FRAMEWORK FOR FINANCIAL RESILIENCY

Remarks by

Henry C. Wallich
Member, Board of Governors of the Federal Reserve System

at the

Conference on Financial Crises

of the

Salomon Brothers Center for the Study of Financial Institutions
of New York University

New York University
Graduate School of Business Administration

New York, New York

Friday, May 21, 1976

Summary and Conclusions

The American economy is in process of reducing financial risks. This is reaction to the escalation of financial risk in the economy that has been going on since World War II and that culminated in a severe recession from which we are now recovering. The bright young men who thought that if the risks they took in the management of financial and other corporations paid off, they would make it big, and if not, they could always find a new place to try, have learned differently, or perhaps are gone.

The present more conservative phase may be long lasting. The shock waves from the events of 1973 and 1974 seem to have set in motion a trend toward greater financial caution. The government has helped the transition by increasing its borrowing as private borrowers became more selective. The Federal Reserve has held the growth of the money supply moderate and plans to keep it that way.

There are two ways in which any inherent tendency condemning the economy toward successive waves of increased risk could be reduced. One is a change in our tax laws, to tax interest at the same rate as dividends, while holding total revenue from the corporate income tax steady. This would reduce the present attractiveness of debt over equity financing. The other applies to banks. There, insurance of deposits should be increased, probably not to 100 per cent, but substantially increased. That would cost little, and it would increase the stability of banks by giving assurance to depositors beyond the present $40,000 insurance limit. Keeping larger deposits in place could greatly ease the situation of banks at times of liquidity stresses.

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The American economy, having passed through a long period
during which risks were escalating, now seems to be clearly in the
process of reducing financial risks. The data that accompanied the
escalation phase are familiar. Nonfinancial enterprises increased

the ratio of external to total financing from the low levels of
the 1950's; within external financing they increased the role of
debt relative to equity, and within debt, that of short-term
to total debt. Cash and liquid assets declined in relation to
short-term liabilities.

For the banking system, an analogous process meant
diminishing capital ratios, increasing reliance on purchased
funds, increasing "maturity intermediation," (transformation
of short-term liabilities into long-term assets) and reducing
the proportion of secondary liquid assets.

Most of these trends, in part displayed in the appended
tables, had been continuing with only minor interruptions since
the end of World War II, at which time the economy was perhaps
overly liquid as a result of financial consolidation in the
1930's and the exigencies of wartime finance. In point of fact,
it is difficult to indicate a historical period when the
financial structure was "right."

A process of rebuilding liquidity and restructuring
balance sheets has been underway for most nonfinancial and
financial enterprises for well over a year. We do not know
how far it will go. We do know that similar reversals in 1967

and 1970 were no more than interruptions of a longer trend toward

higher risks. I believe that the present phase of consolidation

is different. The shock waves that emanated from the events

of 1973 and 1974 seem to have set in motion a trend toward

greater financial caution that promises to achieve a much more

satisfactory degree of financial consolidation than occurred on

these previous occasions.

The financial system is not condemned to move toward ever

higher degrees of risk, with ever greater reliance on government to

stave off ultimate calamity. On the contrary, it seems to me that

the degree of risk-taking in an economy fluctuates in long-term

cycles, extending over a number of business cycles, and that the

elevation of risk exposure on one side of this cycle produces

results which induce an extended period of movement toward safer

financial configurations. If we think of insolvency as the ultimate

brink toward which the escalation of risk leads, then the early

part of the long-term cycle represents an exploration of the

approaches to the brink. Nobody quite knows where it is. Some

bold spirits press forward, and if they are observed not to fall

over, others conclude that the terrain is safe and follow.

Eventually some do go over, and the rest, having suffered a severe

scare, fall back. The scare occasioned by the latest exhibitions

of financial brinkmanship, I would judge, has been sufficient to

induce a very sizeable retreat toward safer ground.

