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CHAPTER IV

A CENTURY OF GROWTH OF FINANCIAL INTERMEDIARIES, 1850 TO 1952

1. *Purpose and Scope of Chapter*

The purpose of this chapter is to provide, on a quantitative basis wherever possible, a survey of the growth of financial intermediaries during the last century. Changes in the structure of assets and liabilities are not dealt with here since they will be discussed in Chapter VI. It should be borne in mind that this is a survey and not an exhaustive discussion; that it is centered not on developments specific to individual groups of financial intermediaries but on comparisons between groups of financial intermediaries and on features common to them; and that the discussion is essentially limited to aspects amenable to quantitative expression. For these reasons many of the topics commonly treated in historical and descriptive works in the field are omitted entirely or treated casually, particularly changes in the laws affecting financial institutions, developments of credit instruments and techniques, questions of internal administration, and characteristics and psychology of leading entrepreneurs.

The growth of financial intermediaries is reflected in two measurable characteristics. One is the dollar volume of funds administered; the other the number of enterprises, offices and employees. In both cases the trend of the absolute figures alone is of limited interest. Changes in the absolute figures must be related to relevant national totals. This means, in the case of funds administered, reduction to per head figures, adjustment for changes in the purchasing power of money, and comparison with national assets. It means, for the quantitative characteristics of organization, relation to the total number of business enterprises and to the labor force. These two aspects of the growth of financial intermediaries as a group will be discussed in section 2, except that the comparison of the assets of financial intermediaries with aggregate national assets and with national wealth is postponed until Chapter IX.

For an adequate understanding of the growth of aggregate assets of all financial intermediaries, it is necessary to compare the rate of growth of different groups of financial intermediaries and to determine changes in their share in total resources of financial intermediaries. This will be done in section 3. It is also necessary to estimate the extent to which the resources of each branch have been concentrated in a small number of institutions or diffused more widely among them, both nationally and in local financial centers. This topic, which unfortunately has acquired emotional connotations, is dealt with in Appendix C. The regional distribution of financial intermediaries must be considered; that is, the question whether financial intermediaries are spread over the territory of the United States more or less in the same way as population or national income, or whether they are significantly concentrated in certain localities or regions. This question could be asked with respect to the distribution of the headquarters of financial intermediaries or of all their offices; the distribution of sources of funds; or the allocation of funds employed, i.e. loans made and securities held. Although satisfactory answers to the last question cannot be given, the first two will be dealt with in Chapter V.

Developments since the turn of the century are emphasized in this chapter. Two considerations led to that limitation: the paucity of statistical information available before 1900, and the fact that a number of current groups of financial intermediaries did not then exist or were insignificant. The main trends in the growth of financial intermediaries are nevertheless traced back to 1850 as well as they can be with the deficient statistical material. This year seemed the earliest date to which such an investigation could or should be extended. At that time, territorial expansion on the mainland of the United States had about been completed; the railroad age was still in its youth; and only three types of financial intermediaries were reasonably well developed—commercial banks, savings banks and fire insurance companies, and even they were still small.

2. *A Bird's-Eye View of the Development of Financial Intermediaries in the United States*

Financial intermediaries as we now know them in this country are essentially a creation of the nineteenth century. At the start of that period, there were less than three dozen commercial banks in existence, of which the Bank of the United States, chartered in 1791, was predominant.[1] The few life insurance companies were still in their infancy in size and methods of operation. Fire in-

[1] In 1800, 28 banks combined had capital and circulation of $32 million (*Historical Statistics of the United States, 1789-1945*, Bureau of the Census, 1949, p. 261), and their total resources were probably below $40 million.

surance companies may have been slightly more developed technically, but they had not yet attained importance in the financial field. The numerous other types of financial intermediaries which we now know were not yet in existence and most of them, it is probably fair to say, had not even been thought of. There were, for instance, no savings banks, no savings and loan associations, no credit unions, no mortgage companies, no investment companies, no sales or personal finance companies, no personal trust departments, no public or private pension funds, and no government lending institutions. An idea of the size—or smallness—of financial intermediaries at the beginning of the nineteenth century is conveyed, first by the estimate that the total assets of all financial intermediaries then in existence were not much in excess of $50 million, and thus represented not more than 2 per cent of total national assets;[2] and second by the fact that financial intermediaries were virtually limited to a few large cities on the eastern seaboard, chiefly Philadelphia, New York and Boston.

Development of financial intermediaries during the first half of the nineteenth century was very slow except in the field of commercial banking. By 1850 the country possessed more than 700 banks; their assets were close to $500 million; and they had reached all larger places within the settled territory of the United States.[3] They were, however, still essentially limited to short-term trade financing; loans and discounts represented approximately 70 per cent of total assets, and cash and interbank balances most of the remainder. What is more significant, equity funds still furnished nearly one-half of the banks' total resources, while note circulation and deposits each contributed a little over one-fourth. Life and fire insurance companies had made some strides, but they were still of small size, with aggregate assets barely exceeding $50 million, chiefly accounted for by the fire companies. All other financial intermediaries were still of insignificant size. There existed, it is true, several dozen of savings and loan associations, and a few banks and trust companies which did a small volume of personal trust business, but the resources of these organizations were still negligible.

[2] This figure is based on Blodget's estimate of national wealth of $2.4 billion in 1800 (*Historical Statistics*, p. 9), and the fact that at that time national assets could not have been much higher than national wealth.

[3] In addition there were slightly more than 100 mutual savings banks, with assets of $43 million (E. W. Keyes, *A History of Savings Banks in the United States*, Vol. II, p. 532).

The second half of the nineteenth century is the decisive period in the development of financial intermediaries in the United States. In addition to a continuing expansion of the commercial banking system, there emerged, on a fairly large scale and throughout the nation, some of the most important types of financial intermediaries, particularly life insurance companies, mutual savings banks, savings and loan associations and personal trust departments. Not that these institutions were, at the end of the nineteenth century, either as common or as widely diffused as they are now; or that they were as large compared with other relevant economic magnitudes such as national assets; or that they operated in the same way as at the present time. Nor should it be overlooked that some types of financial intermediaries which now have become important were not yet in existence, or were still quantitatively insignificant. Indeed, investment companies, finance companies, small loan companies, land banks, the postal savings system, and government lending institutions were all still unknown at the turn of the century or without practical importance.

The first half of the current century is characterized by half-a-dozen marked trends. Since a full discussion of them constitutes the subject of this study, they will simply be listed here:

1. Rapid expansion, both in number of offices and in assets, of those branches of financial intermediaries which were fully developed in 1900, particularly commercial and savings banks, savings and loan associations, life and property insurance companies, and personal trust departments.

2. Considerable expansion of the scope of activities of some of the largest financial intermediaries, particularly commercial banks.

3. A further decline in the share of the originally predominating and still most important single type of financial intermediaries—commercial banks—from slightly over one-half of the assets of all financial institutions in 1900 to not much over one-third in 1952.

4. Rise of several important new types of financial intermediaries. Although some of these made their first appearance on a very small scale between the turn of the century and World War I, several acquired substantial importance only during the 1920's, e.g. sales finance companies, investment companies, and land banks, or only during the 1930's, e.g. government and private pension funds, government lending institutions, and credit unions.

5. Substantial changes in the structure of assets of many types of financial intermediaries.

6. The rise, for the first time, of government-owned or -controlled organizations to an important position within the sphere of financial intermediaries.

The appearance of the different types of institutions may be followed in Chart 3, which indicates the decades in which the different types of intermediaries first came into existence. Although the first appearance of a new type of institution has the advantage that it usually can be dated exactly, this fact is of limited practical importance, particularly where a new type of financial institution remains for a considerable time in an embryonic stage and has few imitators. With this proviso (and the further caveat that occasional and isolated "early birds" have been ignored) it appears from Chart 3 that of the 23 types of financial intermediaries distinguished, only four go back to the eighteenth century; another four originated in the first half of the nineteenth century, and only one was added during the second half. The first three decades of the twentieth century, in which 13 of the 23 types of financial intermediaries made their first significant appearance, stands out clearly as the period of most rapid organizational innovation. Although considerable organizational changes have occurred since then (the rise of federal lending organizations being the most important), and some institutions that were still in their infancy in 1929 have developed greatly in the following quarter century, particularly open-end investment companies, common trust funds and pension funds, and although for several financial intermediaries substantial changes in methods of operation have also taken place, all these changes were probably less far-reaching than those of the preceding twenty to thirty years.

