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Measuring the Financial Soundness of U.S. Firms, 1926–2012☆

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Abstract

We measure the distribution of firms' financial soundness over most of the last century for a broad cross section of firms. We highlight three main findings for this key aggregate state variable. First, the three worst recessions between 1926 and 2012 coincided with sharp deteriorations in the financial soundness of all firms, but other recessions did not. Second, fluctuations in total asset volatility, rather than fluctuations in leverage, appear to drive most of the variation in the distribution of firms' financial soundness. Finally, the distribution of financial soundness for large financial firms 1962-2007 largely resembles that for large nonfinancial firms.

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