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2

Trade Credit as a Financial Asset

The magnitude and growth of the commitment of nonfinancial firms in the financial field, particularly in trade credit, have reached such proportions that the behavior and quality of credit between business firms are now of significant importance to the economy. By 1957 the financial assets of nonfinancial firms totaled \$212 billion, 25 per cent more than those of the commercial banking system and only 22 per cent less than those of banks and insurance companies combined. Table 1 and Chart 1 compare these three holders of financial assets for the years 1947 through 1957.

Between 1947 and 1957, trade credit outstanding rose 126 per cent to an estimated total of \$74 billion. This was 35 per cent of the total financial assets of nonfinancial firms, an increase of 5 percentage points over 1947. By comparison, consumer credit in 1957 accounted for only 6 per cent of the financial assets of nonfinancial firms. The portfolio of nonfinancial firms in the years 1947 through 1957 is shown in Table 2 and Chart 2.

As a source of business financing, trade credit is substantially larger than the business loans of banks; in 1957, for example, the volume outstanding was nearly twice as large as bank business loans. Table 3 and Chart 3 compare the volume of business loans held by trade creditors and commercial banks.

The importance of trade credit as an asset varies widely among sectors and industries, but little among firms of different size or profitability within economic sectors. Thus trade credit is shown in Table 4 to represent, on the average, nearly half of the assets of corporations engaged in construction, and nearly one-third of those of corporate

The Quality of Trade Credit

TABLE 1

FINANCIAL ASSETS OF NONFINANCIAL FIRMS, COMMERCIAL BANKS,
AND INSURANCE COMPANIES, 1947-57
(billion dollars)

| | Nonfinancial Firms ^a | Commercial Banks ^b | Insurance Companies ^c |
|------|------------------------------------|----------------------------------|-------------------------------------|
| 1947 | 110.2 | 116.3 | 51.7 |
| 1948 | 115.0 | 114.3 | 55.5 |
| 1949 | 121.3 | 120.2 | 59.6 |
| 1950 | 143.4 | 126.7 | 64.0 |
| 1951 | 156.4 | 132.6 | 68.3 |
| 1952 | 163.9 | 141.6 | 73.4 |
| 1953 | 165.7 | 145.7 | 78.5 |
| 1954 | 183.7 | 155.9 | 84.5 |
| 1955 | 210.2 | 160.9 | 90.4 |
| 1956 | 216.5 | 165.1 | 96.0 |
| 1957 | 212.8 | 170.1 | 101.3 |

^aRepresents corporate and unincorporated firms. For components of financial assets, see Table 2.

^bIncludes all loans and investments, but excludes cash assets (generally required reserves); see *Federal Reserve Bulletins*.

^cAll loans and investments; see *Insurance Fact Book, 1960*, New York, Institute of Life Insurance, p. 64.

wholesalers. In the manufacturing sector the ratio is 16 per cent, and in mining 12 per cent. In no sector is the volume of trade receivables negligible, and their importance in the business structure has been growing in the course of the postwar years.¹

¹The retail and service sectors are not shown in Table 4 since consumer credit could not be removed from their receivables on a size-class basis. For the corporate retail sector as a whole, however, it is estimated that trade credit rose from 1.9 per cent of assets in 1947 to 2.8 per cent in 1957. In the corporate service sector, the share of trade credit rose from 4.0 per cent in 1947 to 7.0 per cent in 1957. When consumer credit is included, receivables in the retail sector averaged 23 per cent of assets, and in the service sector 15 per cent, in 1947-57.

Trade Credit as a Financial Asset

TABLE 2
FINANCIAL ASSETS OF NONFINANCIAL FIRMS, CORPORATE AND
UNINCORPORATED COMBINED, 1947-57
 (billion dollars)

