

# Toward Deficit Free and Low Tax Economy Driven by Labor

Mieczysław Dobija

Professor, Cracow University of Economics, Poland

**Abstract:** *To what extent an economy needs taxes? Considerations show that taxes are strongly tied to specific way of economic thinking not quite right. Correct conceiving of the fundamental economic categories: capital, labor, and money as abstract, intellectual notions open a new perspective for economy. Then discloses a fact that labor creates money i.e. labor is financing on its own. Therefore, economy does not need taxes in order to finance labor of employees. Taxes are only needed for assets financing. It is natural in companies and it is true in the public sector as well. A material perceiving of the capital and labor is the reason of severe taxes, budget deficits, and it damages an image of money economy as a magnificent achievement of humanity.*

**Key Words:** *Keywords: capital, labor, money, value, tax, deflation*

## Introduction:

Understanding the abstract nature of capital and the impossibility of its sensory perception opened new avenues of economic thinking. Capital is the abstract ability of doing work, so capital and labor are in tandem. Disclosure of relationships between capital and labor has led to a coherent economic theory called shortly laborism [16], in which the work is a factor that drives the economy. Thus categories of labor and capital form a tandem of complementary concepts. The fundamental of this new economic thinking contains papers [10], [17], and [18] where, among others, the economic constant of potential growth is described. Theory of laborism differs from monetarism in many agendas. The difference manifests chiefly in a concept of money, since in the laborism money is created by labor so that the central bank changes its function to role of payer of compensation for work accomplished in the public sector. In addition the equation of exchange is quite original. In the present paper the agenda of taxations is the main aim of consideration. To what extent economies need taxations? What can be taxed and what should not be taxed? What replaces the tax funds? What

about a budget deficit? These questions are lively discussed in this paper. This paper contains a section that gives a modern clarification of the tetrad: capital-labor-value-money, the notions forming a fundamental of economic thinking. Each of these economic categories has already been discussed in the above pointed papers; however the present introduction in a form of the tetrad should disclose some new significant relationships. How this economy works is a separate subsequent part. There are, among others, explanations of the great financial benefits, which should allow for avoiding some part of taxes. The agenda of taxation is discussed in the further parts of paper after earlier theoretical preparations. To them belongs a fair minimum wage theory, which does not admit a depreciation of the employee's human capital so that such a pay ought not to be taxed.

## The Tetrad: Capital – Labor – Value – Money:

Notion of capital appeared earliest among considerations of the double entry accounting theory where it is the core category. The essential task of the double entry accounting is, as commonly known, a periodical measurement how the initial capital invested in business has changed. An

increase of capital in a period is called an income (profit), and it is the most expected situation. Among different types of the assets money belongs to the most requested. Capital (own or debt) and assets forms statement of a company financial position or balance sheet. From this fundamental statement implies that capital is an abstract category that cannot be perceived by senses, only with a use of mind that is to say applying an intellectual power. Relationships between resources, capital, assets, value, and money are precisely enlightened in the papers [17], [18]. My choice is to provide some parts of my earlier papers verbatim as it is possibly the clearest explanation of the relationships between pointed notions.

The first printed book that includes some explanation of the relation between capital and assets, as well as a description of a system of periodical measurement of capital invested in business, was written by L. Pacioli [29] and was published in Venice in the year 1494. That book covered five topics and accounting was one of them. The accounting part was entitled “*Particularis de Computis et Scripturis*” (“*About Accounts and Other Writings*”). We can guess that at least from that time the measurement of the capital growth in business activities became a “common” skill. This knowledge is presently known as the two-dimensional double-entry accounting system. The essence of the double-entry recording is still a subject under examination by authors, such as Y. Ijiri [21] and M. Dobija [11], among others.

In order to show the relation between capital and assets, let us consider a very simple statement of financial position of a business. Assets of this firm include only a car (value of 40 000 USD) and a cash on hand (10 000 USD). The appropriate balance sheet consistent with the duality principle is presented in the Table 1.

**Table 1. Statement of financial position:**

<i>Value of Assets</i>	<i>Capital</i>
Cash \$ 10 000	Owner’s capital \$ 50 000
Car \$ 40 000	

Total \$ 50 000	Total \$ 50 000
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Both assets, i.e. a car and cash, first of all have their specific ability for performing work and second of all by definition assets have to assure a stream of inflows, so after a particular period one can expect that the total value of a business will be greater, despite the fact that the value of a car diminishes. It is the essence of assets. The aim of a firm is to increase the value of capital and this is an indispensable (*sine qua non*) condition of endurance. The main task of an accounting system is to measure periodical changes of capital – an income when capital increases and a loss when capital decreases. However, the unit of measure in that system has not yet been clearly understood. It is after all the unit of capital and the notion capital was vague for centuries. Summing up – the value of assets is equal to the value of capital which is embodied in them.

The set of economic categories that forms fundamentals for accounting and economic theories are a consequence of the duality principle and they are presented beneath. *Economic means* are a prime notion that does not require explanations.

<u>Category</u>	<u>Explanation</u>
Capital	Abstract and potential ability of an object for doing work. Capital and labor are a complementary categories.
Labor	Transfer of capital from output localization to object of destiny. A category measurable in labor units.
Labor unit	Unit of labor = unit of power × number of time units.
Value	Value is determined by concentration of capital in an object. Measure of value is a real positive number that fulfils the measure postulates. Types of measures: exchange

	value, cost value, present value, and others
Money	Work receivables expressed in money units. Legal – economic category that determines unconditional law for receiving a value equivalent.
Money unit	A fraction of labor unit applied in a given economy.
Assets	Material and immaterial objects that contain a measurable deposit of capital expressed in money unit.
Resources	Economic means with undetermined concentration of capital so immeasurable. Resources are merely countable in natural units.

In order to grasp the idea behind the unit of capital we have to notice the tandem of capital and labor. That tandem is a direct implication from the definition of capital. Capital is the ability of doing work. It is therefore the potential for doing work (e.g. the car in a garage). Labor process on the other hand is a transfer of this potential of accumulated capital to objects of work. Thus labor is a dynamic side of the potential capital. One cannot perform any labor without having capital that was collected earlier. Therefore labor determines also unit of measure of capital. Thus, capital is measured in units of labor. A. Smith [34, Book I, Ch. V] was right, when he wrote:

*“What is bought with money or with goods is purchased by labour, as much as what we acquire by the toil of our own body. That money or those goods indeed save us this toil. They contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity”.*

Assets are measurable only because capital is embodied in them. A level of concentrated capital determines value of the assets. Therefore capital can

be discern as an economic measure. Capital fulfills general axioms, which are required by the mathematical concept of a measure. In a narrative language the measure can be described as follows:

Measure is a mapping ( $m$ ) which assigns positive real number  $m(A)$  to an asset  $A$  and it fulfills three axioms:

1. If asset  $A$  does not exist, so  $m(A) = 0$  (measure is equal to zero).
2. If two assets  $A$  and  $B$  are separable, then  $m(A \text{ and } B) = m(A) + m(B)$  (measure is additive).
3. If  $A$  is included in  $B$ , then  $m(A) \leq m(B)$  (measure is monotonic).

