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CURRENT ASSETS

CURRENT ASSETS CONSIST OF raw materials, finished products, temporary credits to customers, secondary reserves (readily marketable securities) and cash holdings. Fixed assets are sometimes referred to as fixed capital, current assets as working capital. Dewing has likened fixed capital to a mill and working capital to grist for the mill, the function of the mill being to transform a steady flow of grist into a product that can be sold for more than enough to pay for the original cost of the grist and for the operation of the mill.¹

One of the most important factors affecting the volume of current assets required by business is the character or techniques of the industry. Railroads, telephone companies, and electric light and power companies require enormous fixed capital. Their services are created by the slow using up of large fixed property facilities. On the other hand, trade concerns, whose function is also to provide a service, require a completely different structure of assets. Little fixed capital in the form of plant and machinery is required relative to more liquid capital in the form of finished goods inventory and trade receivables. The ratios of current assets to total assets in 1937 were as follows for the five groups: ²

Trade	63%
Manufacturing	39
Electric light and power	6
Telephones	6
Railroads	4

Within these broad groupings there was, of course, considerable diversity, both among industrial subgroups and among individual corporations. Differences among the individual corporations were small enough, however, to justify analysis by major subgroups.

In view of the relatively insignificant role current assets play in the financial structure of railroad, electric light and power, and telephone companies, most of the analysis which follows will deal with the working capital requirements of large manufacturing and trade corporations.

Working capital needs may reflect cyclical swings or long-run growth in business volume. Seasonal peaks in demand, for example for department store merchandise at Christmas time, necessitate large outlays on current assets during preceding months.³ Fluctuations in business activity may affect demands for the physical volume of current assets, and fluctuations in commodity prices may affect demands for the dollar volume of current assets over a period of several consecutive years. Finally, an absolute growth or decline in the enterprise, or a technical change in the manner of doing business, may permanently affect requirements for working capital. These capital requirements are financed not only by short-term debt (bank loans and trade payables) but also by funds retained from operations and proceeds from the sale of equities and long-term debt.

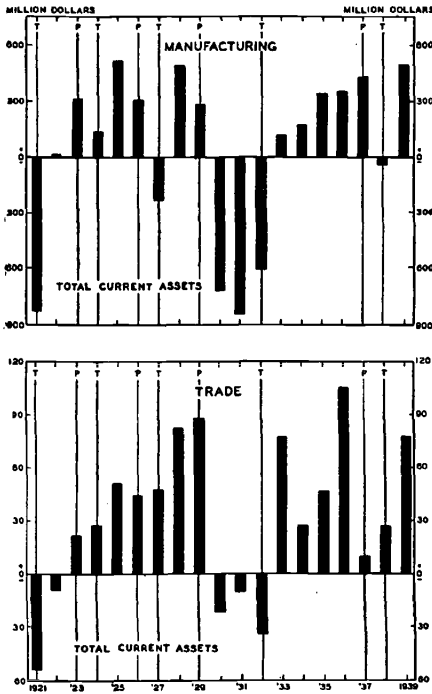
As would be expected, however, most increases in current assets occur during periods of recovery and prosperity. When business is improving and sales forecasts are upward, concerns tend to increase their stocks of raw materials, goods in process and finished goods. In manufacturing, more goods are in process of production. Higher prices add to the financial requirements for working capital. At the same time more and more finished goods are sold and debts of customers pile up. Finally, along with increases in sales and production come increases in wages and other out-of-pocket costs and more cash is needed in the till to keep the enterprise functioning smoothly.

From a cyclical viewpoint these increases during periods of general business expansion mean increased income- and employment-creating expenditures. Current assets may, however, be a source as well as a use of funds. In times of recession and depression such assets are often liquidated to provide funds for other corporate purposes. With decreasing sales, weakening expectations of future sales, and anticipations of a continued decline in the prices of raw materials, enterprises cut down on their raw material commitments and attempt to liquidate existing stocks of goods. Price declines accentuate the decline in the dollar volume of inventory. Customers' debts are collected and the decreased level of current sales produces fewer outstanding receivables. At this lower level of business, concerns operate on smaller volumes of cash. Just as additions to current assets during business expansions add impetus to that expansion, liquidations of such assets during contractions accentuate that contraction.

TOTAL CURRENT ASSETS

On the average, the annual dollar change in current assets of the manufacturing and trade samples was about the same for the two decades covered by our study despite the considerable difference in price level. The average annual expenditures on current assets by the manufacturing sample decreased slightly from \$257 million in the period 1923-28 to \$231 million in the 1933-38 period. In trade the increase was slight, from \$45 million to \$48 million.⁴ The average level of the wholesale price index as published by the Department of Labor, Bureau of Labor Statistics, was about 99 for the 1923-28 period and about 78 for 1933-38 (1926 = 100). There was a decline, then, in the over-all wholesale price index of about 20 points concurrently with the minor changes in current assets mentioned above.

