Volume Title: Business Finance and Banking

Volume Author/Editor: Neil H. Jacoby and Raymond J. Saulnier

Volume Publisher: NBER

Volume ISBN: 0-870-14137-6

Volume URL: http://www.nber.org/books/jaco47-1

Publication Date: 1947

Chapter Title: Effects of War on the Business Credit Market, 1940-45

Chapter Author: Neil H. Jacoby, Raymond J. Saulnier

Chapter URL: http://www.nber.org/chapters/c4688

Chapter pages in book: (p. 171 - 199)

Part III

EFFECTS OF WORLD WAR II ON THE BUSINESS CREDIT MARKET

Chapter 7
EFFECTS OF WAR ON THE BUSINESS CREDIT MARKET, 1940–45

AFTER 1940 THE BUSINESS credit market was dominated by the enormous war production program. The most obvious effect was a large expansion in the funds acquired by business to finance a doubled physical volume of production. Among the less obvious consequences were changes in the size and industrial composition of borrowing businesses, alterations in the terms and conditions of credit, and a redistribution of the business credit supply as between governmental and private institutions, and as between commercial banks and other private lending agencies. There was a striking increase in the over-all profitability and liquidity of businesses, traceable to the expansion in the money supply that accompanied a vast increase in federal spending, financed in large part through bank purchases of government securities.

MAGNITUDE AND NATURE OF WARTIME ECONOMIC EXPANSION

The financial force behind the upsurge in production after 1939 clearly was the unprecedented money outlays of the federal government. The amount of these outlays varied sharply in certain roughly distinguishable phases of the war period. During the first phase which ran from July 1940, following the fall of France, through November 1941 the average annual rate of war expenditures by the government was $9.0 billion. In the second phase, from December 1941 through October 1942, and in the third, which extended through December 1943, the rate of war expenditures amounted to $43.5 billion and $80.3 billion, respectively; while during the fourth period, beginning January 1944 and ending with the surrender of Japan in August 1945, the rate increased to $89.4 billion.

The vast disbursements by government for personal services and commodities are reflected in the index of the physical volume of industrial production of the Board of Governors of the Federal Reserve System. This index (adjusted) rose from 114 in March and April 1940 to a wartime peak of 247 in October-November 1943 — an increase of 117 percent — then receded to 230 in July 1944, stabilized during the remainder of that year, increased again to 236 in February 1945, and thereafter decreased sharply. Other measures of productive accomplishment, which do not rely so heavily as the Federal Reserve index upon man-hours worked, give much lower estimates of the growth in production.[1] As a measure of the financial requirements of business enterprises, however, the money value of production is more significant than the physical volume. Gross national product — the value of currently produced goods and services flowing to government, to business for gross capital formation, and to consumers — is estimated at $97 billion in 1940, $187 billion in 1943, $198 billion in 1944, and $197 billion in 1945.

For the most part, the huge increase in production after 1940 resulted from drawing upon unemployed manpower and facilities and from utilizing human and physical resources more intensively. In a rich nation with large unemployed and partially-employed resources, it proved possible to superimpose most of the immense war production program upon civilian output. Nevertheless, a growing fraction of the output of war materials after 1941 owed its origin to curtailments or stoppages in the production of particular types of civilian goods, and to transfers of the personnel, materials, and facilities to war production. During 1942 drastic reductions or stoppages were ordered in the output of such important consumer durable goods as housing, automobiles, radios, refrigerators, and electrical appliances, and by March 1943 nearly two-thirds of all manufacturing and mining output was for war purposes.

Manufacturers, distributors, and consumers widely anticipated the mounting intensity of the war production program, and stocked up with consumer commodities; inventories in the hands of distributors and consumers continued to expand for some time after the peak of civilian production had been passed. Department store stocks

[1] See, for example, Geoffrey H. Moore, *Production of Industrial Materials in World Wars I and II* (National Bureau of Economic Research, Our Economy in War, Occasional Paper 18, March 1944).

increased during 1941 and the first half of 1942 to the highest point in history;[2] but after July 1942 record-breaking sales caused by continually mounting income payments to consumers brought a sharp decrease in stocks. This curtailment, like that in the production of consumer durable goods, had an important influence upon demands by business for credit from banks.

An important development of the post-1941 period was a decline in the amount of credit used to finance the distribution of consumer goods. The diminishing quantities of many types of consumer durable goods flowing into consumption, combined with the tightening of consumer credit under Regulation W of the Federal Reserve System and the enlarged ability of the public to pay cash for its purchases, reduced outstanding consumer credit from a peak of about $10 billion at the close of 1941 to $5.4 billion at the end of 1943. While small increases occurred in the next two years, the figure at the end of 1945 was only $6.7 billion. Most of the reduction after 1941 was accounted for by instalment credit, and was closely geared to production stop-orders for automobiles and other consumer durables. While commercial banks were the direct retailers of only a minor part of these loans, they "wholesaled" much of the balance through their loans to consumer financing agencies; thus the commercial loans of banks bore the brunt of this extraordinary withdrawal of consumer credit.[3]

The war brought about a 15 percent reduction in the business population. Between late 1941 and the end of 1943 some 1.1 million business enterprises — 30 percent of all those in operation at the close of 1941 — closed their doors, while only about 572 thousand concerns were organized, leaving a net decline of more than 500 thousand in the number of operating businesses. Beginning in 1944, however, increases were again reported, and by June 1945 about one-half of the 1941–43 loss had been regained.

The majority of businesses discontinuing in 1942 and 1943 were small concerns whose owner-managers entered the armed

[2] The behavior of consumer goods inventories in the hands of manufacturers cannot be observed, because available data do not separate such inventories from inventories for war purposes. Presumably a rapidly mounting fraction of manufacturing inventories was of the latter type after 1941.

[3] Total consumer instalment credit of commercial banks fell from $1,694 million at the end of 1941 to $514 million at the end of 1943, a decline of $1,180 million or more than 70 percent. Such credit at the close of 1945 amounted to $731 million. *Federal Reserve Bulletin*, July 1946, p. 803.

