

## THE FORTUNE OF JOHN JACOB ASTOR

### III. CONCLUSION

Even superficial studies of the business career of John Jacob Astor emphasize its supposedly dualistic nature, and distinguish between the apparently sharply defined aspects of fortune-getting for which it stands. In fact, Astor's trading operations are frequently discussed as if they had not the slightest theoretical connection with his activities as an investor in land. It is the latter method of fortune-getting which is generally considered to afford exclusive opportunity for the appearance of an "unearned increment" (that is, gain of some sort, which cannot be attributed to the personal effort or personal ability of the beneficiary). Under the influence of this misconception, an attempt is made to distinguish between the profits arising from trade and the gains growing out of land investments on the ground that, in the one case, the size of the returns is conditioned by the degree of personal activity, whereas, in the other case, no appreciable amount of individual effort or ability is involved.

Daniel Webster, for instance, in an address to the jury, when arguing against Astor's claim to lands in Putnam County, implied some such distinction between commercial exertions and land investments, in connection with the moral judgment that he passed upon Astor. True, his argument was impassioned and polemical in tone. Moreover, he was referring to a particular case of land investment characterized by certain peculiar features. But the antithesis that he suggests is nevertheless significant—the more so, that it was designed to appeal to popular prejudices. His plea was that Astor had obtained possession of the land in dispute,

not as he did that vast wealth than which no one envies him less than I do—not by fair and honest exertions in commercial enterprise, but by speculation, by purchasing up the forlorn hope of the heirs of a family driven from this country by a bill of attainder.<sup>1</sup>

<sup>1</sup> *Jackson vs. Carver*, United States Circuit Court, Southern District of New York.

Whether designedly or not, Webster has here made a distinction between "commercial exertions" and "speculation" in land, implying, in the one case, that the source of the returns is personal activity, in the other, that the gains are to be attributed in the main to a non-personal factor—that is, to some cause operative to produce gain irrespective of individual effort or of individual ability.

It is on the basis of this broad division into personal and non-personal factors conditioning gain, that an analysis will be made of the returns that came to Astor both from trade and from land investments. Further, it will be shown that, given such a principle of differentiation, no rigid line of demarcation can be drawn between these two methods of gain-getting. This proposition once established, the classification will receive a more extensive application with intent to determine the nature of the gains that arise in the course of the general process of fortune accumulation. Finally, the significance of the analysis for purposes of present-day criticism will be discussed.<sup>2</sup>

The evidence afforded by the Astor fortune strongly supports the assertion that no one method of gain-getting represents the exclusive operation either of personal or of non-personal factors. Even in the case of Astor's most active trading ventures did there not arise an "unearned increment"<sup>3</sup> plainly attributable to certain non-personal factors? The profits arising from his traffic with the Indians were due in large part to the superlative ignorance of that non-commercial people. Or, if this statement be objected to, as reflecting somewhat invidiously upon Astor, it must at any rate be conceded that such profits were the result of radically different standards of value. The schedules of exchange relating

<sup>2</sup> The method of treatment proposed leaves strictly on one side all question concerning the social services rendered by owners of large fortunes, since that is a problem properly and logically separate from the present task. In fact, it is a subject the nature of whose treatment depends largely upon the sort of theoretical analysis which has preceded it. It will, therefore, be reserved for later discussion in this paper.

<sup>3</sup> The term "unearned" is retained simply to show the variety of phenomena to which it may be applied, if its use be logically extended. It is taken to connote absence of personal activity.

to the trade make ludicrous the assumption of a "freely competitive" state in which reward is considered to be in proportion to individual effort or ability. It is true that in the prosecution of the Indian trade, a high degree of personal skill and of mental dexterity was requisite. This fact helped unduly to emphasize the importance of the individual. His pecuniary success was popularly supposed to have its source in personal activity alone. Consequently, the attendant non-personal factors were relegated to a position of obscurity, although, as has been shown, a closer examination reveals their overwhelming importance.<sup>4</sup>