| | Trade Credit ^a | Con- sumer Credit | State and | | Cor- porate Bonds | Cash and Deposits | Pre- ferred Stock | Com- mon Stock | Total |
|------|------------------------------|-------------------------|----------------------------------|-----------------------------------|-------------------------|-------------------------|-------------------------|----------------------|-------|
| | | | U.S. Govt. Se- curities | Local Govt. Se- curities | | | | | |
| 1947 | 32.6 | 5.1 | 13.8 | 0.4 | 0.3 | 33.2 | 3.5 | 21.3 | 110.2 |
| 1948 | 35.3 | 6.0 | 14.6 | 0.4 | 0.5 | 33.3 | 3.5 | 21.4 | 115.0 |
| 1949 | 34.6 | 6.7 | 16.5 | 0.5 | 0.6 | 34.7 | 3.5 | 24.2 | 121.3 |
| 1950 | 45.5 | 7.9 | 19.4 | 0.5 | 0.7 | 36.2 | 3.5 | 29.7 | 143.4 |
| 1951 | 49.5 | 8.7 | 20.3 | 0.6 | 1.0 | 39.1 | 3.5 | 33.7 | 156.4 |
| 1952 | 53.4 | 9.9 | 19.5 | 0.6 | 1.4 | 39.5 | 3.5 | 36.1 | 163.9 |
| 1953 | 53.7 | 10.3 | 21.1 | 0.7 | 1.5 | 39.4 | 3.5 | 35.5 | 165.7 |
| 1954 | 56.5 | 10.7 | 18.8 | 1.1 | 1.5 | 42.5 | 3.5 | 49.1 | 183.7 |
| 1955 | 65.5 | 11.5 | 22.8 | 1.2 | 1.9 | 43.7 | 3.5 | 60.1 | 210.2 |
| 1956 | 72.4 | 12.2 | 18.2 | 1.4 | 2.1 | 44.2 | 3.5 | 62.5 | 216.5 |
| 1957 | 73.8 | 12.5 | 17.4 | 1.5 | 2.9 | 45.0 | 3.6 | 56.1 | 212.8 |

SOURCE: Unless otherwise noted, data are from Raymond W. Goldsmith and Robert E. Lipsey, *Studies in the National Balance Sheet of the United States*, Princeton for NBER, 1963, Vol. II, Tables III-2, III-4.

^a Computed for this study.

The Quality of Trade Credit

TABLE 3
MAJOR SOURCES OF BUSINESS CREDIT, 1947-62
(billion dollars)

| | <i>Trade Credits^a</i> | | |
|------|------------------------------------|--|--|
| | Seiden's Estimates ^a | Federal Reserve Estimates ^b | Commercial Banks ^c (as of December) |
| 1947 | 32.6 | n.a. | 18.2 |
| 1948 | 35.3 | n.a. | 18.8 |
| 1949 | 34.6 | 36.8 | 16.9 |
| 1950 | 45.5 | 48.6 | 21.9 |
| 1951 | 49.5 | 53.5 | 25.9 |
| 1952 | 53.4 | 58.6 | 27.9 |
| 1953 | 53.7 | 58.3 | 27.2 |
| 1954 | 56.5 | 62.3 | 26.9 |
| 1955 | 65.5 | 72.5 | 33.2 |
| 1956 | 72.4 | 79.3 | 38.7 |
| 1957 | 73.8 | 81.1 | 40.5 |
| 1958 | n.a. | 87.5 | 40.4 |
| 1959 | n.a. | 93.4 | 40.1 |
| 1960 | n.a. | 98.0 | 43.1 |
| 1961 | n.a. | 105.9 | 45.2 |
| 1962 | n.a. | 111.5 | 48.7 |

^aIncludes trade credit extended to agriculture, nonprofit organizations, and federal, state, and local governments. The author's estimate was made with the cooperation of the Federal Reserve Board Flow-of-Funds Division. Full responsibility for errors remains with the author.

^b*Federal Reserve Bulletin*, August 1963.

^cIncludes short- and long-term commercial loans and purchases of open-market paper. See *Federal Reserve Bulletins*.

Trade Credit as a Financial Asset

TABLE 4

RATIO OF TRADE CREDIT TO TOTAL ASSETS, BY SECTOR, SIZE, AND PROFITABILITY OF CORPORATIONS, AVERAGE FOR 1947-57
(per cent)

| | Total | Small | Medium | Large | Giant |
|---------------|-------|-------|--------|-------|-------|
| Mining | 12 | 17 | 13 | 12 | 10 |
| Profitable | 13 | 20 | 14 | 12 | 11 |
| Unprofitable | 10 | 14 | 10 | 10 | 5 |
| Manufacturing | 16 | 22 | 19 | 16 | 14 |
| Profitable | 15 | 23 | 19 | 16 | 14 |
| Unprofitable | 18 | 20 | 18 | 17 | 17 |
| Wholesale | 33 | 34 | 34 | 33 | 33 |
| Profitable | 34 | 34 | 34 | 33 | 33 |
| Unprofitable | 32 | 32 | 32 | 33 | 29 |
| Construction | 48 | 38 | 43 | 52 | 49 |
| Profitable | 47 | 39 | 43 | 51 | 48 |
| Unprofitable | 48 | 37 | 44 | 54 | 55 |

