

# Proxy's Army

*When you buy stocks in General Motors or U. S. Steel or any other corporation you become a partner in it. Do you know as much as you should about your corporation's business?—its officers, plans, prospects? Well, maybe—but you can't prove it to Mr. Flynn! He's been investigating you, and has found surprising proof that the average common stockholder is a careless, ignorant fellow who stands outside and chants, "We want dividends!" as college boys yell for touchdowns*

By John T. Flynn

**W**HAT are we going to do about this fellow we call the stockholder? Who is he, in the first place? And what is he? We have had two pictures of him.

One is that of the little fat man with the high hat and side whiskers, with dollar marks on his waistcoat and a batch of securities sticking out from his coat tails. He is the bloated millionaire stockholder who is supposed to own us body and soul.

The other picture is that of the horny-handed son of toil, with a pick in one hand and a share of common stock in the other. He is one of the toiling masses who are now supposed to own our industries and make us into the first great industrial democracy.

The fact is that neither of these pictures is quite true to life. Our millionaires do not own our corporations. The Treasury Department finds that they own less than seven per cent of the common stocks. And neither do our hardy pick-swinging and truck-driving proletarians own them. The Common Stocks of the Common People—that's a nice picture, but it's mostly talkie. In 1928 the Treasury found that about \$4,300,000,000 was paid out by corporations in dividends to individuals.

Of this sum the millionaires collected about \$393,000,000.

The proletarians collected about \$145,000,000.

## Who Owns Our Corporations?

The great bulk of the dividends—some \$3,762,000,000—was collected by persons in between these two classes.

For some years it has been popular to talk about the millions of people who own the shares of our industrial and financial and utility corporations. Some optimists have given us a vast array of 20,000,000 Americans owning the shares of the great business machine which serves us.

The chief trouble with this picture is that it is not true. Raking through tax returns in 1928 the Treasury found some 3,300,000 stockholders in corporations which paid dividends. And the great bulk of their stock was owned then by 516,000 persons—those 516,000 persons collected \$3,762,000,000 in dividends and they were all people with incomes in excess of \$5,000 a year.

An additional \$393,000,000 was collected by the millionaires. And \$145,000,000 more was collected by 2,300,000 persons with incomes too small to report. There was another \$2,000,000,000 collected by corporations which own stock in other corporations—investment trusts, holding companies, finance companies, insurance companies, etc.

It would seem then that the stocks of our industrial and utility corporations are owned about as follows:

By corporations.....	31.75%
By people with incomes over \$5,000 .....	65.95%
By people with incomes under \$5,000 .....	2.30%

These figures have been kindly supplied to me by that indefatigable student of our incomes, Mr. Joseph McCoy, the actuary of the Treasury Department. The mistake of those who account for those mythical fifteen or twenty million stockholders arises from the fact that they do not take into account the duplication of shareholders in various companies. One may own stock in a dozen corporations. There are some who own stock in 500.

Now by all this I do not mean that the number of shareholders has not been

growing. It has. And it has, perhaps, grown a little more since our famous stock market collapse than it did in the preceding year. Last fall, when the so-called Wise Guys of Wall Street were scurrying in panic from the market, hastily flinging overboard the stocks they had bought at top prices, the so-called sucker public was apparently following close behind, picking up the pretty bargains they were unloading as they fled.

## A Growing Family

For three weeks after the market crash the Radio Corporation was kept busy registering new stockholders at the rate of 900 a day. The General Motors Corporation was registering them at the rate of 1,500 a day. And most of the large, well-known corporations were having similar experiences. Apparently one result of the stock

