Henry George's Theory of Value

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> "A cynic is someone who knows the price of everything and the value of nothing" - Oscar Wilde [1]

1. INTRODUCTION: WHY IS A THEORY OF VALUE SO IMPORTANT?

Henry George was one of the last economists to put forward a coherent theory of value. In the twentieth century, the quest for a proper theory of value seems to have been all but abandoned. Economists have conditioned themselves to doing without any (apparent) theory of value at all. So used have we become to managing without one, it is worth asking: why is a theory of value so important?

A theory of value must explain why things (commodities, land, labour, fine art etc) are "valuable". But, straight away, we must define what we mean by "valuable". In political economy something is "valuable" according to the price which it will command in a market.[2]

To state that something is "valuable" in this sense does not involve any moral, or subjective, opinion or assessment. In stating the value of something we are not prescribing anything, in the way that priests and politicians may do; we are not urging values on people. Rather, we are describing how and why things in fact come to be valued; such a description is properly the task of science, not theology, religion, ethics or politics. (Love, for example, may be the most important thing in a person's life, and "valuable" in a very personal sense; but it is not something that can be bought and sold, so it is not strictly "valuable" in an economic sense - why else do we say that it is "invaluable"? [3])

In their treatment of the subject, economists have traditionally distinguished between value in use and value in exchange,[4] and affirmed that political economy is concerned with the nature and origins of values in exchange.[5] But if this is the case, it may be asked in what respect (if any) value differs from price. In the twentieth century, talk about value among economists has virtually disappeared, while they concentrate on markets and the causes of price movements, instead.

Now, price is the monetary amount which something will fetch in a market. In a barter economy, the term "price" is seldom used. Although we could say of any exchange that each item is the price of the other, this usually only starts to happen when some commodity (e.g. cigarettes, gold etc.) emerges as a form of currency, or money, so that virtually everything can be bought and sold with it.

As any society develops, so will it develop its own money with which to make exchanges. Invariably this will emerge in the form of coins and notes, and gradually more sophisticated forms of "credit money". The price of anything in that society will be the monetary amount which it will fetch in a market. But where there is paper and credit money, such prices will always be subject to the phenomenon of monetary inflation.

Monetary prices can change for many different reasons; but economists properly divide these causes into two different categories. On the one hand, there are genuine changes in the supply and demand factors operating in the market (note, for example, the effect of the Gulf War on oil prices). On the other hand, however, there is monetary inflation.[6] Put at its simplest, this is a disorder of the currency which causes the prices of everything to rise because the purchasing power of money is falling. Economists refer to the "value" of money declining, while the "values" of other things (such as commodities, land etc.) remain constant. Although they often do not clarify what they mean by "value" in this context, this does imply that there is an intrinsic economic worth[7] in things above and beyond their price, of which price itself is only a measure. That worth is what we mean by "value".

A proper theory of value will therefore enable us:

- to explain the origin and nature of money; and
- (hopefully) thereby to explain the phenomenon of inflation.

But it should also enable us:

- to define and distinguish between the concepts of "value", "wealth" and "property";
- to map out properly the scope of political economy - as the science of the production and distribution of wealth;
- to see "production" as that which adds or creates value, "consumption" as that which subtracts or destroys value and "distribution" as the division of the product (or its proceeds) among the factors of production; and
- to show how certain things having value (such as stocks, bonds, notes, land etc) may constitute "wealth" to the individual/ but do not enter into the aggregate wealth of a nation, and therefore should not properly be termed "wealth" in political economy.

Finally, and most importantly from a theoretical point of view, a proper theory of value should enable us to show how a "science" of political economy -- one free of all subjective and moral judgements -- is possible.

2. ORIGINS OF GEORGE'S THEORY

One of the striking aspects of Progress and Poverty is that Henry George was able to put forward in that work a theory of political economy without an explicit theory of value.8 Progress and Poverty does imply a particular theory of value which is labour-related, but it was not until The Science of Political Economy that George fully articulated it. Regrettably, far too few are familiar with this, the most theoretical and philosophical of George's works, and economists ignorant of it have too often made unwarranted inferences from Progress and Poverty concerning George's theory of value.[9]

There may be several reasons for the lack of any explicit treatment of value in Progress and Poverty/ but two in particular spring to mind. First, George intended it as a popular work, in the best sense -- the sense in which Stephen Hawkings' "A brief history of time" is a popular work. He wanted his reader to relate what he was reading to his own personal experiences. Consideration of ideas of value is necessarily an abstract philosophical exercise, suited to those who are already used to thinking for themselves; but *Progress and Poverty* was largely aimed at encouraging those who had never thought about political economy for themselves before. (Simply put, George was saving his theory of value for later.)

Secondly, it may be that George had not fully thought through his theory of value, at the time when he wrote Progress and Poverty. From what we know of him, it seems clear that he had a healthy suspicion of abstract thought. His concern over and over again is with practical problems. Time after time he refutes conventional economic theories by producing counter-examples from everyday life. (In this respect, he followed strongly in the empiricist tradition of Locke and Hume, although much of his thought is actually rationalist.[10]) George's suspicion was that abstract thought can too easily lead one astray and, unless tempered with continual empirical testing, can too often lead to beliefs that actually fly in the face of the facts. George was definitely not an anti-intellectualist; but he was not seduced by intellectual theorising for its own sake.

The Science of Political Economy is a very different work from *Progress and Poverty*. One of George's aims in writing it was to show the philosophical and theoretical basis of a truly "value-free" science of political economy -- which is something very different from a science of political economy without any theory of value! George wanted to demonstrate that a science of political economy which was not dependent on moral value judgements was entirely possible. Philosophers, priests and politicians had traditionally attributed society's economic problems, without truly appreciating the nature of those problems, to the wayward moral values which people choose to live by, and had therefore sought to solve the problems by changing people's values through some form of social engineering. George wanted to demonstrate that such an approach required bestowing unnecessary and potentially tyrannical powers on the state, and constituted an unjustifiable intrusion on the rights and freedoms of the individual, but also (and more importantly) that such an approach was fundamentally mistaken. Society's economic problems could be laid bare, and scientifically, by a value-free science of political economy. George's purpose was therefore to explain first and judge later.

However, in order to give credence to the proposition that there could be an objective, truly value-free, science of political economy, George had to show what the origins and nature of the (exchange) value of goods and services and other items were, particularly at a time when the idea that value was wholly subjective was growing so strong. In a nutshell, George needed to produce a "value-free" theory of value.

George's theory of value, as definitively set forth in *The Science of Political Economy*, can therefore be seen as the culmination of various events:

- first, it was the logical next step in his continuing process of reasoning back to ever more abstract and primary levels;
- secondly, by setting forth a coherent theory of value he could demonstrate that those who asserted that there could be no science of political economy, because human desires are unfathomable, were fundamentally mistaken, and that a value-free science of political economy was indeed possible;
- thirdly, he could refute all other theories of value by implication, without having to criticise each of them individually (an interesting illustration of a man moving to satisfy his desires with the least exertion necessary);
- fourthly, in putting forward his own theory of value, he thereby fashioned a most effective weapon with which to attack many highly elaborate political and economic theories, by showing that (whatever the quality of the reasoning) their premises were seriously flawed11 ; and
- finally, having clarified the concept of value, he could put forward a proper definition of "wealth" as he considered the term should be used in political economy, a task which his contemporary and predecessor political economists had abandoned.

3. INDEPENDENCE OF THE IDEAS OF VALUE AND PROPERTY

If there was a single proposition which George sought to attack with his theory of value, it was that everything having exchange value should be considered and treated as property. In this principal respect, his ideas diverged from those of the French economist Frederic Bastiat, whose actual concept of value very closely resembles George's,12 for Bastiat had stated:

> "I should consider myself fortunate indeed if, through all these dissertations, which may well appear unnecessarily subtle, which fill me with misgivings because of their length and at the same time because of their conciseness, I should succeed in gaining acceptance for the reassuring truth: Private ownership of value is legitimate." *Economic Harmonies* ("EH") 140

In *Progress and Poverty* George had set forth a theory of property and its origins without the need for any reference to a theory of value. But if not everything having value is property, then what is that which has value but is not property? In *The Science of Political Economy* one of George's main objectives is to answer precisely that question.

