

# BUSINESSREPORT

## Wealth will always be relative

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The Chateau de Versailles, near Paris, France. From 1682, when King Louis XIV moved from Paris, until 1789, the Court of Versailles was the centre of power of the Ancien Regime. Modern US families are better off than the king, argues a newspaper column.

On Fridays, I like to touch on things related to investing, analysis and asset management. Often, there are lessons from other disciplines that are applicable to our own. Sometimes I point out an especially insightful work. But most of the time, I like to highlight misguided, faulty or just plain dumb analysis.

The latter is our subject today: a dishonest and disingenuous argument that is technically correct, but cynical and misleading. It only takes a bit of thinking to realise the absurdity of the claim.

### FATUOUS

Writing in the Washington Times during last month's holiday week I found this column from Richard Rahn of Cato Institute with the headline "Common folk live better now than royalty did in earlier times".

The entire enterprise is a fatuous and politically inspired attempt to minimise the issue of income inequality, because after all, the poor today live better than kings did centuries ago! There, all problems solved.

Here's Rahn: "The average low-income American, who makes \$25 000 per year, lives in a home that has air conditioning, a colour TV and a dishwasher, owns an automobile, and eats more calories than he should from an immense variety of food... Louis XIV lived in constant fear of dying from smallpox and many other diseases that are now cured quickly by antibiotics. His palace at Versailles had 700 rooms but no bathrooms (hence he rarely bathed), and no central heating or air conditioning."

Let's set about fisking this intellectual detritus: Progress Is Humanity's Default Setting. Ever since our ancestors climbed down from trees and began walking upright across the savannah, the human animal has constantly struggled. The lithe humans bested their more-robust cousins thanks to greater intelligence, social co-operation and adaptability to a changing environment.

The net result of this has been a million years or so of progress. Community, development of language, agriculture, technology, the rule of law, a market-based economy and much more is the result of this never-ending cycle.

It seems to be humanity's nature to relentlessly seek ways to improve living standards, generation after generation. Consider the gains made during the past 500 years, especially since the industrial revolution, and the insane rate of progress during the past decade. The delta of progress is rapidly accelerating.

## **NON-LINEAR**

Of course we are much better off than people who lived centuries ago. But the leap in living standards is non-linear – meaning it is likely to happen much faster in the future.

All Temporal Arguments Are Two-Sided: Looking at the issue of whether today's poor are "wealthier" than long-dead royalty is only half of the timeline. The other half is to think about what the poor will enjoy a few centuries from now that even the 0.01 percent lack today.

I doubt the lowest economic strata will be laughing to themselves about the hardships of the wealthiest people today. "Imagine, they died of cancer and heart disease, had to birth their own babies, and even drove their own cars. How primitive can you get!"

No, not really.

That is why none of the poor think to themselves: "Huzzah! I am wealthier than French King Louis XIV!" Nor do any lament: "Alas! I am enjoying less technological advantages than even the poorest schlump to be born in the year 2414... woe is me."

Comparing yourself to kings who lived four centuries ago – or to paupers to be born four centuries from now – is irrelevant.

Wealth Is Relative: Mencken's quote at the start of this article points out the simple reality of wealth – it is relative to one's peers. The silliness of the historical argument is that it reflects a fundamental misunderstanding of how people envision their own financial well-being.

Wealth is, and always will be, a relative concept.

That is why Mencken, only partially tongue-in-cheek, defines wealth as having \$100 more than your brother-in-law. We try to keep up with the Joneses because they are our contemporary geographic and social peers.

Bad Ideas, Bad People and Bad Organisations Are What Disrupt Human Progress: One last statement of Rahn's demands some elucidation:

"The only thing that will stop human progress is bad government."

There are many things that have disrupted human progress over the aeons, and they tend to fall into one of those three categories. Let me remind you of the Dark Ages, the centuries of intellectual and economic regression that came after the collapse of the Roman Empire.

It was the Church that wouldn't allow knowledge to be disseminated, fought scientific inquiry and limited literacy. More recently, political regimes of both the right and the left have also interfered with human progress.

Today, one of the biggest impediments is simple ignorance and slavish devotion to ideologies. Whether it's irresponsible opponents of childhood vaccination or the global warming denialists, the single most threatening force to human progress is relentless stupidity.

Unfortunately, that is the one thing that progress hasn't overcome.

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