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CHAPTER 25

CORPORATE SURPLUS

§ 25a. Definition of Corporate Surplus

Corporations do not generally pay out their entire earnings to their stockholders. Even after reserves for losses, depreciation, insurance, etc., have been made, it is still true that earnings ought to be in general greater than dividends. The excess of earnings over dividends after specific reserves have been set aside constitutes corporation surplus. Such retained earnings are generally put back into the business, though they may be invested otherwise.¹

§ 25b. The Propriety of Counting Surplus as Part of the National Income

Should these corporation surpluses be included as part of the National Income? It must be remembered that these surpluses are computed after the deduction of reserves for depreciation, taxes, bad debts, insurance and a variety of ascertained losses. To the corporations they are therefore a book income, and normally are used to ensure regularity in payment of dividends and for an expansion of their business.

In the accounting practice of corporations, surplus may be used for scaling down the value of intangible assets, for conversion into stock which is distributed in the form of dividends, or it may simply be continued as a surplus account.² Indeed, it might be possible to distribute the entire earnings of a corporation and finance expansion by means of new stock issues. But the trend of American business policy is towards the maintenance of dividends in years of low profits as well as high.³ This attempt at maintenance of dividends demands a conservative policy in years of high profits and a daring distribution of cash in the lean years. Such a policy can be maintained, therefore, only when there is in good years a

¹ The distinction between dividends and surplus is not necessary in treating private business and partnerships, for in the income-tax returns used here the entire earnings are included in the incomes of the individuals owning the business.

² The Income Tax decision in *McCombe v. Eisner* (252 U. S. 189), involved the question whether a stock dividend should be considered income. The basic assumption was that a corporation was an entity, and therefore the definition of income hinged on the legal separation of its assets and their ownership by individuals. From an economic point of view, income must be considered as far as possible to accrue at the time of its receipt by the party earning it—either corporation or individual. Owing to the form in which most of the data are presented, income is regarded as accruing only when it is received by the individual, but the fact that so much of our business enterprise is in corporate form makes it necessary to recognize corporate surplus as a separate item.

³ English practice tends towards a larger and more varying distribution of corporate earnings in the form of dividends.

considerable margin between earnings and dividends. In many cases dividends in lean years are paid wholly or partly out of surplus, which is the first shock-absorber (after reserves) of business adversity. The fact that dividends and other losses are taken out of surplus in years of depression means that this surplus was actually earned in years of prosperity. An accurate accounting of the National Income year by year should bring out these real variations in corporate earnings. To take no cognizance of their rise and fall would create a false impression of the uniformity of income over years of depression and years of expansion.

During the years 1920 and 1921, we have seen in many corporations not only a lack of surplus but even a deficit which wiped out a part, or more than all, of the surplus accumulated in previous years. This development, however, does not mean that the surplus had not been real income in the years in which it was gathered. On the contrary, the later loss confirms the reality of the surplus accumulated in preceding years. Clearly an accurate statement of the National Income year by year should take into consideration both the surpluses of prosperous years and the deficits of periods of depression. It might well happen that the accounting of "corporate surplus" in any year might yield a net "corporate deficit."

§ 25c. The Genuineness of Reported Surplus Accounts

In some form, then, corporate surplus constitutes an element in the National Income. Whether it should be considered on an equal footing with the income actually distributed as dividends to individuals, or whether it should be shown as contingent income, is another question. If it were the general practice of corporations to carry adequate ¹ reserves and if the entire net income were normally distributed as dividends, then there could be no question that the entire net incomes of corporations (including what is now generally carried as surplus) should be counted on the same basis as all other income. If, however, the general reserves of corporations are normally insufficient, and if surpluses are wholly or mainly absorbed in meeting unforeseen business losses, then they too should be treated as reserve, or at least contingent income, subject to later disposal. They could not be treated as actual income until the business situation had so developed as to make possible an approximation of the extent of these losses.²

This brings up the question whether the surplus accounts of corporations represent a true increase of assets or merely a reserve account against

¹ It is assumed that reserves are rarely too large to meet current losses. Any excess of reserves above current losses manifestly makes the surplus as reported too small by a like amount.

² Broadly, the reserves of corporations are at least as adequate as those of individuals and partnerships engaged in business. Incidentally, I do not think sufficient weight has been given to the net losses, or negative income of the latter. J. E. Sterrett.

unexpected losses.¹ Individual examples of both kinds are common, and extraordinary changes in the price level further complicate the problem of bookkeeping values. If it could be shown that physical production did or did not normally increase with the increase of invested capital through the growth of the surplus account, the problem whether the surplus account represented an increase of assets or a reserve which is normally wiped out by losses could be answered. But the measurement of physical production presents the difficulty that very few business enterprises turn out a single standardized article over a series of years. One must therefore turn to the money value of the product, remembering however (a) that changes in money value do not represent changes in physical production during a period of price change, and (b) that money value is apt to misrepresent physical product if new assets are put into labor-saving devices. In the latter case it often happens that while the total product is not increased, the labor cost is decreased and the profit increased.