In years of marked sales expansion, working capital requirements may be exceptionally large. In 1939 the ratio of current assets to fixed capital expenditures for the manufacturing sample was 76 percent, and for trade it was 166 percent. After 1933, working capital expenditures were greater relative to fixed capital



expenditures than they were during the expansion of the twenties. This was due in large part to the necessity for building up inventories which had been drastically reduced during the great depression of the early thirties. In addition, large sales increases from the depression lows brought with them increased customer financing.

Expenditures on current assets of our samples of manufacturing and trade concerns fluctuated greatly with the business cycle. The manufacturing concerns increased their total

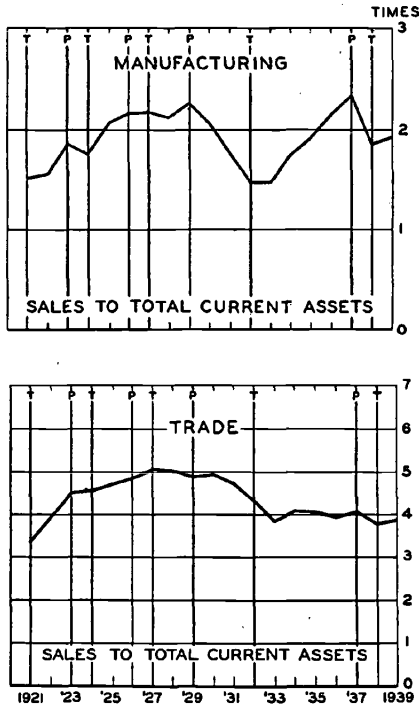
current assets in all but six years. Since 1932 there have been steady annual increases (with the exception of 1938), culminating in an increase of nearly \$500 million in 1939 which was undoubtedly the result of the outbreak of war in Europe. Other large increases took place in 1925 and 1938, years following minor recessions in general business activity. One of the greatest annual liquidations of total current assets, amounting to \$835 million, occurred in 1921, a year in which prices broke sharply, reducing drastically the dollar volume of inventory. The longest period of liquidation occurred in 1930-32, when total current assets decreased by more than \$2 billion.⁵

This cyclical pattern was also characteristic of most major manufacturing groups. The concerns in these groups increased current assets during years of recovery and prosperity and reduced them during years of recession and depression. Over the entire period, meat packing, iron and steel, and textile companies reduced, while all other groups increased, their total current assets.

The total trade sample as well as its subgroups showed more consistent and more marked increases in current assets throughout the period. It should be remembered that our sample consists mainly of chain stores which flourished during the twenties and early thirties at the expense of other types of retail distribution outlets. The current assets of chain grocery stores, for example, increased annually even during the depression years of the early thirties, decreasing in only two years, 1934 and 1937.

One method of indicating the relative importance of current assets over time and among industries is to compare them with sales. The primary determinants of the magnitude of the sales/current assets ratio of a given concern are the period of production, selling terms, and liquidity position. Considerable variation is to be noted among industrial groups and over time in the turnover of total current assets.

For manufacturing, there was no trend in the sales/current assets ratio during this period, while for trade its level fell about 20 percent from the last half of the twenties to the last half of the thirties. As would be expected, the ratio varied considerably from year to year, rising in years of increasing business activity and falling in years of decreasing business activity. The peak for manufacturing (over 2.3) was reached in 1937, and the low (slightly under 1.5) in 1932 and 1933. Most of the variation in the ratio



was due to fluctuations in sales. Although, as we have already seen, the dollar volume of current assets exhibits marked cyclical fluctuations, the cyclical fluctuations in sales are even more marked.

The turnover of current assets was much greater for trade corporations than for manufacturing concerns, the average sales of trade being more than 4 times current assets, and the average sales of manufacturing being less than 2 times current assets. The different character of the two types of business would seem to account for this difference.

