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The Just Distribution of Wealth

Conference by Manuel F. Ayau at *Casa Central* to high school students from *Liceo Italo-Guatemalteco* on March 18, 1964.

Humankind's eternal concern—on an individual as well as a collective basis—has been to improve our spiritual and material condition. Indeed, this *is* the purpose of all human activity.

As far as material things go, people's well-being depends on the things or goods available to them for comfort, shelter, and pleasure, as well as time set aside for spiritual satisfaction.

But wealth has never been abundant, nor has it been distributed equally. The amount of wealth, along with its distribution, is a problem that constantly concerns men of good will, governments, the church, philosophers, sociologists, and, of course, educators.

The other day during lunch, one of my daughters (in high school) told me that in class the students had been asked: Isn't it unfair that there are luxurious churches and homes, when in other parts of the city and country there is so much poverty? The question seemed misleading to me for several reasons. First, because it evidently begged the answer that any young person of a charitable nature would give. Second, the question insinuated the existence of a false cause and effect relationship between wealth and poverty. And, third, I consider this to be an attempt to take advantage of young people, to exploit their lack of experience, their innocence, and wholesome feelings in order to instill in them, using devious means, a dangerous idea that has caused much damage in the world.

Aware of this, I gave my daughter the following response: If the poverty of some is due to the wealth and luxury of others, then wealth is bad, and I am against it. If the poverty of some is *not* due to the wealth of others, then I am indifferent to wealth. But if it turns out that poor people would be more impoverished if the wealthy didn't exist, then I'm in *favor* of wealth.

This is how I tried to explain the idea that we must find out if the wealth of some is due to the poverty of others, *before* answering the question posed in school.

Let's carry out a brief analysis. It's true that there are cases where what one person gains is due to what others lose. This happens when the wealth at stake is a fixed amount, such as a lottery. What some win is what others bet and lost; the amount of money at stake is the total of the numbers sold. Some get what others *do not* get. The same happens when you play cards or bet on the horses. The losers finance the winnings. When someone bets two quetzales against someone else, the amount of quetzales in play is four, and the one who wins recovers his investment of two quetzales and another two from the one who loses them. The profit of one equals the loss of another. The same occurs with theft.

Now, let’s see what happens with production and the exchange of goods in a society based on the division of labor, which is what we have today with the specialization of labor, not like in the “olden days” when everyone cultivated their own food, made their own clothes, etc.

If the two social institutions I will mention later exist, then when goods and services are traded, both sides win. By this I mean that the wealth of *both* increases due to the exchange. I don’t mean that both sides increase their wealth to the same degree, as measured by a third party. What I do mean is that each side that participates in the transaction gains; which is to say, they get back more than they put in.

How is it possible for both sides to win? I’ll answer that after I explain the two institutions I mentioned, because they are what allow the exchange to be favorable for both sides. These are private property and individual freedom, two institutions that I have come to realize are poorly understood. As postulates, they are respected even less than they are practiced; nonetheless, they are always praised euphorically and mentioned in every constitution and human rights declaration.

Many books have been written about both institutions. I will try to explain briefly what I understand private property and individual freedom to be, using some examples (without presuming to exhaust the topic).

Both institutions can exist only where man lives in society; they would make no sense in the case of a Robinson Crusoe living alone on an island. And both institutions are born when the first restrictions are placed on the actions of others. That is, this pencil is mine, because *no one* can take it away from me legitimately against my will. It can be taken by force, but that constitutes a violation of the institution of property. My right to ownership of the pencil exists from the moment limits are placed on the absolute freedom of others to do whatever they want.

Only three ways exist to acquire property: produce it, steal it, or give it away. For the purpose of my thesis this evening, I will take into account only property that is produced and traded legitimately, since we are not going to waste time talking about the creation and distribution of wealth based on gifts or theft.

As far as my individual freedom is concerned, I consider it to be the *absence of coercion* or of force by other individuals or groups of individuals with regard to what I choose to do, produce, trade, read, worship, write, etc. Needless to say, this implies that I respect the same rights of others. In other words, the absence of coercion by others over what I do, guarantees my freedom; likewise, the absence of coercion by me guarantees the freedom of others. Again, their freedom and mine exist from the moment limits are placed on our absolute freedom to do anything we choose.

Freedom ceases to exist when someone uses force to prevent us from carrying out any peaceful activity, or when we are forced to act against our will.

Both property and freedom are rights that spring from our mutual acceptance of restrictions on our actions, and that is why I say that they only make sense when man lives in society.

To get back to the topic at hand . . . When we have private property and freedom to produce and trade goods and services, both sides win with the exchange. Under such conditions, it should be evident that no one would go ahead with a trade if he didn't prefer what he was going to receive over what he was going to give—if what he is going to give isn't less valuable than what will be given him. In other words, the prospect of improving one's own condition is actually the incentive that prompts exchange, assuming coercion is not involved. People can make mistakes or fall victim to deceit; however, mistakes are the exception, and are few compared to the number of exchanges we carry out. And deceit is used infrequently because people soon learn that it leads to failure. As someone rightly said: "You can fool some of the people some of the time, but you can't fool all of the people all the time."

So, when I state that both sides win in a coercion-free exchange, I am referring to exchanges in general, typical ones and not the exceptions.

