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III EARNING POWER FROM STANDPOINT OF STOCKHOLDERS

A SECOND important measure of earning power is the rate of profit realized to the total investment or equity of the stockholder. The profit rate is of course dependent upon the form of capitalization as well as upon the degree of operating success, and hence is in general less satisfactory than earning power in terms of all capital as a means of making comparisons between companies and periods. At the same time the rates realized on stock equities are the most common measure employed in financial circles to express corporate attainment, and in the case of compilations based on income-tax returns or conventional types of financial report such rates are the convenient and usual mode of representing earnings.

DESCRIPTION OF TABLE II

Table II is a compilation showing earning rates for the companies studied from the standpoint of the stockholders. By 'net income available for dividends' is meant the amount of current earnings as shown by the books, including ancillary income, less the sum of expenses, taxes, and interest, regardless of the status of the surplus (or deficit) account, and regardless of the feasibility of actually paying the amount in

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TABLE II
EARNING RATE ON PROPRIETARY CAPITAL
NET INCOME AVAILABLE FOR DIVIDENDS TO
TOTAL STOCKHOLDERS' EQUITY

(the percentage columns in each case include the first rate and exclude the second)

INDUSTRY AND PERIOD	NO. OF BELOW AND PERIOD	MAIN GROUPS																								AVERAGE ²					
		-4		-2		0		2		4		6		8		10		12		14		16		18			20		22		24
<i>A Extraction</i>																															
1927-29	37	3	2	4	3	5	3	1																							5.54
1927	37	7	1	2	6	3	2	4	4	1																					9.29
1928	37	5	1	2	3	3	4	4	5	1	1																				8.44
1929	36	6	1	3	3	2	1	3	3	4	3	1																			9.23
<i>B Construction</i>																															
1927-29	21	2	1	1	1	2	1	1	4	2																					16.93
1927	21	1	1	4		2	2	1	2	1	2	1	1																		8.51
1928	21	4		1	1	1	2	1	2	1	1	3	1	1																	11.85
1929	20	3	1	2	2	2	1	1	1	1	2																				7.81
<i>C Manufacturing</i>																															
1927-29	341	20	6	16	19	27	43	36	28	18	24	19	17	11	12	8	37											9.57			
1927	329	23	7	16	21	26	29	34	30	23	24	17	17	13	7	6	36											10.01			
1928	340	29	11	10	24	28	31	30	25	21	19	27	11	17	7	10	40											9.96			
1929	340	28	6	13	24	27	32	22	35	30	21	15	16	7	14	11	39											10.42			

EARNING POWER OF STOCK-EQUITY

<i>D Trading</i>														7.95				
1927-29	220	22	4	8	20	18	31	25	27	20	11	4	6	3	6	1	14	6.72
1927	209	16	3	7	16	16	21	25	32	18	13	10	7	2	4	1	18	8.35
1928	220	26	7	5	17	21	25	17	25	21	14	10	8	4	2	1	17	6.96
1929	219	34	6	8	23	21	22	20	21	13	16	7	7	2	1	3	15	4.94
<i>E Real estate and finance</i>														9.99				
1927-29	21	3	2	1	3	2	4			2	1			1		2	2	6.32
1927	17	3		2	3	1	1	2	1	1	1					2	2	3.61
1928	19	2	1	1	3	4	1	1		3				1		3	3	10.63
1929	20	5	2	2		3	1	1	1	1	2	2	1	2	1	1	1	4.53
<i>F Service</i>														19.05				
1927-29	52	5	1		1	2	6	3	4	6	4	1	2	1	2	1	13	14.94
1927	50	4	1	2	3	4		2	5	3	2	5	2	1	1	4	11	14.54
1928	52	7	1	1	2	3	4	3	2	1	6	2	2	2	4	12	12	15.00
1929	51	7		1	2	3	3	3	5	5	4	1	1	1	1	3	15	15.28
<i>All companies</i>														9.64				
1927-29	692	55	16	29	47	53	91	70	63	51	40	26	27	18	20	11	75	9.15
1927	663	54	13	29	53	50	55	67	74	47	41	33	28	18	13	11	77	9.61
1928	689	73	20	19	49	60	66	56	59	47	40	41	24	25	16	14	80	9.52
1929	686	83	14	26	53	57	61	50	66	53	45	28	25	11	17	19	78	8.33
<i>SUBGROUPS</i>																		
<i>A-1 Logging</i>														6.57				
1927-29	8	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	6.75
1927	8	1	1	2	1					1								2.88
1928	8	1	1	1	1	1	1	2	2						2			4.76
1929	8		1	1	1	1	1	1	2	1	1	1	1			1	1	12.62

