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CHAPTER 9

The Market for Corporate Stock

THE market for corporate stock, particularly that for common stock issues, is of crucial importance for the American capital market and for the entire economy. Since equities in unincorporated business are not marketable, common stock, apart from some instruments which resemble common stock in certain respects (such as some convertible bonds, preferred stocks, and some junior mortgages), is the only instrument through which a large number of investors can participate in the external equity financing of enterprises they do not operate, or in supplying what has been called "venture" capital. Careful analysis of the market for common stock and the flow of funds through common stock is also necessary because the statistics are less satisfactory and more open to misunderstanding than those for most other sectors of the capital market.[1]

With few exceptions, this chapter will deal only with common stock. Preferred stock was relatively important in an earlier period of corporate finance and, while still not negligible in a few industries, it now represents only a small percentage of the market value of all stocks. It is, however, more important when measured by the amount of corporate stock issued in the postwar period. The tables, therefore, provide information for all corporate stock as well as for common stock alone, so that the data for preferred stock can be obtained by subtraction.

Character of the Market

The market for common stock in the postwar period is characterized by two outstanding features: first, the small amount of new common

[1] Background data on stock prices, yields, and trading will be found in Table 93.

stock issues compared to the issuance of other capital market instruments, to the volume of internal and external finance of corporations, to the value of common stock outstanding, and to the total assets of most investor groups; and second, the large amount of trading in common stock, with a resulting shift in the portfolios of the different investor groups that were substantial and of considerable importance for the smooth functioning of the capital market.

Measured by the value of capital market instruments outstanding and by the volume of trading, the market for common stock in the postwar period constituted the largest sector of the American capital market. It is marked by extreme variety in the size, quality, trading, and price behavior of different types of common stock and in the character of issuers and holders.

1. There are now outstanding in the United States approximately one million different issues of stock, but the overwhelming majority is issued by small and medium-sized closely held corporations, the stock of which is not handled by the capital market machinery when first issued and does not become the object of trading after issuance. Only a small number of issues, probably not more than 50,000, can be regarded as constituting the market for common stock, but these issues account for probably more than four-fifths of the total value of all common stock.

2. The market for common stock is partly an exchange and partly an over-the-counter market involving direct transactions over the telephone among brokers and dealers or between brokers and dealers and their customers. Only about 3,000 common stock issues are listed on exchanges, half of them on the New York Stock Exchange. This small number of issues, however, is responsible for more than three-fifths of the value of all common stock and an even higher proportion of marketable common stock. The New York Stock Exchange alone accounts for roughly nine-tenths of the value of all common stock listed on exchanges, and for more than one-half of all common stock outstanding in the United States. The stock of financial institutions—commercial banks, fire and casualty insurance companies, and investment companies—is, however, predominantly traded in the over-the-counter market.[2]

[2] *25th Annual Report of the Securities and Exchange Commission,* Washington, 1959, pp. 62–69.

3. In the absence of current statistical information, it is estimated that approximately one-third of all stock trading takes place in the over-the-counter market, while fully two-thirds takes place on the floor of stock exchanges, mostly the New York Stock Exchange.[3] A substantial fraction, possibly around one-fourth, of over-the-counter trading is in stocks listed on exchanges.

4. The (full lot) turnover ratio—a measure of trading intensity of stocks listed on the New York Stock Exchange—averaged 16 per cent a year during the postwar period, compared to a ratio of about 95 per cent in the 1920's.[4] The turnover ratio in the over-the-counter market is probably lower. The differences in this ratio among individual stocks and groups of them are, however, very large.

5. There are four main methods of selling new issues of common stock, apart from placement with small groups of investors which is prevalent for small and medium-sized corporations, particularly new ones.[5]

- I. Direct placement with a small number of investors, usually financial institutions:
  - A. Without intermediary
  - B. With the help of an intermediary ("finder") who usually receives a small fee.
- II. Offering to the general public:
  - A. Without underwriting, including offerings made with the technical assistance of an investment banker or other organization which does not assume any risk but undertakes the operation on what is called a "best effort" basis.
  - B. With underwriting:
    1. As a result of competitive bidding among several investment bankers or groups of them, a technique prescribed for some regulated industries, particularly electric power and light companies.
    2. As a result of direct negotiation between the issuer and an investment banker of his choice.
- III. Offering to stockholders under pre-emptive rights:
  - A. With underwriting
  - B. Without underwriting

[3] Irwin Friend, *The Over-the-Counter Securities Market,* New York, 1958, p. 116.

[4] *New York Stock Exchange Fact Book, 1960,* New York, 1960, p. 42.

[5] This classification also applies broadly to corporate bonds.

IV. Issuance in accordance with the exercise of conversion rights or warrants attached to other securities, usually preferred stock or debentures of the same issuer.

Offering to the general public was the most common form of placement. Offerings to stockholders under rights appear to have accounted for only about one-fifth of all registered common stock offerings.[6]

Direct placement with financial institutions was rare in the case of common stock, in contrast to corporate bonds and preferred stock; for 1946–58 it accounted for less than 1 per cent of total net issues of common stock but for more than 20 per cent of preferred stock.[7]

6. The cost of issuance of common stock depends primarily upon the method of distribution used, the size of the issues, and the size, industry, age, and record of the issues. The cost is relatively low for offerings to stockholders, particularly if they are not underwritten. For issues offered to the general public, costs decrease rapidly with increasing size. These relationships can be followed in Table 79. For issues of the same size, costs are considerably lower for public utility than for industrial and other issues, particularly for mining issues. The average cost of issuing stocks of public utility companies amounts to from one-half to two-thirds of the mean for the size class; it is close to this average for stock issues of manufacturing corporations, but the issues of mining corporations cost between 50 and 200 per cent more than the average for their size class. In the case of open-end investment companies, cost of issuance bears little relation to the size of issue or other characteristics of issue and issuer, amounting fairly uniformly to 7–9 per cent for companies using the investment banking mechanism for distribution.[8]

7. The redistribution of outstanding stock takes place either through the ordinary mechanism of exchange or over-the-counter trading, or, when large blocks are involved, through formal secondary distributions on the floor of an exchange or using the selling or-

[6] No comprehensive statistics for the entire period exist. The figure in the text refers to the share of offerings to security holders of common stock issues registered with the Securities and Exchange Commission during the fiscal years 1954 to 1960 (see *24th Annual Report,* SEC, p. 204).

[7] SEC unpublished data.

[8] A study of mutual funds published after the manuscript was completed shows that, out of 214 companies, 123 had a sales load of 8.0 to 8.9 per cent, thirty-six had a load of 7.0 to 7.9 per cent, thirty-four had no load, and nine had a load of less than 7 per cent. (*A Study of Mutual Funds,* Washington, 1962, pp. 469–470.)

ganizations of investment bankers and dealers. Block distributions through the New York Stock Exchange aggregated about $3 billion during the postwar period, an amount equal to about one-eighth of all new issues of marketable common stock.[9]

TABLE 79

COST OF FLOTATION OF REGISTERED CORPORATE STOCK ISSUES OFFERED TO THE GENERAL PUBLIC, 1951, 1953, AND 1955
(per cent of proceeds)

Size of Issue (million dollars)	All Industries (1)	Manu-facturing (2)	Electric, Gas, and Water (3)	Communi-cations (4)	Mining (5)	Other In-dustries (6)
		COMMON STOCK				
Under 0.5	27.2	19.7			33.4	14.8
0.5 to 1	21.8	13.7	12.2	8.2	33.0	21.4
1 to 2	13.6	12.8	6.5	6.0	22.2	11.5
2 to 5	10.0	8.6	5.4	5.8	17.7	12.9
5 to 10	6.2	6.4	4.5	6.7	12.3	14.3
10 to 20	4.7	4.9	3.0	5.1	11.5	6.6
20 to 50	5.4	5.5	4.2		15.6	
50 and over						
All sizes[a]	10.3	10.1	4.6	6.1	20.0	12.3
		PREFERRED STOCK				
Under 0.5						
0.5 to 1	12.6	18.4	10.7	7.4		11.6
1 to 2	8.1	11.2	6.1	6.4		12.7
2 to 5	4.9	5.1	3.8	5.4		7.3
5 to 10	3.7	4.0	3.4	4.9		3.6
10 to 20	2.9	2.6	2.8	4.2		2.8
20 to 50	3.2	3.6	3.1			
50 and over	2.5	2.5				
All sizes[a]	4.3	5.2	3.1	6.5		6.8

Source: Cost of Flotation of Corporate Securities, 1951-1955, SEC, Washington, 1957, pp. 39-40.

[a]Median values.

8. Credit is used to a substantial extent in financing stock trading, particularly trading by professionals. Credit to the public to purchase or carry stocks is provided primarily by brokers and dealers, and secondarily by direct loans of commercial banks to customers. Brokers and dealers, in turn, obtain their external financing partly from domestic commercial banks, partly from foreign banks, and partly from miscellaneous lenders.[10] The total volume of credit on common stock,

[9] *27th Annual Report,* SEC, Washington, 1961, p. 221.

[10] See Jules I. Bogen and Herman E. Krooss, *Security Credit,* Englewood Cliffs, 1960, p. 22.

however, is moderate compared with the value of common stock outstanding. On the average during the postwar period, borrowing on stocks listed on the New York Stock Exchange amounted to only 2 per cent of their value. Credit is also used, and is relatively more important, in financing investment bankers when they offer new stock issues to the public, but in these cases it is usually required only for very short periods.

TABLE 80

DISTRIBUTION OF STOCK TRADING ON NEW YORK STOCK EXCHANGE, 1952-60
(total volume = 100)

Date	Public Individuals[a] (1)	N.Y. Stock Exchange Members (2)	Institutions and Intermediaries: Total (3)	Commercial Banks[b] (4)	Brokers and Dealers[c] (5)	Investment Companies[d] (6)	Other (7)
Sept. 1952	57.0	18.4	24.6	7.1	4.6	3.9	9.0
March 1953	61.4	19.3	19.3	6.2	4.7	2.4	6.0
March 1954	56.4	20.1	23.5	7.5	4.3	2.7	8.9
Dec. 1954	62.3	20.2	17.5	5.3	3.9	1.3	6.9
June 1955	59.2	21.3	19.5	6.5	3.9	1.7	7.4
March 1956	58.9	21.0	20.1	6.8	3.7	2.2	7.4
Oct. 1957	54.3	22.4	23.3	8.7	3.4	2.2	9.0
Sept. 1958	55.8	21.3	22.9	6.2	3.7	13.1	
June 1959	53.5	23.7	22.8	8.8	3.1	10.9	
Sept. 1960	52.6	23.1	24.3	9.7	2.7	4.3	7.6
Average	57.1	21.1	21.8	7.3	3.8	2.6	7.8

Source: Cols. 1-2 from Tenth Public Transaction Study, New York Stock Exchange, 1960, Part I, p. 3; cols. 3-7 from ibid., Part II, p. 8.

[a]Public individuals are defined in the source to include only customers who have an account with N.Y. Stock Exchange member firms.

[b]Including trust departments.

[c]Excluding members of New York Stock Exchange.

[d]Open-end investment companies only, called "mutual funds" in the source.