4. HENRY GEORGE'S THEORY OF VALUE

Having considered what the origins and objectives of George's theory of value were, it falls to consider in what that theory consisted.

4.1 Value in use and value in exchange

George left the full exposition of his theory of value until *The Science of Political Economy*[13]. He starts by defining what he means by "value" and then goes on to show in what it consists. Like Adam Smith before him he distinguishes between "value in use" and "value in exchange", and specifies that he will use the term "value" solely in the sense of "value in exchange". His first task is to show that "value in use" and "value in exchange" are independent of each other.

The Austrian school was only starting to flourish and so George chooses to criticise the writings of a much more prominent nineteenth century writer, John Stuart Mill, who had criticised Smith on this account:

> "The exchange value of a thing may fall short, to any amount, of its value in use; but that it can ever exceed the value in use implies contradiction; it supposes that persons will give, to possess a thing, more than the utmost value which they themselves put upon it, as a means of gratifying their inclinations." (SPE 216)

As George points out:

> "In this there is a complete identification of value in use, utility or usefulness, with value in exchange, exchangeability or purchasing powers." (SPE 217)

The dispute stems from the fact that Smith and Mill use the phrase "value in use" in different senses. George, like Smith, uses the phrase interchangeably with "utility" and its meaning is the "capability of being used" or "usefulness". In distinction to this is the phrase "value in exchange"; but as George points out this is not strictly synonymous with "desirability", but with "desiredness"; for if "value in use" means "capability of being used" then "value in exchange" should mean "capability of being desired", but this is not what "desirability" means:

> " 'Desirability' in its well established use, however, does not mean the capability of being desired, as 'utility' means the capability of being used. When we say that a thing is desirable or undesirable, we do not mean that it may or may not be desired, nor that it is or is not desired, but that it ought or ought not to be desired. Thus, a desirable exchange or trade is an exchange which, with reference to the party considered, will prove a good

one. An undesirable exchange is one that will to the party considered prove a bad one. So we speak of a desirable book, horse, beverage, food, medicine, appetite, habit, thought, feeling or gratification, with reference to an ultimate benefit or injury to the persons specially considered or to mankind generally. So, indeed, we may speak even of a desirable or undesirable desire. The reason why there is no word in the English language which expresses the idea I wish to express, and which if at liberty to coin a word I should call 'desiredness', is that the one word 'value', serving in common speech for both senses, there is no common need for it." (SPE 216)

Mill, George argues, identifies "utility" with "desiredness", on the basis that the capability of a "use", in the sense of satisfying a desire or serving a purpose, is identical with usefulness:

> "But this is not so. Every child learns long before he reaches his teens that the capability of a use is not usefulness. Here for instance, is a dialogue such as every one who has gone to an old-fashioned primary school or mixed as a boy with boys must have heard time and again:
>
> First Boy - What's the use of that crooked pin you're bending?
>
> Second Boy -- What's the use! Its use is to lay it on a seat some fellow is just going to sit down on, and to make him jump and squeal, and to hear the teacher charging around while you're busy studying your lesson, and don't know anything about what is the matter.
>
> This is certainly SL use; but would anyone, even a schoolboy, attribute usefulness to such a use?" (SPE 219)

George's point is that, as Smith uses the term, "utility" means "not the capability of any use, but the capability of use in the satisfaction of the natural, normal and general desires of men". So the divergence in Smith's and Mill's views arises from the fact that Smith, for example, asserts that diamonds have a high value in exchange but low utility, because of their low capacity for satisfying natural, normal and general desires of men, whereas Mill asserts that they must have high utility, because of the particular ornamental use to which some men will put them and on account of which they are prepared to pay high prices. But this inevitably means that Mill has no real reason to distinguish between "value in use" and "value in exchange"; so it is not surprising that he helped to generate a whole school of thought that abandons the distinction entirely:

> "In this identification of utility with "desiredness" ... is the beginning of that theory of value as springing from marginal utilities of which Jevons was the first English expounder and which has been carried to elaborate development by what is known as the Austrian or psychological school. This school, setting aside all distinction between value in use and value in exchange, makes value without distinction an expression of the intensity of desire, thus tracing it to a purely mental or subjective origin. In this theory the intensity of the desire of the bread-eater to eat bread fixes the extreme or marginal utility of bread. This again fixes the utility of the products of which bread is made -- flour, yeast, fuel, etc - and of the tools used in making it -- ovens, pans, etc -and again of the natural materials used in making these products, and finally of the land and labour." (SPE 218)

Such a school has difficulty with the idea that something, air for example, could be said to be of great value to all men and yet have no value in exchange. They might argue (some do) that one would only really get to know how valuable man considered air to be when he had to sacrifice something for it, for example when it is proposed to introduce requirements that motor cars or industrial plants are fitted with particular technology to reduce air pollution. The extra cost thereby added to these industrial products gives us a measure of how much man is prepared to sacrifice for clean air, and therefore of the value of clean air to him. But this suggests that man currently does not value air enough; that, since clean air is so manifestly desirable, he ought to value it more; and it is precisely in this fashion that utility theory proponents introduce value judgements into what should be a "value-free" science of political economy.[14]

Such confusions arise from a refusal to distinguish between value in use and value in exchange. George saw no contradiction in asserting that air is extremely valuable (in the sense of value in use), yet has no value in exchange, simply because value in exchange is not intrinsic to the thing itself but "an estimate placed on it by man --[of] the toil and trouble that men will undergo to acquire possession of it, or the amount of other things costing toil and trouble that they will give for it". Air is freely available; therefore it has no value in exchange; but this does not imply that men look upon air as something worthless or undesirable.

On the assumption that value measures wealth, and increasing value measures increasing wealth, it is not difficult to see how utility theorists assert that a society is necessarily progressing materially when its land values are increasing, or to see how perplexed many of them are by the falling prices of produced articles as a society develops and progresses.

4.2 George's a command labour theory of value

Having thus demonstrated the distinction between value in use and value in exchange, and fixed the meaning of the term "value" as value in exchange only, George proceeds to consider the measure and denominator of value.

He shows, like Smith, that value in exchange is related to exertion; it is a measure of the toil and trouble that men are prepared to undergo to acquire something or, which is the same thing, the products of toil and trouble which they are prepared to give in order to acquire it.

This is a labour theory of value, but unlike Marx's theory it is not a 'production cost' theory, but a "command" theory. Like Smith and Bastiat before him, George asserts that value results not from labour which has been exerted or bestowed, but the future labour which can be commanded.

Like Bastiat, George points out that value in exchange is not something which is intrinsic to the thing itself but a relation of the thing to individual men and their desires. When we speak of the value of gold or wheat or hardware we appear to be talking about a quality inherent in the commodity itself and it is thereby easy to think that the labour which is the cause of its value is the labour which has gone into producing it. But, as George points out:

> "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; or, to use the algebraic form, the relation of the quality of value is not to plus-exertion, but to minus-exertion. 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." (SPE 245)

It was thus that George argued that a thing becomes exchangeable because it is valuable, and not vice-versa.

> "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 owners 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 the necessary accompaniments of exertion. ...
>
> ... That which may be had without the toil and trouble of exertion has no value. That for which the desire to possess is not strong enough to prompt to the toil and trouble of

exertion has likewise no value. But everything having value has that value only when, where and to the degree that its possession will, without exertion on the part of its possessor, satisfy through exchange a desire that prompts to exertion." (SPE 246)

The comparison with Bastiat is interesting:

"Value is the relationship existing between two services that have been exchanged. ...

... Air, then, has utility, but no value. It has no value, because, since it occasions no effort, it calls for no service. Rendering a service implies sparing someone pains; and when no pains are required to achieve a satisfaction, there are none to be spared, ...

... The fact is that value comes only from the service that has been rendered. ...