Value determined by a free market exchange or value computed by cost accounting fulfills the above axioms, so they both can be discerned as a measure. Both mentioned measures have their significant role in economy and are known as an exchange value and a cost value.

Resources are the third basic notion worth consideration. That notion is the most uncertain concept among the three considered notions; nevertheless it is necessary in an economic language. The answer to the fundamental question “why resources are not assets” explains the concept of resources. They are not assets since resources are vague and not measurable by labor, which was the essential feature of the assets. Resources can be highly desirable. However, it is not clear if they are able to produce income in existing economic reality. Therefore we count them in natural units as tons or cubic meters. If for example a company buys a land covering coal layers, this land becomes an asset, since the exchange value is assigned to it.

It is hard to explain why the above understanding of these significant categories did not become a standard for economic thinking through ages. Capital by definition is closely related with work and value. The work is measurable so it assures a measurability of capital and assets. Money is a work receivable, namely regardless law to obtain value equivalent, and this category is also abstract although so much popular. Why such a long-lasting

difficulties exists, despite already in 1494 year L. Pacioli published his book, in which appears an abstract category of capital and the basic double-entry equation. The purpose of this accounting system was, and still is, a periodic measuring of increase of the initial capital invested in the economic processes, i.e. income. Moreover, the use of the double-entry accounting soon became the norm, and economic history researchers [32] wrote very positive opinions about the contribution of this system for the development of capitalism. The essence of double-entry accounting is the duality of assets and capital.

The long history of research on the category of capital shows the enormous difficulty with understanding this abstract concept. R. M. Solow [35] wrote "... that it is a very significant that if the issue remains a theoretical discussion and unresolved after 80 years, the suspicion arises that it is badly posed or very deep indeed ...", Recall also that Ch. Bliss, A.J. Cohen and G.C. Harcourt [5] in their three volumes book under the title: "Capital Theory" collected 71 scientific articles, chapters, monographs, letters from the nineteenth, twentieth and twenty-first century, where the authors presented their own views on the theory of capital. The differences of opinions were so large that they have authorized the authors to formulate their opinion, that the theory of capital is infamous subject since still are the notoriously recurrent controversy around it. Ch. Bliss [4] even wrote:

*"When economists reach agreement on the theory of capital they will shortly reach agreement on everything. Happily, for those who enjoy a diversity of views and beliefs, there is very little danger of this outcome. Indeed, there is at present not even agreement as to what the subject is about"*.

This car mentioned in the table 1 can be perceived as a firm, concrete and tangible; these are the characteristics of the assets. Capital embodied in this car is, however abstract and demonstrates the ability of this car to work, i.e. to drive. Generally speaking capital is the ability of doing work. When the car would lose the ability to riding, it becomes

scrap, when the company will not be able to perform the work, which is to generate profits, becomes bankrupt, when a person does not have the ability to perform any work; it means that he is dead. Therefore, the category of capital is the most important economic category, and the economics is the study about capital, profits and sharing.

Deliberation leads to conclusion that capital is an abstract, homogeneous and potential category; so capital contained in the car, cash, human resources did not distinguish anything. Capital subjects to the fundamental principles [10], and two of which: capital cannot be created and capital relies to spontaneous random dispersion, involve thermodynamic perception of reality. Capital and assets are the measurable categories, as opposed to the resources that are only countable in natural units. The content of the capital in the assets determines its value. As a potential ability to perform the work, determines the nature of the work as a transfer of capital to the products. Thus, the potential capital and the dynamic labor are in tandem.

Understanding that the capital represents an abstract ability to do the job, and then formulate a model of changes of capital required to appeal to the fundamental principles of thermodynamics, which P. Atkins [1] defines as determinants of the development of the reality (that drive the Universe). It is easy to note that the capital is subject to the general principles called also the Laws of Nature<sup>1</sup>. The potential is vanishing, namely: money kept in the form of banknotes lose their purchasing power, the car's value decreases every year, a bathroom after twenty years of use requires a major repair, etc. On the other hand, capital cannot be created out of nothing. And so, to do the work, one must have the ability to do the job, i.e. human capital. To open a deposit in a bank and expect percentages we must have initial capital. In order to receive a high salary

<sup>1</sup> Laws of Nature that are discovered and formulated but not necessarily proved are called fundamental. To some laws the constants are accompanied. For instance the law of gravity is accompanied with constant G called the Galactic as expression of a belief that it is obeyed everywhere. Fundamental laws are simple and deep and nothing can be correctly explain without them. Duality principle is an example of an fundamental economic law.

a relatively large human and intellectual capital (for example, recognized surgeon) is needed. It was never seen that useful things were created out of nothing, on the contrary, are the result of the work, and i.e. transfers of capital.

A simplified model of changes in initial capital is the compound interest formula with a specific interest rate structure, as shown in [12], and [17]. This formula determines the growth of start-up capital ( $C_0$ ) as a function of elapsing time ( $t$ ) and interest rate ( $r$ ). The formula comes in two varieties: the periodic capitalization and the continuous capitalization, i.e. respectively  $C_t = C_0(1 + r)^t$  and  $C_t = C_0e^{rt}$ . Taking into account the current state of knowledge we identify three factors affecting the initial capital:

$$C_t = C_0e^{rt} = C_0e^{(p - s + m)t} \quad \text{and} \quad E(s) = p = 0,08[1/\text{year}] \quad (1a)$$

Where:  $p$  - is an economic constant of potential growth (ECPG);  $s$  - indicates the rate of random, spontaneous diffusion of capital, and  $m$  - determines the increase in capital as a result of its supply by work. Interpretation of the factors affecting the growth rate of capital is as follows:

- $p^{et}$  - the factor that determines the natural potential of capital growth, in line with  $ECPG = p = 0.08$  [1/year];
- $e^{-st}$  - random factor determining the spontaneous diffusion of capital (the impact of thermodynamic arrow of time),  $t$  – flow of time;
- $e^{mt}$  - indicates and enhances the growth, thanks to the transfers of capital through various kind of labor accomplished by capital embodied in employees and assets.

This does not mean that the structure of the rate of growth is ultimately explained, however, identification of the factors is justified by knowledge about the fundamental laws. One can only consider two opposite influences on the initial capital. The first is the declining diffusion ( $-s$ ) of initial capital, and the second is increasing of the concentration of the capital by work transfers. Then constant  $p$  is then an argument of labor function. Then:

$$C_t = C_0e^{rt} = C_0e^{[m(p) - s]t} \quad \text{and} \quad E(s) = p = 0,08[1/\text{year}] \quad (1b)$$

Work, as explained by P. Atkins [1], is an action against opposing forces (e.g., gravity, friction, resistance). The author points out, however, that even the work of electricity can be brought to interact with the force of gravity. If intellectual work requires a brain, it is also related to the work of electricity. Theories and accounting systems focus on the measurable value of capital contained in objects or assets. Capital is embodied in the assets that make them measurable, expressed by the fundamental identity of double-entry accounting [18]. The double-entry form of recording business transactions is due to an inability to create of capital. Capital can only be transferred, and its concentration increases the value of an object. In the economy, capital is mainly transferred through labor.