In manufacturing, the average sales/current assets ratio for the entire period 1921-39 varied among major industrial groups as follows:

Meat packing	4.5	Petroleum	1.8
Automobiles and trucks	2.7	Tobacco	1.6
Food other than meat packing	2.0	Textiles	1.6
Rubber	1.8	Iron and steel	1.5
Building materials and equipment	1.8	Chemicals	1.4
		Machinery	1.1

In trade, too, the average sales/current assets ratio varied considerably among major groups of companies:

Chain grocery stores	6.6	Department stores	2.9
Chain variety stores	4.4	Mail-order houses	2.8
		Miscellaneous chain stores	2.6

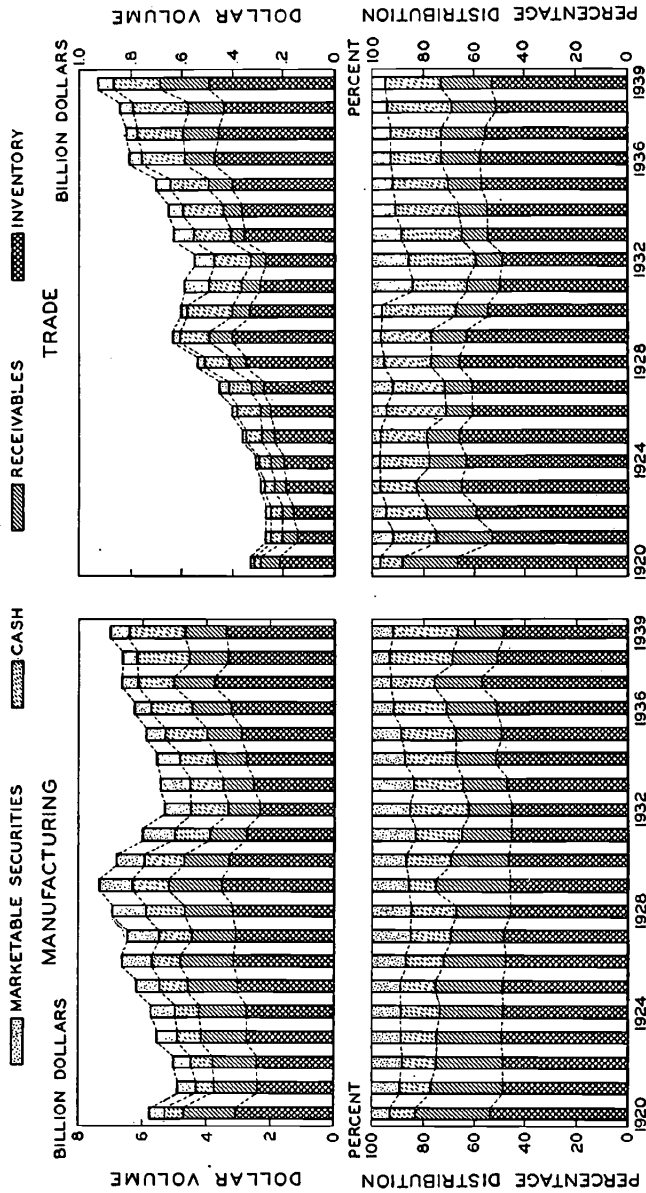
COMPOSITION OF CURRENT ASSETS

Chart 4 shows annual changes in the current assets of our samples of manufacturing and trade corporations.

Among both manufacturing and trade concerns, inventory is the

CHART 4

DOLLAR VOLUME AND PERCENTAGE DISTRIBUTION OF TOTAL CURRENT ASSETS OF LARGE MANUFACTURING AND TRADE CORPORATIONS, 1920-39^a



^aBased on Tables A-2, A-14, A-38 and A-44 in Data Book.

most important element of current assets. In trade, its relative importance decreased somewhat over the two-decade span, while remaining relatively steady in manufacturing. The most striking change in both groups has been the increase in liquid assets (cash and marketable securities), both absolutely and relative to other current assets. The course of receivables as a percent of total current assets has been downward in manufacturing, but U-shaped in trade. Since 1926, with the exception of the depression dip from 1930–33, the ratio in trade has increased.

Inventory

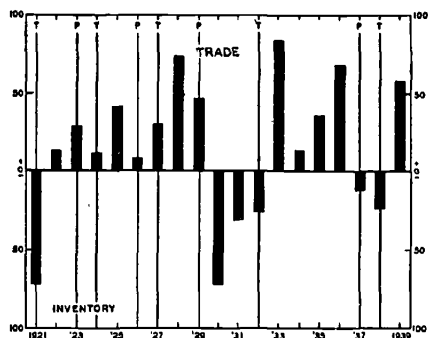
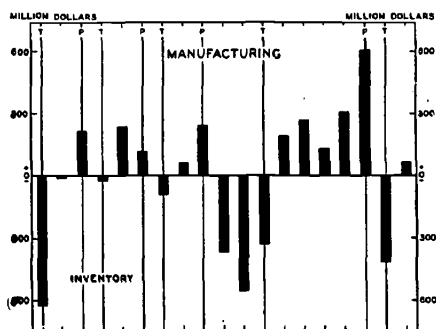
As we have seen, inventory is the major component of the current assets of large manufacturing and trade corporations. Nevertheless, there are marked differences in inventory holdings, apparently growing out of industrial differences.⁶ Some business concerns (for example, tobacco manufacturers) carry large raw material reserves as a result of irregular sources of supply. Other concerns, with pronounced fluctuations in the demand for their products, accumulate large stocks of finished goods during slack periods. Still other companies pile up inventory in anticipation of price rises.

