

Economics

On Production Factors

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ABSTRACT. The paper discusses the main features of the theory of production factors, which is very important in the context of the much needed revision of *Economics*. The paper shows why information, which does not have a specific factor payment cannot be a factor of production. Further, it provides reasoning why the government's economic ability is a separate production factor. It is proven that indirect business taxes are not unearned income of the government. They are the factor payment which belongs to the government's economic ability. Such an approach to the theory of production factors gives new possibility to rethinking different parts of *Economics*. © 2017 Bull. Georg. Natl. Acad. Sci.

Key words: production factors, factor payments, information, government's economic ability, indirect business taxes

The issue of the rethinking of *Economics* and its foundations is not new. The most demonstrable criticism of *Economics* appeared in the 1970s [1, 2] and critical approach to the foundations of economics has been the subject of many different research works [3].

After the most recent global financial crisis in 2008, the criticism of *Economics* and the issue of the rethinking of the theoretical foundations of modern economy has become more and more crucial [4-6].

Among the debatable issues of *Economics*, the issues of production factors, as a rule, are not normally discussed. Meanwhile, the issue of the expansion of a circle of factors of production is also among topical points [7].

It is very important to focus attention on the role of information in the production process. No less important is to study the features of the economic

activity of the government, even though its functions have been studied rather closely in other different economic theories.

This paper seeks to discuss some very important aspects of the theory of production factors and explain why information cannot be a production factor (which is a most frequent mistake) and why the inclusion of the government's economic ability into the system of production factors is necessary.

On Production Factor Payments and why Information cannot be a Production Factor. When economists consider production factors, they usually are limited to three factors: labor, land and capital. According to the theory of production factors, each factor corresponds to an appropriate factor payment: to *labor – wages*, to *land – rental income* and to *capital – interest income*.

According to management theorists, management

makes a specific contribution to the productive process [8]. Managerial talent is the main component of *entrepreneurial ability* as a production factor [9, pp. 23-24]. A corresponding factor payment to the latter (i.e., entrepreneurial ability) is entrepreneurial income which is called *profits* [9, p. 24].

It must be underlined that many publications suggest considering *information* [7, 10, 11] or *information technology* [12] as a factor of production. In these publications, the authors, as a rule, studied the salient characteristics of information, its special nature and its impact on production. At the same time, unfortunately, they forget about the most important aspect of the theory of production factors according to which any production factor has to have a theoretically proven appropriate factor payment. Discussing the impact of information on the production process, the authors of these publications do not research the factor payment for information. In this context, it is necessary to take into account that each and every item of expense cannot pretend to be converted or reduced to production factors [13, p. 15]. So, it is very important to always remember that according to the theory of production factors, each of the factors has its own specific factor payment.

The problem cannot be resolved if the royalty will be considered as a factor payment for the information in the capacity of the production factor. In fact, two types of information are used in the production – publicly available and commercial. Information from open (publicly available) sources has no payment. At the same time, it is necessary to pay for commercial knowledge. Consequently, it turns out that not all information “participating” in production has a payment. This contradicts the wholeness of the theory of the production factors.

What is the main reason for the mistake of considering information as a production factor?

If we look through any manual of *Economics*, it is not difficult to find out that, as usual and without any justification, production factors are identified with production resources when “factors” and “re-

sources” are used as synonyms. In fact, it is theoretically proven that there are essential distinctions between factors and resources when factors (labor, land and capital) are qualitatively different from resources (information, energy and matter) [14].

Therefore, information is a very important production process resource [15] but it is not a production factor.

On the Government’s Economic Ability as a Production Factor. The income from the realization of a produced good includes not only factor payments (wages, rental income, interest income and profits) but depreciation and indirect business taxes (value added tax (VAT), general sales taxes, excise taxes, property taxes, license fees and customs duties). Indirect business taxes qualify as unearned government income when the government is not contributing anything to the production process [9, p. 119]. Such an explanation of the appropriation of indirect business taxes by the government calls into question the integrity of the theory of production factors (which divides the price of a produced good into depreciation and factor payments) when there arises a type of government income (indirect business taxes) that does not have an economic basis. In order to overcome this contradiction, we must answer the question: have all production factors and their corresponding factor payments been taken into account?

For all appearances, the answer to this question would be in the affirmative if all interrelations among economic agents were determined on the basis of the “laissez-faire” principle, characteristic of the free market and of pure competition, and in the absence of the government’s economic activity. In reality, however, this is how matters stand.

If an entrepreneur undertakes the initiative to include land, capital and labor in the unified production of a good or the performance of a service, the government undertakes the initiative of regulating the given entrepreneurial ability within the framework of the national economy.

If an entrepreneur organizes the production of a

certain good or service, then the government organizes the production of the entire mass of goods and services within the framework of the national economy.

If an entrepreneur makes decisions (uses innovations, assumes risks in the process of running his own business), the government makes decisions on the main avenues of developing the entire national economy, uses innovations and assumes risks in its own economic policy [16].

