

WHEN THE RICH GET RICHER

An inquiry into the nature and causes
of the wealth of individuals

We are crew members of an oceangoing vessel sailing the high seas. Our ship runs aground on an uninhabited island and is irrevocably damaged. We must spend the rest of our days on the island, a self-contained community.

Our new homeland is special, however, for scattered on the beach are hundreds of gold coins! Naturally, those members of the crew who happen first to the beach hastily collect the coins. Within the hour, they have gathered them all up. Those who happen to be sleeping or sick or manning the pumps when the coins were discovered have none.

In the evening, a meeting of the entire crew is held to discuss themes of wealth, poverty, and the proper role of government. Under the circumstances, what views seem just and reasonable?

We see at once that the coins represent a natural endowment of the island. Those who collected them did no noticeable work; they were simply lucky bystanders. Hence, as a basis for our subsequent discussion, we enunciate these self-evident propositions:

1. The wealth of a community is rightfully the property of the entire community.

2. The rich are undeserving of their wealth.

As we turn our attention to poverty, we recognize that, again, it was simply a question of luck. That a crew member has no coins in no way reflects on his productivity or his contribution to the community. He just didn't happen to be around when the coins were being gathered. Hence:

3. The poor are undeserving of their poverty.

If the poor are not responsible for their plight, who is? Almost as soon as we raise the question, we see the answer. The rich are not innocent in the luck they have enjoyed. By picking up the coins themselves, they have precluded the others from doing so. The quantity of coins being fixed, a zero-sum rule applies: the more one gets, the less another can have. Envy of the rich, it turns out, has logical basis in our community:

4. The rich are responsible for the poverty of the poor.

It does not take us long to decide what principle should govern the allocation of wealth on our island. Since the coins

By James L. Payne

are community property, uncreated by any of us, they are equally owned by each member of the community. Hence:

5. The wealth of the community should be distributed equally among the members.

We find, however, that when we propose this rule, those who already have the coins selfishly refuse to part with their excess. What, then, should we do? Obviously, we must create an apparatus of coercion—a government—to take the coins from them and spread them equally among the crew. In establishing this system of coercion, we announce our purpose:

6. The principal function of government is to redistribute wealth, taking from the rich and giving to the poor.

Where *does* wealth come from? In the above story, I pose a hypothetical answer to this question: wealth is a natural endowment that fortunate bystanders happen to collect. Is this assumption true to life? Strangely, many people appear to believe that it is. They have succumbed to the "endowment illusion"—*the belief that the wealth of a community is fixed and is bestowed upon it by natural processes.* Upon this premise, they found their deductions about economic life.

I have called this belief an illusion because it is not an ordinary type of error. It is not a mistake that, once pointed out, is henceforth avoided. It is an intuitive impression that arises from our perspective on economic life. Even when reason tells us that it is false, our eyes keep seeing it. As to its source, there may be several explanations. One possibility is that it arises from a static world view. We human beings often have great difficulty incorporating motion or time in our thinking. We prefer pictures that freeze all relationships permanently, so that we may examine them. But wealth is created (and destroyed) in dynamic processes visible only over time. If our minds reach for a static picture, we get the wrong impression. At any instant in time, the quantity of wealth is fixed. But one instant is only part of the whole.

The endowment illusion operates like the flat-earth illusion. This fallacy, too, is based on a recurring perceptual error. The earth is round, but our eyes keep telling us that it's flat. In order to reason correctly about global geography, we must reject our instant impression and be guided by logic and knowledge.

The same sort of challenge confronts us in matters of economic policy. We have to make judgments that depend on the basic assumptions we make. Which assumption will we use—that wealth is created by human effort, talent, and sacrifice, or that wealth is endowed by nature? If we do not consider the issue thoughtfully, we are likely to fall back on our untutored impression. The endowment illusion will become the foundation of our analysis.

This foundation, in turn, leads to a large body of unsound economic and political doctrine. The shipwrecked crew members derived six of the more obvious deductions that follow directly from the endowment assumption. They are not unfamiliar points. In fact, they are the ideas in whose name millions of people have been oppressed in this century.