Table 14—Estimated Number of Operating Business Concerns, by Major Industrial Divisions, Selected Dates, 1941, 1943, and 1945[a]
(*in thousands*)

Industrial Division	*Number of Firms*			*Change*	
	Dec. 31, 1941	Dec. 31, 1943	June 30, 1945	Dec. 31, 1941 to Dec. 31, 1943	Dec. 31, 1943 to June 30, 1945
Contract construction	241.2	147.1	166.4	−94.1	+19.3
Manufacturing	225.4	227.6	249.4	+2.2	+21.8
Wholesale trade	143.8	114.0	133.2	−29.8	+19.2
Retail trade	1,590.8	1,318.0	1,417.7	−272.8	+99.7
Service industries	631.2	547.5	591.7	−83.7	+44.2
Mining and quarrying	24.1	26.0	25.9	+1.9	−0.1
Transportation, communication, and public utilities	204.7	187.9	200.2	−16.8	+12.3
Finance, insurance, real estate	279.8	267.5	281.3	−12.3	+13.8
Total	3,341.0	2,835.6	3,065.6	−505.4	+230.0

[a] From *Survey of Current Business*, May 1944, Table 1, p. 10, and May 1946, Table 6, p. 21.

forces, transferred to more lucrative employment in war plants, or closed because of inability to obtain necessary labor and materials for operations. As is shown in Table 14, two-thirds of the decrease in the business population during this period was accounted for by the retailing and service industries; but the relative contraction in wholesaling and in contract construction was larger than in either retail trade or the service lines. The disappearance of half a million enterprises undoubtedly had some influence on the demand for credit, by altering the size-distribution of the business population.

BUSINESS DEMAND FOR FUNDS: THE WARTIME GROWTH OF ASSETS

The doubling of the gross national product between 1940 and 1944 was accompanied by a substantial increase in business assets, and by a large concurrent increase in demand by businesses for funds to acquire both fixed and current assets.

Until the early part of 1942 private investment in new plant and equipment was heavier than government investment; subsequently, however, the largest expenditures on fixed assets were made by the federal government. Such a high degree of uncertainty surrounded the future value of most of the wartime plant that the Defense Plant Corporation, War Department, Navy Department, Maritime Commission, and Reconstruction Finance Corporation built, equipped, and operated vast arsenals; they also built, equipped, and leased to business enterprises even larger amounts of fixed facilities.

The cost of industrial facilities expansion initiated in the period July 1940–June 1944 amounted to $33 billion. As indicated in Table 15, the greater part of this investment was in manufacturing industries, whereas investment in transportation (apart from the huge merchant marine and air transport fleets), other public utilities, and mining industries was only minor. Comprehensive data covering the war period for trade and service industries are not available, but it is likely that shortages of manpower and priorities on materials reduced outlays very much below normal levels.

In view of the fact that the net book value of the fixed assets of all nonfinancial corporations at the end of 1939 was approximately $85 billion, it is apparent that the $33 billion of public and private

Table 15—Cost of Industrial Facilities Expansion Initiated, July 1940–June 1944[a]
(*dollar figures in millions*)

Product or Service	*Public*		*Private*		*Total*	
	Amount	Percent	Amount	Percent	Amount	Percent
Manufacturing	$15,872	94.5%	$ 7,633	47.3%	$23,505	71.4%
Transportation and communication	386	2.3	4,242	26.3	4,628	14.0
Other public utilities	459	2.7	1,948	12.1	2,407	7.3
Petroleum, extraction, and mining	78	.5	2,319	14.3	2,397	7.3
Total	$16,795	100.0%	$16,142	100.0%	$32,937	100.0%

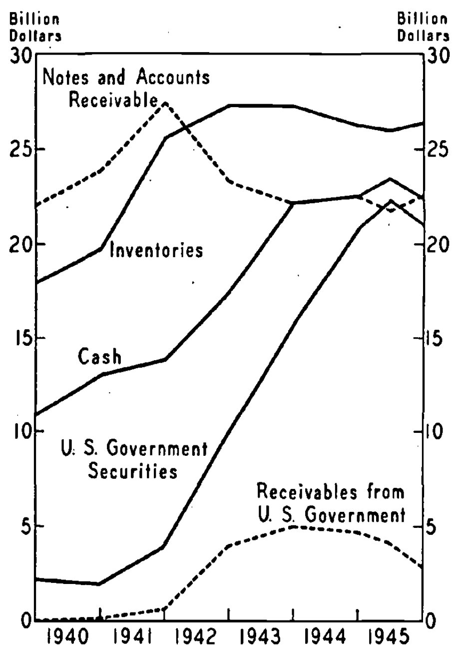
[a] From War Production Board, *Facilities Expansion, July 1940 — June 1944* (Facts for Industry, Series 50-4-1, September 22, 1944) Tables 1, 7, and 13.

investment in war industrial facilities produced much less than a 50 percent increase in the magnitude of the nation's fixed plant. Such a rough estimate indicates that the doubling of gross national product between 1940 and 1944 was in large part achieved by a more intensive use of plant.

Estimates of the Securities and Exchange Commission and the Department of Commerce reveal that investment in plant and equipment by private concerns, excluding agriculture, was greater in 1945 than in any year since 1942 but less than two-thirds of that in the peak year 1941, adjustment having been made for differences in the price level. As war controls were lifted and materials became available, expenditures increased steadily, with those in the final quarter of the year substantially above those in the first.

From the end of 1939 to the end of 1944 the current assets of all corporations, excluding banks and insurance companies, on an unconsolidated basis are estimated to have risen by $44.2 billion, and a further rise of $0.5 billion took place in the first half of 1945. An expansion in holdings of United States government securities accounted for $20.0 billion of the increase after 1939, and cash for $12.9 billion (Chart 31). While cash plus government securities more than tripled in amount, inventories increased by only 43 percent, or $7.7 billion.

Chart 31 — Current Assets of Corporations, Excluding Banks and Insurance Companies, 1939–45



Between the end of 1939 and June 1945 cash holdings more than doubled, holdings of government securities increased tenfold, and inventories rose by 43 percent.

This reflected both the accumulation by the federal government of stockpiles of strategic materials and other inventories, which were turned over to business concerns for fabrication, and the great reduction in inventories of consumer goods to which reference has already been made. While inventories of consumer goods accounted for a major part of the increase in the current assets of business up to the end of 1941, these stocks melted away rapidly thereafter.

Manufacturing concerns experienced a larger dollar expansion of current assets between 1939 and mid-1945 than did those in any other industrial division, according to a tabulation of corporations registered with the Securities and Exchange Commission (Table 16). While the dollar amount of the rise for railroads was dwarfed by that in manufacturing industries, railroads had the largest percentage increase — 242 percent — of all groups. This performance of the railroad companies reflects the relatively low prewar base of their current assets, their high wartime earnings, the comparatively less heavy wartime taxation of their profits, and large accumulations of deferred maintenance.

