Fundamental Economics ~ Lesson 1

Based on Henry George's classic, Progress and Poverty, Fundamental Economics explores, in ten, two hour sessions, the natural laws (human tendencies) that direct the production and distribution of wealth. In the process it reconciles what George considered the paradox — why, in spite of all the new inventions, innovations and new discoveries that increase labor's production, the general rate of wages does not go up; why so many people who are willing and able to work, are unable to exchange their labor for the products of other people's labor; why, although the factors of production remain potentially the same, the economy stalls in recession or depression with significant segments of the work force unable to participate for many months or even years.

Labor is applied to the natural resources. They are separated, combined, or changed in form or in place. First, capital-wealth is produced --- tools, machines, buildings, seeds — which is then used to give labor a greater efficiency in producing consumer products. All activities that aid in getting raw materials to the consumer in the desired form are part of production.

In every direction we find there are examples of an increase in productivity — computers, robotics in auto-assembly, factory built homes, and skyscrapers that are built a truckload at a time in a few months. There are power tools in virtually all occupations, from nail guns to cash registers that inventory as they scan each product in a fraction of the time it once took. Yet, the general level of wages tends to remain constant. The Minimum Wage is periodically increased to compensate for the inflated (Money losing value) cost of living.

Even in the best of times, when the economy is considered healthy and far from recession, millions of Americans are judged to be unemployable — incapable of producing enough value every hour to be paid the legal Minimum Wage. How do we explain it? Is it simply a matter of productivity? Could we solve the problem by increasing efficiency until each worker became employable? Or, are there just so many jobs within the economy at any given time? If that's the case, no matter how much any worker can increase his productivity, if all other workers are still more efficient, he will still be unemployable. This is like the guy who is running last. He doubles his speed, and so do his competitors. He still comes in last.

If the lack of an individual's productivity were the cause of their unemployment, the advance in technology, which increases everyone's productivity, would counteract it, and the number of unemployed people would tend to decline. Take the classic example of the burger stores. The cashier pushes pictures of the different products --- double cheeseburger, large coke, small fries --- and the register adds them up. It even tells him how much change to give the customer. There's nothing to write, nothing to add. The high school drop out can process an order faster than any college graduate with a cash drawer and a pencil and paper. Because of technology, less education and skill affect a greater result, yet millions of people continue to be unemployable.

In completing this course, students not only understand what keeps wages static, causes unemployment and the business cycle, but what political institutions would raise wages in harmony with each new technology, and create full employment at all times. Students will explore the requisites of equal and shared opportunities, freedom, justice, and the law of human progress.

Fundamental Economics ~ Lesson 2 ~ Definitions; Production and Wages

Terms are labels that refer to things with common characteristics — that function in similar ways. The terms used in political economy go back more than 200 years. Nevertheless, as a discipline, political economy is still evolving. Each writer or institution may use the same terms to include or exclude things with different characteristics in order to project their own understanding of the science. There is yet no universal convention. Even the definition of political economy differs with different writers and institutions.

The student is asked to think of each term as a label or a short cut which refers to the definition of a factor or concept to be considered within the course. Not only will some of the following terms refer to different definitions than those of other institutions within the field of political economy, but from the same terms when used in common speech.

Wealth

Produced and consumed to sustain life, and satisfy human desires, wealth in this course refers to all things that have the following four characteristics in common: 1. they satisfy human desires; 2. are made by human exertion; 3. are made out of natural materials; 4. have a value in exchange. Wealth exchanges equally for other products requiring similar efforts to produce without advantage.

Political Economy

Wealth is the primary vehicle by which people live. Therefore, Political Economy is the science which treats of the nature of wealth, and the natural laws that govern its production and distribution. It is simply the study of how civilized people make a living.

The Three Factors of Production

LAND, the passive factor, includes everything that exists in nature, except people and their products. It includes oil in the ground, air, oceans, and lightning. **LABOR,** the second factor, includes all human exertion (mental & physical) used in the production of wealth. It includes the work of managers, entrepreneurs, and slaves. **CAPITAL**, the third factor, refers to all products used to produce more products for the market, including those in the course of exchange (all wealth that is expected to afford an income). Labor and capital are the active factors. Land and Labor are the primary factors. Capital is the compound factor.