On the other hand, land investments frequently afford striking examples of value-accretion, associated with only a minimum of personal activity. Hence, they are thought of almost exclusively when the subject of the "unearned increment" is discussed. Yet, even in such cases, there must have been some sort of initial activity put forth by the owner of the land. For example, Astor needed to exercise unusual discrimination in order to decide in what direction the city of New York was likely to grow, and to estimate the possibilities of that development. Granted that, it will be asked, could any appreciable proportion of the \$18,000,000 worth of real estate owned by him at the time of his death be held to represent a return due to his personal efficiency? Given the existing system of business relations, the whole amount of the property was legally and legitimately due him. But can it, in logic, be said that any explanation should assign a fixed percentage of the accumulation to the category of returns due to efficiency? To be sure, the fact that Astor was possessed of greater business astuteness than the average man helps to explain why he, rather than someone else, came into possession of this landed property. Indeed, superior personal ability is, in general, exceedingly potent in aiding the individual to acquire property as against other individuals. But personal ability does not, for that reason, adequately explain the

<sup>4</sup> Other illustrations might be drawn from the China trade. The peculiar tastes of the Chinese were a source of exceptional gain to the Yankee shipper, especially when the latter could obtain the commodities desired by the former at relatively low prices, as in the case of furs.

“how much” of those acquisitions. Granting even that exceptional business endowments enabled Astor, in the first place,<sup>5</sup> to acquire the ownership of certain lands, can it, therefore, be held that the size of his landed fortune was determined solely by the degree of his business astuteness? A determination of questions of ownership is not a determination of questions concerning the amount of gain arising as the result of ownership. The size of the gain, itself, may be affected by all sorts of non-personal considerations. In fact, the overweening part played by social factors in increasing the value of Astor’s land-holdings, frequently caused the element of personal ability conditioning the returns derived from these investments to be wholly ignored. To the uncritical mind, indeed, this form of gain appeared to be entirely the result of purely social conditions and legal arrangements. It therefore acquired the highly derogatory appellation, “unearned,” because of the persistence of the idea that reward “generally” is, and hence always should be, in proportion to personal effort or personal ability.

The testimony afforded by the Astor fortune is, no doubt, sufficiently varied to establish the fact of the joint operation, under all conditions, of both personal and non-personal factors. Indeed, such a proposition is almost self-evident. It can therefore be stated as a corollary not requiring demonstration, that between those methods of gain-getting in which the personal element looms large and those in which it has become a negligible quantity, there must exist innumerable varieties of combination of the two factors. Hence, there must everywhere be found “unearned increments” differing widely in amount with variations in the relative importance of the attendant non-personal factors.

The analysis of the Astor fortune, as thus far given, has not been directly concerned with the manner of its growth. It is, however, a matter of much importance in connection with the study of any great fortune to determine whether the gains, which make possible further accumulation, are largely con-

<sup>5</sup> Given a start, the influence of acquired wealth upon further accumulation has also a bearing upon the present discussion. This point will be taken up later.

ditioned by personal ability, or whether non-personal considerations attain constantly increasing prominence in aiding the process of growth. Could it be shown that the general tendency is in the latter direction, some light would be thrown upon the causes of the rancor manifested against men of great fortune—a rancor that, given the strongly individualistic commercial preconceptions of the community, is otherwise hardly susceptible of a logical explanation. But, before arriving at any decision upon this point, it will be necessary to discuss the nature of those factors which become progressively operative with the increase in size of a fortune.

In the case of very large fortunes, a continuance of growth sometimes seems so inevitable as almost to partake of the nature of a mechanical process. Of course, there is necessarily implied some sort of volitional action on the part of the owners of such fortunes. This may, however, take the negative form of simply refraining from consuming the whole of the returns to which they are entitled, and it may entail little or none of the so-called abstinence supposed always to attach to the investment process. In fact, the incomes of exceptionally wealthy men are frequently so large, that there remains a surplus even after fancied needs of expenditure have been satisfied. Moreover, many American millionaires, such as Astor, who began life in poverty, are men of relatively simple tastes, who have no desire to expend more than a small proportion of the incomes due them. Consequently, there ensues a bewildering process of investment and reinvestment,<sup>6</sup> which, assuming a continuance of ordinary conditions, gives rise to the phenomenon of unending growth.<sup>7</sup>

But the non-personal factor of mere amount does not alone condition the ease with which an individual may extend his investments and thus augment his fortune. It also enables him

<sup>6</sup> The part played by the individual in determining the direction to be taken by these investments is considered in another connection.