9. The objectives of transactions in common stock are difficult to determine. According to estimates of the New York Stock Exchange, based on sample inquiries, about one-eighth of all transactions in common stock by the public—accounting, according to Table 80, for slightly more than half of the total transactions on the New York Stock Exchange—are made for trading purposes, i.e., are intended to be liquidated within thirty days; about one-fourth are regarded as short-term investments, intended for one to six months; while about five-eighths are classified as long-term investments.[11] Transactions by

[11] *Tenth Public Transaction Study*, New York Stock Exchange, 1960, Part I, p. 4.

members, presumably mostly for trading purposes, account for fully one-fifth of trading on the New York Stock Exchange. Transactions by financial institutions, probably to a substantial extent for long-term investments, are responsible for another full fifth.

Developments During the Postwar Period

VOLUME OF COMMON STOCK ISSUES

Net issues of corporate stock from 1946 through 1958 amounted to $41 billion, $36 billion of which represented common stock (Tables 81 and 82 and Chart 21). These figures include both marketable and nonmarketable issues. The statistics of the Securities and Exchange Commission and those in *National Balance Sheet* [12] show that marketable common stock issues amounted to $21 billion excluding investment companies and $28 billion including them. The difference of $8 billion represents nonmarketable issues, primarily those of small and medium-sized corporations sold without the use of the investment banking machinery.

Thus the amount contributed by common stock toward the financing of corporate business and hence of the economy is not negligible. The amounts raised through issuance of common stock in the postwar period, however, were small compared to the funds raised by the main fixed value capital market instruments (see Table 43). For the entire postwar period the volume of common stock issues, even including nonmarketable securities, was below the net sales of state and local government securities. It was only three-fifths as large as the net sales of corporate bonds; it amounted to one-third of the increase in residential mortgage debt; and it was smaller than the funds made available through the increase in consumer loans and through bank loans to business. As a result, common stock constituted only 14 per cent of the funds raised through the five main capital market instruments, only 8 per cent of the ten instruments listed in Table 43, and 5 per cent of all external financing in the economy (Table 21).

Still more pronounced is the low rate of growth of the total supply of common stock, i.e., the ratio of the amount of a year's net issues to the average value outstanding during the year. The growth

12 Raymond W. Goldsmith, Robert E. Lipsey, and Morris Mendelson, *Studies in the National Balance Sheet of the United States*, Princeton for NBER, 1963, Vol. II, Table IV-b-17a.

TABLE 81

STRUCTURAL CHANGES IN OWNERSHIP OF CORPORATE STOCK DURING POSTWAR PERIOD

	Outstandings (billion dollars)		Aggregate Net Flows 1946-58 (billion dollars)	NET FLOWS (ANNUAL AVERAGES)					
				Amounts (billion dollars)			Distribution (per cent)		
	1945 (1)	1958 (2)	(3)	Cycle I 1946-49 (4)	Cycle II 1949-54 (5)	Cycle III 1954-58 (6)	Cycle I 1946-49 (7)	Cycle II 1949-54 (8)	Cycle III 1954-58 (9)
1. Nonfarm households	111.62	342.99	23.22	1.42	1.70	2.17	69.6	58.4	51.2
2. Nonfinancial corporations	27.67	79.00	1.89	0.09	0.13	0.20	4.4	4.5	4.7
3. Financial institutions, total	7.36	43.46	16.09	0.53	1.09	1.87	26.0	37.1	44.1
a. Government insurance and pension funds	0.04	0.50	0.46	0.01	0.02	0.06	0.5	0.7	1.4
b. Commercial banks	0.22	0.19	-0.03	-0.02	0	0.01	-1.0	0	0.2
c. Mutual savings banks	0.14	0.86	0.72	0	0.07	0.08	0	2.4	1.9
d. Investment companies	2.90	18.08	4.87	0.15	0.27	0.63	7.4	9.3	14.9
e. Life insurance	1.00	4.11	1.75	0.15	0.17	0.07	7.4	5.8	1.7
f. Fire and casualty insurance	2.40	8.34	1.74	0.10	0.16	0.14	4.9	5.5	3.3
g. Noninsured pension plans	0.29	10.80	6.62	0.11	0.39	0.92	5.4	13.4	21.7
h. Other private insurance	0.05	0.12	0.06	0.01	0	0	0.5	0	0
i. Other finance	0.32	0.46	-0.10	0.01	0	-0.04	0.5	0	-0.9
4. Total	146.65	465.45	41.20	2.04	2.91	4.24	100.0	100.0	100.0
Memorandum									
5. Total domestic outstandings and net issues	148.40	470.65	40.72	1.93	2.94	4.22	100.0	100.0	100.0
6. Rest-of-world assets and net purchases of domestic issues	3.01	8.30	0.42	-0.11	0.05	0.14	-5.7	1.7	3.3

Source: National Balance Sheet, Vol. II, Cols. 1-2 from Tables IV-b-16 and IV-b-17; cols. 3-9 from Tables VIII-b-16 and VIII-b-17.

Note: Components may not add to totals because of rounding here and elsewhere in this chapter.

TABLE 82

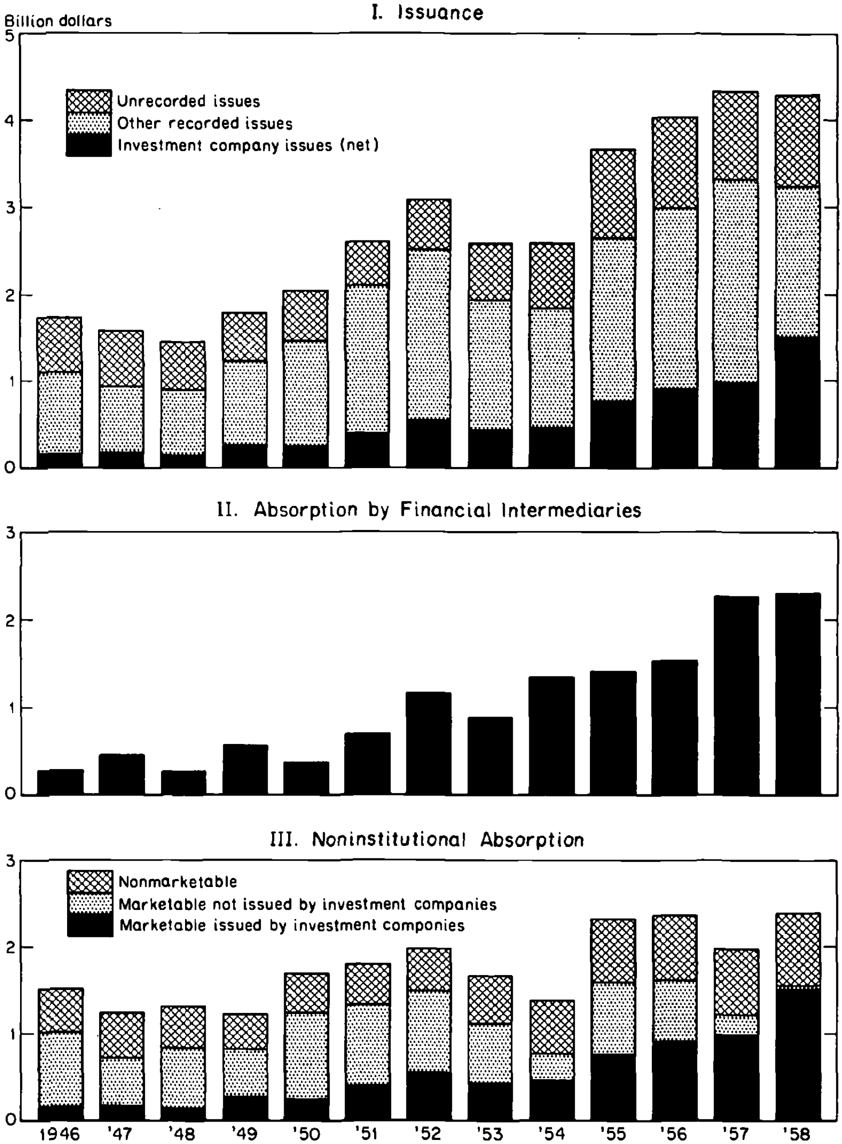
STRUCTURAL CHANGES IN OWNERSHIP OF COMMON STOCK DURING THE POSTWAR PERIOD

	Outstandings (billion dollars)		Aggregate Net Flows, 1946-58 (billion dollars)	NET FLOWS (ANNUAL AVERAGES) Amounts (billion dollars)			Distribution (per cent)		
	1945 (1)	1958 (2)	(3)	Cycle I 1946-49 (4)	Cycle II 1949-54 (5)	Cycle III 1954-58 (6)	Cycle I 1946-49 (7)	Cycle II 1949-54 (8)	Cycle III 1954-58 (9)
1. Nonfarm households	103.47	332.62	21.00	1.22	1.56	1.94	72.2	62.4	49.9
2. Nonfinancial corporations	24.20	75.45	1.81	0.08	0.12	0.19	4.7	4.8	4.9
3. Financial institutions, total	5.53	39.10	13.56	0.39	0.82	1.75	23.1	32.8	45.0
a. Government insurance and pension funds	0.02	0.25	0.23	0	0.01	0.03	0	0.4	0.8
b. Commercial banks	0.22	0.19	-0.03	-0.02	0	0.01	-1.2	0	0.3
c. Mutual savings banks	0.14	0.86	0.72	0	0.07	0.08	0	2.8	2.1
d. Investment companies	2.65	17.15	4.19	0.14	0.22	0.56	8.3	8.8	14.4
e. Life insurance	0.18	2.55	1.01	0.06	0.08	0.09	3.6	3.2	2.3
f. Fire and casualty insurance	1.81	7.51	1.50	0.10	0.10	0.15	5.9	4.0	3.9
g. Noninsured pension plans	0.20	10.07	5.98	0.08	0.33	0.86	4.7	13.2	22.1
h. Other private insurance	0.01	0.08	0.06	0	0	0	0	0	0
i. Other finance	0.30	0.44	-0.10	0.01	0	-0.04	0.6	0	-1.0
4. Total	133.20	447.17	36.37	1.69	2.50	3.89	100.0	100.0	100.0
Memorandum									
5. Total domestic outstandings and net issues	134.67	452.04	35.84	1.60	2.52	3.87	100.0	100.0	100.0
6. Rest-of-world assets and net purchases of domestic issues	2.73	7.97	0.37	-0.10	0.04	0.13	-6.2	1.6	3.4

Source: National Balance Sheet, Vol. II. Cols 1-2 from Table IV-b-17; cols. 3-9 from Table VIII-b-17.

CHART 21

ISSUANCE AND ABSORPTION OF COMMON STOCK, 1946–58



Source: Table 88.

rate of the supply of common stock is below that for all other main capital market instruments, except U.S. government securities. While the average rate of growth lay between 7 and 17 per cent per year for the main types of long- and short-term debt excluding U.S. government obligations, the average amount of new common stock issues during the postwar period was less than 1½ per cent of the value of common stock outstanding, and the ratio did not differ substantially from cycle to cycle (Table 47).

