

# Understanding our Political Economy





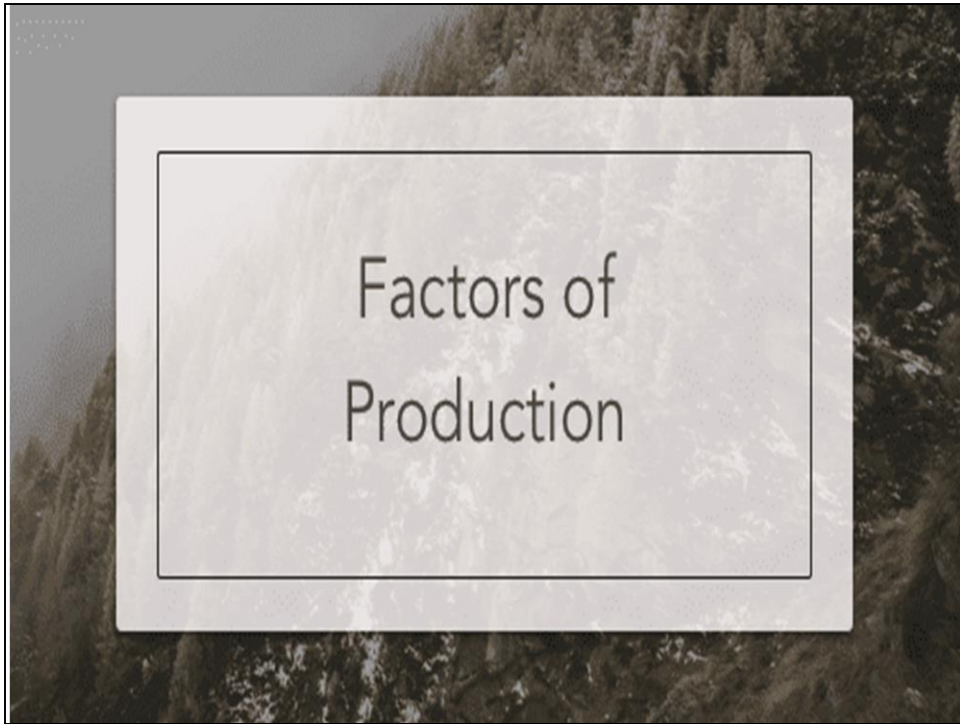
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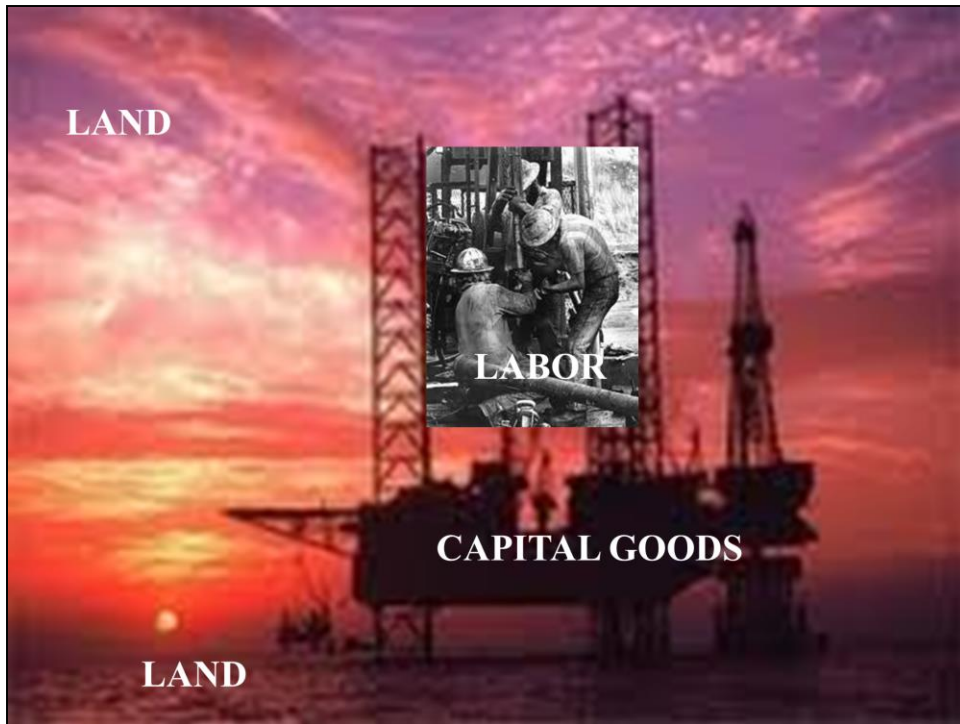
## **LECTURE 3**

