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WEALTH AND POVERTY. By *George Gilder*. New York: Basic Books, Inc. 1981. Pp. xii, 306.

*Reviewed by Ronald C. Griffin.**

The United States is Europe given a second chance on a new continent. Its spirit is a blend of social darwinism and egalitarianism held together by European values. These values were formed in a quieter pre-industrial age. The question for our day is whether these values can withstand the strain of the space age.

In *Wealth and Poverty*, George Gilder suggests that our traditional values can survive and flourish if people put capitalistic ideas into practice. The essence of capitalism, he says, is "altruistic giving" (p. 22): people make gifts of things which others want in the hope that the recipient will offer a gift in return (p. 21). Everyone is free to give or not to give as he likes. Gilder suggests that dollars have regularized the freedom to give and removed the uncertainty associated with gift-giving, at least in commercial transactions (p. 23).

The invention of money and its use in a capitalistic system have made the modern economy possible. *Wealth and Poverty* focuses on capitalism and its central role in modern life. As Irving Kristol, a neoconservative economist, has said, "Capitalism is a scheme by which society organizes itself."[1] It is governed, says Gilder, by "Say's Law": price equals profit plus wages and rent (pp. 23 & 32). The profit wrung from a product may be spent by a producer or saved. If saved, some business may borrow it to invest in a profit-producing activity. Since all businesses are interrelated, profit siphoned from one business is returned to it by another.

After characterizing capitalism as a system of altruistic gift giving, Gilder discusses several factors which slow down the capital producing process or attack wealth directly. Social programs are at the top of his list. By making idleness more profitable than work, they dampen individual desire to engage in productive work.[2] The Comprehensive Employment and Training Act (CETA) (pp. 153-69), says

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1 Remarks by Irving Kristol, Library Auditorium, University of Notre Dame, September 16, 1981.

2 Gilder's suggestion appears in different language in chapter 10 of his book. *See* pp. 45, 111, 112, and 122. If the government raises the income of the poor by transfer payments or preferences above that of the moderately rich, hostilities will buildup in those who have ad-

the author, creates "make work," enhances the young employee's feeling of dependence, and denies the CETA employee a genuine work experience (p. 111).[3]

Next on Gilder's list is inflation. It strikes at wealth (p. 14) by siphoning off the dollar's purchasing power. Inflation, he says, forces heads of households to work twice as hard to raise their purchasing power a fraction. It drives women into the labor force, creates a rush for jobs, confuses the roles of men and women, and contributes to the breakdown of the family (pp. 16 & 17).

Excessive taxation, writes Gilder, also strikes at wealth (pp. 59, 194). The more we earn, the more the government takes and the more determined we become to find unproductive tax shelters for our income (p. 59).

When taxes, inflation, and social programs conspire to reduce wealth and wealth drops below the economy's need for capital investments, productivity drops. In time the economy will slow down and the marketplace will collapse (pp. 42-45).

To rescue the economy from the crippling effects of taxes, inflation, and social programs, Gilder presents us with his prescription. He believes that his proposals will revive the economy and provide optimal amounts of wealth for profit-producing investments. To the poor he says: work hard and preserve the family unit; have faith in the future and in yourselves (pp. 68-73). To all of us he says: relieve the rich of their tax burdens, grant them more discretion as to how they spend their disposable income. In the long run all will be better off.[4] To the bewildered underclass he says: diligence, ambition, discipline, and a willingness to take risks are virtues which promise a life

vanced through hard work. Social resistance sets in because social programs teach people that little or no work effort produces as rich a reward as industry (pp. 68-69).

3 Gilder's account fails to note the benefits of CETA programs. They put people back to work, broaden the local tax base, shrink the welfare roles, and slow "costly increases in dependency, crime, and family breakdowns that are inevitable with unemployment" (p. 156). A recent Wall Street Journal account discussing CETA programs suggests that deeper unemployment would be a tragic alternative. *Business Slow to Hire from CETA, Frustrating "Reemployment" Plan*, Wall St. J., September 17, 1981, at 27, col 4.