Contemporary theory of capital [17] points out that labor and capital are complementary – labor represents the dynamics (i.e., the transfer of capital from a source), and capital is the potential ability to perform work. Thus, the scientific approach to laborism rejects the determination of capital used unwisely as: machines, money, real estates, which leads to conceptual confusion. Scientific approach requires a correct layout of concepts: capital accumulates in the assets through transfers called “labor” or “work”. Thus, the measurability of capital is due to the measurability of work. The measurability of the assets and their value is derived from the contents of the capital in these objects. The category of resources remains unchanged; resources are countable only in natural units and not measurable in units of labor. Assets are measurable because of the embodied capital.

The formula for measuring work, applied in physics, presented in a simplified scalar notation (without vectors) shows two equivalent models. In this simplified scalar description, the measure of labor is:

$$L = F \times s \times \cos \varphi = F \times v \times t \times \cos \varphi = P \times t \times \cos \varphi \quad (2)$$

Where  $L$  = scalar mechanical work;  $F$  = scalar force;  $v$  = speed scalar;  $\cos \varphi$  = cosine of the angle between direction of force and direction of movement;  $P$  = scalar of power; and  $t$  = time of completion of work;

In economic practice, particularly in employment contracts, commonly, though perhaps unconsciously, the formula containing the second part of equation (2) is applied with the category of power and the passage of time. Assigning an employee a rate of payment due to assigned responsibilities, among many others job positions, is the determination of the potential power ( $P$ ). If an employee is assigned to a position paying \$3,000, and the highest salary is \$15,000, the power factor is  $1/5$  and 180 hours of work per month is equal to  $(1/5 \times 180) = 36$  units of labor. By this account, 36 labor units = \$3,000, so 1 \$ = 0.012 basic unit of labor. It does not matter in the economy what part of the 1 labor unit is 1\$. This unit is adopted as the basis of economic calculations; the dollar is just a common unit of labor. Since the power coefficient is determined as the quotient of wages, the measurement of labor in the economy can be described as follows:

$$L = P \times t \times \cos \varphi = W/W_{\max} \times t \times \cos \varphi = H/H_{\max} \times t \times \cos \varphi \quad (3)$$

Where  $W/W_{\max}$  denotes individual wages and  $H/H_{\max}$  denotes personal human capital of examined employees. Self-control of an individual and managerial control makes it possible to assume that  $\cos \varphi$  is equal to 1.0.

Since economics is an emergent science in comparison to physics, additional interpretations are needed. As we know, if the direction of the force is not in line with the direction of the predefined path, the force vector is corrected by the tilt angle of  $\cos \varphi$ . The size of the  $\cos \varphi$  in economics is usually overlooked, though that is not entirely appropriate as it indicates the extent to which the work was done efficiently. Work in the context of economics is done in order to achieve managerial and social goals. If a gang of thugs destroys a bus stop, they also do the job, but in opposite direction, so then  $\varphi = 180^\circ$ . Hence,  $\cos \varphi = -1$ . Counting properly when

measuring GDP, the work of the thugs with a negative sign ought to be added first, then the positive value of the labor of a repair team. Then, the impact on GDP would be close to zero, while today only the work of the repair team is counted.

Work measurement provides measurability to other economic values, especially capital, and thus the possibility of identifying, measuring and reporting in order to control the economic system; however, labor only transfers the capital located in objects, particularly inherent in employees and assets, to products of all categories. Thus, in the economic computations performed *ex post*, there is only the value of the employees' current work and the value of work concentrated in all sorts of assets. Y. Ijiri [22] writes with respect to accounting, which is an important part of economic theory:

“...In contrast to the labor theory of value, which focuses on input, the utility theory of value focuses on output; hence, it does not question how and through what process a product was produced as long as the output possesses the same use value. Thus, the cost principle would not have a common linkage with the utility theory of value as it does with the labor theory of value....”

Other authors such as R.A. Bryer [6] have proven that Marx's theory of value is superior to the marginalist theory of value in the case of financial reporting. Therefore, economics can be seen as driven by labor. A completely different approach to economics is the concept of utility theory, which has a different concept of value primarily focused on the product (output). It should be emphasized that this theoretical approach is currently prevalent in the economic literature; however, practice is absolutely dominated by information from accounting systems and financial statements where the economic value of assets of any kind is determined by the concentration of the capital transferred through work. Thus, laborism can be seen as a system of scientific knowledge, which applies the paradigm of labor and capital in tandem. What is more money is naturally generated in the work process.

Thus, measure of capital embodied in an asset determines value of this asset. However, market value is determined by the market price. Alas, the consistency of market price and value of asset does not last long, what is clearly disclosed on the stock exchanges. Therefore valuation process *i.e.* assigning a measure of capital embodied in valued asset is so complicated and uncertain. The main reason of this uncertainty is a quality of Nature determined by the second law of thermodynamics. Among many formulation of this law a one announces that no potential (capital is only potential ability of doing work) maintains the same level forever. What is worse, but natural, the potential dissipates in time. Everything is getting older *i.e.* initial capital declines. However, this loss of value by natural dispersion might be replenished by transfers of capital by labor. We know that fixed assets are repaired, individuals are fed and cured, materials are produced), so that the labor drives economy. The category of value joined to the tandem capital and labor forms a triad of fundamental economic concepts.

Money is related to labor, capital, asset and value so it also abstract category, which can be correctly discerned only by human intellect. Neither silver nor gold is the good money. They are material assets that keep well the value of capital, which labor concentrated in them. A banknote that a worker holds in a portfolio, discerned as a record of his/her work receivable is very close to correct idea of money. This opinion does not concern cash emitted by central banks without any relationships with labor made by employees. Banknote (paper money) is no longer necessary since in time of electronic transfers, bank accounts containing records of the work receivables are comfortably accessible.

Money discerned as the work receivables and joined to the triad capital-labor-money creates tetrad of the most important economic categories. A common attribute of them is intangibility that eliminates a use our senses for recognition of their essence. Supposedly it has been a reason that recognition of these categories is still so weak and confusions are even now present. It concerns both

capital and money. This chaos is severe in each case but misunderstanding of money leads to serious dangers for economic life. A wrong conceiving of money is a reason that a great singularity of money economy is overlooked. It is a fact that labor increases value and creates money. This means that labor is always self financing.

An economy represents the circular flows of capital and concentration of value in the assets and human resources. The work receivables (money) became also assets (cash and deposits). A yearly flow yields an average increase of initial capital in line with ECPG ( $p = 0.08$  [1/year]). Capital, due to the individual decisions, locates, among others, in the human resources. However, an economic position and welfare of a country depend strongly from the right proportions of assets and human capital (technical equipage of labor) and others factors.

It is labor that transfer capital to product (humans, assets and utilities) giving them value. In addition accomplished labor generates records of the work receivable *i.e.* money. It is clear seen in case of a company where cost of labor becomes cost of products and sales revenues give back the money expensed as cost of labors. What about teachers and different officers working in the public sector? They also create indispensable value doing their job. All professional activities accomplished by teachers in schools, policemen, soldiers, and state officers transfer capital to aimed places so the records of the relevant work receivables should be done as periodical payment. This is a task of an authorized institution, namely reformed central bank.