An outstanding feature of the four-year period, 1941–44, was the great expansion, in all fields except retail trade, in both fixed and current assets of small and medium-sized businesses, compared with large concerns; the increase was especially marked among those enterprises engaged in war industries.[4] This behavior is traceable to the fact that the percentage gains in sales volume, profit margins, and net profits after federal income taxes were significantly greater among small concerns; but it should be recalled that small businesses in general entered the war period with lower profit margins than did large concerns. It may be inferred that the high mortality rate among small businesses after 1941 was confined to very small

[4] Securities and Exchange Commission data covering corporations whose securities are registered with the Commission provide an adequate view of wartime changes in the financial structure of large businesses. Wartime changes in the financial structure of small and medium-sized concerns are revealed by an analysis, made by the Board of Governors of the Federal Reserve System, of a sample of enterprises of all sizes whose financial statements were assembled under a cooperative arrangement between the Robert Morris Associates and the Board of Governors, beginning with the year 1941. See Frederick C. Dirks, "Wartime Earnings of Small Business" and "Wartime Financing of Manufacturing and Trade Concerns," *Federal Reserve Bulletin*, January 1945, pp. 16–26, and April 1945, pp. 313–30, for this analysis which covers the three years 1941, 1942, and 1943. Additional data, covering 1944, also compiled jointly by the Robert Morris Associates and the Board of Governors, have been analyzed by the present authors; data for 1945 are not available.

concerns in certain lines, and that those small businesses which survived improved greatly their relative position in the economy.

Table 16—CURRENT ASSETS OF CORPORATIONS IN DIFFERENT INDUSTRIAL DIVISIONS, DECEMBER 1939 AND JUNE 1945[a]
(*dollar figures in billions*)

Industrial Division	*Current Assets* Dec. 31, 1939	*Current Assets* June 30, 1945	*Change from Dec. 31, 1939 to June 30, 1945* Amount	*Change from Dec. 31, 1939 to June 30, 1945* Percent
All United States corporations[b]	$54.6	$99.3	$44.7	81.9%
1,228 corporations registered with SEC[c]	16.3	36.0	19.7	120.9
802 manufacturing corporations	11.1	25.9	14.8	133.3
388 manufacturing corporations in war industries[d]	5.7	16.2	10.5	184.2
414 manufacturing corporations in nonwar industries[e]	5.4	9.7	4.3	79.6
79 railroads	1.2	4.1	2.9	241.7
50 public utility systems[f]	0.7	1.2	0.5	71.4
105 trade corporations	1.1	2.1	1.0	90.9
36 financial corporations[g]	1.4	0.8	−0.6	−42.9
269 manufacturing corporations with assets under $5 million	0.3	0.8	0.5	166.7
470 manufacturing corporations with assets from $5 million to $100 million	4.1	10.3	6.2	151.2
63 manufacturing corporations with assets of $100 million and over	6.7	14.8	8.1	120.9

[a] From Securities and Exchange Commission, Statistical Series, Release No. 755, November 7, 1945, and *Working Capital of 1228 Registered Corporations, December 1939 — June 1945* (Supplement to Statistical Series, Release No. 755) December 5, 1945.

[b] Banks and insurance companies excluded.

[c] All types of corporations except banks and insurance and investment companies. Figures are on a consolidated basis.

[d] Iron and steel, nonferrous metals, electrical supplies and equipment, machinery, transportation equipment, chemicals, and rubber products.

[e] Foods, tobacco, beverages, textiles, paper, oil refining, leather, building materials and equipment, and miscellaneous manufacturing.

[f] Electric light, power, heat, gas, water, etc. Includes both holding and operating companies.

[g] All types of finance except banks and insurance and investment companies.

SUPPLY OF FUNDS TO BUSINESS: WARTIME GROWTH OF NET WORTH AND INDEBTEDNESS

Business corporations financed the large wartime increase in total assets both by expanding their short-term liabilities — particularly tax accruals and other items due to the federal government — and by retaining an unusually large part of their substantial profits. Because the net fixed assets owned by business appear to have declined after 1941, some part of the large increase in current assets represented investment withdrawn from property account. When government-owned plant leased to private concerns is taken into account, there was, of course, a large rise in the amount of fixed assets operated by business.

Although the wartime increase in net working capital exceeded the increase in net worth, as a result of the excess of depreciation and depletion accruals over private expenditures on fixed property, the war period nevertheless witnessed rapid growth in the net worth of business. Between 1939 — a year of depressed business — and 1942 the net profits of all corporations more than doubled, even after deduction of heavy income and excess profits taxes, and thereafter tended to stabilize. Business managements, probably anticipating a postwar period of uncertainty or reduced profits, followed ultra-conservative dividend policies, disbursing only a minor fraction of the wartime increase in net earnings in the form of cash or property.[5]

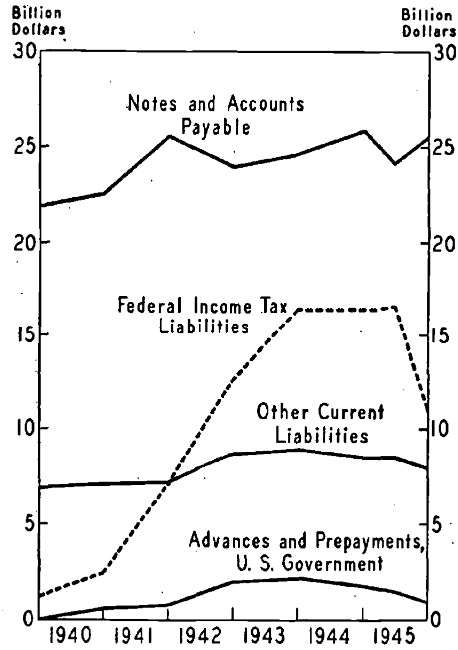
The distribution of wartime gains in sales and net profits was quite unequal. The greatest percentage gains in business volume and profits were enjoyed by small and medium-sized concerns, whose relative profitability rose more than did that of large enterprises or very small businesses. While net profits as a percentage of net worth for small and medium-sized manufacturing concerns were lower than for large manufacturing businesses in 1940, they were definitely higher in 1943.[6]

The increase in the net working capital of business corporations between December 1939 and June 1945 was relatively larger than

[5] Net income after taxes of all active corporations, excluding intercorporate dividends, increased from $4.0 billion in 1939 to $8.5 billion in 1944, and dividends paid increased from $3.8 billion to $4.3 billion, according to estimates of the Treasury Department. See *Monthly Letter of the National City Bank of New York*, April 1945, p. 41.

[6] See F. C. Dirks, *op. cit.*, *Federal Reserve Bulletin*, January 1945, pp. 16–23.

Chart 32 — Current Liabilities of Corporations, Excluding Banks and Insurance Companies, 1939–45



Between the end of 1939 and mid-1945 federal income tax accruals increased about thirteen times, while other types of current indebtedness remained comparatively stable.

the increase in either current assets or current liabilities, since current assets rose more rapidly than current liabilities. As indicated above, this increase in net working capital was not, of course, matched by an increase in net worth because of the growth of deferred maintenance and the decline in property accounts. Net working capital rose by 95 percent, current assets by 82 percent, and current liabilities by 71 percent, and a slight increase occurred in the ratio of current assets to current liabilities. By far the largest share of the increase in current liabilities consisted of short-term funds owed the federal government in the form of accrued taxes and advances and prepayments on war production contracts. In addition, a substantial share of the $2.7 billion increase in notes and accounts payable may be traced to accounts payable to trade creditors who were war contractors for whom the reporting business was a subcontractor.

