

## Chapter 2

# Wealth Is Unlimited!

**Wealth is created when we use existing resources in new ways. Because such creativity is virtually limitless, wealth is too.**

### What Is Wealth Anyway?

To determine whether we shortchange ourselves by choosing taxation and other forms of aggression as a means to our ends, we must understand the true nature of wealth. We usually equate money with wealth, but they are really very different things. Imagine a person stranded on a desert island without food, water, shelter, or medicine, but with a billion dollars in gold coin. Is this person wealthy?

Hardly! Food, water, shelter, and medicine—prerequisites for survival—are true wealth. Money can only buy available goods or services. If no wealth is available, money is worthless.

Even the richest of the ancients lived in what we would consider grinding poverty. Two thousand years ago, they had limited knowledge of antibiotics, anesthetics, or surgery. Helplessly, they watched as their children died from commonplace infections and appendicitis. Television, telephones, airplanes, and air conditioning had not yet been invented. News traveled only as fast as horses could carry it. Family members who had migrated to distant lands could not readily visit or send letters. On a sweltering day, even the ruling pharaohs could not enjoy the simple pleasures of an iced drink.

The wealthiest of our ancient ancestors could not imagine many of the things that we take for granted today. Our wealth has increased greatly over the centuries (Figure 2.1).

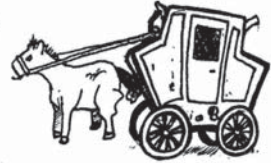
### How Is Wealth Created?

Where did we get all this wealth? The earth certainly did not get more natural resources between ancient times and the present. Instead, we discovered new ways to use the resources we have. Coal, oil, and natural gas give us an unprecedented amount of power. We send communications via satellite. The Internet allows us to access much of the world's knowledge

*... more people who are considered "poor" today have routine access to a quality of food, health care, consumer products, entertainment, communications and transportation that even the Vanderbilts, the Carnegies, the Rockefellerers, and 19th century European royalty, with all their combined wealth, could not have afforded.*

—Rudiger Dornbusch  
GLOBAL FORTUNE

## PAST WEALTH



## PRESENT WEALTH



## FUTURE WEALTH



Figure 2.1: Pictorial Representation of the Growth of Wealth Through the Ages

instantly. Artificial wings fly us all over the world. Assembly lines and robotics mass produce the new products, thereby multiplying the wealth. One advance leads to the next.

For example, fossil fuels create higher temperatures in our furnaces than wood does, allowing us to create new metal alloys. New wealth (e.g., new metal alloys) is created whenever we find new uses for existing resources. When we replicate these ideas (e.g., mass production of metal alloys) we create wealth too.

Natural resources are like seeds that grow into wealth when they are nurtured and developed. For example, oil was once considered a nuisance that contaminated good farmland. Not until we discovered how to pump, refine, and use it did oil turn into “black gold.” Even water must be “developed” (drawn from a stream, well, or reservoir) before it can quench our thirst.

When we consider that resources will one day be mined from other planets, that matter and energy are totally interchangeable, and that basic chemical elements can be transmuted, we realize that resources do not limit the creation of wealth. Even if our fossil fuels should be foolishly exhausted, for example, energy is abundantly available in each and every atom when we discover, as we one day will, how to tap it safely. Even land is not a limitation, for a universe of other planets will one day be within our reach. Human resources, our “how to” ideas, and the replication of these ideas determine how much available wealth we have at any one time. *Because human creativity is unbounded, the amount of potential wealth is virtually infinite!*

### How Does Wealth Become “Owned”?

The wealth created from using resources in new ways can be mass produced by individuals acting alone or as part of a team. For example, George, our imaginary neighbor, may work in a factory where he makes chairs. The factory owner gets the lumber from a tree farmer. Those three people create new wealth in the form of chairs. They exchange the chairs for money and then trade their money for the wealth (food, clothing, etc.) that others have created.