### **Self – financing of labor. A splendor of money economy:**

As it is commonly known theory of money has always been a weak point of economics. Elaborating the above explained tetrad of the fundamental economic notions leads to perceiving money as abstract category and understanding that it is labor process, which generates the work receivables *i.e.* money. This explanation discloses money as the category consistent with the fundamental laws, in opposition to the present

activities of the central banks, which generate money by fiat. It is a way of conducting the money economy but it is an invalid mode that still makes difficulties. In addition such economy is not pure market and is far from self regulation. Inflation, deflation, manipulation, crises, deficits, hard taxes are the consequence of money controlled by the central banks. All complications are removed under supervision of the fundamental tetrad, when money arises in natural way as the records of the work receivables.

Consequently, money is not material, nor it is a product. Money does not rely to the law of supply-demand. What's more money is not a medium of exchange. An entire human experience confirms that money as such is exchanged for product and vice versa. Correct economic management provides economy in assets, which rise labor productivity, and bank accounts of employees' grow due to accomplished labor. In the economics driven by labor people understand that they can build everything due to accessible resources and their talents, contrary to economy where dominates view that "we cannot do it since we do not have money". What is of the great consequence in correct money economy labor is self financing i.e. without tax funds. This way of thinking has a power of liberating of an economy from budget deficit and partly from unemployment. Some views about money and money unit are presented beneath.

The common opinions that concern money was told by T. G. Buchholtz [7]. In the chapter X, where author describes Milton Friedman and the monetarist battle against J.M. Keynes one can find paragraph arriving at the essence of money as follows:

*"What is money? Anything can be money, including shells and beads; cigarettes often serve as money in prison. In today's macroeconomic lingo, we follow the Federal Reserve Board definition of money supply. The most popular measure is called M1..."* How someone does know that money is material and we expect supply of money? Further author writes: *"Why would anyone be*

*foolish enough to argue about the money supply? Wrong. (...) If the amount of money overwhelms the capacity to produce goods, consumers, with more money to spend, bid up prices."*

In case of monetary unit the present state of knowledge is clearly expressed by A.V. Banerjee and E.S. Maskin [2] who wrote:

*"...Money has always been something of an embarrassment to economic theory. Everyone agrees that it is important; indeed, much of macroeconomic policy discussion makes no sense without reference to money. Yet, for the most part, theory fails to provide a good account for it. Indeed in the best-developed model of a competitive economy - the Arrow-Debreu framework there is no role for money at all. Rather than there being a medium of exchange, prices are quoted in terms of a fictitious unit of account, agent trade at those prices, and that is the end of the story..."*

There is plenty of research where authors are sceptical about a positive meaning of the present theory and practice of money. R. W. Garrison [19] represents the contemporary Austrian School of Economics, and this author expresses a moderate opinion that:

*"...Unavoidably, the medium of exchange is also a medium through which difficulties in any sector of the economy - or difficulties with money itself - get transmitted to all other sectors. Further, the provision of money even in the most decentralised economies is - not to say must be - the business of the central authority. ... Money comes into play both as a source of difficulties and as a vehicle for transmitting those difficulties throughout the economy."*

Recently a group of thinkers (B. Lietaer [28], D. Rushkoff [33], and others) raised the problems with the present money system to propagate the concept of an *open source currency*. D. Rushkoff explains:



*“...Open source or, in more common parlance, “complementary” currencies are collaboratively established units representing hours of labor that can be traded for goods or services in lieu of centralized currency. ...So instead of having to involve the Fed in every transaction — and using money that requires being paid back with interest — we can invent our own currencies and create value with our labor...”*

Open-source currency is a progressive concept that correctly conceives money as tightly related to labor. It is, however, not satisfactory since we do not need complementary money to make our tough existence easier. We need, rather, ultimate knowledge about the essence of the money-goods economy. What is money in particular? The answer is clear. Our money is our work receivable. Our money arises as confirmation of work done and it represents the value of labor transferred by laborers. The real transfer of human capital into products occurs only in the labor process. Therefore we say that labor is always self-financing.

The essence of the money – goods economy is a continuous market confrontation of two streams, which are activated by the potential of human capital and its work, as it is shown in diagram 2. The first stream (left side) forms value of final products generated by composition of current labor of employees ( $W$ ) and the past work embodied in different sort of assets. The second is a stream of compensations ( $W$ ), i.e. receivables due for work. The source of these two streams is the same human capital of employees, and their edge is the market exchange of money (work receivables) to products and vice versa. This exchange can be described in the form of the wage equation of exchange. The streams run constantly, but to capture the quantitative relations, we use variables in the annual scale, in particular of the GDP category.

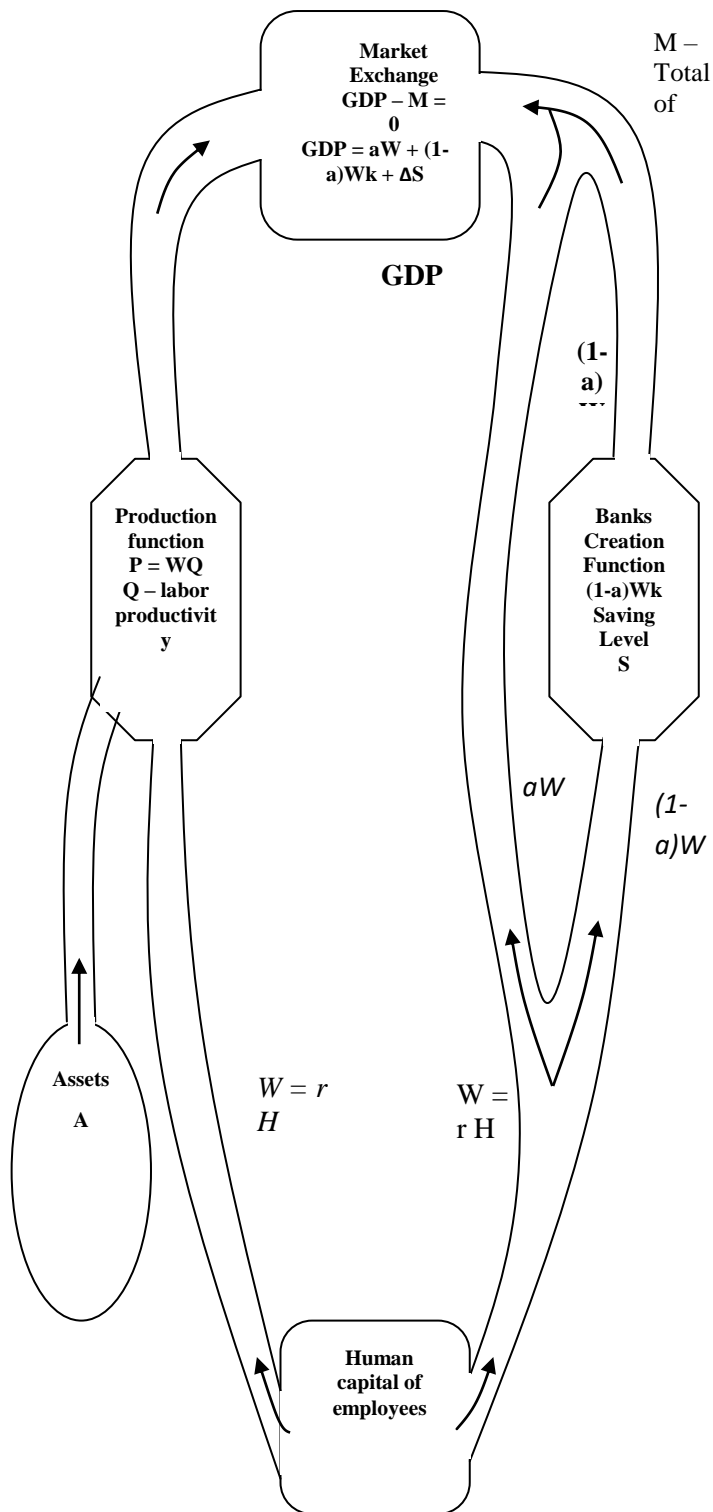
The final production exchanged on market for a given year is the value of GDP in current prices. GDP is also the product of labor costs  $W$  and work productivity  $Q$ , i.e.  $GDP = W \times Q$ . The  $Q$  is a factor

