock</i> <sup>b</sup>
Professional	91%	15%
Managerial and self-employed	88	15
Clerical and sales	84	9
Skilled and semiskilled	70	4
Unskilled	49	
Farm operator	72	14
Retired	70	9

From "1949 Survey of Consumer Finances," *Federal Reserve Bulletin*, August 1949, Table 5, p. 903, and *ibid.*, October 1949, Table 17, p. 1196.

<sup>a</sup> Includes checking accounts, savings accounts, and U.S. government bonds of all types.

<sup>b</sup> Includes common and preferred stocks of corporations open to investment by the general public.

issues of corporations open to public investment; in contrast, only 4 per cent of the units headed by skilled and unskilled laboring persons held any stocks of that type. Surprisingly, the Survey of Consumer Finances data show that farmers are nearly as frequent holders of corporate stocks as are spending units headed by professional and managerial persons.

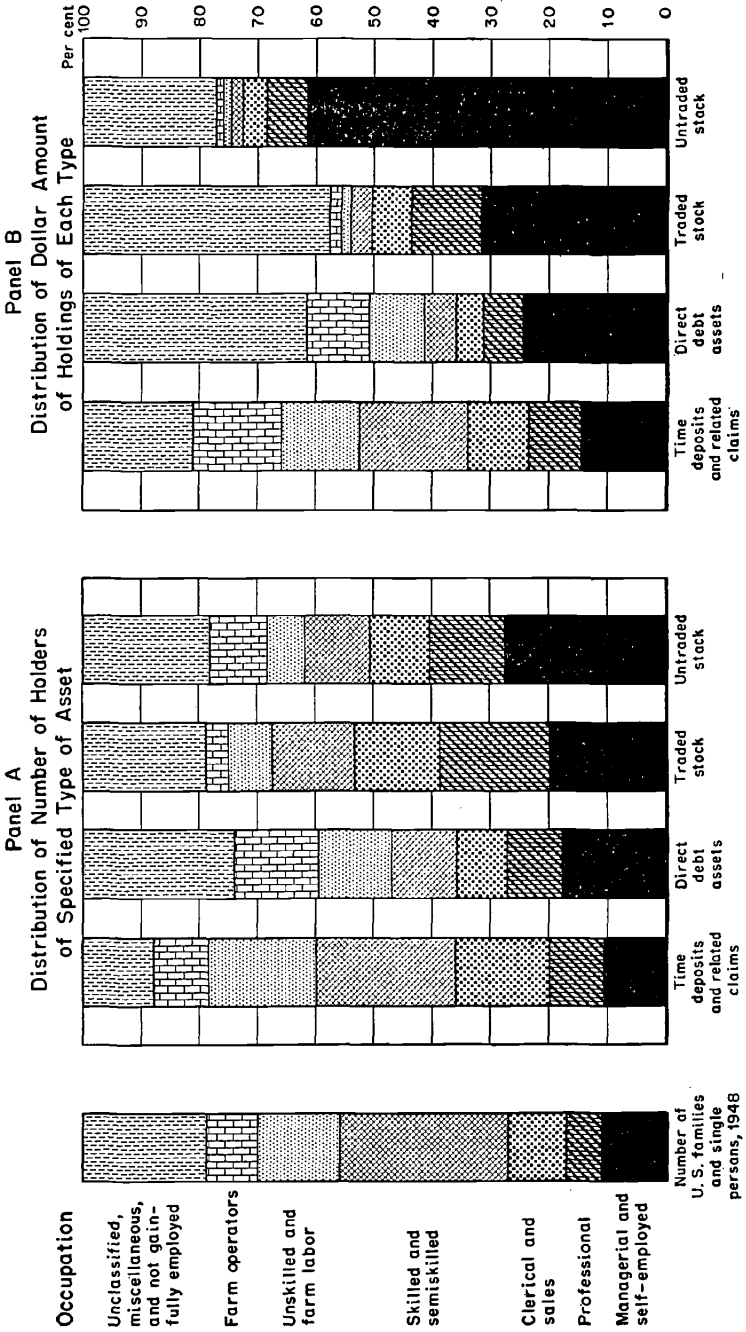
Similar differences in the distribution of financial asset holdings among occupational groups are revealed by the Wisconsin tax returns. These can be observed in Chart 7, in which the dollar amount of each of the main types of assets held, and the number of holders of each, are distributed percentagewise among occupational groups. The results may be compared with the occupational distribution of all families and single persons in the United States. Thus, Wisconsin individuals in five occupational groups—professional, clerical and sales, skilled and semiskilled, unskilled labor and farm laborers, and farm operators—constituted about 68 per cent of the family population in 1949 and held about 67 per cent of the dollar value of time deposits and related claims, 38 per cent of the direct debt assets, 27 per cent of the value of traded stocks, and 16 per cent of the value of untraded stocks.