CORPORATE PROFITS

TABLE II (cont.)
 EARNING RATE ON PROPRIETARY CAPITAL
 NET INCOME AVAILABLE FOR DIVIDENDS TO
 TOTAL STOCKHOLDERS' EQUITY

(the percentage columns in each case include the first rate and exclude the second)

INDUSTRY AND PERIOD	NO. OF BELOW -4% ¹	SUBGROUPS																								AVERAGE ² 12.11
		-4	-2	0	2	4	6	8	10	12	14	16	18	20	22	24	24% ²									
<i>C-5 Miscellaneous food products</i>																										
1927-29	23	1	2		5	1	1	1	2	2	1	2	2	1	2	1	7	18.07								
1927	23	2	1	1		2	2	2	1	2		2		2		2	7	17.31								
1928	23	3	1	1	2	2	1	1	2	1		2					8	16.97								
1929	22	1	2		1	2	3	2	1	1		1				2	7	20.00								
<i>C-6 Cotton goods</i>																										
1927-29	17	1	1	3	2	1	1	1	2	2	1	1	1				1	7.06								
1927	17		2	2	2	1	1	4		1	1	1	1				2	9.51								
1928	17	2	1	3			3	1	1	2	1	1	1				1	6.20								
1929	17	3	2	3	1		1	1	2	1		2					2	5.48								
<i>C-7 Silks and woolsens</i>																										
1927-29	14		2	1	2	1	1	4	1	1	1	1						6.04								
1927	14		2	4	1	1	2	2	2			1	1					4.97								
1928	14	2		2	3	2	2	2	1	1	1		1					5.58								
1929	14	1	1	1	3	1	1	3	1			1						4.93								
<i>C-8 Carpets, rugs, and other textiles</i>																										
1927-29	8		1		1	3		1	3			2					1	11.26								
1927	7	1			1		2	1	1	1		1					1	12.47								
1928	8	1			1	2	1	2	1	2		1					1	9.18								

EARNING POWER OF STOCK-EQUITY

1929	8	3	1	1	1	1	1	1	12.27
<i>C-9 Clothing and dry goods</i>									
1927-29	18	1	1	2	2	1	4	1	12.37
1927	17	1	1	1	1	2	3	1	13.10
1928	17	1	2	1	1	1	3	1	14.81
1929	18	1	1	3	3	4	1	2	13.46
<i>C-10 Tanning</i>									
1927-29	8	1	2	1	1	1	1	1	7.78
1927	8	1	1	1	1	1	1	1	6.57
1928	8	1	1	1	2	1	1	1	10.08
1929	8	1	1	2	1	1	2	2	7.61
<i>C-11 Shoes</i>									
1927-29	14	2	1	1	2	2	1	2	2.01
1927	13	1	1	3	1	1	1	1	14.07
1928	14	2	1	2	1	1	1	1	10.48
1929	14	1	3	3	1	2	1	2	12.27
<i>C-12 Lumber</i>									
1927-29	12	1	1	5	2	1	1	1	10.55
1927	12	3	2	3	2	1	1	1	8.74
1928	12	2	2	2	5	2	2	1	.19
1929	12	2	1	4	2	1	1	1	1.37
<i>C-13 Boxes and barrels</i>									
1927-29	8	1	1	3	1	1	1	1	(d) .23
1927	8	2	1	3	1	1	1	1	1.94
1928	8	1	3	3	2	1	1	1	2.41
1929	8	1	1	2	2	1	1	1	8.09
1927-29	8	1	1	3	1	1	1	1	3.84
1927	8	2	1	3	1	1	1	1	4.75
1928	8	1	3	3	2	1	1	1	6.13
1929	8	1	1	2	2	1	1	1	.66

