

We have seen the utter confusion that exists among economists as to the nature of wealth, and have sufficiently shown its causes and results. Let us return now to the question we have in hand, and that must first be settled before we can advance on solid ground: what is the meaning of wealth as an economic term?

The only proposition as to wealth on which we may say that all economists agree is that wealth has value. But as to whether all that has value is wealth, or as to what forms of value are wealth and what are not, there is wide divergence. And if we consider the definitions that are given in accepted works either of the term wealth or of the sub-term of wealth, capital, it will be seen that the confusions as to the nature of wealth which they show seem to proceed from confusions as to the nature of value.

The term value is of most fundamental importance in political economy; so much so that by some writers political economy has been styled the science of values. Yet in the consideration of the meaning and nature of value we come at once into the very quicksand and fogland of economic discussion — a point which from the time of Adam Smith has been wrapped in increasing confusions and beset with endless controversy. Let us move carefully, for here is a point from which apparently slight divergences may ultimately distort conclusions as to matters of the utmost practical moment.

The original and widest meaning of the word “value” is that of worth or worthiness, which involves and expresses the idea of esteem or regard.

But we esteem some things for their own qualities or for uses to which they may be directly put, while we esteem other things for what they will bring in exchange. We do not distinguish the kind or reason of regard in our use of the word esteem, nor yet is there any

need of doing so in our common use of the word value. The sense in which the word value is used is for common purposes sufficiently indicated by the conditions or nature of the thing to which value is attributed. Thus, the one word value has in common English speech two distinct senses. One is that of usefulness or utility — as when we speak of the value of the ocean to man, the value of the compass in navigation or the value of the stethoscope in the diagnosis of disease.

The other and, though derived, utterly distinct sense of the word value, is that of what is described as exchangeability or purchasing power — as when we speak of the value of gold as greater than that of iron; of a book in rigid binding as being more valuable than the same book in plain binding; of the value of a copyright or a patent; or of the lessening in the value of steel by the Bessemer process.

The first sense of the word value, which is that of usefulness, the quality that a thing may have of ministering directly to human needs, was distinguished by Adam Smith as “value in use.”

The second sense of the word value, which is that of worth in transfer or trade, the quality that a thing may have of ministering indirectly to human desire through its exchangeability for other things, was distinguished by Adam Smith as “value in exchange.”

These two terms, adopted by Adam Smith, as best expressing the two distinct senses of the word value, at once took their place in the accepted economic terminology. But though the terms of distinction which he used have been from the first accepted, this has not been the case with the distinction itself. From the first, his successors and commentators began to question its validity, declaring that nothing could have exchange value for which there was not demand; that demand implied some kind of utility or usefulness, and hence that what has value in exchange must also have value in use; and that Smith had been led into confusion by a disposition to

import moral distinctions into a science that knows nothing of moral distinctions.

The capacity of satisfying some desire, no matter how idle, vicious or cruel, is indeed all that is necessary to exchangeability or value in exchange. But to give usefulness or value in use something more is necessary, and that is the capacity to satisfy, not any possible desire, but those desires at which we call needs or wants, and which, lying lower in the order of desires, are felt by all men.

Value in use and value in exchange may and often do attach to the same things. As a matter of fact, doubtless the great majority of things having value in exchange have also value in use. But this connection is not necessary, and the two qualities have no relation whatever to each other. A thing may have use value in the highest degree, yet very little exchange value or none at all. A thing may have exchange value in very high degree and little or no use value. Air has the highest value in use, as without air we could not live a minute. But this supreme utility does not give air exchange value. The Bambino of Rome or the Holy Coat of Treves could probably be exchanged, as similar venerated objects have been at times exchanged, for enormous sums; but the use value of the one is that of a waxen doll baby, that of the other an old rag. The two qualities of value in use and value in exchange are as essentially different and unreliable as are weight and color, though as we sometimes speak of heavy browns and light blues, so do we in common speech use the word value now to express one of these qualities and now the other. The quality of value in use is an intrinsic or inherent quality attaching to the thing itself, and giving it fitness to satisfy man's needs. It cannot have value in use except it has that, and as it has that, no matter what be its value in exchange. And its use value is the same whether much can be obtained for it in exchange or "no one would pick it up." The quality of value in exchange, on the

other hand, is not intrinsic or inherent.