Eleven per cent of the family population consists of individuals in managerial and nonfarm self-employed pursuits. This numerically small group has greater importance among holders of financial

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CHART 7

Occupational Distribution of the Population, and of Financial Asset Ownership by Wisconsin Individuals in 1949



Panel A from Table A-7, Panel B from Table A-8, and occupational distribution for the United States from preliminary data in Current Population Reports of the Bureau of the Census.

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assets than its proportion in the population would indicate. Sampled individuals in the managerial and self-employed group constituted 10 per cent of the number of holders of time deposits, 18 per cent of the total holders of debt instruments, 20 per cent of the holders of traded stocks, and 28 per cent of the holders of untraded stocks. Even greater concentration in this occupational group is indicated when the distribution of the dollar value of asset holdings is examined. Self-employed and managerial persons held, in terms of total dollar value, 14 per cent of the time deposits, 24 per cent of the debt instruments, 31 per cent of the traded stocks, and 61 per cent of the untraded stocks surveyed.

Finally, there is a group of individuals who are not normally in the labor force but who appear nonetheless as important holders of certain types of financial assets. It includes widows, housewives, retired persons, and "investors" or "capitalists" (i.e. persons living on property income), and some others. While the group holds only a moderate share of time deposits or untraded stocks, it holds approximately two-fifths of the total value of both debt instruments and traded stocks (38 and 42 per cent, respectively). It should be noted, however, that these figures probably overstate the importance of individuals not in the labor force because of the presence in the catch-all category—"unclassified, miscellaneous, and not gainfully employed"—of some persons who did not specify their occupations.

Table 19 shows estimates of the distribution of checking accounts, U.S. savings bonds, and life insurance among occupational groups in the United States for 1950, based on the 1950 and 1951 Surveys of Consumer Finances. It is quite apparent that the "all other" occupational group, including retired persons, holds as great a share of the value of checking accounts and savings bonds as of the nonequity types of asset covered by the Wisconsin survey, though its share of life insurance is smaller. On the other hand, spending units headed by managerial or self-employed persons stand out as large holders of all three of the types of asset not covered in the Wisconsin sample—checking accounts, savings bonds, and life insurance. Farmers, while making up 9 per cent of the population, hold about 16 per cent of the value of checking accounts, but only about 5 per cent of the life insurance. Skilled and semiskilled workers hold a share of life insurance about equal to their proportion in the population, but a smaller share of savings bonds and a still smaller share of checking accounts.

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TABLE 19

Estimated Distributions of Value of Checking Accounts,  
U.S. Savings Bonds, and Life Insurance Premium Payments  
in the United States, 1950, by Occupational Group

OCCUPATION	CHECKING ACCOUNTS <sup>a</sup>		U.S. SAVING BONDS, SERIES A TO F <sup>a</sup>		LIFE INSURANCE PREMIUM PAYMENTS <sup>b</sup>
	A	B	A	B	
	Professional and semiprofessional	10%	11%	13%	12%
Managerial and self-employed	20	24	15	18	29
Clerical and sales	9	10	11	12	13
Skilled and semiskilled	10	10	16	16	26
Unskilled and service	3	3	4	5	4
Farm operator	16	16	6	9	5
All other (including retired)	33	26	34	28	10
Total	100%	100%	100%	100%	100%

<sup>a</sup> As of early 1950. The valuation data underlying the percentage distributions were estimated by first determining the number of spending units owning a specified type of asset in each size-of-holding class within occupational group, from percentage distributions given by the 1950 Survey of Consumer Finances (*Federal Reserve Bulletin*, July 1950, Table 11, p. 787, and December 1950, Table 34, p. 1607), and then multiplying the number of units in a group by an estimated typical value of holding for the group. In method A the median size of holding for a given occupational group was calculated from the distribution of spending units by size of holding within occupation, and was converted to an assumed mean value as follows: The curve of mean-median relationships for size of holdings of time deposits and similar claims by Wisconsin individuals was plotted by income class (Table A-6), and the relationship applicable to each occupational group was read off at the appropriate point on the income scale (mean income for the occupational group being available from the *Federal Reserve Bulletin*, August 1950, Table 2, p. 950, except that for the "all other" group an assumed figure, \$1,500, had to be used); and the calculated median for the occupational group was adjusted accordingly. In method B the typical value used was the midpoint for each size-of-holding class, an assumed midpoint of \$4,000 being chosen for the highest class (\$2,000 and over).

<sup>b</sup> Represents the distribution of premiums only and therefore assumes a distribution of the cash surrender value of life insurance identical with the distribution of premium payments. Valuation figures were obtained by multiplying average premium payments during 1950 for a given occupational group (as shown in *Life Insurance Fact Book*, 1952, Institute of Life Insurance, p. 14) by the estimated number of insured spending units in that group in early 1951 (computed from data in "1951 Survey of Consumer Finances," *Federal Reserve Bulletin*, August 1951, Table 7, p. 927, and December 1951, Table 15, p. 1526).

