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CHAPTER 26

FINANCE AND ITS MINOR GROUPS

1. THE FINANCE GROUP AS A WHOLE

THE industrial division, Finance, may be regarded as one major group in the terminology which we have been employing. Included in it are all financial activities, such as commercial banking, trust companies, with the important exception of life insurance companies. The Finance group therefore differs from other divisions and major groups which have been considered in preceding chapters. In Textiles, or in Retail Trade, for example, *all* textile manufacturing activities or *all* retail trading activities were represented, whereas in Finance no life insurance activity whatever is included. Other forms of insurance, however, such as casualty or fire, appear in the Miscellaneous Finance category.

The 346 identical Financial corporations for which we have continuous data from 1919 through 1928 possessed an aggregate capitalization of over a billion dollars in 1919 and almost three billion dollars in 1928. No measure of the total volume of business which they carry on is as readily available as in the case of Manufacturing or Trading groups, where sales figures afford an accurate index of operating volume. However, a provisional index of the amount of activity is to be had in the figures for *total gross income*. This may be defined as the sum of three categories: (1) gross profit from sales or turnover (or services billed as would be sales in a manufacturing or trading business); (2) gross profits from other operations; (3) such other gross or net items of income as are not included in the first two categories (that is, all non-operating income), with the exception of interest receipts upon tax-exempt securities. Because of the varied character of the services provided by different financial groups, for example, a brokerage house as compared with a savings

bank, the absolute significance of this gross income figure is not so consistent a concept as is the sales figure in the case of manufacturing or trading enterprises. Assuming that there has been no very great *change* in accounting practices in the one financial field or the other during the period under examination, however, year-to-year comparisons of the amount of gross income—or in the percentages of net to gross—are not necessarily invalidated because of the varying significance of the term as between different types of financial enterprise. With these qualifications in mind, it may be stated that the total gross income of the 346 corporations of the Finance group in 1919 was somewhat over half a billion dollars, as compared with the investment figure of something over a billion above cited, while in 1928 the gross income was a little over one billion dollars as compared with an investment of approximately three billion. So much for the character of the major group and the absolute magnitudes of the sample involved.¹

Upon gross income, net earnings run between about 25 and 32 per cent a year, except in 1921 when the rate fell to 20 per cent. Chart 59 shows these rates plotted upon both natural and semi-logarithmic (ratio) scales. Since the year-to-year fluctuations occur about a much higher absolute level than was the case with the data for the return upon sales in Manufacturing and Trading groups which we considered in previous chapters, the ratio scale serves some purposes of analysis better than does the simpler diagram.

Upon investment, the return is much lower, running around 10 or 11 per cent in all years since 1923. The rates for all ten years are plotted in Chart 59, again upon both types of scale.

Total gross income, net income, and investment all show general and rather steady growth over the period. Gross income fell off by about only 3 per cent between 1920 and 1921 and by 6 per cent from 1921 to 1922. Net income, however, declined by about 30 per cent between 1920 and 1921.

Between 1922 and the end of the period, gross income grew from 661 million to over a billion dollars; investment, from about one and one-half to three billion; net income from 200 to 300 million.

It is to be noted that the rate of return upon investment showed no general upswing during the last few years of the period. This is interesting in view of the widespread impression that the financial

¹ For the discussion of the relative magnitude of the sample, see Ch. 43.