In contrast to the low share of common stock in total new issues of capital market instruments and to the slow rate of growth in supply, the share of common stock in the current value of financial assets increased during the postwar period because of the sharp rise in stock prices (Table 43). Thus the share of corporate stock in the total financial assets of all sectors increased from about 15 per cent in 1945 to 22 per cent in 1958.[13] The share of corporate stock advanced equally sharply—from 30 to 46 per cent—in comparison to the aggregate value of the five main capital market instruments.

New issues of common stock showed a considerable upward trend throughout the postwar period (see Table 82). This increase, however, was smaller than the expansion in the rate at which other main capital market instruments, other than U.S. government securities, were absorbed by investors. As a result, the share of common stock in the net issuance of the five main capital market instruments declined from fully one-fifth in Cycle I to one-ninth in Cycle II and about one-sixth in Cycle III. The share, however, remained at less than one-tenth in comparison to the ten main instruments.

The distribution of new common stock by industry is known only for marketable issues (Table 83). Of the $25 billion of new issues of common stock, almost three-tenths were accounted for by net issues of investment companies (here marketable issues include only cash issues). On a gross basis, which is relevant for the investment banking industry, their share was even higher because of the substantial redemptions of investment companies which have hardly any parallel among other industries. On that basis, investment companies accounted for $11 billion out of $28 billion of gross sales of marketable common stock, or about two-fifths of the total (Table 83).

Among the common stock issues of corporations other than investment companies, manufacturing and electric and gas utilities led with a share of nearly one-third each. The communications industry ac-

[13] *Ibid.,* Table I, 1945, 1958.

counted for about one-tenth of net common stock issues, represented largely by those of the Bell System. Commercial issuers were responsible for another one-tenth, leaving the remaining one-sixth for the common stock issues of real estate and finance corporations other than investment companies. As can be seen from Table 83, the share of common stock issues for some industries did not change substantially from cycle to cycle, but the proportion of issues of investment companies to other corporate stock companies increased considerably, particularly between Cycles I and II.

The distribution of marketable securities according to the method of distribution has been tabulated only for 1951, 1953, and 1955.[14] For these three years, slightly more than two-thirds of all marketable common stock issues excluding those of investment companies were offered to stockholders under rights (if investment company offerings are included, the proportion declines to 42 per cent on a gross and to about 50 per cent on a net basis), nearly two-thirds of which was in turn underwritten by investment bankers. Of the common stocks offered to the general public (excluding investment company issues), all but 7 per cent were underwritten. Thus investment bankers offered, usually with an underwriting contract, slightly more than 70 per cent of marketable noninvestment company common stock. Inclusion of investment company issues, which are not underwritten although most of them are distributed by investment bankers, reduces this share to slightly over 50 per cent on a net and to nearly 45 per cent on a gross sales basis.

A considerable part of all common stock issues originates, not through the simultaneous offering by the issuer and an investment banker, but through the conversion of other securities into common stock or through the exercise of options on common stock in accordance with arrangements made earlier. For the postwar years 1948–58, common stock issues resulting from conversion aggregated approximately $6 billion,[15] consisting primarily of common stock of the American Telephone and Telegraph Company issued in exchange for the company's convertible debentures. This was equal to one-fifth of all common stock and to nearly one-third of marketable issues, excluding

[14] *Volume and Nature of Corporate Security Offerings,* Securities and Exchange Commission (Supplemental Report to *Cost of Flotation of Corporate Securities*), Washington, July 1957, pp. 14, 15.

[15] SEC unpublished data, and *National Balance Sheet,* Vol. II, Table IV-17-a, line 5.

TABLE 83

DISTRIBUTION OF STOCK OFFERINGS BY INDUSTRY, 1946-58
(per cent)

	Common Stock				Preferred Stock			
	1946-49 (1)	1949-54 (2)	1954-58 (3)	1948-58 (4)	1946-49 (5)	1949-54 (6)	1954-58 (7)	1948-58 (8)
Manufacturing	n.a.	25	35	31	n.a.	30	23	27
Commercial and miscellaneous[a]	n.a.	10	10	10	n.a.	7	5	6
Electricity, gas, and water	n.a.	44	22	32	n.a.	53	59	55
Communication	n.a.	5	12	9	n.a.	3	5	4
Other transportation	n.a.	1	1	1	n.a.	1	1	1
Railroads	n.a.	0	0	0	n.a.	0	0	0
Financial[b] and real estate	n.a.	15	20	17	n.a.	6	7	7
All industries (per cent)	100	100	100	100	100	100	100	100
All industries (billion dollars)[g]	0.74	1.14	2.07	1.42[c]	0.68	0.63	0.59	0.59[d]
Investment companies[e]								
Per cent	43	59	65	65	--	--	--	--
Billion dollars[g]	.32	.67	1.35	.93[f]	--	--	--	--

Source: SEC Statistical Bulletin, March issues for 1947 to 1959 (e.g., March 1959, p. 8) and SEC worksheets "Domestic Corporate Securities Issued and Retired." For investment companies, see also Irwin Friend, Individual Saving, New York, 1954, pp. 235 and 237, line 2.

[a]Includes mining.

[b]Excluding investment companies.

[c]1946-58 = 1.33.

[d]1946-58 = 0.65.

[e]Includes very small amounts of preferred stock. Does not include capital gains and dividends reinvested in additional shares.

[f]1946-58 = 0.84. The comparable figure for net issues is 0.54.

[g]Annual averages.

in both cases investment company securities. Since the volume of conversions into common stock depends largely on a rise in stock prices, it was probably small in Cycle I. In Cycles II and III, however, the share of conversions in the total issue of marketable common stock other than investment company issues approximated one-fourth.

THE ROLE OF COMMON STOCK IN FINANCING NONFINANCIAL CORPORATIONS [16]

For the period from 1946 through 1958 stocks provided 6 per cent of the total funds absorbed by all nonfinancial corporations and the ratio was approximately the same for all three cycles (Table 32). The share of common stocks alone was 5 per cent. In relation to total external financing, common stocks contributed about one-eighth, again without substantial changes among the three cycles. Common stocks supplied less than three-fifths as large a volume of funds as corporate bonds did, and an even smaller proportion if bank term loans of five years' maturity or longer are included with bonds.

While common stocks thus were not a primary means of financing for all nonfinancial corporations taken together, very great differences are known to exist among individual corporations and groups of them. The available statistics unfortunately are not sufficiently comprehensive or detailed to identify the types of corporations for which the

[16] As is common practice, financing through equity securities is limited here to new corporate stock issues sold for cash. It is sometimes argued, however, that the retention of earnings is to be regarded as another form of equity financing since it also increases net worth. The similarity to equity financing through cash issuance of stock is held to be particularly pronounced in the case of undistributed earnings evidenced by stock dividends. The argument for statistical combination of these two forms of increasing net worth does not appear to be persuasive since no external financing is involved. Nevertheless, it may be well to realize that in the postwar period internal equity financing through retention of earnings was much larger than external equity financing through issuance of stock, and that the retained earnings evidenced by stock dividends alone were equal to about 40 per cent of the volume of external financing through new stock issues. The figures for the period as a whole and the three cycles are given below (annual averages in billion dollars). It is evident that, as the postwar period progressed, stock issues sold for cash increased compared to either total earnings or to that part evidenced by stock dividends.

	1946–58	*1946–49*	*1949–54*	*1954–58*
1. Retained earnings	10.4	12.0	9.9	10.2
2. Stock dividends	1.3	.8	1.2	2.0
3. Stock issues	3.1	1.9	2.9	4.2

Lines 1 and 2 are from *Statistics of Income;* line 3 is from *National Balance Sheet,* Vol. II, Tables VIII-d-1 and VIII-d-2.

issuance of marketable common stock constituted an essential part of total or external financing, let alone to measure the share of common stock issues in the total and external financing of these corporations. We can follow with reasonable accuracy only the contribution of common stock to the financing of corporations in the main industrial sectors treated as broad aggregates and their role in the financing of large corporations.

For the entire period from 1947 through 1956, all stocks (common and preferred) contributed 2 per cent toward the aggregate financing of manufacturing and mining corporations, 24 per cent to that of power and light and communications corporations, but virtually nothing to the funds secured by corporations in transportation and trade. The share of stock in the external financing of these groups was similarly varied. It amounted to only 5 per cent for manufacturing and mining corporations, but to 38 per cent among electric and gas utilities, and was, of course, negligible again for transportation and trade. Compared, finally, with the total of issuance of securities and long-term debt, stocks accounted for 12 per cent in the case of manufacturing and mining and 43 per cent in public utilities.[17] The low level of the ratios in most industries, other than the electric and gas utilities and the telephone industry, is partly explained by the scarcity of public stock issues by smaller and medium-sized corporations.

Among large corporations (Federal Reserve Board sample of 293–300 corporations), the share of stock financing was considerably more important. For the period 1946–55, these corporations raised more than $10 billion through stock issues. This is equal to three-fifths of the total of all marketable stock issues other than those of investment companies, an indication of the high degree of concentration of stock issues, since the same corporations accounted for less than one-third of total assets of nonfinancial corporations and for not much more than two-fifths of their fixed assets (book values). For these large corporations, stock issues were equal to 40 per cent of long-term external financing, 27 per cent of all external financing, and 9 per cent of all financing, internal and external. The relatively high ratios of stock in financing are, however, partly due to the character of the sample in which large public utilities, including the Bell System, are heavily represented.[18]

[17] *Survey of Current Business,* September 1957, pp. 10–11.

[18] Of this group of large corporations' stock issues, almost half is accounted for by the Bell System alone, while the other half is divided about equally between

NET ACQUISITION OF COMMON STOCK BY INVESTOR GROUPS

Because of the decisive influence of price fluctuations on the value and distribution of the holdings of common stock, it is best to base an analysis of the market on net flows, i.e., the difference between the cost of purchases and the proceeds from sales of common stock by the various investor groups, rather than on changes in the value of holdings of the different investor groups. These net flows are shown for common stock on an annual basis [19] and for cycle averages in Table 82. Similar figures for all corporate stock, which also permit the derivation of net flows for preferred stock, will be found in Table 81.[20] The annual movements are illustrated in Chart 22 for all corporate stock together. The sectoral composition of these flows is shown in Tables 86 and 87 for all and for common stock. The distribution of holdings among sectors, in terms of market values, finally, can be followed on an annual basis in Table 84 for all stock and in Table 85 for common stock alone.

For the entire period, identified financial institutions, which include all major ones except the personal trust departments of commercial banks, had a net purchase balance of common stock of $14 billion. This was equivalent to about two-fifths of total net issues of common stock. If investment company new issues are excluded, since only a small part of their net issue are acquired by other financial institutions, the net purchase balance of financial institutions rises to almost one-half of total new issues of common stock. This, of course, does not mean that almost one-half of all new issues were actually acquired by financial institutions. In fact, considerably less than this per cent of the new issues of common stock made during the postwar period found their way into the portfolios of financial institutions, as it is likely that financial institutions bought considerably more outstanding common stocks than they sold. Since the data on which these calculations are based do not separate the net acquisition of newly issued from the net purchases of already outstanding common stock issues, the amount of new issues actually acquired by financial institutions is unknown.

