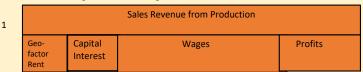
## LAWS OF INCOME DISTRIBUTION **How Capitalism Promotes Wages Over Profits** Voluntary Human Sourced Factors of Nature Sourced Factors of Production Production (Geofactors) Manual and Mental (Entrepreneurial Labor Effort **Absent State Granted Monopoly** From A. SELF SUFFICIENT ECONOMY From Enterprise Owner **Employees** Profit = Consumption Land, Resources Infinite Profit to Revenue Ratio No money costs Generic Labor (GL) **EARLY PRE-WAGE ECONOMY** generically payment for labor, not product of labor A more capitalistic economy has decreasing profit to sales ratio, funds increasingly directed to wages Factor payments (advanced) **Production of Final Goods** Sales Revenue High Profit to Minus = Owner Income (Profit not wages) Geofactor Costs Revenue Ratio Consumption are discounted by social time preference (interest) but wages are C. CAPITALIST ECONOMY Producer Goods (Capital) **Production of Final Goods** \$ Revenue Minus Minus Minus Wage = Profits Reduced Geofact-Capital Revenue or Cost Cost costs) Capitalist Consumption D. ADVANCED CAPITALIST ECONOMY Sales Revenue from Production Further Minus Geo-factor Minus Capital Minus Wage Cost = Profits Profit to Revenue Ratio Cost Capitalist Consumption **Wages Promoted over Profits**

## E. Maturing Capitalist Economy

Above Process A through D obtains with gradual accrual of income share to rent.



Competition and market limits non-rental incomes to marginal physical products. Under reduced margin of productivity of land average rent on land rises.

Sales Revenue from Producction increased due to increased productivity.

Financialization of rent increases interest income.

Geo-factor Rent

Capital
Interest

Wages

Profits

Both Adam Smith and Karl Marx erroneously denoted profit as extraction of surplus value from wages. Capitalist wage-based economies supplant earlier profit-based economies.

"In a competitive enterprise economy profit is the difference between the prices paid for productive services and the prices received for product" – Frank H. Knight, Encyclopedia of the Social Sciences, 1933.

This chart based on article by George Reisman: https://mises.org/library/classical-economics-vs-exploittion-theory

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