<sup>7</sup> In discussing any great fortune, it should be remembered that pride in its mere size is an energizing principle of considerable force in the direction of activities looking toward further accumulation. The fortune comes to be regarded as an institutional fact, which should not suffer change because of births, deaths, marriages, or other extraneous happenings. In consequence, there

to take advantage of innumerable opportunities to invest under peculiarly favorable circumstances, and thereby to make still further additions to the sum of his "unearned increments." One of the facts that stands out most prominently to the person who is making a developmental study of large fortunes is the increase in the amount and extent of investments which takes place just at those times when the community at large is suffering from acute financial depression. Thus, during the war of 1812 and the panic of 1837, Astor increased his holdings of real estate enormously, as the result of numerous mortgage foreclosures. But apart from any widespread social disorder, there are numerous opportunities afforded a wealthy man to profit by individual cases of financial embarrassment or superimposed necessity. Again, witness the case of Astor, who purchased the posts of the Northwest Company situated within the United States, after a law had been passed which made it illegal for the British organization to carry on business in this country. His purchase of the rights of the heirs to the Morris estate is likewise an illustration in point. As a matter of fact, anyone can recall occasions upon which he has heard lesser business men lamenting their inability to take advantage of just such opportunities for investment. But, as it happens, they are opportunities enjoyed for the most part by the man whose income greatly exceeds his current expenditures, and who is eagerly seeking new avenues of investment. He it is who is the chief recipient of the benefits accruing to a purchaser in cases of forced sale.

The particular direction taken by successive investments during the period of fortune accumulation is likewise a matter of much importance. A judicious extension of investment interests may result in the creation or strengthening of certain monopolistic (non-personal) factors which will prove a source of excep-

exists a disposition to transmit it intact to that descendant who gives best evidence of ability to conserve and to augment it. The heads of the Astor, Vanderbilt, and Gould families, all with numerous descendants, have seen fit to select one or two of each generation as the guardians of the family fortunes, which they in their turn will be expected to transmit not only intact but greatly enlarged to succeeding generations.

tional gain to the individual. If Astor had carried on the fur trade, as did so many others, without attempting to develop transportation and shipping facilities, the North American Fur Company could never have attained the strongly monopolistic position that it occupied in the Middle West. As it was, the monopoly once established, the chances of loss were reduced to a minimum, and full advantage could be taken of the favorable conditions inherent in the trade.<sup>8</sup> Indeed, as investment interests in general become more and more ramified, there ensues a diminution of the chances of individual loss, and, consequently, a greater possibility that non-personal factors will operate to individual advantage. Hence the logic of that most highly developed type of financiering, which combines interests so varied in character, that it sometimes seems as if it embraced the entire field of trade and transportation.<sup>9</sup>

With the growth in size of a fortune there generally occurs a change in the character of the personal activity of its owner. In fact, there is evidence of a continuous development of functional specialization on the part of the individual, which could not profitably have taken place at an earlier period. The fortune of John Jacob Astor serves to illustrate this process very distinctly. Astor was first seen wearily tramping the country in search of furs, trading with the Indians, negotiating with the merchants—in short, engaged in a business which involved a high degree of genuinely exhausting labor. Moreover, every detail of the existing crude organization required his personal attention, while he had also to look sharply to the financial matters of income and outgo. Eventually, the purely physical labors connected with the trade devolved upon subordinates. Astor assumed the position of head manager. He directed the men in the field, decided what territory should be covered, what goods

<sup>8</sup> It is not meant to minimize the ability displayed by Astor in recognizing the advantages to be derived from developing facilities for transport. But the question at this point is, given that development, what other factors entered to condition the size of the returns? The matter of personal ability will be discussed later.