Although the ratio of financial institutions' net purchases to total

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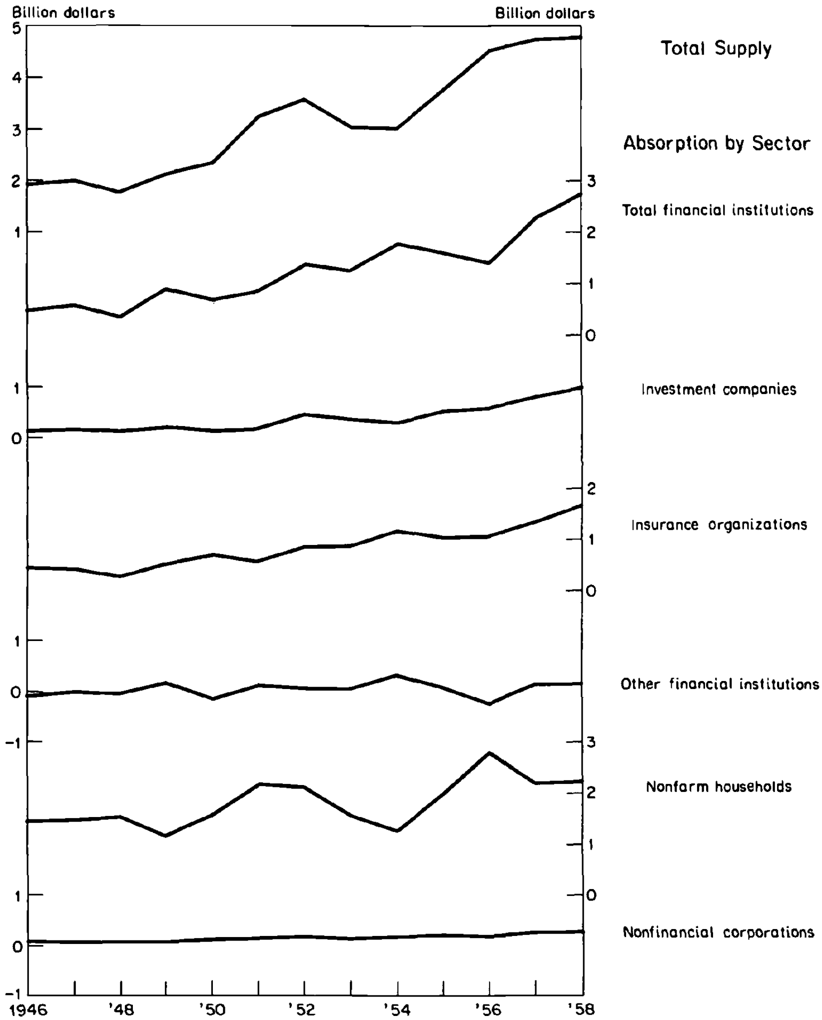
electric utilities and manufacturing and mining corporations (see *Federal Reserve Bulletin:* 1948, p. 631; 1950, p. 642; 1952, p. 641; 1954, p. 820; 1956, p. 588).

[19] In *National Balance Sheet,* Vol. II, Table VIII-b-17.

[20] And in *ibid.,* Table VIII-b-16.

CHART 22

MARKET FOR CORPORATE STOCK: SUPPLY AND ABSORPTION BY SECTOR, 1946–58



Source: *National Balance Sheet,* Vol. II, Tables VIII-b-16, VIII-b-17, VIII-d-1, and VIII-d-2.

TABLE 84

DISTRIBUTION OF HOLDINGS OF CORPORATE STOCK,[a] 1945-58
(per cent)

	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
1. Nonfarm households	76.1	75.5	75.3	75.1	74.6	75.0	74.9	74.5	74.0	73.9	74.1	74.2	73.7	73.7
2. Nonfinancial corporations	18.9	18.9	18.9	18.9	18.8	18.6	18.3	18.1	17.9	17.6	17.5	17.3	17.2	17.0
3. Finance	5.0	5.6	5.9	6.0	6.6	6.5	6.8	7.5	8.1	8.4	8.4	8.5	9.1	9.3
a. Government insurance and pension funds	0	0	0	0	0	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
b. Commercial banks	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0	0	0.1	0
c. Mutual savings banks	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
d. Investment companies	2.0	2.1	2.1	2.1	2.4	2.4	2.7	3.0	3.2	3.4	3.5	3.5	3.6	3.9
e. Life insurance	0.7	0.9	1.1	1.1	1.2	1.2	1.1	1.1	1.2	1.1	1.0	0.9	1.0	0.9
f. Fire and casualty insurance	1.6	1.8	1.8	1.8	2.0	1.9	1.9	2.0	2.0	2.0	1.9	1.9	1.9	1.8
g. Noninsured pension plans	0.2	0.3	0.4	0.4	0.5	0.5	0.7	0.9	1.1	1.3	1.6	1.7	2.0	2.3
h. Other private insurance	0	0.1	0.1	0.1	0.1	0.1	0	0	0	0	0	0	0	0
i. Other finance	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1
4. Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
5. Total (billion dollars)	146.65	132.99	131.08	131.97	147.28	178.86	203.17	219.47	217.94	298.57	364.33	381.55	347.49	465.45
<u>Memorandum</u>														
6. Total domestic outstandings (billion dollars)	148.40	134.23	132.17	132.93	148.70	180.80	205.61	222.26	220.87	302.19	368.70	386.34	351.73	470.65
7. Total domestic outstandings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
8. Rest-of-world assets	2.0	2.0	1.9	1.7	1.7	1.6	1.7	1.7	1.7	1.7	1.8	1.8	1.7	1.8

Source: <u>National Balance Sheet</u>, Vol. II, Tables IV-b-16 and IV-b-17.

[a]Common and preferred stock.

TABLE 85

DISTRIBUTION OF HOLDINGS OF COMMON STOCK, 1945-58
(per cent)

	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
1. Nonfarm households	77.7	77.3	77.1	76.9	76.3	76.5	76.2	75.7	75.4	75.0	75.0	75.0	74.6	74.4
2. Nonfinancial corporations	18.2	18.2	18.2	18.2	18.3	18.1	17.9	17.8	17.6	17.4	17.3	17.2	17.0	16.9
3. Finance	4.2	4.5	4.7	4.9	5.5	5.4	5.8	6.5	7.0	7.5	7.7	7.8	8.4	8.7
a. Government insurance and pension funds	0	0	0	0	0	0	0	0	0	0	0	0	0.1	0.1
b. Commercial banks	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0	0	0.1	0
c. Mutual savings banks	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
d. Investment companies	2.0	2.1	2.2	2.2	2.4	2.5	2.8	3.1	3.2	3.5	3.5	3.5	3.6	3.8
e. Life insurance	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6
f. Fire and casualty insurance	1.4	1.4	1.5	1.5	1.7	1.7	1.7	1.7	1.8	1.8	1.7	1.8	1.8	1.7
g. Noninsured pension plans	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.8	1.0	1.2	1.5	1.6	1.9	2.3
h. Other private insurance	0	0	0	0	0	0	0	0	0	0	0	0	0	0
i. Other finance	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1
4. Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
5. Total (billion dollars)	133.20	119.35	117.01	117.54	132.53	163.85	187.58	203.41	201.50	281.72	347.41	364.16	329.69	447.17
Memorandum														
6. Total domestic outstandings (billion dollars)	134.67	120.31	117.83	118.25	133.70	165.54	189.75	205.93	204.15	285.04	351.47	368.63	333.61	452.04
7. Total domestic outstandings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
8. Rest-of-world assets	2.0	2.0	1.9	1.7	1.7	1.6	1.7	1.7	1.7	1.7	1.8	1.8	1.7	1.8

Source: National Balance Sheet, Vol. II, Table IV-b-17.

TABLE 86

DISTRIBUTION OF FLOW OF FUNDS, CORPORATE STOCK, 1946-58
(per cent)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
1. Nonfarm households	71.4	69.0	77.8	54.0	65.7	69.1	58.0	53.1	39.2	52.5	63.5	47.2	42.6
2. Nonfinancial corporations	5.0	4.2	4.6	4.3	4.7	3.9	4.7	4.5	4.8	5.3	4.4	4.7	4.5
3. Finance	23.6	26.8	17.5	41.7	29.6	27.0	37.3	42.5	56.1	42.2	32.1	48.1	52.9
a. Government insurance and pension funds	0	0	1.0	0	0.9	0.7	0.6	1.4	1.3	1.6	0.9	1.7	2.3
b. Commercial banks	-1.5	-1.4	0	-0.5	0	-0.3	0.3	0	0	0.3	0	0.4	0.2
c. Mutual savings banks	0.5	0	0.5	0	0.9	1.6	3.0	3.1	4.5	2.4	0.9	1.5	1.7
d. Investment companies	7.0	7.5	6.2	9.5	5.6	5.9	11.9	12.3	9.6	13.5	13.3	17.0	18.8
e. Life insurance	13.6	7.0	2.1	10.9	13.7	1.6	4.4	3.1	8.6	1.8	0	0.9	1.2
f. Fire and casualty insurance	2.5	6.1	5.2	5.7	5.2	4.9	5.0	6.5	4.8	4.5	3.0	2.6	2.5
g. Noninsured pension plans	4.0	5.6	5.2	6.6	9.4	10.7	12.7	17.8	21.7	18.7	20.2	23.3	25.2
h. Other private insurance	1.0	0.5	0	0.5	0.4	-0.3	0.3	0	0.3	0	-0.2	0	0.2
i. Other finance	-3.5	1.4	-2.6	9.0	-6.4	2.3	-0.8	-1.7	5.4	-0.5	-6.0	0.6	0.8
4. Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
5. Total (billion dollars)	1.99	2.13	1.94	2.11	2.33	3.07	3.62	2.92	3.14	3.79	4.36	4.64	5.16
Memorandum													
6. Total domestic net issues (billion dollars)	1.93	2.00	1.78	2.11	2.31	3.21	3.56	3.03	3.02	3.75	4.51	4.74	4.77
7. Total domestic net issues	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
8. Rest-of-world net purchases	-3.1	-7.5	-7.9	-0.9	0	3.7	0	2.0	4.6	3.5	5.8	3.0	-1.3

Source: National Balance Sheet, Vol. II, Tables VIII-b-16 and VIII-b-17.

