

THE THEORY OF  
EARNED AND UNEARNED INCOMES

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INTRODUCTION

THE POINT OF VIEW

The science of economics may be pursued, as may any science, purely for its own sake. Its pursuit may be an intellectual amusement of the cultured, and the contemplation of its conclusions may be enjoyed by its votaries as one would enjoy a great epic. But the study of economics may also furnish guidance in matters of social policy and may thus serve two ends of which the second is probably by far the more important.

In attempting, through the succeeding pages, to outline a theory of earned and unearned incomes, we shall not be able to lose sight of this second end. We shall, indeed, be continually inquiring *how* economic forces work, e. g., what influences fix value and price, what are the conditions which cause interest to be paid, how interest rates are determined, what conditions fix wages, what influences make land rent rise or fall. But back of our search for these *scientific laws* there will lie a *purpose* and a *point of view*. The purpose will be to find out those things in the theory of income distribution the knowledge of which may help us to the fairest possible economic organization of society. The *point of view* will be some notion as to what tests determine whether an income is earned or not and some sort of ideal

regarding the desirability of permitting individuals to enjoy incomes which are not earned. With certain qualifications which will become clear as our investigation proceeds, we shall regard incomes as earned when equivalent service is given by their recipients to those from whom the incomes are ultimately drawn; and we shall regard incomes as unearned when their recipients enjoy them without making a corresponding return.

Whether such a distinction has any significance for any individual reader, will depend much on his ethical viewpoint, his general social philosophy. To one who regards absolute equality of incomes as the economic ideal, however great the differences in efficiency, an investigation into the question whether various incomes are earned or not, will seem irrelevant. Likewise, to one who regards the existence of privileged classes drawing large incomes, as a desirable condition of economic and social life, there will be little significance in a conclusion that many of these large incomes are wholly or partly unearned. But there are persons who believe, more or less on utilitarian grounds, that economic society is not well organized unless incomes have some reasonable relation to service rendered by the recipients to those from whom the incomes are in the last analysis, received, and that no class of citizens (unless by way of charitable relief) should be privileged to receive incomes not based on such service. To persons who hold this view, an analysis of incomes which leads eventually to their classification as earned and unearned may seem in very truth to constitute the first step of an inquiry into *the nature and possibility of economic democracy.*