It is this process of approach and retreat that I would like to examine in somewhat more detail. Underlying the process is a hypothesis that people's expectations of a major calamity are formed, much like other expectations, on the basis of a weighted sum of past experiences. Recent experience under such a hypothesis typically receives high weight, experience far in the past low weight. If a major financial crisis, such as the 1930's, is only a few years behind, heavy weighting of recent past experience will make firms and households cautious. As the experience fades into the past, it receives diminishing weight relative to more recent experience when nothing adverse happened. Thus the restraint of experience diminishes over several relatively mild business cycles until the resulting escalation of risk leads to a new crisis and the process begins once more.

Within this framework, I would like to examine some of the mechanisms and elements in the post-World War II environment that propelled business firms and banks in the direction of higher risk as recollections of past calamities had faded. I see at work three types of mechanisms: (1) genuine changes in the degree of risk, especially as a result of government action of various sorts, (2) a change in perception, in a downward direction, of the probability of particular events, when the actual probabilities have not declined, and (3) changes in attitudes toward risk, i.e., a reduction in risk aversion.

I shall begin by examining case (1) representing changes
in objective reality that imply a reduction in risk. Government
has had a reasonable, although far from complete, degree of
success in using countercyclical fiscal and monetary policies
to reduce business risk from major recessions. Even in 1973-74,
it took the combined interaction of food shortages, the oil
crisis, a simultaneous cyclical downturn throughout the
industrialized world, and the accumulated maladjustments of
previous years, including almost 10 years of inflation, to produce
the most severe recession of the post-war period. In addition to
the risk reduction resulting from macroeconomic stabilization,
the government has employed microeconomic measures to limit
economic and financial risks for individuals and businesses,
among them programs for income maintenance, governmental assistance
to small businesses and farmers and even large firms in distress,
lender-of-last-resort facilities, deposit insurance, mortgage
insurance and guarantees, and stock market credit regulation.

I would add bank supervision and regulation to this list,
realizing that measures of this kind cannot achieve total protection.
Regulation, by its nature, cannot cover all contingencies. Some
avenues toward excessive risk-taking are likely to remain open.
If the regulated erroneously concludes that everything that is
not marked as dangerous is therefore necessarily safe, he may be

misled. Likewise, if the regulated is prepared to accept a certain degree of risk in his operation, regulation that limits particular forms of risk will not keep him from achieving his preferred risk exposure. It will merely foreclose for him his preferred forms of risk, leaving open others that are second best. Thus regulation may lead the regulated toward the selection of risks that he regards as suboptimal in kind, even if appropriate in degree.

Next I turn to what seems to me a tendency to re-evaluate, that is, change the perception of, risks that in an objective sense are really invariant. This arises, first, because asset markets, like other markets, sometimes develop imperfections. Some assets are not always valued correctly, and innovative operators may then be able to take advantage of this. Their success, however, can spawn imitators whose actions may contribute to an over-evaluation of assets that originally were not undervalued. There are many obvious examples of this in the history of the stock and real estate markets.

Second, a tendency to underestimate risk may occur because the ultimate consequences of excessive risk do not materialize immediately. In terms of probability, a high risk operation may work out well a number of times or for a considerable period, before the failure whose probability was underestimated does occur. In the interim, erroneous assessments of the true risk may proliferate.

Third, excessive risk-taking can result from the tendency of portfolio managers to justify their decisions by reference to the decisions of others similarly situated, rather than by use of objective criteria. When a "peer group" is employed to represent the standard of sound practice, there is no real check on a developing trend toward riskier portfolios.

Fourth, managers of investments, financial and real, probably tend to underestimate covariance within portfolios or assets or projects they manage. For the expert whose job it is to evaluate the risk and return of a particular asset, the specific risk of that asset very easily comes to dominate his assessment of general market risk. In the event, as we have often seen, market risk may dominate as most things tend to go up and down together, and the result then is excessive risk-taking.

Fifth, even when risk is recognized and a risk premium demanded, it may not always give the protection that is expected. It is one thing to invest in a B bond and receive a risk premium of one per cent per year for 30 years. It is quite another to receive the same premium rate on a 90-day CD. There is, in effect, no reasonable risk premium that could compensate for substantial risk in a short-term asset. A belief to the contrary is likely to lead to excessive risk-taking.