The importance of inventory in financial structure can be illustrated by comparing it with "all other loans" of member banks of the Federal Reserve System. In 1937, the inventory of all corporations submitting balance sheets to the Bureau of Internal Revenue amounted to \$18.5 billion, almost three times "all other loans" of member banks.⁷ Moreover, the accumulation of inventory is in some years an important absorber of the nation's savings. In 1937 the net increase in business inventory of \$3.3 billion amounted to almost 20 percent of gross capital formation. In some years, of course, inventory was reduced, thus providing funds for other business purposes. In 1932, for example, business inventory decreased \$2.4 billion while gross capital formation totaled only \$3.1 billion.⁸

The inventory fluctuations follow the fluctuations in total current assets. The drastic liquidations of inventory after the crisis of 1920, the crash of 1929 and the sharp decline of 1937–38 are strikingly apparent in the charts for both industrial categories. The manufacturing sample exhibited declines in inventory also in the minor recession years, 1924 and 1927.

These annual changes in inventory are from data adjusted for reported inventory revaluations.⁹ Such revaluations—in the main writedowns—occurred most frequently in industries in which raw material costs were important (for example, rubber and meat packing). As indicated in Table 7, the most striking of these writedowns occurred in 1921, 1930–32, 1934, and 1937, years in which raw material prices were comparatively low.

Changes in the dollar volume of inventory are, of course, greatly affected by changes in prices of materials making up the inventory. In Chart 5 the percentage changes in the wholesale price index of commodities other than farm products are plotted alongside of the percentage changes in the inven-



tory of our combined sample of 111 large manufacturing and trade corporations. The annual changes in the two series are quite similar during most of the period but diverge sharply during the inventory expansions of 1923, 1926, 1929, and 1937, and slightly during the subsequent contractions. The 21 per cent decrease in the dollar volume of inventory in 1921 can more than be explained by a 25 per cent decrease in prices.¹⁰ The increases in the dollar volume of inventory in 1936 and 1937 represented in the main genuine increases in holdings of physical inventory. Because of the difficulty of securing price series strictly comparable with our inventory data, no attempt is made in this study to arrive at any quantitative estimate of the importance of prices in changes in the dollar volume of inventory.¹¹

Among the major manufacturing industries, meat packing, machinery, petroleum, and textile companies reduced inventory. Textile companies reduced inventory in 11 of the 19 years. The large

tobacco companies, on the other hand, expanded their inventory holdings in 14 out of the 19 years, increasing them \$215 million over the period. In trade, all the groups except department stores increased their inventory holdings. Chain variety stores increased their inventory in all but 4 years.

Table 7—CHANGES IN INVENTORY AND INVENTORY REVALUATIONS OF A SAMPLE OF LARGE MANUFACTURING AND TRADE CORPORATIONS, 1921-39^a (*in millions*)

Year ^b	MANUFACTURING			TRADE		
	Changes in Inventory after Revaluations (Book Value)	Inventory Revaluations ^c	Changes in Inventory before Revaluations	Changes in Inventory after Revaluations (Book Value)	Inventory Revaluations ^c	Changes in Inventory before Revaluations
1921 (T)	\$-732	\$-111	\$-621	\$-78	\$-5	\$-73
1922	-30	-19	-11	13	0	13
1923 (P)	201	-18	219	29	0	29
1924 (T)	-31	-11	-20	12	0	12
1925	231	-12	243	42	0	42
1926 (P)	92	-28	120	8	0	8
1927 (T)	-107	-18	-89	31	0	31
1928	48	-18	66	73	^d	73
1929 (P)	288	43	245	47	0	47
1930	-444	-79	-365	-72	0	-72
1931	-623	-69	-554	-36	-5	-31
1932 (T)	-366	-38	-328	-27	-1	-26
1933	193	-1	194	83	0	83
1934	229	-40	269	13	0	13
1935	120	-13	133	37	0	37
1936	298	-5	303	68	0	68
1937 (P)	564	-38	602	-11	^d	-11
1938 (T)	-415	3	-418	-23	0	-23
1939	64	-3	67	58	^d	58

^a See Appendix A for coverage of the sample. Data for some corporations were not available in the earlier years.

^b For peaks and troughs, see Table 5, footnote b.