### **Essential Elements of Political Economy**





**When Henry George was writing *Progress and Poverty*, his reading of other political economists convinced him that a major problem with their analyses was the inconsistent use of terms. He was committed to be clear in his use of terms and to provide and adhere to the definitions he believed were consistent with a fundamental understanding of the scientific principles involved. He started with clearly defining what were then considered to be the three factors of production: land, labor and capital.**



**Our definition of political economy in this course is that it is the science that examines the means by which wealth is produced and distributed to the three factors of production – *land, labor and capital*. And, by capital, we are referring to tangible goods used in the production of other goods, so I will use the term “capital goods” in this analysis.**



**The term “land” takes in the entire natural world, including our atmosphere and all other natural assets.**



**Thus, land includes the forests, ...**





**Natural resource-laden lands and the resources these lands hold, ...**





**the seas and sea beds, rivers, lakes, and all the plants and animals contained therein ...**



**all non-domesticated plants and animals that inhabit the planet, ...**



**the broadcast spectrum for radio and television transmission, air lanes for travel by airplanes or satellite paths in space ...**



**Wind and solar energy to be captured and utilized, and ...**





**The parcels of land on which we build our cities and towns where we live, play and engage in commerce.**



**How access to nature is granted or awarded is a primary concern of the political economist. Central moral questions are involved. Is access to land – to nature -- a right or a privilege? Should control over land be exclusive or conditional, awarded by competitive auction under a leasehold arrangement or deeded by governments and thereafter sold owner to owner?**

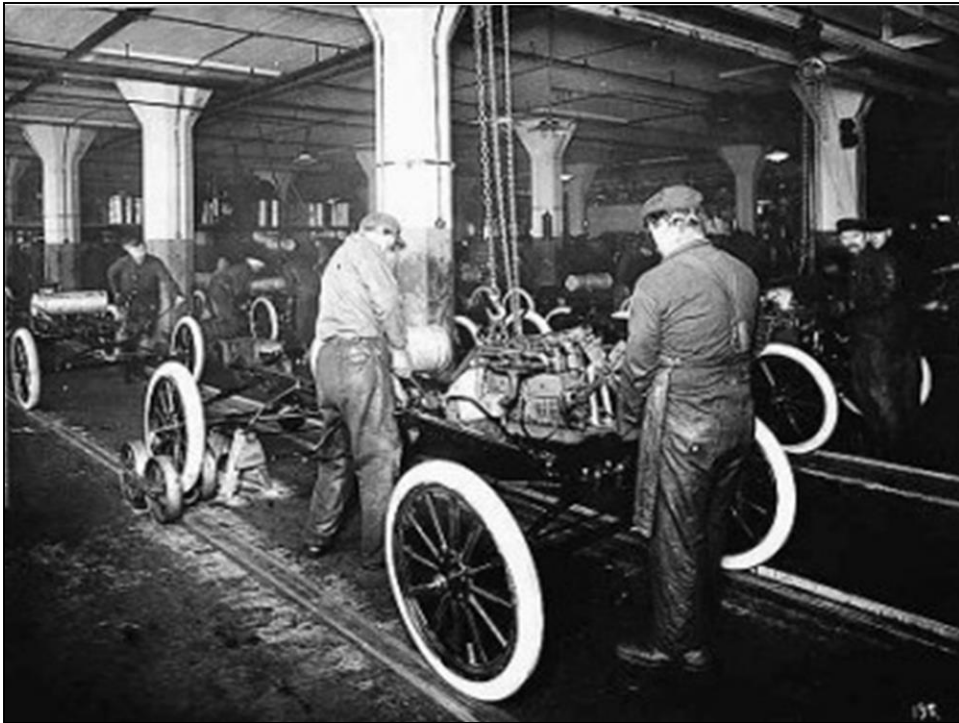




**An important characteristic of nature is that nature has a zero cost of production in terms of our labor and capital goods. Thus, nature is appropriately identified as the source of what we produce. Nature exists independent of human labor.**



**We are an active factor of production and are referred to as labor. What we produce may or may not be capital goods, depending on what we do with what we produce. What we consume immediately does not enter into political economy. Its consumption eliminates the potential for any alternative use in the production of something else.**



**With the introduction of increasingly sophisticated tools and machinery, our capital goods have become very efficient. Production processes evolved to become very specialized, incorporating methods that required the division of labor into narrower and narrower activities.**

## Forms of Labor PRIMARY to Production

- Resource extraction
- Agriculture
- Timber harvesting
- Fishing
- Hunting



Thus, to help describe the contributions of particular types of labor, political economy further divides labor into categories based on the closeness of labor's direct application to land and natural resources. These primary types of labor include resource extraction, agriculture, timber harvesting, fishing and hunting.

