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IN THE POSTWAR ECONOMY

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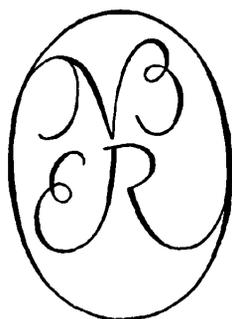
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# The Flow of Capital Funds in the Postwar Economy

*by*

RAYMOND W. GOLDSMITH  
YALE UNIVERSITY



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*This report is one of a series emerging from an investigation of postwar capital market developments in the United States aided by a grant to the National Bureau from the Life Insurance Association of America. Supplementary grants by the Research and Educational Trust Fund of the Mortgage Bankers Association of America and the Commission on Money and Credit aided the preparation of the present report. The Life Insurance Association of America, the Mortgage Bankers Association, and the Commission on Money and Credit are not, however, responsible for any of the statements made or views expressed in the report.*



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## Foreword

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THIS report discusses the main features of the American capital market on the basis of annual statistics of fund flows and balance sheets for the postwar period (from the end of 1945 through 1958). These statistics, the development of which constitutes a substantial part of the Bureau's Postwar Capital Market Study, are utilized freely throughout this volume, and the details of their sources and derivation are given in Volume II of *Studies in the National Balance Sheet of the United States*.<sup>1</sup> As explained there, the figures bear a close relationship to those utilized in the Federal Reserve Board's Flow-of-Funds Section despite some important differences.<sup>2</sup>

The limitation of this study to a presentation of the basic statistics is most pronounced in Chapters 3 and 4. Chapters 6 through 10, which deal with the flow of funds through the five main sectors of the capital market—U.S. Treasury securities, state and local government securities, corporate bonds, corporate stock, and residential mortgages—go somewhat beyond these limits by providing sketches of the main institutional and operational features of these five markets because the statistics of fund flows would otherwise be hardly understandable. It must be emphasized, however, that these five chapters are not substitutes for monographs that adequately analyze, or even exhaustively describe, these markets during the postwar period. Chapters 7 and 10, which deal with state and local government securities and residential mortgages, suffer less from these defects because they draw on the studies by Robinson and Klamann,<sup>3</sup> which form parts of the Postwar

<sup>1</sup> *Basic Data on Balance Sheets and Fund Flows*, Princeton for NBER, 1963.

<sup>2</sup> See *ibid.*, Introduction.

<sup>3</sup> Roland I. Robinson, *Postwar Market for State and Local Government Securities*, Princeton for NBER, 1960, and Saul B. Klamann, *The Postwar Residential Mortgage Market*, Princeton for NBER, 1961.

## Foreword

Capital Market Study. No equally thorough sources exist for the three other markets.<sup>4</sup> Lack of adequate previous studies was felt particularly in the case of the market for corporate stock.

This volume does not deal in a systematic manner with the interrelations among fund flows, balance sheets, and interest rates for the different capital market instruments, partly because of the lack of adequate previous studies of these complicated relationships and partly because a substantial study of interest rates is now in progress at the National Bureau.<sup>5</sup> Nor does it discuss systematically the many political and legislative forces, e.g., in taxation, that have impinged upon the various sectors of the capital market during the postwar period. This study thus is not a comprehensive analysis of the American postwar capital market in all its aspects, but a preparatory step to such an ambitious undertaking. The book's title indicates the limitations of its scope, perhaps to a somewhat exaggerated degree.

Since the primary function of this study is the presentation of basic data on fund flows and balance sheets in one integrated set of statistics, references to other similar bodies of data are generally omitted in the text. For the same reason the literature is specifically cited only where needed to supplement the basic set of data utilized.

As the study depended to a large extent on the flow-of-funds and balance-sheet statistics of the Postwar Capital Market Study, the acknowledgments made in that connection in the preface to *Studies in the National Balance Sheet of the United States* apply here, too, particularly the acknowledgment of the assistance of the staff of the Flow-of-Funds Section of the Federal Reserve Board and of the National Bureau's staff headed by Rachel Floersheim, Robert E. Lipsey, and Morris Mendelson. A special acknowledgment, however, is due here to Rachel Floersheim who for over two years supervised the preparation of the tables and the checking of tables and text. Without her devoted assistance the study could not have been carried to completion. Assisting Rachel Floersheim in the statistical work and checking were Yvette Binder, Amy F. Hoagland, Susan Horowitz, Anita S. Martin, Christine Mortensen, and Carol H. Schwartz. Christine Culbert greatly

<sup>4</sup> Eli Shapiro's monograph on "The Postwar Market for Corporate Securities and Loans," which also forms part of the Postwar Capital Market Study, was not yet available when this study was written.

<sup>5</sup> See *Tested Knowledge of Business Cycles*, Forty-Second Annual Report, National Bureau of Economic Research, New York, 1962, pp. 78, 82.

## *Foreword*

improved the original text by her painstaking editing. The charts were drawn by H. Irving Forman with his usual skill.

Thanks are also due to the Staff Reading Committee of the National Bureau consisting of Roger F. Murray, Thomas R. Atkinson, and James S. Earley; to the Directors' Reading Committee of Willis J. Winn, Donald B. Woodward, and Theodore O. Yntema; and to Saul B. Klamman and Eli Shapiro who read the chapters dealing with their special fields but are not responsible for the remaining defects. I am also indebted to Bertrand Fox and Eli Shapiro, while Director and Deputy Director of the Research Staff of the Commission on Money and Credit, for assistance in numerous ways. Grateful acknowledgment is also made to the members of the Advisory Committee on the Study of the Postwar Capital Market.

Publication of this study, which was substantially completed in 1962, has been delayed for various reasons, among them checking and revision of figures in the light of new information.

RAYMOND W. GOLDSMITH

*May 1964*



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