Does the endowment illusion have so much power? Can such

a simple, almost innocent, misconception underlie a crushing ideology? It may seem an exaggeration. But consider some cases of the endowment illusion at work. For our subjects we do not need to go to the Kremlin or to the jungles of El Salvador or pore over socialist tracts and utopian novellas. All we need do is dip into the books, articles, and speeches produced by mainstream Americans. There we will see the enormous dislocation in sound thinking that the endowment illusion produces.

In October 1980, the Girl Scouts of America launched a campaign against world hunger. To guide and inspire this effort, the president of the Girl Scouts, Jane Freeman (the wife of former secretary of the Department of Agriculture Orville L. Freeman), undertook to instruct her followers on the proper attitude toward the ownership of food. "We have to make the problem realistic for our membership," she told a group of scout leaders. "There is a need for thinking about food and

resources as being global property owned by people of the whole world. We should look at food not in a 'giving' sense, but in a sense of its being a joint right—food and resources should be seen as shared joint rights"

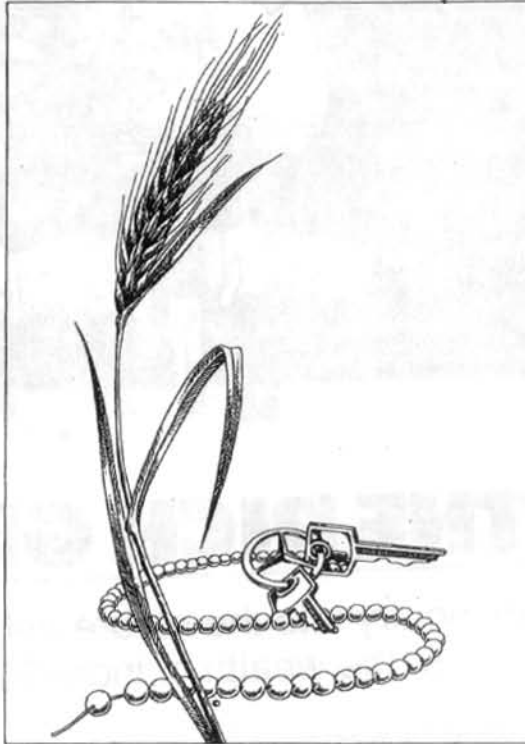
Mrs. Freeman never pauses to explain or defend this declaration. She takes it for granted that the common-ownership principle is both a morally high-minded doctrine and a realistic foundation for alleviating hunger in the world. A little reflection reveals that it is neither.

Take the moral, or ethical, aspect. Where does food come from? Farmers produce it, of course. To see what is involved, let us consider a dairy farmer who brings 70 gallons of milk to market each day. To produce those 70 gallons of milk, the farmer rises at 4:00 A.M. and feeds the cows and milks the cows and cleans the milkers and shovels out the barn and forks out new bedding. He cuts hay; he bales hay. He loads

bales, and he unloads bales. To produce his 70 gallons of milk, the farmer forgoes consumption to invest in silage loaders, aluminum roofs, and steel fence posts. He risks his labor and wealth against accidents and weather every time he plows a field or plants seeds or spreads fertilizer. Week in and week out, he adapts, invents, plans, and worries to keep 70 gallons of milk a day flowing from his farm.

Now we say that the milk does not belong to him. He has no just title to it; all his laboring and planning and sacrificing are irrelevant to the question of ownership. Instead, the milk belongs to us, the "people of the whole world." Is this assertion not preposterous? We are simply bystanders. We have done no work, taken no risks, forgone no pleasures, to bring the milk into being. If we took the milk by force, would our act be anything but robbery?

The common-ownership idea, it quickly turns out, is far from being a benign precept. It lays the foundation for immorality, both private and public. It justifies theft and pillage as the recovery of "common property"; it excuses piracy as the exercise of "shared joint rights." In the hands of governments, it is used to defend plundering and expropriation. Down through the ages, tyrants of all descriptions have arbi-



trarily seized the wealth of individuals and classes, claiming to be implementing the very principle of common ownership.

