CHAPTER II

THE SOURCES OF WEALTH

THE aim of this chapter will be to show how wealth comes into existence, and not how to get possession of it. It is no recipe for getting rich. In any statement of the sources of wealth there will be frequent occasion to use the word "value." We are concerned with the word only as it is concerned with tangible goods, hence we must limit it to this field. In common parlance the word is used to characterize many things which are not goods. For example, we speak of the value of an accomplishment, the value of an idea, the value of knowledge, and these certainly possess value of a kind, but not value in exchange as is meant when we are talking about goods. An accomplishment or an idea may serve its possessor, and may be made to secure for him valuable goods, but neither can be exchanged for something else as goods can be. The possessor of goods can part with them, can give them up to another. Not so with an accomplishment or an idea. Goods are of such a nature that they can demand something else in exchange for themselves. Not so with an accomplishment or an idea. These may demand something as compensation for their services but not in exchange for themselves. Their possessor can not part with them.

Value must be distinguished from utility. If they were the same thing they would be the same in amount, they would increase or decrease at the same time and in the same degree, but they do not. For example, the value of a bushel of wheat was 90 cents four weeks ago, while yesterday it was $1.08, but its utility has not changed. Winter suits are being sold to-day in a certain clothing establishment for $20 exact duplicates of which were sold three months ago in the early winter at $30. Their inherent utility has not changed. Air has great utility, but has no value in exchange. Value may be defined as that property of a commodity because of which that commodity can be exchanged for something else; while its utility is its power to satisfy human wants. An estimate of this utility indicates the amount of value. The amount of value any commodity possesses, although determined by the balance of supply and demand, is always measured by somebody's estimate of its usefulness. It may be the estimate of an individual, or of a community, or of a world, but somebody's estimate of the amount of usefulness, of the weal it will confer upon him, is the amount of weal-th it possesses for him. The sum total of the values of all valuable things is the sum total of all wealth. These two terms "valuable things" and "wealth" are mutually inclusive, like two circles having the same centre and the same radius. Wealth then can be increased only by increasing the number of valuable things and by increasing the value of things already in existence. Herein are the sources of all wealth.

All these sources fall into two classes: those subject to the voluntary control of men, and those not subject to such control. So far as the increase of the number of valuable things and the increase of the value of things already in existence is due to deliberate effort of men, in that degree men have the power to produce wealth. On the other hand, so far as this increase is not due to such deliberate effort, in that degree wealth is produced without their volition, possibly in opposition to such volition. Such increase is due to causes over which individuals have no control. Manufacturing goods, trading and transporting them, are illustrations of deliberate production, since by doing these things the number of things is increased and the value of things is increased. But the increase in the value of city lots because of the growth of the city, the increase in the value of coal mines because of the increase of population, the increase in the value of a water power because of the public's need for its use, these are illustrations of the production of wealth without voluntary or purposive action. Such increase may take place even in spite of men's efforts to decrease such values. When the forces which produce these values are at work, an individual is as helpless in an effort to prevent them as he would be to stand on the shore at the approach of a tidal wave and undertake to drive it back to sea.

One or two illustrations will enable us to classify all deliberate efforts to produce wealth. For example, a tree stands in a forest five hundred miles from a market. Ask the owner of it at what he values it. He may say ten dollars. He fells the tree and cuts it into lumber. He would sell the lumber for fifteen dollars. The difference of five dollars shows his estimate of the increase of the value of the material in its changed form. He sends the lumber to the market five hundred miles away and sells it to the lumber dealer for twenty dollars. Later a customer pays the dealer thirty for it. The tree as nature made it had value. That value was increased when the material in the tree had been so changed as to increase its usefulness; still further increased when the material in its changed form had been transported from a place where it was less wanted to a place where it was more wanted; yet still further increased when the ownership had been changed. Each increase of value meant an increase of wealth. In popular language wealth was produced. Through deliberate action of men it was produced through the change of the form of the material, through the change of its place, and through the change of its ownership.

