looms, mines, railroads. Then insidiously, over the last 150 years, the idea of wealth has changed from the ownership of the means of production to the possession of money.

Is Saudi Arabia rich? She is, if "rich" means money. But is Saudi Arabia wealthy? Warren Brookes remarks "that most, if not all, of the economic mistakes we have made (and continue to make) over the last generation have resulted from a fundamental misconception about the nature of substance or wealth," and insists that if our economy is to be re-established on a sound basis we must have "a more correct understanding of what wealth really is and (perhaps more important) what it is not."[3]

Adam Smith vs. Karl Marx

Among economic thinkers over the past 200 years, there have been two dominant schools of thought on the nature of wealth. According to men like Adam Smith and J.B. Say, wealth is primarily a matter of the human spirit, "the result of ideas, imagination, innovation, and individual creativity, and is therefore, relatively speaking, unlimited, susceptible to great growth and development." The other dominant school, represented by such men as Thomas Malthus and Karl Marx, believes "wealth is essentially and primarily physical and therefore ultimately finite."[4]

George Gilder makes clear his conviction that wealth is basically a product of the human spirit and not of natural resources. He argues, moreover, that "riches"—i.e., money—is not the same thing as wealth. "Wealth consists," he writes with reference to Saudi Arabia, "in assets that promise a future stream of income. The flows of oil money do not become an enduring asset of the nation until they can be converted into a stock of remunerative capital—industries, ports, roads, schools, and working skills—that offer a future flow of support when the oil runs out." In the 16th century Spain became "rich" much like Saudi Arabia, flooded by money in the form of silver from the mines of its colonies in Latin America. "*But Spain failed to achieve wealth*, and soon fell back into its previous doldrums, while industry triumphed in apparently poorer parts of Europe" [My emphasis]. Gilder is certain the oil-rich nations of today will achieve wealth when they "transform the transitory streams of income from oil into capital goods at home with a yield for the future."[5] Is wealth, then, "the *consequence*, possessed by the oil-rich lands . . ., or the *cause*, manifested for centuries, for example, by relatively barren islands like Japan and Great Britain, and now by Hong Kong and Taiwan?"[6]

One cannot undertake a serious examination of the subject of wealth

without at the same time clearly understanding what economists call *capital*. While wealth and capital can be distinguished, they cannot be separated. Capital is a form of wealth. It is a unique form of wealth, however, in that its function is the production of additional wealth. Capital is wealth in the form of tools or resources which are employed to generate a greater quantity or quality of various kinds of wealth.

Productive, Static, Transcendental and Human Capital

It is possible, in the context of the United States in the waning years of the 20th century, to distinguish at least four kinds of capital. The first, *productive capital*, is the conventional form—i.e., any tool or resource used to create additional goods or services for sale in the marketplace, for example, seed corn used to produce corn, a carpenter's tool chest, a writer's typewriter. Productive capital is usually capable of being measured in terms of monetary value.

Second, there are those who speak of *static capital*. It differs from productive capital in that, while it has tangible value, it is not employed in the production of additional wealth; for example, a diamond, or a rare stamp.

Third, it is possible to speak of a new kind of wealth which is not capital at all in the usual sense, something called *transcendental capital*.[7] This new form of capital is a product of political or legal coercion by which an individual or a group "enjoys returns on the capital owned by someone else."[8] There is the taxation of the productive and provident for the purpose of subsidizing through government transfers the lazy and improvident. Politics in our time has become as powerful a means of achieving personal wealth as innovation and productivity; and that means is the possession of transcendental capital claims.

Fourth, in the free world "the major productive resource is personal productive capacity—what economists call 'human capital.'"[9] *Human capital* includes things like character, knowledge, skills, creativity, health, imagination and liberty. Michael Novak rightly protests that when the classical economists discussed "the components of economic wealth—land, rents, capital, and labor—they nearly always overlook the most important ingredient: practical intelligence and the organization of personal life." "The cause of wealth," Novak believes, "lies more in the human spirit than in matter."[10] While productive or physical capital increases the productive capacity of a people by putting the tools or resources with which to work in their hands, human capital makes possible more efficient tools, or superior resources, and organizes more effective means of utilizing both