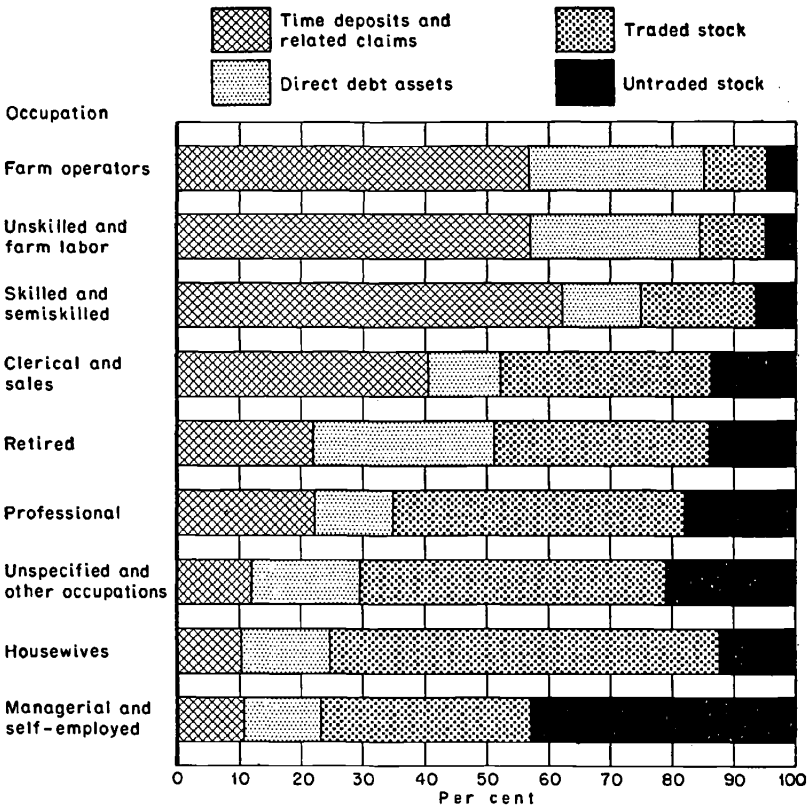
The various occupational groups have been arranged in Chart 8 in ascending order of the proportion of their total financial assets consisting of corporate equities. The two groups of Wisconsin individuals with the smallest proportion of their holdings taking the form of corporate stocks—farm operators and unskilled labor—have practically identical asset composition. Both farm operators and unskilled laborers hold amounts of direct debt assets that are large in comparison with the proportions held by other occupational groups; in the first case this probably results from the customary methods of financing agriculture, in which sales of land



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CHART 8

Composition of Financial Asset Holdings for Occupational Groups of Wisconsin Individuals, 1949



Based on Table A-8.

and livestock are frequently executed by the exchange of notes or mortgages rather than of cash. No similar explanation is available for the comparatively heavy holding of direct debt assets by unskilled laborers. Retired individuals, it will be noted, are also included among the relatively heavy holders of direct debt assets.

At the other extreme, housewives hold a greater proportion of their financial assets in the form of traded stock (nearly two-thirds of the dollar value of their holdings) than does any other group, while managerial and self-employed persons have the heaviest proportionate holdings of untraded stocks (43 per cent). It is not difficult to see the advantage of traded stocks for housewives—in

the group surveyed, probably widows for the most part. Traded stocks have a high yield and are relatively liquid in case of emergency. The large holdings of untraded stocks by the managerial and self-employed group undoubtedly reflect investment in owned or controlled corporations, about which more will be said below.

Further light on the relation of occupational differences to the composition of financial asset holdings is given by Table 20, which divides each occupational group into three income classes so that occupational differences in asset composition may be viewed separately from the influence of income. It will be observed that the earlier generalization about the investment pattern followed by the managerial and self-employed does not hold for such of the group as have incomes of less than \$5,000. These actually have a smaller share of their holdings in the form of corporate stocks than is typical for their income group as a whole. It may be that the lowest income group among the managerial and self-employed consists largely of owners of unincorporated businesses, while corporate executives predominate in the higher income groups. Thus, to the extent that the owners of unincorporated businesses plow back a considerable part of their savings into their businesses, their holdings of corporate stocks are low and exceeded by the ownership interest in their own unincorporated enterprises. Furthermore, the small closely held corporations whose owners were in the income category under \$5,000 may have been non-dividend-paying firms, with the result that the estimate of untraded stocks held by managers in that income group is too low. It is also interesting to note that farm operators in the lowest income group do not have markedly larger holdings of direct debt assets than the average for their income group. The most likely reason for their difference in that respect from farmers in higher income groups is the fact that notes, mortgages, etc., originate largely through the sale of land and other physical assets, which only the wealthier farmers would have in any great abundance.<sup>2</sup>

<sup>2</sup> In Wisconsin the ownership of farms through mortgage financing has generally been preferred to tenancy and for that reason active and retired farmers there might be expected to hold a considerably greater proportion of their assets in the form of debt instruments than in states where high tenancy ratios prevail. See *Farm Management*, by John D. Black, Marion Clawson, Charles R. Sayre, and Walter W. Wilcox (New York, 1947), p. 708, and Chart 99, p. 709.