Iron ore is taken out of the bed in which nature put it; the iron is separated from other substances by smelting. It is refined into steel and cast into ingots. The ingots are rolled into steel rails, the rails are carried from the mill to the mountains or the plains and placed in the railroad tracks. The iron had a value while still in its bed, a greater value when separated from other substances, still greater when refined, yet still greater when rolled into rails, and its final greatest value when sold and placed where it is to be used. In changing iron ore as nature made it in the mountains into railroad tracks across the plains, men deliberately produce wealth at every step in the process by increasing the number of valuable things through changing the form of material, and by increasing the value of the things after they are made through changing their place, carrying them from where they are less wanted to a place where they are more wanted, and also through changing their ownership from the hands of those who want them less to the hands of those who want them more. In other words, men through their deliberate actions create wealth by producing, transporting, and trading, the three great fields of human activity which are devoted to the production of wealth and which are subject to man's volition. Any illustration which can be named where men are by their own volition producing wealth can be classified in one of these three fields of activity. They are changing the form or place or relation of material. Some activities which are considered important in modern life, at first sight might appear to be producing wealth although they are not changing the form or place or relation of material. Banking, insurance, and street railways are examples. On closer examination, all engaged in such activities will be found not to be producers but transferrers of wealth. They are getting wealth produced by others in return for a service they perform. The same is true of individuals, professional men for example. Some of them get rich, not, however, because they are producers of wealth, but because they serve others who compensate them for their service. Their rôle is to serve, not to produce.

The increase of values through the production and transportation of goods is recognized the world over, hence the great importance of these two departments of activity. These, however, are the external side of the matter which appears to us all, but they conceal behind their hurry and hustle a method of increasing the values of goods which does not appear on the surface, yet which next to making goods is most important and because of which all goods are transported. This method of producing values is the change of ownership to which reference has already been made but which deserves to be emphasized. The importance of change of ownership as a producer of values is lost sight of in the use of money in buying and selling. The use of money as a convenience in making exchanges conceals the manner in which change of ownership increases values. An excellent illustration of such increase through change of ownership without the use of money is found in a trade made between two college boys whose initials were C and M. C had a good dictionary and a poor watch, both of which he valued at about ten dollars. M had a poor dictionary and a good silver watch, both of which he valued at about the same. M wanted a good dictionary, and since he could n't afford to buy it he offered to trade his good watch and poor dictionary for C's poor watch and good dictionary. C preferred the better watch so much that he was willing to get along with the poor dictionary, so the trade was made. If M had been asked after the trade how much he would take for his new watch and dictionary he would have named some amount above the ten dollars at which he valued the ones he parted with. He might have said thirteen dollars. So C, who was not quite so anxious to trade yet preferred to do so, would perhaps have valued his new watch and dictionary at twelve dollars. The total wealth represented by the four articles before the trade was about twenty dollars. The total after the trade was about twenty-five dollars, an increase of wealth amounting to five dollars. Nothing has happened except change of ownership. In this is found the source of the increase of wealth. As said above, the amount of values is always measured by somebody's estimate of utilities. These college boys' estimates of the utilities of these four articles before the trade in terms of money would have been about twenty dollars; after the trade, about twenty-five dollars. The result would have been exactly the same if these boys had been strangers and hence had never made this trade, but had each sold to some other party his watch and dictionary and then by some chain of circumstances had bought with this money the same watch and dictionary which he secured in the trade. There would have been the same increase of wealth, but the source of this increase would have been lost sight of in selling and buying.