From the discussion of changing perception, i.e., re-evaluation, of objectively unchanging risks, I now turn to the possibility that fundamental attitudes toward risk may change over time, leading to a greater willingness to accept risks that are correctly evaluated as such. It should be borne in mind that risk aversion is not necessarily good and that risk neutrality is not necessarily bad. Much economic theorizing postulates risk neutrality on the part of the firm and risk aversion on the part of individuals as ultimate wealth owners. In the long run, one might assume, a sample of risk neutral firms will out-compete a sample of risk averse firms, even though a higher percentage of the risk neutrals may fall by the wayside.

First, a firm's willingness to accept risk may increase over time as older executives who had experienced the last big crisis retire.

Furthermore, the attitude of "managers" toward risk tends to depend on the structure of penalties and rewards. The manager who expects to be penalized for losses but not to be greatly rewarded for gains will be very cautious. Another who has a chance to make it big if he wins, and thinks he can always get another job if he misses, will lean in the other direction. The increased use of stock options and management bonuses may encourage this attitude. It is my impression that, in the

investment business at least, the structure of rewards and penalties was moving in the second direction before recent calamities struck.

Finally, there may be a tendency to accept greater risk with respect to the investment of money derived from past gains than with respect to the original investment.

These situations, although based only upon casual empiricism, seem to me to provide at least a partial explanation of behavior observed in the not too distant past. If my basic hypothesis is right -- the highest weight in the formation of expectations attaches to recent, often traumatic, experience -- most of these mechanisms that were pushing for greater risk-taking are now operating in reverse. The bright young men have learned a lesson, or perhaps they are gone altogether. Greatly increased risk premia indicate a heightened awareness among investors as to the risk being assumed. These premia, in turn, create an incentive for firms to move to less exposed positions. The location of the brink has been thoroughly explored, and some have fallen over. The question is how long and how far the retreat from the brink will go.

I do not believe that there is a signpost telling us where danger ends and safety begins. There are only more safe and

less safe positions. A fully informed investing public accurately
gauging economic risk will be making asset choices that guide
firms to positions reflecting the public preferences. We should
bear in mind that a universal effort to achieve maximum safety
may send us on a long and thirsty journey as each of the travelers
tries to improve his liquidity or protect his solvency by forcing
a less advantageous position on the rest.

Improvement in balance sheet structures, both of
nonfinancial and financial corporations, is obviously very much
needed. I would like to end with a short account of a few measures
that government has taken, and a few it could take, to shorten and
ease the trip, and to reduce artificial incentives to riskier
financial structures.

To begin with I would note that the monetary authority
has not sought to resolve liquidity and solvency problems by
inflating the economy. The rate of growth of the money supply,
M_1, has been moderate over the last two years and the Federal
Reserve plans to keep it that way. We have learned, moreover,
that whatever power inflation might have had in the past to float
the economy off any financial shoals has vanished today. Inflation
has revealed itself as a threat to liquidity and solvency.

What government has done of late through its fiscal policy
is to take on some of the burden of debt that needed to be incurred

if savings were to be invested and jobs to be protected. Over
the entire post-war period, however, the Federal government
has been the one sector which has sharply reduced its debt relative
to its income. As a result, all other sectors together have found
their debt/income ratios rising. While this may have been an
additional factor making for higher risk, I would not accept for
a moment the implication that the government should increase its
debt in order to spare the private sector the need to increase its
own. The private sector can live with higher debt/income ratios
than those of the late 40's and the 50's. But the substitution
of public for private debt capacity during the recent recession
has been beneficial for the restructuring process as well as for
the maintenance of income levels. I need hardly add that what is
beneficial during a recession may become a threat as the recovery
advances.

I have in the past examined two devices that might reduce
the economy's inherent pressure toward escalating risk, and I shall
mention them briefly. One is a change in our tax system designed
to eliminate the tax bias toward debt and against equity. We can
achieve this by reducing the tax deductibility of interest, thereby
increasing the tax base so that the corporate tax falling upon
dividends and profit retentions may be simultaneously reduced.
If the same tax rate were applied to income going into interest
payments, dividend payments, and profit retentions, the tax system

would be neutral with regard to the corporate choice between equity and debt. The problems of phasing into such a system -- it can only be done gradually -- are not inconsiderable, but could most likely be solved.

