Relation of the Directors to the Work of the National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the Bureau is carried on in strict conformity with this object.

2. To this end the Board of Directors shall appoint one or more Directors of Research.

3. The Director or Directors of Research shall submit to the members of the Board, or to its Executive Committee, for their formal adoption, all specific proposals concerning researches to be instituted.

4. No report shall be published until the Director or Directors of Research shall have submitted to the Board a summary drawing attention to the character of the data and their utilization in the report, the nature and treatment of the problems involved, the main conclusions and such other information as, in their opinion would serve to determine the suitability of the report for publication in accordance with the principles of the Bureau.

5. A copy of any manuscript proposed for publication shall also be submitted to each member of the Board. For each manuscript to be so submitted a special committee shall be appointed by the President, or at his designation by the Executive Director, consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the summary and report described in paragraph (4) are sent him. It shall be the duty of each member of the committee to read the manuscript. If each member of the special committee signifies his approval within thirty days, the manuscript may be published. If each member of the special committee has not signified his approval within thirty days of the transmittal of the report and manuscript, the Director of Research shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty additional days shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board and a two-thirds majority of those members of the Board who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposal shall have approved.

6. No manuscript may be published, though approved by each member of the special committee, until forty-five days have elapsed from the transmittal of the summary and report. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general, or of the special committee, have passed upon its validity in every detail.

7. A copy of this resolution shall, unless otherwise determined by the Board, be printed in each copy of every National Bureau book.

(Resolution adopted October 25, 1926, and revised February 6, 1933, and February 26, 1941)
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In the planning and conduct of all research under the Financial Research Program the National Bureau benefits from the advice and guidance of its Committee on Research in Finance. The functions of this committee are to review and supervise the specific research activities of the Program staff.

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THE PATTERN
OF CORPORATE
FINANCIAL STRUCTURE

A Cross-Section View of Manufacturing, Mining, Trade, and Construction, 1937

by

WALTER A. CHUDSON

NATIONAL BUREAU OF ECONOMIC RESEARCH
NEW YORK 1945
PREFACE

This study is one of a series prepared under the Financial Research Program's Business Financing Project, an investigation of changes in the financial structure of American business, 1900-1940, begun early in 1940 with the support of grants from the Association of Reserve City Bankers and the Rockefeller Foundation.

The project has had the following objectives: first, to determine from statistical analysis of business accounting records the general character of the financing services obtained by business enterprise from financial institutions currently and in the past; second, to trace the structural and cyclical changes that have occurred in business credit demands since the turn of the century; and third, to describe the adaptations that institutions providing short- and medium-term credit to business have made in recent years in response to changing credit demands.

Work on these objectives has been organized into two divisions: one entitled "Changes in the Financing of Business Enterprise, 1900-1940," and devoted to the first and second objectives; the other entitled "Business Financing Tendencies and the Emerging Problems of Commercial Banks," and concerned primarily with the third objective, but also to some degree with the first. The procedure followed has been to develop, from separate bodies of primary materials, special technical studies whose findings are to be integrated into a single analysis. The present report is one of the technical studies made under the first division of the work.

When work on the Business Financing Project was initiated, no comprehensive tabulations of corporate financial data, compiled according to uniform standards and covering a long period of time, were available as a basis for analysis. The first problem, therefore, was to test the usefulness of existing compilations, and to build up new materials to supplement and extend those already available. With the cooperation of a number of public and private agencies, several additional samples of business financial data were developed from state tax report files, federal corporate income
tax returns, industrial loan files of the Federal Reserve Banks of New York and Philadelphia, Dun and Bradstreet reports, bank credit files, and other sources.

Variations in the coverage and characteristics of the data thus assembled presented many statistical problems. As the analysis of our samples of data progressed, it became increasingly clear that we urgently needed a comprehensive picture, for one recent year, of the distinguishing financial features of incorporated manufacturing and trade enterprise, grouped by industry, size of corporation, and profitability. Detailed knowledge of the pattern of variation of balance-sheet accounts, systematic and otherwise, according to industry, size of corporation, and profitability, would aid in the comparative interpretation of our various samples of corporate financial data for long periods, since both the quantity and quality of these historical data diminish as one moves back in time.

