

CHAPTER 10 — THE TWO SOURCES OF VALUE

We now come to a point of much importance. For it is from the failure to note what I wish in this chapter to point out that the confusions that have so perplexed the terms of value and wealth in the study of political economy have arisen.

It is usually, if not indeed invariably assumed in all standard economic works that the conversion of labor power through exertion into services or wealth is the only way in which value originates. Yet what we have already seen is enough to show us that this cannot be so. It is not the exertion that a thing has cost, in past time, that gives it value, but the exertion that its possession will in future time dispense with. Thus value may be created by mere agreement to render exertion, or by the imposition of such obstacles to the satisfaction of desire as will necessitate a greater exertion for the attainment of the satisfaction. In the same way, the value of some things may be increased, or sometimes perhaps produced, without the production of real wealth; or even by the destruction of real wealth.

For instance: I with another may agree to exchange, but consummate in the present but one side of the full exchange, substituting for the other side an agreement or obligation to complete it in the future. That is to say, I may give or receive things having present value in return for an obligation to render labor or the results or representatives of labor at some future time. Or, both of us may exchange similar obligations. The obligations thus created may, and frequently do, at once assume value and become exchangeable for exertion or the results of exertion. Or, a government or joint-stock company may issue obligations of the same kind, in the form of bonds or stock, which may at once assume a value dependent as in the case of an individual upon the strength of the belief that the

obligations will be faithfully redeemed.

There is in all this no increase of wealth; but there is creation of value — a value arising out of obligation and dependent entirely upon expectations, but still a value — an exchangeable quantity, the possession of which could command through exchange other valuable things.

Now in individual economy, which takes cognizance only of the relations of the individual to other individuals, there is no difference between these two kinds of value. Whether an individual has the power of commanding exertion from others because he has added to the general stock, or simply because he holds the power of demanding exertion from others, makes no difference to him or to them. In either case he gets and they give.

But in political economy, which is the economy of the society or the aggregate, there is a great difference. Value of the one kind — the value which constitutes an addition to the common stock — involves an addition to the wealth of the community or aggregate, and thus is wealth in the politico-economic sense. Value of the other kind — the value which consists merely of the power of one individual to demand exertion from another individual — adds nothing to the common stock. All it effects is a new distribution of what already exists in the common stock, and in the politico-economic sense, is not wealth at all.

In the development of political economy from Adam Smith these two and totally different kinds of values have been confused in one word.

This difficulty might have been avoided in the beginning by giving to the two kinds of values separate names, but the word value has so long been used for both, that the best a science of political economy can do now is to distinguish between value of the one kind and value of the other kind.

This however it is necessary to attempt. The best thing I can do is to distinguish value, not as one, but as of two kinds. By a clear distinction, the various ways in which value may originate, embrace 1) the value which comes from the exertion of labor in such a way as to save the future exertion in obtaining the satisfaction of desire; and, 2) the value which comes from the acquisition of power on the part of some to command or compel exertion on the part of others, or, which is the same thing, from the imposition of obstacles to the satisfaction of desire that render more exertion necessary to the production of the same satisfaction.

Value arising in the first mode may be distinguished as "value from production," and value arising in the second mode may be distinguished as "value from obligation" — for the word obligation is the best word I can think of to express everything which may require the rendering of exertion without the return of exertion.

Value in the sense of exchange value, the only sense in which it can properly be used in political economy, is one and the same quality, just as the water that flows through the outlet of the Nile or Mississippi is one and the same stream. But as we distinguish the sources of these waters as the White Nile and the Blue Nile, or as the Upper Mississippi, the Missouri, the Ohio, etc., so may we distinguish as to origin, between value from production and value from obligation.

The term "value from obligation" will at once be recognized as including an immense body of the values dealt with by banks, stock exchanges, trust companies, or held by private individuals, and which are commonly known as obligations or securities. But it may require a little reflection to see how much else there is having value which is really value from obligation. All debts and claims of whatever kind, all special privileges and franchises, patents, and the beneficial interests known as good will, insofar as they have

value, have it as value from obligation. The value of slaves wherever slavery exists — and only a few years ago the market value of slaves in the United States was estimated in round numbers at three thousand million dollars — is clearly a value of obligation, springing not from production, but from the obligation imposed on the slave to work for the master. So too with the value of public pensions and the incumbency of profitable offices and places, when they are made matters of bargain and sale, which is in some cases yet done in England and which is I fear to a still larger extent yet done in the United States, though surreptitiously.

Among the valuable assessments of the larger landholders of feudal times was the right of holding markets, of keeping dovecotes, of succeeding in certain instances to the property of tenants; of grinding grain, of coining money, of collecting floatwood, etc. The values of these were clearly “values from obligation.” But that they have passed insensibly into the single right of exacting a rent for the use of land is proof that the value of this right — the right, as it is called, of private ownership of land — is in reality a “value from obligation.”