CHART 59
IDENTICAL CORPORATIONS SERIES, 1919-28

MAJOR GROUP 16: FINANCE

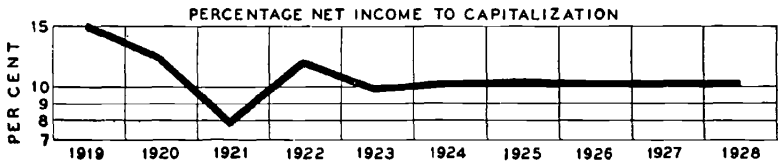
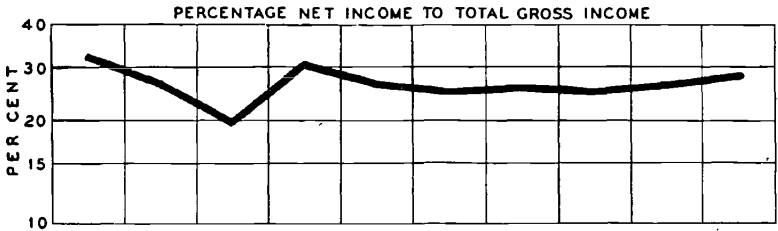
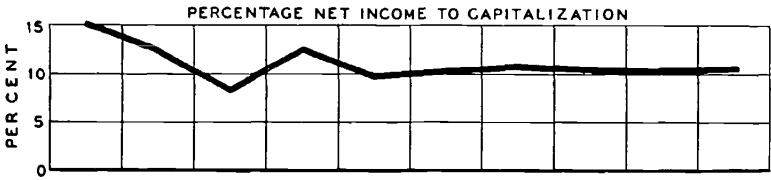
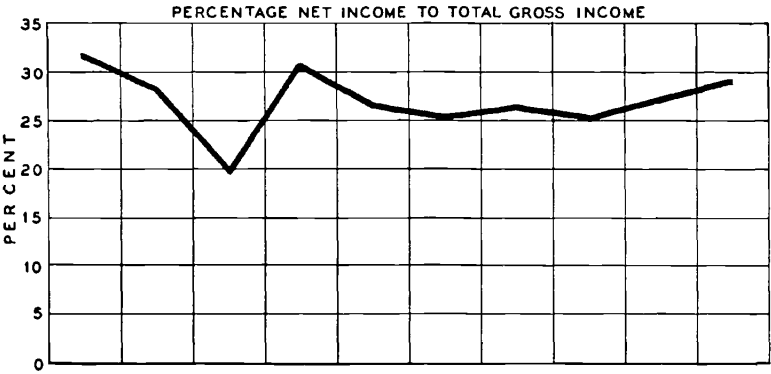
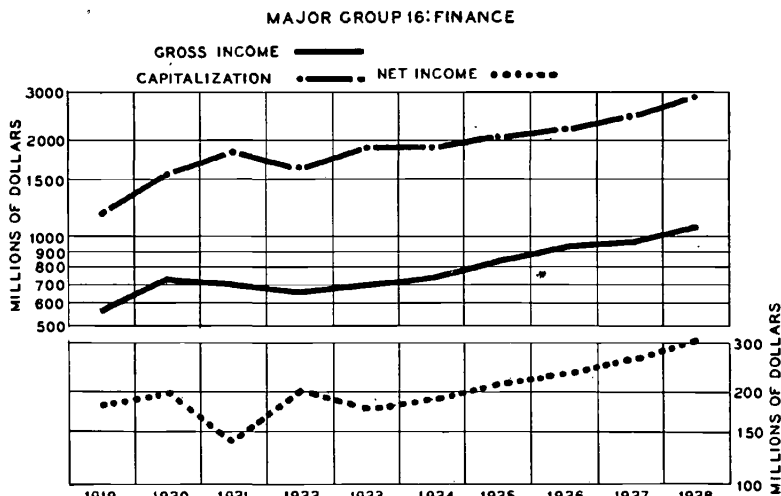


CHART 59 (CONT.)
IDENTICAL CORPORATIONS SERIES, 1919-28



community enjoyed rampant prosperity during the few years which terminated in 1929. It is, however, to be remarked that investment banking and brokerage houses proper constitute but a small proportion of the aggregate of the major group, Finance, and the exceptional earnings which they enjoyed in such a year as 1928 does not therefore appreciably affect the general average figures for the group.