Equally destructive are the practical consequences of the common-ownership doctrine. When we declare that producers have no just title to their product, we weaken their motivation. As a result, they relax their efforts and production declines. Consider the dairy farmer. We, the "people of the whole world," show up at his farm to claim "our" milk. The farmer objects to our claim as immoral, but no matter: we have an edict declaring milk to be a "shared joint right." We take the 70 gallons of milk at gunpoint on day one. But what happens on day two and thereafter? Obviously, the farmer will not make the effort he did before, knowing that the milk will be seized from him. He will stop laboring and worrying and getting up at 4:00 A.M. Pretty soon, there will be no milk to take. Declaring production to be common property (and therefore not owned by producers) is a policy that chokes off production.

The point is not just theory. Mrs. Freeman's injunction to think of food as a "shared joint right" has already been widely applied around the world. All of the communist countries, to varying degrees, regulate their agriculture by the collective-ownership principle. As we know, shortages, rationing, and even famine have been the result.

What is going on in Mrs. Freeman's mind? Is she a secret admirer of Stalin or a Manchurian candidate programmed to spout the line of Mao in critical Girl Scout assemblies?

The explanation is much simpler: she succumbed to the endowment illusion. She assumed that wealth—food, in this case—is somehow bestowed on the world. Like golden coins on the beach, the milk and grain of the world lie about for the taking. And since food is a gift of nature to all mankind, farmers have no just claim to it. They are simply lucky bystanders who happen to gather it up.

And since food pours forth automatically, independent of human motivation and effort, its supply can be taken for granted. Mrs. Freeman can enunciate high-sounding principles of ownership to her heart's content without ever stopping to worry about their effect on production. In the eyes of the victim of the endowment illusion, the amount of coins is fixed by nature; we neither increase nor decrease their number by legislating on the manner of their distribution.

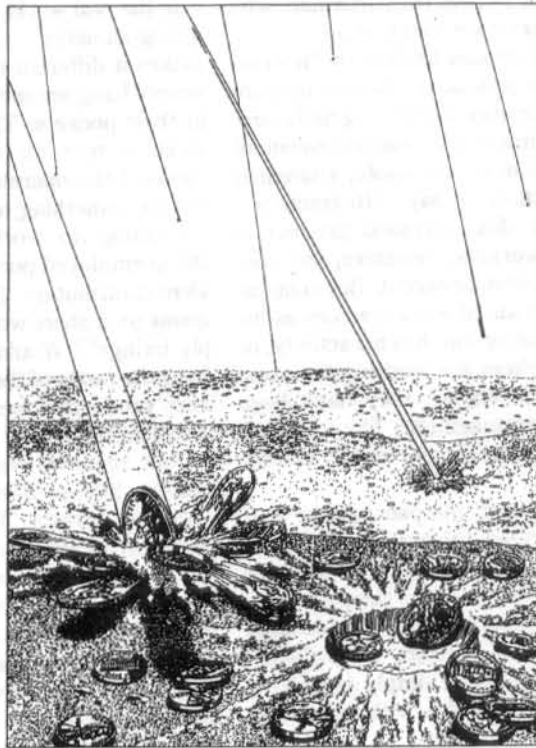
Just how deeply the endowment illusion has gripped Mrs. Freeman's thinking is revealed by her specific proposal for combating world hunger: "We should learn to eat less meat because it takes more energy to convert grain into meat. If less meat is consumed, we can save energy, save money, and make more grain available to people around the world."

Can American Girl Scouts really combat hunger in Africa by eating less meat? If, as Mrs. Freeman believes, grain erupts automatically from the earth in permanently fixed supply, then they can. By indirectly reducing their consumption, the Girl Scouts will "make more grain available to people around the world."

But in the real world, grain, like all other commodities, is produced by human beings who anticipate rewards for their ef-

forts. No supplies are fixed; producers continually adjust their efforts to changes in demand. A decline in consumption brings about a corresponding decline in production. That's what happened with buggy whips, stagecoaches, long underwear, and Edsel automobiles. These items did not turn up in copious quantities in Africa when Americans ceased buying them. Instead, producers simply cut back on their output. If Girl Scouts cease purchasing grain, then that fraction simply won't be produced. In the long run, the supply of grain to hungry Africans will be unaffected.

