# *Capitalism and Morality*

## CREATING WEALTH – WHAT IT REALLY MEANS

**Thomas A. Michaud, Ph.D.**
**Professor of Philosophy**
**Wheeling Jesuit University**

**Appeared in *The State Journal* of West Virginia, July 21, 2006**

It is a given truism in free-market economics that the creation of **new** wealth grows and expands an economy. It is also a given that the government cannot **directly** create new wealth, since the government merely redistributes wealth collected in assorted taxes.

The government can, however, **indirectly** contribute to creating new wealth through different types of business programs, such as loans, tax-abatement incentives, grants and other means. Still, the business receiving the government contribution would not have even a possibility for creating new wealth unless and until it "pays back" the government, and thereby the taxpayers, with the wealth it generates. These "pay backs" can take various forms, like loan payments, taxes collected from the business itself and from its employees, and the taxes from other businesses and their employees which might spring up due to the success of the government-funded business.

These points are, one could say, basic axioms of free-market economics, but there is, however, another fundamental issue in free-market economics which demands attention: What exactly is **new** wealth?

Not all wealth creation, even in the private sector, is new wealth creation. Some, maybe most, wealth creation by businesses simply maintains the *status quo* of the economy of a city, county, state, region or nation if the wealth in the economy is merely re-directed.

For example, a new business, such as a new restaurant or retail store, does not necessarily create new wealth for the economy, if it is successful only because it draws customers away from existing competitors. The wealth may be "new" to the restaurant's or store's owners and employees, but not new to the economy in general. The wealth has just been shifted or re-directed to the new businesses from the existing ones, which might even cause the existing businesses to downsize or fold. Still, such new business start-ups are vital for maintaining the *status quo*, the solvency, of an economy because they are stimuli for keeping the wealth circulating in an economy, even though they are not creating truly new wealth.

So, again, how is truly new wealth created? There are at least four ways in which new wealth can be created, and though these ways do overlap, it is helpful to identify them separately in order to be as clear as possible.

1) New wealth is created when the costs of the means of producing a product or delivering a service are reduced to the extent that the reduction is reflected in the product's or service's price. This

most often occurs through technological innovation. For example, in terms of real dollars (not even inflation-adjusted dollars), the cost of long distance phone calls today is actually cheaper than what they cost back in the early 1970s, which is due to innovated communications technology.

2) New wealth is created when a new type of or use for a natural resource (including land) is commercialized in the market. For instance, much new wealth was created with the discoveries of the use of oil for gasoline, the use of solar, water and wind power for electricity, the use of radioactive minerals for energy, and with the irrigation of arid land for agriculture. Also, new uses for coal, such as coal gasification, would be a prime example.

3) New wealth is created when a brand new product or service is invented and successfully commercialized. Examples would include cell phones, laptops, website design businesses, and ATM machines. There is even a sense in which the “invention” of fast food restaurants fits in this category. When fast food restaurants first began to appear, people who did not normally eat out began to do so at costs that were even less than preparing meals at home. Consequently, their food budget had greater purchasing power, which is new wealth.

4) Finally, new wealth is created when new businesses with new jobs emerge in an economy, which did not previously have them at all. In such situations, the new business is not simply garnering wealth from existing competitors. For example, if an area does not have a tanning salon and one does open, then that business would be creating new wealth for the area’s economy.

As politicians and commissioners in cities, counties and states scramble to put together hefty taxpayer-financed packages to attract businesses to their areas for the sake of economic development, it would be wise for them to be aware of some of the basic axioms of free-market economics. This is especially true in regard to understanding what truly **new** wealth is and the huge give-a-ways politicians and commissioners are offering to very large retail store chains.