The conclusion is that the government's economic ability is the fifth factor of production [17-19].

Notwithstanding these parallels, the similarity between entrepreneurial ability and the economic ability of the government is purely external and there is a fundamental difference between them internally:

1. The entrepreneur deals both with property factors (land, capital) and with the human factor (labor) which he unites in a single production process; the government, however, primarily unites such a human factor as entrepreneurs within the framework of the entire national economy.

2. By making basic decisions in the conduct of his business, the entrepreneur determines the course of activity of a specific firm. The decisions made by the government influence the strategy of the development of all of the firms making up the national economy.

3. As an innovator, the entrepreneur develops the production of new products and introduces new technologies and new forms and methods of business organization. The government as an economic innovator, on the other hand, primarily introduces new forms and methods of economic policy, forms new institutions and so forth.

4. In the process of operating his business, the entrepreneur assumes the risk and, depending on how justifiable the risk is, receives an appropriate "reward;" bankruptcy may be the most lamentable variant of the development of events. The government, which guides the economy, also assumes risk but of a somewhat different nature; the government

does not have the right to such "bankruptcy" when it is subject to self-destruction (although history contains a few examples of this). The receipt of as much economic profit as possible or increasing the value of the firm is the most significant reward for the entrepreneur for his uninsured risk whereas the reward for persons exercising government power is victory in elections in order to retain power for the next term.

Thus, if the government's economic ability acts as a production factor, it should bring in a certain amount of factor payment. This factor payment is what is currently called indirect business taxes.

It is known that indirect business taxes raise the price of a product – a price which includes payments based on production factors: labor, land, capital and entrepreneurial ability. Accordingly, the new (i.e., increased) price is a result of the factor payment to the government's economic ability, that is, as the fifth factor of production. The recognition of the government's economic ability as a factor of production makes it possible to give indirect business taxes the status of a factor payment.

In qualifying indirect business taxes as a factor payment, a question may arise as to why the government is receiving direct taxes in exchange for its economic ability.

In reality, direct taxes are part of other factor payments and are subtracted from these payments after they are collected by the government for the implementation of its traditional functions. Unlike direct taxes, indirect business taxes are placed at the disposal of the government directly in exchange for the services reviewed above; indirect business taxes, like other factor payments, are primary while direct taxes are derivative incomes of the government.

The level of factor payment, which belongs to the government's economic ability; i.e., the revenue from the indirect taxation of business, is determined by the level of corresponding tax (VAT, general sales taxes, excise taxes, property taxes, license fees and customs duties) rates; they influence the growth of

these factor payments depending on the degree to which they stimulate or inhibit business activity in the country.

Recognition of the government's economic ability as a production factor is a required reconsideration of many sections of *Economics* [20, p. 358].

Conclusions. According to the prevailing theory of production factors, these factors are labor, land, capital and entrepreneurial ability with each of them corresponding to an appropriate factor payment: wages, rental income, interest income and profits. When discussing the possibility of recognizing information as a factor of production, it is necessary to take into account that information as a very important component of the production process does not have any appropriate factor payment. This is the

main reason why information is a production resource but not a production factor.

Indirect business taxes (VAT, general sales taxes, excise taxes, property taxes, license fees, and customs duties) in some manuals of *Economics* are qualified as unearned government income when the government does not contribute anything to the production process. In effect, these taxes are a factor payment belonging to the government's economic ability as a factor of production.

There are some similarities but more differences between entrepreneurial ability and a government's economic ability.

Inclusion of the government's economic ability and its factor payment into the system of production factors will give new possibilities to update *Economics*.

ეკონომიკა

წარმოების ფაქტორების შესახებ

ვ. პაპავა

აკადემიის წევრი, ივანე ჯავახიშვილის სახელობის თბილისის სახელმწიფო უნივერსიტეტი, პ. გუგუშვილის სახელობის ეკონომიკის ინსტიტუტი, თბილისი, საქართველო

სტატიაში განხილულია წარმოების ფაქტორების თეორიის ზოგიერთი ასპექტი, რომელთაც დიდი მნიშვნელობა აქვს *ეკონომიკის* რევიზიის კონტექსტში. სტატიაში ნაჩვენებია, რომ ინფორმაციას არ გააჩნია სპეციფიკური ფაქტორული საფასური, რის გამოც ის ვერ ჩაითვლება წარმოების ფაქტორად. გარდა ამისა, სტატიაში მოცემულია იმის დასაბუთება, თუ რატომ არის სახელმწიფოს ეკონომიკური უნარი წარმოების დამოუკიდებელი ფაქტორი. დასაბუთებულია, რომ ირიბი გადასახადები ბიზნესზე არ არის სახელმწიფოს მიერ არაგამომუშავებული შემოსავალი. ეს გადასახადები არის სახელმწიფოს ეკონომიკური უნარის ფაქტორული საფასური. წარმოების ფაქტორების თეორიისადმი ამგვარი მიდგომა იძლევა *ეკონომიკის* ცალკეული ნაწილების ახლებური გადააზრების შესაძლებლობას.

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