If surplus is correctly reported, an increase in surplus should lead to a corresponding increase in physical production after these two factors have been allowed for. However, the increase in physical production should not be in proportion to the increase in surplus but in proportion to the increase in capital plus surplus. In other words, if surplus be *bona fide*, its effects upon production, when it is put into the business, should be similar to the effects of new capital.

The question then is, whether physical productivity tends to vary directly as the capital plus surplus shown on the books. An attempt has been made to answer this question. The corporations whose capital plus surplus and physical productivity were examined included all for which comparable statistics were obtainable during the whole period chosen for investigation. The years 1905 to 1914 were chosen for several reasons, one of the most important of which was that no violent price movements occurred.

The method used was to break the decade into two five-year periods, 1905 to 1909 and 1910 to 1914, and then compare changes in capital plus surplus from the average of the first five-year period to the average of the second five-year period, with corresponding changes in physical production from the first period to the second.

¹ It is suggested that the real question is not whether surpluses are used as reserves or to expand the business or for some other purpose, but whether the inventories at the different dates correspond to actual market values or are merely fictitious figures. There is no known way of testing this correspondence other than to take a broad view of the actual results of business operations over a period of years. To attain such a view is the aim of the following discussion.

With the conclusions drawn here compare the evidence adduced by Dr. David Friday (*Profits, Wages, and Prices*, p. 63) from a group of 4,508 corporations which were listed in *Corporate Earnings and Government Revenues*. Senate Document No. 259. 65th Congress. 2d Session. His compilations show that their invested capital was 182 per cent of their capital stock.

Physical productivity not being directly measurable, money indices were used. The disturbing effect of price movements would seem to be small in this period. Average prices of 1910 to 1914 were about 9 per cent above the average of 1905 to 1909.¹

The money indices of physical production used were net earnings, gross earnings, net profits, total sales.

The corporations and the two variables examined in each case are as follows:—²

1. Twenty-five public utilities, (a) capital plus surplus and (b) net earnings.

2. Twenty-six public utilities, (a) capital plus surplus and (b) gross earnings.

3. Twenty-four industrial companies, (a) capital plus surplus and (b) net profits.

4. Fifteen industrial companies, (a) capital plus surplus and (b) total sales.

5. Thirty-nine industrial companies, (a) capital plus surplus and (b) net profits.

In each case a straight line was fitted to the widely-scattered points representing the two variables in the case of each company by the method of least squares, and the results are shown in the following diagram. If the volume of business had increased in exactly the same ratio as capital plus surplus, then on these diagrams the straight lines fitted to the points would all have an inclination of 45 degrees. To show how nearly the plotted lines correspond to this condition, a dotted 45 degree line has been inserted in the diagrams.

Though no single example can be considered conclusive, the grouping of all the lines around the 45 degree line indicates a close relation between the growth of assets through reinvested surplus and the growth of production.

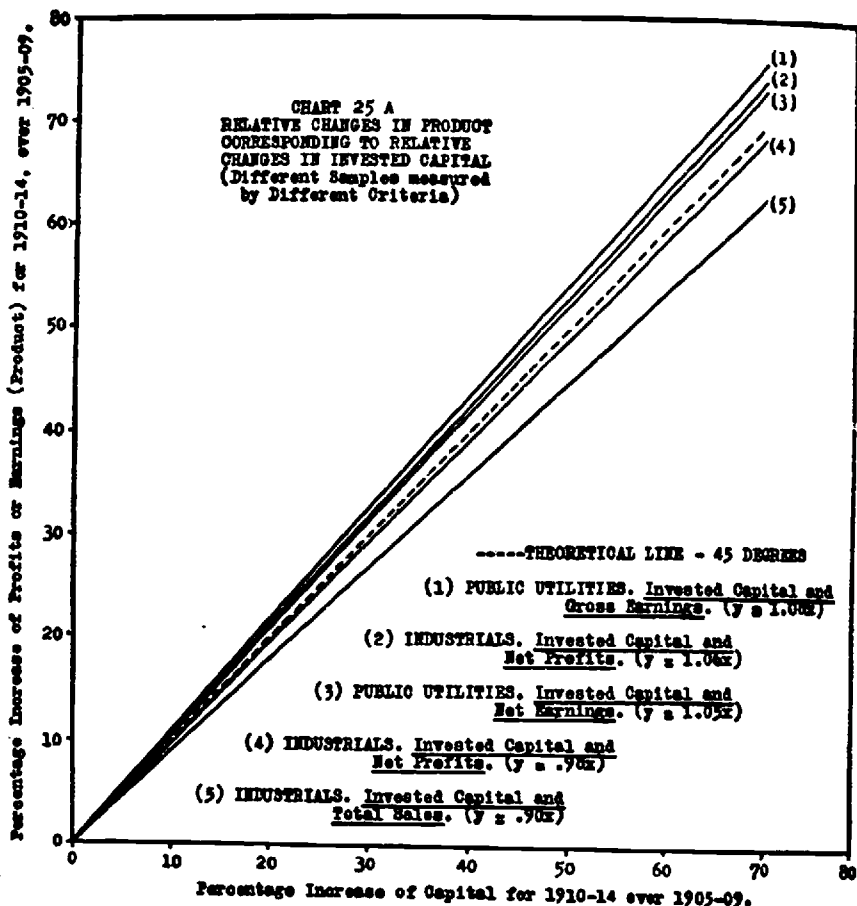
A further test is suggested by the Census figures for primary horsepower and capital used in manufacturing. The data are for the years 1904 and 1914.³ Both figures, especially the amounts for capital, are faulty, and too great reliance should not be placed on them. Yet they suggest a close relation between the growth of capital (including surplus) and the growth of productive power. Moreover, the index of productive power is in this case not monetary.⁴

