
THREE IMPORTANT CAPITAL RATIOS

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FIRST SPECULATION IN LAND

IN THE years of reconstruction and rehabilitation following the speculative panic of 1873—and they were long, lean years—there appeared a remarkable volume of English literature from the pen of an economist, a philosopher, and social thinker, a volume which was destined to be translated into almost every language of the world. The power and inherent strength of its thoughtful, restrained persuasion have placed it on a plane which has been reached by few economic treatises. That volume is *Progress and Poverty*, by Henry George.

After one of the most painstaking, broad studies of primary economic theories covering the fundamental problems of wages and capital, of want amid plenty, population and subsistence based upon the Malthusian theory, laws of distribution, of labor condemned to involuntary idleness, the effect of progress upon the distribution of wealth, the author arrived at the consideration of the basic cause of the ever-recurring paroxysms of industrial depression. That fundamental cause he believed to be the speculative advance in land values. In every progressive community, population gradually increases, and improvements succeed one another, bringing about an increase in the value of land. That steady increase leads to speculative activity in which future increases are anticipated. In this manner, land values are carried beyond the point at which, under existing conditions, the accustomed return is expected by wages and capital, an increasing proportion of income going to rent. Production begins to decline at some point and this cessation is communicated to an ever-widening circle of industrial activity. There are other proximate causes such as the growing complexity and interdependence of the machinery of production, defects of currency and credit, protective tariffs and artificial barriers to the interplay of productive forces, the pursuit of monetary profit, but beneath all factors, according to Henry George, lies the fundamental initiatory cause in the speculative advance of land values.

Up to the time that *Progress and Poverty* made its appearance and for several decades afterwards, there existed a westward flowing frontier where land was freely available to dissatisfied Easterners and energetic immigrants. In the latter part of the eighteenth and the early part of the nineteenth centuries, Kentucky, Tennessee, Ohio, Illinois and Indiana beckoned with their fertile valleys. Each succeeding panic, 1792, 1819, 1837, 1857 and 1873, added impetus to the flow of Eastern blood to the

unsettled West. Wealth was measured by actual material possessions of which the most important was land. And with the exception of canal construction and then, later, railroad construction, actual speculation had been largely carried on from colonial days in the buying and selling of large outlying tracts of real estate.

In 1795 the Georgia "Yazoo" land frauds, the most notorious and widespread of the early American land gambles, took place—approximately 30,000,000 acres comprising most of the present States of Alabama and Mississippi were sold to four separate land companies, for the aggregate of \$500,000, or about half a cent an acre. Shares or scrip in the early land companies, representing a pro rata equity in the trustee property, were generously offered to the public. Philadelphia, New York, Hartford and Boston were the principal centers, each city having its own "deals" and selling its shares throughout a wide area. Their purchases of land extended from Lake Erie to the Gulf of Mexico and from Maine to the Mississippi. The size of their operations is not to be despised even from the viewpoint of present day extensive speculative operations.

The early consolidation of railroads, headed by the merging of the New York Central and Hudson River lines in 1869 by Commodore Vanderbilt, slowly ushered in that period of large scale production and commerce under the corporate enterprise which provided a medium of wealth in the form of corporate securities, stocks and evidences of debts, which together with government securities of all classes gradually appeared more important to the layman than real estate.

While stocks and bonds became the favored medium for investment and speculation, land naturally continued to play a most important part. It was not so many years ago that real estate development companies were giving prospective purchasers free trips to Florida and to Muscle Shoals. The Florida real estate boom, while antedating the stock market crash of 1929, is too recent an occurrence to be easily forgotten. The skyscrapers of New York in many cases with a small or moderate percentage of their space leased, the precipitate drop in rental values in all parts of the country, the failure of chain stores because of excessive rentals, the inability of mortgage guaranteeing companies to meet their obligations, the uniform extensions granted by insurance companies to mortgagors, all of these developments of the past few months and years are indications of the nation-wide interest in farm...

lands, suburban real estate and city properties. In all economic reasoning up to the time of Henry George, land value was a pre-eminent factor in the consideration of speculation, investment and wealth. Today that factor has been somewhat obscured by the importance of an intermediate step in the form of a wide variety of corporate securities.

SPECULATIVE TREND TO SECURITIES

In the development of accounting and credit technique by accountants, bankers and creditmen, a certain group of items in the financial statement have come to be known as fixed assets. Those fixed assets are primarily real estate and buildings but also broadly cover rolling stocks, pipe lines, furniture, fixtures, machinery, tools and leasehold improvements. These items represent a very substantial part of the net worth of railroads, public utilities, pipe lines and mining concerns, a smaller percentage but still a substantial part in the case of manufacturers, generally a somewhat smaller percentage in the case of retailers, then followed by decreasing percentages in the case of jobbers, wholesalers and banking institutions.

For several years prior to September, 1929, very substantial sums were available for purposes of corporate expansions. Successful concerns made additions to old plants, erected new modern plants to give greater capacity, mail order houses opened branches to participate in the benefits of chain store distribution, and chain store enterprises invested heavily in real estate, buildings and leasehold improvements. Man has a natural vanity which manifests itself in his desire to erect a tangible monument to himself, and this vanity, together with a desire for yet greater profits, led many successful concerns to make unwise fixed investments.

The widespread policy of investing in land in the early years of our national life now came to be represented by the broader investment in corporate securities and the corporations in turn invested in fixed assets with the broad connotation of that term. The toll of these top-heavy holdings in fixed assets during depressed conditions has come to be recognized by the repossession of real estate and buildings by mortgagees, by the widespread losses of corporate enterprises brought about in no small degree by the depreciation charges on excess fixed assets in times of relative inactivity, by the payment of interest on mortgages, bonds, debentures and long term notes issued to cover the cost of unwise expansion programs. This is not new, strange, or only theory. It is elemental. It is business today. In 1904 Veblen made this idea the crux of his theory of depression and in more recent years that theory has received most careful attention by outstanding students of the business cycle.