<sup>9</sup> Cf., for instance, such groups of investors as the "Standard Oil" and "Morgan" men.

should be furnished, and what prices should be offered. Not only did he thus order the general policy of his undertakings, but he financed them as well. Later, he transferred the more immediate control of the trade to trusted heads of departments, reserving to himself a certain large supervision, with a view to determining what should be the nature and extent of his expenditures.

It is inevitable that there should take place these changes in the forms of personal activity of men of great wealth. Even the most energetic person possessed of twenty-five, fifty, or a hundred millions of dollars finds his time fully employed in looking after the financial details of its management—in deciding when to invest in a new enterprise, when to withdraw from an old one, when to authorize fresh expenditures, when to retrench upon previous ones. Apart from the general supervision which such pecuniary interests entail, there is likely to be no opportunity afforded him for any immediate tasks of management and control—such tasks, for instance, as require expert technical knowledge, or ability to organize the separate productive processes, or facility in effecting purchases and sales of materials. There is, of course, even less reason to expect that any sort of manual labor or other physical effort will be put forth by the man of great wealth, although, if he be a self-made millionaire, he may have labored arduously while his fortune was in the making.

From what has been said, it becomes quite evident that it would be useless to affirm or to deny that the personal element which figures in the process of fortune accumulation becomes absolutely either greater or less with the growth in size of the fortune. As a matter of fact, the forms of activity are different in kind, hence non-commensurable as regards degree. Taking the personal element for granted, therefore, all that can be ventured is the assertion that the non-personal factors conditioning the process of fortune accumulation attain an ever-increasing influence in affecting the size of the individual's gain.

It is an imperfect recognition of this fact which is translated into the unreflecting criticism that the rich man cannot have



“earned” the fortune he has acquired. The implication is that he cannot possibly display an amount of individual activity or personal ability as much greater as his reward is larger than that of other men. From what source, then, it is asked, can he have derived such unusual returns? It is not seen that they are due to all sorts of non-personal considerations, which must always be reckoned with, but which happen to have operated with peculiar force under the given conditions. Hence there is a disposition to attribute all such exceptional returns to “abnormal” practices of some sort. Even production on a large scale is frequently condemned as a thing evil in itself and not to be tolerated, simply because it usually presupposes a considerable degree of monopolistic (non-personal) gain. Such a judgment, of course, involves an inextricable confusion of the purely productive facts of industry with problems connected with the social aspects of distribution. There is, at any rate, no similar confusion in the minds of those who question the right to the “unearned increment” arising from private ownership of land. They, at least, propose to effect distributive changes (namely, the abolition of private property in land) as a remedy for what they regard as distributive evils, since they cannot of course inveigh against the existence of the land itself.

The same failure to appreciate the actual facts of fortune building, the same desire to find “abnormal” causes of growth, has led to bitter personal abuse of men of large fortune. Why? Their business morality is just as high and perhaps a little higher than that of the ordinary small-town trader or money-lender, which is not saying that it in any way conforms to the standard which an extra-commercial and aroused public opinion would force upon them. Why, it may be asked, have the petty shifts, the ruthless bargaining, the unrelenting rivalries of small producers and tradesmen been portrayed without the slightest animus having been manifested by the portrayer? Are the resultant gains any less “abnormal” than the supposed or actual pilferings of the rich? Yet the parallelism is rarely insisted upon. Why? Because to the public at large, the gains of the lesser business men do not seem so out of proportion to their individual

activity, as to require explanation on the ground of illegitimacy. Consequently, there is seldom any attempt to scrutinize their methods very closely, although their gains are as surely leavened at times by fraud and sharp practice as are those of the wealthiest men in the land. But when it comes to a consideration of the great fortunes, there is a sudden change of attitude. When it is seen that a man such as Astor, by judicious purchase and sale of certain rights of ownership, may add millions to the value of his property, criticism at once becomes rife. However great the ability displayed in effecting such transactions, it is felt to have no connection with the size of the return, and the cry of "unearned" is immediately raised. Then an explanation of his unusual gains is sought for in the wickedness of his acts, rather than in the institutions and the situations which condition his activity. His whole career is gone over with an eye to searching out iniquity. If it be discovered (and it usually can be, since few business transactions stand the test of non-commercial standards of conduct), it is then hastily inferred that dishonesty affords in large part an explanation for excessive wealth accumulations. In point of fact, the sharp practices of the average business man are just as dishonest, and probably as widespread. Hence any sweeping condemnation of the man of great fortune on such ground involves both large and small. The result is an unconscious indictment of our whole system of business relations—whether justly or not, is irrelevant to the present inquiry.

