

## CHAPTER 8 — ECONOMIC VALUE:

### ITS REAL MEANING AND FINAL MEASURE

Value, as an economic term, means, as we have seen, value in exchange, or exchangeability. But from what does this quality of value in exchange proceed? And by what may we measure it? Qualities such as size, distance, direction, color and the like are only comprehensible and intelligible to us by reference to some fixed starting point. Size and distance, for instance, are comprehended and intelligibly expressed as relations to certain measures of extension, such as the foot, the meter, diameters of the earth, or diameters of the earth's orbit; or color, as a relation to the order in which certain impressions are received through the human eye; and so on.

Now, has not also the idea of value some fixed starting-point, by which it becomes comprehensible and intelligible, as have all other ideas of relation? Clearly it has. What the idea of value really springs from is the relation of each thing having value to something which is the source and natural measure of all value — namely, human exertion, with its attendant irksomeness or weariness.

Adam Smith saw this, though he may not have consistently held to it, as was the case with some other things he clearly saw for a moment, as through a rift in clouds which afterwards closed up again. In the *Wealth of Nations*, he says:

*Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences and amusements of human life. But after the division of labor has once thoroughly taken place, it is but a very small part of these with which a man's own labor can supply him. The far greater part of them he must derive from the labor of other people, and he must be rich or poor according to the quantity of that labor which he can command, or which he can afford to purchase. The value of*

*any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labor which it enables him to purchase or command. Labor, therefore, is the real measure of the exchangeable value of all commodities. (Book I, Chapter V)*

He repeats this statement a little further on:

*Equal quantities of labor, at all times and places, may be said to be of equal value to the laborer. In his ordinary state of health, strength and spirits; in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it. Of these indeed it may sometimes purchase a greater and sometimes a smaller quantity; but it is their value which varies, not that of the labor which purchases them. At all times and places that is dear which it is difficult to come at, or which it costs much labor to acquire; and that cheap which is to be had easily, or with very little labor. Labor, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only.... Labor, therefore, it appears evidently, is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places.*

How then is it that Adam Smith, when he needed a term which should express the second sense of the word value, did not adopt a phrase that would bring out the fundamental meaning of value in this sense, such, for instance, as "value in toil," or "value in exertion," or "value in labor;" but instead of any of them chose a phrase, "value in exchange," which refers directly to only a second-

ary and derivative meaning? The reasons he himself gives, in what immediately follows the first two paragraphs I have quoted:

*But though labor be the real measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated. It is often difficult to ascertain the proportion between two different quantities of labor. The time spent in two different sorts of work will not always alone determine this proportion. The different degrees of hardship endured, and of ingenuity exercised, must likewise be taken into account. There may be more labor in an hour's hard work than in two hours' easy business; or in an hour's application to a trade which cost ten years' labor to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure either of hardship or ingenuity. In exchanging, indeed, the different productions of different sorts of labor for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality which, though not exact, is yet sufficient for carrying on the business of common life.*

There are here two reasons assigned for the choice of the term "value in exchange," to denote what Smith saw with perfect, though only momentary clearness, really to mean "value in exertion." The first, and it is a weighty one, is that the term "value in exchange" was already familiar, and would be best understood in bringing out the distinction he wished to dwell upon — the difference between value in the economic sense and "value in use."

The second, which indicates a confusion in the philosopher's own mind — the swiftness with which the clouds drifted over the star he had just seen — is that he could think of nothing by which to measure the toil and trouble of exertion except time of application, which he truly saw could only measure quantity and not quality — that is to say, duration, not intensity. He failed to recognize the

obvious fact that if the toil and trouble of exertion dispensed with be the measure of value, then, correlatively, value must be the real measure of the toil and trouble of that exertion, and that the something he was seemingly looking for — some material thing or attribute which, as a yardstick measures length, should measure the toil and trouble of exertion — is not to be found, because it cannot exist, the only possibility of such a measurement lying in “the higgling of the market.” For since toil and trouble, which constitute the resistance to exertion, are subjective feelings which cannot be objectively recognized until brought, through their influence upon action, into the objective field, there is no way of measuring them except by the inducement that will tempt men to undergo them in exertion, which can be determined only by competition or “the higgling of the market.”