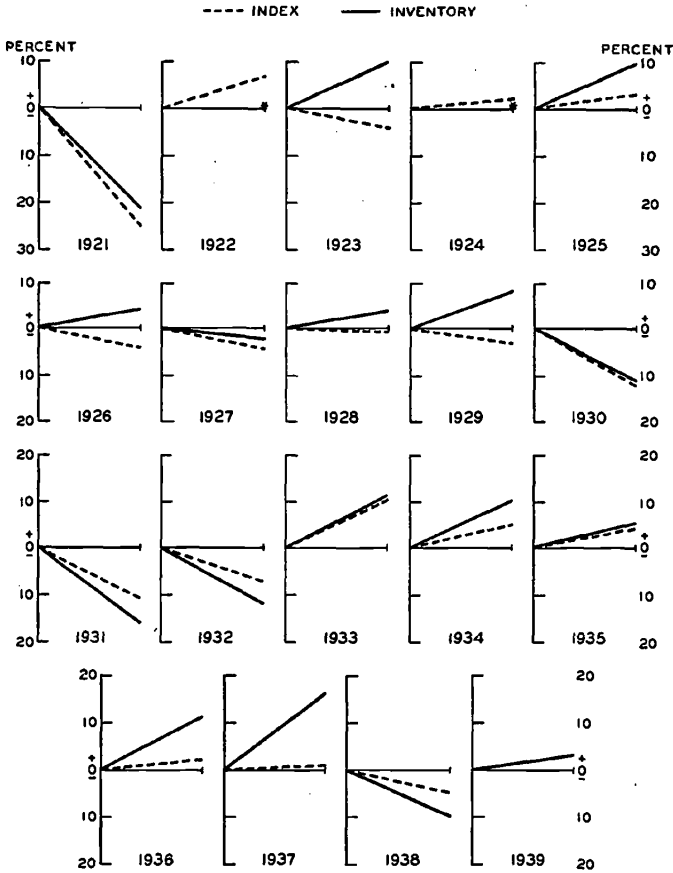
^c Writedowns are negative; writeups are positive.

^d Less than \$500,000.

Study of the changing importance of inventory in corporate financial structure over time indicates that the decline of the commercial loan during the past two decades, at least in the case of large manufacturing and trade corporations, has been caused by other factors than a decrease in volume of inventory requirements

CHART 5

PERCENTAGE CHANGES IN THE WHOLESALE PRICE INDEX AND IN INVENTORY OF LARGE MANUFACTURING AND TRADE CORPORATIONS, 1921-39^a



^aThe wholesale price index, compiled by the Bureau of Labor Statistics for commodities other than farm products, is the December average. Inventory data are from a special tabulation of the National Bureau of Economic Research.

relative to sales. Although new methods of transportation and improved techniques of industrial organization have been introduced since 1920, there is no clear tendency for the level of the sales/inventory ratio to change materially during the two decades.¹² Counteracting tendencies may have included a shift away from hand-to-mouth buying—this has certainly been the case in tobacco—and the increasing importance in the economy of durable goods,

with longer periods of production requiring a larger volume of goods tied up in the manufacturing process.

The sales of our sample of manufacturing concerns averaged almost 4 times year-end inventory for the period. The inventory turnover ratio averaged 4.0 during the twenties, 3.6 in 1930-33,

and 3.9 in 1934-39. It ranged from a low of 3.1

in 1933 to a high of over 4.6 in 1928. The inventory turnover ratio for trade for the period as a whole, 7.6,

was considerably larger than for manufacturing. This finding is similar to that concerning the relative magnitudes of the sales/total

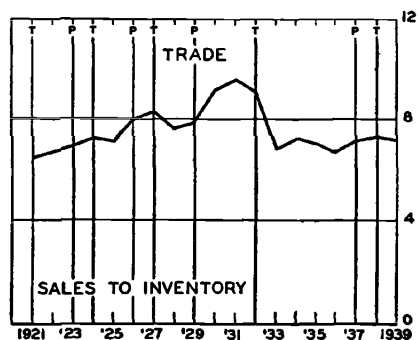
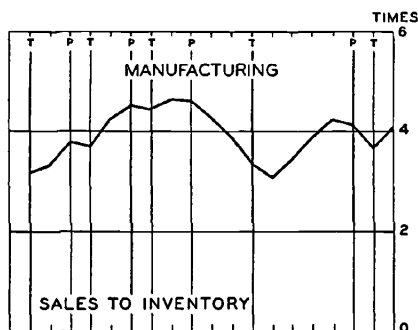
current assets ratio in manufacturing and trade discussed previously. It is also worthy of note that the sales/inventory ratio was in general highest for trade in contraction years, for manufacturing in expansion years.

In trade inventory fluctuates more violently than sales, while in manufacturing sales

respond more promptly to cyclical changes.

respond more promptly to cyclical changes.

respond more promptly to cyclical changes.



respond more promptly to cyclical changes.

