Wealth

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“Wealth in itself -says Cantillon (1755, Ch.I)- is nothing but the Maintenance, Conveniences, and Superfluities of life”. This definition, which is conspicuously quoted in two equally approving footnotes to a famous passage by Smith both in Cannan’s and in Campbell and Skinner’s editions of the *Wealth of Nations* (1776, Bk.I, Ch.V, n.1), is crucial in a number of senses. One is that, according to this definition, ‘wealth in itself’ is made up of *goods* and not of *money*. The other is that the goods of which wealth consists are *final* rather than *instrumental* goods. Still another is that wealth is a *flow* of final goods rather than a *stock* of instrumental goods. Since, however, the meaning of this term has changed over time and since it is wealth that is said to be produced, distributed and consumed in the titles and contents of most treatises of political economy from, say, Turgot (1766) to J.S.Mill (1871), it is worthwhile to go deeper into Cantillon’s definition for this paves the way for the notion of wealth that prevailed in classical political economy since Adam Smith.

GOODS VS. MONEY

All know, says J.S.Mill (1871, Vol. I, p.3), that “the questions how a nation is made wealthy, and how it is made free, or virtuous, or eminent in literature, in the fine arts, in arms, or in polity, are totally distinct enquiries”. But, he continues, some “theorists and practical politicians have been equally and at one period universally infected” by a “mischievous confusion of ideas” on the question concerning “what is to be considered as wealth”. The fault of these theorists (the Mercantilists) was to confuse, he argues, *wealth* with *money*. Not that this confusion was the result of a conceited terminology for, as Smith himself pointed out, “that wealth consists in money, or in gold and silver, is a popular notion” to the extent that “the great affair, we always find, is to get money” (Smith, 1776, Bk. IV, Ch.I). The fact is that the

Mercantilists' identification of wealth with money, and of money with precious metals, was instrumental to, or associated with, their central belief that, the world amount of these metals being given at a given moment, the only way for a nation to become richer was to make another nation poorer. Thus Mill's argument highlights what Schumpeter calls a "standard topic in the historiography of economics" (1954, p. 361). This topic is due to Adam Smith. For it was Smith who first provided a systematic examination of the negative consequences of the Mercantilists' initial confusion (1776, Bk. IV) as well as a positive theory of how the "necessaries, conveniences and amusements of human life" available in a nation can *grow* along with those of other nations. In this connection Schumpeter's argument that Smith's criticism of the Mercantile system is "unintelligent" on the grounds that even in the age of Mercantilism wealth was at times regarded as goods rather than as money is untenable. For Schumpeter seems to ignore, beyond the textual evidence he provides, the analytical foundations of Mercantilism (which is based on the principle that *one nation's gain must be another nation's loss*) and, with a stronger reason, the countervailing foundations of Smith's system of thought which is rather based on the notion that one nation's *gain* is *compatible* with, and may indeed be strengthened by, another nation's *gain* if only the principles of *capital* and *competition* were known and practiced in *all* nations.

INDIVIDUAL VS. NATIONAL WEALTH

The proposition that one nation's gain must be another nation's loss is the consequence of a still deeper confusion. This concerns the nature and causes of the wealth of an *individual* as distinct from the nature and causes of the wealth of the whole *society* (Smith, 1776; Lauderdale, 1804; and others). While saying that Mercantilists "felt it was nice for a nation as well as for individuals to have money - and said so without thinking any more about it", Schumpeter (1954, p. 344) implicitly denies his own critique of Smith's criticism of the Mercantile system. For Smith knew very well that "the great affair is to get money" and devoted to this affair much more thought than all Mercantilists put together in, to begin with, Book II of the *Wealth of Nations*. Here money is considered in the light of the theory of capital while capital is studied in the light of the distinction between the ‘stock which a man possesses’ and the ‘general stock of any country or society’. “In the wealth of mankind, says in this connection J. S. Mill (1871, p. 8), nothing is included which does not of itself answer some purpose of utility or pleasure. To an individual anything is wealth which, though useless in itself, enables him to claim from others a part of their stock of things useful or pleasant”. The great affair of mankind, therefore, is to get (to produce) the goods rather than the money by which they are circulated from one individual to another.

That the notion of wealth is strictly connected with the idea of production is as unclear in Cantillon’s definition as it is clear in Smith’s implicit use of it. For, to begin with, Smith’s opening statement of the *Wealth of Nations* that “the annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes” cannot apply to those necessaries and conveniences which are given by nature (and which are actually included in Cantillon’s definition). This question was cleared up by Say (1843) through his distinction between *richesses naturelles* and *richesses sociales*: while the former comprise only the goods given by nature, the latter refer to the goods available only on condition that some labour be spent on their production. The idea of *property* (and therefore of exchange value) is associated with the latter, not with the former, form of wealth. Say’s practical conclusion comes therefore to coincide with Smith’s starting point: the subject of political economy is not ‘wealth in itself’ but only that large and growing part of it which requires to be produced by *labour*. Thus wealth is most properly defined as ‘all useful or agreeable things except those which can be obtained, in the quantity desired, without labour or sacrifice’ (J.S.Mill, 1871, p.10; see also McCulloch, 1864; Senior, 1836; Torrens, 1821; and others). The only qualification worth adding to this definition is that the ‘necessaries, conveniences and amusements’ which result from the application of labour, and which therefore constitute wealth as the subject of political economy, need *not* consist, unlike what is assumed in Malthus's definition (Malthus, 1827, p. 234), of *material* objects. For the element of *utility* (or *desirability*), which is essential to all articles of wealth (Senior, 1836; Say, 1843), belongs also to *services* (whether provided by durable goods or by labour itself).