A second reduction in our financial risk exposure applies to the banking system. Present insurance of $40,000 per deposit protects 63 per cent of the dollar value of deposits in insured banks, but leaves particularly large banks vulnerable to withdrawal of deposits in excess of $40,000. The historical loss experience, even including U.S. National Bank in San Diego and Franklin, indicates that it would cost little to raise the level of insurance even up to 100 per cent. Doing so, in addition to providing insurance, would also help to minimize liquidity problems such as arose in the case of the Franklin National Bank, where a rapid runoff of CDs forced the Federal Reserve to substitute its credit for that of large depositors. However, it may not be wise to go to 100 per cent insurance, even if some of the inherent regulatory problems would be dealt with by graduated premiums. Full deposit insurance might eliminate the discipline now exerted over banks by the market place. Nor would I regard insurance as a full substitute for a continued effort by the banks to improve their capital positions. Nevertheless, enlarged deposit insurance is one of the avenues open to the government to increase the safety of our financial structure.

Table 1

INTERNAL AND EXTERNAL SOURCES OF FUNDS
OF NONFINANCIAL CORPORATIONS[1]/

End of Year or Quarter[2]/	Annual Flows in Billions of Dollars					
	Retained Profits After IVA and CCA[3]/	Capital Consumption Allowance[4]/	Gross Internal Funds[5]/	Short-Term Debt[6]/	Long-Term Debt[7]/	Net Equity Issues[8]/
1946	3.2	4.6	7.8	6.0	3.5	1.0
1947	6.9	5.7	12.6	7.9	5.2	1.1
1948	11.9	6.8	18.7	3.2	5.2	1.0
1949	11.3	7.8	19.1	-3.6	2.9	1.2
1950	9.3	8.6	17.9	18.4	4.0	1.3
1951	9.9	10.0	19.9	8.0	5.8	2.1
1952	9.9	11.2	21.1	-0.2	5.8	2.3
1953	8.2	12.9	21.1	0.3	4.0	1.8
1954	8.7	14.6	23.3	-0.4	4.5	1.6
1955	12.2	17.0	29.2	15.4	6.1	1.7
1956	10.5	18.4	28.9	5.6	7.5	2.3
1957	10.3	20.3	30.6	1.0	8.5	2.4
1958	8.1	21.4	29.5	1.6	8.1	2.0
1959	12.1	22.9	35.0	10.5	7.5	2.1
1960	10.2	24.2	34.4	4.3	7.1	1.4
1961	10.2	25.4	35.6	8.0	8.7	2.1
1962	13.0	28.4	41.4	6.6	10.2	0.4
1963	14.9	29.5	44.4	11.8	10.1	-0.3
1964	19.3	30.7	50.0	11.3	9.8	1.1
1965	23.4	32.6	55.9	21.4	13.4	*
1966	25.0	35.4	60.4	16.7	18.3	1.3
1967	22.2	38.9	61.1	8.9	21.2	2.4
1968	19.5	42.6	62.1	29.9	22.2	-0.2
1969	14.3	47.3	61.6	32.5	21.5	3.4
1970	6.0	52.7	58.7	11.4	27.0	5.7
1971	10.3	57.7	68.0	9.9	31.1	11.4
1972	18.2	62.0	80.2	25.2	33.2	10.9
1973	15.7	68.1	83.8	44.4	39.8	7.4
1974	0.1	77.6	77.7	53.1	44.6	4.1
1975	15.2	88.6	103.8	-3.7	33.9	9.9
1976-I	25.2	94.8	120.0	37.3	24.6	7.2
Averages:						
1946-1950	8.5	6.7	15.2	6.4	4.2	1.1
1951-1955	9.8	13.1	22.9	4.6	5.2	1.9
1956-1960	10.2	21.4	31.7	4.6	7.7	2.0
1961-1965	16.2	29.3	45.5	11.8	10.4	0.8
1966-1970	17.4	43.4	60.8	19.9	22.0	2.5
1971-1975	11.9	70.8	82.7	25.8	36.5	8.7

Footnotes attached next page.