TABLE 20  
Composition of Financial Asset Holdings of Wisconsin Individuals  
Grouped by Occupation within Income Group, 1949

Income Group and Type of Asset	Managerial and Self- employed				Skilled & Semi- skilled	Unskilled	Farm Operators	House- wives, etc.	Retired	All Others & Unspecified	All Occupations
	Professional	Clerical & Sales	Skilled & Semi- skilled	Unskilled							
<b>\$0-4,999</b>											
Time dep., etc.	38.7%	51.4%	64.1%	59.1%	62.2%	18.7%	29.0%	27.5%	46.9%		
Direct debt	12.6	24.9	14.3	25.2	25.3	19.2	35.8	27.5	23.0		
Traded stock	39.1	12.7	24.1	11.1	8.9	55.9	25.4	36.9	23.3		
Untraded stock	9.5	11.0	9.2	4.6	3.6	6.2	9.8	8.1	6.8		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
<b>\$5,000-9,999</b>											
Time dep., etc.	26.6	20.4	35.3	37.2	36.3	7.7	26.9	10.5	26.2		
Direct debt	12.3	24.1	11.7	49.3	33.1	14.6	29.8	19.1	20.2		
Traded stock	47.0	26.6	37.3	6.4	19.2	76.0	32.4	39.6	36.0		
Untraded stock	14.1	28.9	15.7	7.1	11.4	1.7	10.9	30.8	17.5		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
<b>\$10,000 and over</b>											
Time dep., etc.	12.8	5.1	10.1	a	3.5	3.8	3.3	2.6	5.8		
Direct debt	12.9	9.2	12.5	a	79.3	9.7	11.7	13.2	10.6		
Traded stock	50.7	37.3	55.3	a	6.9	61.0	59.4	52.9	43.9		
Untraded stock	23.6	48.4	22.1	a	10.3	25.5	25.6	31.3	39.7		
Total	100.0	100.0	100.0	...	100.0	100.0	100.0	100.0	100.0		

Computed from Table A-8.  
a Insufficient number of cases.

OWNERSHIP OF BUSINESS INTEREST STOCKS

The previous analysis suggests that the presence or absence of interest in a business firm with which the investor has a connection other than that of simply supplying capital funds is an important determinant of the manner in which individuals invest their accumulated savings. Farm operators, for example, may invest much of their resources in capital equipment, livestock, and real estate for use in their own operations. Similarly, much of the heavy holdings of untraded stocks by corporate managers may reflect the ownership of stock in corporations which they control. In the case of corporate equity ownership we may test the suggested influence of an interest in the business by measuring the importance of the relevant holdings directly. During the transcription of information from Wisconsin tax returns, notation was made of all dividend receipts from a corporation from which the recipient also received wage or salary income. The holdings of stocks represented by such dividends were termed "business interest" holdings, in order to signify that the owner of such stocks had more than an independent investor's interest in the particular corporation. Generally, the business interest holdings are of three types: holdings by directors, holdings of managers and other corporate executives, and stock owned by rank and file employees.

Table 21 shows the importance of business interest holdings of both traded and untraded stocks at various income levels. While only a little over 10 per cent of the dollar value of the holdings of publicly traded stocks surveyed consists of issues of corporations from which the owner receives wage and salary income, almost two-thirds of the value of untraded stock holdings is comprised of business interest holdings. Moreover, business interest holdings of both traded and untraded stocks increase in importance for successively higher income groups. Because of the significance of this finding, two measures of the extent of business interest holdings of corporate stocks were computed. Whether the measure is the value of the holdings or the amount of dividends received, the results are substantially the same.<sup>3</sup>

The importance of business interest holdings in the case of

<sup>3</sup> The results are subject to two sources of error which may qualify them somewhat. Some individuals failed to itemize sources of wage and salary income, and thus their dividend receipts could not be matched to earnings sources; on the other hand, there may be more complete reporting of dividends from business interest stocks than from other stockholdings.

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TABLE 21

Relative Importance of Business Interest Stock in Holdings  
of Traded and of Untraded Stock for Income Groups  
of Wisconsin Individuals, 1949

INCOME	BUSINESS INTEREST STOCK AS A PERCENTAGE OF:		BUSINESS INTEREST STOCK DIVIDENDS AS A PERCENTAGE OF:	
	<i>Traded Stock Holdings<sup>a</sup></i>	<i>Untraded Stock Holdings<sup>b</sup></i>	<i>Traded Stock Dividends</i>	<i>Untraded Stock Dividends</i>
\$0-4,999	2.8%	28.4%	2.3%	32.4%
5,000-9,999	6.0	56.2	5.6	52.0
10,000-19,999	7.3	64.6	5.7	68.0
20,000-49,999	13.8	68.6	10.8	71.2
50,000 and over	36.6	81.3	41.0	80.0
All income groups	11.5%	64.8%	11.5%	66.1%

Based on survey of tax returns. Business interest stocks are those of corporations from which the stockholder received wages, salary, or director's fees.