In his great speech before Congress in 1824 on the tariff delusion, Daniel Webster mentioned a trader who borrowed $70,000 from a bank in Salem, Mass., and sailed with it to the Orient. There he bought goods with it. A part of these goods he sold in Europe and bought other goods there with the money received. On his return to America, he sold the goods bought in Europe and the balance of those bought in the Orient, and, after defraying all expenses of the trip, deposited $170,000 in the bank, an increase of values amounting to $100,000. In the case of the college boys' trade, change of ownership was the only possible cause of increase of values, since there was no other change to which the increase could possibly be attributed. In the case of the trader who bought goods in the Orient, there was change of place of the goods as well as change of ownership, so this increase of values amounting to $100,000 is due to both. Just what portion of it is due to change of place and what to change of ownership it is impossible to say. But it is evident that change of place would never have taken place if the trader had not been certain that change of ownership would also take place. Upon this certainty of change of ownership before or after goods are taken from a place where they are less wanted to a place where they are more wanted is built the whole structure of transportation facilities by land and sea. Hence it appears that of all the sources of wealth which are under the deliberate control of men, second in importance only to the production of goods is the change of their ownership.

These sources of wealth, the change of the form of material, change of its place, and change of its ownership, which are under the deliberate control of men, might be indefinitely illustrated, but this is unnecessary. The sources of wealth which are not subject to man's control must also be illustrated. The one chief source which plays a most important part is the general increase of population. The increase of values from this cause which is most felt and most noticed is the increase of land values. The influence of increase of population is not limited, however, to land values, but the value of all things useful to the community will be increased whether they are products of nature or of man's exertions. A common illustration of this influence is the increase of the values of building lots in cities and towns which results from the increase of demand for them, because of the growth of the community. In these days of general attention to social and industrial questions, any lengthy statement of this influence as a source of wealth is unnecessary. An illustration or two will suffice to show the extent of the influence. Similar illustrations can be found in the growth of any prosperous city, or any growing country.

According to the records of the Department of Taxes and Assessments of New York City, the increase of land values in the city, exclusive of buildings, during the ten years from 1890 to 1900, was $1,956,000,000. The net increase—that is, the increase over and above the cost of holding, in the form of taxes and interest on the money invested—is estimated at something over $1,000,000,000. This vast increase in land values has gone into the possession of those who during these ten years owned the land on which New York City stands. The Astor family is an oft-given illustration of the manner in which it is possible to roll up millions by simply getting possession of the values produced by the growth of a community, without engaging in any productive industry, or without necessarily making any return whatsoever to society. Soon after John Jacob Astor came to this country he began to buy land and the family have faithfully followed his example until to-day when their wealth is estimated at about $500,000,000, chiefly the increase in land values because of the growth of New York City. Real-estate companies, in their efforts to influence people to invest money through them, are constantly forcing upon their attention this increase of wealth because of the growth of the city, and are always explaining to them that this increase is called the "unearned increment for the reason that it costs its possessor absolutely nothing." As in New York so in the growth of every city and town, the increase in the values of land being in proportion to the size and importance of the city or town.

As in city and town so in the rural parts of the world, even in the parts farthest removed from city and town, the increase of value being only in smaller degree and much modified by situation relative to railroads, cities, towns, etc. In a recent number of the *Cosmopolitan*, the general public are presented with a picture and sketch of the man who is there said to be the "richest man in America." He has been "acquiring timber properties for fifty years." It matters not whether the possessor has acquired his lands according to law or contrary to law, he gets for himself the increase in values. In a single deal this "richest man in America" and his syndicate are said to have scooped up $20,000,000 of values produced by the increase of population, and more is yet to come from this same one deal. Through his methods of quiet operation they are now said to be worth "billions," holding for sale when the proper time comes immense sections of the people's lands amounting to six States like New Jersey.

These two illustrations of enormous increase of wealth without deliberate effort to increase it are sufficient. Such increase is always because of the increase of demand for it by the people. From all this it appears that the sources of all wealth are to be found in the change of the form and place and relation of the material which nature has provided for the use of man. Wealth is produced when these changes take place, whether they take place through deliberate action on man's part or not; and when it has been produced, the struggle among men is to get possession of it.