¹ Bulletin of U. S. Bureau of Labor Statistics, No. 181, p. 16.

² These samples were taken from the reports in *Moody's Manual* and supplemented by the corporate records furnished by two large banks. There is some overlapping of samples, especially between items 1 and 2, and 3 and 4.

³ The 1919 figures are not yet available, and when they do become available will be affected by price fluctuations in such degree as to make them of little value for the present purpose.

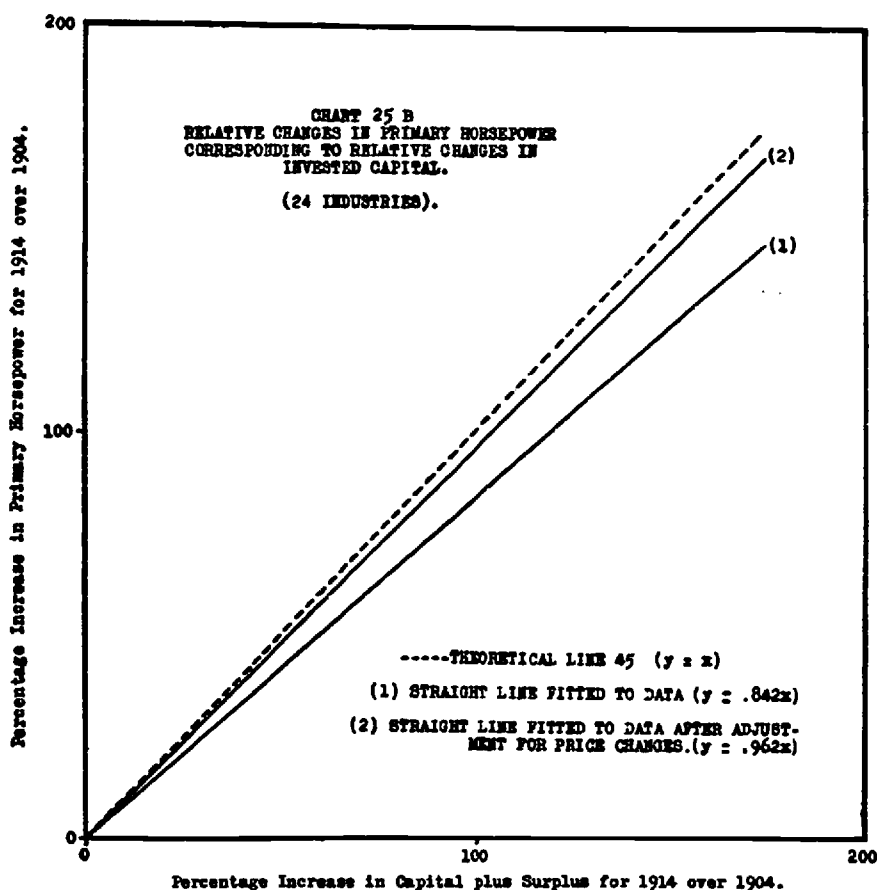
⁴ The question is raised whether horsepower can be taken as a constant factor for purposes of this computation during the period covered. If the value product per horsepower remained constant, then it is a good criterion.



The figures for 1904 were reduced to a basis of 100, and the relative increases or decreases for 1914 have been plotted. These relations represent data from 24 industries (including 19,279 establishments) and seem typical of the whole. The equation of the least square straight line through the origin is $y = .842x$. Here capital values are growing at a slightly higher rate than the productive powers which they represent. If the relation were such that horsepower varied directly as capital plus surplus, the equation would become $y = x$.