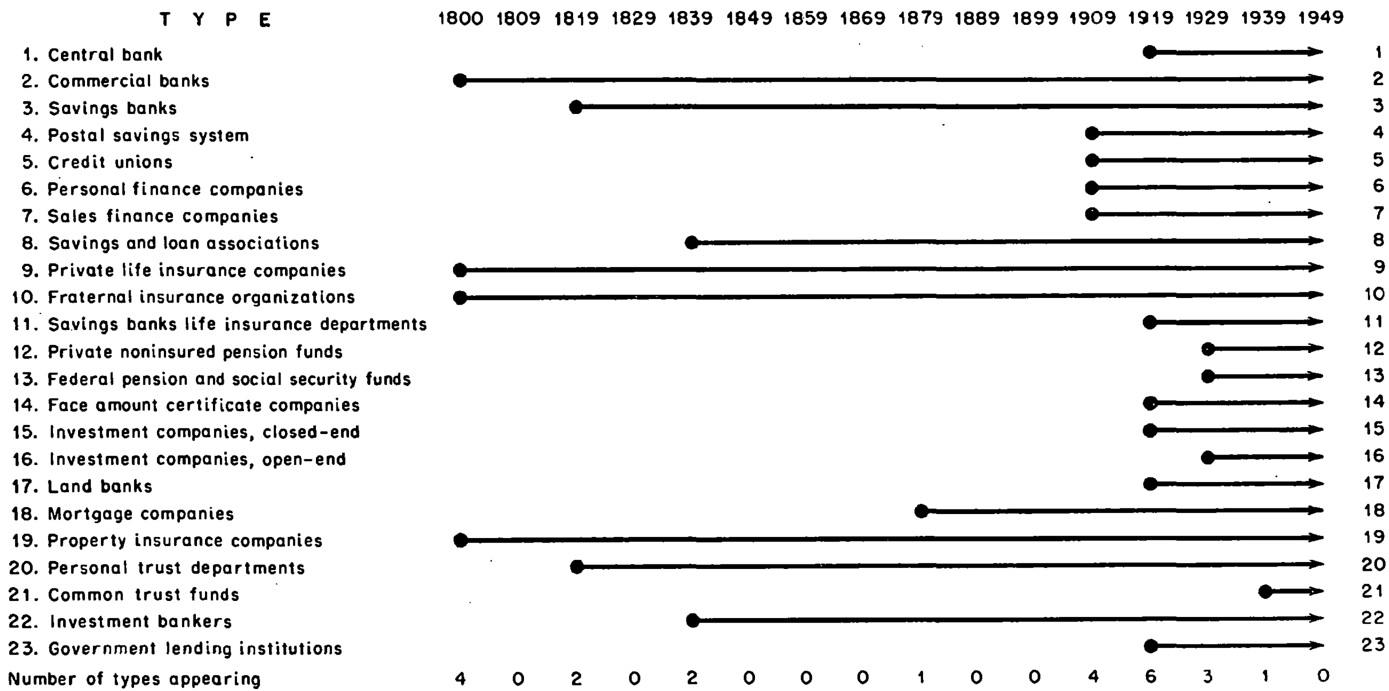
A bird's-eye view of the trends in the essential quantitative features of financial intermediaries over the last 150 years is given in Table 8 and Chart 4, which show the relevant data, as well as the material permits, for six benchmark dates: 1800, 1850, 1880, 1900, 1929 and 1952. The figures for 1800 and part of those for 1850 are of course rough estimates.

Starting with the current value of total assets it is seen that the aggregate assets of financial intermediaries increased from approximately $50 million in 1800 to about $650 million in 1850, to $19,000 million in 1900 and to over $550,000 million in 1952.[4] The rate of

[4] It may be well to recall, on the first occasion of using figures for aggregate assets of all financial intermediaries, that the figures represent—as they do throughout the study—the straight addition of totals for the various types of financial

CHART 3

Appearance of Different Types of Financial Intermediaries in the United States of America, by Decades, 1800-1949



Note: 1800 includes earlier decades; other dates indicate decades ending with the year listed.

TABLE 8

Growth of Financial Intermediaries in Relation to Population

YEAR	ASSETS OF FINANCIAL INTERMEDIARIES: *Total Current Value (billions of dollars)* (1)	*Per Head*: *Current Dollars* (2)	*Per Head*: *1929 Dollars* (3)	NUMBER OF FINANCIAL INTERMEDIARIES: *Total (thousands)* (4)	NUMBER OF FINANCIAL INTERMEDIARIES: *Per Million Inhabitants* (5)
1800	0.05	10	20	..	..
1850	0.65	28	75	1	45
1880	4.50	89	190	4	80
1900	19.0	247	494	21	280
1929	167.3	1,366	1,394	49	395
1949	452.4	3,005	1,964	43	285
1952	556.4	3,517	2,081	45	285

Column	Year	Source
1	1800	Rough estimate based on capital and circulation of banks (*Historical Statistics of the United States, 1789-1945*, Bureau of the Census, p. 261).
	1850	Estimated on basis of assets of all banks (*ibid.*, p. 263) and of fire and life insurance companies (rough estimates). Other intermediaries assumed negligible.
	1880	Assets of all banks from *Historical Statistics*, p. 262; assets of life insurance companies from *Statistical Abstract of the United States, 1931*, p. 308; assets of property insurance companies estimated on basis of 1890 and later figures from *Statistical Abstract* cited, pp. 304, 315. Assets of all other intermediaries assumed very small.
	1900-1952	From Table A-28, line 5.
2	1800-1952	Col. 1 divided by population (for 1800-1933, from *Historical Statistics*, p. 26, averages of July estimates; for 1939, 1945, from *Statistical Abstract*, 1953, p. 13, average of July estimates; for 1949, 1952, from *Survey of Current Business*, various issues, 1949 being the January 1950 figure and 1952 as of December.
3	1800-1880	Col. 1 divided by Snyder-Tucker index of general price level (*Historical Statistics*, pp. 232-233; average of values for current and following year).
	1900-1952	Col. 1 divided by gross national product deflator (for 1900-1945, from *A Study of Saving . . .*, Vol. I, Table T-16, col. 1; for 1949-1952, from *Survey of Current Business*, National Income Supplement 1954; adjacent years averaged) and by population (see notes to col. 2).

(continued on next page)

TABLE 8 (continued)

4 1850,
1900-
1949 Based on Table 9.
1880 Based on number of banks from *Historical Statistics*, p. 262; of life insurance companies from J. O. Stalson, *Marketing Life Insurance*; and of property insurance companies and savings and loan associations (rough estimates).
1952 Rough estimate based on sources given in Table 9.
5 1850,
1880 Col. 4 divided by population (see notes to col. 2).
1900-
1949 From Table 14.
1952 Same method as for 1850, 1880.

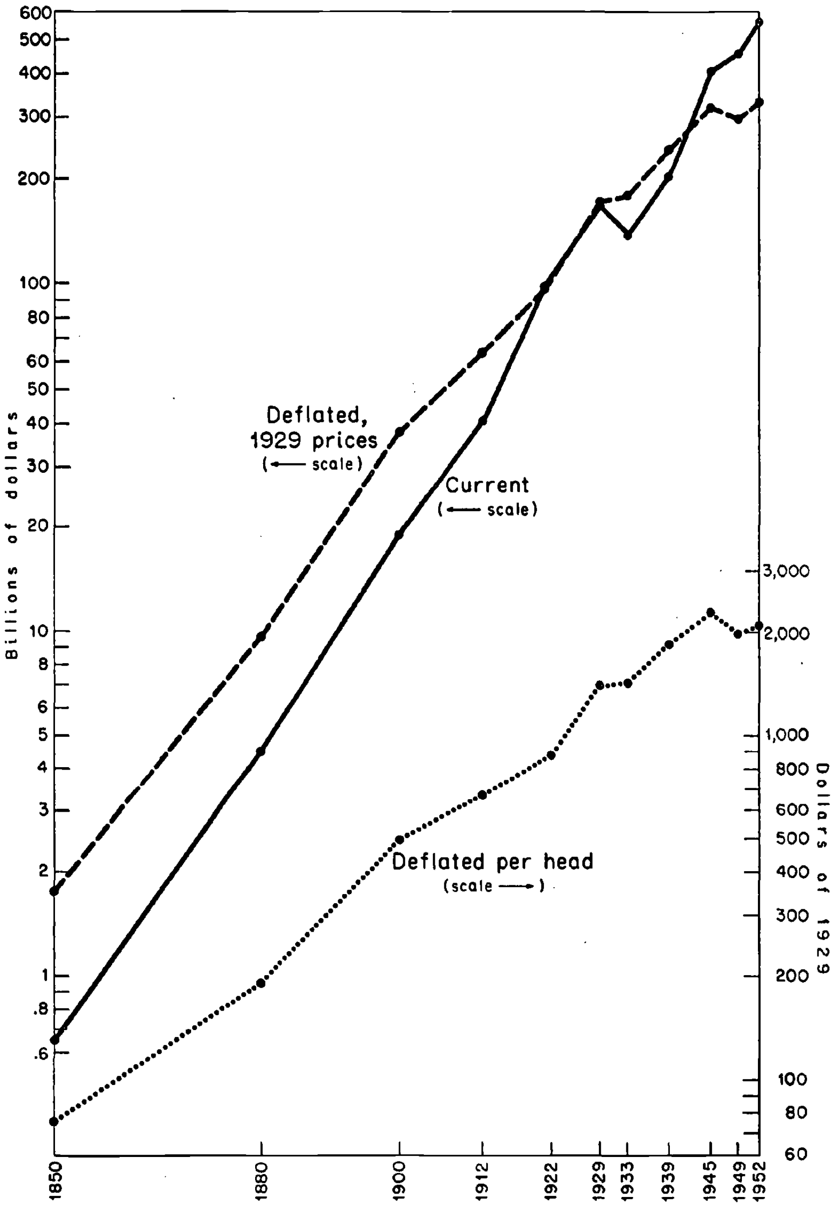
increase obviously has been greatly accelerated since 1850. During the first half of the nineteenth century, total assets of financial intermediaries increased by 13 times, but during each of the following semicentennial periods they grew by nearly 30 times. The corresponding average annual rate of increase rises from slightly above 5 per cent for 1800-1850 to over 7 per cent for the next century.

