The Entrepreneur

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In many textbooks on economics, four factors of production are listed: land, labor, capital and the entrepreneur. Many economists priding themselves on being pragmatists, viewing our economy as a whole, and judging the incentives which increase what is called "gross national product" also list the entrepreneur as a factor in production.

If there are four factors in production, there will correspondingly be four avenues of distribution which many economists list as rent, wages, interest and profit. The argument that "profits" over and above normal or average rent, wages and interest in an enterprise are only the wages of management is discounted by many economists due to the fact that the true managers, the managerial class, are employees and in the decisions made to take risks have but a minor influence. We may argue with these economists that the wages of management reach to the highest levels, but their arguments then will compare the "profits" of risk-taking, uncertainty and innovation employed by entrepreneurs to the "commercial interest" paid for the loan of capital where the risk of loss and the erosion of the loaned capital (machines) increases the amount of true economic interest.

We do know that risk-taking and erosion of capital must be and are compensated for in commercial transactions. So such eminent economists as Frank H. Knight in his book *Risk, Uncertainty and Profit*[1] and Professor Joseph Schumpeter, the sage of Harvard in his book *The Theory of Economic Development*[2] develop the theory that the uncertainty of the market and the necessity to plan production to meet market requirements, make all decisions bear the uncertainty of gain or loss, and this uncertainty, in the long trend, must be compensated in the enjoyment of profits. Schumpeter, in particular, argued that profit is a reward for innovation by the entrepreneur. The innovation gives the entrepreneur an advantage over his rivals, which enables him through the use of new methods, machines or techniques to earn a profit for him.

Professor Ludwig Von Mises, in his critique of Henry George's proposal, in a brash moment declared that if "single-tax" were in full operation in the nineteenth century, our lands in the middle west and far west would not have been populated and used, because if all the excess of production above the product of labor on the poorest land in use were collected for public use, the incentive to endure the hardships of frontier life would not have existed, since no economic advantage would be enjoyed by frontiersmen.

How then, can we continue to maintain that there are but three factors in production and three avenues of distribution? We do know that the rapid development of this country, making it the most productive in the world, and making the best use of available resources and man-power, was largely the result of the quest for "profits," not wages. The Horatio Alger stories of the rise from rags to riches, the success stories, the legends of the golden opportunities of America, were all garnished with the individual successes of "self-made" men who reaped handsome harvests for their ingenuity, their willingness to take risks, plus their efficient efforts.

1 Boston, Houghton Mifflin, 1921.
2 Cambridge, Harvard University Press, 1934.

Are we "horse and buggy" in our economics or can we still square observable facts within our concept of three factors in production and distribution? If we take the trouble to identify properly what we mean by "rent," we can readily show Professors Knight, Schumpeter, Von Mises and others that "profits" are actually the wages of management and that the compensation for risk-taking and innovation are part of management, and can be properly compensated.

Let us examine Dr. Von Mises' claim that the collection of all of the excess production above the margin would rob the incentive to enter virgin lands and endure the privations of new settlements. Did Henry George mean, do we mean, by equality of opportunity equality of income? Of course not. Yet, exacting as rent the whole of the excess productivity of land above the margin would result in the same wages for all and thus make plausible Von Mises' observation unless we had a yardstick to help us determine, equitably and justly, exactly how much of the excess productivity should be collected for public use.

If, as in our country, a forty-hour-work-week is considered normal or general, and if one worker desires to work on his land eighty hours a week, thus raising the productivity, to take from him the excess productivity of his extra labor would seem to be confiscation of private property. Nor did Ricardo in his law of rent, or Henry George in his adoption of Ricardo's law, have such consequences in mind. Ricardo stated in his law of rent that "for the application of the same labor on each" the excess productivity of land above the margin was rent. The qualification "of the same labor" is our yard-stick. If a forty-hour-work-week is general, then the labor of forty hours at the margin and above the margin should fix the rent of the more productive land.

But individuals vary in their productivity for the same hours of labor. Should the excess productivity of the more proficient or gifted worker be collected, as well as the excess productivity of a less efficient worker in the rent of land? Surely, Ricardo and George had in mind a common yardstick regardless of the differences in human productivity. If the rent of land were the excess produced by a worker of general skill, working the usually accepted hours of labor on land above the margin, society would be compensated for the exclusive use made by such a worker.

One more skilful, having greater genius, willing to take risks, using his ingenuity, upon paying the normal rent for the use of better land would then be entitled to all that his greater productivity could produce beyond the payment of his rent.

Thus incentive is encouraged. Thus the increase in production by the use of innovation demonstrated by Schumpeter is preserved while society is benefited by the equality of opportunity to access to land which the collection of the rental value of land would insure.

While, in general, we quote Ricardo and George and advocate the collection of rental value of land, we should always be aware of the fact that economic rent does not mean *all* of the excess productivity of land above the margin, but does mean all of the excess for a *given amount and quality of labor,* and that amount and quality is what generally prevails in the community.

Thus entrepreneurs are but laborers of a higher quality of labor, and what recompense they receive is wages for a greater amount of labor or labor of higher productivity. Thus, three factors of production and distribution fully account for all the wealth produced and distributed among its factors.