Significant differences in the sales/inventory ratio reflect the length of the period of production, the seasonality of production, the degree of industrial integration and other complex influences. The list of ratios below illustrates how striking these differences may be:

Meat packing	8.3
Food other than meat packing	6.4
Automobiles and trucks	6.2
Chemicals	4.4
Building materials and equipment	4.0
Petroleum	3.7
Rubber	3.5
Iron and steel	3.0
Machinery	2.8
Textiles	2.7
Tobacco	2.2

Two consumer non-durable goods industries, meat packing and other food, had the highest ratios, reflecting in all probability stability of consumption. The surprisingly high turnover for automobile companies indicates the effectiveness of assembly-line, mass-production techniques in economizing inventory. The low ratio for tobacco companies illustrates another important determinant of the volume of financing required for carrying inventory, the availability of suitable raw materials. Large cigarette companies buy up choice cuts of tobacco at harvesting time to ensure adequate supplies for the remainder of the year; in addition, they hold sizable stocks for drying and aging.

In trade, the variation in the sales/inventory ratio among major groups was as marked as it was in manufacturing:

Chain grocery stores	12.4
Chain variety stores	6.8
Department stores	6.6
Miscellaneous chain stores	6.1
Mail-order houses	4.9

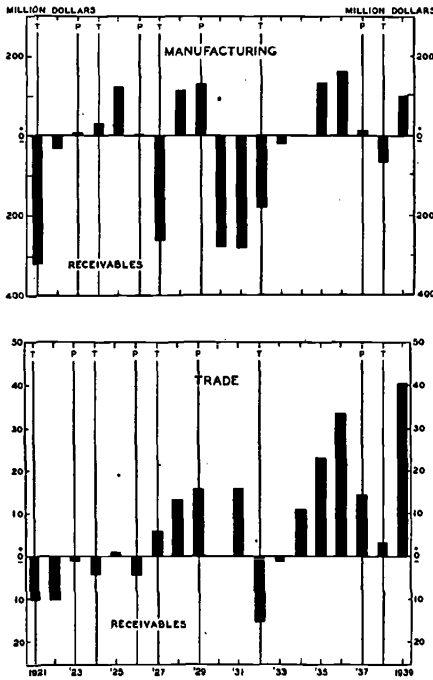
The inventory turnover of department stores has increased somewhat during the past two decades, the average annual ratio for 1937-39 being more than 20 percent greater than for 1923-25. For chain variety stores, on the other hand, the sales/inventory ratio has been lower during the thirties than during the twenties.

Receivables

Business concerns also require funds to extend credit to customers, both to other business concerns and to individuals. The volume of such credit depends upon the habitual practices of the industry and the credit policy of the individual concern as well as upon the volume of sales. Early in their history automobile manufacturers began to economize on their current capital requirements by forcing dealers to pay for automobiles upon delivery, and thus shifting the financial burden of carrying these cars from manufacturer to dealer. The prevalence of consumer instalment selling in this industry has shifted the burden one step further, from the dealer to the finance company. Certain machinery companies, on the other hand, extend relatively long-term credit to other business concerns for the purchase of durable, expensive industrial

equipment. Liberal credit terms have always been characteristic of the textile industry.

The manufacturing concerns in our sample reduced their receivables \$614 million during 1921-39 while the trade corporations increased them \$132 million. This disparity in behavior may in



part be due to the growth of consumer instalment selling, bringing with it the rise of the finance company. Finance agencies relieved the manufacturer in some industries (especially automobile manufacturers) of the burden of carrying their own receivables. Trade concerns which made a practice of carrying their own receivables experienced a rise in volume in relation to sales due to lower down payments and longer credit terms. According to the Department of Commerce, one-third of all

retail sales in 1938 were made on credit.¹³ Of the 1938 retail sales reported to the Department of Commerce by 224 department stores, 47 percent were cash sales; 44 percent, ordinary charge account sales; and 9 percent, instalment sales.¹⁴ For a small number of New England department stores instalment sales increased from 5 percent of total sales in 1925 to 10 per cent in 1939.¹⁵

The relative importance of customer financing among industries and over time can also be indicated by a study of the average collection period.¹⁶ Department of Commerce reports indicate that the payment of one dollar out of every five dollars of retail sales is postponed on the average more than 60 days. Among large manufacturing concerns receivables are collected on the average every 41 days, among large trade concerns, every 12 days. The average collection period for manufacturing showed a steady decline

throughout the two decades. For trade, it declined to 1927 but has increased considerably since that date.