## **Forms of Labor SECONDARY to Production**

- **Milling**
- **Refining**
- **Combining**
- **Processing**



**Once raw materials are produced, a secondary category of labor is engaged in milling, refining, combining and processing of materials.**

## **Forms of Labor TERTIARY to Production**

- **Manufacturing**
- **Assembly**
- **Transportation**

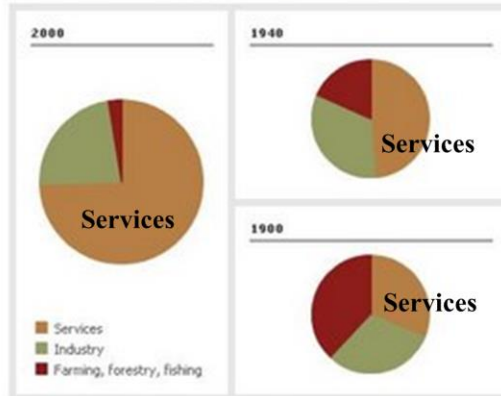


**And finally, materials are put into form when they are ready for use in manufacturing and assembly of finished goods, which are then transported to their final destinations for sale and consumption.**



Chart from Encarta

## U.S. Employment by Sector

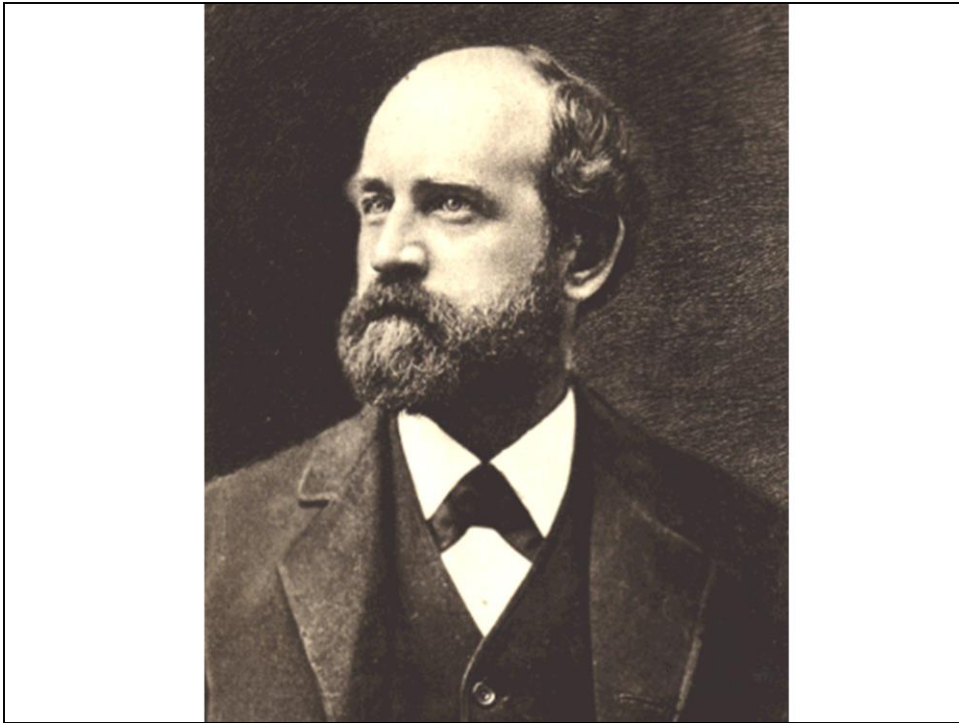


At the beginning of the 20th century the United States was a largely agricultural nation with the majority of Americans working on farms. Over the course of the century, the bulk of workers relocated to jobs in other sectors, first in manufacturing and later in service industries. This chart shows how the percentage of the labor force employed in each economic sector changed between 1900 and 2000.