TABLE 87

DISTRIBUTION OF FLOW OF FUNDS, COMMON STOCK, 1946-58
(per cent)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
1. Nonfarm households	78.9	68.2	77.8	63.1	76.8	67.1	57.8	59.8	45.4	57.3	55.8	41.6	46.2
2. Nonfinancial corporations	5.0	4.7	5.1	5.0	4.8	4.8	5.1	5.1	5.1	5.1	4.9	5.0	4.9
3. Finance	16.1	27.1	17.1	31.8	18.4	28.1	37.1	35.0	49.5	37.6	39.3	53.4	48.9
a. Government insurance and pension funds	0	0	0.6	0	0.5	0.4	0.3	0.8	0.7	0.8	0.5	0.9	1.3
b. Commercial banks	-1.7	-1.8	0	-0.6	0	-0.4	0.3	0	0	0.3	0	0.5	0.2
c. Mutual savings banks	0.6	0	0.6	0	1.0	2.0	3.5	3.5	5.1	2.4	1.0	1.7	1.9
d. Investment companies	8.3	8.8	6.3	11.2	4.8	5.6	15.2	7.5	8.1	10.8	12.9	21.3	14.1
e. Life insurance	6.7	5.3	0.6	1.7	6.3	4.0	2.2	2.0	2.6	1.6	4.9	1.7	0.4
f. Fire and casualty insurance	2.2	7.6	7.0	3.4	4.3	4.4	3.2	5.5	3.7	4.6	5.4	2.4	3.0
g. Noninsured pension plans	2.8	4.7	5.1	6.1	7.7	9.6	13.0	17.7	23.1	17.7	21.1	24.6	26.7
h. Other private insurance	0.6	0.6	0	0	0.5	0	0.3	0	0.4	0	0	0	0.2
i. Other finance	-3.3	1.8	-3.2	10.1	-6.8	2.4	-1.0	-2.0	5.9	-0.5	-6.4	0.5	1.1
4. Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
5. Total (billion dollars)	1.80	1.70	1.58	1.79	2.07	2.49	3.15	2.54	2.73	3.72	3.89	4.23	4.68
Memorandum													
6. Total domestic net issues (billion dollars)	1.74	1.58	1.44	1.79	2.05	2.61	3.09	2.64	2.59	3.67	4.03	4.33	4.28
7. Total domestic net issues	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
8. Rest-of-world net purchases	-3.4	-8.1	-8.3	-1.1	0	3.8	0	1.9	4.6	3.3	6.2	3.2	-1.6

Source: National Balance Sheet, Vol. II, Table VIII-b-17.

issues of common stock other than investment company issues (nearly one-half) may appear high, it is much lower than the comparable ratios for the other main capital market instruments. Thus financial institutions' net purchases are estimated at 95 per cent of the net issuance of corporate bonds and about 90 per cent of the increase in total residential mortgage debt.

Net purchases of common stock were concentrated in two groups of financial institutions—private pension plans and investment companies—which accounted for more than two-fifths and for about one-third, respectively, of all net institutional purchase of common stock (Table 82). For all other groups of financial institutions, net purchases were moderate in comparison to the size of the market. Thus the net purchases of life insurance and fire and casualty insurance companies each amounted to only a little over $1 billion in thirteen years, i.e., about one-thirteenth and one-ninth of total institutional net purchases and 3 and 5 per cent, respectively, of new offerings of common stock other than investment company securities.

The share of the net purchases of common stock by institutions, however, increased very markedly over the postwar period: it was less than one-fourth of net new common stock issues in Cycle I, rose to one-third in Cycle II, and advanced to over two-fifths in Cycle III. Since financial institutions do not commonly acquire substantial amounts of nonmarketable stock issues or of investment company stocks, a comparison which excludes these two types of issues is more relevant. It then appears that institutional net purchases of common stock were equal to more than two-fifths of total new issues in Cycle I, to one-half in Cycle II, and to about four-fifths in Cycle III.

The predominance of financial institutions as net buyers of marketable common stock other than investment company securities is still more dramatically illustrated by the fact that net noninstitutional absorption of such securities averaged $0.6 billion over the postwar period and it increased from Cycle I to Cycle II but decreased from Cycle II to Cycle III.[21] Noninstitutional investors, apart from their acquisition of considerable amounts of new investment company shares and of nonmarketable stock, thus hardly had any excess of purchases of common stock—newly issued during the postwar period or already outstanding—over sales. If, as is likely, they acquired substantial amounts of new marketable noninvestment-company issues,

[21] This figure includes converted bonds and would be smaller excluding them.

they must on balance have sold almost equally large amounts of outstanding seasoned marketable common stocks to institutions.

On an annual basis, the absorption by the general public of marketable noninvestment-company securities fluctuated substantially. These fluctuations were generally in accordance with the business cycle, showing particularly low values in recession years as can be seen in Table 88. Net purchases varied only between \$0.6 and \$1.0 billion per year from 1947 through 1952. They fell to \$0.3 billion in 1954, but rose sharply to \$0.8 billion in 1955 and \$0.7 billion in 1956. After declining to \$0.2 billion in 1957, the balance became small in 1958, i.e., \$0.04 billion.

The statistics are unfortunately insufficient to break down the residual (new issues of marketable securities less institutional net purchases) into groups of noninstitutional investors. It is known, however, that the \$7 billion of net new issues of investment-company common stock was purchased mainly by individual U.S. investors, and here again largely by investors of moderate means. Most of the unrecorded issues of small and medium-sized corporations, aggregating \$9.5 billion, probably were bought by the same groups of investors, although by active entrepreneurs rather than by salaried employees. Fragmentary information is also available on the net purchases of some groups other than U.S. individuals that are included in the residual of \$8 billion of marketable noninvestment-company common stock. The residual, for instance, includes foreign investors who are estimated to have made net purchases of American common stock of about \$0.4 billion during the postwar period. Also included are nonfinancial corporations, but their estimated net purchases of \$1.8 billion may include substantial amounts of unrecorded or foreign securities. Thus, domestic private investors (still including nonprofit institutions) showed net purchases of marketable noninvestment-company securities of between \$7.5 billion and \$5.5 billion over the entire period, depending upon the proportion of the estimated net purchases of nonfinancial corporations regarded as marketable domestic issues. This balance is further reduced by the net purchases of nonprofit institutions which are not known, but may have been on the order of \$1 to \$2 billion for the entire postwar period. One may thus conclude that from 1946 to 1958 individuals (excluding foreigners) made net purchases of marketable common stock other than investment-company securities of between \$3.5 (lower limit) and \$6.5 billion (upper limit).

Although little is known definitely about net purchases and sales

TABLE 88

ISSUANCE AND ABSORPTION OF COMMON STOCK, 1946-58
(billion dollars)

Year	Recorded Net Issues: Total (1)	Recorded Net Issues: Investment Companies (2)	Recorded Net Issues: Other (3)	Unrecorded Net Issues (4)	Net Purchases by Financial Institutions (5)	Noninstitutional Purchases: All Issues (6)	Noninstitutional Purchases: Marketable Issues: All (7)	Noninstitutional Purchases: Marketable Issues: Excl. Invest. Companies (8)
1946	1.10	0.16	0.94	0.64	0.29	1.51	1.01	0.85
1947	0.94	0.17	0.77	0.64	0.46	1.24	0.72	0.55
1948	0.90	0.14	0.76	0.54	0.27	1.31	0.83	0.69
1949	1.24	0.26	0.98	0.55	0.57	1.22	0.82	0.56
1950	1.46	0.25	1.21	0.59	0.38	1.69	1.24	0.99
1951	2.10	0.40	1.70	0.51	0.70	1.79	1.33	0.93
1952	2.52	0.55	1.97	0.57	1.17	1.98	1.49	0.94
1953	1.99	0.43	1.56	0.65	0.89	1.65	1.12	0.69
1954	1.84	0.46	1.38	0.75	1.35	1.38	0.77	0.31
1955	2.64	0.76	1.88	1.03	1.40	2.32	1.59	0.83
1956	2.99	0.91	2.08	1.04	1.53	2.36	1.60	0.69
1957	3.31	0.98	2.33	1.02	2.26	1.97	1.21	0.23
1958	3.24	1.50	1.74	1.04	2.29	2.39	1.54	0.04
Average								
1946-49	1.00	0.17	0.83	0.59	0.39	1.30	0.82	0.65
1949-54	1.92	0.40	1.52	0.59	0.82	1.68	1.20	0.80
1954-58	2.87	0.91	1.96	1.00	1.75	2.13	1.39	0.48
1946-58	2.02	0.54	1.49	0.74	1.04	1.75	1.17	0.63

Source: National Balance Sheet, Vol. II.
Col. 1: Table IV-b-17a, line 10, minus col. 4 of this table.
Col. 2: Table VIII-d-1, line 5f.
Col. 3: Col. 1 minus col. 2 of this table.
Col. 4: Table IV-b-17a, sum of lines 5, 7, 8, and 9, minus line 6.
Col. 5: Table VIII-b-17, line 5.
Col. 6: Table VIII-b-17, line 8, minus col. 5 of this table.
Col. 7: Col. 6 minus Table IV-b-17a, line 9.
Col. 8: Col. 7 minus col. 2 of this table.

of common stock, and hence shifts of holdings, among groups of individual U.S. investors, there are some indications that investors of moderate means and in the younger-age groups made net acquisitions while large and older investors had either no net purchase balance or a net sales balance. One of these indicators is a considerable increase in the number of individuals who own common stock, from six to twelve million from 1952 to 1959.[22] The average holdings as of 1958 of these additional six million shareholders were undoubtedly quite small and their aggregate holdings represented only a small fraction —around 5 per cent—of total stocks outstanding.

A second, and regularly available, indicator is the purchase or sales balance in odd lots on the New York Stock Exchange which suggests a shift from larger to smaller holdings. From 1946 through 1958, the aggregate odd lot purchase balance amounted to about $3 billion,[23] i.e., about 1 per cent [24] of the value of all listed stock.

Another indication arguing against far-reaching changes in the distribution of share ownership, and hence against large-scale net sales from large to small shareholders, is the similarity in the distribution, measured by the Lorenz curves, of dividends reported on individual tax returns at the beginning and end of the postwar period. The top 600,000 shareholders in 1946—estimated to account for over 10 per cent —reported 83 per cent of all dividend receipts declared in that year. In 1956 the 600,000 top dividend recipients accounted for 80 per cent of all recorded dividends, while the number then corresponding to one-tenth of the estimated number of shareholders—1,200,000—reported 90 per cent of all dividends declared in individuals' tax returns. It took only 168,000 additional tax returns in 1958 [25] to reach the 1946 ratio (83 per cent) of the top 600,000 shareholders reporting dividend income on personal income tax returns.

Although some net sales from wealthy and older investors to younger and lower income and wealth groups is likely, the shift in-

[22] *New York Stock Exchange Fact Book, 1960,* p. 27.

[23] *Ibid.,* pp. 44–45.

[24] *25th Annual Report,* SEC, p. 63.

[25] The figures in the text refer to the dividends of top shareholders as a percentage of all dividends declared on individual tax returns (*Statistics of Income: Individual Income Tax Returns,* 1946, p. 152; 1956, p. 37; 1958, p. 44). The estimate of top shareowners was taken from *Shareownership in America, 1959,* New York Stock Exchange, p. 6, and Lewis H. Kimmel, *Shareownership in the United States,* Washington, 1952, p. 90. The 1946 figure is a rough estimate. The New York Stock Exchange figures for top shareowners were used in order to adjust for the low estimate of the number of shareholders as reported in the *Statistics of Income.*

volved is probably moderate compared with the total value of total stock outstanding and is not likely to change the degree of concentration of ownership of common stock substantially. Both in 1958 and in 1945, a very large proportion of all common stock was in the hands of a relatively small proportion of families.[26]

More definite conclusions about net flows among individual stockholder groups are not yet possible, since even now there is no direct, reliable, and comprehensive information on the net balance of stock transactions by groups of individual investors; such information is, of course, virtually absent for earlier parts of the period. Estimates of the distribution of the value of stockholdings at different dates within the period are only of limited significance in inferring the net currents of net purchases and sales among groups of individuals because of the possibility of systematic differences in the price experience of different investor groups.