Among major groups of manufacturing and trade companies the average collection period varies greatly. In manufacturing this variation over the 19-year period was as follows:

	<i>Days</i>
Automobiles and trucks	19
Tobacco	20
Food other than meat packing	22
Meat packing	27
Iron and steel	37
Chemicals	45
Building materials and equipment	49
Petroleum	51
Rubber	59
Textiles	61
Machinery	105

All groups except chemicals, tobacco, and rubber reduced receivables over the entire period. The great reduction in receivables of large meat packers, \$274 million, probably indicates a major change in credit policy. Petroleum, and iron and steel, companies also reduced receivables considerably. Increased vertical integration was partly responsible for this decrease. In all but two industries (building materials and equipment, and iron and steel) the average collection period has decreased. In large chemical and petroleum companies, it fell about 50 percent.

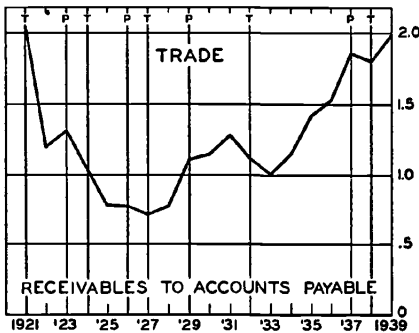
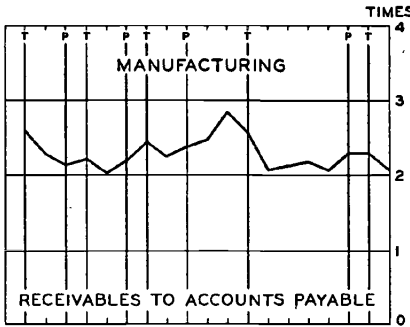
In trade, the relative importance of cash as contrasted to credit sales in chain variety and chain grocery stores is clearly indicated by the following table of the average collection period of major trade groups:

	<i>Days</i>
Chain variety stores	1
Chain grocery stores	2
Mail-order houses	35
Miscellaneous chain stores	52
Department stores	58

Because of the increase in time-sales financing by department stores their average collection period has increased quite consistently throughout this period. Since 1926, the year in which Sears, Roebuck & Co. established its first retail store, the average collection period for mail-order houses has also risen greatly.

As was to be expected, during most of the two decades (except 1925–28 in the case of trade) both of these two samples of large, profitable, long-lived corporations were net creditors on trade accounts to the rest of the community. For the manufacturing sample, notes and accounts receivable were more than double accounts payable in every single year throughout the period, with the ratio remaining at about the same level during these years.

Among major manufacturing groups, the highest ratio was in machinery with receivables more than 8 times payables, while the



lowest aggregate ratio, 1, was in automobiles. The ratio for automobile and rubber companies has decreased, while the ratio for tobacco companies has increased. For other major manufacturing groups it has remained at about the same level. In trade, the receivables/payables ratio has been less than in manufacturing because of the insignificance of credit sales in chain variety and chain grocery stores. For both department stores and mail-order houses receivables have increased relative to payables as a result of the growth of instalment selling.

In 1937 the receivables/payables ratios for both samples of large corporations were considerably larger than the ratios for all corporations.¹⁷ Although the corporate universe as a whole is the net trade creditor of unincorporated business and individual consumers, large, profitable, long-lived manufacturing and trade corporations are net trade creditors of the rest of the corporate universe as well as of unincorporated business and individuals. There has been no major change, however, in the relative trade creditor status of these large concerns during the past two decades.

Cash and Marketable Securities

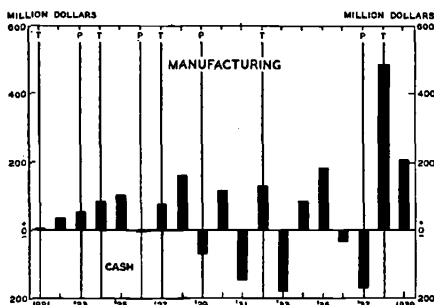
The final element of working capital required by business concerns is a fund of liquid resources with which to meet day-to-day expenses. There must be money to meet the weekly payroll and to pay trade accounts which come due. Coupled with this need for a minimum amount of cash is the precautionary business policy of keeping a sizable proportion of assets in a liquid form.

Cash and marketable securities constitute a more important element of the financial structure of large trade than of large manufacturing concerns. For our combined sample of trade corporations the cash plus marketable securities/total assets ratio averaged 16 percent, while for manufacturing it averaged 11 percent. The large cash plus marketable securities/total assets ratios in trade can be explained at least in part by the need for sizable cash balances to facilitate the millions of small cash transactions made by retail chain stores daily. Among major trade groups, this liquidity ratio varied from a high of 32 percent for chain grocery stores to a low of 5 percent for department stores. In manufacturing there was also considerable diversity. Among major industrial groups, the average cash plus marketable securities/total assets ratio for the period 1921-39 varied as follows:

Food other than meat packing	24.1%
Automobiles and trucks	18.5
Machinery	17.4
Chemicals	16.8
Tobacco	12.7
Building materials and equipment	12.1
Iron and steel	9.1
Rubber	9.0
Petroleum	8.6
Meat packing	7.0
Textiles	6.5

The industries with high liquidity ratios have been on the average more profitable than those with low ratios, suggesting that profitability is more important than industrial character in determining the relationship of this item to total assets. Actually, however, cash holdings of large corporations exhibit more haphazard, random changes than any other business asset, reflecting various decisions, such as a decision to expand plant, to purchase inventory, or to retire debt.