... Value, far from having any necessary relation to the labour performed by the person rendering the service, is more likely to be proportionate, we may say, to the amount of labour spared the person receiving the service; and this is the law of values ... value is determined less by the effort expended by the person serving than by the effort spared the person served." (EH 111)

Thus far George and Bastiat would seem to be in total agreement. However, their theories start to diverge when they each consider the nature of the value of land. Bastiat seeks to argue that the landowner in every case renders a service:

"It consists in the fact that he or his ancestor has cleared the land and fenced it off, he has cleared out the weeds and drained off the stagnant water; he has fertilised the vegetable garden, he has built a house, barns, and stables. All this represents long hours of labour that he has performed himself or, what amounts to the same thing, paid others to perform for him. These are certainly services for which, by vritue of the just law of reciprocity, he should be reimbursed. Now, this owner has never been remunerated, at least to the full extent. Nor could he be, since he would not charge the whole amount to the first man who came along and bought a bushel of wheat. What, then, is the arrangement that has been worked out? Truly, the most ingenious, the most legitimate, and the most equitable in the world. It is this: whoever wishes to buy a sack of wheat will pay not only for the services of workers we have just enumerated but also for a small part of the services rendered by the owner; in other words, the value of the owner's services will be distributed over all the sacks of wheat that come from this field." (EH 136)

This, of course, fails to draw a distinction between land in its natural state, and the return therefor, and all the improvements to the land, and the return therefor. George saw no difficulty in distinguishing between the two and the values created thereby. Bastiat proceeds to assert that "private ownership of value is legitimate" and to deduce from this that property in land, being private ownership of land value, must be legitimate.

George's quarrel would not be with the reasoning but with the premise. To assert that private ownership of value is legitimate is to assert that all values are of the same kind, whereas George saw a vital distinction between value which originates in the toil and trouble involved in production/ and that which originates in obligation to undergo toil and trouble for the benefit of another, commenting that "the failure to note this difference in the sources of value is the cause of great perplexity".

5. VALUE AND WEALTH

5.1. Value through production and value through obligation

George's distinction between value through production and value through obligation casts light on many problems which other theorists of value had left. He asserted that everything having value could be divided into classes: the first consisted of things, such as chattels, which had been produced and which had value because their possession would save the holder the toil and trouble of producing them for himself - this he called value through production; the second consisted of things, such as debts, bonds, property in land, which conferred on the holder the right to command the labour of others.

Socialists had seen the distinction but frequently only used it to condemn as illegitimate all value which was not value through production. George claimed that this was a sweeping generalisation. Certain values through obligation were illegitimate, such as in the case of slavery, but the legitimacy or illegitimacy was not the result of there simply being an obligation. Simple contract debts, the result of free bargaining between men, were perfectly legitimate, even though the only thing of value which one might hold was an obligation.

It is sometimes suggested that it is arbitrary to assess the value of something in terms of the labour it commands. Why not choose trees or cigarettes or money? If something commands so much labour, it also commands the equivalent-quantity of trees, cigarettes or money. This is technically correct; but it only illustrates the truism that in an exchange economy anything can be exchanged for anything else of equivalent value. The question is: what is the origin of that value, not how is value measured? Value can be measured in many different ways, although the most effective way is with money.

Everything has either value from production or value from obligation (or a combination of the two). That which has value from production has value because it has been produced. Labour, acting on land and with the aid of capital, has created that value. This is the source of its value -- for our purposes the uncaused cause. That which has value from obligation has value because of its ability to command labour -- and (of course) any other things having value. But those other things having value must themselves have value from production or value from obligation, so that one must ultimately be able to trace that value back to value from production solely, and thereby to labour as the uncaused cause.

It is most important that we do not confuse the origin of value with a measure of value.

5.2 George's definition of wealth

For George, the importance of the distinction between value from production and value from obligation for political economy was that, in looking at the aggregate of all valuable things in a society - its national wealth - values through obligation did not feature, because for every obligee holding an obligation of a particular amount there would always be an obligor owing precisely that obligation, so that when aggregated together these assets and liabilities "net out". (This does ignore the possibility of a society having and owing external obligations due to international trade, but the principle is important and certainly applies to mankind as a whole.) Thus it was that George asserted that wealth in political economy -- the wealth of nations -- consisted only of values from production, pointing out that the confusion of conventional economists arose from the fact that most people hold their riches in the form of obligations. Wealth, as the term is to be used in political economy, means:

> "natural substances or products so changed in place, form or combination by the exertion of human labour -- as to fit them or fit them better for the satisfaction of human desire ...
>
> ... In the economy of individuals, to which our ordinary speech usually refers, the word wealth is commonly applied to anything having an exchange value as between individuals. But when used as a term of political economy the word wealth must be limited to a much more definite meaning. Many things are commonly spoken of as

> wealth in the hands of the individual, which in taking account of collective or general wealth cannot be included. Such things having exchange value, are commonly spoken of as wealth, since as between individuals or between sets of individuals they represent the power of obtaining wealth. But they are not really wealth, inasmuch as their increase or decrease does not affect the sum of wealth. Such are bonds, mortgages, promissory notes, bank-bills, or other stipulations for the transfer of wealth. ...Such were slaves, whose value represented merely the power of one class to appropriate the earnings of another class. Such are lands or other natural opportunities, the value of which results from the acknowledgement in favour of certain persons of an exclusive legal right to their use, and the profit of their use, and which represents only the power thus given to the mere owner to demand a share of the wealth produced by use. Increase in the value of bonds, mortgages, notes or bank-bills cannot increase the wealth of a community that includes as well those who promise to pay as those who are entitled to receive. … Increase in land values does not represent increase in the common wealth, for what landowners gain by higher prices the tenants or ultimate users, who must pay them, are deprived of. And all this value which in common thought and speech, in legislation and law, is undistinguished from wealth, could, without the destruction or consumption of anything more than a few drops of ink and a piece of paper be utterly annihilated. By enactment of the sovereign political power debts might be cancelled, franchises abolished or taken by the state, slaves emancipated, and land returned to the general usufructuary ownership of the whole people, without the aggregate wealth being diminished by the value of a pinch of snuff, for what some would lose others would gain." (SPE 278)

Wealth, being that which has value from production, George goes on to show must be something essentially material. An article of wealth is something which has been produced, and therefore has value, but which has not yet been (wholly) consumed. For this reason services are not part of wealth, no matter how valuable, for services are consumed at the point of production. They cannot be stored except in some sort of material form and it is this material item which is wealth:

> "The essential idea of wealth being that of exertion impressed on matter, or the power of rendering service, stored in concrete form, to talk of immaterial wealth as some professed economists now talk, is as much a contradiction in terms as it would be to talk of square circles or triangular squares. Nothing can be really an object of wealth that is not tangible to the senses. Nor, in the strict sense of the terms, can wealth include any natural substance, or form, or power, unmodified by man's exertion, nor any human power or capacity of exertion. To talk of natural wealth, or to talk of human skill, knowledge or energy as included in wealth is also a contradiction in terms." (SPE 292)

George is thus able to construct a value-free science of political economy which enables us to see the origin of the value of land, franchises, money and other intangibles and thereby to judge the rectitude of asserting property rights in such things. He does not agree with Bastiat that all private ownership of value is legitimate. He condemns, on a moral basis, not an economic basis, private property in slaves and in land, for in both cases the obligation (of the slave or the tenant) is imposed other than by voluntary conduct or free exchange, and thereby constitutes a usurpation of human rights.

Value in money, such as paper money or bank deposits, on the other hand, is quite legitimate, although it can readily be seen that a government that simply prints money and provides no service in return (true inflation) cannot increase the wealth of the nation and can only be taking from some in order to pay others.

George therefore has a simple answer to socialists who query how anything can legitimately have value which has not been produced: values can be produced by contract, by free bargain and exchange and every man who freely assents to an obligation is legitimately thereby obliged to carry it out. The illegitimacy of chattel slavery and private property in land arises from the denial of man's rights of freedom of contract and exchange.

6. COMPARISONS WITH OTHER THEORIES

Having considered George's own theory of value and concept of wealth, it is interesting to see how they compare with those of others.

