

CHAPTER I

Wealth

WEALTH, WHAT IT IS, AND HOW IT DIFFERS FROM MONEY, ITS SYMBOL AND MEASURE. ALL WEALTH PRODUCED FROM LAND, BY LABOR AIDED BY TOOLS CALLED CAPITAL.

Here then is a simple general formula of action, which, if it may not be the best one, is good enough for anybody to follow, in whatever station of life he may be. You must make an untiring effort to understand the economics of this world in which you live, and neither be content nor discouraged until, in honesty, you can feel that your comprehension is not too unclear. Not so unclear, at any rate, that you must ever take the word of a politician as to the wisdom of any social policy suggested.

This mere effort at fuller understanding, carried on by all intelligent citizens, and guided by the unsparing intellectual honesty of the scientific spirit, would soon enough have its beneficial consequences. It is not error as such, but principally complacency in error, which has forever bedeviled the common life of men, and always will, while we allow it to exist.

—HARRY SCHERMAN,
in *Promises Men Live By*

WHAT is wealth? What is its source? How is it produced? How do we make a living? What do we want, where does it come from, how do we produce it and how is it distributed? The first thing to do is to forget about money: a strange start perhaps, but we shall have a clearer idea of our problem if we put dollars and cents out of our minds and get down to fundamentals.

When we think of wealth our first thought is of money in our pockets, bank accounts and investments; and these ideas are phrased in terms of money, for it is in money that we measure them. But here is the point: money is our standard of values, our unit of measurement, the counters by which we keep score, but it is not true wealth. You remember Midas, who implored the gods to take back the magic gift of the touch of gold when the very food placed before him turned into precious metal. Money, coins, paper bills, securities and bookkeeping entries help in keeping track of wealth, but, like soap wrappers, the value lies not in intrinsic worth but in the things for which they may be exchanged. To mistake them for the things they repre-

sent is as fallacious as for the mathematician to think of his x 's and y 's as tangible things and not as mere symbols.

Money is defined as the medium of exchange but most of our money is no more the real wealth which it represents than is the bank check the coin which the bank will give for it. And so, until we come to the subject of money, keep your mind free from shackles which will bind your thinking. Put these things on the shelf and think about the things we measure and not the standards by which we measure them.

What do we want in a material way for our lives upon this planet? We say in a material way, for it is only with material things that we are now concerned and, important as are the higher things of life, they fall outside the present study. If this seems narrow, remember that in this life even the greater things are dependent on the material. The child cannot enjoy the love of the mother unless both are kept alive. We want the things that the baby wants—food, warmth, shelter, toys that give pleasure. To the child what good is the bank account compared with a warm crib, a bottle and a blanket? It is the same all through life: we want primarily these same things but they take other forms. We want food, houses, clothes, warmth and playthings, automobiles, pictures, books and higher things, just as the infant wants his rattle or a bright-colored toy.

Sometimes we forget this and imagine that wealth is found in its symbols; then we become true misers, like those wretched, warped personalities who live and die in dirty shacks, leaving behind them fortunes hidden in loathsome mattresses, under bricks, or sewed among filthy rags of clothing, to yield only dissension and lawsuits when death grips the owners, who have failed to distinguish between symbols and realities, between shadow and substance. But we do not mean to decry money nor to belittle its usefulness, for we must have it as a measure and as counters to facilitate exchange. It is when money becomes a goal in itself, and when we confuse it with true wealth, that we are in danger. The Bible is often misquoted as saying that money is "the root of all evil," but it says something quite different: "*Love* of money is the root of all evil."

The essentials of life which satisfy our wants are to be procured only when we utilize the natural resources which the Creator gives us, for, however rich we may be in money, these things are not to be had unless someone gathers or produces them. On a desert island, we would soon perish, even if we had all the money in the world, were we unable to produce our

needs or to exchange our money for the things which constitute true wealth.

Our true wealth all comes from the earth and so the first essential is land, using that word to include all that goes with it, its shores and seas, its forests and water-courses, the sunshine that falls upon it, and even such abstractions as space and location. Without land we cannot live—we cannot have even a foothold on the planet or a grave in which to lie, and, though we spend our days sailing the seven seas, without land we should die.

In our complex lives our elemental dependence upon land is often forgotten, especially by city dwellers, who have little idea just where the primary necessities of life come from, like the woman who remarked during the First World War that it was "all nonsense fussing about the farms, for in these days we don't go to the farms for food; it all comes from the grocery store." And there is the tug-boat hand who said he didn't need land, for he worked on the river and lived on the third floor! This blindness is not confined to the ill-educated, for Professor Lorie Tarshis of Stanford University in his book, *The Elements of Economics*, has no entry in his index for either the word land or the word rent. We have also recently received a new book published by the Brookings Institute entitled *An Introduction to Economic Reasoning* and written by four distinguished college professors. This book too has the same shortcoming, not even an entry of these words in the index, and we shall soon see the vital part these factors play in economic life. We cannot get away from the earth and our dependence upon it and the phrase "Mother Earth" comes very close to expressing a literal truth.