4 Gilder says that if a progressive tax schedule is designed to capture larger shares of income from the rich, it fails dismally (p. 181). Among the rich, tax increases disturb consumption only in minor ways. But higher taxes will affect savings and investment decisions by the wealthy (pp. 172-73).

On the positive side, progressive taxes tend to stabilize the economy. A graduated income tax schedule establishes a floor and ceiling for goods demanded by consumers: making it easier for businessses to calculate the amount of goods they must manufacture to satisfy prevailing demand while harvesting a modest profit. J. GALBRAITH, THE NEW INDUSTRIAL STATE 224-28 (5th ed. 1971); *see* chapters 18, 19 and 20.

above drudgery (p. 99). Applying these virtues in small business, where diligence and hard work are rewarded, promises upward mobility (p. 99).

Standing alone, these ideas are attractive. Many might speak out for them. However, more people might support Gilder's ideas if one hypothetical condition were met—redistribute wealth so that everyone might start with the same amount of money to spend, invest,. or save. Today five percent of all the wealth in the United States is owned by half the population, and one percent of all Americans own 25 percent.[5] If Gilder's prescription were implemented immediately it would exaggerate existing differences in wealth between the rich and the poor. Proportionately, then, the condition of the poorer half of the population would not improve at all.

Because Gilder's prescription might heighten the disparities between rich and poor, his proposals should be analyzed from the viewpoint of those at the bottom of the economic ladder. In most cases the poorest group will be blacks. One helpful tool in such analysis is the unofficial "black code,"[6] a product of discussions about Houstonian jurisprudence at the Howard University Law School.[7] A key doctrine of Houstonian jurisprudence is equal protection: people

5 W. RYAN, EQUALITY 14 (1981).

6 The "black code" states that:

(1) Rights and responsibilities should be distributed equally.

(2) Social and economic inequality is justified only if everyone is made better off, and the least well situated members of society are made noticeably better off.

(3) The least well situated members of society are made noticeably better off if new business arrangements:

(a) promote new jobs;

(b) promote educational opportunities; and

(c) free up income for personal spending.

(4) Everyone is given liberty. Each of us may do, act or possess a thing, provided,

(a) we want it;

(b) the community tolerates it; and

(c) people who might be adversely affected escape injury.

7 Houstonian jurisprudence is based on the legal thought of Charles Hamilton Houston, Vice-Dean of Howard Law School from 1929-1935. *See, e.g.*, Smith, *In Memoriam: Professor Frank Reeves*, 18 HOW. L. REV. 1, 3 & 5 (1974). Houstonians believe that:

> The idea that all men are created equal, except blacks, is mirrored in our culture, *e.g.*, CATTON, THIS HALLOWED GROUND 76-80 & 309-10 (1956), and enshrined in our laws, *e.g.*, Scott v. Sanford, 60 U.S. 393 (1856); Bakke v. Board of Regents of the University of California, 438 U.S. 265 (1978). How close does the law come to a pure legal existence for blacks? To what extent may they pursue their dreams unencumbered by race? If a gap exists between what blacks would like to achieve and what they can achieve in fact (educational and housing ideals), if the gap is exaggerated by what the laws exacts, then something should be done about the law.

Id. at 7 n.24.

similarily situated should be treated alike. Thus, if a law or an economic theory magnifies differences between blacks and whites, that law or theory should be modified or rejected.

Analyzed under this "code," Gilder's ideas might find some support among minorities. After all, capitalism produces wealth, which produces jobs that people want.[8] However, Gilder's prescription for providing jobs and wealth is wholly inadequate. If small firms flourish in technologically complex growth industries, it is unrealistic to expect that the jobs these firms offer will be within the reach of most blacks or other minorities.[9] Breakthroughs in microbiology, and the industry it has created, serve as an example. Scientists have developed microbes which eat oil slicks and microbes which produce interferons used in cancer treatments (p. 82). The microbiology industry will need large numbers of workers who are competent in chemistry and mathematics. Since many blacks lack the necessary scientific credentials, these jobs will be beyond their immediate grasp (pp. 77-81).