The rate of growth is considerably lower and its rhythm is different if account is taken of increases in the population and changes in the price level. Assets of financial intermediaries per head of the population increased (in current dollars) from as little as $10 in 1800 to nearly $30 in 1850, to almost $250 in 1900 and to over $3,500 in 1952. Acceleration of growth is even more pronounced here than in the absolute figures. Assets per head increased 3 times during the first fifty-year period, more than 8 times during the next, and approximately 14 times during the last fifty-year period. The corresponding annual average rates of growth is only 2¼ per cent in the first half of the nineteenth century compared to about

intermediaries, which in turn are derived as the total of assets shown in the balance sheets of individual financial intermediaries. The figures therefore are not identical with what would be the total assets of a consolidated balance sheet of all financial intermediaries. In a consolidated statement, inter-intermediary items would be omitted, such as the claims of one financial intermediary against another, or the holdings of the securities of one financial intermediary by another. The most important items of this type are interbank balances and the deposit balances of other financial intermediaries with commercial banks. These balances, which are shown in Table A-3.c, have accounted for less than one-tenth of the total assets of financial intermediaries as they are used throughout this study (see also Table 94). Their relative size has shown no marked trend over the last fifty years, nor sharp fluctuations in shorter periods. Inclusion of these inter-intermediary items among the aggregate assets of all financial intermediaries therefore does not invalidate, or even seriously affect, the use of total combined assets—the series used throughout this study—as indicators of the aggregate consolidated assets of financial intermediaries.

CHART 4

Total Assets of All Financial Intermediaries



Source: Table 8 and sources quoted there.

Ratio scales

4¼ per cent in the second half and to nearly 5½ per cent in the first half of the twentieth century. When adjusted for price changes, the pattern of growth is again different. The increase now is nearly fourfold from 1800 to 1850 and nearly sevenfold between 1850 and 1900, showing as before a considerable acceleration from the first to the second half of the nineteenth century. The increase reverts, however, to not much over 300 per cent between 1900 and 1952. On this basis the average rate of growth during the last half century, about 2.8 per cent a year, is considerably lower than the 3.8 per cent prevailing during the preceding semicentennial period and approximately equals the rate of increase between 1800 and 1850.

All these figures are expressed in monetary terms. Another aspect of the growth of financial intermediaries is reflected in the trend in the number of institutions or, only little differently, in the number of offices (head offices plus branches). At the beginning of the nineteenth century there were only a few dozen financial institutions in the United States (Table 9). By 1850 their number had

TABLE 9

Organizational Growth of Financial Intermediaries

(*thousands*)

TYPE	NUMBER OF UNITS 1850	1900	1929	1949	NUMBER OF OFFICES[a] 1850	1900	1929	1949
1. Commercial banks	0.7	12.9	24.3	14.2	0.9	13.0	27.8	18.7
2. Mutual savings banks	0.1	0.6	0.6	0.5	0.1	..	0.7	0.7
3. Postal savings system	—	—	0	0	—	—	6.8	8.2
4. Private life insurance companies	0	0.1	0.4	0.6	..	..	..	..
5. Fraternal insurance organizations	..	0.6	0.4	0.2	..	..	..	..
6. Property insurance companies	0.2	0.7	1.4	1.0	..	..	..	..
7. Savings and loan associations	0	5.4	12.3	6.0	0	5.4	12.4	6.2
8. Credit unions	—	..	1.0	10.1	—	..	1.0	10.1
9. Investment companies	—	..	0.5	0.2	—	..	0.5	0.2
10. Security brokers and dealers	0.1	1.0	3.0	2.9	0.1	1.1	5.0	4.2
11. Sales finance companies	—	..	1.3	2.7	..	..	..	..
12. Personal finance companies	—	..	..	3.7	..	..	..	..
13. Personal trust departments	..	0.1	3.5	3.0	..	..	..	..

[a] Shown only when the concept of "office" is clear and information is available.

Figures for number of units and number of offices derived from same sources unless otherwise stated.

Line	Year	Source
1	1850	Compiled from I. Smith Homans, *The Bankers' Almanac for 1851*.
	1900-1949	From Table C-9, lines 1.a and 1.b.

(continued on next page)

TABLE 9 (continued)

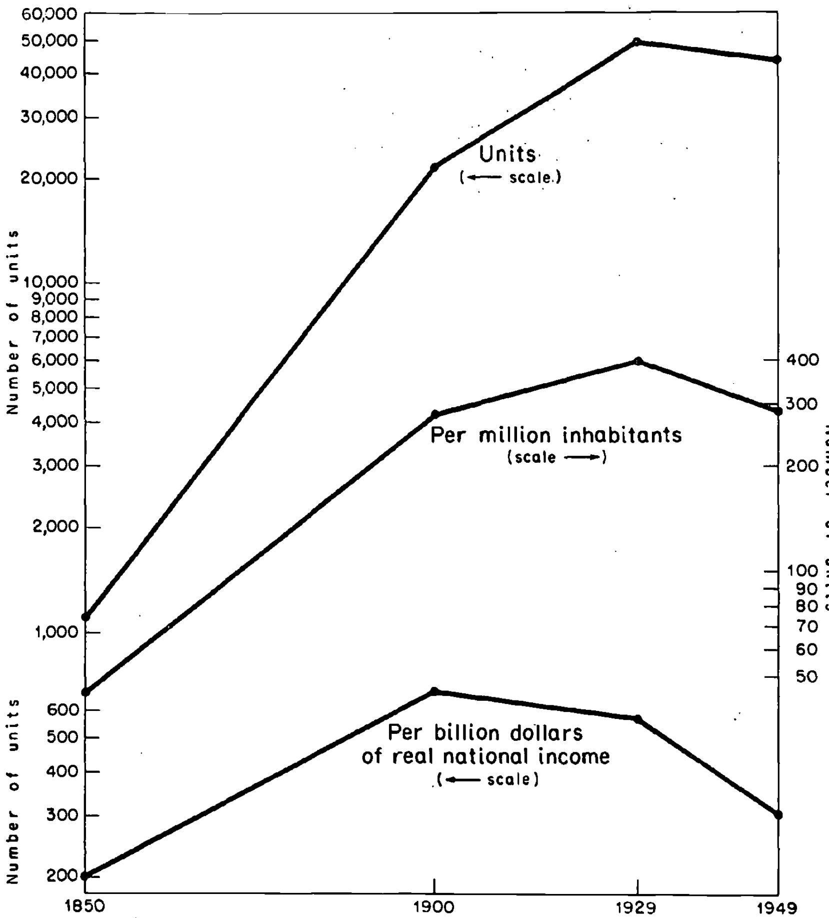
2	1850	From E. W. Keyes, *A History of Savings Banks in the United States.*
	1900-1949	From Table C-10 (Appendix Supplement), lines 1.a and 1.b.
3	1929, 1949	From *Report of Operations of the Postal Savings System*, Office of Postmaster General, 1929 and 1949. Refers to offices plus substations.
4	1850-1949	From Table C-12, line 1.a.
5	1850-1949	*Statistical Abstract of the United States*, various issues. Includes fraternal order and mutual accident and sick benefit associations. Covers for 1850 and 1900 all organizations known to exist, but for 1929 and 1949 only those reported in the Spectator Company's *Insurance Yearbook.*
6	1850	Based on estimate for 131 fire and marine insurance companies in operation in 1841, given in *The Growth of the American Economy*, H. F. Williamson, ed., 1951, p. 275.
	1900	Table C-14, line 1, plus rough estimate of number of casualty and miscellaneous insurance companies.
	1929-1949	Table C-14, line 1, plus Table C-15, line 1.
7	1850	Assumed to be very small, based on statistics of age of associations operating in 1893 and given in *IXth Annual Report of the Commissioner of Labor.*
	1900	From Table C-11, line 1.a.
	1929	Number of units from Table C-11, line 1.a. Number of offices assumed to be slightly larger.
	1949	From Table C-11, lines 1.a and 1.b.
8-9	1929, 1949	From Table C-18, line 1, and Table C-19, line 1, respectively.
10	1850	Based on number of "private bankers" in New York, Boston, Philadelphia and St. Louis cited in H. F. Williamson, *op. cit.*, p. 269.
	1900	Rough estimate based on data for 1913 (Table E-1) and trend between 1913 and 1929.
	1929	Tabulated from *Investment Bankers and Brokers of America*, A. C. Babize. Appendix E (in the supplement) discusses the method of compilation. The figures have been increased by 300 security affiliates of small banks.
	1949	From same source as Table D-13, cols. 8 and 9.
11	1929	W. C. Plummer and R. A. Young, *Sales Finance Companies and Their Credit Practices*, p. 34.
	1949	From *Federal Reserve Bulletin*, October 1951, p. 1245. Figure refers to registrants as of September 30, 1950 and includes subsidiaries as well as independent companies; the number of independent units—i.e. consolidating parents and subsidiaries—would be considerably smaller, and the figure given is not comparable to the entry for 1929.
12	1949	Same source as for line 11.
13	1850, 1900	Based on estimate of G. T. Stephenson, *Estates and Trusts*, 1949, p. 365, that "as late as 1890 there were fewer than 100 corporations, including state banks, that were engaged in trust business."
	1929	Roughly estimated on basis of change between 1929 and 1947 in trust departments of national banks.
	1949	Based on figure given in Table C-22 for 1947.

