Security Market Teaches Economics

THE IMPACT OF TAXES on the securities market furnishes an excellent lesson in economics.

Before the re-orientation of our economy began in 1933—that is, before the ditching of the idea that private capital should be completely private—the rule-of-thumb method of evaluating securities was to multiply earnings by ten fold. A stock earning $5 per annum would sell at roughly $50.

Sometimes, in boom periods, the multiplier would run up to twenty or thirty times, and when some adverse business condition or unsettled political situation called for caution, the capitalization of earnings took a lower rate.

The trend toward the socialization of capital is accelerated by war, which is the ultimate and complete expression of all collectivisms. Even though war orders have greatly increased the earnings of many industries, investors are no longer evaluating the securities offered by the old rule-of-thumb method. Consideration is being given to the probable reduction of earnings through taxation.

To what extent will the government participate in the yield? How will a particular company fare under the excess-profits tax? And how can one's portfolio be shifted to bring less taxable income? As a result of these considerations offerings on the stock market are selling at only four or five times their earnings.

The gross earnings of a company are no longer the prime consideration. The *net* earnings after taxation, present and future, are the determining factor.

The economics lesson is that land values are similarly computed. The *net* rent of land, after the community has taken its share, determines the market price of land.

New York City land (exclusive of improvements and exempt property) is assessed, as a total, at slightly over seven billions of dollars. The amount of rent collected by the city is approximately $220,000,000. The seven billions represent the capitalization of that part of the rent collected by the landowners.

If the tax on rent were abolished the market values would go up; if the tax were increased there would be a corresponding decline in these values. If all the rent were socialized there would be no market values.

If the capitalization of rent is twenty times—that is, if 5 per cent of the market price is the yield—the total rent of New York land is something like $600,000,000, or 5 per cent of seven billions odd plus the $220,000,000 tax. The budget of the City is under $600,000,000.