CORPORATE PROFITS

TABLE II (cont.)
 EARNING RATE ON PROPRIETARY CAPITAL
 NET INCOME AVAILABLE FOR DIVIDENDS TO
 TOTAL STOCKHOLDERS' EQUITY
 (the percentage columns in each case include the first rate and exclude the second)

INDUSTRY AND PERIOD	NO. OF COS.	SUBGROUPS																AVERAGE ²
		-4 TO	-2 TO	0 TO	2 TO	4 TO	6 TO	8 TO	10 TO	12 TO	14 TO	16 TO	18 TO	20 TO	22 TO	24 TO	ABOVE ¹	
<i>C-23 Stoves and other heating apparatus</i>																		
1927-29	9					1	3	1	1		2						1	11.16
1927	9	1				1	1	1	3								1	11.18
1928	9					1	1	1		2	1	1		2			1	9.24
1929	9			1	1					1		3					1	11.45
																		12.84
<i>C-24 Miscellaneous machinery and equipment</i>																		
1927-29	16		1			1	1	2	2	1	2	1	1	1	1	1	3	15.72
1927	15				4	1		3		2	1	1	1	1	1	1	1	15.64
1928	16	1			2	1				2	2	1	2	1	1	4	1	12.24
1929	16					1	1	1	2	3	1	1	1	1	1	2	3	16.79
																		17.69
<i>C-25 Hardware</i>																		
1927-29	12	1				1	1	1	1	1	1	1	1	2	2	2	1	20.26
1927	11	2				1	1						2	2		2	1	15.35
1928	12	1				1	1	1	1	1	1	1	3		4	1	1	12.39
1929	12					1	2	2	1	2	1	1	1	1	1	2	2	16.96
																		16.45
<i>C-26 Miscellaneous iron and steel specialties</i>																		
1927-29	17	1			1	4	1	2	2	1	1	1	1	1	1	3	1	8.94
1927	16	2				2	1	2	5	2	1	1	1	1	3	3	1	9.66

EARNING POWER OF STOCK-EQUITY

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1928	4	1	1	2	6.01
1929	4	1	1	1	8.02
<i>F-1 Advertising</i>					
1927-29	6	1		1	47.05
1927	5		1		31.94
1928	6	1	1	1	36.34
1929	6	1		1	33.95
					26.26
<i>F-2 Laundry and dry cleaning</i>					
1927-29	10	1	1	1	5.56
1927	10	1	1	1	18.70
1928	10	1	1	1	19.39
1929	10	1	1	1	18.01
					18.70
<i>F-3 Printing, publishing, lithographing, engraving, etc.</i>					
1927-29	21	3	1	2	23.61
1927	21	3	1	2	10.03
1928	21	5	1	2	8.41
1929	20	2	1	1	9.00
					12.82
<i>F-4 Miscellaneous, including hotels, restaurants, warehouses, etc.</i>					
1927-29	15	1	4	1	15.38
1927	14	1	1	1	12.72
1928	15	1	1	1	12.47
1929	15	3	1	1	13.79
					11.87

¹ Earning rates in the open-end classes are given in Appendix B.

² The figures in italics are based on aggregates for the three years.

³ Negative values are indicated by (d).

cash to the stockholders. In other words, the income figure is net proprietary income as shown by the books after the deduction of income taxes, the amount *legally* available for dividends, ignoring the possibility of the existence of an unabsorbed deficit. Stockholders' equity is the book value of capital stock plus surplus or capital stock less deficit. All special surpluses arising from revaluation or otherwise. (of which there are several examples) are included, but valuation reserves such as accrued depreciation are excluded. These ratios differ from the earning ratios in Table I in that the numerator for each company is the same, less interest charges, and the denominator is the same, less liabilities.

The form of Table II is identical with that of Table I and the same procedure was followed in computing average and aggregate rates for main divisions and subgroups as was outlined above in the discussion of Table I.