The net debtor-creditor relationship of corporations, excluding banks and insurance companies, to the federal government changed in favor of corporations. While the indebtedness of corporations to government rose by $16.7 billion between December 1939 and June 1945 on account of accrued taxes and advances and prepayments by the government on war contracts (Chart 32), the indebtedness of the government to corporations rose $24.1 billion on account of securities and receivables due to corporations.

Certain significant differences in wartime changes in liabilities of small and of large manufacturing and trade concerns may be observed.[7] Because of the greater percentage increases in net profits of small concerns, referred to earlier, the increase between 1940 and 1943 in the net worth of small businesses ranged from 25 to 50 percent, with the increases becoming progressively smaller among medium-sized and large companies. This tendency persisted in 1944. Net working capital also grew more among small than among large concerns. Nevertheless, the rise in accrued federal tax liabilities was more rapid among small concerns, and only about one-half of this increase was covered by holdings of federal securities, as against an almost complete coverage by the aggregate holdings of large concerns.

FLUCTUATIONS OF BANK LOANS TO BUSINESS, 1940–45

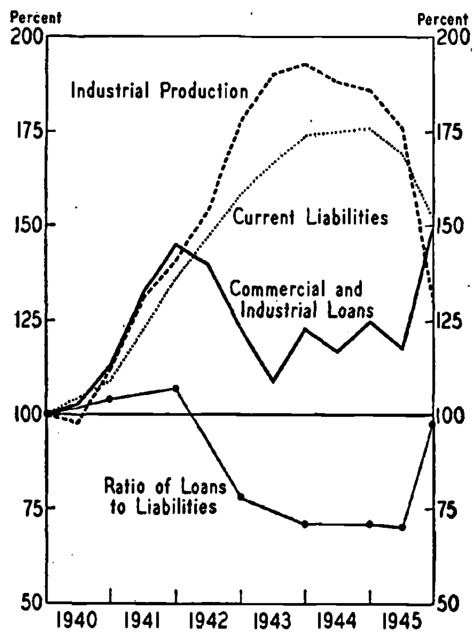
The behavior of bank loans to business in the war period was outwardly paradoxical. In 1940 and 1941 outstanding business loans — measured by commercial and industrial loans — rose steadily, expanding by 45 percent or approximately the same percentage as that for the physical volume of production, when measured by the Federal Reserve index (Chart 33). Then, in the face of strongly increasing production, business loans declined sharply during 1942 and up to mid-1943. This decline was due entirely to a phenomenal decrease, amounting to about $4.3 billion, in bank credit for civilian business, only partially offset by an increase of $2.0 billion in bank loans to finance production of war goods, which rose from $1.3 billion at the end of 1941 to around $3.3 billion at mid-1943.

After mid-1943 commercial and industrial loans of banks again expanded; between June 1943 and June 1945 the increase in loans to civilian business was about $.9 billion.[8] The principal reason for the expansion was the use of V and VT loans by businesses, whose managements became more aware of the problems of "thawing out" large amounts of working capital tied up in inventories and receivables connected with government work, and of the need for ample liquid funds during the reconversion period.

[7] F. C. Dirks, *op. cit.*, *Federal Reserve Bulletin*, April 1945, p. 321, supplemented by the present authors' analysis of the Robert Morris Associates — Board of Governors of the Federal Reserve System sample of corporate financial statements for 1944.

[8] Total loans rose about $.6 billion, while war production loans declined $.3 billion.

Chart 33 — Relation of Commercial and Industrial Loans of Insured Banks to Industrial Production and to Current Liabilities of Corporations, Excluding Banks and Insurance Companies, 1940–45
(*December 1939 = 100*)



During 1940 and 1941, commercial and industrial loans expanded in proportion to industrial production and current liabilities of business; in 1942 and through mid-1943, when production increased sharply, loans declined. Subsequent loan expansion was moderate until the second half of 1945.

The reduction in the relative importance of bank loans as a source of short-term funds for business is revealed by a tabulation of the current liabilities of the sample of corporations discussed above.[9] Between the end of 1939 and the end of 1941, these companies' notes payable to banks expanded at practically the same rate as their total current liabilities so that at the close of 1941, as in 1939, notes payable formed about 15 percent of their short-term debt. But by the end of 1943 this percentage had dropped to 5.7 and by mid-1945 it was 6.7, reflecting principally the increased reliance upon short-term federal funds, primarily in the form of tax accruals, but also the reduction in inventories of consumer goods and the liquidation of outstanding consumer credit. By the middle of 1942 the rate of inflow of government payments for war goods delivered or in process of production had become so large that it more than offset the rate of outflow of cash to finance the expansion in production.

[9] See p. 178.

Table 17—NOTES PAYABLE TO BANKS BY CORPORATIONS IN DIFFERENT INDUSTRIAL DIVISIONS, DECEMBER 1939, DECEMBER 1941, AND JUNE 1945[a]
(*dollar figures in millions*)

Industrial Division	*Notes Payable to Banks*			*Percentage Change*	
	Dec. 31, 1939	Dec. 31, 1941	June 30, 1945	Dec. 1939 to Dec. 1941	Dec. 1941 to June 1945
1,228 corporations registered with SEC[b]	$808	$1,487	$1,142	84.0	−23.2
802 manufacturing corporations	182	409	975	124.7	138.4
388 manufacturing corporations in war industries[c]	62	152	627	145.2	312.5
414 manufacturing corporations in nonwar industries[c]	120	257	348	114.2	35.4
79 railroads	92	29	13	−68.5	−55.2
50 public utility systems[c]	38	33	18	−13.2	−45.5
105 trade corporations	23	46	42	100.0	−8.7
36 financial corporations[c]	458	941	63	105.5	−93.3
269 manufacturing corporations with assets under $5 million	14	26	62	85.7	138.5
470 manufacturing corporations with assets from $5 million to $100 million	129	235	512	82.2	117.9
63 manufacturing corporations with assets of $100 million and over	39	148	401	279.5	170.9

[a] From Securities and Exchange Commission, *Working Capital of 1228 Registered Corporations, December 1939 — June 1945* (Supplement to Statistical Series, Release No. 755) December 5, 1945.

[b] All types of corporations except banks and insurance and investment companies. Figures are on a consolidated basis.

[c] For industries included, see footnotes to Table 16, p. 179.