THE POSITION OF COMMON STOCK IN THE PORTFOLIOS OF INVESTOR GROUPS

Between 1945 and 1958 the ratio of the value of common stock to the value of national assets (the combined footing of the balance sheets of all economic units, private and governmental) increased from 9 to 12 per cent. This rise, of course, was due exclusively to the sharp increase in the price of common stock, since the rate of growth of common stock (defined as the ratio of net flow to the average value of the stock) was smaller than that of almost all other main tangible and financial assets. The advance was even more pronounced in relation to all financial assets: from 14 per cent in 1945 to 21 per cent in 1958. Table 89 shows the movements of the share of all corporate stock in the total assets of various investor groups for each year of the period. Table 90 provides the same information for common stock. The increase is found to have been considerably more pronounced for financial institutions than for households, where it reflected exclusively the effect of rising stock prices.

The near quadrupling of the share of common stocks among the assets of financial institutions from 1.6 to 5.6 per cent, on the other hand, was the combined result of net purchases and the rise in stock prices. The rise in the share was most pronounced for trusteed pen-

[26] Cf. Robert J. Lampman, *The Share of Top Wealth-Holders in National Wealth, 1922–56,* Princeton for NBER, 1962, Chapter 6.

TABLE 89

SHARE OF CORPORATE STOCK IN ASSETS OF EACH SECTOR, 1945-58
(per cent)

	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
1. Nonfarm households	17.9	14.8	13.1	12.4	13.4	14.6	15.3	15.5	14.7	18.4	20.4	20.0	17.7	21.4
2. Nonfinancial corporations	11.0	8.8	7.4	6.8	7.4	7.6	7.7	7.8	7.4	9.3	10.2	9.7	8.2	10.3
3. Finance	2.1	2.1	2.0	2.0	2.4	2.7	3.0	3.3	3.4	4.5	5.1	5.1	4.8	6.2
a. Government insurance and pension funds	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.8
b. Commercial banks	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
c. Mutual savings banks	0.8	0.8	0.8	0.8	0.7	0.8	1.0	1.3	1.6	1.9	2.1	2.1	2.2	2.3
d. Investment companies	79.9	79.1	78.0	78.0	80.1	81.1	83.4	84.8	84.7	88.2	88.2	87.8	86.2	88.4
e. Life insurance	2.2	2.6	2.7	2.6	2.8	3.2	3.2	3.3	3.2	3.8	4.0	3.6	3.3	3.8
f. Fire and casualty insurance	31.4	28.7	25.6	23.4	24.8	26.0	26.7	26.9	25.5	29.7	31.6	31.8	29.0	32.5
g. Noninsured pension plans	10.8	11.3	12.2	12.7	13.7	15.1	17.8	20.6	21.4	27.8	32.6	32.9	31.6	38.8
h. Other private insurance	2.6	3.3	3.5	3.3	3.4	3.8	3.4	3.3	3.1	3.3	3.1	3.0	2.7	3.2
i. Other finance	4.4	4.2	5.4	4.4	6.7	4.4	5.5	5.8	4.7	6.7	6.6	4.3	6.3	3.9
4. Total	9.6	8.1	7.1	6.7	7.3	8.0	8.3	8.5	8.2	10.4	11.7	11.5	10.0	12.5

Source: National Balance Sheet, Vol. II, Tables III-1, III-4, III-5, 5b, 5c, 5d, 5f, 5h, 5i, 5j, 5k, 5m; line 4 from Table I.

TABLE 90

SHARE OF COMMON STOCK IN ASSETS OF EACH SECTOR, 1945-58
(per cent)

	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
1. Nonfarm households	16.6	13.6	12.0	11.3	12.3	13.6	14.4	14.6	13.9	17.6	19.7	19.3	16.9	20.8
2. Nonfinancial corporations	9.6	7.6	6.4	5.8	6.4	6.8	7.0	7.1	6.7	8.7	9.6	9.2	7.8	9.9
3. Finance	1.6	1.5	1.5	1.5	1.8	2.0	2.4	2.7	2.7	3.8	4.5	4.5	4.2	5.6
a. Government insurance and pension funds	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.4
b. Commercial banks	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
c. Mutual savings banks	0.8	0.8	0.8	0.8	0.7	0.8	1.0	1.3	1.6	1.9	2.1	2.1	2.2	2.3
d. Investment companies	73.0	72.3	71.0	70.5	74.0	75.5	78.2	81.1	79.1	83.5	83.7	83.0	81.9	83.9
e. Life insurance	0.4	0.6	0.7	0.7	0.8	1.0	1.2	1.3	1.3	1.8	2.1	2.0	1.8	2.3
f. Fire and casualty insurance	23.7	21.3	19.1	17.7	19.3	20.8	21.7	21.9	20.6	25.2	27.5	28.2	25.4	29.3
g. Noninsured pension plans	7.3	7.5	8.3	8.7	9.7	10.8	13.3	16.3	17.2	24.1	29.2	29.7	28.5	36.2
h. Other private insurance	0.5	0.8	1.0	0.9	1.0	1.3	1.3	1.4	1.4	1.7	1.8	1.8	1.6	2.1
i. Other finance	4.1	4.0	5.2	4.2	6.4	4.3	5.2	5.5	4.4	6.4	6.3	4.1	6.1	3.7
4. Total	8.7	7.2	6.4	6.0	6.6	7.3	7.7	7.9	7.5	9.9	11.2	11.0	9.5	12.0

Source: National Balance Sheet, Vol. II, Tables III-1, III-4, III-5, 5b, 5c, 5d, 5f, 5h, 5i, 5j, 5k, 5m; line 4 from Table I.

sion funds. It was also substantial relative to the initial level, although still small relative to total assets, for life insurance companies, government insurance funds, fraternal orders, and mutual savings banks. The increase was small for investment companies and fire and casualty insurance companies, two groups which always have kept a large proportion of their assets in common stock.

More relevant is the share of net purchases of stock in total uses of funds which can be followed in Table 91 (all corporate stock) and in Table 92 (common stock) for each year and for each major investor group. For nonfarm households, net purchases of common stock—including investment company and unrecorded issues—averaged 2½ per cent of total uses of funds a year; if limited to marketable common stock, they are reduced to 1.6 per cent. If investment company issues are also excluded, the ratio is further lowered to 0.8 per cent. Few differences are found in the movements of this ratio between cycles, or from year to year in response to the business cycle situation; nor is there clear evidence of the effects of stock price movements.

Another way to visualize the relative importance of common stocks is to compare net purchases with individuals' saving.[27] For the period 1946–58, aggregate net purchases of common stock of all types represented 3.1 per cent of total nonfarm households' saving; net purchases of marketable common stock alone were equivalent to 2.0 per cent of individuals' savings. Exclusion of investment company stock reduces the share to 1.0 per cent. Net purchases of common stock, of whichever scope, thus constituted only a minor outlet for current saving for all individuals taken together.[28] The situation is quite different if the comparison is limited to saving through financial assets. In this case, the ratios are 17 per cent of aggregate financial saving for all common stock, 11 per cent for marketable common stock, and 5 per cent for marketable common stock other than investment company securities. Common stocks were undoubtedly a more important outlet for the saving of some groups of individuals, particularly middle- and upper-income and younger- and middle-aged groups. There is, unfortunately, no material that would enable us to measure these differences reliably.

In the case of financial institutions, the share of net purchases of

[27] *National Balance Sheet,* Vol. II, Table VII-1.

[28] This statement would not be correct if savings were defined to include realized or both realized and unrealized net capital gains. These gains, however, are excluded from all statistics of current saving.

TABLE 91

SHARE OF NET PURCHASES OF CORPORATE STOCK IN TOTAL NET USES OF FUNDS OF SECTORS, 1946-58
(per cent)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
1. Nonfarm households	3.7	3.5	3.6	2.7	2.8	3.6	3.2	2.2	1.8	2.3	3.2	2.6	2.6
2. Nonfinancial corporations	0.4	0.3	0.3	0.5	0.2	0.3	0.5	0.4	0.5	0.4	0.4	0.5	0.6
3. Finance	29.4	2.4	2.0	7.1	2.7	2.9	4.2	4.9	6.0	4.4	4.7	7.7	7.2
a. Government insurance and pension funds	0	0	0.6	0	1.5	0.5	0.5	1.2	1.5	1.9	1.1	2.8	9.8
b. Commercial banks	0.3	-0.5	0	-0.3	0	-0.1	0.1	0	0	0.1	0	0.4	0.1
c. Mutual savings banks	0.6	0	1.0	0	2.2	5.1	6.2	4.7	6.5	4.5	2.0	3.8	3.4
d. Investment companies	116.7	76.2	75.0	76.9	46.4	72.0	82.7	85.7	68.2	60.0	81.7	83.2	72.9
e. Life insurance	7.3	4.2	1.1	5.8	7.4	1.2	3.2	1.7	5.0	1.2	0	0.7	1.1
f. Fire and casualty insurance	8.3	10.9	8.8	10.8	12.4	15.3	13.5	12.9	12.9	16.8	21.0	12.4	11.8
g. Noninsured pension plans	13.7	17.1	15.3	20.2	22.3	22.5	28.5	26.6	33.2	34.4	33.6	37.5	42.5
h. Other private insurance	16.7	5.6	1.0	6.4	8.3	-2.7	3.3	0	6.3	-0.4	0.6	0	3.3
i. Other finance	3.9	-3.7	-8.5	32.8	-20.8	700.0	-7.5	-12.2	9.9	-10.0	650.0	4.5	2.4
4. Total	3.4	1.7	1.7	2.4	1.4	1.9	2.4	1.9	2.0	1.8	2.2	2.4	2.6

Source: National Balance Sheet, Vol. II, Tables VII-1, VII-4, VII-5, 5b, 5c, 5d, 5f, 5h, 5i, 5j, 5k, 5m; line 4 from Table V.

