Deconstructing an Economics Text

Certainly the factors of production are scarce, in the sense that one cannot create stuff out of thin air, or accomplish work instantaneously. But we shouldn't make too much of that truism. Normally when things are considered scarce, their price goes up and they tend not to go to waste. Yet, the price of labor — wages — keeps tending downward, so we can't be running out of workers. The rate of interest (minus premiums for inflation and risk) hovers between 1 and 2%. And every major city has lots of highly valuable pieces of land that are idle, or grossly under-used.

When terms are used ***synonymously,*** that suggests that they mean the same thing. According to the *American Heritage Dictionary,* resources are "things that can be used to advantage" or "available capital; assets." Factors are things that "actively contribute to an accomplishment, result or process." Does the choice of terms indicate a particular attitude toward the productive process?

Resources (or Factors of Production) Are Scarce

Resources
Inputs used in the production of the goods and services that we desire. Also called factors of production.

The scarcity concept just described arises from the existence of scarce resources, or simply resources, for short. **Resources** can be defined as the inputs used in the production of those things that we desire. When resources are productive, they are typically called *factors of production.* Indeed, some economists use the terms *resources* and *factors of production* synonymously. The total quantity, or stock, of resources that an economy has determines what that economy can produce. Every economy has, in varying degrees, vast amounts of different resources, or factors of production. Factors of production can be classified in many ways. One common classification scheme distinguishes natural, human, and manufactured resources.

What about location value? Everyone knows that location is the greatest (as well as the second and third greatest) determinant of land value. Here, it is explicitly left out. Hence it is not surprising that land would be thought of as the least important factor. It brings to mind an interesting question, though: if the value of location isn't part of "land as a resource" then where ***does*** it come in?

Land
The natural resources that are available without alteration or effort on the part of humans. Land as a resource includes only original fertility and mineral deposits, topography, climate, water and vegetation.

NATURAL RESOURCES = LAND AND MINERAL DEPOSITS

Basically, **land** with its inherent mineral deposits is the natural resource we think of most often. The original fertility of land is also a natural resource. Some land can grow phenomenal amounts of crops without any addition of fertilizer; other land is incapable of growing anything in its natural state. Today, some economists contend that natural resources are often the least important factors of production in an economy. They believe that what is more important is the transformation of existing natural resources into what is truly usable by humans. That transformation requires the other types of resources— labor and capital.

Labor
Productive contributions of humans who work, which involve both thinking and doing.

HUMAN RESOURCES = LABOR

In order to produce the things we desire, a human resource must be used. That human resource consists of the productive contributions **of labor** made by individuals who work—for example, steelworkers, ballet dancers, and professional baseball players. The contribution of labor to the production process can be increased. Whenever potential workers obtain schooling and training and whenever actual workers obtain new skills, labor's contribution to productive output will increase.

There is fudging going on here. Labor is defined as "the productive contributions of humans who work." The vivid examples in the text leave us with the impression that the labor factor is the people who work for a boss, and collect a paycheck — not those who make decisions and take risks. Yet the definition on the left includes "both thinking and doing."

Traditionally, discussion of the factors of production leads naturally to discussion of the ***distribution*** of wealth among those factors. However, labor's contribution to productive output has been increasing steadily for two centuries, while wages have tended to fall. You'd think that might be worth mentioning here — but this text obscures, whenever possible, any logical connection between production and distribution.

Why is the "fourth factor" emphasized like this? It gives the impression that entrepreneurship is superior to the other three. That connotation is reinforced in the text: entrepreneurship is a ***special*** kind of human resource; those who do it are bold, dashing risk-takers, without whom "no large-scale business organizations could operate." Who says there is no romance in economics?

Although there is a huge difference in emphasis, no clear reason is offered for why these characteristics distinguish entrepreneurship from labor. Nevertheless, laborers are said to receive wages; entrepreneurs receive profits. But if labor involves both doing and thinking, as we are told above, then why the separation? Why isn't entrepreneurship just the "thinking" part of labor?

Here is a clue to the difference. The paragraph on labor above mentions ***production*** five times. Labor ***produces*** the wealth that makes the economy go. Odd, then, that the entrepreneur's task is "to think of things that could lead to a monetary benefit." Could it be that some of these monetary benefits ***do not*** come from production? One very important example of that is the location value of land — which, as we saw, this text has carefully excised from the definition of land as a factor of production!

MANUFACTURED RESOURCES = CAPITAL

Capital
All manufactured resources, including buildings, equipment, machines, and improvements to land.

When labor is applied to land to grow corn, for example, something else is used. Usually it is a plow or a tractor. That is to say, land and labor are combined with manufactured resources in order to produce the things that we desire. These manufactured resources are called capital, which consists of machines, buildings, and tools. Additionally, capital consists of improvements to natural resources, such as irrigation ditches.[1]

Another Human Resource = Entrepreneurship

Entrepreneurship
The fourth factor of production, involving human resources that perform the functions of raising capital, organizing, managing, assembling other factors of production, and making basic business policy decisions. The entrepreneur is a risk taker.

There is, in effect, a fourth type of input used in production. It is a special type of human resource; it consists of entrepreneurial ability, or entrepreneurship. Entrepreneurship is associated with the founding of new businesses or the introduction of new products and new techniques. But it means more than that: it also encompasses taking risks (possibly losing large sums of wealth on new ventures), inventing new methods of doing common things, and generally experimenting with any type of new thinking that could lead to a monetary benefit.

Without entrepreneurship, virtually no large-scale business organizations could operate. Clearly, entrepreneurship as a human resource is scarce: not everyone is willing to take risks or has the ability for successful business decision making.

We see the classification of resources in Exhibit 1-1.

[1] Improvements to human resources are also possible, of course. When this occurs, we say lhat human capital has been improved.

EXHIBIT 1-1
RESOURCE CLASSIFICATION. We can arbitrarily classify resources, or factors of production, into those that are natural, human, and manufactured. We have denoted specific names within those three classifications.

Natural Resources	Human Resources	Manufactured Resources
Land	Labor and Entrepreneurship	Capital

"Entrepreneur", from the *American Heritage Dictionary:* "One who organizes, operates, and assumes risk for business ventures." It's from the Old French, "to undertake," from Latin *inter*, between, and *prendere*, "to take." The Indo-European root is *ghend*, "to take or seize."

We could also ***arbitrarily*** classify factors into those that are wet, dry or damp. The three-factor scheme is not arbitrary; land, labor and capital are clearly separable, mutually exclusive sets. That makes them suitable for discussing the distribution of wealth in society. Here, we have a very different scheme of things, in which the productive factors exist in order to be manipulated by profit-maximizing entrepreneurs. (Hence the shadowy implication that labor — "human capital" — ***is*** the laborer.) The four-factor scheme isn't arbitrary either; it's ideally suited to analyzing micro-economic choices. But it ***cannot*** help us to understand the distribution of wealth, and find the cause of poverty.

Don't entrepreneurs provide the initiative and courage to move the economy forward? So why vilify them? Ah, but do land speculators boldly move the economy forward, or selfishly retard it? By confounding — seemingly on purpose — the legitimately-earned wages of workers with the passively-collected gains of land-holders, this textbook gives entrepreneurs a bad name!