

Rough Draft - Under Revision

**The Creation and Distribution of Wealth:
Some Preliminary Notions**

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Introduction

In these comments, intended simply to start discussion, I would like to consider both the measurement of national wealth, and the appreciation of individual worth. More particularly, I want to argue that the wealth of nations reflects, fundamentally, the worth of individuals.

So human goals and human well being do not only define the purpose of our economic system, they also affect, directly and substantially, the capacity of that system. People are both the clients and the suppliers, the servers and the served, in an economic mechanism. The performance of that mechanism can only be appraised in terms of how far it is consistent with peoples' values and effective in meeting their needs, not just as consumers, but as participants in production.

Yet in many ways this proposition seems to have been turned on its head. People have been led, it seems, to define their own worth in terms of the roles they play in contemporary economic mechanisms. Participation in production has been not only the vehicle for the distribution of income, and hence claims on material well-being; participation in production has served also to establish roles, status, and a sense of dignity as a productive contributor to community well-being. Now that we are passing through a period which offers - it seems - reduced opportunities for participation in production, we face the question how else to provide both for a distribution of income and acceptable roles in the community.

workplace offers:
- companionship
- social life
- access to other community facilities
...

I'm not going to argue this issue here - you're all familiar with the positions. My job is to talk about the production side. And the organizers have invited me to be philosophical and speculative. So I plan to ask whether our conventional measures of income, wealth, and productivity are not too narrow, too mechanistic, too short term. It is surely important to take steps to encourage wealth creation, but with the right notions of wealth, the right concept, the right measuring rod. In particular, it is important to avoid the error of ignoring everything that is not easily measured.

When one begins to probe in this way, the shifting, spongy, subjective nature of our measures becomes painfully evident. Even many of the core accounting indicators of wealth are not easily measured in transactions observed on markets.

One starts with quite tangible physical assets, titles to which have conventionally been held by individual private owners. The capitalist system provides for - indeed is driven by - the accumulation of such assets. Price signals and profit motives guide decisions as to investment in the maintenance and increase of these assets, and their deployment in alternative current uses.

There are other physical assets where the situation is less clear. Non-renewable and renewable resources are not produced means of production, though investments in varying degrees are required to make them into assets which can be utilized. Ownership is more cloudy, and incentives for investment in maintenance and renewal of stocks are correspondingly confused.

So I go on beyond the value of produced physical assets and renewable natural resources to look at human wealth, and the value of investments in human wealth. ⁴ More generally, one has to recognize intellectual property - technology, knowhow
note Pigou, ...

But more generally still, one has to recognize that wealth inheres in social relationships, networks, cultures, and less tangible concepts such as stability or even - to use a word currently somewhat over used - civility. I have to ask the question how one invests in these assets and whether some of the measures proposed to promote the accumulation of physical assets are not more than offset by adverse impacts on these other intangible assets.

Having in mind these concepts, we have to recognize that people will wish to influence conditions in their workplace, that they will wish to do so, in many cases, by collective action, and that these decisions will therefore be taken outside the range of market mechanisms.

These efforts to utilize political mechanisms and political influence to achieve economic goals (or rather, to achieve other purposes by means which impinge on economic relationships) inevitably lead to conflict.

The resolution of these conflicts leads us back finally to general groundrules about mechanisms and principles which respect the innate worth of the individual. At heart, of course, these are simple: they amount to economics "as if people mattered" and management "as if people mattered".

With this brief roadmap, then, let me turn to the question of what we mean by wealth.

A. What is Wealth?

Let's get rid of a few misconceptions -

- 1) Wealth does not come from exporting a great deal, and importing less, thus building up a big store of gold, SDR's, or U.S. dollars.

(These claims on the rest of the world are of value to us - yield pleasure or utility - only when they are exercised in the acquisition of future imports (or to pay off the debts associated with past imports))

This mercantilist fallacy nonetheless still revives itself in concerns about the sacrifices and adjustments we are told we must make in the interests of export markets.

Note that if it comes down to a choice, we could decide not to accept these adjustments - if they are too painful - merely by deciding to import less.

(Nothing decrees as a law of nature that we need to consume \$_____ billion per year in VCR's, or \$_____ billion per year in California lettuce. If we valued non-tradable goods and services like quality homes or CBC radio more highly relative to imported consumer goods, our standard of living could be higher with lower exports.)