TABLE 92

SHARE OF NET PURCHASES OF COMMON STOCK IN TOTAL
NET USES OF FUNDS OF SECTORS, 1946-58
(per cent)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
1. Nonfarm households	3.7	2.8	2.9	2.7	2.9	2.8	2.8	2.2	1.8	2.5	2.5	2.1	2.5
2. Nonfinancial corporations	0.4	0.2	0.3	0.5	0.2	0.3	0.5	0.4	0.4	0.3	0.4	0.4	0.6
3. Finance	18.1	1.9	1.6	4.7	1.5	2.4	3.6	3.6	4.6	3.8	5.1	7.8	6.1
a. Government insurance and pension funds	0	0	0.3	0	0.8	0.2	0.2	0.6	0.7	0.9	0.6	1.4	4.9
b. Commercial banks	0.3	-0.5	0	-0.3	0	-0.1	0.1	0	0	0.1	0	0.4	0.1
c. Mutual savings banks	0.6	0	1.0	0	2.2	5.1	6.2	4.7	6.5	4.5	2.0	3.8	3.4
d. Investment companies	125.0	71.4	62.5	76.9	35.7	56.0	92.3	45.2	50.0	47.1	70.4	94.7	49.6
e. Life insurance	3.2	2.5	0.3	0.8	3.0	2.4	1.4	1.0	1.3	1.1	3.3	1.3	0.4
f. Fire and casualty insurance	6.7	10.9	9.7	5.4	9.3	11.2	7.5	9.5	8.6	16.8	33.9	10.3	12.7
g. Noninsured pension plans	8.6	12.1	11.6	15.5	16.7	16.4	24.9	23.4	30.4	32.0	31.3	36.1	40.9
h. Other private insurance	5.6	4.0	1.0	2.8	4.5	2.7	3.3	1.1	6.3	1.7	2.3	9.1	2.5
i. Other finance	3.3	-3.7	-8.5	31.0	-19.4	600.0	-7.5	-12.2	9.4	-10.0	625.0	3.0	3.0
4. Total	3.1	1.4	1.4	2.0	1.3	1.5	2.1	1.7	1.7	1.8	2.0	2.2	2.3

Source: National Balance Sheet, Vol. II, Tables VII-1, VII-4, VII-5, 5b, 5c, 5d, 5f, 5h, 5i, 5j, 5k, 5m; line 4 from Table V.

common stock in total uses of funds shows a considerable increase over the period, if the exceptional value of 1946 is ignored (see Table 92). The increase is most spectacular in trusteed pension funds. A substantial but very irregular increase can also be observed in the case of mutual savings banks. In addition to the trend among these two groups, there appears a tendency to increase the share of common stocks in total uses of funds beginning with 1956. This probably reflects a change in the basic investment policies of many financial institutions, namely the increasing acceptance of common stock (at least those of large seasoned companies) as a substantial element in the portfolio. For most institutions, however, this change in policy was still in its initial stages at the end of the period under study. Liberalization of investment regulations for financial institutions in several states, particularly New York, was another factor.

Historical Background

The main differences in the characteristics of the market for common stock between the postwar period and the forty years preceding World War II are summarized in the following paragraphs. The comparison is primarily between the postwar period, on the one hand, and the 1920's and the interval between the turn of the century and World War I, on the other. Because of the nature of the statistics, most of the quantitative data refer to common and preferred stock combined.

1. While the volume of corporate stock outstanding and of the trading in common stock increased greatly, the basic structure of the market, particularly the division between the exchange and the over-the-counter market, remained basically the same before World War II and the postwar period. There is, however, some evidence that the relative importance of the over-the-counter market was smaller in earlier periods.[29]

2. Common stocks accounted for at least four-fifths of the total value of all corporate stock throughout the prewar period and their share rose to between 85 and 90 per cent in the 1920's. The market for preferred stocks thus was relatively more important in earlier periods.[30]

[29] See Friend, *The Over-the-Counter Securities Market,* p. 109.

[30] Raymond W. Goldsmith, *Supplementary Appendixes to Financial Intermediaries Since 1900,* New York, NBER, 1958, p. F-29.

TABLE 93

STOCK PRICES AND YIELDS, 1946-58

	Prices (1957-59 = 100)		Price Changes (per cent)		Earning-Price Ratio (per cent)	Dividend Yield (per cent)	Corporation Profits (billion dollars)	Corporation Dividends (billion dollars)	Stock Trading	
	Beginning of Year (1)	Average (2)	Year to Year (3)	Average (4)	(5)	(6)	(7)	(8)	Shares (millions) (9)	Value (billion dollars) (10)
1946	41.0	40.1			5.7	3.97	13.4	5.8	63.0	1.6
1947	35.6	35.1	-13	-12	10.7	5.13	18.2	6.5	39.5	1.0
1948	34.7	35.6	-3	1	14.5	5.78	20.5	7.2	45.0	1.1
1949	34.4	34.3	-1	-4	15.1	6.63	16.0	7.5	39.8	.9
1950	37.6	41.4	9	21	15.1	6.27	22.8	9.2	71.4	1.8
1951	45.9	49.6	22	20	10.8	6.12	19.7	9.0	65.5	1.8
1952	51.8	52.3	13	5	9.6	5.50	17.2	9.0	52.2	1.4
1953	54.8	51.9	6	-1	10.3	5.49	18.1	9.2	52.8	1.4
1954	52.6	61.7	-4	19	8.9	4.78	16.8	9.8	82.8	2.3
1955	72.2	81.8	37	33	8.7	4.06	23.0	11.2	101.0	3.2
1956	88.4	92.6	22	13	7.1	4.07	23.5	12.1	90.3	2.9
1957	91.5	89.8	4	-3	7.8	4.33	22.3	12.6	89.2	2.7
1958	82.0	93.2	-10	4	6.0	4.05	19.1	12.4	108.9	3.2
Averages										
1946-49	36.0	36.0			11.9	5.40	17.8	6.8	45.3	1.1
1949-54	46.7	48.6	7	8	11.6	5.82	18.8	9.0	60.6	1.6
1954-58	79.8	85.4	13	13	7.8	4.22	21.7	11.8	94.1	2.9
1946-58	55.6	58.4			10.0	5.09	19.3	9.3	69.3	1.9

Source

Cols. 1-2: Securities and Exchange Commission Stock Price Index (Nov. 1, 1960). Index refers to weekly closing prices of 300 common stock issues listed on the N. Y. Stock Exchange; prices weighted by number of outstanding shares, pp. 26-29.
Cols. 3-4: Derived from cols. 1 and 2.
Col. 5: Standard and Poor's Trade and Securities Statistics, Security price index record, 1962 ed., p. 114.
Col. 6: Business Statistics, 1959 Edition, p. 103. Figures refer to 200 stocks.
Cols. 7-8: Economic Report of the President, January, 1961, p. 192. Figures taken from tax returns refer to all corporations.
Cols. 9-10: Business Statistics, 1959 Edition, p. 105. Figures refer to all registered exchanges.

3. There was a radical shift in the distribution of corporate stock by industry which can be followed in Table 94: a sharp decline in the share of railroad stocks and a less pronounced fall in that of the stock of commercial banks, offset by increases in the shares of manufacturing companies, investment companies, and to a lesser extent public utilities. These differences, however, arise primarily in comparing the postwar period with the decade before World War I, and are much less pronounced in comparing the postwar period with the 1920's and 1930's.

TABLE 94

DISTRIBUTION OF MARKET VALUE OF CORPORATE STOCK BY MAJOR INDUSTRIES, 1900-58
(per cent)

	1900 (1)	1912 (2)	1922 (3)	1929 (4)	1933 (5)	1939 (6)	1945 (7)	1958 (8)
1. Railroads	39	26	10	6	5	4	4	2
2. Public utilities	7	7	5	11	10	12	9	12
3. Commercial banks	18	14	14	9	4	6	6	5
4. Investment companies			0	1	1	1	2	5
5. Other	36	53	71	73	80	77	79	76
6. Total	100	100	100	100	100	100	100	100
7. Total (billion dollars)	14	37	68	178	74	95	147	458

Source: Col. 1-7 from Goldsmith, Supplementary Appendixes, pp. F-18 and F-29; col. 8, rough estimates.

4. Excluding the late 1920's, the relation of the value of corporate stock to total national assets varied little, notwithstanding very pronounced changes in the size of the national economy, the price level, and the financial structure. The value of corporate stock was equal to less than one-tenth of total national assets in 1900, and about one-eighth in the periods immediately before World War I and World War II. As a result of the war (the substantial increase of U.S. government bond holdings), the share of corporate stock in total assets declined to one-tenth of all assets. During the 1950's the increase in the price of stocks raised their share in national assets, so that in 1958 they amounted to one-eighth of national assets (see Table 96).

5. Whether the role of corporate stock in financing corporations changed is probably the most important problem, but also the most difficult to answer. Using the only comprehensive although rough estimates available (see Table 37), it appears that the postwar share of stock in financing nonfinancial corporations of 7 per cent of total net sources was considerably lower than the figures for the period before

1929: 14 per cent for 1901–12, 11 per cent for 1913–22, 19 per cent for 1922–29, and 9 per cent even for 1934–39. In proportion to external financing, the postwar ratio of 15 per cent was as much below the predepression rates of 31 per cent for 1901–12, and 43 per cent for 1923–29. Finally, the postwar ratio of stock financing to long-term debt financing was also considerably below the predepression rates, particularly those for 1923–29 when common stock financing almost equaled long-term debt financing in size. For all nonfinancial corporations taken together, stock financing thus lost considerably in importance, although less for common stock alone than for total stock financing. This reduction is partly the result of the shift of stock issues toward industries using less external financing, particularly manufacturing. This shift, however, does not explain the decline of common stock in external financing. Here the provision of the tax law, which permits the deduction of debt interest but not of dividends from taxable corporate income, may have provided an incentive for corporate management to shift external financing as far as possible to debt issues.

The changes in the role of stock in internal and external financing can be followed only for a few main industries. In the electric light and power industry, for example, stock issues provided between one-third and one-half of total financing in the prewar period [31] against about one-seventh in 1950–55.[32] In manufacturing and mining, the postwar share of stock financing of 6 per cent in 1946–53 (the denominator here excludes short-term debt) is well below the predepression ratio of one-fifth for 1919–29 and one-seventh for 1900–14.[33] There thus was a genuine decline, not explained by a change in the share of different industries in total financing, in the proportion of stock issues in total or in external financing. Hence the demand for stock financing increased less than the total financial requirements of corporate business.

6. Notwithstanding the well-known increase in the institutional holdings of common stock during the postwar period, the changes in the division of total stock outstanding among institutions and individual investors have not been striking as Table 95 and Chart 23

[31] Melville J. Ulmer, *Capital in Transportation, Communications, and Public Utilities,* Princeton for NBER, 1960, p. 151.

[32] David Meiselman and Eli Shapiro, *The Measurement of Corporate Sources and Uses of Funds,* Technical Paper 18, New York, NBER, 1964, Table 9.

[33] David Creamer, Sergei Dobrovolsky, and Israel Borenstein, *Capital in Manufacturing and Mining,* Princeton for NBER, 1960, pp. 121 and 331.

TABLE 95

DISTRIBUTION OF CORPORATE STOCK AMONG HOLDER GROUPS, 1900-53
(per cent)

	1958 (1)	1945A (2)	1945B (3)	1939 (4)	1929 (5)	1912 (6)	1900 (7)
1. Nonfarm households	73.7	76.1	76.8	73.1	74.1	79.3	77.0
2. Nonfinancial corporations	17.0	18.9	18.7	21.9	22.7	18.8	20.3
3. Federal government	0	0	0.2	0.6	0	0	0
4. Financial institutions, total	9.3	5.0	4.3	4.4	3.3	1.9	2.7
a. Commercial banks	0	0.2	0.2	0.6	0.6	0.7	0.7
b. Mutual savings banks	0.2	0.1	0.1	0.1	0	0.1	0.3
c. Investment companies	3.9	2.0	1.3	1.2	1.2		
d. Life insurance companies	0.9	0.7	0.7	0.6	0.2	0.2	0.4
e. Noninsured pension plans	2.3	0.2	0.2	0.2	0.1		
f. Fire and casualty insurance	1.8	1.6	1.6	1.5	0.8	0.6	0.9
g. Other private insurance	0	0	0	0	0	0	0
h. Government insurance and pension funds	0.1	0	0	0	0		
i. Finance companies	0	0	0.2	0	0	0	
j. Brokers and dealers[a]	0.1	0.2	0.1	0.1	0.3	0.3	0.4
5. Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
6. Total (billion dollars)	465.4	146.6	150.8	100.1	186.7	38.0	13.9

Source: National Balance Sheet, Vol. II; cols. 1-2 from Table IV-b-16 and IV-b-17; cols. 3-7 from Table IV-b-17b.