The straight line fitted to the data of the accompanying chart comes much closer to the theoretical line $y = x$, if an adjustment is made in capital plus surplus to offset the rise in prices from 1904 to 1914.¹ Though such adjustment for the complete change in prices undoubtedly is too great, owing to the fact that the rise in investment prices was not as rapid as that

¹ Bulletin No. 226, U. S. Bureau of Labor Statistics, p. 28.



in the index used—namely, wholesale prices, there is no doubt that some adjustment is needed. The true relation lies between the two lines.

While these results may be tentatively accepted for the pre-war period, the further question is raised as to their validity since 1914. Are we to include the large surplus accounts of recent years in the National Income?

Several considerations must be taken into account:

(1) The rise in prices which brought about a lessened physical product per dollar for the invested surpluses of these later years.

(2) The increased replacement value of fixed capital assets and inventories.

(3) The increased demand for certain products during the war, which demand fell off after its close.

(4) The increased income and excess profits taxes.

These considerations affect our attitude toward the bookkeeping methods employed. The actual amounts of expenses, reserves, surplus, and dividends shown in the books are subject to wide variation according to the judgment of accountants and business men. It follows from the preceding argument that prior to 1914, the reserves set up against specific uncertainties were normally sufficient to cover the greater part of the unforeseen losses which occurred in business, since in a broad sense the surplus financed a roughly proportionate increase in the volume of new business transacted.

Did American business men, operating under the stress of all the forces of uncertainty after 1914, abandon their conservative policy of deducting reserves adequate to cover current losses and carry as surplus that which should really be considered a reserve account? The answer to this question cannot be found by mathematical treatment. The items are too complex and interwoven to permit of separation. There were, during 1920, many striking cases of writing off of surplus accounts owing to the unforeseen large depreciation in values; but as already said, that fact does not invalidate the genuineness of the surpluses during the years when they were accumulated. On the other hand, there have been a large number of instances of stock dividends, which converted the surplus account into a capital account. These conversions suggest that the two accounts are generically similar and capable of being interchanged.

When the enormous deterrent to the writing up of profits interposed by high taxes is considered, the burden of proof seems to lie upon those who would consider the reported surplus as fictitious at the time it is earned. That there have been certain unfortunate investments is clear, but the strength which has been shown by many corporations during the recent depression bears testimony to the general adequacy of reserve accounts. Moreover, capital values were not generally written up during the war owing to the higher replacement costs. In old enterprises inflated costs only affected new investments and inventories. The losses which were taken in 1921 by many corporations were commonly taken care of in the balance sheet by reducing surplus. This situation should be shown in the figures, when they are available, for that year.

Opinions regarding the adequacy of reserves are affected in large measure by personal environment. The experiences of individuals with those concerns about which they have special information influence their judgment in making wider generalizations, and individual experiences vary. After consultations with a number of men, whose positions are such as to give them a broad view of business policies, the conclusion has been reached that between 80 and 90 per cent of the reported

surplus constitutes a genuine saving, and hence is a part of the National Income.^{1,2}

§ 25d. The Data

The Bureau of Internal Revenue reports the total net earnings of corporations in the volumes entitled *Statistics of Income* for the years 1916, 1917, and 1918. For the years 1909 to 1913 total earnings are given in the annual reports of the Commissioner of Internal Revenue. For the years 1914 and 1915 they are not given but may be estimated from the amount of the tax.

These data, however, are not comparable without adjustments. During the period 1909 to 1912, corporations paid taxes only on their actual earnings, not including such sums as they received from stock ownership in other corporations. This practice was changed in the period 1913 to 1917, when the tax was collected on all the net income of a corporation from whatever source it might come. In 1918 there was a reversion to the earlier practice.

This change in practice, however, has made little apparent difference in the results. The percentage changes from year to year in the earnings of all corporations have been compared with the percentage changes of the earnings of the 205 sample corporations quoted elsewhere³ and with the 251 corporations for which data were collected by Professor Friday.⁴ In both these samples, earnings are estimated from year to year on a strictly comparable basis. There is found to be no constant divergence from the earnings of all corporations on which to base a correction for the change in method of computing taxes. In 1913, compared with 1912, the net earnings of all corporations reported by the Bureau of Internal Revenue increased 13 per cent, the net earnings of the sample of 205 corporations increased 9 per cent, and the sample of 251 corporations increased 6 per cent. In 1914 the decreases from 1912 in the three sets of data were respectively 23 per cent, 18 per cent, and 19 per cent. In 1915

¹ In my paper in the *Annalist* (September 20, 1920). I expressed dissent from the hypothesis that corporate surplus is wholly income and urged that what concerns us in the study of the division of income is simply what is actually paid in dividends.