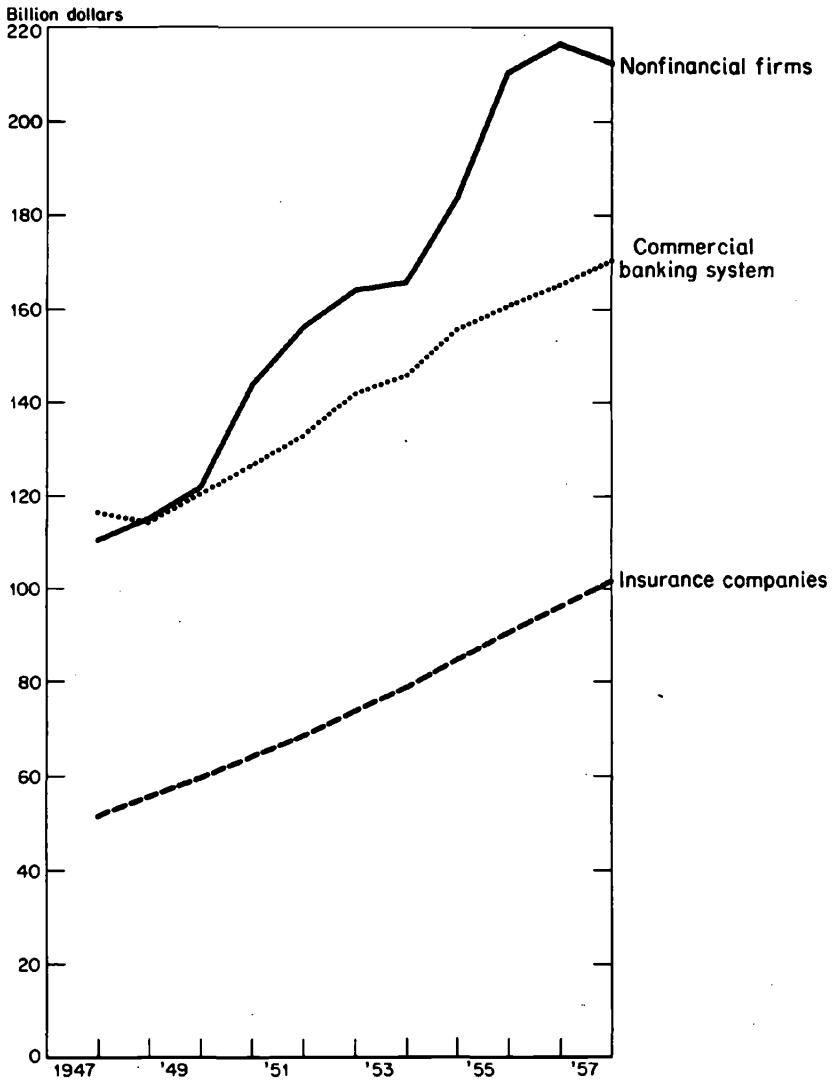
SOURCE: Treasury *Source Book*.

NOTE: See Appendix A for a description of the asset range of each sector-size classification used in this study. Regarding the trade-credit-to-assets ratio of the retail and service sectors, see Chapter 2, footnote 1.