A discussion of the personal and non-personal factors involved in acquiring large fortunes leaves on one side all speculation concerning the possible social services that may be rendered while those fortunes are being accumulated. That there exists a concept of social service is indubitable, but it is questionable whether its content is the same for any two members of the same social group. For instance, a big industrial or trading organization ministers to certain professed needs of large groups of people. A system of railroads stands as tangible evidence of services being rendered the community. But is there any way of

measuring the positive social value of those services? For that matter, do people agree as to their exact nature? Is it not necessary, moreover, to take into account the social costs incurred as the price of obtaining the positive services? Again, could more than a rude and uncertain approximation be had?

How, for instance, judge of the degree of social service rendered by the North American Fur Company? Some persons would extol the benefits arising from the introduction into the world markets of the skins so highly desired by civilized communities. Others would merely see the demoralizing effects of the trade upon the Indians, and the unnecessarily rapid destruction of the fur-bearing animals of the continent. Does not the decision as to whether or not a "positive good" has resulted depend, in such case, more upon the temperament of the judge than upon the evidence?

The most that can be expected is a fairly general judgment, that, in specific cases, the advantages derived by society from the existence of a particular institution, have outweighed the attendant disadvantages. But does such an uncertain concept furnish a basis for a theory of reward proportioned to the degree of social service? Suppose that an exact quantitative estimate of a non-computable social service could be formed and could be assigned to some particular business undertaking in which a fortune has been invested. Even then it would not be possible to say what part of the estimated social service ought to be accredited to the owner of the wealth so invested. If, as has been contended, non-personal factors play an important part in the making of large fortunes then a part of the benefit derived by the community at large from the existence of a particular fortune would have to be attributed to those non-personal factors, rather than to the ability of the owner of the fortune.<sup>10</sup>

It is sometimes said that a social service grows out of the existence of a fortune, in so far as that fortune represents capital employed in hiring laborers. Once more, how estimate the extent of that service? If, for instance, the laborers are

<sup>10</sup> As has been shown, there is no possibility of a sharp delimitation of the spheres of action of personal and non-personal factors.

employed under conditions inimical to life and health, or even if they are no better off than they were before, it is difficult to decide that such employment can in any way be figured as a gain to them or to society. But granting favorable conditions of work, and a resultant gain, does the size of the fortune furnish even the roughest indication of the degree of social service growing out of the employment of labor? May not the small fortune judged from such a point of view, be of much greater relative significance than the large fortune, since the latter usually represents a proportionately greater investment in purely acquisitive aids to gain-getting, such as franchises and special privileges of various sorts? What can be said for a great fortune made by land-speculations or by stock-gambling operations?

Not only is there no way of demonstrating any measurable connection between reward and social service, but it can be shown that the aggrandizement of the individual may take place without appreciable effect upon society, or, it may be, to its positive injury. For instance, the financier has only a secondary interest in the actual working arrangements of the organizations in which he has invested, and those working arrangements are, after all, the important thing for society. He is interested in them only in so far as they affect the value of his shareholdings, and it may conceivably be to his interest so to demoralize the mechanical organization as temporarily to depress the value of those shares. But apart from such questionable tactics, he may profit largely by judiciously shifting his investments from one field to another without appreciable effect upon the industrial situation. He merely takes advantage of existing conditions which make for gain.

