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# Trade Credit as a Financial Asset

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The magnitude and growth of the commitment of nonfinancial firms in the financial field, particularly in trade credit, have reached such proportions that the behavior and quality of credit between business firms are now of significant importance to the economy. By 1957 the financial assets of nonfinancial firms totaled \$212 billion, 25 per cent more than those of the commercial banking system and only 22 per cent less than those of banks and insurance companies combined. Table 1 and Chart 1 compare these three holders of financial assets for the years 1947 through 1957.

Between 1947 and 1957, trade credit outstanding rose 126 per cent to an estimated total of \$74 billion. This was 35 per cent of the total financial assets of nonfinancial firms, an increase of 5 percentage points over 1947. By comparison, consumer credit in 1957 accounted for only 6 per cent of the financial assets of nonfinancial firms. The portfolio of nonfinancial firms in the years 1947 through 1957 is shown in Table 2 and Chart 2.

As a source of business financing, trade credit is substantially larger than the business loans of banks; in 1957, for example, the volume outstanding was nearly twice as large as bank business loans. Table 3 and Chart 3 compare the volume of business loans held by trade creditors and commercial banks.

The importance of trade credit as an asset varies widely among sectors and industries, but little among firms of different size or profitability within economic sectors. Thus trade credit is shown in Table 4 to represent, on the average, nearly half of the assets of corporations engaged in construction, and nearly one-third of those of corporate

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TABLE 1

FINANCIAL ASSETS OF NONFINANCIAL FIRMS, COMMERCIAL BANKS,  
AND INSURANCE COMPANIES, 1947-57  
(billion dollars)

	Nonfinancial Firms <sup>a</sup>	Commercial Banks <sup>b</sup>	Insurance Companies <sup>c</sup>
1947	110.2	116.3	51.7
1948	115.0	114.3	55.5
1949	121.3	120.2	59.6
1950	143.4	126.7	64.0
1951	156.4	132.6	68.3
1952	163.9	141.6	73.4
1953	165.7	145.7	78.5
1954	183.7	155.9	84.5
1955	210.2	160.9	90.4
1956	216.5	165.1	96.0
1957	212.8	170.1	101.3

<sup>a</sup>Represents corporate and unincorporated firms. For components of financial assets, see Table 2.

<sup>b</sup>Includes all loans and investments, but excludes cash assets (generally required reserves); see *Federal Reserve Bulletins*.

<sup>c</sup>All loans and investments; see *Insurance Fact Book, 1960*, New York, Institute of Life Insurance, p. 64.

wholesalers. In the manufacturing sector the ratio is 16 per cent, and in mining 12 per cent. In no sector is the volume of trade receivables negligible, and their importance in the business structure has been growing in the course of the postwar years.<sup>1</sup>

<sup>1</sup>The retail and service sectors are not shown in Table 4 since consumer credit could not be removed from their receivables on a size-class basis. For the corporate retail sector as a whole, however, it is estimated that trade credit rose from 1.9 per cent of assets in 1947 to 2.8 per cent in 1957. In the corporate service sector, the share of trade credit rose from 4.0 per cent in 1947 to 7.0 per cent in 1957. When consumer credit is included, receivables in the retail sector averaged 23 per cent of assets, and in the service sector 15 per cent, in 1947-57.

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**TABLE 2**

**FINANCIAL ASSETS OF NONFINANCIAL FIRMS, CORPORATE AND UNINCORPORATED COMBINED, 1947-57**

(billion dollars)

	Trade Credit <sup>a</sup>	Con- sumer Credit	State and		Cor- porate Bonds	Cash and Deposits	Pre- ferred Stock	Com- mon Stock	Total
			U.S. Govt. Se- curities	Local Govt. Se- curities					
1947	32.6	5.1	13.8	0.4	0.3	33.2	3.5	21.3	110.2
1948	35.3	6.0	14.6	0.4	0.5	33.3	3.5	21.4	115.0
1949	34.6	6.7	16.5	0.5	0.6	34.7	3.5	24.2	121.3
1950	45.5	7.9	19.4	0.5	0.7	36.2	3.5	29.7	143.4
1951	49.5	8.7	20.3	0.6	1.0	39.1	3.5	33.7	156.4
1952	53.4	9.9	19.5	0.6	1.4	39.5	3.5	36.1	163.9
1953	53.7	10.3	21.1	0.7	1.5	39.4	3.5	35.5	165.7
1954	56.5	10.7	18.8	1.1	1.5	42.5	3.5	49.1	183.7
1955	65.5	11.5	22.8	1.2	1.9	43.7	3.5	60.1	210.2
1956	72.4	12.2	18.2	1.4	2.1	44.2	3.5	62.5	216.5
1957	73.8	12.5	17.4	1.5	2.9	45.0	3.6	56.1	212.8