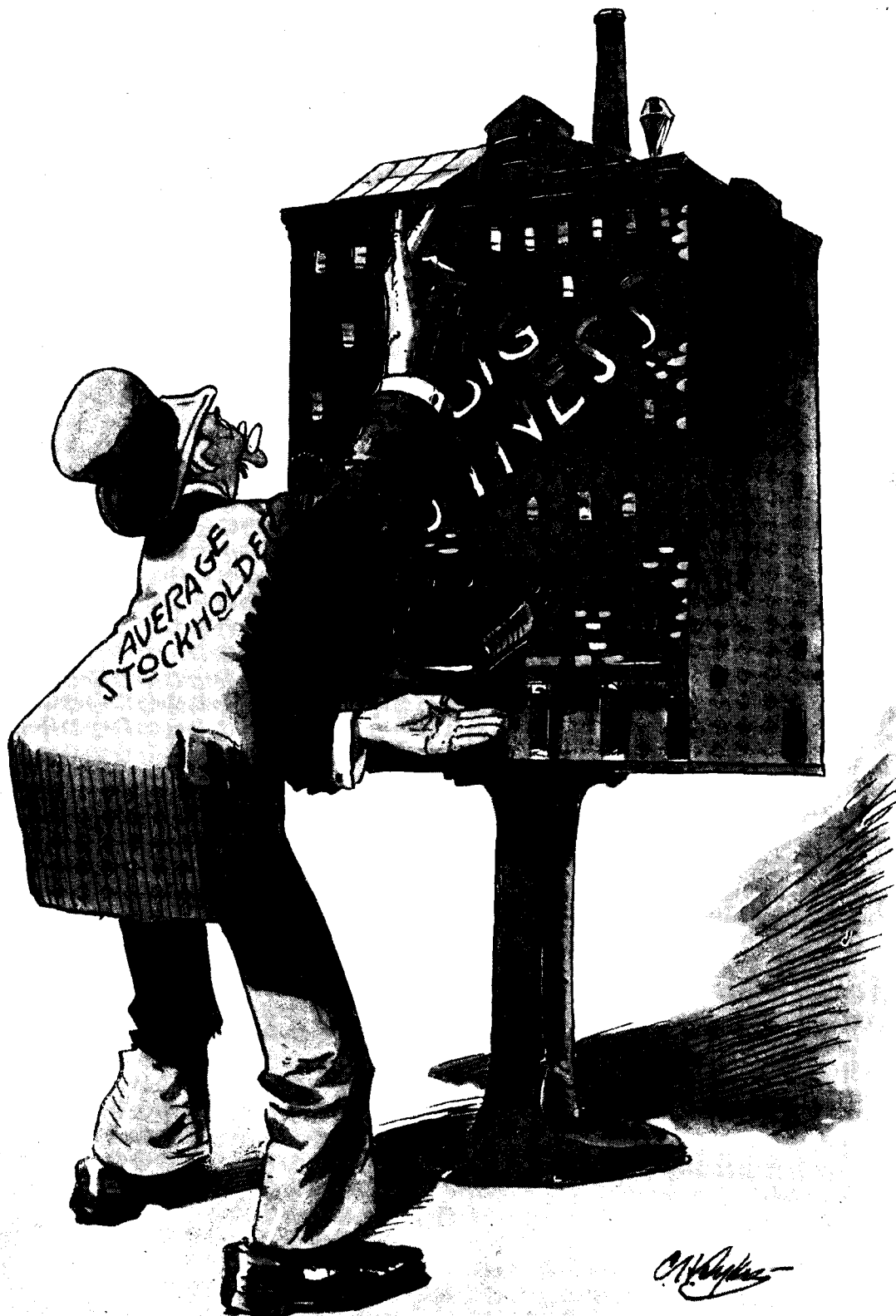
market crash and the much-advertised business depression has been to increase the number of stockholders in most of our better corporations.

American Telephone and Telegraph Company before the market crash had 455,000 stockholders. By December 31st it had added 14,000 more. Since then it has accumulated another 58,000. It now has the unprecedented number of 527,000 stockholders.

The United States Steel Corporation had 110,166 stockholders three weeks before the market decline. Two months later it had 117,956. One year later it had 135,506.

The Standard Oil Company of New Jersey had 78,789 five weeks before the market collapse. Five weeks after it had 92,756, or 14,000 more. Six months later it had 101,439.

The records of other corporations show that as the speculators were hurriedly moving out, the investors were



The shareholder's interest in any business rarely extends beyond its ability to pay satisfactory dividends

moving in. In six weeks the Simmons Company stockholders increased seventy per cent. Woolworth stockholders almost doubled. Studebaker stockholders increased from 16,753 to 23,000; National City Bank stockholders from 50,363 to 62,000; Commonwealth and Southern stockholders from 37,000 to 74,000. The day of the panic the Packard Motor Company had 25,971 shareholders. Six weeks later it had 54,990. And while the price of Cities Service stock was dropping from sixty-eight to twenty some 93,000 additional persons bought the stock. After two months of market decline the Pennsylvania Railroad found it had 45,000 new shareholders.

Of course, stock market depressions are always accompanied by increases in the number of stockholders in the leading corporations. And then as the depression passes the number of stockholders dwindles as the sapient buyers unload their holdings at higher levels.