**Also essential to our modern economic system are service-providers. The size of the service sector of the U.S. economy continues to expand, even as we produce domestically or import from abroad more goods than ever before.**



**In fact, the line between goods production and providing services is often very blurred. Architects and engineers are very much engaged in production. Accountants and lawyers, bankers and financial advisers, as well as insurers, are less so but are involved in the securing of financing and other contractual relationships meeting the needs of all parties involved.**



**Henry George discusses the value of services to wealth production as follows:**

**“Labor always produces either wealth (which may or may not be capital) or services. Only in an exceptional case of misadventure is nothing produced.”**



*Progress and Poverty, p.33.*

**“Labor always produces either wealth (which may or may not be capital) or services. Only in an exceptional case of misadventure is nothing produced.”**



**Misadventure more frequently results in the production of goods no one chooses to exchange money (or other goods or services) for or at least for which no one will exchange enough of equal value to cover the costs of production.**



***Economics*** -- but not **political economy** -- generally treats entrepreneurship as a special form of labor and a factor of production in its own right. In our study of political economy, the differences in individual ability are treated as the basis for specialization and the division of labor. People tend to gravitate to what they do best or have a natural inclination toward. Thus, given the same access to land and to capital goods, some individuals will be more productive than others. Some will devote their labor to business organization and management.





When we talk about wealth in political economy, we are dealing with the tangible goods produced that serve as the storehouse we can draw on to combine with other goods or simply consume. Labor applied to Land produces some form of *good*. However, to be COUNTED as *wealth*, the *good* must meet specific criteria. It must:

- ☐ **Be the product of labor with or without the assistance of other (capital) goods**
- ☐ **Have exchange value in the marketplace; and**
- ☐ **Satisfy some human desire**

**Be the product of labor with or without the assistance of other (capital) goods; Have *exchange value in the marketplace; and Satisfy some human desire***



A common question that arises in the study of political economy is whether money is wealth. Later in this course we will explore the subject in some depth. For now, our definition of wealth means that some forms of assets commonly thought of as wealth and that have an exchange value in markets are not considered wealth. These include:



**Currency and coinage. They are *mediums of exchange* that allow holders to acquire actual wealth more easily than by the bartering of labor for goods or other services.**

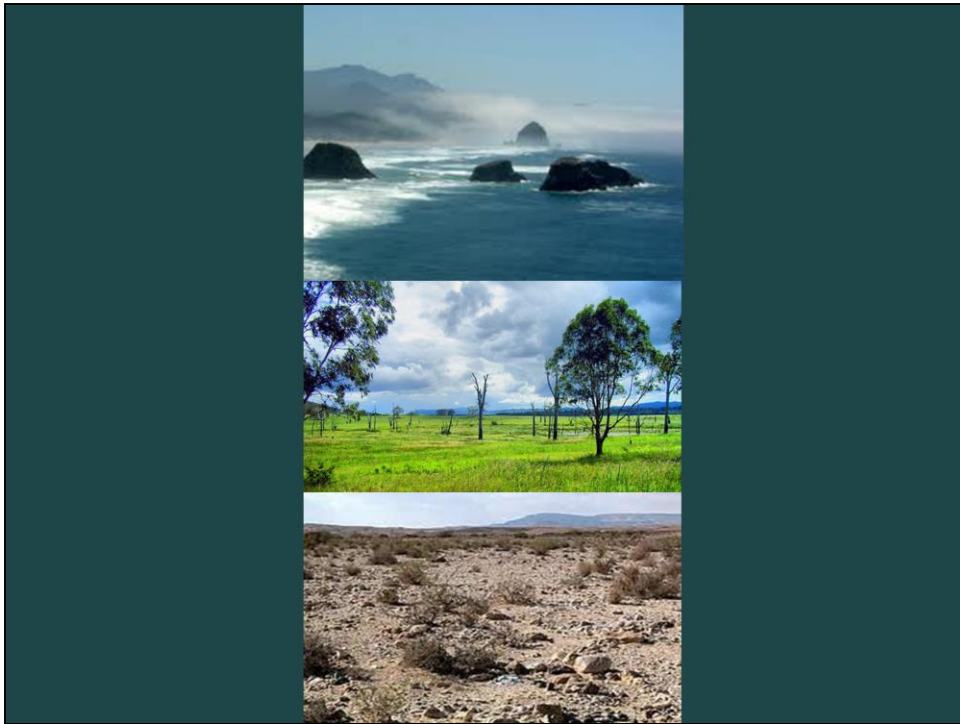


**Gold and silver have historically been both commodities and -- when converted into coinage -- money that has a high intrinsic value. Precious metals -- as coinage or bullion -- have often backed paper currency in circulation. And, of course, gold and silver have always been held by investors as hedges against the declining purchasing power of paper currencies issued by governments or banks.**