risen to slightly more than 1,000. There were approximately 20,000 of them in 1900, and as many as 45,000 in 1952. While in monetary terms the value for 1952 is the highest of the seven benchmark dates for all series, in number of units the peak was reached in 1929 with almost 50,000 financial intermediaries in operation in the United States, and a considerable shrinkage took place in the following twenty years, particularly during the thirties.

This reversal of trend is still more pronounced if the number of financial intermediaries is related to the population they serve, as is shown in Chart 5. At the beginning of the nineteenth century there were only a few financial intermediaries—possibly half-a-dozen—per million of inhabitants. By 1850 their relative number had risen to approximately 45, mostly banks. By 1900 it was close to 300. It reached a peak of nearly 400 units per million in 1929. The ratio then fell sharply to approximately 285 units per million

CHART 5

Number of Financial Intermediaries



Source: Tables 9 and 14.

Ratio scales

of inhabitants in 1952. This shrinkage over the last two decades in the number of financial intermediaries in operation in the United States, which is offset only to a small extent by the increase in number of branch offices, must not be taken as an indication of loss of importance of financial intermediaries. It has already been shown that, measured by total assets, financial intermediaries continued to expand after 1929. What the decline in the number of units signifies is rather an increase in the degree of concentration in certain branches, notably among commercial banks. Average assets per financial institution continued to grow after 1929. They increased from approximately $0.5 million in 1850 to $1 million in 1900, to $3 million in 1929 and to $12 million in 1952. The trend is still quite evident when assets per unit are reduced to the common price level of 1929. The increase, then, is from approximately $2 million in 1850 and 1900 to $3 million in 1929 and $7 million in 1952. On this basis the growth of assets per financial institution—admittedly a figure lumping together disparate elements—has been much more pronounced since 1900 than in the century before.

3. *Differences in the Rate of Growth of Financial Intermediaries*

a. DIFFERENCES IN GROWTH OF ASSETS

The rate of growth of the different groups of financial intermediaries, measured by the value of their aggregate assets in current dollars, has been uneven. Of the 23 groups for which separate totals are presented in this study, only 10 were in operation and at least of some quantitative importance in 1900. Two groups began operations or acquired quantitative importance between 1900 and 1912, viz. the postal savings system and government lending institutions. Another seven appear for the first time in the statistics of 1922: Federal Reserve Banks, private pension funds, savings bank life insurance departments, federal insurance and pension funds, credit unions, investment companies, and land banks. The first estimates for investment holding companies, sales finance companies, personal finance companies, and factors are for 1929, although some of these companies operated throughout the twenties and a few before the twenties.

Below is a list of the 10 financial intermediaries which have operated throughout the last half century. Their total assets increased 21 times between 1900 and 1952, or at an average annual rate of 6 per cent. The list shows aggregate growth for each, in ascending order.[5]

[5] Throughout the report relatives and totals given in text and tables are gen-

	Ratio of 1952 assets to 1900 assets
Mortgage companies	3.3
Security brokers and dealers	5.8
Mutual savings banks	10.4
Commercial banks	18.8
Personal trust departments	20.0
The 10 groups	20.7[a]
Fire and marine insurance companies	21.0
Private life insurance companies	42.1
Savings and loan associations	45.9
Fraternal insurance organizations	90.8
Casualty and misc. insurance organizations	101.0

[a] State and local trust funds omitted since the amount in 1900 was negligible.

The 10 financial intermediaries appear to fall naturally into four groups (see Chart 6). There is, first, a group consisting of mortgage companies, mutual savings banks, and security brokers and dealers. Their growth was considerably slower than the average for all groups of financial intermediaries already in operation in 1900.[6] A second group, which includes commercial banks, their personal

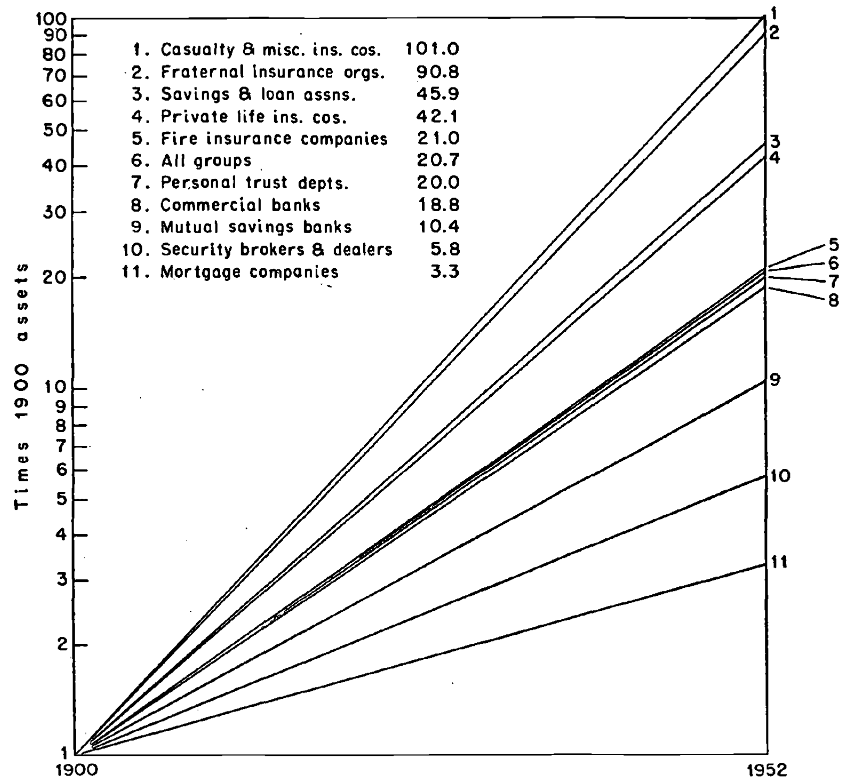
erally calculated from unrounded figures. As a result, column totals may differ slightly from the sum of rounded summands, and relatives may differ from the relation of rounded figures of numerator and denominator or of summands.

[6] In evaluating the data on the resources of security brokers and dealers (including investment bankers) given in this study it should be kept in mind that they do not, and cannot, take account of the securities that are distributed by investment bankers during a year, since these transactions leave no reflection (except occasionally for unsold portions of issues) in their year-end balance sheets. The economic importance of investment bankers, of course, is based primarily on their crucial position in the process of distributing newly issued securities, particularly corporate bonds and stocks. The importance of investment bankers compared to other financial intermediaries is, therefore, not adequately measured by the size of their own assets or by any similar simple figure. (Moreover, the figures used in this study include, without possibility of distinction, the assets of security brokers and dealers who do not participate in the distribution of new securities.)