This power to command labor without the return of labor constitutes on the other side an obligation, and it is this that gives it value. Thus a verbal promise, a bank account, a promissory note, or any other instrument of indebtedness, an annuity, an insurance policy, things which frequently have value, derive that value from the fact that they express an obligation to render exertion to the holder or assignee without return. Thus value may be increased sometimes even by the destruction of valuable things, as the Dutch East India Company kept up the value of spices in Europe by destroying great quantities of spices in the islands where they grew; and as our “protective” tariff makes certain things more valuable in the United States than they would otherwise be by imposing fines and penalties

on bringing them into the country; or as strikes, as we have recently seen in England and in America, may increase the value of coal or other products; or as a drought, which causes great loss of the corn crop over wide areas, may increase the value of corn, or as a war which lessens the supply of cotton in England may increase the value of cotton there. All such additions to value are "value from obligation," which can no more affect the general stock than can what Jack wins from Tom in a game of cards.

But the most important of these additions to value which do not increase wealth are unquestionably to be found in land value, the form of value from obligation which in the progress of mankind to civilization tends the most rapidly to increase, and which has already in the modern world assumed perhaps more than the relative importance that slavery once held in the ancient world. In an England or a United States, or any other highly civilized country, this importance is already so great that the selling value of the land equals the selling value of all improvements and personal property, while it is the one thing which the natural progress of society, in short all improvements of whatever kind, tend constantly to augment. Yet this value is not part of wealth in the economic sense.

And this is a reason that neither Adam Smith nor those who succeeded him, however much they may have differed as to tweedledum and tweedledee, has realized the true character and dual nature of value. For to recognize that is to come to the conclusion of the Physiocrats that, in the economic sense, land is not wealth. And this involves a revolution, a beneficent revolution, greater than the world has yet seen.

Yet it is perfectly clear. Let us go back in thought to our imaginary Isle of Eden, and suppose that its discoverers, instead of making merchandise of the inhabitants themselves, had done at once what the American missionaries did gradually in the Hawaiian

Islands — made themselves owners of the island, and with power to enforce their claim by punishment, had forbidden any islander to pluck of a tree or drink of a spring without their permission. Land before valueless would at once become valuable, for the Islanders, having nothing else to give, would be compelled to render exertion, or the products of exertion, for the privilege of continuing in life.

“The value of the thing is just what you can get for it,” is a saying, current among men who have never bothered their heads with political economy, which concisely expresses the conception of value. A thing has no value if nothing can be got in exchange for it, and it has value when, so long as, and to the degree that, it may be exchanged for some other thing or things.

But all things having value cannot be exchanged for all other things having value. I could not for instance, exchange a million dollars' worth of cheesecakes for a building worth a million dollars. What then is the one thing for which all things having value must directly or indirectly exchange? We are apt to ignore that question, because we habitually think of value in terms of money, which serves us as a flux for the exchange of all values. But if we press the question, we see that everything having value must ultimately be exchangeable into human exertion, and that it is in this that its value consists. There are some valuable things that cannot readily, and some that it is practically impossible to exchange for exertion — such, for instance, as an equatorial telescope, a locomotive, a steamship, a promissory note or bond of large amount, or a bank-note or greenback of high denomination. But they derive their value from the fact that they can be exchanged for things that can in turn be exchanged for exertion.

Money itself derives its power of serving as a medium or flux of exchanges from the fact that it is of all things that which is most readily exchangeable for exertion, and it utterly loses value when it

ceases to be exchangeable for exertion. This we have seen in the United States in the case of the Continental currency, in the case of the notes of broken State banks and in the case of the Confederate currency. Thus value ends as it begins, with the power of commanding exertion, and is always measured by that power.

Value in the economic sense is not a mere relation of exchangeability between valuable things, which, save relatively, as between one particular thing and another particular thing, can neither increase nor diminish. The real relation of value is with human exertion, or rather with the toil and trouble that are the inseparable adjuncts of exertion; and the true and absolute value of anything, that which makes it comparable with that of any or all other things in all times and places, is the difficulty or ease of acquiring it. That is of high value which is hard to get; that is of low value which is easy to get; while that which may be had without exertion, and that which no one will undergo exertion to get, has no value at all. Cheapness or low value means that the satisfactions of desire may be obtained with little effort, dearness or high value means that they can be obtained only with much effort. Thus there may be general increase or decrease of value as clearly and as truly as there may be general scarcity or general abundance.

The recognition of this simple theory of value will enable us as we proceed to clear up, with ease and certainty, many points which have perplexed the economists who have ignored it, and are to their students stumbling-blocks, which make them doubt whether any real science of political economy is possible. In its light all the complex phenomena of value and exchange become clear, and are seen to be but illustrations of that fundamental law of the human mind which impels men to seek the gratification of their desires with the least exertion.

Whatever increases the obstacles, natural or artificial, to the

gratification of desire on the part of the ultimate users or consumers of things, thus compelling them to expend more exertion or undergo more toil and trouble to obtain those things, increases their value; whatever lessens the exertion that must be expended, decreases value. Thus, wars, tariffs, pirates, public insecurity, monopolies, taxes and restrictions of all kinds, which render more difficult the satisfaction of the desire for certain things, increase their value, and discoveries, inventions and improvements which lessen the exertion required for bringing things to the satisfaction of desire, lessen their value.

Here we may see at once the clear solution of the question which has perplexed and still perplexes many minds — the question whether the artificial increase of values by governmental restriction is or is not in the interest of the community. When we regard value as a simple relation of exchangeability between exchangeable things, there may seem room for debate. But when we see that its relation is to the toil and trouble which must be undergone by ultimate users in the satisfaction of desire, there is no room for debate. Scarcity may be at times to the relative interest of the few, but abundance is always to the general interest.