Walter A. Chudson, who has collaborated in the project from the outset, undertook the responsibility for preparing such a study, and after some exploration he came to the conclusion that the most promising sources on which to base the study were the Statistics of Income of the Bureau of Internal Revenue and the Statistics of American Listed Corporations of the Securities and Exchange Commission. The year 1937 was selected as the one for reference analysis because it was in general a year of high business activity, and our long-period study of changes in financial structure was being developed on the basis of data pertaining to selected years of "peak" business activity over the period 1900-1940. In addition, the compilations for 1937 were the most recent ones available when the study was begun, and had the advantage of providing a more detailed classification of balance-sheet accounts, particularly current liabilities, than the tabulations for previous years. Dr. Chudson has also used data for other years, notably 1931, in his study, but his use of such data has been largely for purposes of testing the findings from his more intensive analysis for 1937.

Dr. Chudson has been concerned with a variety of interesting and highly relevant questions. How do manufacturing and trade corporations, differing in size and profitability and belonging to different industries, vary with respect to the composition of their assets and liabilities? Do they differ systematically in respect to inventory holdings, cash, and accounts receivable? Do large cor-
corporations have a higher turnover of their current or working assets than do medium-sized and small corporations? Is the proportion of current assets and liabilities more directly related to type of industry or to size of corporation? How are different levels of industrial profitability reflected in balance-sheet ratios? Is the proportion of short-term debt—that is, trade credit and notes payable to banks and other institutions—related more closely to business holdings of inventory, or to other characteristics?

In answering such questions Dr. Chudson has employed the ratio method of balance-sheet analysis, using as his bases both total assets and sales. This method, though conventional, is especially well adapted to the questions on which Dr. Chudson has focused his analysis. In evaluating his findings, it must be recalled that his objective is limited to determining the cross-section pattern of variation in financial structure with respect to industry, corporate size, and reported profitability. The data with which he has worked have not been all that one would hope to have, and they were not compiled to order. The significance of the findings, however, fully justifies their use for the purposes in mind. Appendices A, B, C, and D contain a detailed discussion of the characteristics of the data and of the methods of analysis, which will be of particular interest to technical readers in appraising the findings.

We are indebted to the Bureau of Internal Revenue and to the Securities and Exchange Commission for help in the assembly of materials for this study. The Bureau of Internal Revenue permitted us to make transcriptions of tables covering the financial statements of minor industrial divisions from its *Source Book of Statistics of Income*. The Division of Research and Statistics of the SEC kindly prepared for our use some supplementary tabulations of data for corporations covered in the Division’s Survey of American Listed Corporations for 1937.

The tables on which the analysis is based are not contained in this volume. They are to be made available, along with other basic corporate financial data compiled under the Business Financing Project, in a separate volume entitled *Corporate Financial Data for Studies in Business Finance*.

RALPH A. YOUNG

Director, Financial Research Program

January 1945
AUTHOR'S ACKNOWLEDGMENTS

IN THIS STUDY I HAVE PROFITED considerably from the generous counsel and encouragement of Ralph A. Young, Director of the National Bureau's Financial Research Program, and of Winfield W. Riefer, Chairman of the Committee on Research in Finance.

In preparing the manuscript, which is one of a series dealing with the financial structure of American corporations, I have gained much assistance from the constant interchange of ideas with my colleagues, Sidney S. Alexander, Carl Kaysen, Albert R. Koch, Charles L. Merwin, and Raymond J. Saulnier, who have been working on related aspects of the subject. I am especially grateful to Carl Kaysen for advice in dealing with statistical problems.

I also owe much to the statistical and clerical staffs of the Financial Research Program for the cooperation which has made possible such a large-scale quantitative analysis, particularly to Sophie Polah, under whose direction the tables were prepared and checked, to Renée Courtney, who put the tables in their final form, and to Helen Morphy, who executed the charts. In addition I am indebted to Lorine Pruette, who edited a preliminary version of the manuscript, and to Dorothy Wescott, who was in full charge of the editing for publication.

A substantial part of the data has been derived from unpublished sources, and I wish to express my thanks to E. D. White, of the Bureau of Internal Revenue, and to Raymond A. Goldsmith, of the Securities and Exchange Commission, for making these materials available to me.

WALTER A. CHUDSON
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