Adam Smith was never called upon to revise or in any way to reconsider the statement of his great book as to the nature of value, the discussion on the subject having arisen since his death. His successors in political economy have been, with few exceptions, not men of original thought, but the mere imitators, compilers and straw-splitters who usually follow a great work of genius. They have, without looking further, accepted the term used by him, “value in exchange,” not merely in the same way that he accepted it, as a convenient, because a readily understood, name for a quality, but as expressing the nature of that quality. Thus Adam Smith’s explanation of the essential relation of value to the exertion of labor has been virtually, if not utterly, ignored. These succeeding economists have been dissuaded and debarred not only by certain facts not understood, such as the fact that many things having value do not originate in labor, and by erroneous conceptions, such as that which treats labor itself as a commodity; but by a greatly effective recognition of the fact that danger to existing social institutions would

follow any too searching an inquiry into the fundamental principle of value. A world of ingenuity has been expended and monstrous books have been written that it will tire a man to read and almost make him doubt his own sanity to try to understand, to solve the problem of the fundamental nature of value in exchange. Yet they have resulted in what are but ponderous elaborations of confusion, for the good and sufficient reason that the essence or foundation of what we call value in exchange does not lie in exchangeability at all, but in something from which exchangeability springs — the toil and trouble attendant upon exertion.

The prevailing theory has been that value is really nothing more than exchangeability. The ingenious and elaborate attempts that have been made to give something like a solid support and logical coherency to this theory have only more clearly shown its utter inadequacy. The latest and most elaborate of these attempts, that of the Austrian or psychological school, is an attempt to emulate in economic reasoning the stories told of East Indian jugglers, who throwing a ball of thread into the air, pull up by it a stouter thread, then a rope, and finally a ladder, on which they ascend until out of sight, and then — come down again!

For whoever will work his way through the perplexities of their reasoning will find that the adherents of this school derive the value of pig-iron, for instance, or even of iron ore in the vein, from the willingness of consumers to pay for higher and more elaborate products into the production of which iron enters, deriving that willingness from a mental estimate on the part of consumers of the utility of those products to them. Thus, as coolly as such stories of Indian jugglers ignore the law of gravitation, do they ignore that law which to political economy is what gravitation is to physics, the law that men seek to satisfy their desires with the least exertion — a law from which proceeds the universal fact that as a matter of exchanging

no one will pay more for anything than he is obliged to.

These elaborate attempts to link value on utility, and the utility on individual will or perception, in order to find a support for the idea of value, only show that there is no resting-place in the supposition that value proceeds from exchangeability and can only be relative to other values. The plausibility of this supposition comes from confusion in the use of a simple word.

#### EXCHANGEABILITY AND VALUE

Above all words in common use in the English tongue the word "thing" is the widest. It includes whatever may be an object of thought — an atom or a universe; a fact or fancy. But this comprehensiveness of the word we are sometimes apt to forget, or not fully to keep in mind, and to use such phrases as "all things" or "anything" when we really have in mind only things of one particular kind.

When we wish to test the proposition that value is a relation of exchangeability between valuable things, we usually proceed to make a mental experiment with some few valuable things, for it would be impossible to take them all, and tiresome to attempt it. Thus, for instance, we think of money, or as the most widely known representative of money, a piece of gold, and say to ourselves: "Here is a piece of gold. Why is it valuable? It is that it can be exchanged for wheat, hardware, cotton goods and other valuable things. If it could not be so exchanged it would have no value, and the measure of its value is the value of the wheat, hardware, cotton goods and other valuable things for which it is exchangeable. If the relation of exchangeability alters so that for that same piece of gold one can obtain more valuable things, the value of the gold rises, and that of the other valuable things falls." Then, we reverse the standpoint of examination, taking in turn wheat, hardware or cotton goods

as representative of a particular instance of value, and gold as representing other valuable things; and seeing that their value depends upon their exchangeable relation in the same way as that of gold in our first experiment, we conclude that value is indeed a relation of exchangeability, and that that is the beginning and end of it.

