Chapter 16

Correlating The Laws of Distribution

THE CONCLUSIONS we have reached on the laws governing the distribution of wealth recast a large and important part of the science of political economy, as presently taught. They overthrow some of its most elaborate theories, and shed new light on some of its most important problems. Yet in doing this, we have not advanced a single fundamental principle that is not already recognized.

True, we have substituted a new law of wages and a new law of interest for those now taught. But these laws are necessary deductions from the most fundamental law: that people seek to gratify their desires with the least exertion. When viewed in relation to one of the factors of production, this becomes the law of rent.

Ricardo's statement of the law of rent has been accepted by every reputable economist since his day. Like an axiom of geometry, it only needs to be understood to be accepted. The laws of interest and of wages, as I have stated them, are necessary deductions from the law of rent. In recognizing the law of rent, they too must be recognized. For discerning the law of rent clearly rests on recognizing this fact: Competition prevents the return to labor and capital from being greater than what could be produced on the poorest land in use. Once we see this, we see what the owner of land will be able to claim as rent—everything that exceeds what an equal amount of labor and capital could produce on the poorest land in use.

The laws of distribution, as we now understand, clearly correlate with each other. This is in striking contrast to the lack of harmony of those given by current political economy. Let us state them side by side:

The Current Statement:

RENT depends on the margin of production, rising as it falls and falling as it rises.

WAGES depend upon the ratio between the number of laborers and the amount of capital devoted to their employment.

INTEREST depends upon the equation between the supply of and demand for capital. (Or, as is stated of profits, interest depends upon "the cost of labor", rising as wages fall and falling as wages rise.)

The True Statement:

RENT depends on the margin of production—rising as it falls, and falling as it rises.

WAGES depend on the margin of production—falling as it falls, and rising as it rises.

INTEREST depends on the margin of production—falling as it falls, and rising as it rises. (Its ratio with wages being fixed by the net power of increase that attaches to capital.)

In their current form, the laws of distribution have no mutual relation and no common center. They are not correlating divisions of a whole. Rather, they are measures of different qualities.

In the statement we have given, all the laws spring from a single point. They support and supplement each other. Together they form correlating divisions of a complete whole.