The next fundamental necessity is labor if we are to utilize what nature offers. Without it we cannot catch a fish, pick a fruit, provide the crudest shelter, or cover our backs with the skin of a wild beast. Our wealth, therefore, consists of the resources of the earth, which we shall call land, made available by human labor. Upon this premise we shall base our reasoning and *we define wealth as a product of human labor which has exchange value.*

But why human labor? Why not the labor of animals, machines or of such forces as winds, waterfalls or tides? It is only human labor that counts, for to achieve anything of value all other energy must be guided and directed by man and becomes, in a sense, human labor. The horse cannot plow your field unaided and uncontrolled; the waterfall cannot generate electricity to light

your house without human intervention, nor can the winds of heaven grind your grain without a mill. The flooding river may irrigate your lands or the winds blow coconuts at your feet but, unless these forces are directed by man, they are the resources of nature and are a part of what we shall call land.

Perhaps you may question the phrase "which has exchange value." It means simply that all wealth must be of such a nature that someone else will exchange wealth in his possession, or his labor, for it. You may spend hours making a snow-man which will be only slush in the afternoon sunlight. It has no worth—no exchange value—for no one will give anything for it. Or you may spend hours of mental effort in working out the solution of a cross-word puzzle but no one will give anything for the solution. Such things are not wealth.

You may say that this definition of wealth is not broad enough, for it excludes many things which comprise the fortune of a wealthy man, but remember these are not wealth but only represent it. Socrates well said, "The beginning of wisdom is in the definition of terms," and in economics we must use words with exact and precise meaning. We frequently use words in senses not literally true, phrasing ideas in metaphors and short-cuts, justifiable in conversation but confusing to accurate thought. You say a man has a million dollars although he has not a penny in his pocket and this is no more literally true than the assertion that he is "as square as a die" or "perfectly upright."

For clear thinking and logical reasoning, we must use each word in only one sense. Barrett Wendell speaks of three meanings of the word "choir"—(1) a group of persons trained to sing together, (2) a certain part of the church building, and (3) a social organization in which the tenor elopes with the soprano; but if we are using the word in discussion we must remember whether we are talking to a musician, an architect, or a reporter, and confine our use of the word to a single sense.

That a bank account or a check drawn upon it is not cash is clear, for if you have a hundred dollars in the bank and draw your check for that sum, there is no more actual money in existence than before, and your bank balance remains the same until the check is cashed. It is a convenient means of transferring ownership and it is no more coin than the title deed to a farm is land upon which you can grow potatoes. The check, like the deed, is a convenient instrument to prove or to transfer ownership.

A question may be raised in connection with this word

“wealth” derived from “weal,” an old form of the word “well.” Unfortunately man often desires, and pays high for, things which do not make for his “well-th” but rather for what Ruskin calls “ill-th.” Are things which are injurious and serve no good purpose correctly included in wealth? How about things which according to prejudices or opinions range all the way from being of doubtful benefit to being positively injurious—burglar’s tools, narcotics, marijuana and, to the more strict, alcohol, gambling devices, even playing-cards and tobacco, or books which are far from elevating? Are these things wealth?

In the economic sense, these things, objectionable though they may be, are wealth, for they are the product of labor and have exchange value, and the fact that they command a price shows that men want them. We are considering questions of an economic nature, regarding the production and distribution of man’s needs and not of ethics; and in the part they play in economic life there is little distinction between Bibles and brass knuckles, or health-giving medicines and drugs destructive of health and character. There are, however, aspects of these questions touched upon later, for we cannot ignore their importance.

But is not land wealth, although not the product of man’s labor? Of all the terms in economics, wealth is one of the most difficult to define, and its definition has proved a stumbling-block to many economists. Again and again we find the word defined in books on economics and then subsequently used in a way which shows not the slightest relation to the definition given. Economics has grown slowly; words of everyday life have been carried over into its vocabulary and we must take its phraseology as we find it, making sure, however, that we know exactly what we mean.

There is no denying that a country like ours is wealthy largely because of its vast area and resources, which make possible the *production* of wealth, but land is a thing apart from the products of industry and must be differentiated from wealth. It is a gift from God, or of nature, analogous to natural conditions such as climate, rainfall, sunshine and the like, all of which it includes. Unlike man’s products, its extent is rigidly limited, for we cannot increase the size of our planet, labor as we will. In some aspects land is hardly more than an abstraction, for it includes those qualities which we study in geometry—space and location. We can no more transfer these qualities than we can move the corner of Broadway and Forty-second Street to the Kansas prairies or export a farm to Europe.

But land and labor are not sufficient for the production of

wealth; we must have tools and these we call capital. Again we remind you of the necessity of ridding your mind of previous concepts, for capital means both more and less than it often does in common usage. It means all the tools of production. If a savage keeps himself alive by eating the raw fruits and nuts at hand and drinking from a spring, he may need no capital, but, as soon as he fishes with a line, shoots game with a bow and arrow or carries water in a gourd, he has and uses capital.

