

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Industrial Profits in the United States

Volume Author/Editor: Ralph C. Epstein assisted by Florence M. Clark

Volume Publisher: NBER

Volume ISBN: 0-87014-025-6

Volume URL: <http://www.nber.org/books/epst34-1>

Publication Date: 1934

Chapter Title: BOOK III: EARNINGS OF SMALL CORPORATIONS  
Introduction

Chapter Author: Ralph C. Epstein, Florence M. Clark

Chapter URL: <http://www.nber.org/chapters/c5036>

Chapter pages in book: (p. 347 - 352)

BOOK III  
EARNINGS OF SMALL  
CORPORATIONS



## CHAPTER 27

### INTRODUCTION

LIKE several chapters of Book II, the succeeding chapters of Book III present detailed information on the earnings rates of corporations engaged in various branches of Manufacture and Trade. But unlike those of Book II, the present chapters contain data for no series of identical corporations, that is, the sample does not contain exactly the same companies from year to year. Furthermore, the non-identical corporations about to be discussed are small enterprises compared with those belonging to the series already analyzed. In 1928 the average (arithmetic mean) size of the corporations in All Manufacture for the large corporations series discussed above is \$13,500,000 whereas for the small corporations to be presented, the average size of capital is only \$171,000.<sup>1</sup> About nine-tenths of the corporations with net incomes in the large corporations series have incomes of over \$50,000, whereas nearly 90 per cent of those in the small corporations series have incomes under \$50,000.

These smaller corporations are termed 'non-identical' not because there is no repetition whatever of the same companies from year to year, but because the extent of such repetition is uncertain. The samples in the several Manufacturing minor groups vary considerably in size from year to year. In a very few instances there are less than 20 corporations in a minor group in any one year; in other instances there are as many as 100. Most of the minor groups, in most years, contain between 25 and 50 companies each; but in any

<sup>1</sup> The median figure for total capital in 1928 for the large corporations is \$1,972,222, while for the small corporations, it is probably under \$200,000. The mean and median capitals in each major group, for the small corporations of this Book, are given in the tables at the close of each chapter. Corresponding data for the large corporations series have already been presented in the tables at the ends of the several chapters of Book II.

one group the number of companies might, for example, be 30 in one year and 40 or 45 in another.

Since no small corporations series for either Mining or Finance are available, our analysis is limited to the Manufacture and Trade divisions.

A second important distinction between the data of the present chapters and those of Book II is that these samples of non-identical corporations contain only companies with net incomes; that is to say, these small corporations, while varying in their rates of earnings, include in no year any enterprises that suffered deficits. The data therefore do not show average rates of earnings for 'small corporations in general' but only for 'small corporations that earn profits'.

When comparisons are sought, in any minor group, between the arithmetic mean figures for these small corporations and the larger corporations of the preceding series, it is thus to be borne in mind that the arithmetic average earnings rates of the minor groups include only corporations with net incomes in one case and corporations with both net incomes and negative incomes in the other case. For the years 1922-29, however, the inclusion of some corporations with negative incomes in the large corporations series is not, in most instances, at all serious because of the relatively slight number and extent of such deficits. It will be recalled that in the large corporations series for All Manufacture the number of corporations with deficits between 1922 and 1928 amounted to little more than 3 per cent in any one year.<sup>2</sup>

In the several major groups, data for median earnings are available—or more precisely, the rate of net income earned by the median corporation in the major group. These medians are used in preference to general averages (arithmetic means) in the analysis of major groups; and whenever major group figures for the small corporations are compared—in charts or discussion—with those for the large corporations, *the data for the latter are recast so as to exclude corporations with deficits from that series.*<sup>3</sup> The median figures, as well as the complete frequency distributions of the earnings of individual

<sup>2</sup> In most years the figure was less than this; in only one year, 1928, was it as high as 3.7 per cent.

<sup>3</sup> This can be done in the computation of the medians, by major groups, but not in that of arithmetic means by minor groups. Frequency distributions for the earnings rates of individual corporations by minor groups are available for neither sample.

corporations, for the two series are therefore directly comparable.<sup>4</sup>

The general plan of the chapters is the same as that of Book II, save that no chapters for Mining or Finance are included. It is not, however, possible to present detailed data for as many minor groups as in the case of the large corporations series of Book II because in some minor groups the corporations were too few either to afford significant samples or to conceal the identity of the individual corporations. In either case the group is not shown separately, but the corporations that belonged to it nevertheless are carried in the major group data.

But a further distinction now needs to be drawn between the data of the several major groups and those of the minor groups contained in this Book. In Book II the large corporations constituting each minor group, when aggregated, directly made up the respective major groups, that is, the total of any set of figures for the minor groups gave the major group figure. In Book III, however, this is not always necessarily so. In some sets of minor groups it has been found possible to provide a more complete coverage, and frequently a better series of minor group samples, by showing, for certain minor groups, data from samples that were originally drawn independently of the major groups under which they fall. In other words, any one minor group here is to be regarded as a sample in itself—some more adequate than others, but all of them together not comprising a typical major group sample.<sup>5</sup> The various frequency distributions of earnings rates for the several major groups, however, are constructed in the same manner as those of Book II, that is, are samples containing as well rounded a representation of the various minor groups as in the earlier cases.

The description of the component activities of each minor group, for example, such statements as "the Bakery group includes such products as bread, ice cream cones, pie and cakes", are omitted in these chapters. The general descriptions of all minor groups correspond with those given under the same headings in the various chapters of Book II, and since the captions are given in the same

<sup>4</sup> For qualifications concerning the character of the two sets of samples in other respects, however, see Ch. 43.

<sup>5</sup> That is to say, both to obtain better minor group samples and to avoid burying as many minor groups under 'Miscellaneous' as would otherwise have been necessary, resort has been had to separate 'sub-code' samples of the sort explained more fully in Ch. 44, sec. 2.

order here as there, the previously presented statements may readily be consulted when desired.

The use of terms is in general the same as in Book II, and the reader who has not already done so is asked to read the introductory chapter of that Book.

No absolute data upon sales, investment and net income are presented in Book III, because the corporations are non-identical and the samples vary too greatly in size from year to year. The reader who wishes to investigate the character of the samples more closely may, however, find all of the absolute data in the *Source-Book*.