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BUSINESS FINANCE AND BANKING

by

NEIL H. JACOBY

The University of Chicago

and

RAYMOND J. SAULNIER

Barnard College, Columbia University

WITHDRAWN
UNIVERSITY OF
CHICAGO, ILLINOIS

FINANCIAL RESEARCH PROGRAM

STUDIES IN BUSINESS FINANCING

NATIONAL BUREAU OF ECONOMIC RESEARCH

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PREFACE

THE NATIONAL BUREAU'S Financial Research Program has three major objectives: first, the comprehensive reexamination of modern financial organization with reference to the fundamental financial services that the constituent institutions render to the community; second, the study of the effects of law and public regulation and supervision on the functioning of the financial system; and third, the investigation of how instability in financing activities is related to general economic instability.

These major aims are being accomplished through the conduct of a series of projects, each devoted to a phase or process of the financial system, so far as these can be delineated for separate study. The first project in the series dealt with consumer instalment financing and the second, the results of which are summarized in the present volume, with business financing. Projects in investment credit, agricultural finance, and urban real estate finance are now in process. The final attainment of original objectives will require further studies of lending and investment technology, and also of the ways in which financial institutions affect the economic system through their influence on the volume of circulating media.

From the beginning of the Program, a standard method has been followed in the development of each project. A pre-research survey determines the adequacy of existing knowledge about the financing process that is to be considered, and appraises needs for additional information. On the basis of the results of this survey, a number of studies are initiated, some of a technical nature and limited in scope, in order (1) to develop new data that may be essential to round out existing knowledge and (2) to examine in adequate detail those phases of the subject which require intensive study. The findings of these primary studies are then brought together and integrated in a concluding analysis.

Business Finance and Banking is the capstone study of the Business Financing Project. This project has endeavored to determine for recent years the general pattern of demand in the market for short-term and medium- and long-term business credit; to trace the

structural changes that have occurred since 1900 in the business financial organization, especially in manufacturing and trade enterprises whose credit demands have been the bulwark of the short- and medium-term credit market; to relate these changes to major changes in the structural organization of the economy; and, finally, to describe the adaptations that financing institutions providing credit have made over the past decade in response to changing demands for their services. During the thirties, the business loan assets of banks on the average were substantially below the levels attained in the twenties, and in relation to total assets they were much less important than in previous banking experience. Therefore, a problem of special interest in this study has been whether this development indicates a long-run tendency for the business financing function of the commercial banking system to decline.

The primary studies, on which the authors of this volume have drawn extensively, fall into two groups. The first is concerned with the contemporary financial structure of business and with changes in that structure since 1900. The second comprises surveys of a number of modern institutional arrangements for financing business enterprise which represent significant adaptations in the business financing process.

The studies in the first division of the project include four published monographs and two unpublished reports, as follows:

The Financing of Large Corporations, 1920-39 (1943), by Albert R. Koch

Financing Small Corporations in Five Manufacturing Industries, 1926-36 (1942), by Charles L. Merwin

Corporate Cash Balances, 1914-43: Manufacturing and Trade (1945), by Friedrich A. Lutz

The Pattern of Corporate Financial Structure: A Cross-Section View of Manufacturing, Mining, Trade, and Construction, 1937 (1945), by Walter A. Chudson

Industrial and Commercial Debt: A Balance Sheet Analysis (ms. 1942), by Carl Kaysen

Changes in the Financial Structure of American Business Enterprise, 1900-1940 (ms. 1943), by Sidney S. Alexander

The preparation of these studies required the compilation of several samples of corporate balance sheet data for selected years in the

period 1900-1940; several samples of balance sheet and income statement data for identical companies covering selected periods since 1900, and particularly since 1914; and a number of special tabulations of corporate financial data for selected years in the period 1931-37, derived from compilations of the Bureau of Internal Revenue and the Securities and Exchange Commission.

The studies of modern institutional adaptations in financing business enterprise consist of four published monographs and two unpublished reports. The published monographs, prepared in collaboration by the authors of the present volume, Neil H. Jacoby and Raymond J. Saulnier, are:

Term Lending to Business (1942)

Accounts Receivable Financing (1943)

Financing Equipment for Commercial and Industrial Enterprise (1944)

Financing Inventory on Field Warehouse Receipts (1944)

The two unpublished reports are devoted to an examination of Federal Reserve industrial loan experience under Section 13b of the Federal Reserve Act. The first, which was a collaboration of Charles L. Merwin and Charles H. Schmidt, is a detailed study of the financial history of a sample of borrowers; and the other, a collaboration of Robert V. Rosa and Malcolm C. Urquhart, is an examination, based on the same sample of cases, of factors that affected the credit standing and experience of borrowers.

The Business Financing Project has been carried to completion under grants of funds from the Association of Reserve City Bankers, The Rockefeller Foundation, and the Carnegie Corporation of New York. None of these sources of financial support is to be understood as approving, by virtue of its grant, any of the statements made or conclusions reached in the publications of the project.

To carry out the project, extensive assistance has been essential from various groups, both public and private, and from individuals. Cooperation has been received from Dun & Bradstreet, Inc., the Board of Governors of the Federal Reserve System, the Federal Reserve Banks of New York, Philadelphia, and Chicago, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Reconstruction Finance Corporation, the

Securities and Exchange Commission, the Treasury Department, the Department of Commerce, the American Institute of Accountancy, and from officers of commercial banks, insurance companies, and lending agencies in leading financial centers of the country. We are deeply indebted to these officials and agencies for the information, materials, and other help which they have provided so generously.

Research on the Business Financing Project was carried on under the direction of Dr. Ralph A. Young, whose enthusiasm and keen interest stimulated all those participating in the project. The authors of the present volume, who have taken part in the project since its initiation, are sincerely grateful to Dr. Young for his penetrating criticisms and constant encouragement throughout all phases of the work. In the preparation of the present study, the authors have been ably assisted by Miss Dorothy Wescott, who edited the manuscript and aided in the solution of many difficult problems of presentation; by Dr. Herman Burstein and Miss Jean Wightman, who served as research assistants; by Miss Molly Silver, who prepared the charts; and by Miss Mildred Courtney, who supervised the preparation of the typescript.

Raymond J. Saulnier

Director, Financial Research Program

October 1946

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