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Corporate Capital Structures in the United States

National Bureau of Economic Research

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The issue of capital formation in the United States has become ever more crucial as deficits grow and public and private needs for capital continue to conflict. The ten papers and accompanying commentary in this volume (first presented at a January 1983 National Bureau of Economic Research conference) are the second stage of a wide-ranging NBER effort to investigate capital formation, particularly the financing of capital through debt and equity. They focus on the financial side of capital formation undertaken by the U.S. corporate business sector and, because corporations' securities must be held, place a parallel emphasis on the behavior of the markets that price these claims. This comprehensive look at the corporate sector and the financial environment which it confronts is valuable not only because of the large corporate role in undertaking the economy's capital formation, but also because the corporate-sector context itself helps to define key elements of the debt and equity financing process more sharply.

Three sets of questions about corporate-sector and financial-market behavior emerge as objects of the research undertaken in these papers: First, what has been the actual experience of the use of debt and equity financing by U.S. business corporations in recent years? Second, what is the relationship (if any) between firms' real investment decisions and their financial decisions? Third, what factors drive the financial markets' pricing of debt and equity securities? The first three papers establish what changes have (and, in some cases, have not) taken place in U.S. corporate capital structures and in the financial price and yield relationships that U.S. corporations have faced in recent years. Against the background of this general review, subsequent contributions address the behavior of investors in debt and equity securities and examine the market pricing mechanism in contexts

(Continued on back flap)

Corporate Capital Structures in the United States

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of Economic Research
Project Report

Corporate Capital Structures in the United States

Edited by Benjamin M. Friedman

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Chicago and London

Benjamin M. Friedman is professor of economics at Harvard University and program director for financial markets and monetary economics at the National Bureau of Economic Research. His other books include *The Changing Roles of Debt and Equity in Financing U.S. Capital Formation*, also published by the University of Chicago Press.

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(Resolution adopted October 25, 1926, as revised through September 30, 1974)

Contents

In Memoriam John Lintner

John Lintner, an outstanding economist and one of the creators of modern financial theory, participated in the NBER conference that provided the basis for this book, but died before the book went to press.

John was a scholar and a teacher, and to many he was also a colleague and a friend. Because of his special blend of intellectual vigor and personal warmth, of interest in the subject matter for its own sake and concern for others' individual development, of energy for his work and generosity with his time, in his case these often disparate roles were really one. The attitudes and efforts with which he advanced the frontiers of economics and finance were inseparable from those with which he contributed to the lives of those who knew him.

John's approach to both his scholarship and his teaching had as its foundation a tripod built from a faith in the theory of economics and finance, a keen interest in the actual working of financial markets, and a concern for issues of public policy. He believed that what happens in financial markets can and does importantly affect nonfinancial economic activity. He also believed that the institutional setting of the financial markets, including legal and regulatory restrictions as well as elements of business organization and practice, can and does importantly affect financial behavior and the resulting market outcomes.

The chief consequence of these central beliefs was an astonishing breadth of intellectual scope in the approach he took to any question of positive economics or economic policy. Matters for him were not just not simple; they were complex in infinitely varied and interesting ways. Factors seemingly peripheral to the issue at hand might turn out, on closer inspection, not to be so peripheral after all. The corollary of such an open (and open-minded) approach to intellectual inquiry, of course, is appropriate caution about accepting at face value even carefully buttressed conclusions. In this, too, John was consistent. Always eclectic, never dogmatic, he combined an infectious enthusiasm for new thinking, both his own and others', with a healthy reluctance to be persuaded that anyone's work, either his own or others', had ever provided the last word.

It is no coincidence that many of the papers published in this volume strongly reflect these fundamental perspectives, both in substance and in style. John Lintner's impact on the thinking of an entire generation of scholars has been profound and far-reaching.

John's influence on the fields of economics and finance grew not just from the force and appeal of his intellectual approach, as conveyed in his published work, but also from his extraordinary generosity in taking time with and for others. This was especially the case with his students and younger colleagues, and with younger scholars more generally. One part of this interaction, to be sure, was simply his love of conversation about all aspects of economics and finance, at both the scientific and the practical levels. In the case of younger scholars, however, John gave even more of himself. His willingness to discuss research plans and read drafts of papers, and to provide, in his uniquely gentle and encouraging way, insightful comments on issues ranging from the basic goals of the research to the smallest details of its execution, reflected a more intensive dedication of himself not often found in today's rushed and overcommitted academic environment.

John devoted this time and effort not only because of his interest in the subjects on which younger people were working but also because of his concern for their personal development, both as scholars and as individuals. Younger people's lives mattered very much to him. He rejoiced with them at their advances, and he cared for them in adversity.

From the late 1960s until his death, John was also a great friend and advisor—formal and informal—to the National Bureau of Economic Research. For many years he was a research associate of the NBER, and he directed the NBER project on Inflation and Financial Markets. Toward the NBER, too, he was characteristically generous of himself, always available for advice, always willing to help.

With a heavy sadness, but also a warm remembrance and great gratitude for it, I dedicate this book to the memory of my friend.

B.M.F.

Acknowledgments

This volume, which consists of papers and discussions presented at a conference held at Palm Beach, Florida, 6–7 January 1983, presents research carried out within the National Bureau of Economic Research project, "The Changing Roles of Debt and Equity in Financing U.S. Capital Formation." The NBER has undertaken this project—including the conference, the research described in this volume, and the publication of the volume itself—with the support of the American Council of Life Insurance.

The many people whose advice and assistance have helped to make this volume possible include NBER directors George T. Conklin, A. Gilbert Heebner, and Roy E. Moor; NBER research associates Roger Hall Gordon and Edward J. Kane; NBER staff members Mark Fitz-Patrick, Kirsten Foss, Susan Jannone, Cynthia Nelson, and Annie Spillane; and Kenneth M. Wright of the American Council of Life Insurance.

The opinions expressed in this volume are those of the respective authors. They do not necessarily reflect the views of the National Bureau of Economic Research, the American Council of Life Insurance, or any other organization.

Benjamin M. Friedman