WARTIME CHANGES IN THE USE OF BANK FUNDS BY BUSINESS

Among the major industrial divisions of the economy, large manufacturing concerns, particularly producers of war goods, experienced a sharp increase in the use of bank funds during the war years, just as they experienced a spectacular expansion in assets and in value of output. Trade and financial corporations in contrast (judging from tabulations of notes payable to banks by corporations registered with the Securities and Exchange Commission) increased their bank borrowings substantially in 1940 and 1941, and then paid down this indebtedness during the next three and a half years; in fact, by mid-1945 financial corporations had liquidated the greater part of their indebtedness to banks (Table 17). Railroad and public utility companies reduced their bank borrowings during the entire war period. In view of the fact that banks' outstanding commercial and industrial loans rose by 18 percent between the end of 1939 and mid-1945, it appears that there was a shift of bank credit out of every major industrial division of the economy into manufacturing and, to a lesser extent, into trade concerns.

Small and medium-sized businesses engaged in nonwar activities showed little change between 1941 and 1944 (the period for which data are available) in the amount of outstanding bank loans; for concerns in this size group engaged in war manufacturing, the percentage increase was considerably greater than that for large concerns.[10] However, the use of accrued tax liabilities in financing the current operations of small manufacturing concerns increased even more markedly than did bank loans. Apparently the relative expansion in the assets of small manufacturing concerns during the war was so large that it could not be met merely by a rapid growth in net worth.

Changes in the geographical distribution of demand for bank credit reflected changes in the location of productive activity; outstanding bank loan balances increased most in those regions where war industries grew most rapidly. As indicated in Table 18, the percentage increases between the end of 1939 and June 1945 in the commercial and industrial loans of Federal Reserve member banks in the Seventh Federal Reserve District — which includes two of

[10] F. C. Dirks, *op. cit.*, *Federal Reserve Bulletin*, April 1945, p. 321, and the present authors' analysis of the Robert Morris Associates — Federal Reserve sample for 1944.

the nation's largest war producing cities, Detroit and Chicago — and in the Twelfth Federal Reserve District — which contained the great shipbuilding and aircraft plants around Los Angeles, San Francisco, and Seattle — were considerably greater than the increase for the nation as a whole.

Table 18—COMMERCIAL AND INDUSTRIAL LOANS OF ALL FEDERAL RESERVE MEMBER BANKS BY FEDERAL RESERVE DISTRICTS, DECEMBER 1939, DECEMBER 1941, AND JUNE 1945[a]
(*dollar figures in millions*)

Federal Reserve District	*Amount of Loans*			*Percentage Change from Dec. 1939 to*	
	Dec. 1939	Dec. 1941	June 1945	Dec. 1941	June 1945
Boston	$ 482	$ 695	$ 478	+44%	−1%
New York	2,181	3,191	2,663	+46	+22
Philadelphia	345	473	287	+37	−17
Cleveland	340	553	440	+63	+29
Richmond	224	305	215	+36	−4
Atlanta	253	355	287	+40	+13
Chicago	687	1,189	1,061	+73	+54
St. Louis	228	362	258	+59	+13
Minneapolis	126	170	136	+35	+8
Kansas City	216	296	231	+37	+7
Dallas	224	302	306	+35	+37
San Francisco	534	780	734	+46	+37
ALL DISTRICTS	$5,841	$8,671	$7,095	+48%	+21%

[a] From *Member Bank Call Reports*, No. 82, pp. 8–9; No. 89, pp. 8–9; No. 100, p. 7. Commercial and industrial loans include commercial paper bought in the open market, bills, acceptances, etc., payable in foreign countries, acceptances of other banks payable in the United States, and reporting banks' own acceptances.

WARTIME SHIFTS IN BUSINESS CREDIT RISKS

Wartime changes in the kinds of credit demanded by business were such as to reduce the extent to which these demands could be met by private lending institutions under traditional arrangements. An increase occurred in the average amount of credit risk. A large part of the new plant facilities was so specialized to the production of war materials that its value as collateral security for bank loans was very doubtful. Estimates indicate that only about one-third of the government investment in war industrial facilities was sufficiently convertible to lend itself to rapid postwar disposal;[11] and even this convertible one-third of the plant was erected at such levels of cost that the investment might not be fully recovered by the government.

War production contracts also presented numerous risk-elevating forces. The managements of many enterprises had no demonstrated experience or skill in producing the products which they contracted to make for the government. Especially in the early stage of the war production program there was grave risk that the products would not pass government inspection and create good accounts receivable which would form the means of repaying bank loans, and uncertainty existed regarding federal standards of inspection and the promptness with which the contractor would receive payment for accepted products. Many concerns, especially medium-sized and small manufacturers, demanded credit in amounts far beyond their usual needs and well beyond those permitted under standards that banks had been accustomed to apply. The credit utilized by these manufacturers was often startling in relation to their net worth. Many war plants operated with borrowed funds several times the amount of their net worth, or with current assets no larger or even less than their current liabilities. Public interest in the expansion of war production caused traditional standards of creditworthiness to be thrust aside. Financial considerations were not allowed to stand in the way of enlarged production. Operating within a prescribed framework of law and public regulation designed to prevent the assumption of large risks and to protect depositors against loss, commercial banks could not meet a very large part of the greater demand for credit. New institutions, new techniques, and new powers were therefore devised.

CREDIT FACILITATING ARRANGEMENTS INTRODUCED DURING 1940–41

During the period immediately preceding the entry of the United States into the war, the larger corporations first drawn into war production financed their military orders with working capital on hand

[11] A. D. H. Kaplan, *The Liquidation of War Production* (Committee for Economic Development, New York, 1944) p. 99.

or by recourse to customary institutional sources. One of the earliest devices for facilitating the flow of credit to businesses engaged in war production was the Assignment of Claims Act of 1940. This Act permitted all claims against the federal government for $1,000 or more to be assigned to "a bank, trust company, or other financing institutions, including any Federal lending agency,"[12] thus making the claims available as collateral security for loans. Claims could be assigned under contracts either for supplies or for plant facilities.

Another early device was the Emergency Plant Facilities Contract, which provided that a contractor could erect a plant, certified as being necessary for the nation's defense, and could be reimbursed for the entire cost by the federal government in sixty equal monthly instalments following completion of the facilities. At the termination of this period, title passed to the government, unless the contractor desired to retain the plant, in which event the contractor might purchase the plant at cost less the depreciation specified in the contract or at a negotiated price. The contract thus left to the contractor the normal risks of production, but it required the government to carry the risk of plant depreciation. By assigning the payments due from the government under such contracts, contractors could secure funds from private financial institutions to finance plant construction.

A third facilitating method was a ruling of the Treasury Department that when a business expanded a plant, certified as necessary for national defense, it could amortize the total cost over a period of sixty months, deducting this amortization from its income for tax purposes.[13] Such amortization could be allowed whether the plant expansion was privately financed or financed under an Emergency Plant Facilities Contract. This ruling stimulated investment in those fixed assets which business concerns definitely intended to retain after the war.