of the cost production function, presented, among others, in papers [12], [13]. Production function comprising the measurable variables  $H$  (representing the human capital of employees) and  $W$  (compensations) takes into account the criticism of the econometric modeling of production as expressed by J. Robinson [31]. The possibility of assigning value to the human capital of employees opens a way to the formulation a production function as well as production model adequate to economy of labor. If  $L$  denotes a fair fixed wage, and  $H$  represent personal human capital of workers so the product  $L = p \times H$  ( $p = ECPG$ ) helps to determine the value of the  $H$ . On this basis, the production function is constructed and subsequently the adequate production model. The production function reveals a factor of labor productivity  $Q$ , which has outstanding applications in economics.

The right stream determines the remuneration with all additional components, which in the annual perspective, determines the value of  $W$ . Part of remuneration  $aW$ , where  $0 < a < 1$  passes directly to market exchange. The second part of compensation stream  $(1 - a)W$  flows firstly to the system of commercial banks. These are savings and pension funds. In the commercial banks this stream can be increased by multiplier  $k$  to the volume of  $(1 - a)Wk$ , due to the conducted lending and payment of pensions. Part of this inflow remains on bank accounts due to the requirements to maintain liquidity and other provisions. The diagram 1 illustrates the fact that it is work (human capital transfer), which drives the money economy.

The market confrontation of these two streams (value of products and total money) finally determines the purchasing power of money and the final market value of products. Quantitative perspective of exchange of products for money (and vice versa) written in the form of the wage equation of exchange leads to indication of a relation between the introduced values. The wage equation of exchange is introduced under condition that work finances itself and generates money (work receivables); as well pension funds are a kind of savings.

**Diagram 1. Market as a mechanism leveling the value of product and money streams**



Source: A modification of the diagram presented in the article [12].

Let us notice that diagram 2 encompasses the work of every employee: farmer, industry worker, teacher or police officer among others. It is easier to understand when perceiving GDP mainly as the sum of current labor and the past labor embodied in

the assets measured by depreciation. The formula for this method of calculating GDP is as follows:

$$GDP = \text{Total pays} + \text{Depreciation} + \text{Taxes} + \text{Gross profits} + \text{Change in Bb}$$

Here the Bb denotes initial balances of products. The diagram 2 helps also to see how the past work serves for future time. If some employees working in their profession were building bridges, they received money (their work receivables transferred to their bank accounts) as remuneration, and the costs of their work became a part of the bridge value. Now, having already retired, they receive payments from capitalized retirement funds (right stream), but in the stream of products (left) flows an amount of depreciation of the existing bridges used by the inhabitants. Similarly, a teacher and a policeman who worked for safe development of human resources took care of the people human capital growth. Now a work of this human capital currently increases GDP.

The wage equation of exchange balances the value of GDP with the sum of money M. According to the diagram 2, this equation is as follows:

$$GDP = GDPR(1 + i) = a \times W + (1 - a) \times W \times k + c \times S \tag{4}$$

$$\text{Or } GDP = GDPR(1 + i) = a \times W + (1 - a) \times W \times k + d \times W \tag{5}$$

Symbols of values are as follows: GDP – nominal GDP, GDPR – real GDP, W – labor costs, Q = GDP/W – work productivity index, Q<sub>r</sub> = GDPR/W – real work productivity index, i – inflation (deflation) rate, k – coefficient increasing the value of stream (1 - a)W as a result of credit action conducted by the banking system, d = c × S/W.

On the basis of the equation (5) the multiplier (k) is determined. **With the assumption i = 0**, that denotes the zero inflation and deflation condition, we obtain the equation (6):

$$GDP = GDPR = a \times W + (1 - a) \times W \times k + d \times W \tag{6}$$

The equation (6) divided by variable W gives:

$$Q = Q_r = a + (1 - a) \times k + d \tag{7}$$

Hence the formula determining the multiplier  $k$  is as follows:

$$k = (Q_r - a - d)/(1 - a) \quad (8)$$

Therefore, the required credit is presented as:

$$\text{Credit} = (1 - a)W(Q_r - a - d)/(1 - a) = W \times (Q_r - a - d). \quad (9)$$

The above formula indicates only main macroeconomic variables, which have impact on the requirements of generating credit by commercial banks. Apart from these values there is a set of constraints, in particular the need for providing safety of a commercial bank, which seriously limits lending. Formula (9) explains that the credit value depends on: remuneration stream  $W$ , real work productivity  $Q_r$ , and the wealth level ( $a$ ) as well changes in savings and detriment funds. The greater is the productivity of work (depending strongly on the value of assets) the greater are the possibilities and requirements of crediting.

In this system, the central bank does not generate the cash money by fiat and has no tools to help the commercial banks. For this reason, requirements of maintaining liquidity must be strict and rigorously observed. In addition, the banking system as a guard of citizens' money must operate under permanent supervision of the state institutions. In its new role, the central bank is among others, a safeguard of the work productivity  $Q$ , and of the adequate size of the public sector.

The diagram 2 shows the natural exchange and a balance reached by the money-goods economy, when money is discerned correctly as the work receivables. Then, preventing a decrease in the work productivity (level of remuneration) measured by the ratio  $Q$ , and keeping consistency with the designated credit volume ensures maintaining the value of money i.e. lacks of inflation or deflation. Some small inflation may appear, due to the fact that the systems for measurement and management of work processes are never perfect. Therefore some very small payroll tax is possible. On the other hand, in the present state of affairs, financing work in the public sector from taxes results in the fact,

that the value of market products and services (GDP) is not a fully balanced by value of total money ( $M$ ). Because of the direct taxation of remunerations the  $M$  is mostly less in the well-controlled and developed economies. In other words the value flowing by the stream of products is significantly greater than the value flowing by the stream of money and credit. It is a reason of deflation.

Deflation occurs when the general level of prices falls. It is what happened in the 1990s in Japan and recently in many developed countries. Economists and politicians are feared if they remember what happened in many countries in the 1930s. As R. Bootle (2003, p. 72-74) explains it is good and bad deflation. "Bad deflation" occurs as a result of assets-price collapses or bad monetary policy. "Good deflation" occurs as a result of increases in productivity growth or reduced costs stemming from an international trade. Commonly in the USA and Europe if countries experience deflation, they say, it will be good kind. In my opinion the deflation danger is set off by accurate money emission what is quite effective in Europe now.

