The Shakespearian Economics
of Building a Biscuit Factory

By Edward Minton

The display below is intended to show some consequences of historic costs. It assumes in this case, that each stage of a chain of productive processes is separated by a time of four years, and each are fully depreciated within five years. In each stage half of all costs are historical costs, and wholly attributable to the immediately previous stage.

Stage 6, Year 20, Day 7,300.   A machine is digging the foundations for a community biscuit factory at a cost of $1,000.

$500 is paid out in wages and salaries, and $500 is paid off the cost of buying the machine from the machine manufacturer.

Stage 5, Year 16. A factory is building the digging machine.

$250 of the costs paid in building the above factory, when received 4 years previously to today for building the digging machine, were paid out in wages and salaries, and $250 was attributed to the cost of building the factory in Stage 4.

Stage 4, Year 12. The factory which built the machine is itself being built.

$125 of the cost of digging the foundations (8 years prior to them being dug) was attributable to wages and salaries, and $125 was attributable to the capital cost of building the steel mill and machine tools at Stage 3.

Stage 3, Year 8. A steel mill, fabricator, and machine tool company is being built which will later supply all the materials for the factory which will build the digging machine.

$62.50 of the cost of $1,000 to dig the foundations in Stage 6, was attributable to wages and salaries paid here at Stage 3, and $62.50 to constructing the mine and oil well and infrastructure at stage 2.

Stage 2, Year 4. A mining company is constructing a mine and drilling an oil well which will later supply all the metals and energy for use in constructing the steel mill and machine tools used in stage 3.

$31.25 of the $1,000 of Stage 6, was wages and salaries paid during this stage, and $31.25 was attributed to the capital cost of the mining machinery factory construction at stage 1.

<u>Stage 1, Day 1.</u> The drilling rig (and heavy mining machinery) manufactory is under construction, and will supply all capital items to the mine in 4 years time.

It is evident from this that the wages and salaries paid in the 20 years prior to the digging of the foundations amount to $31.25 + $62.50 + $125 + $250 + $500 which equals $967.75. The remaining $31.25 is attributable to wages paid prior to this time.

Importantly, in the 4 years prior to the ditches being dug, only $500 was paid out to people to operate the machine, service it, and keep accounts etc. Yet the legitimate cost of $1,000 has to be paid somehow.

It is only by saving **all of their wages and salaries** for the last 20 years, and another $31.50 from a time before this, that the community will be able to pay cash to have the foundations dug.

An interesting observation in this exercise is that as all assets are fully written off in 5 years, there is only 20% of the value of the ditch digger left to be depreciated. The factory which made it four years ago was itself four years old at the time, and being 8 years old now is already written off. In this exercise $250 was attributable to depreciation of plant made in the last 5 years, though $500 was charged into the ditch digging.

The mine was 4 years old when it charged the cost to the steel mill of its overheads of $62.50 in year 8. So $62.50 of the cost of the mine construction has now been carried forward 16 years to form that much of the cost of digging the foundations. So also have $125 of the steel mill's costs gone forward 12 years.

Even though the mine has been completely depreciated, has been worked out, and all that remains is a hole in the ground, its costs live after it, and 16 years later a charge of $31.25 is added to a day's ditch digging. Though this may seem to be a small amount, we are dealing with an inverted pyramid here. It is not just $31.25, but all of the capital costs of the mine construction which are still in today's price system; they are simply spread thinly over tens of thousands of goods, and yes, services too which have had to make use of these goods.

Barring only bankruptcies, (or sales under cost, which are partial bankruptcies) **<u>costs in industry are eternal</u>**. On the other hand, probably 90% of wages are gone within a month.

The $31.25 does not travel back from Day 7,300 to paying the cost of constructing the mine 16 years previously. This construction cost has already been paid and written off long ago, but the baby has been passed down the line, each stage of production passing it on again, and then again ad infinitum. And we are all left holding the baby long after our wages are spent.

Where will all this ever end? It is all "destroyed" by a biscuit! When eventually the community biscuit factory opens and produces its first biscuit, and a consumer buys the biscuit and eats it, alas, he has no one to whom to pass on the cost of the biscuit. Yes, the Costs chased the Ginger Bread Boy, and they only caught him in eating him.

Mind you, the consumer could not afford to pay cash for the biscuit, for its cost contained the sum of much of his wages that reached back more than 20 years, most of which had long been spent upon previously baked biscuits.

So he got either a personal loan or a credit card from his Bank, and the Costs were reincarnated as Consumer Debt. In the course of time he did some work, and his wage became a Cost again to echo down the chambers of industry, and his wage disappeared to repay his credit card. So costs are eternal after all, being progressively reincarnated into prices, then consumer debt, then back into prices, and again….for ever and ever, costs without end.

Shakespeare was the first to understand it about 400 years ago; *the costs that men do live after them, only their biscuits are interred with their bones.*