The assumption may nevertheless be made that changes in the economic importance of investment bankers are likely to occur in the same direction as changes in investment bankers' share in the assets of all financial intermediaries, or in total national assets. At least such a parallelism appears to have existed in the United States over the last half century. There is little doubt that the sharp relative decline in investment bankers' assets since 1929 compared to the assets of other financial intermediaries, or to total national assets, has been paralleled by a decline of their "importance," however defined, in the process of saving and investment. Smaller or short-term fluctuations in the ratio of

CHART 6

Growth of Assets of Financial Intermediaries between 1900 and 1952



Source: Table A-28.

trust departments, and fire insurance companies, shows an average annual rate of growth about equal to the 6 per cent for the aggregate of all 10 intermediaries. A third group includes two types of intermediaries—life insurance companies and savings and loan associations—which show an increase of assets between 1900 and 1952 of about 43 times, corresponding to an average rate of growth of approximately 8 per cent a year. Two smaller groups—fraternal insurance organizations and casualty insurance companies—have increased their assets in the last half century by between 90 and 105 times, an average annual rate of growth of slightly over 9 per cent.

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investment bankers' assets to those of other financial intermediaries cannot, however, be regarded as indicative of similar minor or ephemeral changes in the role of investment bankers in the capital market.

The 13 types of financial intermediaries which started operations after 1900 have also differed considerably in rate of growth since they acquired some quantitative importance. The rapid growers among them include federal insurance funds, government lending institutions and the postal savings system. On the other hand, investment companies (except in the twenties) and land banks have grown rather slowly or have passed their peak.[7]

For most of the groups of financial intermediaries the rate of growth in the twenty-three years after 1929 has been considerably slower than that in the preceding thirty years. Moreover, the ranking of the different groups in accordance with their rate of growth is in many cases different for the last twenty years than for the entire period since 1900 or since they began operations.

Between 1929 and 1952, when the aggregate assets of all 23 groups increased 3.3 times, or at an average of slightly over 5 per cent a year, those of a few groups declined, those of some groups grew little, and some rose to 10 or more times their 1929 size. These variations are shown in the table below.

	Ratio of 1952 assets to 1929 assets
Security brokers and dealers	0.4
Land banks	0.6
Mortgage companies	0.8
Investment holding companies	0.8
Personal trust departments	2.0
Investment companies	2.1
Mutual savings banks	2.6
Fraternal insurance organizations	2.7
Fire and marine insurance companies	2.8
Commercial banks	2.8
Savings and loan associations	3.0
All 23 groups	3.3
Factors	3.5
Sales finance companies	3.7
Casualty and misc. insurance companies	4.4
Personal finance companies	4.9
Federal Reserve Banks	9.5

[7] The statement applies to the total for all types of investment companies. It would also apply, perhaps more clearly so, to investment holding companies and closed-end management investment companies. Open-end investment companies, on the other hand, would have to be classified among the groups growing rapidly, at least after the Great Depression.

Savings bank life insurance departments	14.7
State and local insurance funds	14.7
Postal savings system	15.7
Private noninsured pension funds	18.0
Credit unions	36.1
Federal insurance funds	42.8
Government lending institutions	85.6

Differences in the rate of growth stand out more clearly if the 23 types of financial intermediaries are arranged, as in Tables 10, 11 and 12, into four groups. We then observe the following values for the full period through 1952 and for subperiods before and after 1929:

	Asset ratios		
	1929/1900	1952/1929	1952/1900
Banking system	6.6	3.3	21.6
Personal trust departments	10.0	2.0	20.0
Insurance organizations	11.1	6.0	66.1
Miscellaneous financial intermediaries	24.0	2.6	62.0
All financial intermediaries	8.8	3.3	29.3

The table clearly shows the much more rapid growth of insurance organizations and of miscellaneous financial intermediaries than of the banking system (including personal trust departments) for the full period. The same relations obtain for the period up to 1929. Between 1929 and 1952, insurance organizations again expanded more rapidly than the banking system and personal trust departments. In that same interval the miscellaneous financial intermediaries showed the smallest rate of growth if personal trust departments are grouped with banks. This was due largely to the decline in the assets of security brokers and dealers. If the latter are excluded, the increase in the assets of the remaining miscellaneous financial intermediaries (with assets in 1952 larger by 3.7 times than those in 1929) is still well below that of insurance organizations, but exceeds that of the banking system and is substantially larger than that of personal trust departments.

For the entire period the rate of growth averages approximately 6 per cent for the banking system and personal trust departments, but is as high as 8 per cent for miscellaneous financial intermedi-

TABLE 10

Total Assets of Main Groups of Financial Intermediaries
(billions of dollars)

Group	*1900*	*1912*	*1922*	*1929*	*1933*	*1939*	*1945*	*1949*	*1952*
I. *Banking System*	12.4	25.9	59.5	81.7	65.2	98.5	225.4	228.1	268.4
1. Federal Reserve Banks	—	—	5.3	5.5	7.0	19.0	45.1	45.6	51.9
2. Commercial banks	10.0	21.8	47.5	66.2	46.1	66.3	160.3	157.7	188.6
3. Mutual savings banks	2.4	4.0	6.6	9.9	10.8	11.9	17.0	21.5	25.2
4. Postal savings system	—	0	0.1	0.2	1.2	1.3	3.0	3.3	2.7
II. *Insurance*	2.3	5.6	11.8	25.0	29.1	42.6	82.8	118.9	149.2
1. Private life insurance companies	1.7	4.4	8.7	17.5	20.9	29.2	44.8	59.6	73.4
2. Fraternal insurance organizations	0	0.2	0.5	0.8	1.0	1.2	1.6	2.0	2.3
3. Private noninsured pension funds	..	..	0.1	0.5	0.7	1.0	2.9	6.0	9.0
4. Federal pension, retirement, and social security funds	..	..	0.1	1.0	2.1	4.6	22.6	34.3	41.0
5. State and local pension, retirement, and social security funds	0	0	0.1	0.5	0.8	1.7	3.0	4.9	7.5
6. Fire and marine insurance companies	0.4	0.8	1.6	3.1	2.2	2.8	4.2	6.6	8.7
7. Casualty and miscellaneous insurance companies	0.1	0.2	0.7	1.6	1.3	2.0	3.5	5.4	7.2
8. Savings bank life insurance departments	—	0	0	0	0	0	0.1	0.1	0.1

(continued on next page)

TABLE 10, Total Assets (continued)

Group	*1900*	*1912*	*1922*	*1929*	*1933*	*1939*	*1945*	*1949*	*1952*
III. *Miscellaneous Financial Intermediaries*	0.5	1.0	4.6	15.4	13.7	22.4	47.5	49.7	71.5
1. Savings and loan associations	0.5	1.0	2.8	7.4	6.2	5.4	8.6	14.5	22.5
2. Credit unions	..	..	0	0	0	0.2	0.4	0.8	1.5
3. Investment companies	..	..	0.1	3.0	1.3	1.6	2.7	3.3	6.1
4. Land banks	—	—	1.0	1.9	1.9	2.4	1.2	1.0	1.2
5. Government lending institutions	—	0	0.7	0.4	2.8	9.8	32.6	23.7	29.9
6. Sales finance companies	..	..	..	2.1	1.0	2.3	1.1	4.8	7.7
7. Personal finance companies	..	..	..	0.4	0.3	0.6	0.6	1.3	2.0
8. Factors	..	..	..	0.1	0.1	0.1	0.2	0.3	0.5
IV. *Personal Trust Departments*	3.0	7.0	18.0	30.0	25.0	35.0	45.0	50.0	60.0
Total, standard definition[a]	18.2	39.4	93.8	152.1	132.9	198.5	400.7	446.8	549.0
1. Mortgage companies	0.2	0.4	0.6	0.8	0.4	0.4	0.2	0.5	0.6
2. Security brokers and dealers	0.6	1.0	4.0	10.0	2.5	2.0	3.0	2.7	3.5
3. Investment holding companies	..	..	..	4.4	1.7	1.6	2.3	2.4	3.3
Total, broad definition[b]	19.0	40.8	98.4	167.3	137.6	202.5	406.1	452.4	556.4

In this and other tables, detail may not add to totals because of rounding.

[a] Includes only financial intermediaries for which it was possible to derive estimates of main types of assets and liabilities. Data from Appendix A, Tables A-2 to A-27.

[b] From Table A-28.