However, the increases in the number of stockholders have not declined during this year in spite of several periods in which stocks went up. General Motors had a heavy increase in stockholders during the last two months of 1929. As this year started and stocks recovered a little the number of stockholders increased to 218,392. It grew by 3,000 more in the second quarter. By the end of September it had risen to 299,531. The same thing is true of U. S. Steel.

Now it must not be supposed that each of these new stockholders in U. S. Steel or General Motors is a brand-new stockholder in the corporate world. Doubtless some of them are newcomers. There is no way of ascertaining the fact definitely. But they are made up probably of intelligent investors who already owned other shares and who availed themselves of the lower prices and bought at an advantage.

There is a certain democratic tendency in the composition of our stockholders, but we are yet some distance from that much-advertised comprehensive industrial democracy which includes almost the whole population.

And now what part does this stockholder play in the business? Who is looking after his rights? What economic value has he? What is his function? Is he getting all that is coming to him? Or is he getting more?

And just what are we to do about him? Looked at as a factor in corporate affairs, the stockholder may be considered as almost totally devoid of life. Mr. John H. Sears, attorney for the Corporation Trust Company, an authority on the subject and a lawyer with a wide experience in corporate affairs, thus describes him:

"As a citizen and political voter the stockholder doesn't hesitate at any hour or in any place to voice his sentiments of approval and disapproval. As a stockholder he usually keeps his mouth shut. As an employer or employee he makes known his discontent. As a householder and taxpayer he demands his money's worth. But as a stockholder your average person today is the most docile, the most shrinking, the most supine of mortals."

Does the stockholder take any interest whatever in the corporation in which his money is invested? I asked a group of twenty persons who are stockholders three very simple questions to test their information about their own investment.

#### A Catechism for Investors

Here are the questions:

Who is the president of the corporation?

What did it earn per share last year? How many issues of stock or bonds are ahead of your common stock?

You might suppose any man would be able to answer questions like these about corporations whose shares he had bought. And yet not one of the twenty was able to answer all these three questions about all of his stocks. Some of the answers betrayed that kind of simple ignorance one sees in a freak grammar-school examination paper.

One man who owned U. S. Steel stock said he didn't know who was president

since Judge Gary died and left the office vacant. Of course, Judge Gary was never president. Another said J. P. Morgan was president. Another said James A. Farrell had been made chairman of the board to succeed Judge Gary and no one had been named president to succeed him. One man—believe it or not—did not know that Judge Gary had ever been connected with the company and still another did not know he was dead. And remember all this related to a corporation which goes farther in taking its stockholders into its confidence than any other in existence.

Out of twenty men I found only two who could tell what issues of stock or bonds preceded their common holdings in any corporation and they knew this only as to one or two of their stocks. One man knew it as to one stock in the company in which he held a good position.

Of the twenty—owning among them stock in ninety corporations—not one could answer as to the yearly earnings per share in all their holdings. They all knew the dividends, but did not know the net or gross earnings per share. Not one of them had ever been to a stockholders' meeting, not even in the corporation in which they were employed. And only two or three of them had ever sent in proxies and then only on rare occasions.

But all knew the market price of all their stocks, though the twenty men I refer to were primarily investors and not speculators. But they didn't seem to care anything at all about the corporations in which their life savings were embarked.

Do stockholders ever undertake to thrust advice upon their directors and corporation officials? Do they ever complain about the management of the corporation? Do they ever protest

against its conduct on moral grounds? During the last year I have asked a number of corporation executives about this. One told me he gets an occasional letter from a small stockholder criticizing the business but this is so rare as to call for comment.