Not all new jobs require extensive technical and scientific training. As to these other kinds of jobs, Gilder wisely advises the poor to seek jobs with small firms (p. 83).[10] The solar industry, for example, provides jobs compatible with the skills the poor can offer. Unlike the microbiology industry, which requires highly skilled workers, the solar industry needs people competent in building and plumbing.[11] Thus, a marriage between small business and solar technology would put unemployed people back to work. Promising exceptions, however, cannot hide the truth. The majority of the jobs created under Gilder's prescriptions will be ill-suited for the unskilled and the uneducated, and will not alleviate unemployment where it is most severe.

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8 *Black Community Reviews Life with Reagan*, Wall St. J., September 4, 1981, at 16, col. 4. *See The Situation for Blacks in the Reagan Years*, Wall St. J., September 10, 1981, at 25, col. 2.

9 Roughly 56 percent of all blacks have a high school education. In 1970, blacks accounted for 7 percent of the college population in the United States. Bureau of the Census, U.S. Department of Commerce, THE SOCIAL AND ECONOMIC STATUS OF NEGROES IN THE UNITED STATES 2 (1971). Though the precise statistics may have changed by 1982 they mean that many jobs in growth industries will be beyond the grasp of most blacks. *See* J. GALBRAITH, THE NEW INDUSTRIAL STATE 238, 239 (5th ed. 1971).

10 Generally, small businesses create more jobs than large ones. *See Gearing Up "Enterprise Zones" for Congressional Enactment*, THE SOCIOECONOMIC NEWSLETTER (Institute for Socioeconomic Studies), No. 7, page 1 (October - November 1981). Mueller, *Small Business and Big Monopoly: The Galbraithian Social Imperative*, 10 ANTITRUST LAW AND ECON. REV. 1, 18 (1978). Between 1969 and 1976, large firms created 22,354 new jobs; that figure is less than 1 percent of the 14 million new people added to the labor force in the same period.

11 For blacks in construction, the solar industry offers a golden opportunity. Johnson, *The Solar Scramble*, 11 BLACK ENTERPRISE 173 (June 1981).

Unemployment, however, is not today's sole economic problem. Gilder believes that the tax laws have gotten out of hand. They siphon off more than a fair share of personal income in taxation (p. 171).[12] To remedy this, Gilder suggests that government cut the amount of taxes the rich have to pay (p. 185). If more wealth is available to businesses begging for investments, profit-producing activity will increase and will create new jobs.

Gilder's tax proposal may be too naive. His idea assumes that rich people will necessarily invest larger sums of their disposable income in profit-producing activity—by no means a guaranteed result. Further, Gilder supposes that the rich are paying more than their "fair share" in taxes. What Gilder means by the rich's "fair share" betrays his bias toward the wealthy.

A less sweeping solution to inequities in tax structure is tax indexing,[13] under which the tax schedule is adjusted annually to account for inflation. Each taxpayer's gross income is adjusted to reflect his real income, as if inflation were nonexistent. When inflation swells personal income the taxpayer is not pushed automatically into the next higher tax bracket.

An even more effective way to combat the effects of inflation is to root out the cause of inflation itself. The nation's monetary policy, as Gilder notes (pp. 194-95), contributes significantly to the inflation rate. In light of this, Gilder suggests Lafferite economics (p. 205)[14]

12 *See also* H. TANZI, INFLATION AND THE PERSONAL INCOME TAX: AN INTERNATIONAL PERSPECTIVE 1, 2 (1980).

