Our Changing Economy
By Philip Stoddard Brown
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Investors Reapers; Savers Weepers

By Philip Stoddard Brown

A LOCAL savings institution advertises: "Invest—but avert risk." If "avert" means what its Latin origin denotes and if "risk" covers the possibility of a loss of purchasing power and a lowering of the dividend rate, this is impossible.

Brown

Five years ago, 2½ per cent Treasury bonds of 1972 sold at par, or just under. Today, they are worth $86 and their value has fallen even more in purchasing power. Common-stock prices, on the other hand, have doubled on the average in the past five years.

But what about the next five years? Who can be sure whether it is more prudent now to buy General Electric or Treasury bonds? Which is more conservative? Which is less risky?

Risk Can't Be Avoided

One can't avoid risk. Many don't want to. The lure of playing the market, if one has a few thousand dollars, or the numbers, if one has only dollars—or, the urge to bet on horses or buy a lottery ticket—is almost universal. How else could a railway trackman in Ireland ever hope to acquire $420,000, tax free, as one did last week, in the biggest soccer pool in British history.

Many years ago, Alfred Marshal, the great English economist, proved, to the satisfaction of several generations of economists, in a long footnote, that gambling even when conducted on fair and even terms always involves an economic loss—that is, a loss of happiness—and, conversely, that a theoretically fair insurance against risks is always an economic gain.

But, the wife of last week's co-winner (a nearly blind, $12.50-a-week pensioner, who also got $420,000) remarked that the soccer pool is the only fun in life left to her husband. Marshal would have said that he isn't an "economic man." But he is a man. (His wife who is against gambling for religious reasons, isn't an "economic woman," either.)

The fact is that one can't get rich by saving and it's pleasurable to live in the hope of striking it rich. In these times, no one can become a millionaire by saving. Not even one with a salary of $100,000 a year for 25 years. Yet, there are plenty of ways of becoming a millionaire.

Good Management Helps

To be sure, if one can't arrange to inherit or marry wealth, or discover mineral riches or invent something of value, or borrow "a stake," one may be driven to save so as to have something to gamble with, or "to invest."

Riches come not by saving but through capital appreciation. This is often the result of (1) inflation and (2) the fact that all benefits accrue to equity holders. For example, if a $100,000 property with a $50,000 mortgage doubles in value, the owner's equity increases threefold.

Capital appreciation can be helped along by good management. Even without inflation, earnings per dollar of investment can sometimes be increased year after year. But inflation is a powerful ally of management, especially if it's operating with borrowed money.

Last year, capital gains were many times greater than current saving. In fact, the $75 billion increase in the market value of just those stocks listed on the New York Stock Exchange was about three times what was saved by all individuals and corporations in the country.

No tally exists of the market value of the securities, the proprietary interest in local businesses and residential properties owned by Washington residents, but it can be proved beyond reasonable doubt, I think, that the capital gains of area residents in 1958 greatly exceeded their savings out of income.

D. C. Stock Gains

To indicate how great some gains must have been, I have listed below the prices of the stocks of a few firms operating in Washington, in which area residents probably have substantial investments, at the end of 1957 and at the end of 1958.

	Year-end 1958	Year-end 1957
Drug Fair (Com)	11½	5⅞
Giant Food Properties (Com)	2⅝	¾
Government Employees Insurance Co.	124	85
Government Employees Life Ins. Co.	148	69
Hecht Co. (Com)	42¾	23¼
Hot Shoppes Inc	26	15
International Bank of Washington	26½	8½
Peoples Drug Stores	42⅝	28½
Shirlington Trust Co	30	20
State Loan and Finance (Class A Com)	25½	15½
United Services Life Insurance Co.	125	50
Washington Baseball Club	200	150
Washington Gas & Light Co	48¼	34
Woodward and Lothrop (Com)	54	40½

Nobody was made rich in the past year by the discovery of oil in this area, but stockholders of the Second National Bank (now the First National) whose stock was worth $150 a share in mid-December, and $265 a few weeks later, must have felt something akin to the thrill of bringing in a gusher.

How is it that such great gains can be realized in one year's time—in many cases without any increase in earning power? (In the country as a whole, corporate earnings were the smallest in several years). At whose expense are these gains made? Why should some people save and lose out and some reap great gains without saving?

Well, let's not be spoilsports. It's the way the ball bounces in this all-American game of investing. Surely none of us would want to live in a country that had national lotteries, soccer pools and other such simple games of chance. In those countries you're just a lucky bloke, if you win. In the United States of America, if you bought stock in the Second National Bank a year ago, you're more astute than the fellow that bought Riggs. The figures prove it.