SOURCE: Unless otherwise noted, data are from Raymond W. Goldsmith and Robert E. Lipsey, *Studies in the National Balance Sheet of the United States*, Princeton for NBER, 1963, Vol. II, Tables III-2, III-4.

<sup>a</sup> Computed for this study.

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**TABLE 3**  
MAJOR SOURCES OF BUSINESS CREDIT, 1947-62  
(billion dollars)

	<i>Trade Credits<sup>a</sup></i>		
	Seiden's Estimates <sup>a</sup>	Federal Reserve Estimates <sup>b</sup>	Commercial Banks <sup>c</sup> (as of December)
1947	32.6	n.a.	18.2
1948	35.3	n.a.	18.8
1949	34.6	36.8	16.9
1950	45.5	48.6	21.9
1951	49.5	53.5	25.9
1952	53.4	58.6	27.9
1953	53.7	58.3	27.2
1954	56.5	62.3	26.9
1955	65.5	72.5	33.2
1956	72.4	79.3	38.7
1957	73.8	81.1	40.5
1958	n.a.	87.5	40.4
1959	n.a.	93.4	40.1
1960	n.a.	98.0	43.1
1961	n.a.	105.9	45.2
1962	n.a.	111.5	48.7

<sup>a</sup>Includes trade credit extended to agriculture, nonprofit organizations, and federal, state, and local governments. The author's estimate was made with the cooperation of the Federal Reserve Board Flow-of-Funds Division. Full responsibility for errors remains with the author.

<sup>b</sup>*Federal Reserve Bulletin*, August 1963.

<sup>c</sup>Includes short- and long-term commercial loans and purchases of open-market paper. See *Federal Reserve Bulletins*.

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**TABLE 4**

**RATIO OF TRADE CREDIT TO TOTAL ASSETS, BY SECTOR, SIZE, AND PROFITABILITY OF CORPORATIONS, AVERAGE FOR 1947-57**  
(per cent)

	Total	Small	Medium	Large	Giant
Mining	12	17	13	12	10
Profitable	13	20	14	12	11
Unprofitable	10	14	10	10	5
Manufacturing	16	22	19	16	14
Profitable	15	23	19	16	14
Unprofitable	18	20	18	17	17
Wholesale	33	34	34	33	33
Profitable	34	34	34	33	33
Unprofitable	32	32	32	33	29
Construction	48	38	43	52	49
Profitable	47	39	43	51	48
Unprofitable	48	37	44	54	55