*... most real wealth originates in individual minds in unpredictable and uncontrollable ways.*

—George Gilder  
WEALTH AND POVERTY

*... people have repeatedly overcome crippling shortages by finding new technologies, new materials, and new applications. The creativity of the human mind can overcome the vast majority of obstacles that it comes across, as long as it is not fettered.*

—James Bovard  
FREEDOM IN CHAINS

All three individuals helped create the chairs. Without their effort, the new wealth would not exist. Thus, the new wealth belongs to its creators, as we instinctively recognize. We wouldn't cheat George out of his wealth with lies and false promises. Nor would we go to George's house with a gun to steal his wealth. If we did, he would retaliate. We'd take turns being victims and aggressors. With continual "warfare," a jungle-like atmosphere would pervade our neighborhood, and property values would plummet. Our time would be spent creating war instead of wealth.

We believe that we can avoid these unwanted consequences if our government enforcement agents call the act of taking George's wealth—at gunpoint, if necessary—a "tax." Sometimes the act of stealing even seems noble if the majority deems it to be for "the common good." As we'll see in the next few chapters, the consequences of aggression are the same, whether performed by an individual or by a group. When *groups* ask their government to steal from other *groups*, we simply take turns as majorities and minorities, aggressors and victims. A jungle-like atmosphere prevails as effort is spent creating war instead of wealth.

Aggression, especially aggression-through-government, has slowed the creation of wealth for most of recorded history. As late as 1820, approximately three-quarters of the world's population lived on the equivalent of \$1 per day. For the most part, all countries were equally poor.<sup>1</sup>

In the mid-1800s, however, the countries that we now refer to as "developed" began creating wealth much more rapidly. The Third World nations, however, continued to create wealth slowly (Figure 2.2). Why did some countries grow rich and others stay poor?

### What Causes Wealth to Grow?

Although resources contribute to a nation's wealth-creating ability, they are not the primary source of development. Japan, for example, has almost no mineral wealth. Mexico is well endowed, yet the Japanese are certainly more affluent than the Mexicans.<sup>2</sup> North Korea is poorer than South Korea, even though both share a

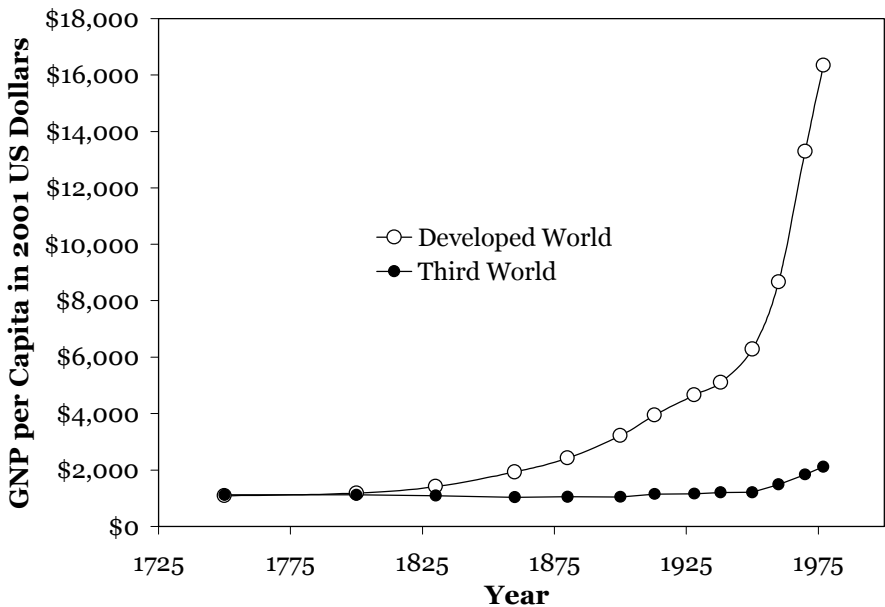
*Amnesty International's listing of human rights abuses shows a definite pattern where those nations with the least respect for human rights are also the poorest. By contrast, those with the greatest respect for human rights tend to be the richest.*

—Walter Williams  
ALL IT TAKES IS GUTS

common culture and have comparable resources. Similarly, East Germany created much less wealth than West Germany before reunification in 1990. The island of Puerto Rico is wealthier than neighboring Cuba.<sup>3</sup> Obviously, resource endowment is not the primary factor determining a country's wealth.

