

Services Are Part of Economics

by BENJAMIN F. SMITH

THERE is, in my opinion, a 30 to 40 percent error of omission in Georgist economics. Because of this we are losing in our consideration, 30 to 40 percent of the true amplitude of economic rent. The error starts, I believe, with Henry George, when, after recognizing some economic activities as services, he excludes service from political economy as a separate entity, making it subservient to wealth and the production of wealth. On page 302 in *The Science of Political Economy* he asks:

"Why then should political economy concern itself merely with the production and distribution of wealth? Is not the proper object of science the production and distribution of human satisfactions, and would not this definition, while including wealth, as material satisfactions through material services, also include services that do not take concrete form?"

George's exclusion of services from economics was based on two rationalizations. One, that nearly all services are exchanged for wealth or the representative of wealth. Two, that services are much less important than wealth. He compared (page 290) direct services of short duration to a "lightning-flash," and indirect service to a storage battery, through the medium of wealth.

The fact that most services are exchanged for wealth does not take them out of the field of economics, for if this were so every piece of land exchanged for wealth would be excluded as would every piece of wealth exchanged, and, as would money be excluded.

The duration of the service performance should not be compared with the "storage" time of wealth prior to consumption. The service of lodging (non-productive, as capital and land) can

be obtained for day to day, week to week, month to month, year to year — while the nth million article of wealth, the MacDonald hamburger, has a span of life measured in seconds before consumption.

Henry George came close to recognizing the bifunction of land and capital in performing services in addition to being factors in the production of wealth. He gives an example of such services (page 291, *The Science of Political Economy*), "I desire . . . such service . . . as . . . the conveyance of myself from one place to another by cab, or stage or train." But in this example he was side-tracked by the exchange of this service for wealth.

The equation of exchange (wealth for wealth, services for services, or wealth for services for the equivalent of wealth) have two sides, and in mathematics and in every applied science where natural laws are expressed in mathematical formulas, both sides of the equation are considered a part of, and used as part of, that science. Thus in physics we used Newton's laws: force equals mass times acceleration to get to the moon; Charles' and Boyle's laws regarding gases in rocketry; Ohm's law in the electrical circuits; and many others. If we disregard any one side of the many equations we are doomed to failure.

We know service is non-wealth that cannot be exchanged, for once the first exchange has been made it loses its value, not to the individual receiving the service but to any other individual.

This loss of exchange value of a delivered service is due to the fact, I believe, that no services have any extracted land content, and are therefore non-material. Nearly all services use the sites of land in their performance,

that is, land is required but not diminished.

Likewise capital is used in most services. The tools, the buildings, offices, etc. of those who work directly on the human body including its mind, are capital—not producing wealth, but performing valuable, necessary services.

As an example of a pure factor used singularly in performance of services we have the houseworker whose labor is rewarded by wages. A dual function of land and labor occurs in such examples as a land site used for an unimproved parking lot with an attendant, where the rewards are in rent and wages.

Combinations of the basic factors — land, labor and capital — are found in services rendered in apartments, hotels and schools where all three factors are involved and the price is rent-wages-interest.*

When an article of wealth is exchanged for money, what is really being exchanged is rent plus wages plus interest. Is not the exchange of services for money or wealth a similar economic activity? Are not services in the form of site rent and/or wages and/or interest being exchanged for rent plus wages plus interest? Services, like wealth, are part of economics.

So the Georgist definition of the factors of production must be corrected to include services. Remember Henry George discovered that labor is bilateral. The corrected definition of labor might be: All human exertion used in the production of wealth and in the performance of services.

Similarly we should define capital as that part of wealth used to create more wealth or to perform services.

Our present definition of land as "the whole universe except man and his products" should stand, except that we should supplement it to include its

function, as we did with labor and capital, as: Land has two contributions in economics: extractive substance and site uses.

All wealth must receive its material substance from land; services never. Nearly all land and most services require the "site" use of land. Wealth in the production and distribution process often requires the use of many sites before it reaches the ultimate consumer. While services never require the material substance of land, most of them require the use of land sites.

The suggested expansion of Georgist economics to include services would be putting our mouth and mind where our heart has been. Proponents of land value taxation have long stressed, among many benefits, that of natural urban renewal by free enterprise, including slums under the incentive of LVT.

What we haven't realized is that slum buildings and slum land are service performers — and very poor ones at that. Certainly slum housing and slum land do not produce any wealth. We know that most of the common rent of slum housing is land site rent, with some interest for dilapidated capital and recapture, and next to nothing in wages for repair but some required for collection effort. We Georgists advocate the public collection of a land rent as a method of killing slums but we leave services out of our economics!

College economics textbooks have perhaps been more creative than we. They have, rightly I think, expanded economics to include services. While their definitions are not always specific, the picture is getting clearer and there is noticeable expansion.

Since Henry George's day we have done very little to expand his economics, and we have criticized the establishment's economists, mostly with good reason, for running away from LVT. They are not running away now — and some land economics is getting in.

*See also "Services Part of National Income," Oct. '69 HGN.