Without any doubt corporate surplus is in part utilized for additions to plant, but in part it disappears, as experience has shown, simply in the maintenance of plant. Since the beginning of the war a large part of the corporate surplus went into the provision of new plant as a war measure, which plant must be thrown away and written off. During the war we deluded ourselves with the idea that corporations were accumulating great surpluses that were going to enable them to maintain their dividends indefinitely, but at the present time that illusion is being dispelled. W. R. Ingalls.

² This is doubtless true of ordinary times. The war period is another story. The tendency throughout was to under rather than to overstate profits. The tax laws saw to that. The tax laws did not allow reserves for future losses and conservative business judgment did not anticipate a drop in price levels below, say, that of 1914. Now, however, we have seen some commodities crash down below the 1896 level.—hides, notably. J. E. Sterrett.

³ See Table 25 A, note d.

⁴ David Friday, *Profits, Wages and Prices*, p. 17.

the increases over 1912 were respectively 28 per cent, 52 per cent, and 36 per cent. In 1916 the new influence on bookkeeping methods exerted by the increase of the corporate tax rate to 2 per cent renders close comparisons with earlier years hazardous. As between the 1917 and 1918 data, when the method of computing corporate earnings was changed again, the Internal Revenue figures for earnings fell about 22 per cent, as against a fall in the two samples of 24 per cent and 10 per cent.

These comparisons lead one to believe that the inclusion or exclusion of intercorporate dividends was not a factor of major importance in net earnings. Other forces outweighed it to such an extent that its effect cannot be ascertained from the available data.

Further, during the period 1909 to 1912, corporations having an income of less than \$5,000 per year were exempted from the tax. The removal of this exemption in 1913 caused an increase in number of corporations paying taxes, of about 125,000. From this increase the probable earnings of such corporations in the earlier years may be roughly approximated.

Another complication is that each year back taxes have been collected after a field inspection of the books of selected corporations. The assessment of these taxes indicates a considerable degree of under-reporting of income, even in the years prior to 1916, when the tax rate was only 1 per cent. Back taxes as high as \$3 to \$4 million were assessed for each year, indicating an income of as many hundreds of millions or about 10 per cent of the reported total. Even these field inspections are reported to have been far from complete, owing to an inadequate staff.

The final amounts of corporate income estimated for each year are shown in Column I of Table 25A.¹ An independent check of the amounts reported in back taxes in the annual reports of the Commissioner of Internal Revenue² approximately verified these totals.

A classification of corporate earnings into financial, commercial, manufacturing, mining, public utility and railroad earnings has been given at various times in the annual reports of the Commissioner of Internal Revenue and in the *Statistics of Income*, and an effort has been made to complete these classifications. But so many discrepancies have been found in the amounts reported that a presentation of this material as if it were comparable would be misleading. The attempt, therefore, to show in detail the annual variations in the earnings of different classes of corporations has been given up.

From the reported net income are deducted taxes and deficits; these are, for the most part, exact amounts. Thereafter, an adjustment is made for known discrepancies in the reported net earnings, and these

¹ *Statistics of Income* for 1916, p. 15; for 1917 and 1918.

² Commissioner of Internal Revenue, *Annual Report*, 1913, p. 505; 1914, p. 624; 1915, p. 746; 1916, p. 661; 1917, p. 773.

amounts are then divided between dividends and surplus. This division is made in accordance with the results of a study of 205 industrial corporations, 15 commercial corporations, 62 public utility corporations, the banking reports of the Comptroller of the Currency, and the railroad reports of the Interstate Commerce Commission.¹ The division between dividends and surplus as found in each of these samples has been weighted in accordance with the relative amounts of the net earnings, and a weighted average for each year has been applied to the estimated total earnings.

The results of these computations are presented in the following table:—

¹ See footnotes, Table 25A, for detailed references.

TABLE 25A

ESTIMATED TOTAL DIVIDENDS PAID AND TOTAL SURPLUS RETAINED BY ALL CORPORATIONS

1910 to 1920

(Millions of Dollars)

