

CHAPTER 6, "Consumption and Demand," FROM THE BOOK:

The Science of Economics

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1. What happens to wealth?

We have seen that the production of wealth uses three fundamental resources or factors, land, labor, and capital goods. The wealth is distributed to the owners of these factors, landowners receiving rent, laborers receiving wages, and the owners of capital goods receiving a capital yield. This is the first distribution of the wealth.

The wealth is then subject to two further possible distributions. The recipients may voluntarily transfer some of their wealth to others, such as to their children, to some organization such as a church or charity, or to their heirs as an inheritance. These gifts make up the second distribution of wealth.

Wealth can also be transferred involuntarily, and forced transfers make up the third distribution of wealth. The third distribution is of two types: 1) theft, and 2) taxes. Theft, of course, is the forced transfer of wealth by private persons, while taxes are the forced transfer by a government. Note that government revenues can be obtained by the first two distributions as well. For example, user fees are a voluntary payment by persons for specific government services, just like paying a price for any other consumer goods. Governments may also earn revenue from their operations, such as running a subway system. Finally, the government can act as a collection agency for commonly owned property, receiving the rent and using it for its operations. In substance, the collection of land rent, is also a first distribution, rather than a tax, if we consider the rent to be commonly owned by the members of a community.

The second and third distributions are called "redistribution," since they distribute again the wealth that was already distributed the first time to the owners.

Redistribution normally refers to forced transfers of wealth by government.

After the wealth has been distributed, it ends up in the hands of the final recipients as income, which is an increase in wealth or claims to wealth. People are usually paid in money, but as we have seen, this money is just a general ticket one can

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