- 2) Wealth is not the book value - or even the market value - of the tangible assets on the books of private corporations (though these undeniably form a part of the nation's productive capital stock). *A great many assets are missed because of the peculiarities of legal title. And many paradoxes can easily be generated - by "privatization" of forests, for example.* Similarly, to look at the other side of the coin, the so-called "unfunded liabilities" of the CPP or the WCB are not necessarily good measures of an offset to the nation's wealth, or of a "social burden". *They are essentially "breakup value" notions, safeguarding against the risk of default of one debtor by accumulating claims on another. As a nation we can't do that.*
- 3) Wealth creation is not measured by short-term financial indicators like quarterly earnings on financial portfolios; wealth is not necessarily increased by mergers, reorganizations, or changes in ownership which may result in vast fortunes for some operators. It is not necessarily increased by turnover or churning of existing equipment or structures. *"In-quarter" performance and day-trading to compete with alternative investment fund managers are not necessarily relevant to ~~improve~~ the creation of wealth.* We must, for purposes of the present discussion, concentrate on some notion of "real" wealth, and "real" income.

We must also remind ourselves of the important cliché that ownership and control are not the same thing. Title and ownership issues are very different from competition and market issues. Ownership conveys a claim to an income stream resulting from decisions on the use of assets; it has to do with distribution. The creation of wealth or allocation of resources have to do with prior decisions. Management targets and performance indicators can be set independently of actual ownership.

But this distinction does not mean that we can separate altogether the concern with the use of wealth from its ownership, as will be discussed later.

These and similar accounting illusions must be set behind us if we are to speak sensibly of the wealth of a nation or a community, and of its creation and distribution.

But a good starting point is suggested by the accountants themselves, whose conventions, if I understand them correctly, provide for a category called "goodwill". This is an accounting concept which ^{measures something that} is bought, sold, and traded in the most respectable of stock exchanges. This concept had to be invented in order to account for the value of a going concern in excess of that which can be attributed to past outlays or costs of investment in that ongoing enterprise.

And this is the first basic idea I'd like to suggest to you. In the literature on economic growth, this idea emerges under the label of dual stability: physical output and physical capacity are concepts that move forward in time - they reflect an accumulation of past decisions, an accumulation of past investments into one current capital stock or current physical production capacity - while value flows backward from the future. It reflects valuations placed upon the future use of this present capacity. ^{It thus hinges} ^{upward} reflects the deployment and allocation of existing assets. ^{It hinges centrally} ^{and crucially on} expectations.

The value of existing assets will be different depending on how they are used, how resources of today are allocated. You all know this - it's one reasons why the value of a stock can take a sharp jump - up or down - when the corporation's management changes. It's one reason why the value of a currency can slide or leap on the fact - or rumour of the fact - of a change of government.

B. What assets should be included in wealth?

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But the greatest of all the assets we have is the acceptance of a code of social conduct - I'm tempted to say even a social contract, although I don't mean by that any particular theological or ideological orientation. This asset is the assurance that I may speak to you tonight as I wish, and write about the authorities in B.C. or Ottawa as I wish, without hesitating to consider whether my family will be asked to come to pick up my body from some garbage dump. It is this asset which assures Mr. Mulroney that he need not travel with a large security force, let alone worry much about it turning upon him.

God knows this asset cannot be taken for granted. Tragic events around the world every day demonstrate vividly how tenuous is a community's hold on stability and civility. In Canada and (fortunately for me as a critic) in my home province of B.C. we take for granted this immense blessing, this enormous social and national asset. Far more critical it is to national wealth than any assurance of freedom from restrictions imbedded in collective legislation or regulation.

And it is on this point, on a much less cosmic or cataclysmic scale, that I have my quarrel with the B.C. government's restraint program. Whether consciously or not, they have created the impression of action taken not in a spirit of adjustment of a balance in social institutions, but in a spirit of rooting out evil. Action is justified through scorn, contempt, criticism, polarization. It has long been standard polemical convention in B.C. politics to play up to a perceived polarization in political orientation. But the present government appears to have moved from there to a belief that it is acceptable to govern "in the interests of those who elected us". Whereas the Premier's victory statement

in May 1983 promised a government for all British Columbians, the restraint program has seemed to reinforce the same sorts of fundamentalist prejudices and cultural antipathies as have in the past sustained the Klu Klux Klan, the right wing death squads, and the

Only now the targets are union leaders, "bureaucrats" and "bleeding hearts". Divisions are contrived between the productive private sector and the parasitic public sector, between the producers of wealth and the consumers - or worse, the redistributors - of wealth, between efficient private ownership and wasteful public management.