LAND	**LABOR**	**CAPITAL wealth**
The entire material universe, excluding people and products -------------------------------- *Examples* Minerals in the ground --- oil, iron, gold, water, dirt, stone --- lot under a house, fish in the ocean trees in a natural forest, wind, lightning.	Human exertion resulting in exchangeable products ------------------------------------ *Examples of* ***People who perform labor*** Mechanic, carpenter, factory-worker, truck driver, salesman, researcher, General Motors executive, slave.	Exchangeable products ***expected to afford an income*** *They must be:* 1. Material; 2. Produced; 3. Satisfy human desire; 4. Have value in exchange. -- *Examples* Tools, machines, buildings, crops on a farm, oil in a ship, taxi cab, Products for sale.

The next chart starts with exchangeable products that are held by the ultimate consumer. They are termed wealth. Since they are not expected to yield an income, they are not capital. All capital is wealth, but all wealth is not capital. The next category is exertion applied directly to human desires. No product results, so it is termed service. In the last box are things of value, which only represent, but are not wealth or land. Paper money is only a medium of exchange, and human attributes are qualities of labor.

Non-capital WEALTH Exchangeable products **Held by ultimate consumer** *They must be:* 1. Material; 2. Produced; 3. Satisfy human desire; 4. Have value in exchange. *Examples* Owner occupied house (Bldg.), food in your home, personal car, clothes and TV.	**SERVICE** Human exertion applied directly to the satisfaction of human desires -------------------------------- ***People who perform it*** Doctor, Dentist, teacher, singer, divorce-lawyer	May represent exchangeable products, but are not products *Stock certificates, car- title* *Real estate deed,* **Medium of exchange** *Money* **Human attribute** *Skill,* *Knowledge,* *Intelligence*

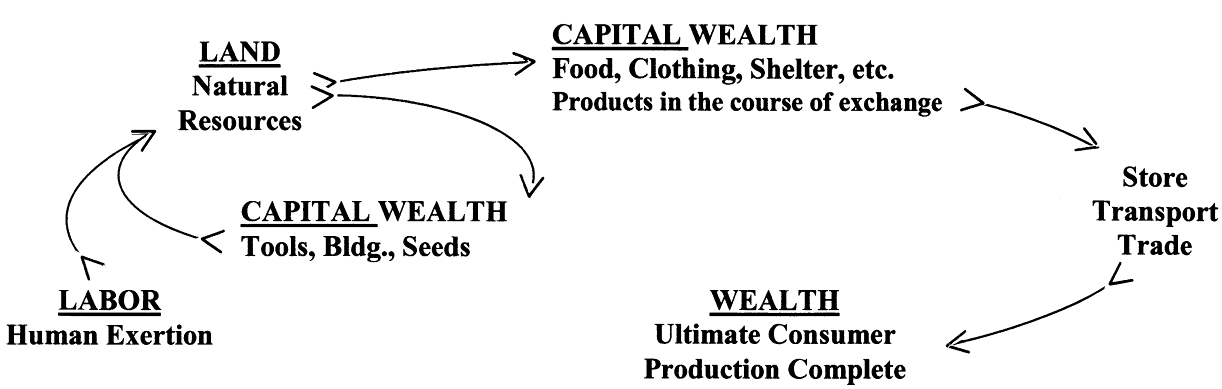
LAND is not included in our definition of wealth because it was not produced.

REPRESENTATIONS OF WEALTH such as bank notes, stock certificates and bonds are not termed wealth because they are not products. Even when they represent wealth, they are only claims on it.

KNOWLEDGE, SKILL AND EXPERIENCE are not included in our definition of wealth because they are not products. They are qualities of labor.

PRODUCTION is the process of getting a natural resource to the consumer in the desired form**.**

PRODUCTION:



It includes combining, separating, and changing natural substances in form and in place.

Land, Labor and Capital are the factors of production. They are mutually exclusive. (Nothing can be more than one factor of production)

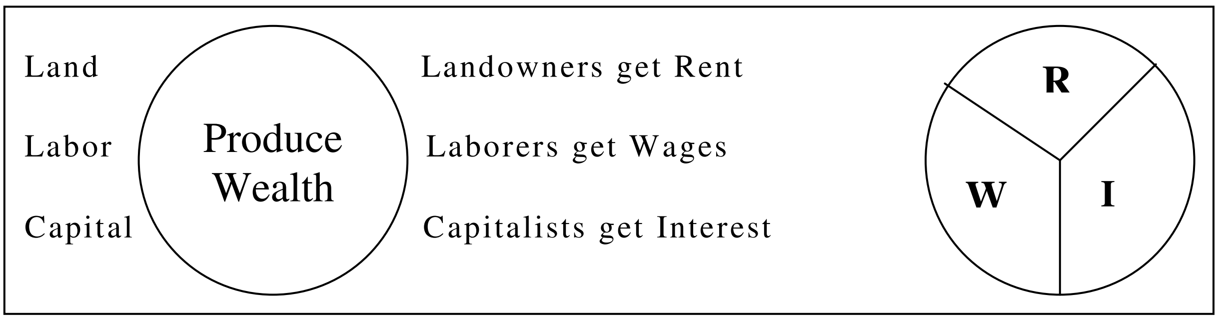
Land and labor are the primary factors; capital is the compound factor made out of land and labor. Labor and capital are the active factors. Land is the passive factor.

