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Wealth*

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Introduction

The twenty-first century is distinguished from essentially all prior history by high incomes and incredible wealth. Extreme poverty remains, of course, but it is falling and now, for the first time, afflicts fewer than 10 percent of the people in the world. This is ten percentage points too many, but it is a massive improvement over the 60 percent or so of the world's population that lived in extreme poverty when *The Rational Optimist* author Matt Ridley was born in 1958.[1] For the better part of our history as a species, life for the average person was well-described by what Thomas Hobbes wrote about the state of nature: solitary, poor, nasty, brutish, and short. Then, a series of historical accidents beginning in about 1517 led to a Great Revaluation of the mundane bourgeois activities of buying, selling, and innovating that started in northwestern Europe and ultimately spread globally.[2] It transformed people's production possibilities and ultimately created the modern world in which we joke about "first-world problems"—and in which those "first-world problems" are rapidly becoming "problems" for people of the former third world. Compared to our ancestors, we in the twenty-first century have accumulated a great deal of *wealth*. What is wealth, though? How did we get it? Is it good? Or to quote William Wordsworth, is it true that in "getting and spending, we lay waste our powers"?[3] In other words, does wealth corrupt our souls?

Two textbook definitions emphasize *assets*, which expand our capacity to produce and consume.[4] We can define wealth generally as "whatever people value." Value is subjective, meaning that (to invoke another aphorism) beauty is in the eye of the beholder. Hence, wealth is subjective. Michael Munger offers a useful heuristic that helps us determine whether or not something is a resource (wealth) or garbage: If someone will *pay you* for something, then it is a resource and, therefore, wealth. If you have to *pay someone else* to take it off your hands, then it is garbage.[5]

According to yet another old aphorism, however, one person's trash is another person's treasure. My copy of J. E. Cairnes's *Some Leading Principles of Political Economy* with a bookplate showing it was once owned by John Neville Keynes is wealth to me, and perhaps to quite a few others. To others, who do not know or care who Cairnes or J. N. Keynes were, the book might be little more than a dust-collector. While we can rely on the broad and general definition of wealth as "whatever people value," others' assessments as reflected in market prices can tell us whether or not things like my copy of Cairnes that used to belong to J. N. Keynes is considered "wealth" by the larger society. Since we can value assets at market prices, we say with at least some meaning that one person has a lot of wealth while another person has little.[6]

Do wealth and the pursuit thereof corrupt us? Leading thinkers across religious, philosophical, and moral systems have certainly thought so. History is replete with moral condemnations of wealth *per se* and of the commercial undertakings by which wealth is created and obtained. Some leading thinkers in the Western tradition have described what they called "natural" and "unnatural" ways of getting wealth and "natural" and "artificial" kinds of wealth. A shoe, to use one of Aristotle's examples, has its "proper" use in being worn and an "improper" use in exchange.[7] As Jerry Muller notes, "Aquinas, like Aristotle, held that 'trade, insofar as it aims at making profits, is most reprehensible, since the desire for gain knows no bounds but reaches into the infinite.'"[8]

Money is "unnatural" because, according to Aristotle, "men would have ceased to exchange when they had enough." Aristotle defined wealth as "all things whose value is measured by money." Aquinas expanded on natural versus artificial wealth: "Natural wealth is that which serves as a remedy for his natural wants, such as food, drink, clothing, cars, dwellings, and such like; while artificial wealth, such as money, is that which is not a direct help to nature, but is invented by man for the convenience of exchange and as a measure of all things saleable."[9] They were understanding when it came to natural wealth and ways of getting it, but they were suspicious of what they called "artificial." Aristotle condemned lenders because "money was intended to be used in exchange, but not to increase at interest"—and "of all modes of getting wealth this is the most unnatural."[10]

This widespread suspicion, particularly among religious and intellectual elites, constrained commerce, innovation, and economic growth. In roughly the last five centuries, however, this suspicion has waned, particularly among religious, intellectual, and political elites. This has, in turn, set free the commercial and innovative forces that created our radically richer world.[11]

Explaining Wealth

As Thomas Sowell has observed, “Poverty occurs automatically. It is wealth that must be produced, and must be explained.”[12]