Is the endowment illusion harmless? Look at the havoc it has wrought in poor Mrs. Freeman's thinking. Attempting to address the problem of world hunger in a high-minded and constructive spirit, Mrs. Freeman was led by this illusion to advocate (1) a defense of theft and confiscation, (2) a policy orientation that, from Cuba to Cambodia, has led to decreased food production and hunger, and (3) a nugatory recommendation for her troops.



Mrs. Freeman is in illustrious company, however. William Stringfellow is a Christian writer and lecturer of liberal persuasion who seeks to apply the message of the Gospel to economics and politics. In his book *Dissenter in a Great Society*, he enumerated a few years ago our sins of commission and omission in the realm of public policy.

At the heart of his "indictment of Christian complacency in American life" is the persistence of poverty. Why hasn't it been abolished? There are certain circumstantial explanations: Lyndon Johnson's "war on poverty" was "woefully under-financed," for example. But Stringfellow believes the problem runs much deeper: America lacks "the moral capability to do away with poverty."

To remedy this deficiency, Stringfellow set out what he believes is the correct view of poverty and wealth.

We must never overlook, he said, "the dependence of the rich upon the poor for their wealth. In this world men live at each other's expense, and the affluence of the few is proximately related to, and supported by, the poverty of the many.

"This interdependence of rich and poor is something Americans are tempted to overlook, since so many Americans are in fact prosperous, but it is true today as it was in earlier times: the vast multitudes of men on the face of the earth are consigned to poverty for their whole lives, without any serious prospect whatever of changing their conditions. Their hardships in great measure make possible the comfort of those who are not poor; their poverty maintains the luxury of others; their deprivation purchases the abundance most Americans take for granted."

But is this true? Consider the different ways people become rich and see to what extent they hurt the poor.

One method is saving. A farmer, instead of burning wood each night, suffers through the cold with no fire in his hearth. Naturally, if he keeps on collecting firewood each day, the pile behind his house grows larger. It constitutes wealth, paid for by the farmer's self-sacrifice. Certainly he has done no harm to anyone, rich or poor, by his act of saving. Whether he chooses

to conserve his firewood or to burn it, his neighbor down the road is made no colder.

Another method of increasing wealth is performing additional work. A tailor who used to make two shirts a day begins to work nights and therefore makes three shirts. His earnings increase, and he begins to accumulate wealth. Has he hurt anyone? When the poor come into his shop, he takes their money, it is true. But he gives them shirts in return, and they must feel they are better off or they would not willingly make the exchange. Surely, producing goods for the poor to buy helps them.

Investment is another process that can lead to the creation of wealth. Instead of hoarding or consuming something of value, a man lends it to another to use productively. For example, the owner of a boat might lend it to a fisherman, rather than leaving the vessel tied up in idleness. The fisherman repays the owner with part of the catch. How can this activity hurt the poor? The boat owner benefits, but so does the fisherman, who otherwise, we gather, wouldn't have any catch at all.

One of the most spectacular processes leading to the creation of wealth is the combining of productive factors in more effective ways. For example, a factory might originally produce 100 tractors a week. By directing a rearrangement of machines and processes that cuts down on waste, a talented manager might raise the production to, say, 110 tractors a week. Typically, the benefits of this increased production would go, in varying degree, to workers, investors, and consumers, as well as to the manager who devised it. But suppose in this case that the manager gets all 10 extra tractors as his reward. Of course he becomes wealthy. But has his activity, or his reward, hurt anyone? The workers are working the same as before and receiving the same wages; they have been neither hurt nor helped by the rearrangement. The investors are as well off as they would have been, and so too are the buyers of tractors.

Do the wealthy live at the expense of the poor? In the four quite common processes just described, the creation of wealth either has nothing to do with the poor or actually benefits them. How did Stringfellow miss these points? Does he mean to condemn saving or working hard or creating jobs through investment or increasing production through the efficient management of resources? Obviously not. It simply doesn't occur to him that anyone could amass wealth without hurting someone else.