Thus, that value depends on value, and springs from value and can only be measured by value — seems to us perfectly clear, and we accept the doctrine that there can be no general increase or decrease in values, as if it were but another statement of the axiom that a whole is equal to the sum of its parts, and consequently that all those parts can never be increased or diminished at the same time. The habitual use of money as a common measure of value is apt to prevent any realization of the fact that we are reasoning in a circle.

I think I have correctly described the line of reasoning which makes the derivation of value from exchangeability so plausible. I do not of course mean to say that labor is never taken into account. It is often expressly mentioned and always implied to be one of the valuable things in the category of valuable or exchangeable things. But the weight of the examination is, I think, always thrown upon such things as I have named — things resulting from the exertion of labor; while labor itself is passed over lightly as one of the “other valuable things,” and attention never rests upon it.

And, furthermore, I am inclined to think that there always lurks in this examination — which is in reality an examination of the relative value of products of labor — the tacit assumption that the quantity of the valuable things (thought of as products of labor) existing at the specific moment presumed in the examination is a fixed quantity, so that there can be no exchange between those possessed of valuable things (i.e., products of labor) and those

possessed of no valuable things (i.e., no products of labor). This, I think, is the case even where the value of labor is given a place in the category of considered values, for what the reputed economists since Smith have called the "value of labor" is in reality the value of the products of labor paid to laborers in wages (which has been usually assumed to come from a fixed quantity, the capital existing at that moment). And on another side, any rigorous examination of the nature of value has been prevented by the universal disposition of economists to slur over the nature of the value of land, and practically to assume, what was indeed the common assumption, that it had the same origin as the value attaching to such things as gold, wheat, hardware, cotton goods or similar products of labor.

That it takes two to make an exchange is clear. But that value in one person's hands does not, as is taught in economic works, necessarily involve the existence of value in the hands of others, may be seen by another imaginative experiment:

Let us imagine some remote and as yet undiscovered island, where men still live as in the Biblical account our first parents lived before the Fall, taking their food from never-failing trees, quenching their thirst from ample and convenient springs, sleeping in the balmy air, without thought of clothing. The power of exerting labor they would of course possess, but of that exertion in itself and of the toil it involves, we may imagine them as ignorant as Adam and Eve in their first estate are supposed to have been. On that island there would clearly be no value. Yet if valuable articles were brought there, would they necessarily lose their value? Could they be parted with only by gift, and would there be no possibility of exchanging them?

Imagine, now, a ship containing such merchandise as would tempt the fancy of a primitive people to come in sight of the island and cast anchor. Would exchange between the ship's people and the



Islanders be impossible because of the lack on the part of the Islanders of anything having value? By no means. If nothing else would suffice, the offer of bright cloths and looking-glasses would surely tempt the Eves, if not the Adams; and though never exerted before, the Islanders would exert their power of labor to fill the ship with fruit or nuts or shells, or whatever else of the natural products of the island their exertion could procure, or to pull her on the beach so that she might be caulked, or to fill and roll her water-casks. There was nothing of value on the island before the ship came. Yet the exchanges that would thus take place would be the giving of value in return for value; for on the part of the Islanders value that did not exist before would be brought into existence by the conversion of their labor power through exertion into wealth or services. Even if we suppose the Islanders to relapse into their former easy way of living when their visitors sailed off, there would still remain on the island, where there was no value before, some things having value, and this value would attach to these things until they were destroyed or so long as there remained such desire as would prompt any of the Islanders to render labor in exchange for them. On the other side, the value that the ship would carry off would certainly be not less than the value she contained on arrival, and in all probability would be much more.

Now the way thus illustrated is the way in which the value that attaches to the greater number of valuable things originates. I do not mean it merely to say that this was the way of the first appearance of value among men, but that it is the way in which the value that attaches to what are properly articles of wealth now originates. I do not mean merely to say, as Adam Smith said, that it was "by labor that all the wealth of the world was originally purchased." I mean to say that it is by labor that it is now purchased.