In many textbook treatments, the “economic problem” is one of most efficiently using our limited resources to satisfy our unlimited wants. The value of an object—and whether it is a resource or an asset—is determined by “the market’s” estimation of how the marginal unit compares to its next-best alternative. “The market” is shorthand for “the bids and offers of everyone else in the world.” Prices reveal crucial information about what is wanted, when, where, why, and for whom. If a society’s goal is to expand people’s scope for flourishing, however they choose to define it, then free markets are the most effective way to make this happen. Astute observers will point to externalities and the possibility that these might be internalized by effective government action; however, the economist Lant Pritchett argues incisively that the most serious distortions in the global economy come from interventions that prevent the emergence of a free market in labor—particularly restrictions on immigration.[13] The free market expands people’s scope for self-exploration and self-authorship.[14]

What causes economic growth? Geography is an important factor in the pattern of economic activity, but if good geography were sufficient for economic development then we would have had an Industrial Revolution and a Great Enrichment millennia ago. European geography—long coastlines and deep, calm, navigable rivers—has not changed much over the millennia. The places that are now Hong Kong, San Diego, and San Francisco have long had deep, natural harbors but have only had meaningful economic progress in the last two centuries or so. The disease environment in the tropics is not conducive to progress, but Singapore has flourished in spite of its inhospitable disease environment.

But what of natural resources? The relationship between natural resources and economic progress is so weak that development economists refer to the “resource curse.” A region “rich” in natural resources can tend to develop extractive institutions and avoid developing the institutional infrastructure that makes for long-run economic progress. Moreover, some of the richest and most dynamic places on earth today—Singapore and Hong Kong—are resource-poor. The decisive refutation of the resources-lead-to-growth hypothesis is the experience of the Soviet Union, which Thomas Sowell calls "one of the most richly endowed nations on earth, if not *the* most richly endowed, in natural resources."[15] The soil was so rich and so fertile that during the Nazi invasion of the Soviet Union it was carted back to Germany by the trainload, and yet the tsarist economy, the Soviet economy, and the post-Soviet Russian economy foundered. Despite its resource endowments, the Soviet economy was considerably less efficient than other economies.

Societies get richer when people have incentives to produce and exchange rather than expropriate and redistribute—in other words, when they have economic liberty. There are five literal "textbook" institutional causes of economic progress: secure property rights, honest government, political stability, a dependable legal system, and open and competitive markets.[16] Institutions, which are social rules that are sometimes written down and enforced by states and sometimes evolved and enforced by social convention, shape people's incentives and thereby direct them toward productive, unproductive, or destructive activity.[17]

All of this has come together in the last two and a half centuries as a result of a change in the ideas people have about what is and what is not ethical. The West got rich, Deirdre McCloskey argues, because people changed their ideas and their rhetoric—how they think and talk about innovation and business.[18] What used to be dishonorable became honorable. People, European intellectual elites in particular, embraced the conviction that progress is both possible and desirable.[19] In embracing the ideas of the Enlightenment—the Scottish Enlightenment in particular—society set off on a path of long-term economic, political, and social progress and improvement.[20]

Producing Wealth in the Socialist Commonwealth

In spite of predictions that standards of living in the USSR would eventually catch up to or pass American standards of living, the Soviet Union trundled along at about half of US per capita output through the 1950s, 1960s, and 1970s—up to the point where it became impossible to blame the unfortunate turn of events on bad weather. Something else had to be at play, and when the Soviet Union and the Eastern European communist countries collapsed on themselves in 1989 and 1990, it served as powerful vindication for the body of ideas that had been developed by Ludwig von Mises and Friedrich Hayek beginning in 1920.

In his article "Economic Calculation in the Socialist Commonwealth," which he later expanded into the book *Socialism: An Economic and Sociological*

Analysis, Mises asked whether or not socialism was *possible* as a rational, wealth-producing, resource-conserving economic system.[21] Up to this point, it had simply been assumed that socialism could work and that under the direction of a team of experts, it could outperform capitalism in terms of both efficiency and equity. “The anarchy of (capitalist) production,” to use Karl Marx’s phrase, would be rationalized by careful central planning by experts interested only in the common good and not by profit-seeking entrepreneurs pursuing only their own gain.