The correct and natural economics requires that remunerations in the public sector, for example for a teacher performing his/her work should not come from any taxes, otherwise deflation or any kind of economic imbalance may appear. What is more the public officer fair salary should not be charged by a direct tax making the pay unfair. Therefore, in the correctly organized economy the salaries of the public sector employees should be paid by the institutional payer i.e. reformed central bank. This institution is endowed with the authority of issuing money i.e. to make a record of work receivable as payment of the work accomplished in the public sector. The record made by mentioned institution sets off work liabilities of an institution employing the public officers and brings the value of salary to their accounts in the commercial banks. The reformed central bank keeps also control of the size of the public sector, by supervising of the country labor productivity  $Q$ .

## Notes about human capital and fair compensation:

Model of human capital measurement is derived from the general model of capital growth (1). An infant comes to world as a gift of Nature so no value is assigned to it. Resources coming from Nature as a rain or the Sun light are deemed as free. Photosynthesis did much in case of originating a coal or a wheat but these products accumulate value by costs of mining and transporting in case of the coal, and costs of plant, harvesting, and transporting in case of the wheat.

In the general model of capital are the two variables (the random dispersion ( $s$ ) and the inflow of capital by labor ( $M$ )), and the economic constant ( $p$ ). In case of the infant it is obvious that the forces represented by ( $s$ ) would be damaging for the new life, however the parents and society efforts (labor  $M$ ) set off these forces. Thus, it is only the constant ( $p$ ) and flow of time that play their role in a human capital development. Therefore, the basic model of human capital measurement  $H(p, T)$  is, as introduced in [21], determined by formula:

$$H(p, T) = [K(p) + E(p)][1 + U(T, w)] \quad (10)$$

Where:  $K(p)$  - denotes capitalized value of cost of living,  $E(p)$  – denotes capitalized value of cost of professional educations,  $p$  – capitalization rate = 0.08 [1/year],  $U(T, w)$  – denotes a kind of the learning function with a parameter of learning ( $w$ ),  $T$  – number of years of professional occupation.

In the equivalent additive approach the above model is reshaped to the form:

$$H(p, T) = K(p) + E(p) + D(T, w) \quad (11)$$

Where  $D(T, w)$  denotes capital gained from job experience. This form of human capital measurement is convenient for deriving a model of compensation for work of a person having personal human capital  $H(p, T)$ . The fundamental principle of a fair compensation implies from the second law of thermodynamics. Capital embodied in an individual relies to the law of spontaneous and random dispersion ( $s$ ). Therefore the minimum

annual compensation for the employee's is determined by formula  $W = s \times H(T, p)$ . Then the natural dispersion of the human capital is set off, and the human capital of the employee preserves its value. Since ( $s$ ) is a random variable with a mean value  $E(s) = p$ , so formula suitable for wage estimation is  $W = p \times H(T, p)$ . Topics of human capital measurement and the concept of relevant compensation were seriously tested by numerous studies conducted by various authors. Besides the cited authors there are papers by: M. Dobija [9], D. Dobija [8], W. Koziół [25], J. Renkas [30], and others.

Compensations have usually two parts: the constant pay and the bonus pay. The amount of the constant pay is a part of a job contract and arrangement. It is worth to note that assigning to an employee a constant pay determines virtually his/her recognized potential power. It is consistent with general knowledge that the labor  $L$  is measured as product of power and time ( $L = \text{power} \times \text{time}$ ). Here the coefficient of power is the quotient  $H(T)/H_{\max}$ , where  $H_{\max}$  is the human capital of the employee with the greatest value of human capital. Determination of the potential power ratio is an essential part of the job contract.

It seems that the idea of measuring workers labor  $L$  in line with formula  $L = \text{power} \times \text{time}$  was applied already in antiquity. According to archaeological evidence and interpretations of clay tablets containing records of labor performed by different group of workers, an economic system driven by labor already existed in the 3<sup>rd</sup> millennia B.C. V. Struve [36], who examined organization of labor in Sumer (documents from the archives of Lagasz and Umma), claims:

“Tablets contain records of the numbers of laborers, male or female, as the case might be, who were to perform one or several tasks connected with agriculture, under the supervision of the overseer. The time assigned for the performance of each labor operation is sometimes estimated in days, and sometimes in months; but in the majority of cases it is given as one day: (so

many laborers for one day). The meaning of this formula occurring in these small documents, which I called primary was fully revealed as a result of comparative analysis of the large reports of the overseer compiled on the basis of the primary documents, recording work performed by the laborers of their gang during a certain period. (. . .) From this I inferred that the Sumerian accountants had a notion of man-day.”

Therefore, it is clear that those accountants computed costs of labor in man-days. What is more, V. Struve [36] found that “...In addition to the unit of labor force, the scribes distinguished such quantities as 5/6, 2/3, 1/2 etc. of a unit of labor force. The laborer whose productivity of labor was estimated at 5/6, 2/3, 1/2 etc. of a unit of labor force, received grain ratios proportionately reduced. ...” The conclusion is clear. At the beginning of civilization labor was measured as the product of power and time, where factor of the power was determined by positive number expressing a fraction of employee’s power. Thus, the present practice of work compensation is only a contemporary generalization of those ancient methods. Both in physics and economics labor is measured as product of power and time. In physics unit of power is extra fixed, in economics it is a positive fraction  $H(T)/H_{max}$ .

Besides three natural factors as:  $K(p)$ ,  $E(p)$ ,  $D(T, w)$  there exist one more part of human capital, namely the creativity capital. One can agree that N. Tesla’s inventions, as well as many great inventors and scientists had to have special sources of their outstanding creativity lying beyond cost of living, education and experiences. It is also apparent and measurable by market in case of famous game players. Therefore, it is right to add one more factor to the model (11) namely creativity capital  $C_r$ . Then the additive model of human capital comprises four elements:

$$H(T, p) = K(p) + E(p) + D(T, w) + C_r \quad (12)$$

The creativity capital is not measured by capitalized costs. In case of football and other game players it

is market which estimate they creativity capital. In general the DCF approach is suitable for capture of the  $C_r$ .

In order to corroborate the model of compensation one can use a special IRR equation written for one year. This equation represents formula (13) as follows:

$$H(T, p)(1 + r) = W + H(T + 1, p) \quad (13)$$

Where  $T$  – denotes a chosen year of employment,  $r$  is an expected rate of return, and  $W$  denotes wages. The right side of the equation represents fact that an employee in a year period receives wages  $W$  and still has personal human capital but with one year increased experience. Solving the IRR equation we obtain the formula (14):

$$W = r \times H(T, p) - \Delta D(T, w) \quad (14)$$

Thus, compensation  $W$  is the first of all a percent of the employee’s human capital  $r$ . The factor  $r \times H(T, p)$  can however be decreased by yearly enlargement of experience i.e. factor  $\Delta D(T, w)$ . It is true that employee gains practice thanks to work in an organization.

