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VI COMMON DIVIDEND POLICIES AND SURPLUS ACCUMULATION

REGULARITY OF DIVIDENDS

As might be expected of companies of relatively small size, such as predominate in this study, dividend payments to the common stockholders were in general noticeably irregular. Only 278 companies paid some cash dividend on common stock in each of the three years covered by the reports, although this was a prosperous period. The tabulation indicates the situation in this respect. It shows, further, that 256

GROUP	NUMBER OF COMPANIES	NUMBER PAYING DIVIDENDS FOR 3 YEARS	2 YEARS[1]	1 YEAR	NUMBER NOT PAYING
Manufacturing	341	145	48	35	113
Trading	222	82	34	13	93
All other	136	51	18	17	50
All companies	699	278	100	65	256

[1] A company is listed as paying for two years if there was some disbursement in any two of the three years covered.

of the approximately 700 concerns involved paid no cash dividends on common stock in any of the three years covered, although many of them were earning substantial profits during this period.

AGGREGATE DIVIDEND RATES

Rates of common dividends to common stock equities, in terms of aggregate figures for all three years and by broad groups, are presented below.

AMOUNTS OF COMMON DIVIDENDS AND RATES OF YIELD TO BOOK VALUES OF COMMON STOCK EQUITIES

	ALL COMPANIES		COMPANIES WITH COMMON STOCK ONLY		COMPANIES WITH PREFERRED STOCK	
	AMOUNT PAID	RATE	AMOUNT PAID	RATE	AMOUNT PAID	RATE
Manufacturing	$93,562,483	5.78	$42,969,939	7.35	$50,592,544	4.90
Trading	33,778,573	4.96	7,692,022	3.74	26,086,551	5.48
All other	65,655,456	15.84	64,710,129[1]	19.99[1]	945,327	1.04
All companies	$192,996,512	7.11	$115,372,090	10.35	$77,624,422	4.85

[1] If data for one very large company paying 25 per cent dividends are eliminated these figures become $17,210,129 and 12.01 per cent.

It is recognized that the figures are only a crude indication of dividend policies and practices, but it is believed that they are more or less representative or typical of the companies involved. Apparently manufacturing companies with preferred issues outstanding tend to have conservative dividend rates on common stock, while trading companies tend to be more liberal. The elimination of the eight largest trading companies in the group having preferred stock reduces the rate on the common stock from 5.48 per cent to 4.86 per cent; the elimination of the three largest trading companies from those with common stock only raises the rate on the common for all the others in that group from 3.74 per cent to 4.34 per cent. This adjustment still leaves the trading group with a relatively high rate on the common in companies having preferred stock. This is partly explained by the fact that in the trading field it is the small size groups, in which preferred stock is seldom represented in the capitalization, which show low earning rates and hence small dividends.

In terms of aggregate figures for all companies for the three years common dividends are 57 per cent of net income available for common stock, as shown by the following.

	PER CENT
Manufacturing	48.60
Trading	49.12
All other	84.97
All companies	57.00

ANALYSIS OF CASES OF DIVIDEND DISBURSEMENTS

An effort was made to ascertain dividend policies more concretely in terms of the practices of individual companies, but without much success in so far as the making of dependable generalizations goes. As stated above, the outstanding characteristic of dividend practices among these companies is the marked irregularity of payments. However, an additional tabulation with respect to common dividends in the manufacturing and trading groups was made, and this throws some light on the question.

In Table V the practice of one company for one year is deemed to constitute one 'case'. These figures show, as would perhaps be expected among relatively small corporations, a marked tendency to pass common dividends if there is no income available for common shareholders. They also show that the passing of common dividends even in the presence of current profits is not unusual. Of 'cases' where common dividends were paid, it appears that the largest number (in the four ranges selected) represent annual appropriations of less than 50 per cent of the current income available for common stockholders. In manufacturing slightly over half of the 'cases' representing payments fall in this first range. Again in these figures there appears some indication of a more conservative policy among companies with preferred issues than among those having common stock only. As between the two groups, manufacturing and trading, no noticeable differences appear, except possibly that among trading companies there are an especially large number of companies with common stock only which passed common dividends.

TABLE V

ANALYSIS OF COMMON DIVIDEND DISBURSEMENTS

	Number of cases[1]		
	WITHOUT PREFERRED STOCK	WITH PREFERRED STOCK	ALL COMPANIES
Manufacturing, total cases	555	454	1,009
141 Cases of loss to common stock			
Passed common dividends	59	61	120
Paid common dividends	13	8	21
868 Cases of income available for common stock			
Passed common dividends	140	183	323
Paid of balance available:[2]			
Less than 50%	140	137	277
50% to 75%	79	33	112
75% to 100%	36	13	49
100% and above	88	19	107
Trading, total cases	419	235	654
115 Cases of loss to common stock			
Passed common dividends	67	30	97
Paid common dividends	12	6	18
539 Cases of income available for common stock			
Passed common dividends	159	71	230
Paid of balance available:			
Less than 50%	61	62	123
50% to 75%	45	39	84
75% to 100%	28	10	38
100% and above	47	17	64

[1] A case is the record of one company for one year.

[2] The distribution within these groups in respect of percentage paid was made on the basis of a random sample, taking every fourth case.