Footnotes to Table 1

1/Non-farm corporations.

2/Numbers for first quarter 1976 are preliminary and are at
seasonally adjusted annual rates.

3/Retained profits are on the old NIA basis through 1961
--reflect only the inventory valuation adjustment (IVA)--
and are on the new NIA basis after 1961--reflect the
inventory valuation adjustment plus the capital consumption
adjustment (CCA) for underdepreciation. Retained profits
include foreign branch profits.

4/The capital consumption allowance is from the NIA and is
primarily tabulated by IRS from tax returns filed by non-
financial corporations.

5/Gross internal funds: retained profits after IVA and
(since 1962) CCA plus capital consumption allowance.

6/Short term debt: commercial paper, acceptances, finance
company loans, U.S. Government loans,
construction loans, 60 per cent of bank
loans N.E.C., profit taxes payable,
trade debt, and miscellaneous liabilities.

7/Long term debt: tax exempt and corporate bonds, multi-
family and commercial mortgages, and 40
per cent of bank loans N.E.C.

8/Net equity issues: new equity issues less equity
retirements.

*--less than 0.05.

Totals may not add because of rounding.

SOURCE: Flow of Funds Section, Board of Governors of the
Federal Reserve System.

TABLE 2

EXTERNAL SOURCES OF FUNDS OF NONFINANCIAL CORPORATIONS:[1]
PERCENTAGE DISTRIBUTION OF ANNUAL FLOWS

End Year or Quarter[2]	$ Billions — External Sources of Funds[3]	Per Cent — S.T. Debt[4] External Sources	L.T. Debt[4] External Sources	Net Equity Issues[4] Ext. Sources
1946	10.5	57.1	33.3	9.5
1947	14.2	55.6	36.6	7.7
1948	9.4	34.0	55.3	10.6
1949	0.5	n.m.	n.m.	n.m.
1950	23.7	77.6	16.9	5.5
1951	15.9	50.3	36.5	13.2
1952	7.9	-2.5	73.4	29.1
1953	6.1	4.9	65.6	29.5
1954	5.7	-7.0	78.9	28.1
1955	23.2	66.4	26.3	7.3
1956	15.4	36.4	48.7	14.9
1957	11.9	8.4	71.4	20.2
1958	11.7	13.7	69.2	17.1
1959	20.1	52.2	37.3	10.4
1960	12.8	33.6	55.5	10.9
1961	18.8	42.5	46.3	11.2
1962	17.2	38.4	59.3	2.3
1963	21.6	54.6	46.8	-1.4
1964	22.2	50.9	44.1	5.0
1965	34.8	61.5	38.5	*
1966	36.3	46.0	50.4	3.6
1967	32.5	27.4	65.2	7.4
1968	51.9	57.6	42.8	-0.4
1969	57.4	56.6	37.5	5.9
1970	44.1	25.8	61.2	12.9
1971	52.4	18.9	59.4	21.7
1972	69.3	36.4	47.9	15.7
1973	91.6	48.5	43.4	8.1
1974	101.8	52.2	43.8	4.0
1975	40.1	-9.2	84.5	24.7
1976-I	69.1	54.0	35.6	10.4
Averages:				
1946-1950	11.7	56.1	35.5	8.3
1951-1955	11.8	22.4	56.1	21.4
1956-1960	14.4	28.8	56.4	14.7
1961-1965	22.9	49.6	47.0	4.3
1966-1970	44.4	42.7	51.4	5.9
1971-1975	71.0	29.3	55.8	14.8

Footnotes attached next page.

Footnotes to Table 2

1/Non-farm corporations.

2/Numbers for first quarter 1976 are preliminary and are at seasonally adjusted annual rates.

3/External source of funds: short term debt, long term debt, and net equity issues. See Table 1 for these data.

4/See the footnotes to Table 1 for the definition of this item.

n.m.--not meaningful.

*--less than 0.05.

Totals may not add because of rounding.

SOURCE: Flow of Funds Section, Board of Governors of the Federal Reserve System.