6.1 The Physiocrats [15]

Although he differed from the Physiocrats on many points, George saw them as equal founders with Adam Smith of the science of political economy which he sought to champion. The Physiocrats were the first to advocate the single tax on rent, on what they termed the "produit net", a subject which Smith delicately chose to side-step. Champions of truly free trade, George dedicated his *Protection or Free Trade* to Francois Quesnay.

The Physiocrats made it abundantly clear in their writings that by wealth they meant material things drawn from land by the exertion of labour and possessing value in exchange. They excluded land and natural resources, labour and personal capacities and powers. George was, therefore, in essential agreement with them about the nature of wealth.

Perhaps his principal disagreement with them was in the idea that the only productive occupations and activities were agriculture, which they defined to include mining, fishing etc (what we might term extractive industry). The processes by which wealth was exchanged in the course of transmission to the ultimate consumer were not part of "production" as such. George disagreed with this view. Every stage involved in bringing wealth to the ultimate consumer was part of production (not distribution). In his terms, every activity which "added value" was productive. The term "distribution" covered the manner in which the product is divided between the various factors (land, labour and capital) which have contributed to its production. Distribution was not separate from production, but the reverse side of the same coin.

It seems that the Physiocrats acknowledged that the source of all value was labour, without providing any more detailed theory of value. The theory of value, as a separate inquiry within political economy, appears to have commenced with Smith, who sought to clarify in precisely what sense labour created value.

6.2 Adam Smith

The treatment of value by Smith in *The Wealth of Nations* ("WN") is only incidental to his general commentary on the component parts of the prices of commodities. However, brief though it is, Smith clearly advocates a "command" labour theory of value, that relates the value of something to the amount of labour which it will command:

> "... 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 labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities.
>
> The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. 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" (WN 26)

From this, it can clearly be seen that, when Smith says in the very next sentence:

> "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",

he has been seriously misunderstood by those who take this to mean that the value of a thing is the amount of past labour expended on producing it. Smith is here advocating a command theory the same as George's. However, he fails to introduce the vital distinction between value through production and value through obligation, which was only later introduced by George. This makes Smith more difficult to understand, since in this passage he is primarily concerned with the value of commodities, which have value through production and which, as George pointed out, have a value which tends (particularly in the case of perishables) to their "cost of production". However, the very next sentence makes it doubly clear that Smith is referring to a "command" theory:

> "Labour was the first price, the original purchase money that was paid for all things."

From this it can be seen that George had no quarrel with Smith's labour theory of value but rather wished to clarify it and amplify it. By contrast, Smith's concept of "wealth" at first sight seems very different from George's. Smith's principal work of political economy is "An Inquiry into the Nature and Causes of the Wealth of Nations". Although he does not offer a definition of "wealth", nevertheless the opening sentence of the introduction to that work at least indicates what Smith considers it is the proper task of political economy to consider:

> "The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labour, or in what is purchased with that produce from other nations." (WN)

From this, it is not difficult to see why so many economists consider the aggregate of all goods and services produced by a society in each year as the wealth, or annual wealth, of that society. However, that is certainly not what George considered wealth to be. Nor, in George's opinion was it what Smith considered wealth to be. In George's opinion, Smith deliberately avoided providing a clear definition of wealth16 for to do so he would have had to make it clear that land (natural resources) formed no part of it, and Smith was less interested in antagonising landowners then in attacking the mercantilist system.

6.3 David Ricardo

George is often dismissed as just another Ricardian, principally because of their common doctrines on rent. However, even the briefest glance at their different writings on the subject of value will show that George was often at odds with Ricardo.

The very first chapter of Ricardo's "The Principles of Political Economy and Taxation" ("PPET") is devoted entirely to the subject of value. While acknowledging the central importance of the subject, this treatment makes Ricardo very difficult to follow, not least because he really draws on ideas which appear later in the work. In fact, this chapter is less of a coherent theory than a collection of passages containing criticisms of many ideas on the question of value. This lack of coherent treatment is made worse by the fact that at no stage in the chapter does Ricardo seek to define the terms (such as labour, land, capital, rent, profits, wealth etc.) which he uses. (The one vital distinction which he does make, in the first paragraph, is Smith's distinction between value in use and value in exchange.)

Ricardo appears to acknowledge the "command" labour theory of value when he refers to commodities deriving their value "from the quantity of labour required to obtain them". However, the paragraph actually states:

> "Possessing utility, commodities derive their exchangeable value from two sources: from their scarcity and from the quantity of labour required to obtain them". (PPET 5)

Not only does this hint that Ricardo (like Mill) believed there to be some connection between value in use and value in exchange, which George set out emphatically to refute, it demonstrates a certain confusion on Ricardo's part. For, if value is the amount of labour which a thing commands or "labour required to obtain [it]", why does Ricardo need to introduce "scarcity" as a separate variable? He gives no definition of scarcity, nor any method for measuring it.

Ricardo was correct in assuming that there was a distinction to be drawn between things which had value because produced and other things having value, but his distinction is not the same as (and much less clear than) George's. A simple example will suffice to show the difference. A unique painting, such as the Mona Lisa, may increase in value (in real terms) over time. George's explanation is simple. The amount of labour that went into producing this item is irrelevant. It is the amount of labour that people are prepared to give now to acquire it that gives it its value, and that has increased over time for no other reason than that people are prepared to give more and more for it. Ricardo might seek to assert that its "scarcity value" was increasing, but the painting is unique, it cannot become any more scarce (in the ordinary sense of that term). So all Ricardo can mean is that people are prepared to give more and more to acquire it, which means that scarcity plays no useful role in his definition of value, because he must define scarcity for economic purposes in terms of value.

Having introduced scarcity as a variable in determining even the value of commodity, Ricardo then proceeds to omit all treatment of it and concentrates on the question of how prices of commodities are resolved into their component parts, ending up with a "production cost" theory:

> "Mr Ma1thus appears to think that it is a part of my doctrine that the cost and value of a thing should be the same; it is, if he means by cost, "cost of production" including profits." (PPET 30)

Here we see the entry into classical economics of the theory of value based on labour cost. Advocated by Ricardo, it was later championed by Marx. It really has its origins in the Ricardian law of rent. Smith argued that rent was a component part of the price of any commodity. Ricardo, on the other hand, argued that prices were determined by the producer on the marginal site (one which commands no economic rent) and that the effect of free competition was that all unit prices were determined by the price at the margin. Rent was the surplus which arose from land above the margin and was not a component part of unit prices. Since capital was but stored-up labour (past production devoted to new production), this left only labour as the ultimate component part of prices [17].

Much of Ricardo's chapter on value is also devoted to showing that there is no commodity which is ideally suited as a universal measure of value since the value of every commodity itself fluctuates over time, as does the cost of labour (in wages). His arguments are quite adept, although they rather muddy the waters, since they only encourage those, such as utility theorists, who abandon the whole idea of objective value. George was quick to concede that while the value of something was conventionally measured in terms of money, the money price may fluctuate due to changes in the value of money itself (for example, due to inflation); but George is able to illuminate the phenomenon of monetary inflation by demonstrating that money is a medium of exchange and only a measure of value (being the labour people are prepared to give to acquire the particular thing in question). At no stage does he assert that there can be an alternative, better, measure for that labour. Rather, he suggests that whatever is used, in the market, to measure that value, will be money in that society. So the fact that corn may at some stage replace gold as a medium of exchange only indicates that corn is a better medium of exchange and measure of value, and therefore better suited to serve as money at that time. The lack of any suitable item to serve as money in a particular society at a particular time does not show that there is no such thing as objective value. It only shows that at that time there is no satisfactory method of measuring it, *i.e.*, nothing suitable to serve as money.