Legislation passed during 1941 permitted the War or Navy Departments to advance from available appropriations sums not exceeding 50 percent of the contract price of supplies or facilities; two-fifths of the advances might go to subcontractors participating

[12] Public Law No. 811, 76th Congress, approved October 9, 1940.

[13] Treasury Decision 5016 relating to Revenue Act of 1940, Secs. 23, 24, approved October 23, 1940. If the war ended or the facilities became no longer necessary within less than sixty months after construction was completed, amortization of cost could be recomputed on the basis of this shorter period.

in the completion of a government contract. The advances could be authorized by Army or Navy officials, as could the so-called "progress payments" on government contracts.

The credit-granting powers of the Reconstruction Finance Corporation were broadened in 1940. On June 25 of that year the Corporation was empowered "to make loans to, or, when requested by the Federal Loan Administrator with the approval of the President, purchase the capital stock of, any business corporation (a) for the purpose of producing, acquiring, and carrying strategic and critical materials, as defined by the President, and (b) for plant construction, expansion and equipment, and working capital to be used by the Corporation in the manufacture of equipment and supplies necessary to the national defense, on such terms and conditions and with such maturities as the Corporation may determine."[14]

This Act greatly expanded the powers of the RFC to lend to businesses engaged in war production. There were no requirements in the 1940 law, such as were contained in the original 1934 legislation conferring business lending powers on the RFC, that borrowers be "solvent," that loans be of such sound value or so secured as "to assure repayment," that credit be "unavailable" at prevailing rates for the class of loan applied for, or that the borrowing businesses be "established" concerns. The existence of a national emergency was deemed sufficient cause for relaxing credit standards applicable to concerns whose production was considered vital to national welfare. Under these powers the RFC had authorized to business enterprises loans of $1.2 billion up to June 30, 1945, and it then had $0.3 billion of such loans outstanding. These loans represented credits extended, for the most part at the request of the Army or Navy Department, to concerns producing urgently-needed military supplies or services. In the beginning, many of the borrowers were subcontractors who, unlike direct contractors, were unable to obtain an advance from the government to provide sorely-needed working capital. The principal risks assumed by the RFC in granting credit to these concerns were that their costs may have been inadequately estimated and that the concerns might not be able to perform satisfactorily under a contract.

The Export-Import Bank of Washington expanded its functions in ways which had important implications for American commercial banks and the business credit market. Up to 1940 the two major

[14] Public Law No. 664, 76th Congress.

activities of this Bank were short-term financing of exports of agricultural commodities and long-term financing of exports of industrial products. In September 1940 Congress raised the amount of obligations the Bank could have outstanding at any time, removed the limitation upon the amount of credit extended to any one country, and extended the powers of the Bank.[15] Under this new authority the Bank established large credits in favor of central banks in Latin America to enable those countries to import essential products from the United States; it loaned money to their governments for the improvement of highway and railway transportation and to private interests for the production of strategic war materials. Apart from these activities, which were inaugurated as part of the grand strategy of global warfare, the Export-Import Bank also undertook to support the financial structure of foreign commerce during the emergency. For keeping open normal methods of financing American exports to Latin America when shipping space was short and delivery dates uncertain, it inaugurated a plan for underwriting letters of credit of approved foreign banks, which letters were opened in this country by American banks.

Outstanding obligations of the Export-Import Bank rose sharply from the end of 1939 through 1943, but tended to stabilize during 1944. At the end of June 1945 the Bank had outstanding loans of $0.2 billion and active commitments of $0.3 billion. It had pending many requests for credit to finance the exportation of railway, electric utility, mining, and other equipment to Latin American and other countries, as well as reconstruction in devastated areas. In order to enable the Bank to engage more extensively in the financing of postwar foreign trade, the amount of loans and guarantees it could have outstanding at any one time was raised to $3.5 billion by the Export-Import Bank Act of 1945, approved July 31, 1945.[16]

CREDIT FACILITATING ARRANGEMENTS INTRODUCED DURING 1942–45

One of the most important measures introduced to facilitate the flow of funds to enterprises participating in war production was what became known as the V loan arrangement.[17] The War Department,

[15] See Chapter 4, pp. 125–26.

[16] Public Law No. 173, 79th Congress.

[17] See Executive Order 9112 issued March 26, 1942 and Regulation V of the Board

Navy Department, and Maritime Commission, under an Executive Order of the President, were authorized to enter into contracts with financial institutions under which loans to contractors for financing war production could be guaranteed in whole or in part. The Federal Reserve banks acted as liaison agencies between the federal agencies, the war contractors, and the banks. Wherever possible the Federal Reserve banks attempted to arrange a credit extension without guarantee. If this was not feasible, they arranged a guarantee of a part of the loan by the federal agency concerned. As a last resort, the federal agency might extend the funds directly, either making the entire loan itself or taking a participation therein. Regulation V, promulgated by the Board of Governors of the Federal Reserve System, provided that rates of interest were to be specified by the Board from time to time after consultation with the federal departments and the reserve banks, and that the maturity of the loans made or guaranteed under this plan should not exceed five years.

The V loan was developed to assist war contractors who needed to borrow more money than could be granted them under conservative financial standards, and to aid in the problem of financing subcontractors. However, government-guaranteed war loans offered an advantage over straight bank credit even to companies of the highest credit standing to which adequate credit was available without guarantee. Concerns financing with V loans might, in the event of cancellation of one-quarter or more of their outstanding war contracts, obtain a suspension of maturity for a proportionate amount of the loan, and a waiver of interest thereon until settlement of their claims on the government. Because of this provision, V loans were extended in many cases where credit was otherwise procurable. In practice, the great bulk of V loan credit went to large enterprises and not to small contractors.

The VT loan arrangement, announced on September 1, 1943, was a direct outgrowth of the V loan. It provided for guaranteed loans by private institutions to war contractors, not merely to supply working capital needs for war production but also to enable contractors to obtain the use of their working capital upon termination of government contracts.[18]

---

of Governors of the Federal Reserve System issued thereto, effective April 6, 1942, and revised, effective September 11, 1944.

[18] *Federal Reserve Bulletin,* September 1943, p. 849.

A further expansion of the purposes of bank credit for which government guarantees could be issued was contained in the Contract Settlement Act of 1944.[19] Section 8(b) of this Act provided for interim financing of war contractors through T loans, pending payment by the government on their claims, in amounts specified as follows:

(1) 100 percent of the contract price of acceptable items completed prior to termination date of contract;

(2) 90 percent of cost of raw material, purchased parts, supplies, direct labor, and manufacturing overhead allocable to the terminated portion of the contract;

(3) a reasonable percentage of other allowable costs, including administrative overhead allocable to the terminated portion of the contract, not included in the foregoing;

(4) such additional amounts, if any, as the contracting agency deems necessary to provide the war contractor with interim financing.