A truck used on a commercial farm is capital; a truck used to go camping for fun is not. A Television on the shelf in a store is capital; a TV in your home is not.

Transporting and selling are part of getting a natural resource to the consumer in the desired form, therefore they are part of production.

Production is complete when the product is in the hands of the ultimate consumer.

The distribution of wealth is the division of a product among the owners of each factor that produced it.



Rent is taken by the owners of land. **Wages** are taken by labor. **Interest** is taken by the owners of capital. In common speech we talk of renting a house or apartment, but in political economy **rent** is paid for the land, and **interest** is paid for the building. We rent a truck or a tool, but in political economy trucks and tools are **capital**; their owners are paid **interest**. **Rent** is paid by the user to the owner of land. However, in political economy, that portion of a farmer's crop, which results from his ownership of **land**, is also **rent**. That portion of the income of a storeowner, which results from the location of his store, is **rent**.

Wages apply to the self-employed as well. All that she receives for her mental and physical exertion are her **wages**. Economic **Interest** includes the gains from **capital** --- owned or loaned. It does not include interest for the loan of money, since money is not **capital**, although they are connected.

Production and Wages

The problem of poverty, as explored in lesson I, is that wages of the least productive, least demanded, workers — no matter how much they produce — tend, in the free market, to a bare subsistence. There are never as many jobs as there are people seeking work. Therefore, some of the very least skilled and educated people are always unemployed no matter how much they can produce.

Poverty still accompanies progress. Inventions, innovations and new discoveries continue to increase the efficiency with which food, clothing and shelter are produced — yet many Americans live in poverty. They live in city slums, and impoverished rural areas.

Governments provide food, housing, and medical care totaling billions and billions of dollars in an attempt to alleviate poverty, yet it persists.

Where do wages come from?
When a worker is self-employed, as in fishing or gathering fruit from the public land, which may still be possible in a few places in the United States, her wages are the result of her own labor.

When a worker is paid with a percentage of what he produces, like a fisherman who takes a percentage of the catch, or a woodsman who keeps some of the fire wood he cuts and splits, his wages are the result of his own labor.

When workers are paid with money, the result is no different from paying wages in kind. The money simply represents the wealth produced. Production is always the reason for paying wages.

Labor precedes the payment of wages. First labor produces wealth, then wealth or money that represents it, is paid in wages.

When a worker is engaged in a long-range enterprise like building a ship, the product cannot be exchanged each week as the worker is paid. However, the employer's capital is never lessened by the payment of wages. The value of her labor is adding to the value of the ship. The product of labor precedes and stands in place of the wages paid. When erecting a high-rise building, as each floor is added the value of the building is increased. The value added to the building each week is exchanged for the wages paid.

It is sometimes assumed that the maintenance of labor is drawn from capital. That is to say: food clothing and shelter produced in the past are necessary to sustain each worker as they engage in current production. Therefore, the profit, or return to that wealth (capital) will have a converse effect on the rate of wages. However, in reality we live on production currently in progress. Some workers are producing food while others are building ships. This is obvious when we think how long we could go on consuming if everyone stopped producing altogether. With money and credits food is traded daily as it is produced, in exchange for the value added to the partially completed ship. When construction begins, there is no stock of food large enough to support the workers until the ship is completed.

A lack of capital is often observed in impoverished countries. However, there often coexists a small group of people who not only control most production, but chose not to invest in modern capital. In some cases, governments may tax or regulate production so much that it grossly reduces the incentive to invest. In other cases governments may not be able to protect modern capital investments, so the incentive is lost. The lack of capital in impoverished countries is one of the symptoms, but does not fully explain the cause of poverty.

In advanced countries poverty cannot be explained by a lack of capital; for in times of recession or depression, unemployment and poverty coexist with an excess of capital. Buildings and machinery are often siting idle and deteriorating while poverty and slums are increasing.