Rapid population growth and high population density are not major factors in Third World poverty either. In 1996, both Hong Kong and Singapore, with 10 times the population density of China or India, created five-and-a-half times more wealth than either of them.<sup>4</sup> Developing countries that enjoy the highest economic growth rate often have the highest population growth rates as well.<sup>5</sup> Between 1775 and 1975, the United States had the biggest population explosion in history,<sup>6</sup> yet Americans now earn the highest wages in the world. Clearly, rapid population growth and high population density

**Figure 2.2: Wealth Creation vs. Time for Developed and Third World Nations**



Data from P. Bairoch, "The Main Trends in National Economic Disparities Since the Industrial Revolution," in *Disparities in Economic Development Since the Industrial Revolution*, P. Bairoch and M. Lévy-Leboyer, eds. (New York: St. Martin's Press, 1981), p.7. Inflation-adjusted by the author using CPI-U for first half of 2001.

*The GNP of East Germany was an embarrassing \$210 billion in 1989 compared to \$1.3 trillion for West Germany.*

—WALL STREET DIGEST  
April 9, 1990

*Capitalism is simply what happens in the absence of social planning.*

—Richard W. Grant  
THE INCREDIBLE BREAD  
MACHINE

are no more responsible for poverty than inadequate resource endowment.

In 1996, the country with the highest rate of wealth creation per person<sup>7</sup> was also one of the most densely populated. Over 40% of its population were immigrants and refugees, because of its relatively open immigration policies.<sup>8</sup> Oil, raw materials, and even water had to be imported because this country had so few natural resource “seeds.” The government posed virtually no trade restrictions to protect domestic industries. This tiny country with its terrain of eroded hillsides was still a British colony in the year that its wealth creation (gross domestic product per capita [GDP]) was similar to that of the United States. Which country has learned how to create so much wealth under such adverse circumstances? What is its secret?

Hong Kong, the country described above, had the highest level of “economic freedom” of any country in the world for the previous twenty five years.<sup>9</sup> *Freedom, in this context means freedom from aggression, specifically, aggression-through-government.* Freedom is the single most important determinant of a nation’s wealth-creating ability today. Because the Good Neighbor Policy sets the stage for harmony and abundance, the people of Hong Kong have prospered, even with so many strikes against them.

Indeed, countries throughout the world create more wealth, as measured by their GDP, when their economic freedom index (EFI) is high.<sup>10</sup> *Cultures with a tradition of rejecting aggression, individually and collectively, enjoy the highest level of prosperity.*

### How Can the Poor Gain Wealth?

Does increased wealth creation mean that the rich are getting richer at the expense of the poor? Just the opposite! When developing countries start abandoning aggression, their incidence of poverty goes down as their wealth goes up (Figure 2.3).

As the following chapters show, aggression primarily thwarts wealth creation by the disadvantaged. Thus, the poor gain most from a shift to the Good Neighbor Policy. Nations free from aggression not only have the most prosperity,

but also more equality of income and a more even distribution of wealth.<sup>11</sup> In nonaggressive nations, poverty tends to be temporary condition, rather than a life long affliction.<sup>12</sup> As we'll learn in subsequent chapters, the best way to help alleviate world poverty, hunger, and disease is to honor our neighbor's choice.

Until the twentieth century, most Americans, with the notable exception of blacks and Native Americans, faced less aggression-through-government than citizens of other countries. As a result, the United States became the wealthiest nation on earth. Unfortunately, it has been abandoning the Good Neighbor Policy that made it the "land of opportunity" for so long. Consequently, its rate of wealth creation has been adversely affected.

