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Trends in Ratios of Fixed and Working Capital to Output

For some of our benchmark years it is possible to subdivide the capital structure into fixed capital (land, buildings, and equipment) and working capital (cash, accounts receivable, inventories, and miscellaneous assets), and for these years we have related each component in 1929 prices to output in 1929 prices (Table 9). Two aspects of this evidence have special significance for our problem: one is the fact that both ratios in all years are at approximately the same level, and the other, a corollary of the first is that the trend movements are similar. Thus both ratios had an upward movement between 1890 and 1904.

TABLE 9

Ratios of Fixed and Working Capital to Output, All Manufacturing Selected Years, 1890-1951
(Based on 1929 Prices)

<i>Benchmark Years</i>	<i>Working Capital to Output</i>	<i>Ratio of Fixed Capital to Output^a</i>
1890	.366	.364
1900	.387	.416
1904	.420	.471
1929	.452	.433
1937	.395	.346
1948	.340	.308
1950		.327
1951		.321

^a Fixed capital is extrapolated from 1948 to 1950 and 1951 by the Department of Commerce series on capital expenditures in manufacturing industries reported in the *Survey of Current Business*, December 1951, p. 17; output is extrapolated by the Federal Reserve Board index of physical production in manufacturing.

Source: Based on underlying data and methods of price adjustment described in Section 1.

The sharper rise of the fixed capital-output ratio than of the working capital-output ratio may be due in whole or in part to reporting errors. The census authorities believed that the breakdown of total capital by type of assets was reported with large errors, and for this reason discontinued the inquiry after 1904. Too much may have been reported as fixed capital and too little as working capital. However, only the rate, not the fact, of an upward trend can be questioned, and presumably the upward movement of both ratios continued for about another decade.

Beginning with 1929 we are on firmer statistical ground. The downward drift of both ratios between 1929 and 1948 is unmistakable, and the rates of decline are similar — a 29 per cent drop in the fixed capital-output ratio and a 25 per cent fall in the working capital-output ratio. It is clear from this evidence that the decline in the total capital-output ratio between 1929 and 1948 cannot be caused by any change in the relative importance of fixed and working capital. Moreover, any full explanation of the factors that have made capital more efficient must relate to working capital as well as to fixed capital.

The use of the fixed capital-output ratio enables us to extend the series beyond 1948 in order to see the effect on the ratio of the 20 per cent expansion in the stock of fixed capital in 1929 prices that occurred between 1948 and 1951 (Table 9). Despite this rapid rise in the stock of fixed capital, the ratio of fixed capital to output has remained at about the 1948 level. Presumably this would also be true for the total capital-output ratio.