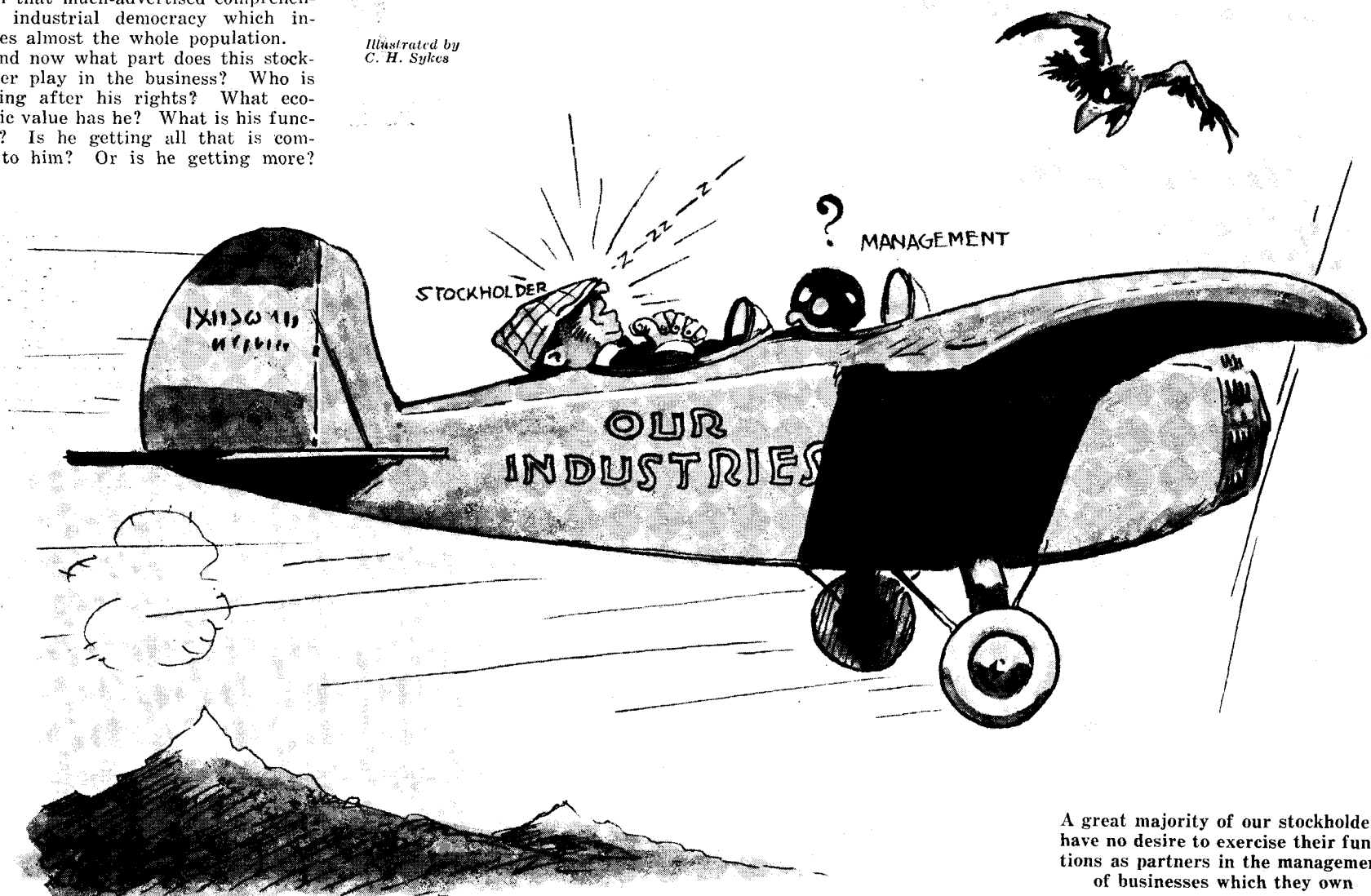
#### The Apathetic Stockholder

One corporation president whose company sends out very full and helpful statements to stockholders with dividend checks told me that he always gets a few letters expressing appreciation of the statements, but that alongside the great number of stockholders the letters are quite few. Complaints against unethical conduct are very rare. Until John D. Rockefeller, Jr., went out after Col. Bob Stewart's scalp because he engaged in a transaction which it was charged gouged his own company, no protests were received from any stockholder of the Indiana company.

However, there is one point on which stockholders occasionally make themselves very voluble. That is the subject of dividends. "We want a dividend! We want a dividend!" That is the cry which goes up to the directors from the stockholders in the bleachers. A director of a large industrial company told me that his concern had received letters for years from stockholders protesting against the conservative dividend policy of the management and urging the distribution of the surplus. This demand became insistent after a while. Whenever a rumored stock dividend or split-up fails to materialize, or when an extra dividend which had been declared with regularity is omitted, there is invariably a number of protests to the managers. However, these are quite small in

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Illustrated by  
C. H. Sykes



A great majority of our stockholders have no desire to exercise their functions as partners in the management of businesses which they own





Illustrated by  
Harry  
Beckhoff

"Well, that's all," Ann said. "Why you took so much trouble to make a fool of me, I don't know. Good-by"

### The Story Thus Far:

T. PATERSON FRISBY, American financier residing in London, is owner of the Horned Toad, a copper mine. Having just learned that the adjoining mine—the Dream Come True—is worth millions, he is much surprised when his penniless secretary, young Berry Conway, calmly informs him that he, Berry Conway, is the owner, and, because the property is "obviously worthless," wishes to sell it.