Mises demurred. *How*, he wondered, *will the central planners obtain the relevant knowledge they need in order to know how to produce with maximum efficacy, that is to say, without leaving more-urgent wants unsatisfied*? He argued that they cannot. Mises stacked the deck against himself by assuming away some of the most difficult problems. He assumed the planners were selfless angels who knew exactly what to produce. He assumed they had complete inventories of *all* available resources and technological possibilities as well as complete schedules of values for everyone in society. It would simply be a matter of selecting the best among a known array of methods.

The planners, according to Mises, would not be able to do even that. They would not be able to assess production processes since there would be no market from which prices of capital goods could emerge. They would therefore be unable to pick the efficient combination of capital goods. Without private ownership of the means of production, there could be no market exchange for the means of production. Without such exchange, there could be no prices for the means of production. Without prices, there can be no profit-and-loss accounting. Without profit-and-loss accounting, it is impossible for people to know whether or not a production plan creates value. It is not, to Mises, just *difficult* for people to determine what to produce and how. It is *impossible*.

Socialists such as Oskar Lange and Abba P. Lerner responded by showing that one could, in the context of their model, divine shadow prices for the means of production and, therefore, calculate rationally. Mises erred, they argued, in asserting that private property was necessary for reliable prices. Here, Friedrich Hayek makes an important entrance. In 1945, the *American Economic Review* published his article “The Use of Knowledge in Society.”[22] Hayek argued that, if one defines “the economic problem” as one of solving a complex system of equations, then the possibility of economic calculation under socialism is just a matter of math. But to Hayek, this definition misses the point and makes the possibility of rational economic calculation under socialism trivially true. The economic problem, he argues, is not one of solving a known problem with known constraints under known conditions. It is one of aggregating a society’s knowledge that is dispersed across millions of minds and that is given to no single observer in its totality. Socialism, Hayek argued, could not solve the problem of dispersed knowledge and hence was destined for failure.

Hayek's argument is not simply that socialism is inefficient. His point concerned what *kind* of problem economic calculation is in a world of dispersed knowledge. Exchange, Hayek argued, is the "technology" that helps us see what to produce, how to produce it, and for whom to produce it. Voluntary exchange of private property rights, Hayek argued, is the essence of a system that leads from chaos to coordination as prices emerge from the economic system's exchange sphere and harmonize the disparate plans of dispersed agents with (likely) different values and (definitely) different knowledge. Markets, Mises and Hayek argued, deliver the goods.

Evaluating Wealth

Does wealth make us worse? Kate Ward argues that for Augustine, "Wealth is morally dangerous."[23] It might provide people with the means for sin and dissipation: "Wealth encourages avarice and enables other sins," with a modern application coming in the conviction that it poses a danger to "one's moral integrity."[24] Augustine emphasizes the spiritual importance of poverty, but McCloskey disagrees:

> No one in a *favella* behind the Copacabana thinks her life is made more admirable in a spiritual sense by living in a cardboard box. Only saints and intellectuals can believe such a paradox for longer than it takes the sun to go down over Corcovado. The poor person wants the fruits of capitalism, first the material fruits and then the spiritual fruits. The poor are not better than you and me. They're just poorer. We bourgeois do not make them better off by being ashamed of being rich, since it's not our fault that they are poor, and there is therefore no original sin in our being rich.[25]

Incentives and dispositions have changed as people have developed new ideas about what is honorable. Augustine might with some justice view critically the rich person who got that way through theft, slavery, or political privilege, which has been the usual route to riches since time immemorial. The world has gotten far richer today not on earnings from such primitive accumulations of capital, however. In our commercial society, people have largely gotten a lot richer by buying low, selling high, and innovating—or as in the case of retail innovators such as Sam Walton, Sol Price, and Jeff Bezos, by innovating so as to create new ways for those who wish to buy low to cooperate with those who wish to sell high.