SURPLUS

Table VI shows the relation of earned surplus to total proprietary capital for the last year reported, 1929, for the manufacturing and trading groups and subgroups and for all companies. In four cases it was impossible to compute this

TABLE VI

RATIO OF EARNED SURPLUS TO TOTAL STOCK EQUITY, 1929
Distribution of Ratios by Percentage Ranges

		Number of Companies										
GROUP	TOTAL	UNDER 0*	0 TO 10	10 TO 20	20 TO 30	30 TO 40	40 TO 50	50 TO 60	60 TO 70	70 TO 80	80 TO 90	90 TO 100
Manufacturing, total	347	28	27	46	59	44	41	42	20	19	13	8
Milling	6	1	1		2	1	1					
Ice cream and other dairy products	13	2		2	2	2	3	1	1			
Meat products	6			1			2	1	1		1	
Fruit and vegetable canning	6			2	2		1	1				
Miscellaneous food products	23	2	2	1	2	1	3	4	4	1	3	
Cotton goods	17	1	4	1		3	2	3	1		1	1
Silks and woolens	14	2		2	3	1		1	1	2	1	1
Carpets, rugs and other textiles	8		1	2				2	2		1	
Clothing and dry goods	18		2	2	4	5	1	1		3		
Tanning	8	1			2		2	1			1	1
Shoes	14	1	2	2	1	2	2	1		2	1	
Lumber	13	2	2	2	3			1	2			1
Boxes and barrels	8	1		1	1	1	2			1		1
Miscellaneous wood products	14	4		2	1	2	1	3				1
Furniture, pianos, radios	10	2	1		2	1	1		2	1		
Paper boxes	7		1	2	1		1		1	1		
Paper	11	1	2	1	2	2		2		1		
Drugs and chemicals	20	2	1	2	4	3	3	4			1	

TABLE VI *(cont.)*

RATIO OF EARNED SURPLUS TO TOTAL STOCK EQUITY, 1929

Distribution of Ratios by Percentage Ranges

GROUP	TOTAL	Number of Companies										
		UNDER 0*	0 TO 10	10 TO 20	20 TO 30	30 TO 40	40 TO 50	50 TO 60	60 TO 70	70 TO 80	80 TO 90	90 TO 100
Cement and ceramic products	17		2	3	3	3	1	3	1	1		
Heavy forgings, bars, billets, sheets, castings, etc.	23	1	2	3	6	5	1	1		3	1	
Electrical machinery	7			1	4			1			1	
Agricultural, construction, and mining machinery	10	1	1	2		1	2	2	1			
Stoves and other heating apparatus	9			2	3	1	2		1			
Miscellaneous machinery and equipment	17	1	2	2	3	2	4	2				1
Hardware	12	1		2	3	3		1		1	1	
Miscellaneous iron and steel products	19	1		2	2	3	4	3	2	1	1	
Unclassified	17	1	1	4	3	2	2	3		1		
Trading, total	221	27	18	37	24	38	21	20	19	8	4	5
Automobile sales and service; gas and oil—wholesale and retail	12	2	1	2	1	2	1		1	1		1
Men's and women's clothing—retail	9	2	1	1		3		1	1			
Cotton and wool merchants	7	4	1	1	1							
Department stores	20	1	1	7	4	1	4	1	1			
Dry goods—wholesale	10		3	1	1	3	1		1			
Fuel, lumber, and building materials—retail	15		1	1	4	1	1	2	3	1		1
Fuel, lumber, and building materials—wholesale	17	5		4		2	2	2	1		1	
Fruit, vegetables, dairy products, grain, etc.	11	3	1			2	1	2		1		1
Furniture—retail	20	2	2	3	1	2	1	3	3	1	2	

TABLE VI *(cont.)*

RATIO OF EARNED SURPLUS TO TOTAL STOCK EQUITY, 1929

Distribution of Ratios by Percentage Ranges

		Number of Companies										
GROUP	TOTAL	UNDER 0*	0 TO 10	10 TO 20	20 TO 30	30 TO 40	40 TO 50	50 TO 60	60 TO 70	70 TO 80	80 TO 90	90 TO 100
Groceries—wholesale	11	1	3	1		1	1	1	1	2		
Hardware—wholesale and retail	15			2	4	2		3	3		1	
Jewelry—wholesale and retail	7	1			1	1	1	1	2			
Paper and leather products—wholesale	8	1		1		5		1				
Auto supplies, electrical equipment, radios, sporting goods—wholesale and retail	17	3		6		5	1		1	1		
Unclassified	42	2	4	7	7	8	7	3	1	1		2
All other, total	140	23	23	14	8	16	10	10	11	9	10	6
All companies	708	78	68	97	91	98	72	72	50	36	27	19

* Negative surplus, or deficit.

ratio because surplus was incorporated in the capital stock accounts in the reports. 'Proprietary capital' is equivalent to all capital (total net assets) less liabilities.

Earned surplus evidently accounts for an important element of total capital in many of the companies studied. The table shows that in the manufacturing field surplus accumulation on a large scale is somewhat more common than in trading. In manufacturing 102 companies, nearly a third of all companies in this field, show an earned surplus accumulation of 50 per cent or more of total proprietary capital; in the trading group one-quarter of the total companies in the field had an accumulated earned surplus equal to 50 per cent or more of total proprietary capital. Two-fifths of 'all companies' show an earned surplus accumulation ranging from 10 to 40 per cent of total proprietary capital. In only a few more than a tenth of the companies does earned surplus amount to 70 per cent or more of the total ownership.

In considering the data as to surplus here presented it should be remembered that surplus accumulation as reported is affected by the age of companies, stock dividends and other practices involving the capitalization of surplus, and by cash dividend policies. Hence specific conclusions concerning financial conditions and tendencies in the various subgroups are hardly warranted on the basis of the figures available. It is apparent, however, that the general conditions found in the manufacturing and trading groups as a whole are characteristic of most of the subdivisions of these fields.