# Investing in 1960

by LANCASTER M. GREENE

THE relentless though uneven erosion of dollar buying power has just put jet force behind the drive for growth. Roswell Magill of the Tax Foundation says, "the most important test of every proposal for tax revision is, does it remove or lower some barrier to essential economic growth? If it does not, in my view, it loses priority and importance."

The chorus of economists who demand that government do something about everything — such as Robert Nathan and Professor John Galbraith —demand enough inflation to make five per cent annual growth. Governor Rockefeller now tops them by asking for six per cent growth per year. Inflation in early stages encourages growth for the simple reason that few are aware that they cannot replace the plant they are wearing out, at prices they are getting for their products.

When George Bernard Shaw said "the universal regard for money is the one hopeful fact of our civilization," he was giving a puckish twist to Henry George's statement, "man seeks to satisfy his desires with the least possible exertion." This is the basis for the scientific study of man in society. In a sense this is the motivation which sends the stock market up or down, and influences every aspect of our economic life.

All over the world people have heard of the standard of living in the USA, and many are asking why they should not attain the same level. This is now described as the "revolution in expectations." But why should these people seek to rise painfully by their own education and efforts? Why not just ask the USA for dams, power plants and other symbols of the good life? Isn't this the attitude of those who prefer foreign aid to freedom of trade, and also of our free spenders of forced contributions, called taxes?

U. S. Budget Director Maurice H. Stans says the U. S. Federal government already owes $750 billions. The $290 billion debt does not include $30 billion accrued for military retirement, $27.5 billions for civilian retirements, $25 to $35 billions for completing the interstate highway, $8 billions for civil public works now started, $6 billions committed for public housing, $4.4 billions for merchant marine subsidies, $300 billions for veteran pensions, and more billions for farm subsidies, urban renewal and loans to underdeveloped countries. In addition, state, municipal and corporate debts of about $500 billions, bring the total to $1 trillion, 250 billions.

Savers of money must seek investment for growth as the hope of retaining the power to purchase in the face of rising debt. But how many companies are growing? In June, 1957, out of 128,487 corporations filing tax returns, only 86,208 (67 per cent) reported a profit; while 42,248, or one out of three, reported a loss. The U. S. Treasury Department published these figures two years later. How then can an individual choose the best of these 86 thousand corporations making a profit?

Less than 1200 of these companies

have been successful long enough (and can show the required minimum of 1500 holders of 100 shares) to qualify for listing on the New York Stock Exchange, where strict standards of accounting and regular reporting to holders are enforced. The Securities and Exchange Commission therefore finds this select group to be of the greatest interest in the investment field. Furthermore, of the 12.5 million share holders of record in 128,-407 corporations, 8.5 million of them own the 6 billion shares of stock in the nearly 1200 companies listed on this exchange—now valued in the market at $250 billion.

Since the various advisory services and investment counsellors concentrate their studies and their investments for clients to this area, the individual may well make all or almost all his investments from the same source.

Among the companies listed on the "big board" are represented the highest priced and ablest managements in the country, utilizing $250 billions of investors' funds — and this kind of management talent is worth paying for. However, even in this select group not all show improvement or growth each year, managements can make mistakes of judgment and have to be replaced. But investors do not change their investments often—only one billion of the six billion shares on the exchange changed hands in 1959. An investor must therefore select managements carefully, for he may be choosing partners for a lifetime, and his success depends on their character, ability and ambition.

One popular question asked of managements is, how much do you spend on research—what percentage of sales? In 1920 only DuPont was known for its research — $2 million a year as against $90 millions being spent now in 36 separate research towns. In 1959, 3.5 billions were spent for civilian research and about $4 billions for

**Lancaster M. Greene is a trustee of the Henry George School and vice president of the Robert Schalkenbach Foundation. He and his brother, Norven, have been investment advisers on Broad Street in New York since 1927. Mr. Greene is a member and trustee of the Society of Friends, a baritone singer in the University Glee Club, an enthusiastic tennis player, and much in demand as a speaker. Using a Polaroid camera, he has snapped hundreds of pictures of business executives and visiting Georgists, which now constitute a formidable collection.**

military research. As a result 75 per cent of the products many alert companies are now selling did not exist five years ago. But depreciation and obsolescence are rapid, and more allowance for depreciation of plant is necessary to allow the United States to compete with lower wage countries.

Those who are students of Fundamental Economics in the Henry George School know that depressions or recessions will eventually follow booms, until land value taxation is understood and adopted. Inflation in land prices, or merely holding land (opportunity) idle while waiting for a higher price than builders and producers can afford, ultimately stops growth.

More people own real estate than stocks, but large numbers of them lose money or make little from their land and improvements. Why is this? In the opinion of this observer it is because they manage their own real estate. The do-it-yourself management, as a sideline to a full-time job, is seldom qualified to match the shrewd operators in this field. Even when the real estate investors hire management they do not often get the superior type of managers who are sought, almost regardless of price, by the directors of great industrial corporations.

So there is every reason why investors should choose management teams who have the integrity and ability to meet difficult conditions and tough competition. Skillful, hard work is required in making selections for investments—it is not easy, and no one can guess right every time. But there are well tested safeguards in the form of questions, which anyone with the time and tenacity can apply for himself. This is the approach of the professional analyst.

Does the company have products or services with a market potential for possible big increases in sales for some years—say seven or eight? Is the management determined to continue developing new products or processes that will still further increase this sales potential as competition increases? Is the amount spent for research high enough in proportion to sales? Is the sales organization above the average? What is the company doing to improve margin? Is the cost analysis good and accounting first rate?

But integrity in management is the *sine qua non.* The importance of this cannot be stressed too strongly. Look for honesty and competence in labor and personnel relations before making yourself a share holder in any company in 1960.

# Value —A Short Statement

by ROBERT BENTON

**THE possession of some things will avoid labor for the possessor. Some things will avoid more labor than others. Things which will avoid labor will exchange in a certain ratio for other things which will avoid labor.**

**What is the ratio of their exchange?**

**First consider the ratio in which they will avoid labor, as a pencil will avoid, say one unit of labor and a pen two.**

**Then the ratio of exchange for the pencil and the pen will not be one pencil for two pens, but the precise inverse of that ratio—namely two pencils for one pen.**

**I regard this statement on the ratio of exchange to be the law of value:**

***Two things will exchange for each other in a ratio which is the inverse of the ratio in which their possession will avoid labor.***

**The purpose of this is to show what determines value, and how valuable things are exchanged for each other. It will also help to explain the instrument used for measuring value.**

**(The above statement grew out of a keen discussion about value held at the school's annual conference at Rutgers University last summer. Robert Benton, director of the Detroit extension, one of the participants, riding home on the train afterwards, said he "couldn't go to sleep for thinking." There is, of course, much more that could be said on this almost inexhaustible subject, but this aptly paraphrases Henry George's basic tenet.)**