There is, to be sure, a special sense in which, conformably to usage, we may speak in certain cases of an intrinsic value. The cases in which we do this are cases in which we wish to distinguish between the exchange value which a thing may have in a higher and more valuable form and the exchange value which still remains if it were reduced to a lower or less valuable form. Thus, a silver pitcher or a United States silver coin would lose exchange value if beaten into ingots. Yet they would retain the exchange value of the metal from which they were made. This value in exchange which would remain in a lower form we are accustomed to speak of as "intrinsic value." But in using this term we should always remember its merely relative sense. Value in the economic sense, or value in exchange, can never really be intrinsic. It refers not to any property of the thing itself, but to an estimate that is placed on it by man — to the toil and trouble that man will undergo to acquire possession of it, or the amount of other things costing toil and trouble that they will give for it.

Nor is there any common measure in the human mind between usefulness and exchangeability. Whether we most esteem a thing for the intrinsic qualities that give it usefulness, or for its intrinsic quality of commanding other things in exchange, depends upon conditions.

A daring fellow recently crossed from the coast of Norway to the United States in a sixteen-foot boat. Supposing him to come to New York, and one of our hundredfold millionaires, in the fashion of an Arabian Nights' Sultan, to say to him: "if you will make a trip at my direction you may fill up your boat at my expense with anything you choose to take from New York regardless of its cost." What would he fill it up with? That could not be answered in a word, as it would entirely depend upon where the millionaire wanted him to go. If he were merely to cross the Hudson River from New York to Jersey

City, he would disregard value in use and fill up with what had the highest value in exchange, in comparison to bulk and weight — gold, diamonds, paper money. To carry the more of these he would leave out everything having value in use that he could get along without for an hour or two — even to extra sails, anchor, sea-drag, compass, a morsel of food or drink of water. But if he were to cross the Atlantic again, his first care would be for things useful in the management of his boat and the maintenance of his own life and comfort during the long months of danger and solitude before he could hope again to reach land. He would regard value in use, disregarding value in exchange. If he had not lost the prudence which, no less than daring, is required successfully to make such a trip, it may well be doubted whether he would not prefer to carry its weight in freshwater than to take a single diamond or gold piece and prefer another can of biscuit or condensed beef to the last bundle of thousand-dollar notes that he might take instead.

Adam Smith was right. The distinction between value in use and value in exchange is an essential one. Despite all attempts to confuse and obliterate them, “value in use” and “value in exchange” must still hold their place in economic terminology. The terms themselves are perhaps not the happiest that might be chosen. But so long have they now been used that it would be difficult to substitute anything in their place. It is only necessary to do what Adam Smith could hardly have deemed necessary — point out what they really mean. They were taken indeed by him from common speech, and still retain the great advantage to any economic term of being generally intelligible.

In common speech the one word value, as I have already said, usually suffices to express either value in use or value in exchange. For which sense of the word is meant is ordinarily indicated with sufficient clearness by the context. In cases where the indication is

not sufficiently clear, the use of the word "value" will at once provoke a question equivalent to "do you mean value for use or value for exchange?"

In economic reasoning, however, the danger of using one word to represent two distinct and often contrasted ideas is very much greater than in common speech, and if the word is to be retained, one of its senses must be abandoned. Of the two meanings of the word value, the first, that of value in use, is not called for, or called for only incidentally in political economy; while the second, that of value in exchange, is called for continually, for this is the value with which political economy deals. To economize the use of words, while at the same time avoiding the liability to misunderstanding and confusion, it is expedient therefore to restrict the use of the word value, as an economic term, to the meaning of value in exchange, as was done by Adam Smith, and has since his time generally been followed; and to discard the use of the single word value in the sense of value in use, substituting for it where there is occasion to express the idea of value in use, and the close context does not clearly show the limitation of meaning, either the term "value in use" or some such word as usefulness or utility. This I shall endeavor to do in this work — using hereafter the single term value, as meaning purchasing power or "value in exchange."