TABLE 3

TOTAL SOURCES OF FUNDS OF NONFINANCIAL CORPORATIONS:[1]
PERCENTAGE DISTRIBUTION OF ANNUAL FLOWS

End of Year or Quarter[2]	Billions — Total Sources of Funds[3]	Gr.Int.Funds[4] / Total Sources	Memo: Ret.Profits[4] / Tot.Sources	S.T. Debt[4] / Total Sources	L.T. Debt[4] / Total Sources	Total Debt[5] / Total Sources	Net Equity Issues[4] / Tot.Sources
1946	18.3	42.6	17.5	32.8	19.1	51.9	5.5
1947	26.8	47.0	25.7	29.5	19.4	48.9	4.1
1948	28.1	66.6	42.3	11.4	18.5	29.9	3.6
1949	19.6	97.5	57.6	-18.4	14.8	-3.5	6.1
1950	41.6	43.0	22.3	44.2	9.6	53.8	3.1
1951	35.8	55.6	27.6	22.3	16.2	38.5	5.9
1952	29.0	72.8	34.1	-0.7	20.0	-19.3	7.9
1953	27.2	77.6	30.1	1.1	14.7	15.8	6.6
1954	29.0	80.3	30.0	-1.3	15.5	-14.1	5.5
1955	52.4	55.7	23.3	29.4	11.6	41.0	3.2
1956	44.3	65.2	23.7	12.6	16.9	29.6	5.2
1957	42.5	72.0	24.2	2.4	20.0	22.3	5.7
1958	41.2	71.6	19.7	3.9	19.7	23.5	4.9
1959	55.1	63.5	22.0	19.1	13.6	32.7	3.8
1960	47.2	72.9	21.6	9.1	15.0	24.2	3.0
1961	54.4	65.4	18.7	14.7	16.0	30.7	3.9
1962	58.6	70.7	22.2	11.3	17.4	28.7	0.7
1963	66.0	67.3	22.5	17.9	15.3	33.2	-0.5
1964	72.2	69.3	26.7	15.6	13.6	29.2	1.5
1965	90.7	61.6	25.8	23.6	14.8	38.4	*
1966	96.7	62.5	25.9	17.3	18.9	36.2	1.3
1967	93.6	65.3	23.7	9.5	22.5	32.2	2.6
1968	114.0	54.5	17.1	26.2	19.5	45.7	-0.2
1969	119.0	51.8	12.0	27.3	18.1	45.4	2.9
1970	102.8	57.1	5.8	11.1	26.3	37.4	5.5
1971	120.4	56.5	8.6	8.2	25.8	34.1	9.5
1972	149.5	53.7	12.2	16.9	22.2	39.1	7.3
1973	175.4	47.8	9.0	25.3	22.7	48.0	4.2
1974	179.5	43.3	0.1	29.6	24.9	54.4	2.3
1975	143.9	72.1	10.6	2.6	23.6	-21.0	6.9
1976-I	189.1	63.5	13.3	19.7	13.0	32.7	3.8

Footnotes to Table 3

1/Non-farm corporations.

2/Numbers for first quarter 1976 are preliminary and are at
  seasonally adjusted annual rates.

3/Total sources of funds: gross internal funds plus external
                           sources of funds. See Tables 1 and
                           2 for data and definitions.

4/See Table 1 for data and definition.

5/Total debt: short term debt plus long term debt. See
               Table 1 for data and definitions.

*--less than 0.05.

Totals may not add because of rounding.

SOURCE: Flow of Funds Section, Board of Governors of the Federal
         Reserve System.

TABLE 4

SELECTED OUTSTANDINGS AND RATIOS
OF NONFINANCIAL CORPORATIONS[1]