For purposes of a fruitful discussion over these next three days, let's try to get away from these artificial categories and conflicts. Let's recognize that if we view the community as a whole, the private sector - that is, the portion of our activity organized in hierarchical structures based on price signals, private ownership, and market transactions - involves less than 55 per cent of our adult non-institutional population, and that, on average, for less than 8 hours per day, 220 days per year. For all the rest, our activities are directed, our resources allocated, and our incomes distributed, according to the rules of group behaviour that prevail in homes, in churches, in voluntary organizations, in tribes, in communes. These decisions don't use price signals and market exchanges to guide action. Sometimes they might do better and reduce conflict if they did appeal more to market mechanisms. But in many cases, price signals are simply irrelevant, and the Chicago School demonstrations that decisions as to marriage, adultery, and capital punishment can all be rationalized on some notional price calculus is less an interesting intellectual exercise than a demonstration how

ridiculous scholasticism can be when pushed to extreme, even in the 20th century.

The point is that price mechanisms and private sector modes of organization are useful devices in a minority of the decisions we must take as individuals and as a community. The private sector is not some pre-existing stronghold from which an ill disposed outside force called the public sector, led by unimaginative but devious heroes called bureaucrats, is gradually stripping fortune and freedom.

It is not a small bastion of faithful adherents to practicality and efficiency, under siege by soft-headed socialists attempting to repeal the facts of economic life.

Rather we should see the private sector simply as a set of mechanisms and relationships devised, rather late on in the record of social organizations, to handle efficiently a small subset of collective decisions which can usefully be decentralized to arms-length market exchanges.

The conditions under which this can effectively be done is an interesting and illuminating study in the structure of social organizations

C. The role of the market in generating wealth

It is a marvelous device indeed. Its properties are remarkable. In a series of papers written almost 20 years ago I marvelled at the way market mechanisms have evolved naturally to structures which, idealized, fulfill all the conditions of two remarkable optimality theorems: the maximum principle of Adam Smith, and the invisible hand of Academician Pontryagin.

These systems have at least three remarkable properties:

- i) incentives
- ii) liberty/freedom/arms length/voluntary exchange of value
- iii) economical minimum of information; leave decisions closest to those who have most information and the most direct interest.

But they all are premised on guesses as to future value. They are all subject to the speculative fallacy (cf. Keynes). In the absence of the appropriate terminal values, we have to substitute rules of thumb. Speculators and land holders can sell out at some future time. But a community must look to its destiny - there is no one to sell to.

The Ramsey solution was the zero discount rate. An alternative is a conservation criterion, an ethical statement, stewardship principle: we do not have a right to run down the value of the bequest that has been given to us by the past. Indeed, to pick up an expression of my favorite forest policy analyst, we are not given our present resource base by our parents, we are borrowing it from our children. We have no right to dissipate that capital value. We may transform it, but since we know the future is uncertain, we should perhaps work on a sub-principle that says we have no right to drive either forests or fish or any species to extinction. (This principle runs into problems with the snail darter, admittedly. But I have no difficulty with the ethical proposition that the value of the forest must be preserved.) Within that constraint we may then manage by market principles to assure the technically best allocation of resources to current activities, subject always to this imposed bequest native.

Note that market observations give us no alternative determination of value to substitute for this essentially ethical presumption, unless perhaps one is prepared to say that the current market prices for resources are always right and appropriate. The problem I find with that is simply that the expectations and terminal values presently embedded in the market are those of people who have been looking at a different question entirely, ^{namely the prospect of speculative gains} and have had no cause to consider the long term values of resources.

