

equity stocks, and those on corporate bonds for the same corporations. It would be very difficult to explain different relationships between earnings or price or rate of return among the different classes of investment without some recourse to the notion that they reflect different evaluations of risk.

Chairman PROXMIRE. I am not sure about that. You take a look at the price-earnings ratio, not just the relationship between price and dividends, which is another factor explaining the difference other than risk. The price-earnings ratio on the New York Stock Exchange now, even though we have had a couple of bad days on the stock exchange, I think you would find that there is not much difference between that and the yield on Government bonds right now.

What has happened is that the stockholder, of course, makes an investment, will get a return substantially below the return on book value. In other words, in the actual amount of money invested in the corporation, which would have a return before taxes of maybe 12 or 13 percent, and after taxes, 6 or 6.5 percent. The stockholder is paying more than that, because by and large, the stocks are valued at above book value.

Mr. HOFFMAN. Yes, sir. At any one time the relationships are influenced by a number of factors.

Chairman PROXMIRE. This has been the situation for several years.

Mr. HOFFMAN. It has not always been the situation, though, and it seems to me that we have moved into an era where we have certain expectations about rate of growth and inflation and so on that might compensate for current price-earnings ratios that are low relative to the yields or less risky debt security. But it seems to me that to explain the divergences which have occurred in the past one would have to have recourse to some notion of differential risk.

Chairman PROXMIRE. Well, it is hard for me to grasp why the argument that Mr. Stockfish makes, that the average rate of return, allowing for the ones who lose everything, comes out to around 12 percent, why that would not be the appropriate opportunity cost. I can see this other argument you make on displacement of resources. That is something else.

Mr. HOFFMAN. Mr. Stockfish's argument, I think, is relevant if you consider the investment in an individual corporation from society's point of view as being analogous to investment in one among many items in the portfolio of a mutual fund. The growth of diversified companies has been a movement, of course, toward precisely this kind of phenomenon from the point of view of even individual investors.

But it is by no means universally true that risks are averaged out among industries or regions even from society's point of view. In fact, the coal mining industry as a whole has experienced one outcome of a risky situation. You have different situations in different industries. You might also have one situation for a firm in one area, and another for a firm in another area.

Chairman PROXMIRE. This is very true, but the coal mining industry is a good example. The coal mining industry, as you say, has deteriorated. Many companies have had to go out of business.

The railroad is another example of an industry where the return is very low and some have consolidated or gone out of business.

In the other areas, however—you have electronics, for instance, many areas of research industries that are booming. And television;