The formula (14) shows that experience gained in the last year belongs to organization, which created the place of job. The factor  $\Delta D(T, w)$  tends quickly to zero, when  $T$  grows. Therefore the general formula of compensation is  $W = r \times H(T, p)$ . If  $r = p$  it is the fair minimum pay. Research made [25] shows that the average value of  $r = 10\%$  in a normal working company. This means that to the basic constant pay (8% of the human capital) is added c. 25% of a bonus pay. The constant pay allows for preservation of the employee’s human capital [see computations in [15] accomplished for 2014 year] instead the bonus pay assures additional motivation and a chance for improving an economic position. This opinion confirms fact that present value of the stream of constant pays ( $p \times H(T, p)$ ) is not less than initial human capital. If basic pay is  $L = pH(T, p)$  so  $PV_{\infty} = pH(T, p)/s$ , where  $(s)$  is ratio of dispersion, and  $H(T, p)$  for further years is constant. If the random variable  $(s)$  is replaced by the mean value  $p$

$= E(s)$ , then  $PV_{\infty} = pH(T, p)/p = H(T, p)$ . It proves that the stream of wages is equal to  $H(T, p)$  so the human capital is preserved.

Both the human capital model and the compensations formulas include the constant  $p$ . The fair pay can be discerned as  $W = p \times H(p)$  thus the impact of the constant is very strong. Application of the economic constant  $p = 0.08$  protects wages against *uncontrolled relativism* mentioned by J. Barrow [27] in his work on the role of constants in scientific description of the world. It is demonstrated that wages resulting from the human capital measurement are fair in the sense that they prevent depreciation of the employee human capital. As commonly known, already Plato indicated that the range of wages should not exceed 5 times. According to calculations of human capital the range of fixed wages (but without considering a creativity capital) should adhere to the same proportion. It is not a case for example in Poland where the number resulting from dividing average earnings in groups of 10% with the highest and the lowest earnings is almost 10 times. This consideration does not involve a creativity capital. An identifiable creativity capital of an individual can be a reason of his/her extremely high earning and such a case is theoretically consistent.

In practice, it can be noticed that often the weaker a country is economically and organizationally (with the exception of the USA and China), the greater its Gini wage index is. The group of countries with the moderate volume of the Gini index is after all the Nordic countries: Denmark, Sweden, Finland, Norway, and apart from them, Austria and Slovenia have the index below 0.27. It is also a case of many developed Western countries. Human capital measurement enables rough assessment of the proper volume of the GINI index in respect to wage income. It was done by W.

Kozioł [24] who examined an estimated diversity the population of employees in terms of education and experience. The result of his rough estimation was 0.24. Poland, with the real index estimated significantly above 0.30 has excessive wage inequalities.

### **A Balanced Approach To Taxation:**

Self-financing of labor contribute towards all compensations paid in the public sector do not need financing from taxes. It however, does not mean that the public sector could growth without any limits. The size of the public sector compensations depend from the ratio of the labor productivity. The strong assumption of the presented theory is that the ratio  $Q$  does not decline. A constant slow growth is the most expected situation. Having computed the  $Q$  it is possible to prepare self-financing effects as is shown in the table 2. In order to compute the public sector compensation in case of Poland a coefficient 0.23 has been applied. This factor was discussed and approved by a team of the Polish Ministry of Finance officers. In case of the USA in a conservative approach, the value 0.20 was applied. It is the very rough estimation without any consultation. Less value of the coefficient was applied (in comparison to Poland) since the USA is not a post socialistic country with a massive public sector. Accepting 0.2 as the factor determining part of remunerations belonging to the public sector of the USA is also a modest attitude employed in calculations of benefits. The real benefits can be much better. Thus, the total gross benefits of applying self-financing of labor is estimated almost 974 billion of dollars per year. Of course, this amount is decreased by gains from money emissions i.e. gains from the central bank. This position disappears. Computations are in the body of the table 2

**Table 2. Productivity of labor and issues of self-financing in economy of Poland and the USA:**

State	Poland		USA	
Year	2014	2015	2014	2015
Real GDP	1 729 bil zł	1 791 bil zł	17 419 bil \$	17 900 bil \$
Labor costs	865 799 mln zł	891 773 mln zł	4 869 723 mln \$	4 957 378mln\$
Ratio Q	<b>1.997</b>	<b>2.001</b>	<b>3.577</b>	<b>3.611</b>
Labor costs finance by taxes	$0.23 \times 865799 = 199$ <b>134 mln zł</b>	$0,23 \times 891773 =$ <b>205 108 mln zł</b>	$0.20 \times 4 869 723 = 973$ <b>945 mln \$</b>	$0.20 \times 4957378 =$ <b>991 476 mln \$</b>
Budget deficit	30 000 mln zł	50 000 mln zł	483 000 mln \$	439 000 mln \$
Minus inflows from central Bank	8 500 mln zł	9 000 mln zł	96 900 mln \$	95 000 mln \$
Surplus	<b>160 634 mln zł</b>	<b>146 108 mln zł</b>	<b>394 045 mln \$</b>	<b>457 478 mln \$</b>

Sources: <http://www.statista.com/statistics/263591/gross-domestic-product-gdp-of-the-united-states/>

Joint Statement of Treasury Secretary Jacob J. Lew and Office of Management and Budget Director Shaun Donovan on Budget Results for Fiscal Year 2014, <http://www.treasury.gov/press-center/press-releases/Pages/jl2664.aspx>, Access date 2016-06-08

An absolute necessary applications of the extra money (160 634 millions PLN in case of Poland) is releasing earning on the legal minimum wage level (or receiving a rent on this level) from the direct payroll tax. In the USA and in many developed countries the legal minimum wage is consistent with the theory of human capital. It has been proved [13], [16] that the minimum pay on that level allows to avoid depreciation of human capital. This is not a case everywhere. In Poland the legal minimum wage is about 85% of the theoretical value. This percentage in Ukraine is about 50%. The labor productivity in Poland and Ukraine are too small [13] in order to the legal minimum pay was consistent with theory of human capital. Therefore in case of employees earning the minimum wage there is a problem with preservation of their human capital. A natural effect is searching employment abroad.

Each employee has own level of an adequate minimum pay determined by 8% of the personal human capital. This pay is relevant to capital of the professional education and the capital of experience. The human capital research leads to

formulating a suggestion of payroll taxation consistent with the principle of preserving the employee's capital. Taking into regard that some unproductive activities are always present during professional job a small direct tax is possible. Therefore, in case of higher earnings some small payroll tax might be accepted, so a proposal is as follows:

- Pay on the level of the minimum wage (MW) and equivalent incomes are tax free
- Pay greater than the MW and less than  $5 \times MW$  (Plato rule) can be taxed with ratio not exceeding 10%. The amount of an excess over the MW is taxed.
- Pay greater than  $5 \times MW$  might be taxed with higher and progressive rate. Amount of an excess over the  $5 \times MW$  is progressively taxed. In case of apparent creativity capital manifested by a person the progression can be diminished in comparison to the normal ratio.

Despite of the labor self-financing a country still needs funds for financing assets in the public sector both new investment and costs of maintaining existing fixed assets. A rich country has a significant feature. This is the large assets share. The USA assets share is 72% so labor share is only 28%. In Poland, which is much poorer country, the assets share is almost 50% so labor share is also

50%. Thus, taxes collect funds for financing public assets as: ways and highways, bridges, buildings and infrastructure, school equipment, research apparatus and machinery, policy and army equipment, and so on. The sales tax in the form applied in the USA is a simple and efficient mode of collecting these requested funds.