| Year | I Total reported income of corporations having a net income | II Excise and income taxes paid by corporations | III Net earnings of corporations having net incomes | IV Deficits of corporations having no net incomes ^b | V Net earnings of all corporations | VI Approximate net income of all corporations after known adjustments | VII Estimated division of net earnings between dividends and surplus ^c | VIII Estimated total dividends ^d | IX Estimated corporation surplus ^e |
|---------|--|--|--|---|---------------------------------------|--|--|--|--|
| 1910... | \$3,761 ^a | \$ 38 ^a | \$3,723 | \$ 687 | \$3,036 | \$3,436 ^c | 58.8% | \$2,020 | \$1,416 |
| 1911... | 3,503 | 35 | 3,468 | 649 | 2,819 | 3,219 ^c | 66.6 | 2,144 | 1,075 |
| 1912... | 4,151 | 42 | 4,109 | 590 | 3,419 | 3,819 ^c | 71.9 | 2,746 | 1,073 |
| 1913... | 4,714 | 47 | 4,667 | 928 | 3,739 | 4,000 ^d | 69.5 | 2,780 | 1,220 |
| 1914... | 3,940 | 39 | 3,901 | 1,217 | 2,684 | 2,800 ^d | 77.9 | 2,181 | 619 |
| 1915... | 5,310 | 53 | 5,257 | 1,027 | 4,230 | 4,230 | 56.2 | 2,377 | 1,853 |
| 1916... | 8,766 | 172 | 8,594 | 657 | 7,937 | 7,937 | 42.7 | 3,389 | 4,548 |
| 1917... | 10,730 | 2,142 | 8,588 | 630 | 7,958 | 7,958 | 50.2 | 3,995 | 3,963 |
| 1918... | 8,362 | 3,159 | 5,203 | 690 | 4,513 | 4,513 | 56.9 | 2,568 | 1,945 |
| 1919... | 9,411 | 2,175 | 7,236 | 996 | 6,240 | 6,240 | 63.1 | 3,937 | 2,303 |
| 1920... | 7,100 | 2,600 | 4,500 | 1,000 | 3,500 | 3,500 | 65.0 | 2,275 | 1,225 |

^a *Statistics of Income*, 1916, p. 15. Originally reported in the *Annual Reports of Commissioner of Internal Revenue*, 1911, pp. 70-80, 1912, pp. 74-85, 1913, pp. 91-102, 1914, pp. 98-109. These figures cover the years 1910, 1911, 1912 and 1913. For 1914 and 1915, there are no data. The totals are based on the amount of the tax, 1915, pp. 188, 189, 1916, pp. 204, 205.

The years 1909, 1910, 1911 and 1912 are obtained from data collected under the excise tax, section 38 of the Act of August 5, 1909. This Act permitted the deduction of income received as dividends from other corporations, and also excluded income of less than \$5,000. The amounts for 1913 to 1917 are obtained from data collected under the income-tax law of October 3, 1913, and subsequent income-tax laws, and included all income of corporations, including specifically income received as dividends from other corporations. The income-tax law for 1918 again permitted the deduction of income received as dividends from other corporations.

The tax rate was increased in 1916 from 1 per cent to 2 per cent. (Act of September 8, 1916.) For the year 1917, the rate was again increased (War Revenue Act of October 3, 1917) to a normal tax of 4 per cent, plus war excess-profits taxes. For 1917, see *Statistics of Income*, 1917; for 1918, see *Statistics of Income*, 1918; for 1919, see *Statistics of Income*, 1919.

^b For the years 1916 to 1918, losses are reported in *Statistics of Income*. Prior to 1916 no such figures are given. A deduction for losses in the years prior to 1916 should therefore be made. A comparison of the deficits reported in 1916 and 1917 with the amounts of liabilities of enterprises that failed, reported in *Dun's Review*, suggests that the liabilities were about 3.4 times the deficits. If this ratio is applied, then the losses may be estimated as follows:

ESTIMATED DEFICITS OF CORPORATIONS HAVING NO NET INCOME

| Year | Number of commercial failures (Dun's) | Amount of liabilities (Dun's) (Millions) | Number of corporations reporting no income, or actual deficit | Actual amount of deficit (Millions) | Estimated amount of deficit (Millions) |
|-----------|---------------------------------------|--|---|-------------------------------------|--|
| 1910..... | 12,652 | \$202 | Not comparable | \$ | \$ 687 |
| 1911..... | 13,441 | 191 | " " | | 649 |
| 1912..... | 15,452 | 203 | " " | | 690 |
| 1913..... | 16,037 | 273 | 128,043 | | 928 |
| 1914..... | 18,280 | 358 | 155,240 | | 1,217 |
| 1915..... | 22,156 | 302 | 145,532 | | 1,027 |
| 1916..... | 16,993 | 196 | 134,269 | 657 | |
| 1917..... | 13,885 | 182 | 119,347 | 630 | |
| 1918..... | 9,982 | 163 | 115,518 | 690 | |
| 1919..... | 6,451 | 113 | | 996 | |
| 1920..... | 8,881 | 295 | | | 1,000 |

The total number of corporations reporting and the number reporting taxable income are as follows:

THE ESTIMATE BY INCOMES RECEIVED

| Year | Total corporations | Number of corporations reporting taxable income | | |
|-----------|--------------------|---|------------------|------------------------|
| | | Over \$5,000 only | All corporations | Excluding subsidiaries |
| 1910..... | 270,202 | 54,040 | | |
| 1911..... | 288,352 | 55,129 | | |
| 1912..... | 305,336 | 61,116 | | |
| 1913..... | 316,909 | | | |
| 1914..... | 329,445 | | 188,886 | |
| 1915..... | 336,443 | | 174,205 | |
| | | | 190,911 | |
| 1916..... | 341,253 | | | |
| 1917..... | 351,426 | | 206,984 | |
| 1918..... | 317,579 | | 232,079 | |
| 1919..... | 320,198 | | | 202,061 |
| 1920..... | | | | 209,634 |

For the year 1915, it is reported (*Statistics of Income*, 1916, p. 15) that 30,000 corporations showing a deficit were included which should have been reported in 1914. This correction is made in the Table above.

