

## **Speculation versus Investment**

By Fred E. Foldvary

- What is the difference between investing in the stock market and speculating in it?
- Does speculation help or hurt the economy?
- Is land speculation different from other speculating?

**Financially, speculation means the ownership of an asset with the intent to profit from expected changes in supply or demand.**

- For example, a speculator buys a share of stock not to benefit from the dividends or the earnings of a company, but because he expects the demand for the stock to rise, lifting its price.
- Similarly, one speculates in a commodity such as silver because one expects demand to shift, or one might sell short wheat (selling to buy back later) if one thinks the supply will increase more than others expect.
- Speculators in currencies expect changes in foreign exchange prices due to shifts in supply and demand.

**Economically, an investment is either an increase in human capital (useful training and education) or an increase in the stock of capital goods.** When one buys shares of stock in a company, that itself is not an economic investment, but a change in who owns the investment in the company and its capital goods and human capital. One invests in a company to obtain a share of its profits.

**Speculators don't care about dividends or present-day company earnings.** They may think a company will grow, and others will notice this, increasing the demand. Or they may sell short if they think the demand for the shares will fall. They may think that preferences will shift, or some other change will occur. They speculate about future possibilities in an uncertain world.

**Speculators in commodities and stocks are helpful because they thicken the markets.** A market is thick when there are many buyers and sellers, so one can always buy or sell an asset. Speculators might also stabilize a market by buying more when it looks like there will a reduction in supply, and then selling when the supply actually is reduced, helping to ease the lack. But speculators can also be destabilizing if they add to demand and raise the price too high.

When currency speculators buy and sell large quantities and destabilize the currencies, this is because the currencies were already distorted. The speculators exploit the situation, but they do not cause it. Sound currencies valued at market do not suffer from speculative fever.

**Land speculation has different effects from speculation in stocks or commodities.** That's because land is local, land is fixed in supply, and land rent gets puffed up by government spending. The fixed supply implies that greater demand just raises the price, unlike commodities that can be produced or imported. Currencies, shares of stock, and commodities have global markets, but land has local markets, so a high local price cannot be arbitrated: one cannot move low-price land into high-priced areas. Finally, unlike commodities, government public works increase the rent, so speculators may actively influence government to provide works landowners don't pay for.

**Land speculation hurts wages by taking up land locally, pushing labor to less productive areas.** By holding land waiting for the price to rise, speculators decrease the local productivity. The wage level is determined at the least productive land in use, as all the additional product of the better lands goes to rent. The main reason why this market-hurting speculation takes place is because the landowners get territorial benefits without having to pay for them.

**There is only one way to eliminate market-hampering land speculation: remove the unearned gains.** If the current and future ground rents are used for community revenue, whatever speculation is left will be beneficial. Owners will not be free-riding on the public works and the growth of population or commerce. Wages will rise as land becomes used more efficiently. The margin of production rises as production moves to the more productive areas formerly held for speculative gains.

**Land speculation helps cause depressions by making land so expensive it chokes off investment.** Only the public collection of land rent stops this. Too many reformers are blaming speculation in currencies for troubles, rather than looking at the land beneath their feet. It takes some sophistication to recognize the vital role played by land. Or else one needs to have the primal wisdom of indigenous folk.

Unfortunately, most people are in between, having evolved to commercial culture and lost the ancient land wisdom, but without the economic knowledge needed to wisely govern the mass societies we have created. Modern man needs to get better grounded.