Note: The sum of components may not add up to total because of rounding.

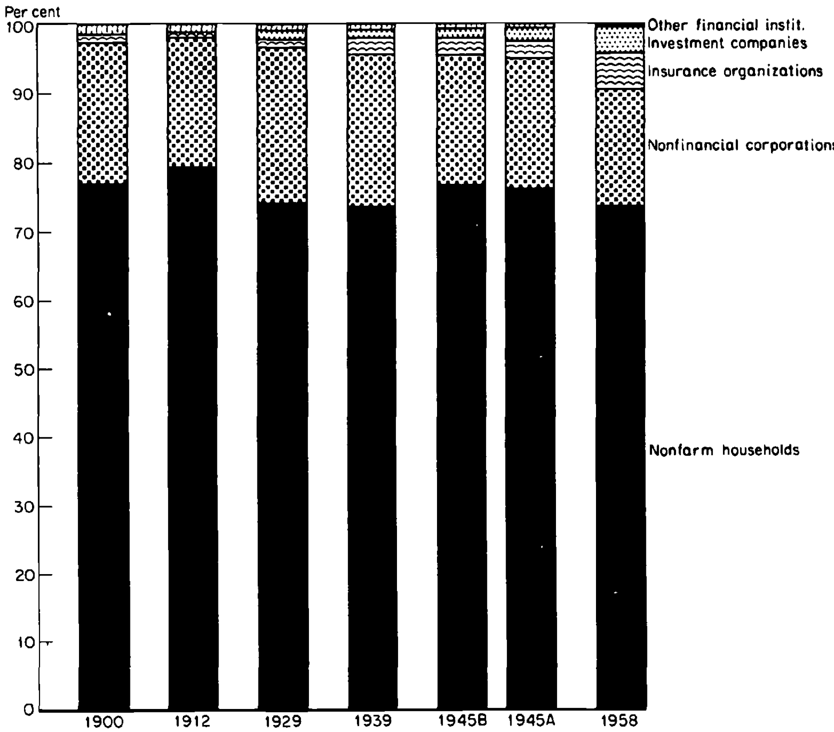
[a]Cols. 1 and 2 include both incorporated and unincorporated brokers and dealers. Cols. 3-7 include unincorporated only.

See note to Table 55.

show. The share of individual investors of three-fourths is still the same as it was, with only minor fluctuations, in the half century before 1945. The postwar share of financial institutions was higher than in any earlier period.

CHART 23

DISTRIBUTION OF CORPORATE STOCK AMONG MAIN HOLDER GROUPS, 1900–58



Source: Table 95.

7. More significant are changes in the share of corporate stock in the total assets of the main investor groups (see Table 96 and Chart 24). For households, the postwar level of about one-sixth is lower than the 30 per cent of 1929 when stock prices were extraordinarily high, and the 25 per cent of 1912, but it is very similar to the level of 1939 or of 1900.

8. For all financial institutions together, the share of stock in total

TABLE 96

SHARE OF CORPORATE STOCK IN TOTAL ASSETS OF HOLDER GROUPS, 1900-58
(per cent)

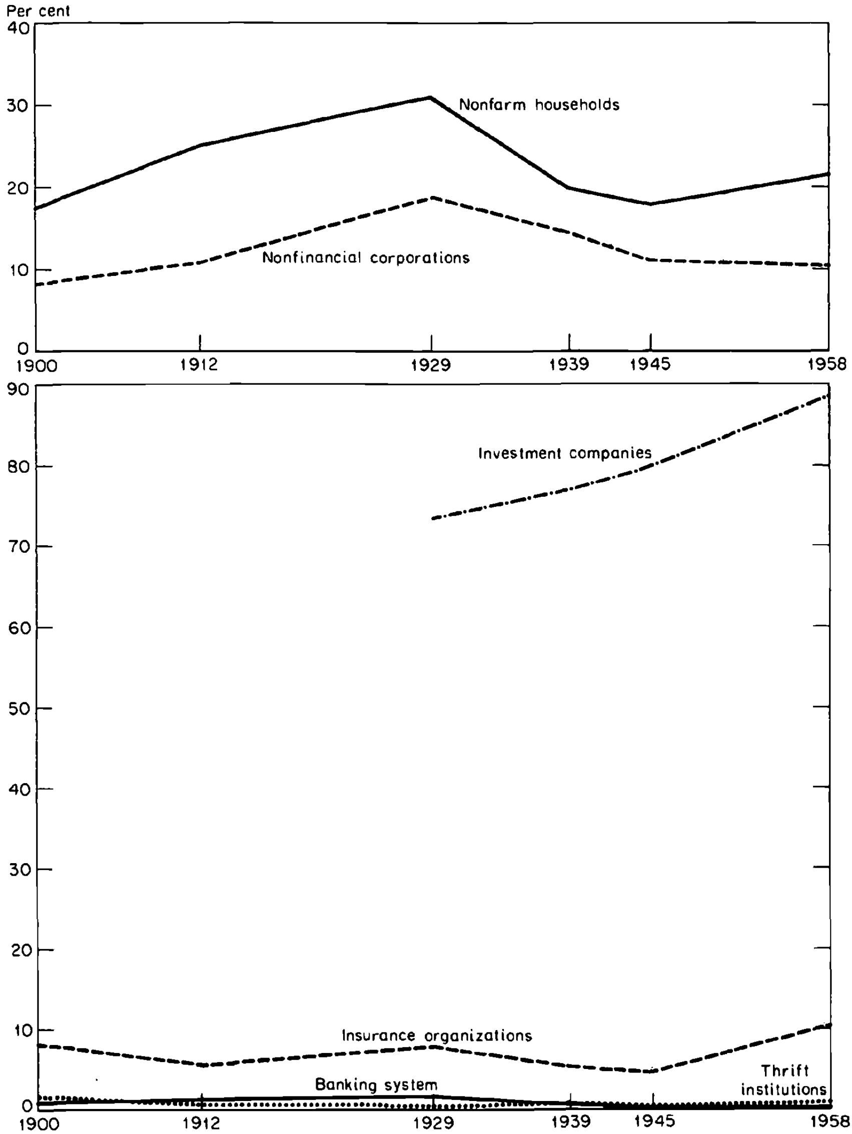
	1958 (1)	1945A (2)	1945B (3)	1939 (4)	1929 (5)	1912 (6)	1900 (7)
1. Nonfarm households	21.4	17.9	18.2	19.7	30.9	24.9	17.4
2. Nonfinancial corporations	10.3	11.0	12.1	14.3	18.6	10.8	8.1
3. Federal government	0	0	0.4	2.2	0	0.1	0
4. Financial institutions, total	6.2	2.1	1.9	2.5	4.6	2.1	2.2
a. Commercial banks	0.1	0.1	0.2	0.9	1.8	1.3	1.0
b. Mutual savings banks	2.3	0.8	1.0	1.1	0.8	1.0	1.8
c. Investment companies	88.4	79.9	75.9	76.8	73.3		
d. Life insurance companies	3.8	2.2	2.2	1.9	2.0	1.9	3.6
e. Other private insurance	3.2	2.6	2.5	1.0	0	0	0
f. Fire and casualty insurance	32.5	31.4	31.1	29.9	32.0	23.0	25.0
g. Noninsured pension plans	38.8	10.8	12.0	20.0	20.0		
h. Government insurance and pension funds	0.8	0.2	0	0	0		
i. Finance companies	0	0	0	0	0.6	0	
j. Brokers and dealers[a]	5.7	5.9	8.0	10.0	8.6	10.0	9.1
5. Total	12.5	9.6	9.9	11.6	19.2	12.4	8.9

Source: National Balance Sheet, Vol. II, unless otherwise specified.
Lines 1-4: Tables I and Ia.
Lines 4a-4i, cols. 1-2: Tables III-5a through III-5ℓ.
Lines 4a-4i, cols. 3-7: Numerators from Table IV-b-17b, and denominators from Financial Intermediaries, total assets in Tables A-3, A-4, A-5, A-21, A-8, A-9, A-14, A-12, A-13, A-10, A-11, and total assets in Tables A-25, A-26, A-27, A-28 (total assets of mortgage companies only).
Line 4j: Table III-5m-1 and Study of Saving, Vol. III, Table W-37.
Line 5: Tables I and Ia.

[a]Cols. 1-2 include both incorporated and unincorporated brokers and dealers. Cols. 3-7 include only unincorporated brokers and dealers.
See note to Table 55.

CHART 24

SHARE OF CORPORATE STOCK IN TOTAL ASSETS OF MAIN HOLDER GROUPS, 1900–58



Source: Table 96.

assets just after the war was the same as at earlier benchmark dates. After 1948 it began to rise, reaching levels in the late 1950's that were considerably higher than even 1929. Even in 1958, however, the share of corporate stock in total assets was considerably above the prewar level only for pension funds and "other private insurance" (primarily fraternal organizations); it also increased somewhat for investment companies and mutual savings banks, but was not particularly high for life insurance and fire and casualty insurance companies. In the case of commercial banks, it was even lower than in the predepression period.

9. There is only indirect evidence on the trend of the distribution of stock ownership, and that is far from reliable. The share of the top 1 per cent of adults in total holdings of corporate stock has been estimated, mainly on the basis of estate tax returns, to have remained fairly stable at around two-thirds from 1922 to 1949, but to have risen to three-fourths in 1953.[34] This would indicate an increase in the concentration of stockholdings rather than the opposite, even if there should have been some reversal of the movement in the second half of the 1950's when the total number of stockholders increased substantially.

10. The share of stocks in the saving of individuals in the postwar period was considerably below the pre-1929 levels. For 1946–58 this share was 3.4 per cent (including investment company and unrecorded nonmarketable stock issues),[35] compared to ratios of one-fifth to one-fourth for the three predepression periods of 1897–1908, 1909–14, and 1922–29.[36] The decline in the share of stocks in individuals' total saving is more pronounced if both investment company and nonmarketable small issues are excluded, i.e., if the comparison is limited to publicly offered and traded noninvestment company securities. On that basis, the share of stock in individuals' total saving is 1.3 per cent,[37] against a ratio of 17 per cent before 1929 (1923–29).[38]

[34] Robert J. Lampman, *Changes in the Share of Wealth Held by Top Wealth-Holders, 1922–1956*, Occasional Paper 71, New York, NBER, 1960, p. 26.

[35] *National Balance Sheet,* Vol. II, Table VII-1.

[36] *A Study of Saving,* Vol. I, Tables V-1 and T-8.

[37] *National Balance Sheet,* Tables VIII-b-16 and VIII-b-17; and Table 88 (of this book).

[38] *A Study of Saving,* Vol. I. Numerator: Table T-8, col. 18, less the sum of Table V-17, cols. 12 and 13, and Table V-19, cols. 14 and 17. Denominator: Table T-8, col. 1.