> "... what is subjective is itself incommunicable. A feeling so long as it remains merely a feeling can be known only to and can be measured only by him who feels it. It must come out some way into the objective through action before any one else can appreciate or in any way measure it. Even if we ourselves may measure the strength of a desire while it is as yet merely felt, we can make no one else adequately understand it until it shows itself in action.
>
> Value has of course its origin in the feeling of desire. But the only measure of desire it can afford is akin to the rough and ready way of measuring sorrow which was proposed at a funeral by the man who said: "I am sorry for the widow to the amount of five dollars. How much are the rest of you sorry?" Now, what value determines is not how much a thing is desired, but how much any one is willing to give for it; not desire in itself, but what the elder economists have called effective demand - that is to say, the desire to possess, accompanied by the ability and willingness to give in return.
>
> Thus it is that there is no measure of value among man save competition or the higgling of the market, a matter which might be worth the consideration of those amiable reformers who so lightly propose to abolish competition." (SPE 252)
>
> "While any commodity, or for that matter any definite service, may be used as a common measure of value to the extent to which it is recognised as embodying or expressing a certain amount of exertion and thus having a definite, though not necessarily a fixed value, the tendency is always to use for this purpose the commodity whose value is most generally and easily recognised. And since the commodity which is used as the common medium of exchanges becomes in that use the commodity which is oftenest exchanged and whose value is most generally and easily recognised, whatever serves as the common medium of exchange tends in that to become the common measure of value, in terms of which the values of other things are expressed and compared. In societies which have reached a certain stage of civilisation this is always money. Hence we may define money with regard to its functions as that which in any time and place serves as the common medium of exchange and the common measure of value." (SPE 501)

The rest of Ricardo's chapter on value is in part devoted to proving the assertion that wages increase as profits or interest on capital fall, and vice-versa, whereas George took great pains in Progress and Poverty to demonstrate that the reverse was true, wages and interest falling or rising together as rent rises or falls.

It can therefore be seen that/ so far as the subject of value is concerned, George agreed with very little of Ricardo's theory.[18]18 To dismiss George as just another Ricardian only shows just how ignorant of George's work most economists are.

Part 2

Henry George's Theory of Value

Ian Lambert

[Part 2 of 2]

6.4 Frederic Bastiat

It is not clear to what extent, if at all, George was familiar with Bastiat's "Economic Harmonies". As we have seen, Bastiat's theory of value very closely resembles George's. Indeed, it is perhaps Bastiat's treatment of the subject that most vividly illustrates that it is the present labour that a thing commands that is its value, not the labour which has gone into producing it:

> "Value is the relationship existing between two services that have been exchanged ... Value, far from having any necessary relation to the labour performed by the person rendering the service is more likely to be proportionate, we may say, to the amount of labour spared the person receiving the service; and this is the law of values ...
>
> ... All that I am seeking to demonstrate here is that the so-called value of things is, in fact, only the value of the services, real or fancied, that are transmitted through the medium of things; that value does not reside in the things themselves, and is no more to be found in bread than in diamonds, in water or in air ...
>
> ... When the two men reach agreement, the economist will say that the two services that are exchanged are equivalent, but the common way of putting it, by metonymy, will be: So much coal is worth so much ice, as though value has passed physically into these objects. Though it is easy to realise that the common expression indicates the result well enough, only the scientific statement gives a true idea of the cause." (EH 103 -115)

However, as we have seen, Bastiat fails to make any distinction between value through production and value through obligation and without this proceeds to advocate that all private ownership of value is legitimate, a principle to which George was resolutely opposed. Moreover, in asserting the legitimacy of private ownership in value, Bastiat was drawn to a position where value, property and wealth were terms that were essentially interchangeable.

6.5 Karl Marx [19]

In terms of his political economy, Marx followed in the footsteps of Ricardo; this is noticeable in three respects. Neither offers a definition of "wealth"; both distinguish between value in use and value in exchange, and then proceed to advocate a "production cost" labour theory of value in exchange; and both start their major respective works with a treatment of the subject of "value". However, while Ricardo maintains a distinction between the factors land (natural resources) and the return therefor (rent) and capital (wealth devoted to further production) and the return therefor (interest), Marx saw no reason to do so,[20] both factors becoming, in his terms, "capital".

This necessarily means that Marx has no reason or basis for distinguishing between the legitimacy of interest and the private ownership thereof and the legitimacy of rent and the private ownership thereof. A large part of "Capital" is actually devoted to attacks on usury.[21] By contrast, George was concerned to show that the existence and private ownership of interest on capital was entirely legitimate, that a denial thereof was a denial of human rights, and (moreover) that the interests of capitalists and labourers were essentially the same, interest and wages rising or falling together, but opposed to the interests of landowners.

The format of the first volume of "Capital" is disorganised. Although Marx starts with a discussion on the subject of "value", it can fairly be said that this is never completed, for he is endlessly returning to it and tinkering with it. If his theory can be summarised succinctly, it is that the value produced by the labourer and taken by the capitalist exceeds the value of what he receives by way of wages in return. The excess is termed surplus labour value and is a measure of the exploitation by the capitalists of the proletarian workforce.

This does assume that value inheres in the thing produced, whereas Smith, Bastiat and George were quick to point out that value actually had a negative relationship to labour. Moreover, it fails to explain how certain things can be extremely valuable, or worthless, even when (on any basis) little, or much as the case may be, labour has been bestowed on them. Marx met the latter objection by affirming that the labour expended on something that turns out to be worthless does not count as real labour:

> "Labour spent on anything counts effectively onlyinsofar as it is spent on something that is useful for others."

According to Marx, value was attributable only to this labour -- the "socially necessary labour". But Marx offered no real and objective basis for distinguishing between "socially necessary labour" and any other labour; and it is not surprising, therefore, that communist states have made such distinction on the basis of purely subjective value-judgements and political dogma. Moreover, this theory also fails to explain how something (such as a fine painting) can have a market value far greater than the socially necessary labour embodied in it - unless one is to say that such market value is merely a distortion produced by capitalist exploitation!

As George points out, wonderfully descriptive of exploitation though Capital may be, Marx really offers no proper analysis of how such exploitation has arisen:

> "During the century another form of protectionism had been growing up, originating in England, but gaining adherents everywhere. Like the others, it recognised no difference between land and products of labour, counting them all as wealth, and aimed by main strength at improvement in the conditions of labour. Recognising the workers as a class naturally separate from employers, it aimed to unite the labourers in combinations, to invoke in their behalf the power of the state to impose restrictions, shorten hours, and in various ways to serve their interests at the expense of the primarily employing class. The German mind, learned, bureaucratic and incomprehensible put this in the form of what passed for a system in Karl Marx's ponderous two volumes entitled "Capital", written in England in 1867, but published in German and not translated into English until after his death in 1887. Without distinguishing between products of nature and the products of man, Marx holds that there are two kinds of value - use value and exchange value - and that through some alchemy of buying and selling the capitalist who hires men to turn material into products get a larger value then he gives. Upon this economic proposition of Marx (it can hardly be called a theory), or others similar to it, political schemes with slight variations have been promulgated after the manner of political platforms" (SPE 197).

Marxism claims to be scientific: but Marx was not a true scientist at heart.[22]22 The whole of Capital is really one enormous sermon, delivered in an oftimes intimidating tone. The reader is told the truth, not invited to discover it for himself. It has more in common with "the Communist Manifesto" than a truly scientific treatise. As George himself commented:

> "Modern socialism is in fact without religion, and its tendency is atheistic. It is more destitute of any central and guiding principle than any philosophy I know of. Mankind is here; how it does not state; and must proceed to make a world for itself, as disorderly as that which Alice in Wonderland confronted. It has no system of individual rights whereby it can define the extent to which the individual is entitled to liberty or to which the state may go in restraining it. And so long as no individual has any principle of guidance it is impossible that society itself should have any. How such a combination could be called a science, and how it should get a following, can be accounted for only by the "fatal facility of writing without thinking", which the learned German ability of studying details without any leading principle permits to pass, and by the number of places such a bureaucratic organisation would provide. However, through government repression and its falling in with trade union notions it has made great headway in Germany, and has taken considerable hold in England." (SPE 198)