This legislation was susceptible to a variety of interpretations, but it clearly permitted government contracting agencies to advance or prepay to business concerns, whose war contracts were terminated, not merely the bulk of their claims on account of such contracts but also additional working capital for financing reconversion or for other purposes. While the maturity date for such advances was no later than the date of final settlement between the contractor and the government, the period for which such credit could be used might well be long. Alternatively, government contracting agencies might guarantee loans made by banks and other private lending institutions to provide such "interim financing." Both the procurement services and the banks (under a government guarantee) were placed by this Act in a position to finance the re-entry of war contractors into civilian business.

After September 1944, only T loans and 1944 V loans were authorized. The 1944 V loans, which were similar to the VT loans previously made, were to provide working capital for war production purposes or to provide funds for both production and contract termination financing.[20]

By December 31, 1945, some 8,757 Regulation V loans had

[19] Public Law No. 395, 78th Congress, approved July 1, 1944.

[20] *Federal Reserve Bulletin*, March 1946, p. 244.

been authorized for a total amount of \$10.3 billion. There was actually outstanding \$0.5 billion of credit with \$1.0 billion additional available to borrowers under the agreements. On the average 85 percent of each loan outstanding was guaranteed. Although a large percentage of the number of guaranteed war loans authorized was in amounts of \$50,000 or less, and the amount of such credit available to small concerns appears to have borne roughly the same proportion to their sales that held for larger businesses, the greatest fraction of the amount of guaranteed war loans authorized was represented by loans above \$1 million.

The powers of the RFC to supply credit to business were further broadened after December 1941. The Murray-Patman Act provided that the RFC and its subsidiary, the Defense Supplies Corporation, should assist dealers, finance companies, and banks in the carrying and marketing of motor vehicles shipped on and after January 16, 1942, when their sale was prohibited by the Office of Price Administration except under rationing orders. On May 11, 1942 legislation was approved authorizing the RFC to buy from, or make loans to, dealers in rationed commodities, on a basis enabling dealers to secure amounts equal to the costs of the commodities.[21] The RFC approved about 2,903 loans aggregating \$68 million on automobiles, oil burners, tires, typewriters, and other rationed articles up to June 30, 1945.

In the interest of small manufacturers who were believed to have been overlooked in the early stages of war procurement, the Smaller War Plants Corporation was established by Act of Congress on June 11, 1942.[22] One method of aiding small business was to make loans and to lease equipment so that these manufacturers might engage in war production or essential civilian output. Although aggregate outstanding loans were limited in the original Act to \$150 million, the credit-granting powers of SWPC were comprehensive and included loans to acquire land, buildings, and equipment, to finance conversion to war production, to conduct war production, to reconvert to civilian production, and to carry on civilian production. On December 1, 1944, the capital funds were increased by \$200 million.

[21] See *Report of the Secretary of Commerce Covering the Activities of the Reconstruction Finance Corporation and Its Subsidiaries in Connection with the War, as of October 31, 1942*, pp. 32–33.
[22] Public Law No. 603, 78th Congress.

SWPC made direct loans, participated in loans with other financing agencies, either public or private, and made commitments to purchase part or all of the loans of other agencies. In all cases, before authorizing a loan it urged local banks to extend credit to an applicant, either alone or with SWPC participation or stand-by agreement. Loan applications were judged by SWPC mainly in the light of the urgency of the national need for the goods to be produced and the ability of the applicant to produce them; the applicant's financial statement was of secondary importance.[23] Terms to maturity of loans to provide production facilities were geared to the prospective ability of the borrower to make repayment, while the maturity of production loans depended upon the dates of completion of the borrowers' contracts. When a bank participated by assuming a share of the risk, the interest rate on the bank's portion of the loan was generally 6 percent, while that of the Corporation was 4 percent. The RFC, through the Defense Plant Corporation, acted for SWPC in disbursing and administering the loans.

The number and amount of applications for financial assistance rose slowly through 1942 and 1943, but the tempo of activity increased measurably during 1944. Between September 1, 1942 and July 31, 1945 the Corporation approved a total of $431 million of loans, of which $197 million were approved in 1944. More than half of the approved applications came from concerns making iron and steel and their products and transportation equipment. About 83 percent of approved loans provided working capital to the borrower; 12 percent were for debt retirement, supplies, land, buildings, and miscellaneous purposes; and about 5 percent were for plant equipment and machinery. The amount of credit actually advanced by SWPC to businesses was much smaller than the approved total; it amounted to $33 million on September 30, 1945.

Another federal wartime legislative act broadening the scope of government lending and loan-guaranteeing activities was the Servicemen's Readjustment Act of 1944, as amended — the "GI Bill of Rights."[24] This Act, approved July 1, 1944 and amended December 28, 1945, made available government-guaranteed loans to discharged veterans of the armed forces who had had at least ninety

[23] Public Law No. 42, 79th Congress, 1st Session.

[24] Public Law No. 346, 78th Congress. Amended by Public Law No. 268, 79th Congress.

days of service. Within ten years after the official termination of the war, a veteran may receive from the Administrator of Veterans' Affairs a guarantee of a loan — not to exceed 50 percent of the loan, or $4,000, whichever is smaller — to purchase or construct a home, farm or other real estate; or a guarantee of a loan — not to exceed 50 percent of the loan or $2,000, whichever is smaller — to purchase machinery, equipment, and inventories, and to provide working capital; or a prorated portion of either of these amounts for loans of both types or a combination thereof. The loans must carry a rate of interest not over 4 percent. Farm real estate loans must mature in not more than 40 years, home real estate loans in not more than 25 years, and non-real estate loans in not more than 10 years. Lenders may be persons, associations, corporations, or governmental agencies, which presumably include every agency of business credit supply. The loan guarantees under the "GI Bill of Rights" may supplement insurance or guarantees of loans which other governmental bodies — such as the SWPC or RFC — are authorized to provide.

WARTIME SHIFTS IN THE RELATIONS BETWEEN BUSINESS CREDIT INSTITUTIONS

The part played by government during the war years as industrial owner and producer was given more attention than its enlarged role as supplier and guarantor of credit to private enterprise. At the end of 1939 the outstanding business loans of the RFC and Federal Reserve banks amounted to less than $0.6 billion, whereas the outstanding loans to business (short-term plus long-term) of commercial banks, commercial finance companies, and insurance companies amounted to almost $18 billion (Table 19). Five years later, public agencies, including the war procurement departments, had loans outstanding of about $2.5 billion, while the business loans of the private institutions had advanced only to $20 billion.