The Quality of Trade Credit

CHART 1

**Financial Assets of Nonfinancial Firms, Commercial Banks,
and Insurance Companies, 1947-57**

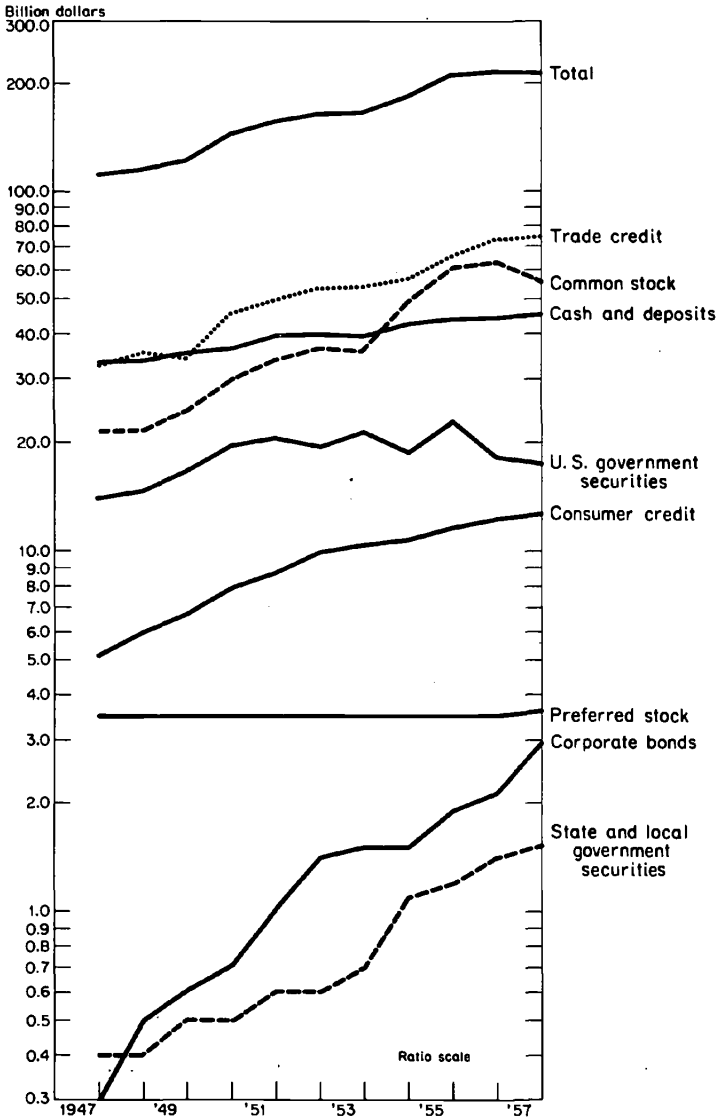


SOURCE: Table 1.

Trade Credit as a Financial Asset

CHART 2

Financial Assets of Nonfinancial Firms, 1947-57

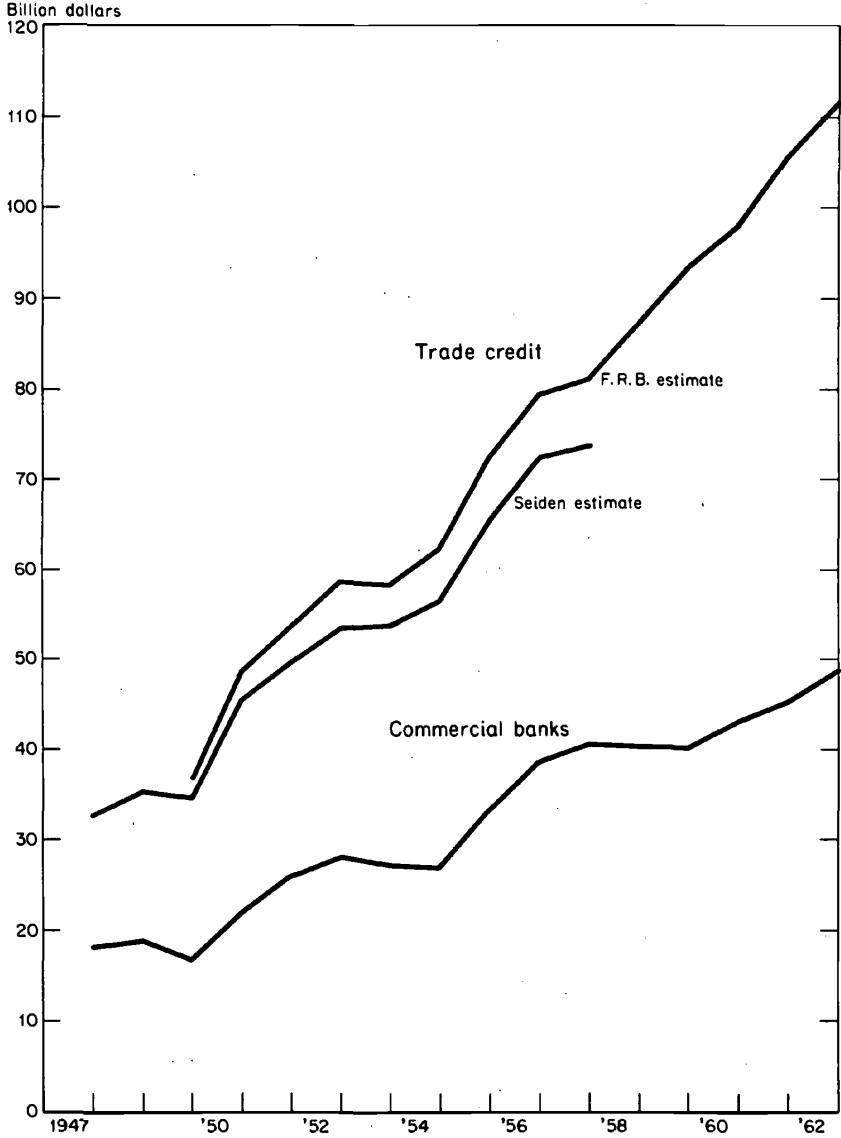


SOURCE: Table 2.

The Quality of Trade Credit

CHART 3

Major Sources of Business Credit, 1947-62



SOURCE: Table 3.