<sup>a</sup> Based on market value.

<sup>b</sup> Based on unadjusted book value.

untraded stocks strongly suggests that small business places principal reliance for obtaining equity funds on its own management rather than on independent sources. Whatever the importance of the "financial angel" today, the findings here point to the conclusion that a voice in the control of the corporation is probably a necessary, certainly a frequent, cost of "venture" capital for small business. It follows that the reluctance to release even partial control in such enterprises may practically restrain their expansion. Furthermore, to the extent that highly developed technical skills are increasingly necessary in the establishment of new business enterprises capable of competing with large well-established concerns, and insofar as technically skilled individuals tend to be young and without any great stake of their own, there may be reason to believe that the potential starters of new businesses are among those least able to finance such ventures. The implications of this conjecture for the problems of economic growth are obvious.

It may be noted parenthetically that the influence of the investor's business affiliation on his choice of financial assets is apparently not confined to the opportunities and requirements for investment in the particular firm with which he is directly associated. Time after time, the composition of the traded stocks owned by individuals revealed that preference for the stocks of corporations in certain industries was probably determined in good part by the industrial affiliation of the investor himself. Thus, a

paper mill executive's portfolio might contain not only substantial holdings of stock of his own corporation, but an assortment of minor holdings in timber concerns, suppliers of paper mill machinery and chemicals, paper product firms, and even publishing companies. Architects frequently favored stocks in building material concerns; owners of retail concerns, stocks in corporations whose products they sold. Although this type of behavior is hardly consistent with the usual principle of diversification, it may reveal a deeper rationale. Intelligent investment requires extensive knowledge of the particular corporation, the general industry, and allied fields, obtainable in large measure from active participation in the industry. Consequently the advantages of personal association with an industry exert a strong preferential influence upon the individual's investment behavior.

### *Size of City*

Census figures for 1950 were used to classify Wisconsin individuals according to the size of the city in which they resided. In practice the classifications were adjusted so that suburban areas would be included in the parent cities; no particular attention was paid to strict political subdivisions. That procedure seemed necessary because high income individuals who were important investors were often residents of separately incorporated suburban areas adjoining larger cities, or even of the essentially rural outskirts of large cities. In a few cases adjoining cities were merged and given the population rating of the combined population; thus, Appleton, Neenah, Menasha, Kaukauna, Kimberly, and Little Chute were all combined, as were Two Rivers and Manitowoc; Sheboygan, Sheboygan Falls, and Kohler; Madison, Maple Bluff, and Shorewood Hills; Green Bay and Depere; etc. All of Milwaukee county and the adjoining residential areas in southern Ozaukee county were included in the metropolitan classification.<sup>4</sup> The most striking of the "city combinations" occurred in the case of Superior, which was classified as having a population equal to the combined count of Superior, Wisconsin, and Duluth, Minnesota.

Data on the frequency of ownership of various types of financial assets in the United States according to the size of the city in which

<sup>4</sup> This treatment differs from the practice of the Survey of Consumer Finances of including only the twelve largest cities of the United States and their suburbs under the metropolitan classification. Milwaukee would not be considered a metropolitan area under that classification system.

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the owner resides are provided by the 1949 Survey of Consumer Finances (Table 22). This material indicates that the percentage

**TABLE 22**  
 Frequency of Ownership of Liquid Assets and of Corporate Stock  
 for Community Size Groups of Spending Units  
 in the United States, Early 1949

SIZE OF COMMUNITY	PERCENTAGE OF UNITS HOLDING:	
	<i>Liquid Assets</i> <sup>a</sup>	<i>Corporate Stock</i> <sup>b</sup>
Metropolitan	78%	10%
Over 50,000	} 71	8
2,500-49,999		5
Less than 2,500		6
Open country	65	10

From "1949 Survey of Consumer Finances," *Federal Reserve Bulletin*, August 1949, Table 16, p. 911, and *ibid.*, October 1949, Table 17, p. 1196.

<sup>a</sup> Includes checking accounts, savings accounts, and U.S. government bonds of all types.

<sup>b</sup> Includes common and preferred stocks of corporations open to investment by the general public.

of spending units holding some type of liquid asset (federal government bonds, savings accounts, checking accounts, etc.) increases steadily for successively larger community size groups. On the other hand, spending units residing either in the open country or in metropolitan areas show the greatest frequency of ownership of corporate stocks open to general public investment—10 per cent. Proportionately fewer units residing in moderate-sized communities hold stock of that type.