RELATION OF PROFIT RATES TO EARNING RATES ON ALL CAPITAL

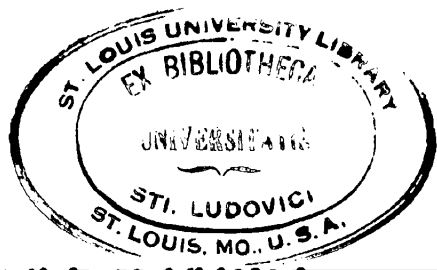
As would be expected, the earning rates in Table II in general range somewhat higher than the corresponding rates shown in Table I (the three-year simple average and aggregate rates in extraction and the simple average in construction being the only exceptions in the main divisions). In other words, the earning power of these companies for the period studied ranged above the interest rates on the borrowed capital involved, thus increasing the yield to stock equities. This is the more noteworthy in view of the fact that interest-bearing obligations are not prominent as a rule in the capital structure of this group of corporations (see the schedule of liability ratios below).

DIFFERENCES IN PROFIT RATES—MAIN GROUPS

For all companies the three-year simple average shows a profit rate of 9.15 per cent. The corresponding weighted or aggregate figure is 9.64 per cent, implying a slightly better showing, in general, for the larger companies. The simple averages for all companies for 1927 and 1928 differ by less than one-tenth of one per cent, but for 1929 the rate is distinctly lower, being only 8.33 per cent. In the manufacturing division the three-year simple average is 10.01 per cent, as compared with the aggregate figure of 9.57. The average rates for the respective years in this group show little variation, 1928 being indicated as the best year. In the trading division the aggregate rate of nearly 8 per cent, as compared with a simple average of 6.72 per cent, indicates again a superiority for the larger concerns in this field. The simple averages by years show 1927 as the best for the trading companies with a decided falling off in 1929. In the construction and the real estate and finance fields the marked variations in simple averages between years are not very significant, as these figures are strongly influenced by certain unusual reports included in these groups.

DIFFERENCES IN PROFIT RATES—SUBGROUPS

In the subgroups marked differences appear in profit rates as shown by the three-year average and aggregate figures; the fluctuations in simple averages between years are also noticeable. Most of the manufacturing subgroups showing relatively stable rates between years also display high earning rates, implying a positive correlation between high rates and stability for the short period under consideration. The subgroups under manufacturing exhibiting marked fluctua-



tion between years are almost all low-earning groups. No doubt the differences in some instances are due to peculiar conditions in the samples, and do not represent prevailing conditions in the field, but the general condition indicated appears to be significant.

In the trading subgroups the fluctuations between years are much more marked, in general, than in the manufacturing subgroups. In fact the only trading groups showing relatively stable earning rates for the three years covered are men's and women's clothing—retail, department stores, and hardware—wholesale and retail. Those showing the most striking variation are cotton and wool merchants, fruit, vegetables, dairy products, grain, etc., jewelry—wholesale and retail, and it is these same groups which show conspicuously low profit rates.

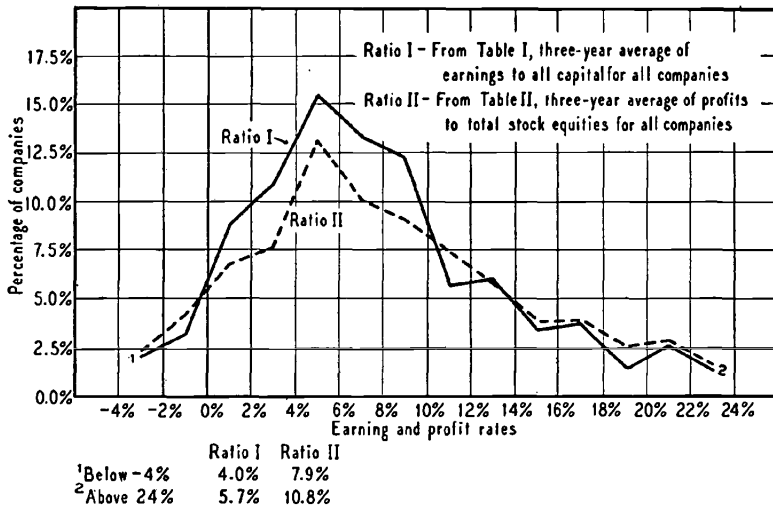
The differences between simple averages and weighted-average rates are very striking in several subgroups, and it is particularly in these instances that caution must be exercised in forming conclusions. Unusual cases included within relatively small samples undoubtedly account for some of these differences. For example, the fact that the aggregate rate of loss for dealers in fruit, vegetables, etc. is 26 per cent, while the simple average for the same companies shows a gain of half of one per cent is due primarily to the influence on the figures of a single very large company. Incidentally this case supports the view that weighted averages are less typical than simple averages in dealing with small samples.