TABLE 11

Percentage Distribution of Total Assets of Main Groups of Financial Intermediaries

Group	*1900*	*1912*	*1922*	*1929*	*1933*	*1939*	*1945*	*1949*	*1952*
I. *Banking System*[a]	65.6	63.4	60.4	48.9	47.4	48.7	55.5	50.4	48.2
1. Federal Reserve Banks	—	—	5.3	3.3	5.1	9.4	11.1	10.1	9.3
2. Commercial banks	52.8	53.5	48.2	39.6	33.5	32.7	39.5	34.9	33.9
3. Mutual savings banks	12.8	9.8	6.7	5.9	7.8	5.9	4.2	4.8	4.5
4. Postal savings system	—	0.1	0.1	0.1	0.9	0.7	0.7	0.7	0.5
II. *Insurance*	11.9	13.7	12.0	15.0	21.1	21.1	20.4	26.3	26.8
1. Private life insurance companies	9.2	10.8	8.8	10.5	15.2	14.4	11.0	13.2	13.2
2. Fraternal insurance organizations	0.1	0.4	0.5	0.5	0.7	0.6	0.4	0.4	0.4
3. Private noninsured pension funds	..	..	0.1	0.3	0.5	0.5	0.7	1.3	1.6
4. Federal pension, retirement, and social security funds	..	..	0.1	0.6	1.6	2.3	5.6	7.6	7.4
5. State and local pension, retirement, and social security funds	0	0	0.1	0.3	0.6	0.8	0.7	1.1	1.3
6. Fire and marine insurance companies	2.2	1.9	1.7	1.8	1.6	1.4	1.0	1.4	1.6
7. Casualty and miscellaneous insurance companies	0.4	0.6	0.7	1.0	0.9	1.0	0.9	1.2	1.3
8. Savings bank life insurance departments	—	0	0	0	0	0	0	0	0

(continued on next page)

TABLE 11, Percentage Distribution of Assets (continued)

Group	*1900*	*1912*	*1922*	*1929*	*1933*	*1939*	*1945*	*1949*	*1952*
III. *Miscellaneous Financial Intermediaries*	2.6	2.4	4.6	9.2	10.0	11.1	11.7	11.0	12.8
1. Savings and loan associations	2.6	2.3	2.8	4.4	4.5	2.7	2.1	3.2	4.0
2. Credit unions	..	..	0	0	0	0.1	0.1	0.2	0.3
3. Investment companies	..	..	0.1	1.8	0.9	0.8	0.7	0.7	1.1
4. Land banks	—	—	1.0	1.2	1.4	1.2	0.3	0.2	0.2
5. Government lending institutions	—	0.1	0.7	0.2	2.1	4.8	8.0	5.2	5.4
6. Sales finance companies	..	..	..	1.2	0.7	1.1	0.3	1.1	1.4
7. Personal finance companies	..	..	..	0.2	0.2	0.3	0.1	0.3	0.4
8. Factors	..	..	..	0.1	0.1	0.1	0.1	0.1	0.1
IV. *Personal Trust Departments*	15.8	17.2	18.3	17.9	18.2	17.3	11.1	11.1	10.8
Total, standard definition	95.9	96.7	95.4	91.0	96.6	98.0	98.7	98.8	98.7
1. Mortgage companies	1.0	0.9	0.6	0.5	0.3	0.2	0	0.1	0.1
2. Security brokers and dealers	3.2	2.5	4.1	6.0	1.8	1.0	0.7	0.6	0.6
3. Investment holding companies	..	..	..	2.6	1.3	0.8	0.6	0.5	0.6
Total, broad definition	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[a] Calculated from unrounded figures.

TABLE 12

Percentage Distribution of Changes in Total Assets among Main Groups of Financial Intermediaries between Benchmark Dates

Group	*1901 to 1912*	*1913 to 1922*	*1923 to 1929*	*1930 to 1933*	*1934 to 1939*	*1940 to 1945*	*1946 to 1949*	*1950 to 1952*
I. *Banking System*	61.5	58.3	32.4	55.8	51.4	62.3	6.0	38.7
1. Federal Reserve Banks	—	9.1	0.3	−5.3	18.5	12.8	1.3	6.0
2. Commercial banks	54.1	44.5	27.3	67.7	31.1	46.1	−5.6	29.7
3. Mutual savings banks	7.3	4.5	4.8	−3.0	1.7	2.5	9.7	3.6
4. Postal savings system	0.1	0.2	0	−3.6	0.1	0.8	0.6	−0.6
II. *Insurance*	15.3	10.8	19.2	−13.6	20.9	19.7	77.9	29.1
1. Private life insurance companies	12.2	7.4	12.8	−11.5	12.9	7.6	32.0	13.2
2. Fraternal insurance organizations	0.6	0.5	0.6	−0.4	0.4	0.2	0.7	0.3
3. Private noninsured pension funds	. .	0.2	0.6	−0.7	0.5	0.9	6.7	2.9
4. Federal pension, retirement, and social security funds	. .	0.2	1.2	−4.0	3.7	8.9	25.2	6.5
5. State and local pension, retirement, and social security funds	0.1	0.2	0.5	−1.0	1.3	0.7	4.1	2.5
6. Fire and marine insurance companies	1.7	1.5	2.1	2.9	0.9	0.7	5.0	2.0
7. Casualty and miscellaneous insurance companies	0.7	0.9	1.3	1.1	1.1	0.7	4.1	1.7
8. Savings bank life insurance departments	0	0	0	0	0	0	0.1	0

(continued on next page)

TABLE 12, Percentage Distribution of Changes in Total Assets (continued)

Group	1901 to 1912	1913 to 1922	1923 to 1929	1930 to 1933	1934 to 1939	1940 to 1945	1946 to 1949	1950 to 1952
III. *Miscellaneous Financial Intermediaries*	2.2	6.2	15.7	5.5	13.3	12.3	4.9	20.9
1. Savings and loan associations	2.1	3.2	6.7	4.0	–1.3	1.6	12.8	7.7
2. Credit unions	..	0	0	0	0.2	0.1	0.8	0.7
3. Investment companies	..	0.2	4.2	5.7	0.5	0.5	1.4	2.7
4. Land banks	—	1.7	1.4	0.2	0.9	–0.6	–0.5	0.2
5. Government lending institutions	0.1	1.1	–0.5	–8.4	10.7	11.2	–19.2	6.0
6. Sales finance companies	..	..	3.0	3.6	2.0	–0.6	7.9	2.8
7. Personal finance companies	..	..	0.6	0.2	0.4	0	1.5	0.7
8. Factors	..	..	0.2	0.1	0	0	0.2	0.2
IV. *Personal Trust Departments*	18.3	19.1	17.4	16.8	15.4	4.9	10.8	9.6
Total, standard definition	97.3	94.5	84.6	64.6	101.0	99.3	99.5	98.3
1. Mortgage companies	0.8	0.3	0.3	1.3	0	–0.1	0.8	0.1
2. Security brokers and dealers	1.8	5.2	8.7	25.3	–0.8	0.5	–0.6	0.8
3. Investment holding companies	..	..	6.3	8.9	–0.3	0.4	0.4	0.8
Total, broad definition	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

aries and slightly higher for insurance organizations. The rate for all groups averages close to 6¾ per cent. The difference between rates of growth in 1900-1929 and in 1929-1952 is very pronounced, but this is due partly to the fact that the assets of most of the groups increased little between 1929 and 1939. If the comparison is limited to the period from 1900 to 1929, on the one hand, and from 1939 to 1952 on the other, the differences are smaller. In that case the rates are 6¾ per cent a year for 1900 to 1929 compared to 8 per cent for 1939 to 1952 for the banking system; 8¼ per cent compared to only 4¼ per cent for personal trust departments; 11½ per cent compared to 9 per cent for miscellaneous financial intermediaries, and 8¾ per cent compared to 10 per cent for insurance organizations (see Chart 7).

The most pronounced contrast appears when financial intermediaries are divided into private and public intermediaries.[8] Comparison must be limited to the period from 1929 to 1952, since the assets of publicly owned financial intermediaries in 1900 were too small to afford significant confrontation with later dates. While the assets of private intermediaries almost tripled between 1929 and 1952, those of public intermediaries increased 18 fold.