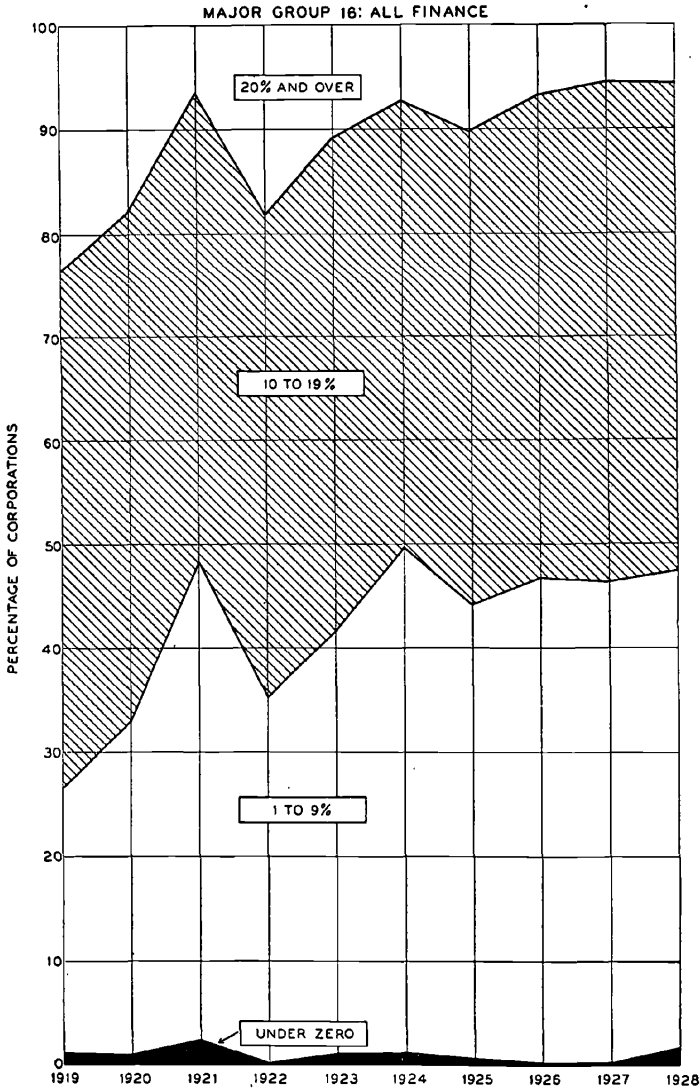
2. FINANCIAL MINOR GROUPS

The Finance group may be divided into five minor groups: Savings Banks, Commercial Banks, National Banks, Trust Companies, and Miscellaneous Finance (that is, all other finance excluding life insurance). The number of corporations in each and their average size are given in Table 59.

3. EARNINGS OF INDIVIDUAL CORPORATIONS: FINANCE

The 346 corporations of the Finance group earned an average return of 15 per cent upon their investment in 1919. About two-

CHART 60
FREQUENCY DISTRIBUTION OF EARNINGS RATES,
INDIVIDUAL COMPANIES (IDENTICAL CORPORATIONS SERIES)



fifths, however, earned more than the average figure. The highest fourth earned over 20 per cent; the lowest fourth, under 8 per cent.

In 1920, the general average rate was 13 per cent. Approximately half of the corporations earned more, and the other half less, than this amount. The highest quarter earned over 18 per cent; the lowest quarter, under 8 per cent.

The average return in 1921 was cut to 8 per cent. About 70 per cent of the companies, however, earned more than this amount. Half earned over 10 per cent; and the upper quarter, over 14 per cent. The lowest quarter earned under 7 per cent. Only 3 per cent had deficits.

In 1922 the average return was 12 per cent. Just half of the companies earned more than this amount and half less. The upper quarter, however, earned over 18 per cent and the lower quarter, under 8 per cent.

From 1922 to 1928 the proportion of companies found in the higher brackets greatly declined. Chart 60 shows the year-to-year course of this distribution by broad earnings classes. Eighteen per cent of the corporations earned in excess of 20 per cent in 1922; but in 1928 only 6 per cent did so. Conversely, in 1922, 35 per cent earned under 10 per cent; whereas in 1928, 48 per cent did so. The detailed figures are given in the tables. It is again to be emphasized that in all years an almost negligible portion of these Finance corporations suffered deficits, the figure even in 1921 being less than 3 per cent of the total.

TABLE 59

FINANCE GROUPS, LARGE IDENTICAL CORPORATIONS SERIES

(A) SIZE AND CHARACTER OF SAMPLE

	NUMBER OF CORPORATIONS	AVERAGE CAPITAL PER CORPORATION ¹ (<i>millions of dollars</i>)	
		ARITHMETIC MEAN	MEDIAN
<i>Major group</i>			
16 Finance	346	9.30	3.05
<i>Minor group</i>			
106 Savings banks	18	4.46	
107 Commercial banks	30	12.77	
108 National banks	105	10.21	
109 Trust companies	56	7.60	
111-110 All other finance, except life insurance	137	9.18	

¹ Total capital (i.e., includes funded debt) as of December 31, 1928.

TABLE 59 (continued)

(B) PERCENTAGE NET INCOME TO TOTAL GROSS INCOME

	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1919-28 ¹
<i>Major group</i>											
16 Finance	31.5	27.7	19.9	30.3	26.5	25.7	26.3	25.3	26.9	28.6	26.8
<i>Minor group</i>											
106 Savings banks	29.6	27.2	22.9	32.2	26.7	23.8	26.8	26.5	20.8	25.6	25.8
107 Commercial banks	35.1	26.6	23.1	30.7	32.5	26.2	26.0	19.8	29.2	28.1	27.3
108 National banks	39.9	37.1	24.0	37.2	34.4	30.4	28.9	30.6	28.6	30.1	31.8
109 Trust companies	26.6	28.3	16.6	25.7	21.8	26.9	29.1	25.5	29.8	31.0	26.4
111-110 All other finance, except life insurance	25.1	18.7	16.4	26.6	21.4	22.4	23.7	22.7	24.5	27.0	23.1