End of Year or Quarter[2]	Outstandings in Billions of Dollars					Ratios of Outstandings			
	Liquid Assets[3]	Short Term Debt[4]	Total Debt[5]	Historical Cost Equity[6]	Current Cost Equity[7]	Liquid Assets / S.T. Debt	S.T.Debt / Total Debt	Historical Cost Equity / Total Capitalization[8]	Current Cost Equity / Total Capitalization[8]
1946	33.5	41.5	80.5	96.5	113.3	0.807	0.516	0.545	0.585
1947	35.1	49.5	93.7	110.6	133.9	0.709	0.528	0.541	0.588
1948	36.3	52.5	102.2	124.5	148.9	0.691	0.514	0.549	0.593
1949	39.4	49.0	101.5	136.0	155.7	0.804	0.483	0.573	0.605
1950	44.0	67.7	124.1	151.6	173.8	0.650	0.546	0.550	0.583
1951	46.7	75.9	138.1	168.0	192.2	0.615	0.550	0.549	0.582
1952	46.6	75.8	143.8	179.1	202.0	0.615	0.527	0.555	0.584
1953	48.6	76.6	148.5	191.5	214.9	0.634	0.516	0.563	0.591
1954	48.9	76.4	152.9	201.0	222.5	0.640	0.500	0.568	0.593
1955	54.2	92.0	174.5	216.3	245.3	0.589	0.527	0.554	0.584
1956	49.7	97.8	187.8	231.2	269.0	0.508	0.521	0.552	0.589
1957	49.2	98.8	197.4	244.8	286.6	0.498	0.501	0.554	0.592
1958	51.7	100.6	207.4	255.2	297.2	0.514	0.485	0.552	0.589
1959	57.1	111.7	225.9	269.8	313.2	0.511	0.494	0.544	0.581
1960	53.0	116.1	237.6	281.0	320.0	0.457	0.489	0.542	0.574
1961	56.5	123.0	253.2	292.4	329.5	0.459	0.486	0.535	0.565
1962	59.6	129.8	270.2	308.2	343.7	0.459	0.480	0.533	0.560
1963	64.2	141.8	292.3	322.6	359.1	0.453	0.485	0.525	0.551
1964	65.1	153.5	313.7	342.6	380.6	0.424	0.489	0.522	0.548
1965	67.8	175.3	348.9	364.9	405.8	0.387	0.502	0.511	0.538
1966	64.1	192.0	383.9	392.2	439.3	0.334	0.500	0.505	0.534
1967	68.8	201.6	414.6	418.3	473.7	0.341	0.486	0.502	0.533
1968	76.7	231.3	466.6	439.6	508.2	0.332	0.496	0.485	0.521
1969	78.9	263.9	520.7	466.7	553.4	0.299	0.507	0.473	0.515
1970	78.5	275.8	559.6	485.7	595.5	0.285	0.493	0.465	0.516
1971	89.1	285.4	600.4	514.0	643.3	0.312	0.475	0.462	0.517
1972	93.1	310.7	658.6	548.3	701.3	0.300	0.472	0.454	0.516
1973	100.1	356.0	748.8	598.6	780.1	0.281	0.475	0.444	0.512
1974	113.1	412.0	844.3	653.5	922.2	0.275	0.488	0.436	0.522
1975	132.4	408.4	874.7	646.0	1002.1	0.324	0.467	0.425	0.534
1976-I	133.2	412.6	883.2	n.a.	n.a.	0.323	0.467	n.a.	n.a.

Footnotes to Table 4

1/Non-farm corporations.

2/Numbers for first quarter 1976 are preliminary.

3/Liquid assets: demand deposits, currency, time deposits, U.S. Government securities, State and local obligations, commercial paper, and security R.P.'s.

4/Short term debt: see footnotes to Table 1 for a definition.

5/Total debt: short term debt plus long term debt. See footnotes to Table 1 for definitions.

6/Historical cost equity represents the capital stock of non-financial corporations using historical cost accounting. Financial assets are valued at par or book value, while fixed assets and inventories are valued at historical cost after deducting depreciation on a straight line basis, which is the most common accounting method used in published statements of condition. The number for 1975 is preliminary.

7/Current cost equity represents the capital stock of non-financial corporations using current cost accounting. Financial assets are valued at par or book value, while fixed assets are valued at current prices after deducting depreciation on a double declining balance basis. The number for 1975 is preliminary.

8/Total capitalization is the sum of total debt plus historical cost equity when the numerator of the ratio is historical cost equity and is the sum of total debt plus current cost equity when the numerator is current cost equity.

n.a. -- not available.

Totals may not add because of rounding.

SOURCE: Flow of Funds Section, Board of Governors of the Federal Reserve System.