6.6 Herbert Spencer

Herbert Spencer has the unique distinction of having had an entire book by George devoted to an attack on his ideas: *A Perplexed Philosopher* ("PP"). What surely prompted George to such a task was the fact that Spencer, who early in his career had denied natural rights of property in land (and advocated the collection of rent by the community), later came to recant his views, first by declaring that landowners should be compensated for the values they would lose by the introduction of such legislation, and secondly by coming to uphold private property rights in land. A Perplexed Philosopher is devoted entirely to this subject. Although highly critical of Spencer, George is scrupulously fair throughout, taking great pains to quote directly from Spencer's own writings and to encourage the reader to judge for himself:

> H I shall not ask the reader to accept anything from me. All I ask of him is to judge for himself Mr Spencer's own public declarations. The respect for authority, the presumption in favour of those who have won intellectual reputation, is within reasonable limits, both prudent and becoming. But it should not be carried too far, and there are some things especially as to which it behooves us all to use our own judgement and to maintain free minds." (PP xxi)

George saw Spencer's confusions concerning property as stemming from his mistaken ideas on value. In "Justice", Spencer had written of weapons, instruments, dress and decorations as "things in which the value given by labour bears a specially large relation to the value of the raw material" and continued:

> "When with such articles we join huts, which, however, being commonly made by the help of fellow-men who receive recipocal aid and thus less distinctly products of an individual's labour, we have named about all the things in which, at first, the worth given by effort is great in comparison with the inherent worth; for the inherent worth of the wild food gathered or caught is more obvious than the worth of the effort spent in obtaining it. And this is doubtless the reason why, in the rudest societies, the right of property is more definite in respect of personal belongings than in respect of other things."

As George points out, Spencer fails to distinguish between value in use, or utility, which is intrinsic to the object in question, and value in exchange, which is entirely external to it. He gives an illustration:

> "In the naturally wooded sections of the United States trees had at first not merely no value, but were deemed an encumbrance, to get rid of which the settler had to incur the labour of felling and burning. Then lumber had no value except the cost of working it r? after it had been felled; for the work of felling had for object the getting rid of the tree. But soon, as clearing proceeded, the desire to get rid of trees so far slackened, as compared with the desire to get lumber, that trees were felled simply for the purpose of getting the lumber. Then the value of lumber increased, for the labour of felling trees had to be added to it; but trees themselves had as yet no value. As clearing still proceeded and the demand for lumber grew with growing population it became necessary to go farther and farther to get trees. Then transportation began to be a perceptible element in the labour of getting lumber, and trees that had been left standing began to have a value, since by using them the labour of transportation would be saved. And, as the requirement for lumber has compelled the lumber-men to go farther and farther, the value of the trees remaining has increased. But this value is not inherent in the trees: it is a value having its basis in labour, and representing a saving of labour that must otherwise be incurred." (PP 39)

Further, Spencer had failed to see the distinction between value through production and value through obligation, the origin of land value:

> "The reason why in rude societies value attaches mainly or wholly to things produced by labour, and there is little or no value to land -- or, to use Mr Spencer's phrase, "the reason why, in the rudest societies, the right of property is more definite in respect of personal belongings than in respect of other things" -- is not, as he puts it, that weapons, implements, dress, decorations and huts are "about all the things in which, at first, the worth given by effort is great in comparison with the inherent worth; for the inherent worth of the wild food gathered or caught is more obvious than the worth of the effort spent in obtaining it." It is that labour products always cost effort, and hence have value from the first; while land costs no effort, and in such societies the growth of population and the development of the arts have as yet attached little or no special advantages to the use of particular pieces of land, which at a later stage are equivalent to a saving of effort. Thus, in the absence of the artificial scarcity produced by monopoly, land of practically like quality is easy to obtain and has no value." (PP 41)

6.7 Alfred Marshall and the utility theorists

Alfred Marshall was one of the foremost influences on the professionalisation of economics.[23] It was his generation that rejected the prefix "political" and termed the subject simply "economics". It was he who was almost single handedly responsible for creating the Economics Faculty at Cambridge University, wrenching the subject with ferocity away from its sister subjects of philosophy and politics, making it a barren, analytical, essentially mathematical science. This was Marshall's concept of a "value-free" science of economics, with which George seriously disagreed. In the frontispiece of The Science of Political Economy appears a quotation from Bacon:

> "But let none expect any great promotion of the sciences, especially in their effective part, unless natural philosophy be drawn out to particular sciences; and again unless these particular sciences be brought back again to natural philosophy. From this defect it is that astronomy, optics, music, many mechanical arts, and what seems stranger, even moral and civil philosophy and logic, rise but little above their foundations, and only skim over the varieties and surface of things, viz because after these particular sciences are formed and divided off they are no longer nourished by natural philosophy, which might give them strength and increase; and therefore no wonder if the scientists thrive not when separated from their roots" -- Novum Organum

No passage describes better George's conviction that academic economists such as Marshall were setting the subject permanently at sea. (The different styles of approach can be seen today in the different undergraduate courses offered by Oxford and Cambridge; at Oxford economics still forms part of a course in "philosophy, politics and economics".) By contrast, Marshall wanted to free his inquiry from outside interferences, and create space for academic freedom. George, the journalist and political activist, represented an approach to political economy which was anathema to Marshall, the academic theorist. (The two eventually clashed publicly at a debate at the Oxford union, at what proved to be a very disorderly meeting.)

Chapter VI of Marshall's *Principles of Economics* ("PE") is entitled "Value and Utility". However, one labours in vain to find any definition or theory of "value". Indeed, as George points out, Marshall implies that value is synonymous with desire and so therefore is utility (a term which he uses in Mill's not Smith's sense). (Perhaps a better title would have been "Value OJL Utility".) No attempt is made even to distinguish between value in exchange and value in use. Marshall's real interest is in explaining the laws of supply and demand. The nearest he comes to expressing his own utility theory of value is in the second paragraph:

> "We have already seen that the price which a person pays for a thing can never exceed, and seldom comes up to that which he would be willing to pay rather than go without it: so that the satisfaction which he gets from its purchase generally exceeds that which he gives up in paying away its price; and he thus derives from the purchase a surplus of satisfaction. The excess of the price which he would be willing to pay rather than go without the thing, over that which he actually does pay, is the economic measure of this surplus satisfaction. It may be called consumer's surplus" (PE 101).

Obscure as his ideas of value are, Marshall's concept of wealth is even less clear:

> "It cannot be said of him, as of many economic writers, that he does not attempt to say what is meant by wealth, for if one turns to the index he is directed to a whole chapter. But neither in this chapter nor elsewhere can I find any paragraph, however long, that may be quoted as defining the meaning he attaches to the term wealth. The only approach to it is this:
>
> *"All wealth consists of things that satisfy wants, directly or indirectly. All wealth therefore consists of goods; but not all kinds of goods are reckoned as wealth."*
>
> But for the distinction between goods reckoned as wealth and goods not reckoned as wealth, which one would think was about to follow, the reader looks in vain. He merely finds that Professor Marshall gives him the choice of classifying goods into external material-transferable goods, external-material-non-transferable goods, external-personal-transferable goods, external-personal-non-transferable goods, and internal-personal -non-transferable goods. ...But as to which of these kinds of goods are reckoned as wealth and which are not, Professor Marshall gives the reader no inkling, unless, indeed, he may be able to find it in Wagner's "Volkswirt Schaffslehre", to which the reader is referred at the conclusion of the chapter as throwing "much light upon the connection between the economic concept of wealth and the juridical concept of rights in private property." I can convey the impression produced on my mind by repeated struggles to discover what the Professor of Political Economy in the great English University of Cambridge holds is to be reckoned as wealth, only by saying that it seems to comprise all things in the heavens above, the earth beneath and the waters under the earth, that may be useful to or desired by man himself with all his natural or acquired capabilities, and that all I can absolutely affirm, for it is the only thing for which I can find a direct statement, is, that "we ought for many purposes to reckon the Thames a part of England's wealth." (SPE 125)

As for the other utility theorists, while they may be agreed that value is synonymous with desire, they all seem to differ as to what "wealth" consists in.

John Stuart Mill defines wealth as "All useful and agreeable things which possess exchangeable value; or in other words, all useful and agreeable things except those which can be obtained in the quantity desired, without labour or sacrifice."