So it is in the case of land investments. The buyer of real estate may shift possession from one lot to another with great profit to himself, although he may not have sought during his term of possession to improve in the least the condition of such properties. It is an open question whether John Jacob Astor hindered the development of the community rather more than he advanced it by his purchases of real estate. To be sure, he made improvements upon certain lots either directly or through

the agency of his tenants.<sup>11</sup> But it is doubtful whether the hotels and other buildings erected might not have been placed there even sooner by others, whether, given a change of ownership, land left unimproved might not have been ministering to definite public needs. In general, the case for withholding building lots from use is by no means clear. Because a piece of land may some day come into the heart of a business center and be used as a site for a large office-building need by no means prevent its being employed to subserve certain present-day needs of the community. Indeed, so far as those present-day needs are legitimate, the owner who permits his land to remain unimproved performs a distinct social disservice.<sup>12</sup>

It has been shown that there is no way of establishing a determinate relation between reward and personal ability or reward and social service. What, then, can be said of attempts to combine the two ideas and to prove that "profits are the share, or income, of the enterpriser for his skill in directing industry and in assuming the risks," and that, "despite the complex influences, they are determined by his contribution to industry essentially as is the value of any skilled service."<sup>13</sup> Is this any more than a dogmatic assertion which is frequently contradicted by the facts? Professor Fetter himself, as a preliminary to the statements just quoted, discusses "anti-social or pseudo" profits, "chance" profits, and profits due to a "union of chance and choice." He even says that "it still sometimes appears better to be born lucky than rich."<sup>14</sup> Yet, he con-

<sup>11</sup> Cf. footnote p. 441, Part II.

<sup>12</sup> The possession of land may mean something more than a simple passive holding of it for the sake of its future increase in value. Its owner may put it to some use which subserves a definite public need, or he may perform a social service by withholding it from use for a certain period. In the case of farm, forest, and mineral lands, those owners who refrain from utilizing their holdings frequently accomplish a great public benefit by retarding the tendency to a too hasty development of natural resources. But here again, how establish a connection between the gain that may result to the individual and the value of the social service?

<sup>13</sup> F. A. Fetter, *The Principles of Economics*, chap. iii, p. 291 (New York, 1905).

<sup>14</sup> *Ibid.*, chap. xxxi, p. 290.

cludes that "continuing profits arise from the continued exercise of superior judgment."<sup>15</sup> Are, then, these chance elements so transient, unimportant, and abnormal," that a valid theory of distribution can disregard them?<sup>16</sup>

What, moreover, is the significance of the following statement which, curiously enough, appears under the general caption that "incomes from legitimate enterprise and speculation correspond roughly to social service?" Professor Fetter admits that

in many ways fortunes appear to grow without social service, and sometimes with social harm. Russell Sage, the noted capitalist (who should know something of Wall Street), in speaking of the greatest of American corporations, said: "They dominate wherever they choose to go. They can make and unmake any property, no matter how vast. They can almost compel any man to sell out anything at any price." Henry Clewes, the well-known New York banker, said of a certain group of financiers: "Their resources are so vast that they need only to concentrate on any given property in order to do with it what they please. . . . There is an utter absence of chance that is terrible to contemplate. This combination controls Wall Street almost absolutely. With such power and facility it is easily conceivable that these men must make enormous sums on either side of the market."

Again,<sup>17</sup> can a theory dismiss as an exception so salient a fact of our industrial development? Is not the whole movement toward an extension of investment interests designed to mini-

<sup>15</sup> *Ibid.*

<sup>16</sup> Are the rewards of the successful enterprises greater than he deserves? How shall it be judged what he deserves? The answer is in the form of a question, Could society have the service without the reward? Society may be thought of as hiring the services of the efficient business man at the lowest price. Does it wish the services of Cornelius Vanderbilt in organizing a great system of railroads, of Andrew Carnegie, of Pierpont Morgan? What can it get them for? It must appeal not only to their love of money, but to their love of power. Large services and large results can be bought only with large rewards."—Fetter, *op. cit.*, chap. xxxix, pp. 377, 378. Would it be correct to infer from this that, if the reward of these men had been less, they would have done less? Isn't it misleading to speak of "hiring" the services of these men, just as if the size of their returns were predestined, and could find expression in a stable contractual relation? Even suppose it were necessary to guarantee them a fixed amount, would it be very illuminating to say that they deserve what they get because they insist upon having it?