This thesis finds support in Tyler Cowen's *Big Business: A Love Letter to An American Anti-Hero* (2019). If anything, business makes us better.[26] Cowen summarizes anthropological evidence showing that societies more exposed to markets tend to have more pro-social behavior and cites laboratory evidence suggesting that, contrary to what one might infer from reading the business press, CEOs in trust games tend to be more trustworthy, on average, than other people. Cowen explains that the problems that seem endemic to business are problems endemic to humanity rather than business *per se*. Businesspeople commit fraud, as he points out, because they are business*people* and not because they are *business*people.

Furthermore, Javier Aranzadi argues that markets are important moral spaces and contexts, beyond the mere fact that they allow us to be more productive, because they create "the possibility of excellence in human action."[27] Excellence in human action in a market economy is rewarded with great wealth—not wealth that grows because the innovators and the actors take it from those who are less fortunate, but wealth they obtain by making people better off.[28] In market exchange, "everyone wins, or at least everyone with the right to be consulted."[29]

Conclusion

Suspicion of wealth and those who have it has a long and venerable history. It is understandable in light of the fact that for the better part of history many people got rich by taxing, conquering, and enslaving; moreover, even those scattered few who got rich through innovation and voluntary exchange were poorly understood in a world dominated by the idea that for one to gain, another must lose. This changed with the development of a rhetorical environment that valued innovation and commerce and that saw how these were fundamentally positive-sum undertakings. Hence, the world we inhabit differs radically from that of our ancestors in the array of goods and services available to the average person.

Poverty, of course, did not escape the notice of nineteenth- and twentieth-century commentators who saw the unplanned, undirected free market as a chaotic and wasteful social arena. Ludwig von Mises and Friedrich Hayek made fundamental contributions to our understanding of the nature of economic calculation by showing how the voluntary exchange of private property rights processes the knowledge and generates the information entrepreneurs need to calculate wisely.

Importantly, the cornucopia of goods and services created by innovative entrepreneurs in free markets has not come at a great spiritual or ethical cost. While it is obviously possible to be materially full and spiritually empty, it is not as clear as previous generations might have thought that material wealth causes spiritual poverty. As Tyler Cowen argues, a lot of the pathologies we attribute to commercial society are pathologies of human nature and not specific pathologies of free-market institutional environments. Markets, it is clear, deliver the goods. They do so, meanwhile, without necessarily compromising The Good.

Notes

1. Matt Ridley, "We've Just Had the Best Decade in Human History. Seriously," *The Spectator*, December 21, 2019, https://www.spectator.co.uk/2019/12/weve-just-had-the-best-decade-in-human-history-seriously/; cf. Matt Ridley, *The Rational Optimist: How Prosperity Evolves* (New York: Harper, 2010).
2. Art Carden and Deirdre Nansen McCloskey, "The Bourgeois Deal: Leave Me Alone and I'll Make You Rich," in Steven Globerman and Jason Clemens, ed., *Demographics and Entrepreneurship: Mitigating the Effects of an Aging Population* (Vancouver: Fraser Institute, 2018), 429-466; Deirdre N. McCloskey, *The Bourgeois Virtues* (Chicago: University of Chicago Press, 2006); Deirdre N. McCloskey, *Bourgeois Dignity* (Chicago: University of Chicago Press, 2010); Deirdre N. McCloskey, *Bourgeois Equality* (Chicago: University of Chicago Press, 2016).
3. William Wordsworth, "The World is Too Much with Us," in Francis T. Palgrave, ed., *The Golden Treasury* (London: J. M. Dent, 1907), 348, https://www.bartleby.com/106/278.html.
4. Cf. Betsey Stevenson and Justin Wolfers, *Principles of Microeconomics* (New York: Worth, 2019); Eric Chiang, *Microeconomics: Principles for a Changing World* (New York: Worth, 2020).
5. Michael Munger, "Think Globally, Act Irrationally: Recycling," *Library of Economics and Liberty*, July 2, 2007, https://www.econlib.org/library/Columns/y2007/Mungerrecycling.html.
6. On efforts to measure wealth, see Partha Dasgupta, "National Wealth," *Population and Development Review* 38, Supplement (2013): 243–64. See also Diane Coyle, *GDP: A Short but Affectionate History* (Princeton: Princeton University Press, 2014).
7. See pages 450–51 of the second volume of Aristotle's writings in Mortimer J. Adler, ed., *A Syntopicon of Great Books of the Western World* (Chicago: Encyclopedia Britannica).
8. Jerry Z. Muller, *Adam Smith in His Time and Ours: Designing the Decent Society* (Princeton: Princeton University Press, 1993), 43.
9. Aristotle and Aquinas are discussed and quoted in "Wealth," in *Syntopicon of Great Books*, 1038, 1042.