The cash holdings of our sample of large manufacturing corporations decreased in six years and increased in all other years. The decreases in 1929, 1936, and 1937 occurred concurrently with large inventory purchases during those years. Although all the major manufacturing groups except textiles increased their holdings of cash over the past two decades, the annual changes throughout



the period among industries and even among individual companies in single industries were very diverse in absolute dollar amount and in direction of change. Large food and chemical companies were the most consistent accumulators, and textile companies the most consistent liquidators, of cash during these years. All the major trade groups increased their cash holdings over the entire period but the amount and direction of the annual changes among the groups were widely scattered.

The liquidity position of our manufacturing sample as a whole, as measured by the proportion of total assets held in the form of cash or cash equivalent, exhibited no marked trend during the past two decades, averaging 11.0 percent in the twenties and 11.3 percent in the thirties. If we omit the United States Steel Corporation from our sample, however, we find that the ratio increased from 11 to 12 percent. Moreover, if we examine this liquidity ratio by individual company, we find that more than two-thirds of the manufacturing corporations increased their average ratio of cash plus marketable securities to total assets from 1920-21 to 1937-38.

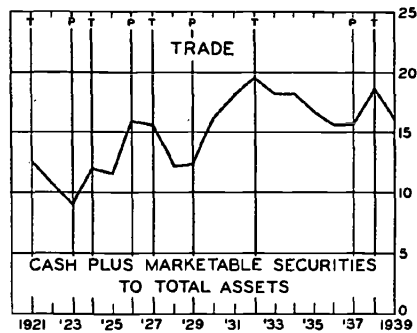
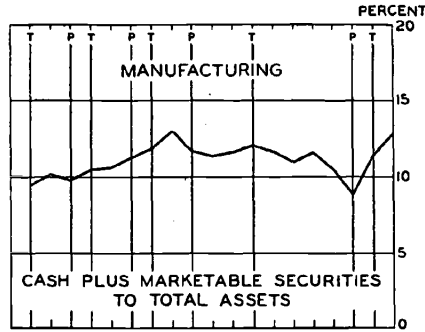
In trade the liquidity ratio has also increased considerably during the past twenty years, averaging 12 percent in the twenties and 17 percent in the thirties. In both manufacturing and trade groups there was a consistent increase in liquidity position during the first part of the twenties. In manufacturing, this increase continued throughout the latter half of the decade, partly because of the large call loans of big business during the late twenties. Large corporations took advantage of the high rate of interest on such loans by investing much of their idle cash in them. Some concerns even sold securities in the bull market for the purpose of obtaining funds to invest on call.

During the first half of the thirties the ratio of cash plus marketable securities to total assets was at a higher level for both groups. During these years money rates were low and corporate outlays small. With the increase in business in 1936 and 1937, liquid assets were drawn down again to finance inventory accretions. Finally, 1938 and 1939 again saw cash balances at quite a high level.

There was also considerable diversity in the behavior of the cash plus marketable securities/total assets ratio among major manufacturing groups during expansions and contractions of general business activity. In the case of industries in which inventory makes up a sizable proportion of total assets (meat packing, other food, rubber, textiles, and tobacco) this liquidity ratio increased during recession and depression years and decreased during recovery and prosperity years. This was to be

expected in industries utilizing raw materials the prices of which fluctuate greatly during business cycles. During periods of declining business activity the dollar volume of inventory and total assets of these industries decline substantially due to reduced sales and lower prices, whereupon cash and marketable securities increase as a percentage of total assets.

The case of the iron and steel industry during the 1928-33 cycle in general business activity, on the other hand, is an example of just the opposite type of cyclical change in the proportion of assets held in liquid form. In this industry the cash plus marketable securities/total assets ratio dropped from 13 percent in 1928 to 6 percent in 1933. This decrease was general throughout the industry and was not due to one or two large companies. Many iron and steel companies during the late twenties kept accruals to



their depreciation, insurance, and pension reserves invested in readily marketable securities, a type of "secondary reserve" which they liquidated to finance operating losses and to retire debt.¹⁸ It is clear that there may, indeed, be "financial behavior leadership" as well as "price leadership" in industries dominated by a few large corporations.¹⁹