We Need a Better Way to Measure Wealth

The wealth shortage that everyone feels but no one seems to see

Geoff Graham, July 27, 2022

Questions? Comments? Anything left out? Anything you disagree with? I'd love to hear your thoughts. Email me at gjgraham4health@protonmail.com.

Follow me (forever free) on Substack at https://geoffreyjgraham.substack.com/

Abstract. Society counts as wealth two classes of assets that are less beneficial than they seem. These are "avoidable defensive wealth" and wealth that quickly "evaporates." If we recognize these two as discrete categories of supposed wealth, we can learn to assess their true costs to society and devise policies to avoid them. "Distributive Economics" is an old economic idea with fresh prospects that could greatly reduce wealth "evaporation."

I. The Rise of Avoidable Defensive Wealth

Avoidable defensive wealth. We are currently in an economic state that many people refer to as "late capitalism." By this, they mean that inequality in wealth is increasing to the point that the survival of capitalism is in doubt. Wealth, and hence political power, is becoming concentrated in increasingly smaller fractions of the population. Economic insecurity is widespread and unpayable debts proliferate as desperate people borrow money in order to pay for necessities. Symptoms of economic desperation, such as homelessness, are common and are increasing.

One characteristic of our current state of late capitalism is a great increase in both parsimony and financial avarice. Prices rise constantly while the actual value of marketed products drops as businesses and consumers try to pass the effects of a bad economy onto others—and weaker economic actors suffer the most. Business fraud—both by and against insurance companies, for example—increases.

I suspect that one reason for the intensity of this financial desperation is that the amount of real wealth in society is actually decreasing. However, we fail to recognize this because we lack an accurate method of measuring genuine wealth—as opposed to what I will term "avoidable defensive wealth" in this essay.

Modern economic theories seem to rest on the assumptions that if people can be persuaded to buy something they must really want it and, of course, that people are ordinarily the best judges of their own needs. The concept of "avoidable defensive wealth", the idea that circumstances can compel people to buy things that they would otherwise not want, gets little attention, at least in the popular press. Our standard way of thinking about wealth has one enormous advantage: it allows economists to work with hard numbers that describe economic activity, without resorting to subjective adjustments of those numbers. However, as I argue below, it may be leading us astray.

Imagine two neighbors who dislike each other, but who have thus far avoided conflict. Then, one of them buys a gun. Feeling threatened, the second neighbor also buys a gun. Then, in a tit-for-tat escalation, they buy body armor, armor shielding for their houses, expensive surveillance and communication equipment, heavy weapons, and then they hire live-in armed guards.

Are these two neighbors better off than before the arms race started? Have they really accumulated wealth? Most people would say that both neighbors are actually much worse off. And yet, traditional economic measures would simply note that both neighbors had made rational purchases according to their needs. The wealth that these neighbors accumulated was "avoidable defensive wealth", but our measures of wealth such as the Gross Domestic Product seem not to report this.

Although few people are as foolish as the above-described neighbors, our collective behavior involving arms races with other countries and our private behavior during hard economic times can be destructive in the same way.

Imagine that during an economic downturn, failing businesses all decide that they must advertise more, litigate more aggressively, or both. Imagine that all of the desperate job seekers take expensive courses and buy software designed to improve their chances of being hired. Suppose that as crime rates rise, those who are relatively well-off spend money on expensive security measures that they previously did not need. During these hard times, economic activity is characterized by locks, walls, alarms, guns, armed guards, lawsuits, advertising, hollow insurance policies, chintzy construction of so-called durable goods, and so on.

Or consider a specific example: A person learns that police services are being decreased in her neighborhood and that the new district attorney seems unwilling to prosecute any but the most serious of crimes. She also learns that crime is rising. So, although she disapproves of firearms, she reads up on guns and takes an online course about them. Then, she buys two guns—one as backup—and ammunition. Then, she buys heavy locks for all of her doors and bars for her windows, and then a sprinkler system in case she is trapped inside during a fire. Then, because she might have to shoot someone, she pays to learn the essential elements of justified use of force from a legal expert. She spends time and money learning about crime statistics near her. All of this is expensive, and none of it improves her life relative to the life that she led before local security deteriorated.

