What is wealth?
Thursday, 07 January 2010 11:44

In a recent exchange of correspondence, the question of the definition of "Wealth" came up. We have always worked to the definition given by Henry George, that Wealth consists of "natural products that have been secured, moved, combined, separated, or in other ways modified by human exertion to fit them for the gratification of human desires." In short, Wealth is man made. It follows that land is not wealth, since it is given by nature or God, depending on one's beliefs. If someone acquires more land, it has not added to the stock of wealth as defined in this way. The claim on the wealth flow has just been transferred.

A land title is a LEGAL CLAIM on a part of the wealth produced at a particular site. It no more comprises of wealth than does a £10 note.

No additional wealth is created if the price of land titles goes up, which was the great delusion that drove the boom and bust.

If wealth is defined as "anything that can be sold", then slaves are wealth, whereas in reality they are just prisoners, from whom the wealth they have produced is stolen.

It was pointed out that we are precise in our definition of terms like wealth. Without precise definitions of fundamental terms, the study of economics is like attempting to study physics without tight definitions of concepts like mass, force, power, energy and velocity. The fact that nearly all economic comment fails to define the concepts is part of the reason for the present difficulties.

This was the reply received:
"The problem is that economics is not like physics. Economics is an aspect of human behaviour. Given the basic needs of food and shelter are satisfied, humans engage in economic activity in order to obtain social status. Social status is an aspect of the reproductive behaviour of all primates, and is one way that individuals distinguish between fitter or less fit reproductive partners, rather like female bower birds distinguish between male bower birds according to the size and quality of the bower they build. Status seeking among primates is more sophisticated than bower building, since status is inherited whereas bowers are not. Status seeking in humans is even more sophisticated since it involves economic activity. As such economics should be seen as a branch of the study of human behaviour, i.e. sociology, but one which happens to be quantifiable (more or less).

"Therefore a useful definition of wealth is anything that confers social status in a particular state of society. This can include, depending on local social convention: shrunken heads, conch shells, slaves, harems, weapons, fast cars, amulets and jewellery, artworks, ranches, houses and other improvements, land, horses, trophy wives, personal reputation. Anyone who has read Jane Austen knows that titles and family connections also confer lots of status, thus are a form of wealth.

"In practice it is difficult to tax or even quantify most forms of wealth, apart from land and buildings (I'd love to tax personal reputation whose value is established in a court of law- this would instantly stop libel tourism!). We all know that taxing improvements on land is a bad idea.
"I have read George’s ‘Progress and Poverty’. It does not read like science book. In fact, as I recall, there is not a single mathematical calculation in the whole book. Economics is at best an observational science, not a fundamental quantitative science, whatever economists would like to think. Your quest for rigorous definitions in economics is thus doomed."

Since the correspondent was evidently familiar with George, the last comment was surprising. George is very tight on his definitions. If one is not precise about the meaning of the terms used, it is impossible to grasp the subject at all.

George writes, "If we take into account the concept of collective or general wealth, we see that many things we commonly call wealth are not so at all. Instead, they represent the power to obtain wealth in transactions between individuals (or groups). That is, they have an exchange value. However, their increase or decrease does not affect the sum of wealth in the community. Therefore, they are not truly wealth.

"Wealth, then, may be defined as natural products that have been secured, moved, combined, separated, or in other ways modified by human exertion to fit them for the gratification of human desires."

We have always held to that definition of wealth. It is tight and precise and it is easy to determine whether anything falls inside or outside that definition. Land and natural resources, being a gift of God or nature, fall absolutely outside that definition and that is why they must be regarded differently in economics and justice.

If one wants to use wealth to mean something else altogether, then it is necessary to find another term to describe what George refers to as wealth. Not to do so is to breed confusion piled upon confusion.

If one treats economics solely as a psychological epiphenomenon, it is impossible to understand economics process at all, to give an account of causes and effects, nor to predict the probable effects of particular course of action. This is obviously not so, because effects have causes, often very particular, and policies lead to predictable effects, though not predictable both those working with defective theory. It is also the case that there are so many regularities in economics that it can indeed be treated as a science, and a science does not necessarily have to be amenable to rigorous mathematical analysis. There is a Science of Political Economy.

The entities described by the correspondent fall mostly into the category of tokens of exchange ie potential claims on wealth.
falsified.

When modelling economic behaviour it is important to be precise about what terms mean, in the context of a particular model. But the terms only need have precision in the context of the model. In my article I am not assuming the Georgist (or Marxist, or Friedmanite) model, nor trying to predict quantitative results, so I believe it is acceptable to use terms somewhat loosely, in accord with their common English meaning, without worrying about precise definitions.

To take the specific example you mention, slavery, in certain societies (e.g. ancient Rome) a slave is a form of wealth, since owning slaves confers status, which gratifies the owner (if not the slaves)- thus fulfilling the Georgist definition of wealth. The slaves have been "worked" into a form of wealth. Essentially they were convinced to stay as slaves by human exertion, which in this case took the form of various sanctions.

In other societies slave ownership is not allowed, and the only labour available is the worker, who is not a form of wealth. In such societies there is a convenient distinction between labour and wealth which can be safely included in an economic model; labour produces wealth but is not in itself wealth. Ancient Roman economists might need a different economic model, which would include slaves as wealth but also as labour which produces wealth. Indeed slaves produced child slaves, which become part of the wealth of the slave owner.