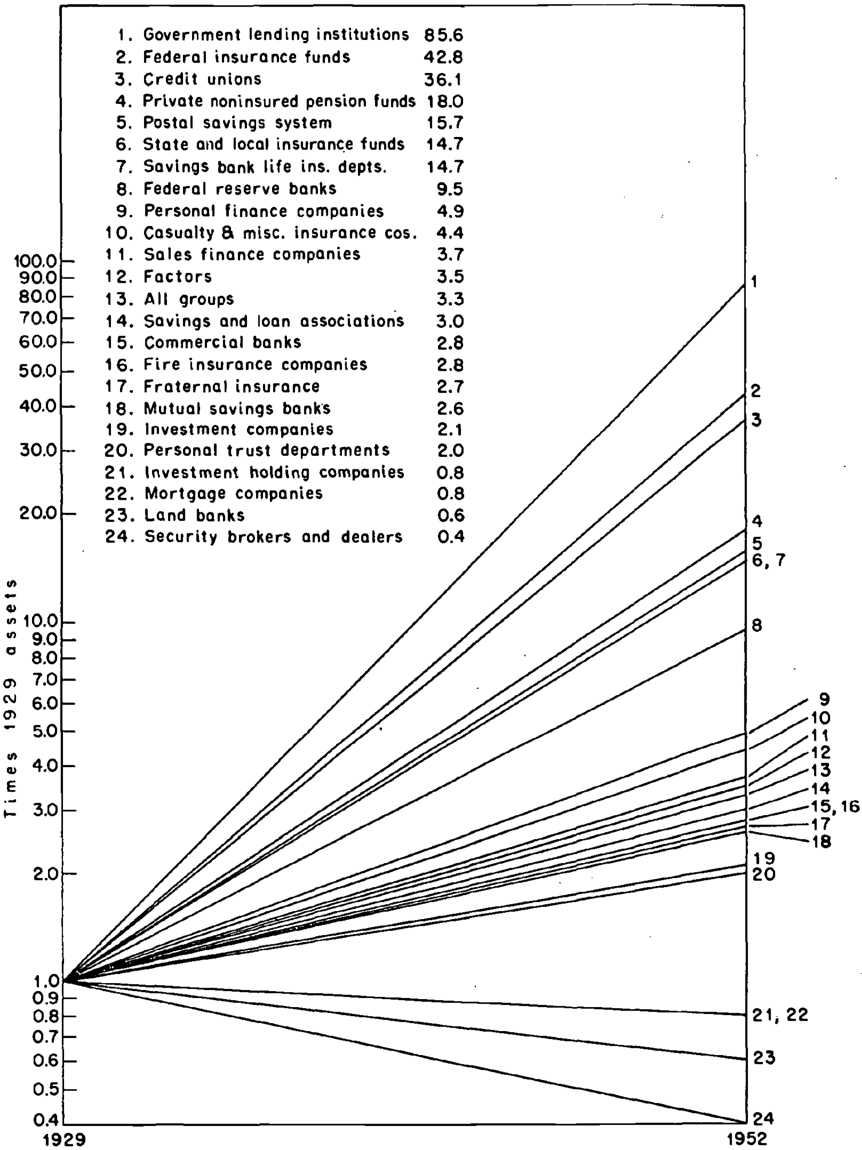
Differences among types of financial intermediaries in rate of asset growth are not changed if all figures are deflated from current to constant dollars or if they are further reduced to per head values. All rates are then considerably lowered, and in some respects become more significant, since they can be compared to series expressed in physical units. After both adjustments, the relationships between 1900, 1929 and 1952 values are as follows:

	Asset ratios based on deflated values per head		
	1929 / 1900	1952 / 1929	1952 / 1900
Banking system	2.1	1.5	3.1
Personal trust departments	3.2	0.9	2.9
Insurance organizations	3.5	2.7	9.5
Miscellaneous financial intermediaries	7.7	1.2	8.9
All financial intermediaries	2.8	1.5	4.2

[8] The public sector includes Federal Reserve Banks, the postal savings system, government insurance funds and government lending institutions. Land banks are treated as belonging to the private sector since they are now wholly privately owned.

CHART 7

Growth of Assets of Financial Intermediaries between 1929 and 1952



Source: Table A-28.

Ratio scale

The rates of growth from 1900 to 1952 adjusted for price changes and population growth thus averaged 2 per cent a year for the banking system and personal trust departments, and almost 4½ per cent for insurance organizations and miscellaneous financial intermediaries, compared to a rate of slightly under 3 per cent for all financial intermediaries taken together. These rates are of the same order of magnitude, as the rates of growth characterizing the American economy (such as the rate for real output per head, approximately 2 per cent) if we look at all intermediaries taken together or at the banking system, though not negligibly higher for the former; but they are much above that level for insurance organizations and for miscellaneous financial intermediaries.

All rates of growth are lower for the second part of the period than for the first part. Personal trust departments, on the basis of deflated assets per head, experienced no growth at all, but rather a slight decrease within the period from 1929 to 1952. The growth of the assets of the banking system, the largest component of financial intermediaries, declined from 2½ per cent a year in the first three decades to slightly under 2 per cent for the period 1929 to 1952.

There is a second aspect of comparative rates of asset growth for financial intermediaries, one in which differences show up more quickly and conspicuously. It concerns the change in aggregate assets of all intermediaries between two benchmark dates and how it is distributed among the different groups of intermediaries. Such distributions are shown in Table 12 for successive short periods since 1900.[9]

The shares of the various groups in Table 12 naturally fluctuate much more than shares of the same groups in Table 11, which is based on holdings at benchmark dates. But both tables tell essentially the same story, although Table 12 does it more dramatically and more appropriately if interest is centered on flows of funds over the period[10] rather than on holdings at the start or end of the

[9] Negative percentages in Table 12 indicate either a decline in the assets of one group of intermediaries when aggregate assets of all intermediaries increase or, for the period 1930-1933, an increase in a group's assets while those of all intermediaries decline.

[10] The changes between benchmark dates are not, of course, identical with the flow of funds within the period—revaluations, accruals and other noncash entries prevent that—but in most periods they are (except for 1929-1933) a reasonably satisfactory approximation to it, particularly if it is not the absolute amount of the flow of funds but only the relation between different groups of intermediaries which is to be measured.

period. Table 12, for example, shows more clearly than Table 11, the banking system's high share in the total increase in assets of financial intermediaries during war inflations, and in the total decrease during deep depressions. Light is also thrown on the peculiarities of the two most recent periods. The period from 1946 through 1949 was characterized by an abnormally low share of commercial banks in the substantial increase—on the average $16 billion a year—in the total assets of financial intermediaries, and this found its counterpart in the extraordinarily high shares of life insurance companies, government and private pension funds, and savings and loan associations. In contrast, the distribution of the considerably larger increase in total assets of financial intermediaries from 1950 through 1952—$35 billion a year—is much closer to the usual pattern. Commercial banks in these three years accounted for slightly less than one-third of the total; private life insurance companies for one-seventh—about the same ratio as in previous periods not affected by war and the Great Depression; savings and loan associations for almost one-tenth—their second highest share on record; and personal trust departments for almost one-tenth, a higher share than in the preceding decade, but well below that prevailing from 1900 to 1939.

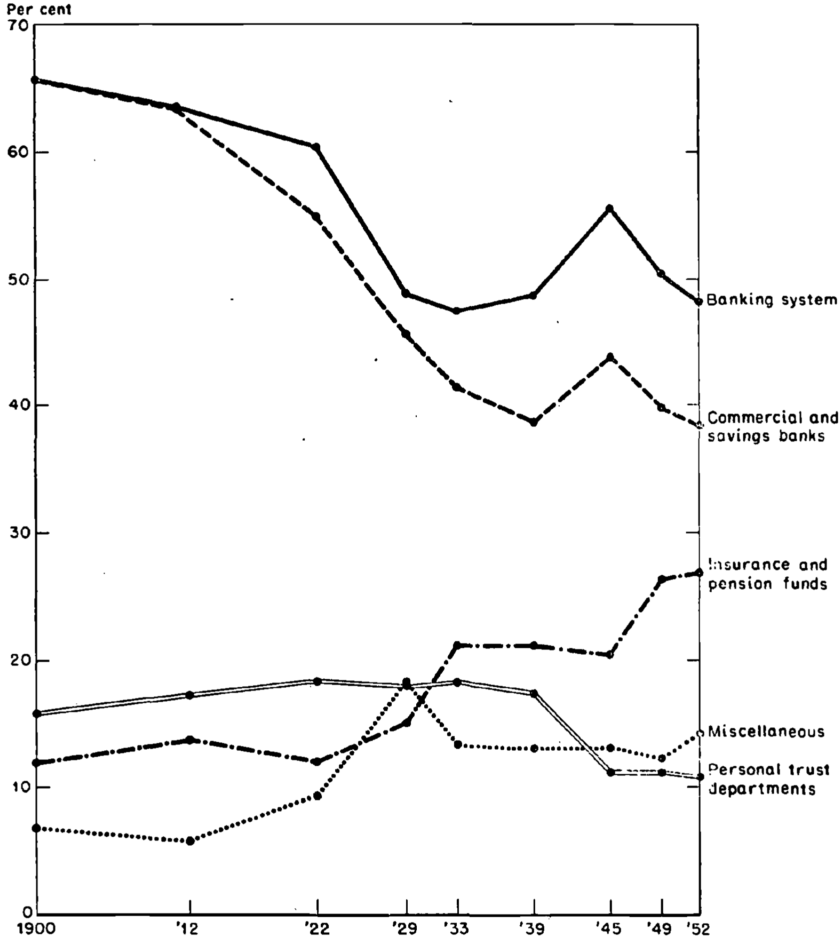
b. SHIFTS IN DISTRIBUTION OF ASSETS AMONG INSTITUTIONS

The differing rates of growth of the various groups of financial intermediaries have, of course, led to considerable changes in the distribution of aggregate assets among them (Table 11). These shifts are summarized in Chart 8, which compares the four major groups, also showing commercial and savings banks' share separately from the banking system.[11] Each group shows a pattern of its own in the movements of its share in the aggregate assets of financial intermediaries. The share of the banking system has declined steadily except for an interruption from the middle thirties through World War II. Personal trust departments show a slight increase up to 1922, and a decline during the last two decades. The miscellaneous group increased its share sharply to 1929, and lost relatively little of the advance during most of the following 20 years—except during the Great Depression—because of the increasing

[11] With miscellaneous intermediaries, as listed in Table 11, are included the three groups at the bottom of the table for which only rough estimates of total assets are available.