As another example, imagine that a country such as the United States is self-sufficient in fossil fuels, and taxes its domestic oil companies in order to pay for hospitals, schools, highways, airports, and other infrastructure. Then, because the domestic fossil fuels become scarce or for political reasons, the US switches to fossil fuels from, let's say, Saudi Arabia. Saudi Arabia then buys enormous quantities of sophisticated weaponry from the United States. It should be obvious that state-of-the art hospitals here in the USA are more valuable to us than are huge weapons caches in Saudi Arabia, but the total American economic activity might not change in such a situation. Hence, our Gross Domestic Product would not change and our economists might not notice that we had actually become poorer.

In all of the above cases, individual economic actors or the USA itself acquired or produced avoidable defensive wealth.

So, how do we define avoidable defensive wealth? I define it as wealth that is primarily defensive, which is acquired to cope with an avoidable change in external circumstances, and which contributes little or nothing to the wealth-holder's well-being except for its defensive purpose. The purpose of defining avoidable defensive wealth this way is to put a price on the consequences of social policies that expose people to hazards.

Although the focus of this article is on supposed wealth that is not as valuable as we assume it to be, I should note that measures of economic activity such as Gross Domestic Product can sometimes underestimate, rather than overestimate, our national good fortune. A possible example of this is the polio vaccine, which improved American welfare enormously, but which destroyed the iron lung industry and rendered unnecessary many other medical services. Changes which lessen the need for defensive wealth (iron lungs, etc.) should also be recognized and their effects quantified.

What avoidable defensive wealth is NOT. Avoidable defensive wealth is not the same as a different adjustment to measures of wealth, "externalities. An externality is a negative effect of an economic activity that is not accounted for in the price of what is produced. An example of an externality is air pollution that results from transportation. However, unlike avoidable defensive wealth, externalities are commonly discussed in public discourse about the economy.

Traditional measures of wealth also seem to assume that wealth belonging to one person will primarily benefit that person and will not benefit others. In the case of some assets, such as education, this assumption is likely invalid—a likelihood that is often discussed, and which should be included measures of society's wealth. Perhaps education should qualify as a "positive externality."

As noted above, unlike avoidable defensive wealth, externalities are commonly discussed in public discourse about the economy.

Defining and measuring avoidable defensive wealth. If we are to avoid creating avoidable defensive wealth, we must first be able to decide whether any given type of economic activity creates it. Our answer is likely to depend on circumstances; for example, civil litigation may be an unavoidable consequence of normal business activity, but excessive litigation during an economic downturn might qualify as avoidable defensive wealth.

Our definition of avoidable defensive wealth states that it adds little or no value to the wealth-holder's well-being. However, people differ in what they regard as valuable. Suppose that a neighborhood threatened by rising crime decides to become a gated community, despite the expenses involved. Some people within the community might prefer this even if there were no crime, while others may strongly object to it. It might be necessary to poll the residents of that neighborhood to learn what proportion of them would consider the change to be undesirable if crime rates were not high and rising.

Divining of preferences from data. In some cases, it might be possible to assign a monetary value to situational changes by consulting social data. For example, changes in the prevalence of crime in a neighborhood might be reflected in property values and property insurance costs. Similarly, changes in the healthfulness of a neighborhood might be reflected in health insurance costs. From this, is could be concluded that expensive anti-crime precautions in a high-crime neighborhood qualify as avoidable defensive wealth.

It might also be possible to discern the preferences of businesspeople from the purchasing choices that they make, although I do not know exactly how. The Nobel Laureate Paul Samuelson pioneered the analysis of consumer buying patterns to deduce consumer preferences and many economists and other analysts of behavior have added to his work. It might be possible to use such work to demonstrate, for example, that businesspeople regard extra advertising expenses during an economic downturn as an unwanted burden—just as common sense predicts.