As a people progress, there is marked development in the production and use of capital. First, of necessity, the savage made bows and arrows, snares, fish-nets, primitive tools and implements, but very soon he was weaving baskets, erecting a hut, and developing such simple implements as primitive spinning devices, crude looms, and the potter's wheel. This evolution continues until we have the countless wonderful things of today—railroads, automobiles, aeroplanes, ocean liners, television, and computing machines which almost think for us. It is significant that material progress is generally in proportion to the increasing use of capital; but this is natural, for as we advance in intelligence and enterprise, we seek to do our work more easily and more efficiently, and the development of labor-saving devices follows.

Like all wealth, capital is the product of labor, although the labor may be no more than the effort of searching for a shell to serve as a crude shovel, weaving a basket, skinning an animal, or chipping out a crude stone implement. As life progresses, when man employs tools, even the simplest, he employs capital and must devote some of his labor to searching for or to fashioning something to facilitate meeting his wants. This gives us a clue to what constitutes capital, and another definition: *Capital is wealth designed and conserved to aid future production*, or going back, as we do in geometry, and basing each proposition on a preceding one, capital is the product of man's labor on land, conserved and applied to future production.

It is not always transparently clear just what is capital and what is not. Some writers classify goods for sale, such as shoes in a shoe store, as capital, because from them we expect to derive a profit, but this profit is not interest; and capital, as we shall see, earns interest. Production is not complete until goods are in the hands, or in this case on the feet, of the final consumer; and while in the stock of the retailer they are simply wealth in process of production, for *distribution of goods to the final consumer*

is a part of the process of production. When they finally reach the consumer they are worn and worn out in satisfying personal needs and desires, and in no case are they capital.

What constitutes capital and what constitutes what we call consumption goods, such as the food we eat and the clothes we wear? The distinction is subjective rather than objective, depending on the uses to which it is expected to put the article in question. The carpenter's tools are capital, employed in production, but the same tools, owned by a wealthy man and used for no real purpose, are no more capital than are the golf balls which he loses on the links. The drum of the professional musician is capital, but hardly the drum with which the small boy torments the neighbors and keeps his parents awake. An automobile used by the traveling salesman in making calls, or by the tradesman in delivering goods, is capital, but the car of the "joy-rider," productive only of idle amusement, trouble, and bad habits and not of any wealth, is quite otherwise.

This makes it hard to say categorically what is and what is not capital. How about the snow shoes of the trapper or the overalls of the farmer? The snowshoes are special equipment necessary to trap-tending: we would therefore call them capital. Overalls are clothing, perhaps ordinary everyday clothing suited to the work that the man is doing: we therefore would not call them capital but consumption goods, being ultimately worn out. One cannot be dogmatic on these matters, and it is not necessary that we shall all agree, for in a practical way these questions often make little difference.

The question of capital is made more difficult by the practice, common in the business world, of lumping together as capital practically all the assets of a company—land, buildings, machinery, equipment, raw materials, stock in process of manufacture, cash and its equivalent, and often practically everything. And then the situation is further obscured by calling the total net income interest, or profits, regardless of the sources from which it is drawn. Although it may appear at first glance a distinction without a difference, such practice is misleading and often gives rise to misunderstanding.

What would we say about a tool designed to aid production when not in use? Some economists maintain that, to be capital, an article must be in actual productive use. They say the ditch-digger's shovel is not capital when he stops to light his pipe and the typewriter is not capital while the operator is powdering her nose. This seems a little too fine-spun—mere hair-splitting,

serving no good end. A man is a poet when not actually writing verse or a lawyer when not actually trying a case, and our definitions may well be fitted to the purpose, expectations, and general uses of things and not varied from second to second according to transient conditions.

Often land is confused with capital, and this is an error which leads to confusion. The two are totally different in nearly every respect as we shall see. Land is the gift of the Creator: capital, the tools of production, is the product of man's work. One is limited rigidly by nature; the other is capable of indefinite expansion. We call payment for the use of land "rent," for the use of capital, "interest," but these questions will be discussed more fully later, and here we only emphasize the necessity of putting land and capital into different compartments in our thinking, keeping them separate and distinct.

This confusing of land and capital, common in business accounting, and the attitude of mind which it engenders, is unfortunate, for it hides true conditions. Were both business men and labor educated to see the question in its true light, it would lead to a more intelligent grasp of the involved problem of the distribution of earnings of business. Were capital and labor to see that their interests are similar, and that their incomes in the long run generally, but not always, rise and fall together, it would go far to prevent endless squabbles between employers and employees.

Now we have the three elements of all production, and the source of all wealth—land, labor, and capital. Since herein lies the basis of all economics, let's be sure we know what they are, for unless we have these fundamentals clearly in mind, our reasoning will be inexact and confused.

QUESTIONS

What material things do we want and from what source do they come?

What is necessary to make them available?

Does money satisfy our wants directly or by exchange?

Is a standard of values necessary?

How would you define wealth?

Is all money wealth?

Do tools and implements assist labor? Are they wealth? Why?

What do we call wealth designed to aid future production?

What do we call payments made for the use of capital?

Is land capital?

Are stock certificates, real estate deeds, bank checks or promises to pay, true wealth or merely evidences of ownership of wealth?