Why would my homeland turn away from a policy that has worked so well? Perhaps we didn't have the other piece of the puzzle. The early Americans knew how to honor their neighbor's

*There is no conflict between economic growth and poverty alleviation.*

—Dani Rodrik

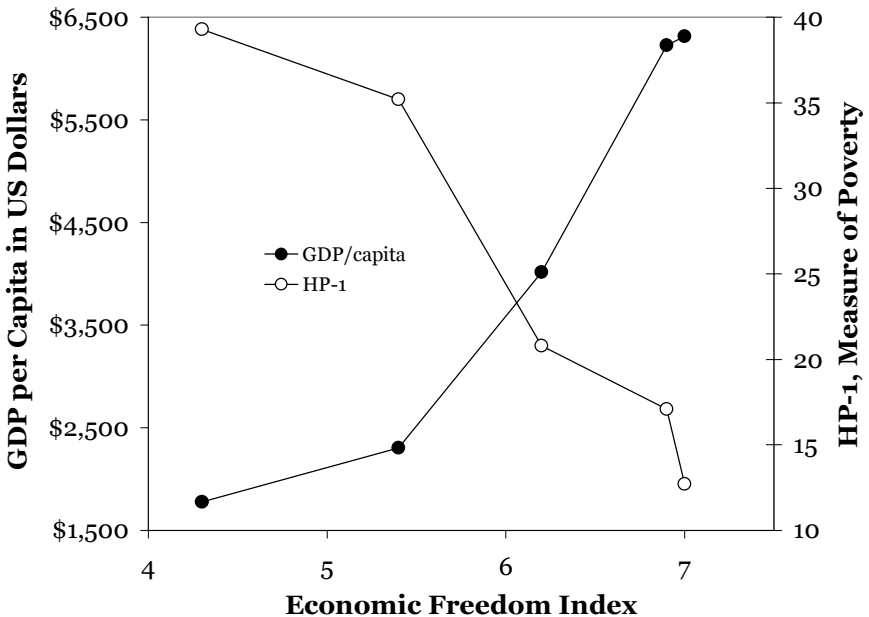
INCOME DISTRIBUTION AND HIGH-QUALITY GROWTH

*GDP growth is correlated with a reduction in poverty, income inequality [and] infant mortality, and an increase in life expectancy.*

—The World Bank

THE QUALITY OF GROWTH

**Figure 2.3: Economic Freedom Results in More Wealth and Less Poverty**



Data courtesy of J. Gwartney and R. Lawson, presented in part in the *Economic Freedom of the World, 2001 Annual Report* (Vancouver: The Fraser Institute, 2002). HP-1 is the United Nations' Human Poverty Index for developing countries. Each point represents one-fifth of the entire sample of developing nations ( $n = 13$  for every point except for the middle quintile, where  $n = 14$ ).

choice. *What they did not know was the most effective way to deal with those who aggressed against them.*

Consequently, Americans instructed their government to use aggression in a futile attempt to prevent aggression. Their motto became “do unto others *before* they do unto you.” *To fight aggression, they became aggressors themselves, with consequences harsher than those which they sought to prevent.*

By understanding what happened in the United States, other nations can learn a better way. Perhaps, armed with this knowledge, America can regain its proud heritage of freedom and opportunity.

## Chapter 2: Wealth Is Unlimited!

# In Summary ...



**Wealth consists of goods and services. Money is only a claim check on existing wealth.**



**Using resources in new and more productive ways creates wealth.**



**Since creativity is unbounded, so is wealth.**



**Countries that practice the Good Neighbor Policy create more wealth than those that don't.**



**The poverty of ancient times was largely due to violations of the Good Neighbor Policy, especially aggression by governments.**



**The poor are harmed most by aggression and prosper most under the Good Neighbor Policy.**



**The United States is the wealthiest country on earth because it practiced the Good Neighbor Policy for the longest time.**



**By studying U.S. history, we can learn how a country can create great wealth and how it can lose that wealth by abandoning the Good Neighbor Policy.**