(C) PERCENTAGE INCOME TO CAPITALIZATION

	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1919-28 ¹
<i>Major group</i>											
16 Finance	15.0	12.6	7.8	12.2	9.8	10.2	10.8	10.4	10.2	10.4	10.7
<i>Minor group</i>											
106 Savings banks	11.9	14.0	11.4	16.3	13.3	12.0	13.4	13.3	9.8	11.2	12.5
107 Commercial banks	19.5	15.3	11.6	13.5	14.0	11.2	11.6	7.9	9.9	8.1	10.8
108 National banks	17.7	16.7	9.0	12.1	9.9	9.2	9.1	9.7	9.1	9.4	10.7
109 Trust companies	16.0	13.8	7.2	9.3	7.6	9.8	10.6	10.0	11.9	10.9	10.5
111-110 All other finance, except life insurance	11.7	8.0	6.0	12.9	9.6	11.0	12.2	11.6	11.0	11.9	10.6

¹ Ten-year aggregate.

TABLE 59 (*continued*)

(D) PERCENTAGE PROFIT TO TOTAL CAPITAL

		1924	1925	1926	1927	1928
<i>Major group</i>						
16	Finance	9.9	10.3	10.1	10.0	9.9
<i>Minor group</i>						
106	Savings banks	11.9	13.4	13.2	9.8	11.2
107	Commercial banks	11.1	11.5	7.8	9.9	8.1
108	National banks	9.2	9.1	9.7	9.1	9.4
109	Trust companies	9.8	10.5	10.0	11.9	10.9
111-110	All other finance, except life insurance	10.2	10.8	10.9	10.3	10.4

TABLE 59 (continued)

(E) FREQUENCY DISTRIBUTIONS OF PERCENTAGES OF TOTAL NET INCOME TO CAPITALIZATION, INDIVIDUAL CORPORATIONS, 1919-23. MAJOR GROUP 16: FINANCE

PERCENTAGE INCOME TO CAPI- TALIZATION	PERCENT- AGE IN EACH CLASS	ACCU- MULATED BY SUC- CESSIVE CLASSES	PERCENT- AGE IN EACH CLASS	ACCU- MULATED BY SUC- CESSIVE CLASSES	PERCENT- AGE IN EACH CLASS	ACCU- MULATED BY SUC- CESSIVE CLASSES	PERCENT- AGE IN EACH CLASS	ACCU- MULATED BY SUC- CESSIVE CLASSES
	1919	1920	1921	1922	1923			
Under zero	1.2	0.9	2.6	0.3	1.2			
Zero to 4	6.1	8.1	9.0	5.5	4.3			
5 to 9	19.4	24.0	33.0	29.5	36.4			
10 to 14	32.6	26.9	59.9	32.6	31.8			
15 to 19	17.3	22.3	82.2	14.7	11.6			
20 to 24	10.7	87.3	91.4	8.4	4.3			
25 to 29	3.2	90.5	96.3	2.9	1.7			
30 and over	9.5	100.0	100.0	6.9	4.7			

(F) FREQUENCY DISTRIBUTIONS OF PERCENTAGES OF TOTAL PROFIT TO TOTAL CAPITAL, INDIVIDUAL CORPORATIONS, 1924-28. MAJOR GROUP 16: FINANCE

PERCENTAGE INCOME TO CAPI- TALIZATION	PERCENT- AGE IN EACH CLASS	ACCU- MULATED BY SUC- CESSIVE CLASSES	PERCENT- AGE IN EACH CLASS	ACCU- MULATED BY SUC- CESSIVE CLASSES	PERCENT- AGE IN EACH CLASS	ACCU- MULATED BY SUC- CESSIVE CLASSES	PERCENT- AGE IN EACH CLASS	ACCU- MULATED BY SUC- CESSIVE CLASSES
	1924	1925	1926	1927	1928			
Under zero	1.2	0.6	0.3	0.3	1.7			
Zero to 4	6.6	6.4	7.0	8.1	7.2			
5 to 9	41.9	37.3	44.3	38.1	46.5			
10 to 14	30.6	35.0	79.3	37.0	83.8			
15 to 19	12.4	10.4	89.7	10.7	94.5			
20 to 24	3.2	4.3	94.0	3.2	2.7			
25 to 29	1.2	2.3	96.3	0.3	0.9			
30 and over	2.9	3.7	100.0	2.6	2.0			

