Land and Brains

by LANCASTER M. GREENE

THE principal material resources of any country are land and brains. Its greatest potential is always represented by the character of its land and the brains that make use of it. The value of land depends not merely on whether it contains oil, copper or valuable minerals or is favorably situated, but more essentially on its role in productive enterprise. How effectively metals or oil deposits or a desirable location figure in land value will be determined by the acuity devoted to the land's development and use.

Years ago my partner and I bought a number of pieces of New York land with buildings on them. When we found that managing these land parcels consumed much time we decided we could do better by hiring capable people to manage our investments, so we sold our "real estate" and invested in shares of companies whose managements command salaries of $100,000 or more.

We selected only companies of such size that everything they do is newsworthy and under scrutiny continuously by competent financial analysts throughout the nation. Furthermore we restricted our investment to listings on the New York Stock Exchange since most of these 1200 companies have long records of performance. Though we might have profited handsomely from our original investment, we have never regretted turning our attention instead to the development of industry. It is true that the best locations have gone up sharply in value and great fortunes have been made in land speculation, but nobody knows how many billions have been lost.

As an example of what we mean by investing in corporate brains, a comparison of two notable companies over a twenty-year period may be helpful.

Ten shares of American Telephone and Telegraph Company bought on September 3, 1947 cost $1,595, paying $90. One hundred shares of the Boeing Company at $1800 was paying $1 a share. Today the ten AT&T shares would have increased to 60 paying $2.40 a share—a rate of only $144 a year unless one had invested more savings by taking up rights. The Boeing purchase would have increased to 1280 shares paying $1.20 a share, or $1,536. On market value AT&T is up from $1595 to $2850—the Boeing is up from $1800 to $104,000. Although service to shareholders has differed widely, both managements have brains and have served their customers very well.

But if we compare this private efficiency of AT&T with that of the U.S. Post Office we get a very different set of figures for our two largest communication systems. AT&T has improved employee efficiency three times as fast as the post office, even though the latter has raised its prices about three times as much. From 1930 to 1966 AT&T has paid $30 billion in taxes while increasing wages and processing, per employee, six times as many messages as the postal service. At the same time AT&T was actually reducing the charges for telephoning while the post office cost the taxpayers $128 billion in taxes to cover deficits after postage paid.

Advocates of socialism will often remark, "you would not have private industry carry the mails, would you?" Experience seems to tell us unmistakably that our service and cost would be much more satisfactory if we did not entrust so much to the federal government.

For a time the Wells Fargo Express Company was competing with the postal service in the West, and the private carrier was so much more reliable that soon the post office found itself without any mail or parcels to carry. The federal government, embarrassed by the efficiency of private industry, finally outlawed this private mail-carrying so that the vast postal system might not suffer this invidious comparison. The public pays the price in inconvenience and taxes—and this is only one of many cases which shows how private industry can out-perform any federal bureaucracy.

A current instance is the United Parcel service in those areas where it is permitted to provide parcel post delivery. A 5-pound shipment through the post office for the 860 miles from San Francisco to Seattle is 95c by surface mail and $3.02 by air. The UPS is 74c by surface and $1.09 by air. A 10-pound parcel from San Francisco to Los Angeles, 425 miles distant, via surface, is $1.20 through the post office, and 94c via UPS. Normally the UPS gets parcels to the recipient in two days, but it takes 7 to 10 days through the post office.

Private power and light companies also provide electricity more efficiently than the Tennessee Valley Authority which was initially financed by government funds. Yet private power pays dividends to shareholders as well as taxes for the support of its competitor, the Rural Electrification Administration. With so many facts like this being revealed by the press I find myself wondering why such a vast segment of our population still relies on the federal government for answers to the housing dilemma.

By the simple solution of taxing location value and exempting improvements, better locations would be made available at lower prices, while investment in better housing in more desirable places would be encouraged. When we halt speculation in land locations the tendency is for money and brains to flow into desirable production.

Speculative fashions, which Wall Street calls "the madness of crowds," are at various times carried to extremes. In my 44 years of investing I have seen many fads come and go. In one period most investors favored oils, at another radio, uranium, and later television. Utilities were the darlings until the money crunch of high interest rates erased profits.

For the past ten years some of the people who regarded land as a "hedge against inflation" have been favoring gold purchases abroad. The country's economy is such that this subject has widened into a popular debate. In the past decade world trade has expanded from $90 billion to $210 billion and the current $45 billion of official reserve stocks of gold may be considered sufficient to finance this volume of trade. The more important factor in continuing trade is ready access to credit.

Our answer has been that while the price of gold may some day be lifted from $35 an ounce, speculators will be paying interest and storage charges during the long waiting period and will receive no dividends.

Despite the lures of land or gold speculation our study of the money market gives us no reason to depart from our policy of investment with skilled managements of companies using research and development to further growth. We believe the best way to safeguard individual security in an inflationary economy is still the historic pattern of selective investment in American industry.

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