**Also, other legal claims on material goods, such as mortgages and bonds fall outside the definition of what is wealth.**





**Most importantly, land is not included in our definition of wealth for the basic reason that nature is not produced by human labor. Nature is the source of all wealth, but is not itself wealth – even though access to much of nature commands a price charged by those who own or control land.**



In prehistoric times, most of what we produced was almost immediately consumed. Much of what we produced was lost because of the inability to preserve and store wealth. The amount we produced was small because people had not yet discovered how to convert *wealth* into effective tools – into *capital goods* – to facilitate greater *wealth* production per unit of labor.



**The introduction of new and more effective forms of capital goods brought on important changes in the overall organization of societies.**



**The extended life and usefulness of capital goods – such as buildings, machinery and other equipment – is what allows for the high standard of material well-being at least some of us experience.**



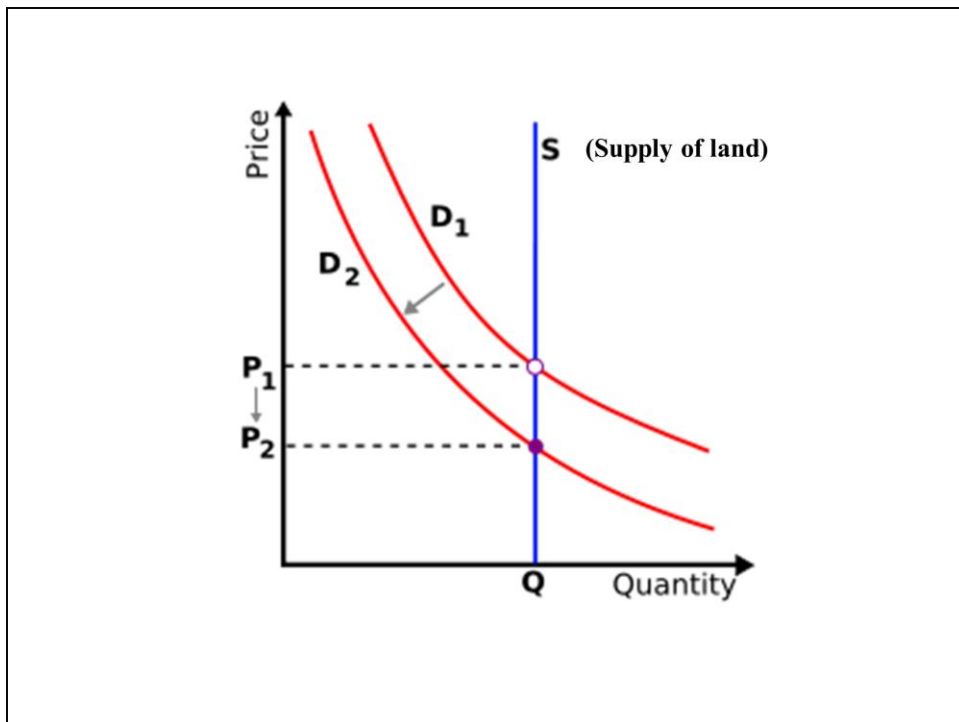
**In the most basic sense, each of us requires access to the earth to survive. Thus, Henry George argues that the earth must be treated as a commons, accessible by all, and under rules that guarantee full equality of opportunity.**





**If the earth is, in fact, our shared commons, this should have become a governing principle of systems of property law in every society. Other than the oceans (so far), however, most of the planet is claimed by some people to the exclusion of others. The challenge is how to allocate access to portions of the earth, protect what we produce with our labor as our private property, but prevent some from gaining a monopolistic degree of control over land and natural resources.**





Among economists today, there are some who do argue that land must be treated as a distinct factor of production and that land markets operate quite differently from markets for labor and capital goods. A key difference is that the supply of land is fixed by nature; that is, its supply is inelastic. Changes in the market price for land will not result in an increase in the total supply. This is reflected on a supply-demand chart by a vertical supply curve. In fact, under current economic policies the supply curve for land is leftward leaning. As prices demanded increase, those who hold land have a financial incentive to hold it idle and off the market.



**The failure to distinguish land from capital goods under property law and taxation policies is the most serious consequence of the confusion created by neoclassical economics. As we will discuss in some detail, the result has been to encourage and reward speculation in all forms of land while imposing heavy tax burdens on labor and the owners of real capital goods.**