Jevons defines wealth as "what is (1) transferable, (2) limited in supply, (3) useful".

MacLeod defines wealth as "Anything whatever that can be bought, sold or exchanged, or whose value can be measured in money ... wealth is nothing but exchangeable rights."

De Laveleye defines wealth as "Everything which answers to men's rational wants. A useful service and a useful object are equally wealth ... wealth is what is good and useful -- a good climate, well-kept roads, seas teeming with fish, are unquestionably wealth to a country, and yet they cannot be bought."

Bohm-Bawerk offers no definition of wealth at all.

Finally, in Professor Perry's *Elements of Political Economy* we see the abandonment of the whole project:

> "This word wealth has been the bane of political economy. It is the bog whence most of the mists have arisen and which have beclouded the whole subject. From its indefiniteness and the variety of associations it carries along with it in different minds, it is totally unfit for any scientific purpose whatever. ...Happily there is no need to use this word. In emancipating itself from the word wealth as a technical term, political economy has dropped a clog, and its movements are now relatively free"!

John Maynard Keynes

You will labour in vain to find any definition of "wealth" or any theory of value in Keynes' famous "The General Theory of Employment, Interest and Money" ("GIEIM"). This may seem surprising for such an epoch-making work. However, it must be remembered that Keynes saw himself as doing for economics what Einstein had done for physics. Einstein had not so much disproved Newton's laws as demonstrated that they were a specialised case and could be replaced by a more generalised theory. Similarly, Keynes had written in Chapter 1 of his work:

> "I have called this book *the General Theory of Employment, Interest and Money*, placing the emphasis on the prefix general. The object of such a title is to contrast the character of my arguments and conclusions with those of the classical theory of the subject. ...I shall argue that the postulates of the classical theory are applicable to a special case only and not to the general case ..." (GTEIM 3).

Thus, revolutionary though he was, Keynes saw himself as following on in a tradition established by Ricardo and Marx (whom he refers to as the "classical" economists), neither of whom felt any need to provide a definition of wealth. Keynes' lack of any definition of wealth is therefore understandable.

What is less so, at first sight, is the lack of any treatment of the subject of value in the General Theory. After all, Ricardo and Marx had both dealt with value as a substantive subject at the very start of their respective major works. However, by the time Keynes was writing the General Theory, the "labour cost" theory of value, as advocated by Ricardo and Marx, had been significantly discredited by the utility theorists, and in particular Marshall and Pigou, who were surely a formative influence on Keynes.[24] The trouble is that the utility theory of value, seeing value as entirely subjective, is really a theory that there is no value at all. So perhaps it is not particularly surprising that Keynes did not consider that there was in the idea of value a problem in need of solution.

7. VALUE AND MONEY

As I pointed out in the introduction, one of the important functions of a theory of value is to explain the origins and nature of money.

This was the subject which George was still working on when he died. Book V of The Science of Political Economy was devoted entirely to the subject of "Money", although it was not completed.

George defined money as follows:-

> "Whatever in any time and place is used as the common medium of exchange is money in that time and place" (SPE 494).

From this it followed that money was also a measure of value. One might have thought that, labour being the origin of all value/ value should be measured in terms of labour; but, as we have seen, the value of something is the amount of labour that it will save or command for its possessor, not the labour which has gone into producing it. As a result, the measure of something's value must be the labour which it will exchange for; so one must consider the medium in which labour itself is exchanged:

> "As we have seen, labour in the sense of exertion, is the true, ultimate and universal measure of value; what anything will bring in exchange being always based upon an estimate of the toil and trouble attendant upon the exertion which the possession of that thing will save.
>
> ... But to express to another person my idea of the amount of exertion required to do or procure a particular thing there must be something that will serve us as a natural measure of the resistance to exertion, that is to say the "toil and trouble" that exertion involves.
>
> Thus, to convey to one ignorant of swimming some idea of the exertion it requires, I must compare it with some exertion with which we are both familiar, such as walking. Or, if a stranger wishes to know of me what exertion he will have to make to walk to a certain point, I will tell him, if I know it, the distance, and give some idea of the exertion required to walk a given distance on an ordinary road. If he be a Frenchman accustomed to meters and kilometers, which neither of us can translate into feet and miles, I will still be able to convey to him my idea by saying, so many minutes' or hours' walk, for all men have some idea of the exertion required to walk for a certain time. If we could find no common nomenclature of time I could still give him some idea by pointing to the dial of my watch or to the sun, or by finding from whence he had come, and making him understand that the distance he had yet to go was longer or shorter, and the road harder or easier. But there must be some point of mutual knowledge which will furnish us with a common measure, for me to make myself intelligible to him at all.
>
> ... Now while exertion is always the real measure of value, to which all common measures of value must refer, yet to get a common measure of value, which will enable us to express from one to another both quantity and quality (duration and intensity) of exertion, we must take some result of exertion, just as to find a common measure of heat, light, expansive force or gravitation we must take some tangible manifestation of those forms of energy. It is because commodities, being the results of exertion, are tangible manifestations of exertion that they are generally and naturally used as common measures of value.
>
> ... In short, while exertion, including both quality and intensity, is always the true and final measure of value, it is only through the manifestations of exertion that any common measure of value can be had. Thus commodities being tangible expressions of exertion become the readiest common measures of value, and have since the beginning of society

been so used." (SPE 498)

Such commodities (typically, they have been the precious metals) are used as money. At first, the value of such money typically derives wholly from production; but this need not necessarily be the case, and as a society develops so too does its money develop into a form the value of which derives almost exclusively from obligation, since such money is easily carried and transferred, can be made of a uniform consistency and (an advantage to governments but not to their citizens) it can be easily "inflated".

It is sometimes said that money is more than just a medium of exchange and a measure of value, that it is a "claim on wealth" as well. Such a proposition deserves careful study. Money may literally be a claim on wealth. So, for example, a bearer receipt for a deposited gold bar may indeed serve as money and would be a claim on (specific) wealth. However, such money is very rare. Even where a currency is "convertible" (e.g. when pound notes could be exchanged for silver) invariably there are more notes in circulation than there is of the particular commodity in question. The deposit taker does not undertake to keep a particular amount of a particular commodity available for the holder of a particular note; rather, he merely gives a personal undertaking to hand over that amount of the commodity if and when the note holder should ever claim it [25]. Nowadays, currencies are not convertible at all, so that there is no claim (as such) to any wealth. Moreover, if (as does happen) a society loses confidence in its own currency (usually when there is hyper-inflation) money can be rendered totally worthless, because people will no longer use it as a medium of exchange.

The idea that money is a claim on wealth does, however, accurately convey the fact that its value derives almost exclusively from obligation and that its value (like the value of land, bonds etc) does not enter into the aggregate wealth of a nation.

From this it is easy to understand the phenomenon of monetary "inflation". If a government resorts to printing more money, it is not increasing the nation's wealth; it is merely increasing the number of "claims" on that wealth, with the result that prices must rise. Such a course of conduct can only serve to transfer wealth not to create it; and the transfer will usually be from the citizens to their government (which usually "spends" the new money into the economy). Such inflation is therefore little different from taxation (levied on money), although it involves none of the difficulties of tax collection and evasion. It is not surprising, therefore, that governments have so frequently resorted to the printing press to finance wars and other expenditure, as an easier option than increasing taxes.[26]

George's theory of value, and consequent theory of money, while it may not explain certain short term phenomena in the markets, does help us to understand the functions of money, to put monetary phenomena in perspective and, most importantly of all, to understand that not all of our national economic problems arise from the state of the currency.

8. CONCLUSION - HENRY GEORGE'S CONTRIBUTION

Henry George contributed greatly to the theory of value by his telling analysis and criticisms of then current relativity theories, production cost theories and utility theories. Had his writings consisted solely of such analysis and criticism he might now be a better known and more respected writer on political economy. However, these writings, which are a purely negative contribution to the debate, are over-shadowed by his forceful advocacy of his own theory of value and clear definition of wealth. His was a "command" labour theory of value, just as had been Adam Smith's and Frederic Bastiat's. The value of something consisted in what a man was prepared to give, in terms of his own labour or products of labour, in order to acquire it. In this respect, George managed to clarify the ideas of political economists who had gone before him, and to rescue them (particularly Smith's) from increasing obfuscation.