Nothing, indeed, can be clearer than this. Even in the richest of

civilized countries, the great body of the people in any civilized society consist of what we call the working class, who live almost literally from hand to mouth, and who have in their possession at any one time little, or practically nothing, of value. Yet they are the purchasers of the great body of articles of value. Where does the value which they thus exchange for value which is already in concrete form come from? Is it not from the conversion of their labor power, through exertion, into value? In common phrase, they exchange their labor for commodities.

How does this fact — the fact that the great body of valuable things pass into the hands of those who have no value to give for them except as they make valuable what before had no value, and are consumed, by being eaten, drunk, burned up or worn out, by them — consort with the theory that value is a relation of exchangeability between valuable things, and that there can be no general increase or decrease of values? Does it not utterly invalidate the theory? Must there not be a constant increase of value to make up for the constant destruction of value, and in spite of it, to permit such growth of aggregate values as we see going on in progressive countries? And in times when the ability to convert labor into values is checked by what we call “want of employment” and great numbers of workers are idle, is there not a clear lessening of the sum of values, a general decrease in values, as compared with the times when there is what we call “abundance of employment,” and the great majority of them are at work, turning labor power through exertion into value?

The truth is that current theories of value have resulted from the effort of intelligent men to mold into a semblance of coherency teachings built upon fundamental incoherencies. Let me point out what gives them plausibility, the fallacy involved in the inclusion of labor as “another valuable thing,” while the real stress of the

examination is laid upon the relative values of such things as gold, wheat, hardware and cotton goods — things that are products of labor. It is a fallacy which our habit of speaking of the buying and selling and exchanging of labor, and our habit of thinking of the value of labor as we think of the value of gold or wheat or hardware or cotton goods, conceals from attention, but which is in reality of fallacy of the kind named by the old logicians “the fallacy of undistributed middle.”

Here we come to another instance of the care needed in political economy in the use of words. By the word “labor” we sometimes mean the power of laboring — as when we speak of the exertion of labor, or of labor being employed, or of labor being idle or wasting. Sometimes we mean the act of laboring — as when we speak of the irksomeness or toil of labor. Sometimes we mean the results of laboring — as is the case in most or all of the instances in which we speak of buying, selling or exchanging labor — the real thing bought, sold or exchanged being the results of laboring, that is to say wealth or services. And sometimes, again, we mean the persons who do labor or the persons who have the power and the willingness to labor.

It is clear that labor in the first-mentioned the sense of the word, that of the power or ability of laboring, is not an exchangeable thing and cannot come into any category of values. It resides in the individual body and cannot be taken out of that body and transferred to another, any more than can sight or hearing, or wisdom or courage or skill. I may avail myself of another’s skill, courage or wisdom, of his hearing or of his sight, by getting him to exert them for my benefit. And so I may avail myself of another’s ability to labor by getting him to do the services, or to produce things which I am to own. But the power of laboring he cannot give, nor I receive. While there are results of its expenditure that may be transferred, the

power in itself is intransferable, and therefore unexchangeable.

Now the failure to keep in mind these different senses of the word labor operates to shut off inquiry as to whether the cause of value is not to be found in labor. For since in some senses labor is thought of as having value in exchange, the term, without distinction as to its various senses, is apt to pass in our minds into the category of exchangeable things, with gold or wheat or hardware or cotton goods, and thus the question is unconsciously begged.

But, when we realize that when we say that labor is a valuable thing, we must carefully exclude the sense of labor power, or ability to labor, a confusion is cleared up which has made the search for the true nature of what we call value in exchange a fruitless "swinging round a circle." For since value does not exist in labor power, but does appear where that power takes tangible form through exertion, the fundamental relation of value must be a relation to exertion. But a relation to a exertion in what sense? A relation to exertion positively, or a relation to exertion negatively?