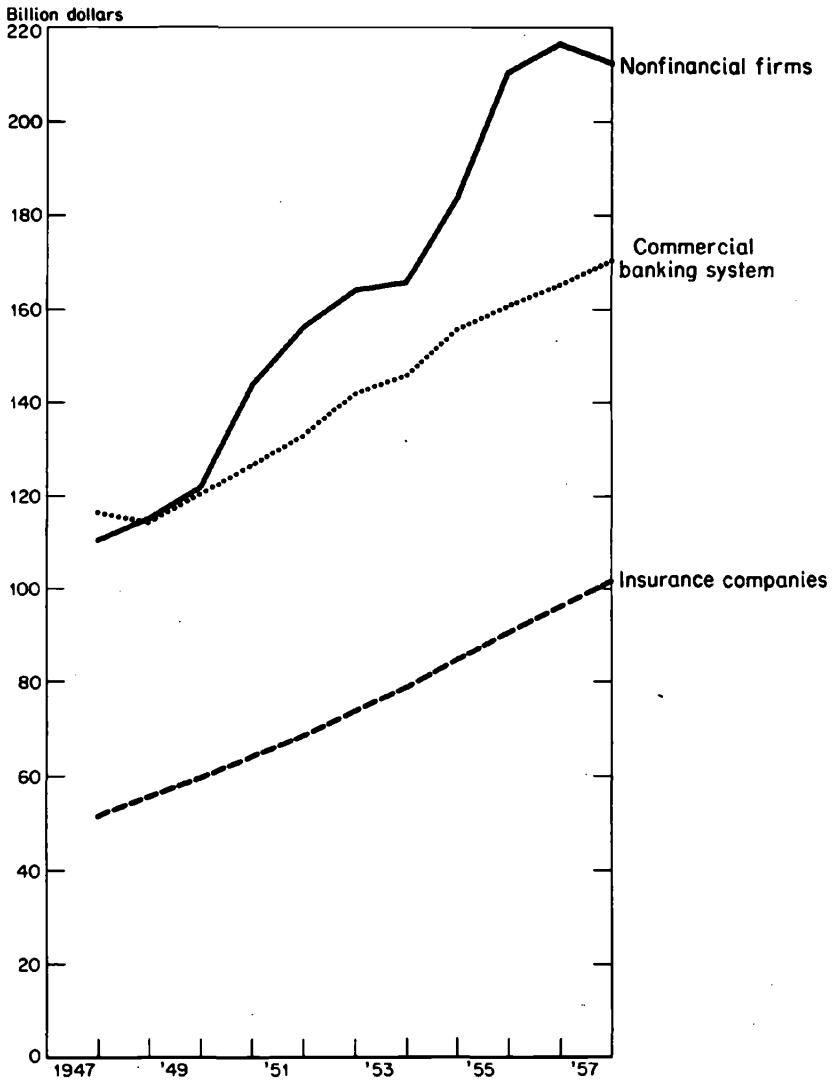
SOURCE: Treasury *Source Book*.

NOTE: See Appendix A for a description of the asset range of each sector-size classification used in this study. Regarding the trade-credit-to-assets ratio of the retail and service sectors, see Chapter 2, footnote 1.