The importance of public agencies in the business credit market is incompletely measured by outstanding loans. At mid-1945 no less than $3.7 billion of credit was available to borrowers under outstanding V loan agreements, in addition to the $1.4 billion of guaranteed credit actually in use by business. And at the same time the RFC had outstanding authorizations for loans and agreements

Table 19—Loans Outstanding to Business Enterprises by Principal Private and Public Business Financing Institutions, 1939–45
(*in millions*)

	Private Institutions			*Public Institutions*		
End of Year	Commercial Banks[a]	Insurance Companies[b]	Finance and Factoring Companies[c]	U. S. War Procurement Agencies[d]	RFC[e]	Federal Reserve Banks[f]
1939	$ 9,400	$7,767	$ 664	. . .	$582	$14
1940	10,097	8,438	952	$ 600	599	9
1941	11,966	9,297	1,165	800	619	10
1942	10,284	9,341	533	2,000	756	14
1943	9,983	9,378	293	2,200	761	11
1944	10,136	9,498	288	1,800	716	4
1945 (June)	9,857	[g]	[g]	1,500	551	3

[a] Commercial and industrial loans, including commercial paper bought in the open market, held by all insured banks, plus investments in industrial, railroad, and public utility bonds, plus miscellaneous items. Figures are estimated from data in *Annual Reports of Federal Deposit Insurance Corporation.*

[b] Railroad, public utility, and industrial corporation bonds held by 49 principal legal reserve life insurance companies holding over 90 percent of total assets of all life companies. Based on data from *Proceedings of Annual Convention of the Association of Life Insurance Presidents.*

[c] Loans and advances outstanding to business enterprises by selected commercial finance and factoring companies. Estimates of National Bureau of Economic Research, Financial Research Program.

[d] Advances and prepayments on government contracts. From Securities and Exchange Commission, Statistical Series, Release No. 755, November 7, 1945.

[e] Includes the following RFC classifications: loans to railroads, loans to fisheries, mining and smelting (both "to aid in national defense" and "except to aid in national defense"), and loans to business enterprises, purchases of participations, and agreements to purchase participations (both "to aid in national defense" and "except to aid in national defense"). From reports of the Reconstruction Finance Corporation.

[f] *Federal Reserve Bulletin.* Outstandings on December 31, 1945 amounted to $2 million.

[g] Data not available.

to purchase participations in loans amounting to \$0.3 billion. If it were possible to divide the total risks of business credit between those carried by public and by private institutions, the portion carried by public agencies would be considerably larger than is suggested by Table 19.

Changes in the relationships among federal business credit institutions after 1939 were marked. By the end of 1944 the RFC and the SWPC had emerged as the important wartime lenders to "marginal" businesses. The role of the Federal Reserve banks as direct lenders in the wartime financing of business was insignificant, but their services as intermediaries in arranging V, VT, and T loans were considerable.[25] Conceivably, the Federal Reserve banks could have developed into significant direct sources of working capital for concerns in war work; but other methods of current financing, especially V loans, advance and progress payments by federal procurement agencies, and the RFC and SWPC loans satisfied the demand.

So far as the legal authority to lend money to business was concerned, there was duplication between the RFC defense loan powers and those of the SWPC. The SWPC received a mandate from Congress to assist small business, but early in 1942 the RFC also began to use its loan powers more intensively to spread war work among smaller producers. On February 19 of that year the district officers of the RFC were authorized to approve loans up to \$100,000 (up to \$250,000 if there was participation by a bank) on their own responsibility without reference to Washington.[26] In operation, the SWPC and the RFC nevertheless differentiated their functions in the following ways:

First, the SWPC loan program served businesses smaller than those served by V loans or RFC defense loans. The average amount of all loans authorized by SWPC up to early 1944 was \$74,000,

[25] During the five years ending December 31, 1944, the outstanding loans of Federal Reserve banks decreased by \$9.8 million. During the whole period only 700 applications were approved for loans totaling \$337 million. See *Federal Reserve Bulletin*, May 1945, p. 443.

[26] *Report of the Secretary of Commerce Covering the Activities of the Reconstruction Finance Corporation and Its Subsidiaries in Connection with the War, as of October 31, 1942*, pp. 31–32. Up to October 31, 1942 some 2,908 of these smaller loans amounting to \$75 million had been approved by loan agency managers, including 2,534 loans for the manufacture of products essential to the war effort.

compared with $1,265,000 for V loans and $340,000 for RFC defense loans.[27]

Second, as a group SWPC loans carried larger risks than V loans or RFC defense loans. This resulted from the determined effort of the SWPC to aid smaller enterprises, and from its announced policy not to advance funds to applicants unless they had been unsuccessful in obtaining them from other sources.

Third, a larger fraction of SWPC loans was used to provide working capital, and smaller fractions to acquire fixed assets or to retire debt, than was true of the other types of loans.

Within the realm of private finance, the war years witnessed a decline of the commercial finance company and a rise of the life insurance company relative to the commercial bank. The larger life insurance companies steadily increased their holdings of the marketable long-term bonds and notes of business, and they expanded further their term loans and private purchases of debt securities. At the end of 1944 life insurance companies occupied a more prominent position than ever in the business credit market.

The importance of commercial finance companies as sources of credit diminished sharply after 1941. In 1940 and 1941 their outstanding loans rose rapidly, especially those arising out of the financing of instalment sales of consumer durable goods. Beginning in 1942 finance company loans were repaid as the production and distribution of consumer goods declined, consumer instalment credit contracted, and new sources of funds opened up for concerns engaged in war production. Many marginal enterprises, formerly financed by commercial finance companies, were able to win independence of outside aid as a result of large wartime earnings. Other small business clients discontinued operations. The outstanding loans of a sample of large commercial finance companies were cut by more than three-fourths between the end of 1941 and the end of 1944. Pressed with idle funds, commercial finance companies purchased government securities and some of them acquired manufacturing and other ventures, so that their function and character underwent substantial modification. After 1941 a severe re-

[27] Figures relate to loans authorized and not amounts disbursed. See *Federal Reserve Bulletin*, May 1944, p. 459; also Report of the RFC to Congress, covering operations from February 2, 1932 to March 31, 1944 (mimeographed), which indicates that defense loans and participations amounting to $1,230 million had been made to 3,621 business concerns.

duction occurred also in the outstanding consumer loans of industrial banking companies, including the Morris Plan banks. Consequently there was a more intense cultivation of the market for business credit by industrial banking companies.

Factoring concerns, purchasing business accounts receivable without recourse, sustained the volume of their operations more completely during the war years than did commercial finance companies. The explanation is that their business consisted largely of the financing of textile concerns, which continued to require external financing, whereas the commercial finance companies were heavily dependent on the acquisition of instalment receivables arising from the sales of consumer durable goods.