FINAL VS. INSTRUMENTAL GOODS

Whether wealth is considered 'in itself' or as the result of human exertions (i.e., in Smith's words, as 'the annual produce of the land and labour of the society') it is generally unclear whether this term refers *a*) to final goods or to final *plus* instrumental goods, or *b*) to any of these two sets of goods at an *instant* or in a *period* of time. These questions will be dealt with, respectively, in the current and following sections.

It should be noted, to begin with, that, in spite of the many passages where Smith argues that money makes no part 'like all other instruments of trade' of the *revenue* of the society to which it belongs, he states in an isolated passage of Bk.I, Ch.XI of the *Wealth of Nations* that "land [an instrument of production] constitutes by far the greatest, the most important, and the most durable part of the wealth of every extensive country". Since, however, the term 'revenue' is repeatedly used by Smith as synonymous with wealth (with the result that land cannot be said to be part of the wealth of any country for the same reason why it cannot be said to be part of its revenue), his statement on land cannot be but a misleading synthesis of two alternative sentences. These sentences may be put as follows: *a*) 'the greatest, the most important, and the most durable part of the *source* of wealth of every extensive country'; and *b*) 'the greatest, the most important, and the most durable part of the wealth of *individuals* in every extensive country'.

If Smith's statement on land were split into, or interpreted according to, these two sentences its initial ambiguity would disappear. For one thing is the wealth of *society*; another the wealth of an *individual*. While in the case of an individual (which corresponds to sentence *b* above) wealth may well consist of (the possession of) land as much as of money and other 'instruments of trade', in the case of the wealth of society (which corresponds to sentence *a*) wealth rather appears as the ‘necessaries, conveniences and amusements of human life’ (final goods) available in a period of time. These necessaries etc. are said elsewhere to be “the sole end and purpose both of the fixed and the circulating capitals” (Smith, 1776, Bk.II, Ch.I, p.) and may be said, therefore and with a stronger reason, to be the sole end and purpose of ‘land’ itself (as an instrument of production). This implies that all instruments (of trade or production) can be regarded as wealth only in the ellyptic sense of being *sources* of wealth or, to put it in terms that will become fashionable later on, only in so far as they are *indirect* or *intermediate* or *inchoate* wealth (Taussig, 1896); or, to put it in even more different terms, only in so far as they are *wealth to come*.

That the wealth of the whole society is made up of final goods and that Smith is not inconsistent when he considers it as synonymous with national revenue is highlighted by the fact (noted by Max, *Capital*, Volume 2, Ch.19) that the term revenue, coming from the past participle *revenu* of the French verb *revenir*, denotes in itself something that *returns*. Unlike the term wealth, therefore, the term revenue is strictly connected with the idea of the *reproduction* of the ‘necessaries, conveniences and amusements of human life’ (whether this does or does not require the production of intermediate wealth), namely with the notion that the necessaries etc. which are available in a country *this year* (and thus constitute the wealth of this year) are the direct or indirect outcome of the necessaries etc. (wages fund) which were exchanged for, and consumed by, the labour employed in *past years*.

In this connection it may be added that the idea of revenue need not coincide with the very idea of *income*. For, if revenue denotes what returns, income more simply denotes what *comes in*. It may indeed be indifferent, from the point of view of an individual, whether the goods he receives this year are *returning* to him as a revenue, or simply *coming* to him as an income. And, since this may be even more indifferent to the taxman, it may well be that the notion of (individual) income was developed in political economy when the theory and practice of *taxation* (of income) became more fashionable than the old classical, and more general, doctrine of *reproduction* (of wealth). From the point of view of society, however, the story is quite different -and has remained so even after classical economics went out of fashion. For, unless it consists only of *richesses naturelles*, the wealth of society must be annually reproduced before being subdivided between, and consumed by, its individual members as wages, profits and rents.

STOCKS VS. FLOWS

Whether the goods constituting wealth are considered at an instant or in a period of time is a question that can in turn be settled in the light of the distinction between the wealth of an individual and the wealth of the whole society (Pasinetti, 1977). The repeated use of the term 'annual' in the passages where Smith deals with these concepts indicates by itself that the goods referred to by his expression 'wealth or revenue' are to be considered in a period of time. On the other hand, since the wealth of an individual may well consist (as shown above) of (the possession of) goods that exist at an instant of time, the wealth that is said to be 'annual' cannot be but the wealth (revenue) of society. And since the general aim of Smith and many other classics was to study the nature and causes of the wealth of *nations*, it follows with a stronger reason that the focus of their analysis was (the increase of) the *flow* of final goods available in a period (and made possible by using up the intermediate goods inherited from a previous period) rather than the *stock*, however formed, of instrumental goods (let alone the value of this stock) owned by *individuals* at an instant of time (*assets*).

It is no chance, therefore, that when a subsequent generation of economists focused their attention on the wealth of individuals it was the notion of wealth as a stock of goods *owned*, in any form and for whatever reasons, at an instant of time that was brought to the forefront of economic analysis. The author who perfected this change of attitude was Irving Fisher (1906). The meaning of the term wealth was accordingly reformulated, first, in the sense that wealth was defined as "*material* objects *owned* by human beings" and, secondly, in the sense that the *income* of an individual was said to consist of the *services* (a flow) provided by (or expected from) the wealth (a stock) owned by this individual at an instant of time (1906, Ch. XIII). Hence Fisher's new concept of capital (which is defined in this new context as "a stock of wealth existing at an instant of time" and, therefore, as everything but the *wages fund* of the classics) and his development of the concept of *capital value* (Meacci, 1989). This concept, which was not unknown to Smith (1776, Bk.V, Ch.II, Pt.II, Arts.I & II, App.), is defined in detail by Fisher as the net present value (calculated according to the principles of discounting) of the future income stream (or cash flows) expected from the stock of wealth owned by an individual in any form at an instant of time.

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