The benefits of identifying and minimizing avoidable defensive wealth. During bad times, government policy could be directed to maximize the creation and retention by the public of beneficial wealth. Policies shown by experience to increase the creation of avoidable defensive wealth at the expense of more beneficial wealth could be discontinued or modified. People who have been forced by circumstances to acquire avoidable defensive wealth might become eligible to government assistance.

II. Wealth Evaporation

The human race has been working for millennia, creating wealth. And yet, we are still short of wealth. Where has it all gone?

Obviously, some of it gets used up. One can eat an apple only once. And some of it decays. An apple not eaten will eventually spoil. Decay is all-pervasive. Houses decay, teeth decay, our bodies decay. They have to be maintained, and in some cases (our bodies) they cannot be indefinitely maintained.

Some of it, in one way or another, is misappropriated (stolen) and disappears.

But another enormous source of wealth loss is what I call "evaporation." By wealth evaporation, I mean that wealth is lost because it the context for which it was created changes, and it loses its character as an asset.

Examples of wealth lost by evaporation include:

- Old computer programs that have been superseded and may not function in modern operating systems. Obsolete operating systems are also examples of wealth that has evaporated.
- Obsolete weapons, from swords to crossbows to battleships.
- Most advertising, whether for commercial products or political campaigns.
- News, most entertainment, fashions in clothing, educational courses for abandoned technologies
- Hydroelectric dams; nuclear power plants; coal mines and coal-fired power plants; infrastructure for extracting, refining, and distributing petroleum or natural gas; decommissioned airfields (e.g., El Toro, near where I live), and other large facilities that have become unfashionable.
- Old cars and surplus auto parts that are no longer supported, military surplus other than weapons, public phone booths, obsolete personal computers or smartphones

- Most or all of the effort expended by unsuccessful job seekers and bidders on government contract

If wealth evaporation were recognized as a distinct category of wealth loss, it might be possible to develop policies to measure and minimize it.

- Every car manufacturer in the USA might be required to market one car model in each category that is designed to last for 50 years, be compatible with likely upgrades or mandated new equipment, and which will continue to be supported. Car manufacturers would be required to maintain "technological continuity."
- A requirement for continuity might be extended to farm equipment, medical equipment, smart phones, and perhaps even agricultural GMOs (Genetically Modified Organisms.)
- Although we try to make up for lost wealth by working harder, it may be that some manifestations of more vigorous work may also increase wealth evaporation. Rapid advances in medical technology, for example, might increase the rate at which old technology is abandoned. If this were noticed by economists, strategies to prevent the wealth evaporation might be implemented.
- Arms races between nations might be decelerated by treaty. This, of course, is a long shot. Many people have argued for this, but with limited success.

Although consumer preferences for new styles and new technologies are partly the cause of wealth evaporation, consumers are forced to pay for much wealth evaporation that they do not want. Public policies that favor economic independence of individuals and small groups might allow people to avoid much wealth evaporation. At the very least, if people were largely self-sufficient, and depended less on maintaining their competitiveness in the division-of-labor economy, one enormous source of wasted effort might be minimized. This type of economy (called Distributive Economics or High-Tech Homesteading) is discussed further here (the DistributiveEconomics.net home page).

Measures to extend the useful lives of durable goods might have the additional benefit of reducing greenhouse gas emissions without curtailing goods and services that the public wants. This idea is discussed here.

Combined misfortunes. Although avoidable defensive wealth and wealth evaporation are different things, they may occur together. Imagine that an ultrasound technician takes educational courses in web design and maintenance in hopes of improving her employability. She has no real interest in the subject, but the federal government is pursuing a military buildup to counter opponents in Europe and Asia and has stopped Medicare payments for sonograms—and she fears unemployment. However, her attempt to compete with established webmasters fails, making her investment of time and money a total loss. Two years later, everything that she learned about web design and maintenance is obsolete. The ultrasound technician has been penalized by both avoidable defensive wealth and wealth evaporation.

Final thoughts. Americans are hardest-working people on Earth, and among the most inventive. However, we dissipate our enormous wealth on a large scale in ways that we not only seem incapable of changing but seem not even to comprehend. Understanding that much of our supposed wealth has little benefit for us could be the first step in creating more benefit per unit of labor.