Corporate and company income tax is also a source of public revenues since these organizations use social resources, namely: people, infrastructure, and legal order. Parent's have to work hard so human capital of their descendants grows, public school also create some input to human capital growth. Then business employs this human capital often paying the fair remuneration but mother work was not accounted for. There are significant reasons the business organizations ought to pay an income tax giving a contribution toward maintaining all infrastructures. This contribution depends naturally from periodical income.

Research shows that a benchmark or standard value for the ROA is 0.08 [1/year]. This is conclusion from research concerning the economic constant of potential growth [16]. The most advanced study of the size of the rate of return on assets has been made in the field of entrepreneurship by B. Kurek [26]. The ROA expresses ratio of profit (capital increase) to total capital included in the assets of a firm. Field studies were the balance sheets and the income statements of companies belonging to the Standard & Poor's 1500. The author had access to the financial reports of 1500 companies in the time period of 20 years. The author conducted a statistical survey of putting the hypothesis that the average risk premium estimated by ROA and calculated with the ex post data is equal to 8.33%. The survey results did not lead to rejection of the hypothesis. The confidence interval at confidence level 0, 99 is 8.25% - 8.89%, while the mean is 8.57% with a standard deviation of 14.81%. An assessment of the relative error does not exceed 5.0, since the relative precision of estimation equals to 3.75%, which indicates that the statistical forecasting is safe [26], [27]. This author also examined reports for smaller collections, such as Standard & Poor's 600 (small businesses) and

Standard & Poor's 400 (average), which yield similar results, the average respectively 7.41% and 8.85% but with a greater error evaluation, not excluding the statistical forecasting.

The estimation results lead to questions about the source of profits. It is clear that profit on the shares have a source in corporate profits; this correlation is clear. Enterprises calculate depreciation of fixed assets, and usually they pay fairly for work of human capital, which in both cases does not allow the depreciation of capital. Companies pay for supplies and they also pay taxes to the external environment. We may find that reasonable management leads to a state in which all contractors of companies obtain appropriate part in the created surplus. If we do not admit any mistreatment, so what is the source of profits? Of course it's not like risk, which is the source of unforeseen costs and losses. The answer is natural; this potential lies in the Nature, which allows for the reproduction of capital and the creation of surplus value, as Physiocrats already knew.

I. Górowski [20] has introduced remarkable idea of joining two aspects of income tax. The first is driven by needs to pay for exploitation of social wealth and resources (fixed part), and the second is the size of achieved income (variable part). This idea involves concept of standard income ( $I_s$ ) determined by the economic constant of potential growth  $p = 0.08$  so it is value  $I_s = p \times C_0$  where  $C_0$  denotes capital embodied in company assets on the beginning of year. Therefore, if  $t_e$  – denotes a tax rate of the fixed part and  $t_v$  – denotes the rate of the variable part, then the income tax of an actual income ( $I_a$ ) is determined as follows:

$$\text{Income tax} = t_e \times I_s + t_v \times (I_a - I_s) \quad (15)$$

Taxation is strongly tied to a policy determined by government. However, a wisely conducted policy is oriented on some scientific research and fixed facts. For example what is a source of income and what is an indicator of standard return on assets? These questions belong to the key tasks of economic theory but determination of the tax rates belongs to politics.



The above introduced concept can be enriched. A natural generalization of the ROA is ratio ROAH as discussed by D. Dobija [8]. This ratio take into regard capital embodied both in assets and employees, so  $ROAH = (I_a + p \times H)/(A + H)$ . The human capital may be estimated from formula  $L = p \times H$ , so  $H = L/p$ , where  $H$  – denotes human capital of company employees, and  $L$  – denotes the constant pay. Then the ratio  $ROAH = (I_a + L)/(A + L/p)$ . Such a generalized ratio is more adequate to every kind of company since both assets and human capital are involved.

The above proposals of the payroll tax and the company income tax make an intensive use of the scientific fact called economic constant of potential growth that indicates value 8% as an average growth of capital in economy conducted in normal conditions. J. Barrow [3], who wrote a book about the role of constants in explaining reality, wrote in the conclusion that: "...Our discovering of the patterns by which Nature works and the rules by which it changes led us to the mysterious numbers that define the fabric of all that is. The constants of Nature give our Universe its feel and its existence. (. . .) They define the fabric of the Universe in a way that can side-step the prejudices of a human-centered view of things. ..." Following this brilliant idea a well conducted policy process should take into regard the fundamental laws and the constants. They form an anchor that ties discussions and issues to reality. This idea was present in the consideration introduced in this paper.

### Concluding remarks:

Years ago Benjamin Franklin told opinion that "in this world, nothing is certain except death and taxes." This highly respected person lived in time of the coin money. J. Weatherford [37] called him "the father of paper money". Mentioned author tells that Benjamin Franklin published in 1729 year *A Modest Enquiry into the Nature and Necessity of a Paper Currency*". His efforts initiated a practise of paper money in North America and a history of paper currency in contemporary world initiated. Let us note that then appeared at least two options. In line with the first option the paper money could be

discerned and accepted as a certificate of accomplished labor and its measure. In this case the system of paper money would promote laborism as the main economic idea. The second option was that one, which happened. This is the way enforced by authorities and banks, which lead to present monetarism. A spirit of the first option was, among others, a motivation to seek limited tax economy. The second option representing the chosen way, in which to give money to somebody means that authorities have to take it from anybody i.e. by taxes. Budget deficits, growing debts, and severe taxes are the characteristics of monetarism. Laborism armed with scientific fundamentals offers a conversion to a friendly economy without budget deficit and the small taxes. Considerations showed that as far limited taxes are necessary in economy (financing the public assets) but they need not be severe unless a country authority is going to go at wars. Thus, the Benjamin Franklin's opinion about taxes is no longer so strong mandatory.

The second remark is about the necessity of keeping labor productivity ratio  $Q$  on the achieved level. This ratio appeared in the majority of considerations participating in the most important formulas resulting from the wage equation of exchange. The ratio  $Q$  is, after all, the factor of cost production function as was discussed in papers [14], [15], and others. Implementation of laborism as the main theory of economy means, among others, that the ratio  $Q$  cannot decline. This is the fundamental requirement. The ratio  $Q$  limits total pays. If this principle holds then money maintains its value and the public sector is limited to the proper size in a given economy. The exchange rate of a country currency can change due to the parity of labor productivity i.e. in case of US\$ and PLN the value of quotient  $Q_{Poland}/Q_{USA}$  decides whether Polish zloty (PLN) is weaker or stronger [23]. As was discussed in papers [14], and [15] a country, which the  $Q$  that does not decline, can successfully participate in the integrating currency areas.

The diagram 1 shows the very essence of money economy and it explains the disturbing role of the payroll tax. The compensations should be fair i.e. they naturally prevent the depreciation of human

capital. Then the employees create adequate demand. Taxation changes the compensations of a large number of employees to the unfair earnings so that the stream of money has too less value in comparison to stream of products. Sales tax however does not harm directly the human capital. Rising of the sales tax enlarges costs of living so the compensations should be increased to fair level. The key issue is to understand that it is labor, which is financing everything in economy. Therefore labor never needs financing. What is the most important; this view involves also the labor in the public sector. Application of these ideas leads to balanced economy without a budget deficit and the destructive taxes.

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