Data derived from the Wisconsin tax returns indicate lower ownership frequency of traded or publicly held stocks for rural areas than was found by the country-wide Survey of Consumer Finances; but the undercoverage of the farm population by the tax data, and intersurvey differences in community classification and the components of corporate stock, may partially explain the variation in the two results. Perhaps more important, particularly in Wisconsin the farm population has a high frequency of ownership of stock in cooperatives—assets excluded from our classification of corporate stock. In addition, farm residents, particularly in the upper income classifications, were frequent holders of stock in rural banks. Owing to the absence of price data such securities were usually classified as untraded stock in the present survey, but they were included as corporate stock open to investment by the general public in the Survey of Consumer Finances.

## *EFFECTS OF OCCUPATION AND CITY SIZE*

The distribution of the population by community size is important, of course, in explaining the distribution of financial asset holdings as determined from the Wisconsin tax returns. About 50 per cent of the population in Wisconsin lives in rural areas or in cities of less than 10,000 population (Chart 9). This segment of the population contributed one-third of the number of holders of time deposits surveyed, 27 per cent of the holders of traded stock, 38 per cent of the holders of untraded stock, and 47 per cent of the number of holders of direct debt assets.

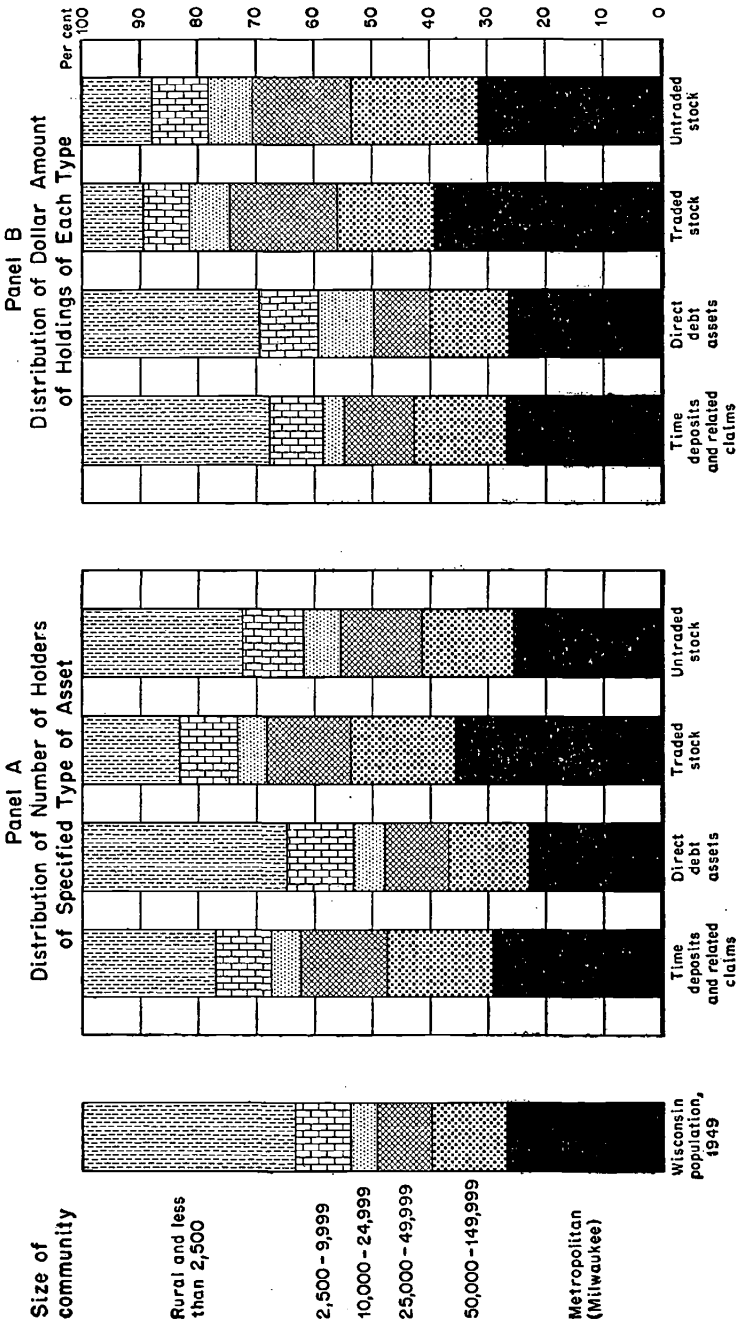
The distribution in terms of dollar value is quite different. Individuals living in open country and in cities of less than 10,000 held about 40 per cent of the dollar value of time deposits and direct debt assets, but only around 20 per cent of the value of traded and of untraded stocks. At the other extreme, 25 per cent of the population is concentrated in Milwaukee and its environs; while residents there accounted for about that proportion of the number of holders of time deposits, debt instruments, and untraded stocks, they included a considerably greater proportion of the holders of traded stocks (36 per cent). In dollar terms, individuals residing in Milwaukee and its suburbs held time deposits and direct debt assets approximately in proportion to their percentage of the population, but had more than proportionate holdings of untraded and especially of traded corporate stock.