13 The Reagan Administration has agreed to tax indexing. Using the Consumer Price Index, the Economic Recovery Tax Act of 1981, § 104, assures each citizen that income exposed to taxation will not be dealt with as if inflation were non-existent. By some formulae, inflation will be rooted out of net income exposed to the tax schedule. Economic Recovery Tax Act of 1981, Pub. L. No. 97-34, § 104, 95 Stat. 188 (1981).

Another technique uses the inflation rate to adjust gross income. Assume Bob, Ted and Alice work for George More, Inc. Each earns roughly $35,000 a year. If the inflation rate for the years in which they are taxed is 10, 14 and 16 percent, what is their income for purposes of collecting personal income tax? Fixing the dollar's value in an arbitrarily selected year, the computation would be as follows:

Real Income	Inflation	Year
35,000	$ = $	1977
31,500	.10 = .90	1978
27,090	.14 = .774	1979
22,750	.16 = .65	1980

Once this calculation had been completed, the tax schedule would be applied to determine the personal income tax payable. *See* H. TANZI, INFLATION AND THE PERSONAL INCOME TAX: AN INTERNATIONAL PERSPECTIVE 6, 65 (1980); *Minnesota's Experience with Tax Indexation*, Letters to the Editor, Wall St. J., September 16, 1981, at 27, col. 1.

14 "Lafferite" economics contemplates lowering the tax rate to encourage business to

and supply-side stimuli to fight inflation. Yet the solution to inflation need not be so drastic:

> The erosion of the dollar can be stopped, if the inventory of federal reserve notes is reduced to levels lower than the inventory of goods and services available for sale in the United States.[15]

This reduction could be accomplished in two steps. First, the demand for cash would have to be reduced. This could be done by urging consumers to use other buying devices such as credit cards, barter, or negotiable warehouse receipts.[16] Second, the Federal Reserve Board would have to retire unused federal reserve notes once the demand for cash had dropped. These steps should help control the inflation that is rapidly eroding the purchasing power of the dollar.

Wealth and Poverty is an eloquent piece of prose. It will make some people angry, and prompt all people to think. It is a "must" book for people who are concerned about the economy and the plight of Americans living in it.

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shift income from tax shelters to taxable activities (pp. 179, 180). If industry is deregulated and antitrust enforcement redirected, more money would be available for profit-producing investments. The unemployed people would be put to work, and there would be more wealth in the economy and more income to tax. The plan's burdens, however, fall on domestic programs. Calleo, *Taxation and American Power*, 59 FOREIGN AFF. 805, 806 (1981); *Economic Scene: A Steep Slide into Recession*, Wall St. J., Nov. 11, 1981, at 32, col. 1; *Bad Medicine: Cynicism and Guess-Work Mark the Reagan Economic Cure*, Detroit Free Press, Nov. 12, 1981, at 10A.

15 *See Getting out of the Stagflation Syndrome*, Miami Herald, Sept. 23, 1979, at I-E. Inflation is driven by too much cash chasing too few goods. If we eliminate the mystique surrounding cash, while encouraging people to use other mediums to procure what they need, we can stabilize the purchasing power of the dollar and begin to bring inflation under control. This policy, together with monetary restraint, is bound to dampen inflation. This scheme will work if the government is fiscally disciplined. *See* Cleveland and Bhagavatula, *The Continuing World Economic Crisis*, 59 FOREIGN AFF. 594, 605 (1981).

16 Negotiable warehouse receipts, for example, are symbols of stored value, such as wheat. A farmer could sell his wheat crop to a local grain elevator and memorialize the sale by having the elevator owner draft a negotiable warehouse receipt. If the farmer accepted the receipt he could do several things with it. He could pledge it as security for a cash loan; convey it in exchange for capital equipment; or exchange it for fertilizer and seed which he needs to stay in business. He would not need cash for any of these transactions. Similarly, the use of credit cards and barter as media of exchange would help reduce the demand for cash.