It seems clear that Stringfellow has succumbed to the same malady that afflicted Mrs. Freeman. To the victim of the endowment illusion, the supply of wealth is fixed. It therefore follows logically that "in this world men live at each other's expense." The more golden coins one person takes from the beach, the fewer there are for the next to collect. And what is true for individuals is also true for nations. The poor nations that don't get in there for their fair share of coins make it possible for rich nations to have an excess; "their deprivation purchases the abundance most Americans take for granted." Africans are poor because Americans have somehow ripped off their natural endowment of wheat, blue jeans, and computers. The idea that Americans have made their own computers is blocked out.

As Stringfellow's diagnoses are based on the endowment illusion, so are his prescriptions. His principal recommendation for combating poverty is a measure aimed at creating jobs for the poor: "A modest beginning would be the reduction of the work week, thereby both preserving existing jobs and multiplying hirings. It is no panacea, but the shortening of the work week without a corresponding reduction in wages, if accompanied by safeguards against 'moonlighting' . . . could significantly increase employment."

This proposal is a veritable Black Museum of endowment illusion fallacies. First, it assumes that the number of jobs is fixed—a point readily contradicted by data in most almanacs. When the Pilgrims came to America, there were a few dozen jobs; now there are more than 104 million. But the endowment theorist, wedded to his static world view, cannot encompass such changes. For him, employment opportunities are fixed; they cannot be increased by human effort or design. Hence, reasons Stringfellow, we have to redivide the employment pie by reducing the work week.

More important, the proposal ignores the productive aspect of work. It treats a job as simply an income-receiving opportunity requiring nothing by way of motivation or talent. From the endowment perspective, this view is logical. The golden coins are already created by natural circumstances; a "job" is simply an opportunity to collect some of them, a pass onto the beach.

In the real world, however, a job is not just a paycheck. It is giving something in return for wages received. That is what makes it different from welfare. Welders are not people who simply hang around in the vicinity of welding with their hands in their pockets. They do it; they make a contribution. The same is true for typists, police officers, nurses, shipping clerks, lathe operators: with their talent and effort, they contribute something to others in return for their pay.

Limiting the work of some, therefore, does not mean that the unemployed poor will take their places and make an equivalent contribution. To take an extreme example, put brain surgeons on a short work week. But would this measure "multiply hirings"? Would we actually create more brain surgeons from the ranks of the unemployed? By legally forcing society's most productive members to work less, Stringfellow's policy would lower overall production and impoverish the country.

Once again we see the pernicious effects of the endowment fallacy. Stringfellow begins with the kindly intention of alleviating poverty. Under the spell of the endowment illusion, he winds up propounding a formula for economic ruination.

"To affirm that men live in this world at each other's expense," declared Stringfellow, "is a confession of the truth of the Fall rather than an assertion of economic doctrine or a precise empirical statement." Many agree with him that we live in a zero-sum world, that this is the fundamental human condition depicted in the Bible. Guided by the endowment illusion, they see human relationships as basically competitive: since Adam, humans have meanly struggled at each other's expense for larger slices of a fixed pie. This image of competition leads, in turn, to a political philosophy that stresses the coercive regulation of economic life. Since people necessarily injure each other in their economic activities, this view runs, they must be controlled by force. The state must decide "fairly" all questions involving the distribution of golden coins; it must set wages, prices, and incomes. The endowment assumption leads, in the end, to a tyranny—possibly a benevolent one, possibly an intelligent one, but a tyranny nevertheless.

What a difference it makes to free ourselves from the endowment illusion! We not only avoid a skein of economic fallacies and destructive policy proposals; we also shake off a degrading political philosophy. Free individuals do not fight over a fixed pie; through their own efforts and joint enterprise, they expand the pie. Wealth is not endowed. Human beings create wealth through their labor, their cooperation, and their ingenuity. Once we realize that, we open our horizons to philosophies that respect work, property, and freedom. ▣

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