The decrease in 1918 is due to consolidated returns, and for this reason is not included in computing the ratio between the losses reported for tax purposes and the failures reported by *Dun's Review*.

^c Raised by \$400 million to account for earnings of corporations under \$5,000 which were not reported.

^d The following samples of net earnings of identical corporations were used for the purposes of comparison:

EARNINGS OF IDENTICAL CORPORATIONS

(Millions of Dollars)

| Year | 205 industrial corporations | Professor Friday's sample of 251 corporations | Earnings of national banks (Comptroller of Currency) | Sample of 62 public utilities |
|-----------|-----------------------------|---|--|-------------------------------|
| 1910..... | \$ 383 | \$ | \$154 | \$ 84 |
| 1911..... | 347 | 459 | 157 | 81 |
| 1912..... | 385 | 513 | 149 | 86 |
| 1913..... | 420 | 542 | 161 | 86 |
| 1914..... | 315 | 415 | 149 | 87 |
| 1915..... | 585 | 699 | 127 | 103 |
| 1916..... | 1,045 | 1,402 | 158 | 119 |
| 1917..... | 1,032 | 1,774 | 194 | 101 |
| 1918..... | 777 | 1,591 | 212 | 61 |
| 1919..... | 671 | | 240 | 55 |
| 1920..... | 672 | | 282 | |

According to the samples of Industrials, the earnings for 1913 should be from 6 per cent to 9 per cent higher than in 1912. The earnings for 1914 should be about 25 per cent less than in 1913. There was a large increase in 1915 over 1914—about 70 per cent to 80 per cent. These figures are not to be taken as entirely typical, for railroads and public utilities vary in different proportions.

^e The proportions into which net earnings are divided between dividends and surplus, according to samples, are as follows:

PROPORTIONS INTO WHICH NET EARNINGS ARE DIVIDED BETWEEN
DIVIDENDS AND SURPLUS IN DIFFERENT INDUSTRIES

(Per cents)
(D = dividends; S = surplus)

| Year | Finan- cial ¹ | | Commer- cial ² | | Manufac- turing and mining ³ | | Public utilities ⁴ | | Rail- roads ⁵ | | Weighted average ⁶ | |
|-----------|-----------------------------|----|------------------------------|----|---|----|----------------------------------|----|-----------------------------|----|----------------------------------|-------|
| | D | S | D | S | D | S | D | S | D | S | D | S |
| 1910..... | 69 | 31 | 55 | 45 | 55 | 45 | 61 | 39 | 62 | 38 | 58.8 | 41.2 |
| 1911..... | 73 | 27 | 63 | 37 | 63 | 37 | 68 | 32 | 72 | 28 | 66.6 | 33.4 |
| 1912..... | 81 | 19 | 67 | 33 | 67 | 33 | 73 | 27 | 82 | 18 | 71.9 | 28.1 |
| 1913..... | 74 | 26 | 67 | 33 | 67 | 33 | 74 | 26 | 73 | 27 | 69.5 | 30.5 |
| 1914..... | 81 | 19 | 51 | 49 | 79 | 21 | 76 | 24 | 92 | 8 | 77.9 | 22.1 |
| 1915..... | 89 | 11 | 44 | 56 | 45 | 55 | 67 | 33 | 86 | 14 | 56.2 | 43.8 |
| 1916..... | 73 | 27 | 34 | 66 | 37 | 63 | 63 | 37 | 42 | 58 | 42.7 | 57.3 |
| 1917..... | 65 | 35 | 41 | 59 | 47 | 53 | 75 | 25 | 52 | 48 | 50.2 | 49.8 |
| 1918..... | 61 | 39 | 49 | 51 | 55 | 45 | 87 | 13 | 65 | 35 | 56.9 | 43.1 |
| 1919..... | 56 | 44 | 35 | 65 | 56 | 44 | 81 | 19 | 56 | 44 | 63.1 | 36.9 |
| 1920..... | 52 | 48 | | | 64 | 36 | 74 | 26 | 46 | 54 | (65.0 | 35.0) |

¹ Based on National Banks. Reports of the Comptroller of the Currency.

² Based on 15 commercial corporations reported in *Moody's Manual* from 1914 to 1919. Previous to 1914, reports are inadequate, and the manufacturing ratio is used.

³ Based on 200 corporations reported in *Moody's Manual* and supplied by certain banking institutions.

⁴ Based on 62 public utility corporations reported in *Moody's Manual*.