D. The separation theorem

It is an old idea - one that I've used myself a lot in 20 years of teaching - that it is possible to separate the creation of wealth from its redistribution. Having sweated over the evaluation of government programs for a long time, I now dispute that possibility. The separation is almost never feasible in fact, however appealing it sounds in principle. The reason is not simply that the compensation (redistribution) rarely occurs, and certainly can't be counted upon, so that burdens fall in one direction while benefits settle in another. Often - perhaps most often - the compensation cannot occur, because the steps urged to promote material efficiency conflict directly with the immediate interests in less tangible benefits. More goods could be produced, and output per person increased, if hours of work were somewhat increased and the leisurely pace of the work environment were tightened up. GNP could be increased if the workforce could be quickly and expeditiously relocated and reasigned. But the distribution of benefits (income) through a more leisurely pace and a more stable social structure is highly valued by many.

Thurmon

So after all, those arguing for separating the creation of wealth from its redistribution, for concentrating on growing the pie first and then worrying about its distribution, are arguing not just a technical proposition about how best to broaden our options (which is the way the argument is usually put). They are arguing for the primacy of material goals over less tangible goals, for goods over style, for higher GNP at the expense of social disruption, higher measured productivity at the expense of comfort, humanity, or perhaps even safety on the job, for compensation for discomfort rather than pursuit of comfort on the job, for the things money can buy during our "non-economic" time rather than the comforts which could be achieved through foregone income during our economic time.

In this sense, then, it is an argument for achieving more through the market, through the things money earned in the market can buy in the market. It is an argument for separation of our lives more fully into one role as single-minded economic man and economic woman during a working day spent in an economic system, and another role as caring individuals outside. In this sense it is very clearly a question of values which has to be confronted here.

And I would have to question whether this sort of separation is consistent with the nature or essential features of production conditions in the future. Surely some of the argument is that not only are social developments pushing toward a more holistic view of one's working life, but so also are technological developments.

I interpret this to be the chief significance of what native groups, women's groups, and social agencies are trying to tell us. And I wonder about how their contributions will fit into the economic system.

Somewhat more speculatively, I suppose there is some obligation to consider whether our measures of efficiency and effectiveness are themselves too narrow. Much work in welfare economics starts from basic utilitarian notions! Idea of consequential criterion. But consequences hard to discern, let alone appraise.

So other sorts of rationality intrude as gauges of what is effective - procedural criteria

These may be critical to acceptance, which in turn is critical to longer term efficiency.

E. Conclusion

So where do I finish up?

an asset is the discounted value of a future stream of earnings.

a nation's wealth is the discounted value of the future stream of income which could be generated by wise use of its existing resources.

- but - the discount rate might be zero
- the effectiveness with which resources may be used to produce income in the future hinges on many things in the nature of "goodwill": human resources, skills, social organization, acceptance of a social code, stability, tolerance.
- the incomes generated must themselves be measured according to very broad definitions

intangible assets or

I alluded in the beginning to the faith of our wives - or spouses, to make a traditional toast gender-neutral.

In closing this review of the elements which go to make up the wealth of nations, I'd like to offer you another Georgian toast - and I want to emphasize that the power to which it refers is also gender neutral, a mutual power which can flow only from cooperation and sharing.

Most people like to think of themselves as tough minded, incisive, free from woolly-headed sentimentalities. It gives a pleasant glow of satisfaction to talk

about oneself as a hard-headed operator of a lean, mean fighting machine going out in a no-nonsense way to battle for survival in a competitive world.

But before falling into the trap of believing that this is the model we should translate into our bigger decisions, decisions which ^{really} matter, let's remember how many elements of our wealth, our income, and our well being are left outside that calculus, to be dealt with on the basis of unavoidable ethical choices.

When you are talking about the wealth of nations, you are not talking about economics, and economic models; you are talking about political economy. Remember what Adam Smith was, and the context for what he was saying. Speaking as a Professor of Moral Philosophy, in the context of all-embracing community and religious institutions, he pointed out a way to decentralize a component of our increasingly complex commercial life - within accepted groundrules. He didn't suggest that we could use these mechanisms to generate our social or political goals. Pontryagin's theorem tells us how to manage resources to travel optimally to a given destination, when you know where you want to go, and the constraints within which you must travel. If you don't know where you want to go, any road will do to get you there, and markets aren't needed.

To pretend that the wealth of nations can be pursued by "leaving it to the market", in the absence of collective leadership, is to ignore both the nature of wealth, and the nature of nations.