I exchange gold for silver, let us say. In this I give something positively and receive something positively. I get rid of gold and acquire silver. The other party to the exchange gets rid of silver and acquires gold. But when I exchange gold for exertion or toil, do I get rid of gold and acquire toil, and does he get rid of toil and acquire gold? Clearly not. No one wants exertion or toil; all of us want to get rid of it. It is not exertion in a positive sense which is the object of exchange, but exertion in a negative sense; not exertion given or imposed, but exertion avoided or saved. Value, in short, is equivalent to the saving of exertion or toil, and the value of anything is the amount of toil which the possession of that thing will save the possessor, or enable him, to use Adam Smith's phrase, "to impose upon other people" through exchange. Thus, it is not exchangeability that gives value; but value that gives exchangeability. For since

it is only by exertion that human desires can be satisfied, whatever will dispense its owner from the toil and trouble of exertion in the satisfaction of desire in that acquires exchangeability.

Let me put the proposition in another form: The current theory is that it is when and because a thing becomes exchangeable that it becomes valuable. My contention is that the truth is just the reverse of this, and it is when and because a thing becomes valuable that it becomes exchangeable.

It is not the toil and trouble which a thing has cost that gives it value. It may have cost much and yet be worth nothing. It may have cost nothing and yet be worth much. It is the toil and trouble that others are now willing, directly or indirectly, to relieve the owner of, in exchange for the thing, by giving him the advantage of the results of exertion, while dispensing him of the toil and trouble that are necessary accompaniments of exertion.

Whether I have obtained a diamond, for instance, by years of hard toil or by merely stooping to pick it up — a movement which can hardly be called an exertion, since it is in itself but a gratification of curiosity which does not involve irksomeness — has nothing whatever to do with its value. That depends upon the amount of toil and trouble that others will undergo for my benefit in exchange for it; or what amounts to the same thing, which they will dispense me of in the satisfaction of my desire, by giving me things in exchange, for which others will undergo toil and trouble.

Desire itself, which is the prompter to exertion, cannot be measured. It is a quantity which, being in its nature subjective, can have no objective measurement until it passes through action into the field of objective existence.

But desire impels to action, as what we call energy or force impels to movement. And while we can no more measure desire in itself than we can measure force in itself, we can measure it in the

same way that we measure energy or force — by the resistance it will overcome. Now, while the resistance to movement is inertia, so the resistance to the gratification of desire is the toil and trouble of exertion. It is this that is expressed by and measured in value.

Normally, value and exchangeability are thus always associated and seemingly identical. But in the causal relationship, value comes first. Exchanging is in fact the mutual transfer of value. Of all the qualities of things, value is the only quality of which exchange takes note. Value in exchange, or value in the economic sense, is worth in exertion. It is a quality attaching to the ownership of things, of dispensing with the exertion necessary to secure the satisfaction of desire, by inducing others to take it. Things are valuable in proportion to the amount of exertion which they will command in exchange, and will exchange with each other in that proportion.

The value of a thing in any given time and place is the largest amount of exertion that anyone will render in exchange for it. But as men always seek to gratify their desires with the least exertion this is the lowest amount for which a similar thing can otherwise be obtained.

This of course is not to say that whatever anything may exchange for is its value. In individual and especially in unaccustomed transactions the point at which any particular exchange takes place may considerably vary. But that our idea of value assumes a normal point, and what this point really is, may be seen in common speech. Thus we frequently say of the exchange of a certain thing that it brought less than its value, or that it brought more than its value. We say that a thing was exchanged at less than its value because someone else would have given more for it. And so what we deem the point of real value, or actual equivalence, we speak of as market value, from the old idea of the market or meeting place of those who wish to make exchanges, where

competition or the higgling both the market brings out of the highest bidding or the lowest offering in transactions of exchange. And when we wish to ascertain the exact value of the thing we offer it at auction or in some other way subject it to competitive offers.

Thus I am justified in saying that the value of a thing in any time and place is the largest amount of exertion that anyone will render in exchange for it; or to make the estimate from the other side, that it is the smallest amount of exertion for which anyone will part with it in exchange.