This mutual gain is possible because when you trade you don't exchange things of equal value. The real proof lies ultimately in the theory of subjective value, and in what we call *Ricardo's Law of Comparative Advantage*. Here, however, I will use an example which, flawed as it may be, can help us. I produce one can of paint at a cost of Q5 and sell it for Q7. The lamp I want for my house has a price of Q14 and a cost of Q11. I could trade two cans of paint for the lamp, in which case, my perspective of the equation is the following: I give something that costs me Q10 and I get something that is sold for Q14; I gained Q4. The person who produced the lamp gives me something that cost him Q11 and receives something valued at Q14; he made Q3. Even if our exchange is indirect because we use money (they way things actually are in modern society), the situation is the same.

In a coercion-free market, it makes no difference whether it is goods or services that are traded.

This highlights one very important fact related to the distribution of wealth. Because both parties gain in an exchange, when someone accumulates profits, it is because both he and others came out ahead. If I produce one million shoes, and I make Q1 on each shoe, soon I would be a millionaire. Everyone who bought from me also would be better off than had they not bought the shoes. If they hadn't gotten something out of the exchange—if it wasn't something they valued more than what they gave me—they wouldn't have purchased from me.

One could argue that this will happen if I am the only shoemaker, the monopolist who raises the price of shoes to exploit his advantage. When the freedom to act exists, this situation can't happen, because I cannot prevent others from producing shoes. Monopoly is the antithesis of freedom: the primordial function of a State is to *maintain* freedom: in other words to keep me from preventing competition by means of force or intimidation. You could say that I am the only producer because I eliminated my competitors by lowering the price of shoes. But if I earned one million quetzales by lowering the price of shoes, it is also true that the million people who bought my shoes profited with their purchase; and that the other producers eliminated themselves from the field by not being able to sell shoes at the same low price and still make a profit.

Where there is freedom, there is also risk. He who prevails, is he who serves society best. He who provides the most benefit to others, becomes wealthy. When others purchased from him, they freely chose to make him rich. I cannot imagine a better example of democracy at work than when the market becomes a daily plebiscite that determines who will succeed. In this way, through purchases that are free from coercion, each individual decides who will succeed.

Thus, from my point of view, when we have freedom, it is the accumulation of wealth that makes the poor less poor. Therefore, it would be counterproductive—as well as antisocial and inhumane—to prevent it through the use of coercive force by the State or the majority. Indeed, this is the principal function of government: to maintain things such that no one can use coercion. In other words, to maintain the greatest degree of freedom possible, so that everyone wins; so there is more wealth and less poverty.

Before concluding, I would like to explain briefly how wealth is distributed under a regime of individual freedom and private property, which is to say, a proper capitalist regime. My goal is to dissipate some commonly accepted and extremely damaging errors.

First: There is no such thing today as idle money, because (barring a few exceptions) people with money who do not use it directly, save it in banks, and that money serves to extend credit to those who need it.

Second: The creation of each job requires an investment that varies between zero and Q70,000+ depending on the type of job. Better-paying jobs are the ones that cost more to create. For example, investment in the Matías de Gálvez refinery was Q60,000 per job created.

Third: Investments for the creation of such jobs can come only from money that others have accumulated over and above what they use to live on.

Fourth: Under a normal return on investment, the value of the goods produced each year is equal to, or two-to-three-times greater than, the value of the investment.

Fifth: By far the greatest part of a business's net income goes to pay wages and salaries. The percentage that the owner of the capital receives is quite low in relation to the amount of wealth created, even when the profit to investment ratio is high.

Capital accumulation necessarily precedes the creation of jobs. Every year, the wealth created by the investment produces salaries that are often greater in volume than the total amount invested. In this way, the capital—or at least a great part of it—is "redistributed" annually; it gets "redistributed" again and again, year after year.

If, instead, capital that was to be used for an investment were distributed directly among the workers—or among the entire population—they would receive that value *only once*. Certainly, a worker's remuneration is well-earned when it contributes to the production process. But that doesn't change the fact that capital had to be invested prior to the creation of jobs and prior to the creation of the wealth that will be distributed in the form of salaries and profits. If capital gets distributed first, then capitalization is destroyed and the rest *no longer happens*.

The truth is that, as things stand today, we do not have sufficient wealth to avoid poverty. Not even the wealthiest countries are free from cases of poverty. If the little wealth that exists were redistributed equally among everyone, poverty would not be relieved at all. The little accumulation of capital that exists would be eliminated and the process of wealth creation would be paralyzed.

For example: Salary levels always rise when profits are high. They always drop when profits are low. Salaries completely disappear or never even come into being when there are no prospects for profit. Although this seems clear, very many people believe that salaries are paid at the expense of profits.

To conclude . . . The total wealth in the world is greater than it was fifty years ago. The amount of wealth is not fixed; it grows. The problem with wealth is not its distribution, rather how to liberate its creation. And I sustain that "just distribution" is what results when wealth is created and distributed without coercion and with respect for the rights and liberties of others. I sustain this argument (backed by history) because I hold the firm conviction and understand clearly that, although imperfect, this is the way to achieve a higher standard of living for people. By impoverishing the wealthy, you will never eliminate poverty. Instead, when conditions are such that both sides gain in a trade, you enrich the poor.

Thank you very much.

Translated from the original Spanish
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