Your slavery example is actually excellent illustration of how so called "fundamental definitions" in economics are actually contingent on specific sociological assumptions. I am sure that it would be possible to produce a fairly accurate quantitative economic model of ancient Rome.

And here is a response

Part of the difficulty we all have with putting over our ideas is precisely the sloppiness implicit in the use of terms in their common English meaning. Because they then get used in discussions in economics in a more specific way and confusion is spread.

The system of economics that a society adopts, and its way of thinking about it, is of course a consequence of its prevailing philosophy. Thus, one might think of a Islamic economy, an Orthodox Christian economy, a Protestant economy, an economy based on Enlightenment thinking, an Atheistic/Hegelian economy, or one based on a blend of several together, which is what we have at the moment. Now that is an interesting subject of study and would help us to understand why LVT has made so little impact. It would be a useful way of analysing how things come to be as they are.

But underneath all these economic systems, human labour is applied to natural resources and the produce is distributed and exchanged. The study of this, which is a true science, is the discipline we have attempted to follow, and as a science, it means that concepts must be clear and terms tightly defined, more so than when the same terms are part of common English usage.
What is wealth?
Thursday, 07 January 2010 11:44

In the case of wealth, the notion that land and money are species of wealth has been the underlying cause of much of the present misconception about economics and led to disastrous personal, corporate and government decisions. It is a good thing to do as much as possible to dispel it.

Another response came from one of the LVTC members:
I am not too happy at this casual acceptance of slaves as wealth. Slaves are labour. The slave master pays them wages in the form of food, clothing, and accommodation. The slave, though, is not free. He has been captured, transported, and held in bondage. The analogy with land is clear. Both land and the slave can be bought and sold, just as can wealth, but there the similarity essentially ends (although there is the further distinction that land is fixed in quantity and location whereas slaves can be moved and do reproduce).

When land is not free but held as private property, it is a perversion of natural justice and has baleful economic, political, and social consequences. When a man is treated as a chattel, that too flouts natural justice and de-moralises a society that practises it. It is one thing to refer blithely to ancient Rome, or even to the United States of America and the Caribbean in the nineteenth century, but what about about modern examples - the River Kwai railway workforce, the Nazis’ slave labourers, the victims of the gulags? The correspondent calls himself more of a sociologist than a follower of political economy as a science. If that blinds him to the essential difference between a free man and a slave and thence between a slave and wealth, I want nothing to do with his sociology.

Yet another (edited) response from another LVTC member:
My God. I havent heard such a confused suite of economic statements in a long time. This needs a separate post to identify the absurdities clearly for all to see.

The two common definitions for wealth are: anything you can own (or sell) and anything you can earn. The insecure support the former definition, the secure, the latter. This is a very simple moral point and shows how immoral behaviour always supports the former. The correspondent's statement clearly falls into this category

1) "Economics is not like physics". Nor are elephants like physics. So what? Why not? What is the point being made point. It is not made in the succeeding paragraphs. What on earth is being said?

2) What logic and reason has been used to decide that economics is an aspect of human behaviour? Is this a reference to the behaviour of the individual or of the society. If it is the society, as is asserted, then it cannot possibly be an individual human trait, can it? It is something that arises naturally. It must surely be based on natural laws, the same in all times and in all places when societies of any kind develop to an advanced non animal kingdom state. There is a confusion here between humans and their social systems

3) Given the basic needs of food etc are satisfied, humans engage in further economic activities to satisfy ALL of their wants, as individuals and socially. What makes leads to the conclusion that it is just a status activity? Evidence please? At what point then do economic
activities leap from the needs to the status. There is no such point is there!

4) The comment refers to the importance given to social status as a characteristic of all primates, then immediately go on to discuss birds as an example. Are birds primates?

5) Sticking to primates' social status, is it possible to name a single activity where primates except humans, have advanced beyond the state of mere animals as a result of inheritance? There are none. Humans are different by KIND not simply by degree as a result of social life. This is a key point that has not been examined carefully. It is what allows humans to produce MORE than they need rather than beat against the limits of subsistence in nature. It is what makes survival of the fittest only apply to the animal kingdom. We use society because it makes less work for the same output. That is all. On the whole we are more individuals than social beings. We only use society to make for less work.

6) Status seeking is a negative effect, not a cause of economic activity. In fact an effect of poor economic activity. If this was not the case why is murder not legal? Because we do not seek status in principle through economic activity. We merely seek to satisfy our desires. And to be secure in doing that. We are compelled by injustice to seek status to more easily gain unearned incomes (not wealth) The free lunches. Why else would we want status if all our desires were already satisfied?

7) Henry George uses only observation in his enquiry. On what basis did the correspondent conclude that observation cannot provide rigorous definition. He should read the book again, careful. One of the very things it shows are the flaws in reasoning that occur when we do not bother to read, think and examine the simple facts.

8) The example used about slaves is exactly NOT what George refers to. The book makes this clear. The reasoning used there is so fallacious I don't know where to being,

9) The reason for refusing to define terms clearly and refusing to allow them to be used interchangeably is to support fallacious reasoning that clear thinking would condemn immediately. It is simply a way to support ideas that have already failed the test or reason in the thinker's mind, yet must be preserved to keep the thinker in a job. Usually this effect becomes stronger the more unearned incomes are up for grabs, as we see in our great academies, media, commerce and politics.