<sup>17</sup> *Op. cit.*, chap. xxxix, pp. 377, 378.

mize and to neutralize risk? It really seems as if risks of loss diminished with the growth in size of a man's income. Far from profits being due to superior skill in taking risks, profits usually increase as, in the course of the general process of fortune-development, fewer risks are left to be assumed.

Professor Carver, in *The Distribution of Wealth*, has a category of profits which he does not impute to the productivity of land, labor or capital, but he gets it by confessing that his theory does not always hold in practice. The amounts paid for the hire of the several agents of production are

"only approximately equal to their marginal products." Of course the owners of these factors of production will not knowingly take less than their marginal products, because that is what they are really worth. . . . But it is never known precisely what their marginal products are at any given time.<sup>18</sup>

Profit is, then, resolved into the reward of risk-taking (which in Professor Carver's theory belongs logically under the head of wages), and the reward of superior bargaining. However, the share resulting from the business man's superior bargaining power produces nothing. In fact, a reward, thus obtained, has about it a suspicion of illegitimacy. It is a species of robbery, which, under more nearly ideal conditions, tends to disappear. Thus Carver is practically left with personal ability determining the value of a man's contribution to society (his "social service"), and hence the amount of his reward. But, he says, the amount which he can add to the social product is, on the principle of marginal productivity, decreased, "as the number of business managers increases."<sup>19</sup> That is, the man's actual ability is unchanged, his material contribution is unaltered, but his "marginal" (value) productivity, hence, the size of his

<sup>18</sup> T. N. Carver, *The Distribution of Wealth*, chap. vii, p. 260 (New York, 1904).

<sup>19</sup> Professor Clark, *Distribution of Wealth*, chap. xix, p. 290, says: "Profit is the universal lure that makes the competition work; and the ultimate goal of the whole movement is a no-profit state." In other words, there is no room for a discussion of exceptional returns due to luck or chance, in Clark's productivity theory of distribution. Such returns must be reckoned transient or illegitimate, whenever they cannot be forced into the category of "regular" rewards assignable to the productivity of specific factors or agents.

reward, is less. What, in reality, is this statement but a confession that rewards are not made solely on the "absolute" grounds of personal ability and social service, but are conditioned by various non-calculable circumstances?

Many economists who attempt to explain personal gain on the basis of ability, of social service, or of ability and social service in conjunction, either specifically state or else strongly imply that their theories furnish a "justification" of such gains. Suppose, however, that any one or all of these propositions could be established. Wherein would lie the "justification" of the existence of gains? The proof would have an ethical validity only in so far as it coincided with one's metaphysical predilections. Assume, for instance, that a man's ability was so great that none could compete with him, or that he performed an incalculably valuable social service, would he be "justified" in engrossing the earth? Would society, in either case, meekly allow all its possessions to remain at his disposal? Certainly not. It would feel under no metaphysical compulsion to permit such a consummation, and it would, if need were, find means to prevent it.

To talk, then, of "justifying" the winnings of the man of great fortune is idle. He stands or falls as this or that view of social expediency prevails. At present, the general belief seems to be that, under the existing economic system, social needs are fairly well met, and a majority of the people receive a reward just about sufficient to make them exert their full powers toward the satisfaction of those needs. It is further assumed that this approximation to the socially desirable can only be secured by permitting a high degree of liberty of action and freedom of acquisition to all members of the social group. If, however, several men, or groups of men, while operating within the existing legal limitations, should succeed in securing a large share of the property of the community, with all the attendant influence that ownership implies, opinion regarding the socially desirable nature of present economic arrangements might undergo a transformation. If such cases became sufficiently numerous and insistent, there might arise a demand for regulative changes. It



would then be for the community to decide upon the necessity, scope, and character of the proposed new measures. And its decision should properly be made on the broad basis of public policy. On such ground, purely economic facts, and the preconceptions of economic science will secure recognition, to be sure, but only to the extent that they have a direct bearing upon the wider question of the general public welfare.

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