10. See page 452 of the second volume of Aristotle's writings in *Syntopicon of Great Books*.

11. Cf. McCloskey, *Bourgeois Virtues*; idem, *Bourgeois Dignity*; idem, *Bourgeois Equality*; Joel Mokyr, *A Culture of Growth: The Origins of the Modern Economy* (Princeton: Princeton University Press, 2016).

12. Thomas Sowell, *Wealth, Poverty, and Politics: An International Perspective* (New York: Basic Books, 2015), 177.

13. Lant Pritchett, "Getting Externalities Exactly Wrong: The Biggest Price Distortion in the World Is that Labor Is Too Costly," *Lant Pritchett*, December 9, 2019, https://lantpritchett.org/getting-externalities-exactly-wrong-more-labor.

14. Jason Brennan, *Why Not Capitalism?* (London: Routledge, 2014), citing John Tomasi, *Free-Market Fairness* (Princeton: Princeton University Press, 2012).

15. Sowell, *Wealth*.

16. Cf. Tyler Cowen and Alex Tabarrok, *Modern Principles of Economics*, 4th ed. (New York: Macmillan Higher Education, 2011).

17. Cf. Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge University Press, 1990); Douglass C. North, *Understanding the Process of Economic Change* (Princeton: Princeton University Press, 2005). Productive, unproductive, and destructive entrepreneurship are treated extensively by William Baumol, "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Political Economy* 90, no. 5 (October): 893-921.

18. McCloskey, *Bourgeois Virtues*; idem, *Bourgeois Dignity*; idem, *Bourgeois Equality*; Carden and McCloskey, "Bourgeois Deal."

19. Rodney Stark, *The Victory of Reason: How Christianity Led to Freedom, Capitalism, and Western Success* (New York: Random House, 2006). See also Joel Mokyr, *Culture of Growth*; idem, *The Enlightened Economy: An Economic History of Britain 1700–1850* (New Haven: Yale University Press, 2009).

20. McCloskey, *Bourgeois Virtues*; idem, *Bourgeois Dignity*; idem, *Bourgeois Equality*; Carden and McCloskey, "Bourgeois Deal."

21. Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," trans. S. Adler (Auburn, AL: Ludwig von Mises Institute, 1990 [1920]).

22. Friedrich A. Hayek, "The Use of Knowledge in Society," *American Economic Review* 35, no. 4 (1945): 519–30.

23. Kate Ward, "Porters to Heaven: Wealth, the Poor, and Moral Agency in Augustine," *Journal of Religious Ethics* 42, no. 2 (June 2014): 217–18.

24. Ward, “Porters to Heaven,” 217–20, 238.

25. McCloskey, *Bourgeois Virtues*, 28. On Augustine and the virtue of poverty, see Ward, “Porters to Heaven,” 224–26.

26. Tyler Cowen, *Big Business: A Love Letter to an American Anti-Hero* (New York: St. Martin’s Press, 2019).

27. Javier Aranzadi, “The Natural Link Between Virtue Ethics and Political Virtue: The Morality of the Market,” *Journal of Business Ethics* 118, no. 3 (2013): 487.

28. Cf. on this J. R. Clark and Dwight Lee, “Econ 101 Morality: The Amiable, the Mundane, and the Market,” *Econ Journal Watch* 14, no. 1 (2017): 62, 65, 69.

29. Paul Heyne, “Are Economists Basically Immoral?” in idem, *Are Economists Basically Immoral? And Other Essays* (Indianapolis: Liberty Fund, 2008), 3.