A great chance—for Mr. Frisby! He promptly sends the young man to a "possible purchaser"—one J. B. Hoke (a Frisby hireling), who, much to the disgust of one Captain Kelly who was to have been "in on" the deal and the estimable T. Paterson Frisby, buys the mine for himself.

Decidedly disgruntled, but still seeing golden possibilities, Frisby agrees to a merger of the two mines, and plans to clean up on the stock sale, to come later. . . .

Ann Moon, the charming American heiress and niece of Mr. Frisby, comes to London. Lady Vera Mace, aunt of "the Biscuit" (known to the public as Godfrey, Lord Biskerton), gets the job of chaperoning her. Result: Ann and "the Biscuit" become engaged.

His lordship should be happy. He is not. His creditors are hounding him. How can he escape them—until marriage renders him solvent? Seeking advice, he goes to his dearest friend: none other than Berry Conway. "I'll tell you what you do," says Berry. "Change your name to Smith, leave London, and take a house near mine, at Valley Fields, until the storm's over!"

Godfrey, Lord Biskerton, likes the suggestion, and acts on it. Whereupon, comfortably ensconced in the country, he meets a young neighbor—Miss Kitchie Valentine, American—proposes, and is accepted. . . .

## Big Money

By P. G. Wodehouse

And Kitchie and Ann Moon are friends! . . .

Engaged to two girls! While he is wondering what to do, Berry Conway comes to him and tells him that he, Berry Conway, has met a most beautiful lady in London; to impress her he has told her he belongs to the secret service; they have become engaged; the name of the fair one is—Ann Moon. . . . Is his lordship shocked? He is not! . . . He and Berry discuss their problems; after which they learn something of The Dream Come True deal. Together, they evolve a plan to deal with the crooks. Then—Berry resigns his position—and prepares to go after a fortune!

### XI

TO BERRY CONWAY, hurrying across its verdant slopes to where the tea house nestled among shady trees, Hyde Park seemed to be looking its best and brightest. True, the usual regiment of loafers slumbered on the grass and there was scattered in his path the customary assortment of old paper bags; but this afternoon, such is the magic of love, these objects of the wayside struck him as merely picturesque. Dogs, to the

number of twenty-seven, were barking madly in twenty-seven different keys; and their clamor sounded to him like music. If he had had time, he would have pursued and patted each separate dog and gone the rounds giving sixpences to each individual loafer. But time pressed, and he had to forego this piece of self-indulgence.

If anyone had told him that his manner during their recent chat had been of a kind to occasion Mr. Frisby pain, he would have been surprised and wounded. He was bubbling over with universal benevolence, and the five children who stopped him to ask the correct time received, in addition to the information, a sort of bonus in the form of a smile so dazzling that one of them, less hardy than the rest, burst into tears. And when, coming in view of the tea house, he perceived Ann already seated at one of the tables, his exhilaration bordered on delirium. The trees seemed to dance. The sparrows sang with a gayer note. The family at the

next table, including though it did a small boy in spectacles and a velvet suit, looked like a beautiful picture. Many a person calmer than Berry Conway at that moment had been accepted—and with enthusiasm—by the authorities of hospitals as a first-class fever patient.

He leaped the railings and covered the remaining distance in two bounds.

"Hullo!" he said.

"Hullo," said Ann.

"Here I am!" he said.

"Yes," said Ann.

"Am I late?" asked Berry.

"No," said Ann.

A JUST perceptible diminution of ecstasy came to Berry Conway. He felt ever so slightly chilled. Nearly eighteen long hours had passed since he and this girl had last met, and he could not help feeling that something more in the key of drama should have signalized their reunion. Of course, in a public place like Hyde Park girls are handicapped in the way of emotional expression. Had Ann sprung from her seat and kissed him, the small boy at the next table would undoubtedly have caused embarrassment by asking in a loud voice, "Ma-mah, why did she do that?" No, he could quite see why she did not spring and kiss him.