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**CHART 1**

**Financial Assets of Nonfinancial Firms, Commercial Banks,  
and Insurance Companies, 1947-57**

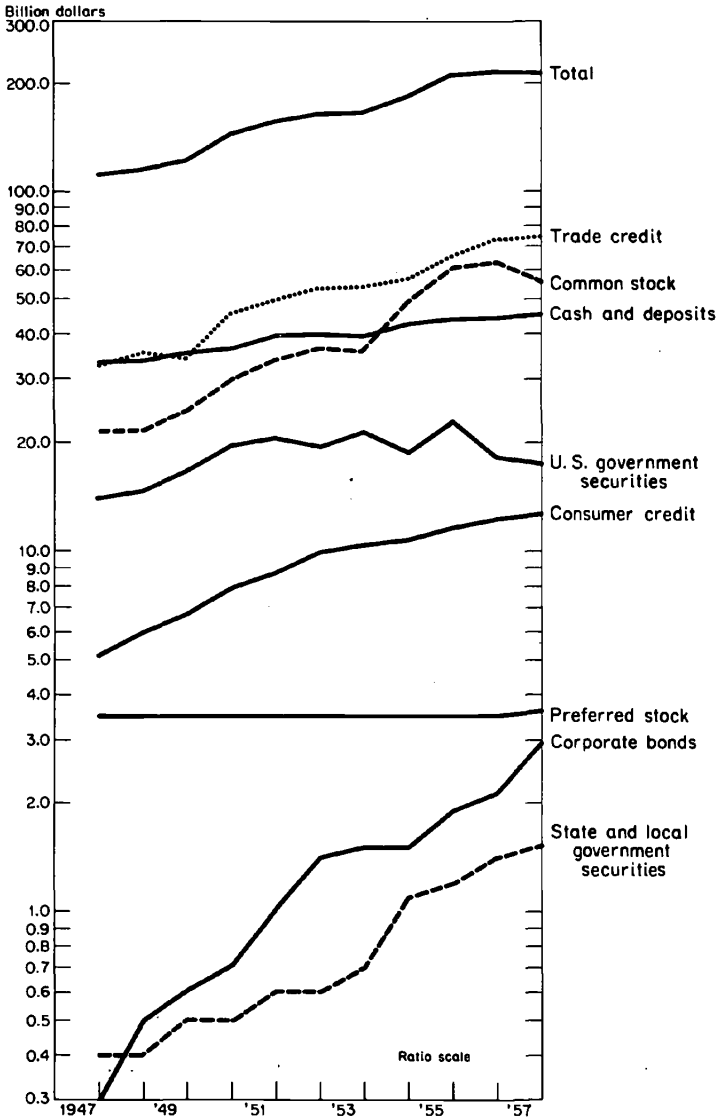


SOURCE: Table 1.

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**CHART 2**

**Financial Assets of Nonfinancial Firms, 1947-57**



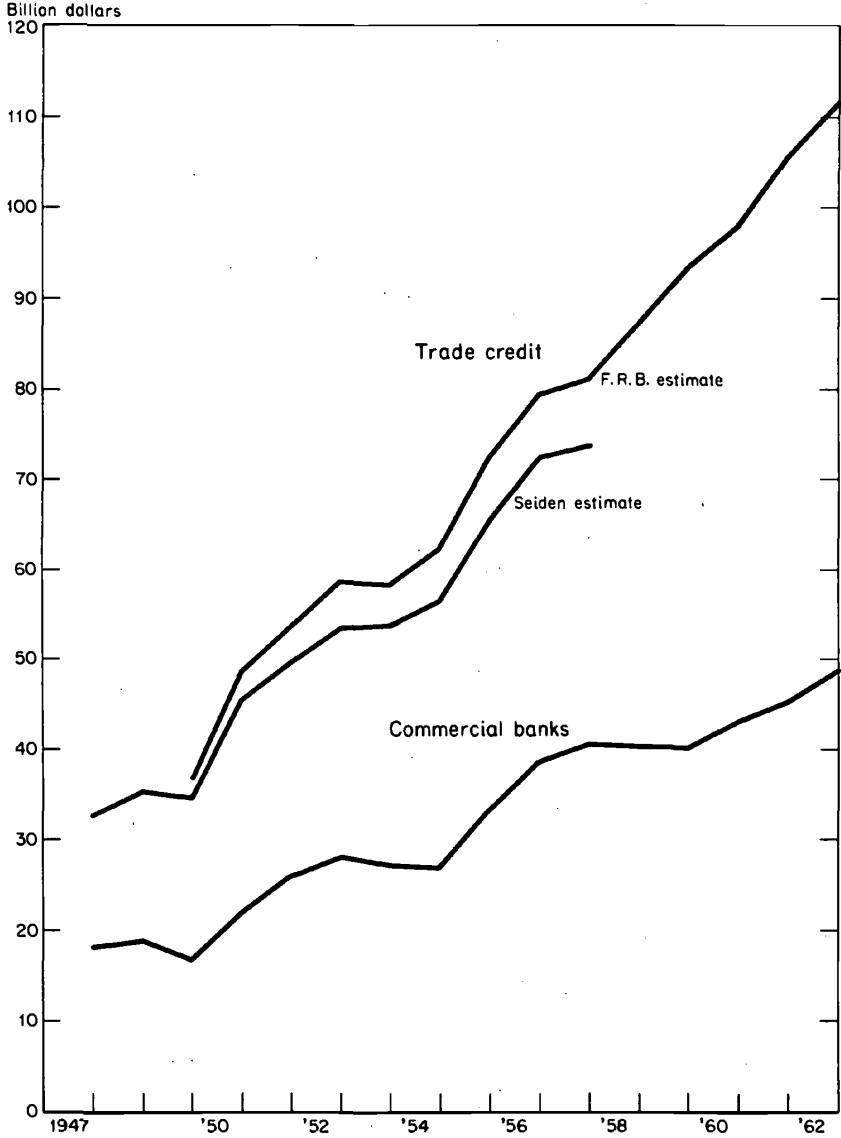
SOURCE: Table 2.



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**CHART 3**

**Major Sources of Business Credit, 1947-62**



SOURCE: Table 3.