The material in Chart 9, along with the data in Chart 10 showing the composition of financial asset holdings for various city size groups, suggests the following generalizations about the influence of city size on the types of financial investments held by individuals: (1) There is a tendency for direct debt investment, as measured in dollar terms, to be concentrated in rural areas and small towns of less than 10,000 population. (2) The ownership of corporate stock is largely concentrated in urban areas. (3) Traded stock is apparently most important as an outlet for financial investment of individuals in cities of 25,000 and over and in metropolitan areas. (4) Untraded stocks are most important for individual investors in communities of medium size (25,000 to 149,999). These generalizations are confirmed for the most part by Table 23, which shows the composition of financial asset holdings by size of city and by income group. On the whole, the generalizations seem to hold independently of income differences among communities of various sizes.



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CHART 9  
Community Size Distribution of the Population and of Financial Asset Ownership by Individuals in Wisconsin, 1949

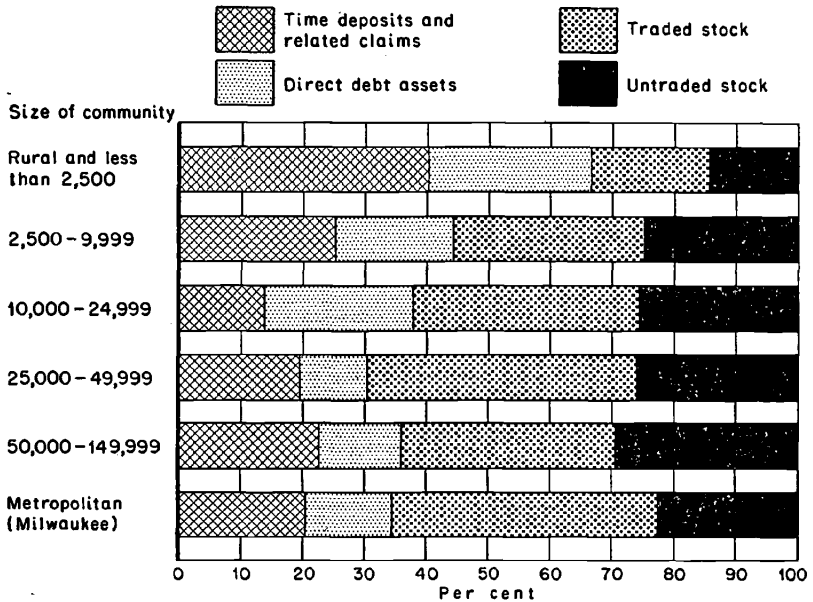


Panel A from Table A-9, Panel B from Table A-10, and distribution of the population from preliminary data of the Census of Population: 1950.

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CHART 10

Composition of Financial Asset Holdings for Community Size Groups of Wisconsin Individuals, 1949



Based on Table A-10.

The findings suggest the general proposition that the influence of city size on the investment practices of individuals, insofar as it is reflected in the distribution of financial assets among the major types, results from the relationship between city size and the typical form of business organization associated therewith. Unincorporated enterprises probably predominate in small towns and rural areas; as a general rule, the corporate form tends to become increasingly important in moderate-sized communities (10,000 to 24,999), but in middle-sized cities the firms tend predominantly to be closely held corporations of relatively small size. Finally, the industry of metropolitan areas is likely to be characterized by large corporations with traded stock issues.

Such generalizations, if correct, indicate that the form of organization prevalent in a particular size of community has considerable effect upon the form in which the accumulated savings of residents are invested. The financial asset composition of the entire community is probably dominated in part by the investments of persons directly affiliated with business operations, such as man-

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TABLE 23

Composition of Financial Asset Holdings for Wisconsin Individuals  
Grouped by Size of Community within Income Group, 1949

INCOME GROUP AND TYPE OF ASSET	SIZE OF COMMUNITY			TOTAL
	<i>Less than 25,000<sup>a</sup></i>	<i>25,000- 149,999</i>	<i>Metropolitan<sup>b</sup></i>	
<i>\$0-4,999</i>				
Time dep., etc.	47.6%	44.9%	47.8%	46.9%
Direct debt	29.2	16.7	16.3	22.9
Traded stock	16.9	30.7	29.1	23.3
Untraded stock	6.3	7.7	6.8	6.9
Total	100.0	100.0	100.0	100.0
<i>\$5,000-9,999</i>				
Time dep., etc.	22.8	29.5	26.5	26.2
Direct debt	24.7	16.7	18.9	20.2
Traded stock	28.5	34.0	46.3	36.1
Untraded stock	24.0	19.8	8.3	17.5
Total	100.0	100.0	100.0	100.0
<i>\$10,000 and over</i>				
Time dep., etc.	6.6	4.9	6.0	5.8
Direct debt	13.8	7.6	11.1	10.6
Traded stock	39.7	40.9	48.6	43.9
Untraded stock	39.9	46.6	34.3	39.7
Total	100.0	100.0	100.0	100.0

Computed from Table A-10.