CHART 8

Distribution of Total Assets among Main Branches of Financial Intermediaries, Benchmark Dates, 1900-1952



Source: Table 11.

share of government lending institutions, which offset a sharp decline in the share of security brokers and dealers. The share of insurance and pension funds, on the other hand, has generally been rising, particularly in the 1920's and immediately after World War II.

These movements in the four major groups, and particularly the ups and downs in the shares of individual groups of intermediaries, are the result of manifold forces, some peculiar to one group of institutions and some of a more general scope. Of the general forces, one deserves particular emphasis—the influence of inflation and deflation. The share of the banking system in the total assets of financial intermediaries increases—compared to its secular downward trend—during war inflation, and declines rapidly during deflation. This is not unexpected, since the main characteristic of inflation and deflation is a particularly sharp expansion and contraction of money and credit, i.e. essentially the liabilities and assets of the banking system. These movements are reflected as a rule only in attenuated form in the assets and liabilities of the other types of financial intermediaries. In particular, the influence of inflation and deflation is slowest and least pronounced on those intermediaries whose liabilities are predominantly the result of a stock of old contracts, and whose funds are invested in assets the value of which does not fluctuate widely in accordance with the general price level. Insurance organizations are the outstanding examples. As expected, their share declines or remains unchanged during inflations (see in Chart 8, for example, their behavior during 1913-1922 and 1940-1945), and increases with particular rapidity during depressions. In the case of personal trust departments, a marked relation to inflation and deflation would not be expected because of the approximately even distribution of their assets between debt and equity securities. Long-term trends, particularly the relatively low growth rate of personal trust departments since 1929 (as compared with other types of financial intermediaries), seem to have determined the movements of their share in the assets of all intermediaries.

A different type of basic movement is reflected in the trend of the share of public intermediaries, as shown in Table 13.

Public intermediaries remained insignificant until 1929 (if the Federal Reserve Banks are excluded), and their share did not exceed 1½ per cent at any benchmark date. Even if the Federal Reserve Banks are included, the share of public intermediaries until 1929 remained below 5 per cent. From 1929 on the increase is sharp. The share rose to 10 per cent in 1933; it jumped to 18 per cent by 1939; and by 1952 it reached 24 per cent. If the Federal Reserve Banks are excluded, the share advances even more steeply, from slightly over 1 per cent in 1929 to 9 per cent in 1939 and to almost 15 per cent in 1952. Initially this increase was largely the result of the expansion of government lending institutions during and immediately after the Great Depression, and later primarily the result

TABLE 13

Private and Public Financial Intermediaries, Total Assets

	AMOUNT (BILLIONS OF DOLLARS)				PERCENTAGE SHARE OF PUBLIC INTERMEDIARIES	
			Public Intermediaries[a]			
	All Inter-mediaries (1)	*Private Inter-mediaries* (2)	*Including Fed. Res. Banks* (3)	*Excluding Fed. Res. Banks* (4)	*Including Fed. Res. Banks* (5)	*Excluding Fed. Res. Banks* (6)
1900	$ 19.0	$ 19.0	$ 0	$ 0	0%	0%
1912	40.8	40.7	0.1	0.1	0.2	0.2
1922	98.4	92.1	6.3	1.1	6.4	1.1
1929	167.3	159.8	7.5	2.0	4.5	1.2
1933	137.6	123.5	14.1	7.0	10.2	5.1
1939	202.5	166.2	36.3	17.3	17.9	8.5
1945	406.1	299.8	106.3	61.3	26.2	15.1
1949	452.4	340.5	111.9	66.2	24.7	14.6
1952	556.4	423.4	133.0	81.2	23.9	14.6

[a] Federal Reserve and postal savings systems; government pension, retirement and social security funds; government lending institutions.

Source: Appendix Tables A-1 to A-28.

of the continued and substantial growth in government insurance funds.[12]

As to the shares of individual branches making up the major groups (see Table 11), probably the outstanding movement is the decline for commercial banks from slightly more than one-half of aggregate assets in 1900 to one-third in the thirties. This is a continuation of the downward trend observed throughout the nineteenth century. In 1850, for instance, the assets of commercial banks had accounted for approximately four-fifths of the total for all intermediaries. This movement, indeed, is merely a reflection of the fact that commercial banks were the first important branch of financial intermediaries, and necessarily would lose ground relatively as other branches arose and developed to maturity. It is, therefore, interesting that the decline for commercial banks leveled off in the early thirties, and that after a temporary increase apparently due to the credit inflation of World War II, and comparable decrease afterward, their share by 1952 had not fallen below its 1933 level.

[12] The assets of public intermediaries do not include foreign loans made directly by the United States government.

The shares of a few other groups also show definite trends, which, though often relatively much more marked than that of commercial banks, are necessarily of smaller absolute size. Mutual savings banks showed about the same main movements as commercial banks, but the decline in their share was even more pronounced—from 13 per cent in 1900 to 5 per cent in 1952. Three important groups increased their share considerably: life insurance companies, governmental and private pension funds, and savings and loan associations. For life insurance companies, the rise was fairly evenly distributed between the 1900-1929 and the 1929-1952 periods; for pension funds it is almost entirely limited to the last two decades; and for savings and loan associations it is concentrated in two periods of high home building activity (1923-1929 and 1946-1952). Four groups show a parabolic trend—an increase up to 1929 and a decline thereafter: security brokers and dealers, investment companies,[13] land banks, and personal trust departments. The movement is most pronounced in the case of investment bankers, reflecting in the sharp peak of 1929 the effects of the era of frenzied finance in the late twenties.

4. *Size Distribution of Assets of Financial Intermediaries*

The size distribution of assets among financial intermediaries of different types is significant primarily because of the possibility that the concentration of resources of a given branch of financial intermediaries in the hands of a small number of individual institutions increases the importance of the policies followed by these few institutions on the capital market. Concentration of resources thus creates the possibility—though it by no means necessarily implies the existence—of monopolistic or oligopolistic tendencies in the demand for or the supply of certain forms of funds and, hence, of deviations from an altogether competitively determined pattern of fund flows and yield rates. Government intervention through monetary and fiscal policy, and special regulation of different types of financial intermediaries, of course, tend in the same direction. The degree of concentration thus may affect the distribution of resources of financial intermediaries among different types of assets and among different parts of the country, and thereby may influence the volume and character of national investment.

[13] Open-end investment companies, of small importance in 1929, show a definite upward trend from the thirties on.

The problem of size distribution of assets of the different financial intermediaries is thus significant for their position in the process of saving and investment. Up to the present the subject has not been studied in detail. Its discussion is nevertheless relegated to Appendix C, for two reasons. First, size distribution—because of its close connection to the problem of concentration—unfortunately seems to be a subject on which whatever is said is likely to be misinterpreted. This danger requires more detailed presentation of the available data than seemed compatible with the rest of this chapter. Secondly, the material brought together in Appendix C, although of interest and significance, is not sufficient for a definite answer to some of the questions that naturally arise in this field. The material thus raises questions rather than provides answers, answers that often would require considerably more spade work than has as yet been done or could be done within the framework of the study.

The discussion in Appendix C shows that inequality in size distribution (i.e. the degree of concentration) has in all likelihood increased in most branches of financial intermediaries over the last half century. It also indicates that differences among branches in level and increase of inequality are considerable; that the increase in concentration has not been unbroken; and that it was more pronounced in the 1920's and during the Great Depression than before or after. These conclusions should not be accepted without qualification, nor made the starting point of far-reaching interpretations, without examination of the nature of the data and their limitations as set forth in Appendix C.