⁵ Based on reports of Interstate Commerce Commission and reports in *Moody's Manual* covering practically all railroads.

⁶ In collecting the data on which Column VII is based, care has been taken to include in surplus only those amounts actually carried as such in the books. In conformity with this plan, special reserve accounts, reserves against bad debts, losses in inventory and depreciation have been excluded. This same method was followed in the earlier investigation of the genuineness of surplus accounts, so that the two computations have been made on the same basis.

These percentages have been weighted according to the estimated importance of each class of institutions, and the weighted average for each year is applied to the net earnings. 1920 is an approximation, since complete data are lacking.

⁷The *New York Journal of Commerce* reports the following amounts of dividends paid by industrial corporations each year. It does not explain how complete they are or whether they cover identical corporations. They are inserted for purposes of comparison.

| Year | Dividends (Millions of dollars) | Index number |
|-----------|---------------------------------------|--------------|
| 1911..... | \$368 | 1.00 |
| 1912..... | 394 | 1.07 |
| 1913..... | 445 | 1.21 |
| 1914..... | 436 | 1.18 |
| 1915..... | 422 | 1.14 |
| 1916..... | 546 | 1.48 |
| 1917..... | 681 | 1.85 |
| 1918..... | 645 | 1.75 |
| 1919..... | 576 | 1.56 |
| 1920..... | 599 | 1.63 |

These amounts are reported in the first issue of each year, giving three previous years. The amounts reported for the same year are not always identical and the latest figure reported has been taken.

^a Professor Friday has made a similar computation of surplus (*Profits, Wages and Prices*, p. 64) and it is of interest to compare his results with those given in this study:

COMPARISON OF PROFESSOR FRIDAY'S RESULTS WITH THOSE OF THE BUREAU

(Millions of Dollars)

| Year | Total net earnings | | Dividends | | Surplus | |
|-----------|--------------------|------------|-----------|------------|---------|------------|
| | Bureau | Friday | Bureau | Friday | Bureau | Friday |
| 1910..... | \$3,436 | \$3,360 | \$2,020 | \$2,290 | \$1,416 | \$1,070 |
| 1911..... | 3,219 | 3,213 | 2,144 | 2,226 | 1,075 | 988 |
| 1912..... | 3,819 | 3,832 | 2,746 | 2,498 | 1,073 | 1,334 |
| 1913..... | 4,000 | 4,340 | 2,780 | 2,871 | 1,220 | 1,468 |
| 1914..... | 2,800 | 3,711 | 2,181 | 2,412 | 619 | 1,299 |
| 1915..... | 4,230 | 5,184 | 2,377 | 2,595 | 1,853 | 2,590 |
| 1916..... | 7,937 | 8,594 | 3,389 | 3,784 | 4,548 | 4,810 |
| 1917..... | 7,958 | 8,587 | 3,995 | 4,652 | 3,963 | 3,936 |
| 1918..... | 4,513 | 6,300 Est. | 2,568 | 4,250 Est. | 1,945 | 2,050 Est. |
| 1919..... | 6,240 | 6,700 Est. | 3,937 | 3,900 Est. | 2,303 | 2,800 Est. |

The main discrepancies are as follows:

Total net earnings differ, because Professor Friday has taken the published figures without the emendations made by the Bureau and for which the reasons have been discussed. This results in wide variations for 1913, although the percentages are quite close. For 1914, Professor Friday's total is higher than the Bureau's, as is also his estimate of surplus. The proportions are strikingly different, although the proportion which Professor Friday quotes for industrials (*Profits, Wages and Prices*, p. 62) is very close to that found in the sample of the Bureau. In the years 1916 and 1917, for which better data exist, the two estimates are in close agreement, and for 1918, Professor Friday made an advance estimate, whereas the Bureau has had the advantage of the recently published statistics.

§ 25c. Conclusions

If the corporate surpluses for each year are taken at 85 per cent of their face value, which is about the amount justified by the considerations

previously mentioned, then the final corporate surplus, which is to be counted as part of the National Income, will stand as follows:

TABLE 25B

ESTIMATE OF ACTUAL SAVINGS IN THE FORM OF CORPORATE SURPLUS

1910 to 1920

(Millions of dollars)

| Year | Corporate surplus ^a | Estimated actual savings |
|-----------|--------------------------------|--------------------------|
| 1910..... | \$1,416 | \$1,204 |
| 1911..... | 1,075 | 914 |
| 1912..... | 1,073 | 912 |
| 1913..... | 1,220 | 1,037 |
| 1914..... | 619 | 526 |
| 1915..... | 1,853 | 1,575 |
| 1916..... | 4,548 | 3,866 |
| 1917..... | 3,963 | 3,369 |
| 1918..... | 1,945 | 1,653 |
| 1919..... | 2,303 | 1,958 |
| 1920..... | 1,225 | 1,041 |

^a Table 25A.