<sup>a</sup> Includes rural areas.

<sup>b</sup> Includes Milwaukee county and adjoining residential areas in southern Ozaukee county.

agers and self-employed persons, so that the over-all community picture may represent largely the investment activity of that important group. An additional reason for the concentration of traded stock holdings in urban areas is, of course, the general orientation of urban society toward such forms of investment. Thus, the presence of brokerage facilities, the broader newspaper coverage of financial news, and related conditions not only are symptoms of such an interest but tend themselves to promote it. However, there is a considerable tendency toward localization of investment, as the next section will show, even in the case of persons not directly connected with firms in which they invest.

LOCALIZATION OF INVESTMENT

Few restrictions adhere to the mobility of capital funds, at least few in comparison with those which impede the movement of the labor force or other physical production factors. The development

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of systems of rapid communication and transference of funds, together with the nearly uniform treatment of property rights within modern national economies, greatly facilitates the wide geographic distribution of capital. Although physical capital cannot be transferred easily from one use to another for the economy as a whole, the organization of the capital markets supplies an efficient method whereby the individual investor can shift his own resources from one use to another.

But despite the presence of mechanisms seemingly insuring the geographic mobility of capital funds, a considerable degree of localization of investment is apparent in the ownership of traded corporate stocks (Table 24). In general, one might expect to find investment localization in the ownership of untraded stocks, but it is noteworthy that in the case of traded stocks almost 30 per cent of the value of all holdings by Wisconsin tax filers consisted of stocks in corporations with major operations within the state. In classifying a corporation as a Wisconsin or non-Wisconsin corporation, the principal determination was the location of its operations; little attention was paid either to the particular state of incorporation or to location as determined for tax purposes. No hard and fast rule of what constituted a major portion of a firm's operations was applied; in general, corporations with less than one-third of their employment or plant facilities within the state were treated as out-of-state firms. Chain store companies, railroads, telegraph and telephone systems, and the like were not considered Wisconsin corporations, except in those few cases where their operations were known to be conducted largely in Wisconsin. Certain other nationwide companies, so regarded because of some degree of geographic diversification of their manufacturing and distribution facilities, were classified as Wisconsin corporations provided one-third of their employment or plant facilities were within the state.

Even after making allowances for the rather broad scope of the survey's definition, the percentage of traded corporate stocks consisting of issues of Wisconsin corporations appears considerably larger than would be expected if no particular tendency for localization of investment existed. The tendency, moreover, is not confined to any one income group: although the highest percentage of traded stock holdings in Wisconsin corporations occurred in the topmost income group, still over one-fourth of the total value of traded



of traded stocks. Undoubtedly, irrationalities play some part in explaining such localization: to some investors the sight of a corporation's physical assets may prove more reassuring than audited balance sheets and income accounts. Adam Smith, writing about the carrying trade, stated that "every individual endeavours to employ his capital as near home as he can, and consequently as much as he can in the support of domestic industry; provided always that he can thereby obtain the ordinary, or not a great deal less than the ordinary, profits of stock," adding later that this preference was "for the sake of having some part of his capital always under his own view and command."<sup>5</sup> It is likely that some part of the present-day localization of investment in traded corporate stock can be so explained. More important, however, may be the inclination of investment firms—certainly those located outside the primary capital centers—to specialize in certain local issues in the origination and distribution of which they have participated. Thus, it is not surprising that, where yield discrepancies are small, local issues are of considerable importance in the portfolios of their customers.

The principal findings of this chapter are:

1. There are significant differences among occupational groups in the types of financial assets held, both as to frequency of ownership and as to shares of the total dollar value of each type of asset. Most striking is the large proportion of corporate stock held by managerial and self-employed persons.

2. Active interest in business firms with which the investor is closely allied appears to be a major determinant of corporate stock ownership. About two-thirds of the value of untraded stock holdings, but only about one-tenth of the value of traded stocks, represent issues of corporations from which individuals also receive wage or salary income.

3. The influence of community size upon the distribution of financial assets appears to be largely the effect of the form of business organization that is most prevalent in the locality. Thus, in rural areas time deposits and related claims and direct debt assets are most important; in medium-sized cities, where closely held corporations are probably most prevalent, untraded stocks have their greatest importance; in metropolitan areas, characterized

<sup>5</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Modern Library edition), pp. 421-22.

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by large corporations, traded stocks form a greater proportion of total financial assets than in less urban communities.

4. Investors in corporate stocks appear to have definite preferences for stock of firms located close to their city of residence; about 30 per cent of the value of traded stock held by Wisconsin investors represents stocks of corporations carrying on major operations within the state.