DISTRIBUTION OF PROFIT RATES

Figure 2 shows graphically the distribution of profit rates according to Table II for all companies in comparison with the distribution of the corresponding earning rates drawn from Table I. It is noticeable that the dispersion of profit rates is distinctly greater than that of the earning rates cal-

culated on the basis of all capital. Naturally the removal of interest charges from the numerator of the ratio and liabilities from the denominator, two elements which in the typical instance have a more or less constant relationship, tends to increase the rate of profit or loss, as the case may be, for all

Figure 2
DISTRIBUTION OF EARNING AND PROFIT RATES
FOR ALL COMPANIES

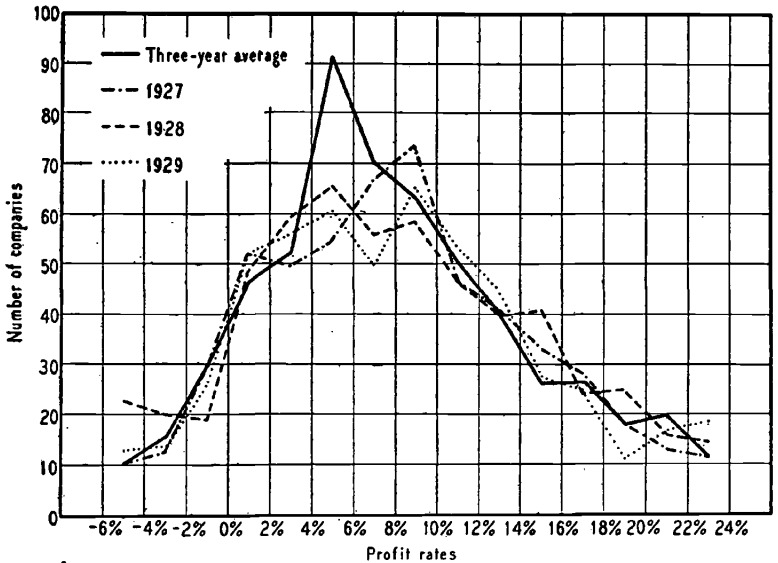


companies showing rather high or low ratios before the elimination of these factors. For all companies there is some concentration from 0 to 14 per cent—415 companies of a total of 692, or three-fifths, lying in this range—but only 277 companies—two-fifths—are found in the range 2 to 10 per cent. As in the rates displayed by Table I there is a much greater degree of concentration—or less dispersion—among the trading companies than among the manufacturing concerns, chiefly because companies with high earning rates are relatively more numerous in the manufacturing group than in the trading division. Almost two-thirds of the trading com-

panies—for the three-year average—are found in the range 0 to 12 per cent, while only half of the manufacturing enterprises lie in this range.

Among subgroups it is noticeable that concentration of profit rates is marked in only a few instances.

Figure 3
DISTRIBUTION OF AVERAGE PROFIT RATES¹
BY YEARS FOR ALL COMPANIES



¹See Table II.

Figure 3 shows the distribution of all companies by profit rates for the three-year average in comparison with the distributions for each of the years 1927, 1928 and 1929. Note that the vertical scale is in terms of number of companies rather than percentage of companies, as in Figure 2. This chart shows that for 1927 more companies were in the range 6 to 10 per cent than in the other years, and also that for 1928 there were more companies in the range 14 to 24 per cent than in 1927.