However, George's greatest original contribution to the theory of value was surely his distinction between value from production and value from obligation. The importance of this contribution cannot be over estimated. George was thereby able to show how the wealth of a nation consisted of something fundamentally different from the assets which commonly comprise the riches of a private individual's estate, nearly all of which will be in the nature of obligations. He was able to steer a path between certain socialists who contended for property only in produced articles and certain capitalists who contended for private property in everything which had value. But this path was far from being a compromise between the two - a middle road such as is advocated by modern politicians and political economists who believe in a "mixed economy". Rather, it takes political economy into a third dimension, from which it can be seen that such conventional socialist, capitalist and social democrat or liberal views are all the products of a flat earth society.

Why George's theory fell on deaf ears can be attributed to many different factors. First, it was put forward in George's last work, The Science of Political Economy, which was only published after he had died. He therefore did not live to publicise it as only he could have done. At that time, and in the period since, many people tended to adduce his theory of value from his other works, principally "Progress and Poverty", which seems to have an essentially Ricardian labour theory of value that can easily be mistaken for a production cost labour theory and bore none of the sophistication of his later work.

Secondly, it seems that, even by 1897, the battle lines were being drawn between the Marxists who asserted a production cost theory of value and the utility theorists (notably the Austrians) who rejected any objective labour theory of value. As we have seen, George belonged to neither camp, and was rejected by both. He was therefore of political use neither to communists (because he believed in a minimal state and a free enterprise economy) nor to defenders of the capitalist status quo (because of his opposition to monopolies of every kind, particularly private property in land).

His greatest chance of survival therefore lay in institutionalising his ideas; but the many personal clashes with academic economists left little fertile ground in which to sow his ideas. He therefore bequeathed the ark of his covenant to an essentially political movement/ which was not well equipped to preserve or restore George's reputation as a serious thinker rather than a mere political activist.

As we near the centenary of the publication of The Science of Political Economy, perhaps we can persuade the economists of the nineteen-nineties to discover for themselves, afresh, the untold riches in that work -- not least Henry George's theory of value.

NOTES AND REFERENCES

1. Wilde used this aphorism on many occasions. It appears (among other places) in the Third Act of Lady Winder-mere's Fan.
2. An expert, such as a stock analyst, may claim that something (e.g. a company's stock) is "under-valued" or "over-valued". However, what he is saying is, not that its value is unrelated to its price, but that, in the current market conditions, he reckons that its value has been incorrectly assessed and, accordingly, that he expects its price to rise, or fall as the case may be.
3. The reader will note, in passing, that Wilde, in the aphorism referred to above, does not use the term "value" in its economic sense.
4. George himself gives the following example: "Thus, if a man says to me, "That is a valuable dog, he saved a child from drowning;" I know that the value he means is value in use. If he says, however, "That is a valuable dog, his brother brought a hundred dollars;" I know that he has in mind value in exchange" -- *The Science of Political Economy* ("SPE") 224.
5. Which is not to say that economists are justified (as so many do) in ignoring, for example, love, hope, health, determination, altruism or other qualities which are of an enormous importance to any society, and to its economy.
6. This is often misunderstood by the public. Most countries publish "rates of inflation" which are nothing more than rates of price increase. Not only does this ignore the fact that prices may genuinely increase for reasons which have nothing to do with monetary inflation, it also disguises the fact that, as technology and other methods of production develop, prices of commodities should actually be falling (and, incidentally, the price of land increasing), so that an economy subject to no price increases may still be the subject of some monetary inflation!
7. This discovery, at first sight, indicates that value must be something inherent in the thing itself,

as Marx certainly believed. However, as we shall see, George and Bastiat denied this, while at the same time explaining how something could have an objective value.

8. The contrast with Ricardo's "The Principles of Political Economy and Taxation" and Marx's "Capital" is striking. Both Ricardo and Marx start their treaties with a theory of value and work from there, thus making their entire theory of political economy vulnerable to any criticism which undermines their theory of value.
9. The most recent example of which the author is aware is an article by Dr. R.J. Rafalko published in Vol. 48 No.3 of *The American Journal of Economics and Sociology* in July 1989, which the reader may judge for himself.
10. An excellent example of George's sceptical attitude to abstracted thought appears in Chapter V Book III of The Science of Political Economy. In this Book he puts forward a relativity theory of time and space which, although pre-dating Einstein's, corresponds exactly to the concepts in Einstein's special theory. In doing so, he is starkly critical of the mental contortions introduced into philosophy by German philosophers, principally Kant:

    > "Kant, whose ponderous incomprehensibility is a striking example of what (whether it was before him or because of him) seems to have become a peculiar German facility for inventing words handy for philosophic juggling, dignified this point of assumed necessary conflict by calling it an "antinomy", which term suggesting in its derivation the idea of a conflict of laws, was employed by him to mean a self-contradiction or mutual destruction of unavoidable conclusions of the human reason; a what must be thought of, yet cannot be thought of. Thus the word antinomy in the scholastic philosophy that has followed Kant takes the place of the word mystery in the theological philosophy, as covering the idea of a necessary irreconcilability of human reason. ...
    >
    > ... As for the philosophers since Kant or before him who profess to treat space and time as mere conditions of mental perception, mental glasses as it were, that compel us to recognise relations that do not in truth exist, they are mere jugglers with words, giving names such as "the absolute", "the unconditioned", "the unknowable" to what cannot be thought of, and then proceeding to treat them as things, and to reason with them and from them." (SPE 345-350)

11. It was in this fashion that George was able to answer Ricardo and Marx most succinctly, although his dismissal of Marx is uncharacteristically vitriolic:

    > "Without distinguishing between products of nature and the products of man, Marx holds that there are two kinds of value - use value and exchange value - and that through some alchemy of buying and selling the capitalist who hires men to turn material into products gets a larger value than he gives. Upon this economic proposition of Marx (it can hardly be called a theory), or others similar to it, political schemes with slight variations have been promulgated after the manner of political platforms." (SPE 197)

12. Bastiat claims that it is the "service" which a thing can command that creates its value.
13. For those unfamiliar with *The Science of Political Economy*, the form and approach of George is supremely methodical, while not at all impairing George's superlative literary style. The work is divided into five Books, as follows:

    Book I - The meaning of Political Economy
    Book II - The nature of wealth
    Book III - The production of wealth
    Book IV - The distribution of wealth
    Book V - Money - the medium of exchange and measure of value

14. There is an interesting parallel here between the utility theorist's assertion that air is strictly value-less and the assertion by certain socialists that land, since it has not been produced, is strictly value-less. In both cases the theorist takes his theory, applies it to the facts and then, when the facts clearly cast doubt on his theory, instead of using these as a means of testing the validity of his theory, he refutes the facts and prescribes the answer!
15. The Physiocrats was the name given to the Eighteenth Century French Economists, Quesnay, Gournay, Turgot, Mirabeau, Condorcet and Dupont, among others, whose greatest influence was immediately prior to the French Revolution. Turgot was made Finance Minister to Louis XVI in 1774, but vested interests caused his removal and the termination of his reforms. Shortly thereafter, the Revolution swept away the old order and (as alas is so often the case)

the Physiocrats with it.

16. Smith does, however, list certain things which he considers wealth, among them personal qualities and debts -- a classification with which George clearly disagreed.
17. "If we suppose the occupations of the society extended, that some provide canoes and tackle necessary for fishing, others the seed and rule machinery first used in agriculture, still the same principle would hold true, that the exchangeable value of the commodities produced would be in proportion to the labour bestowed on their production; not on their immediate production only, but on all those implements or machines required to give effect to the particular labour to which they were applied." (PPET 14)
18. As George points out in SPE, Ricardo makes no attempt to define "wealth", and therefore offers us no clear concept of it which George can criticise. The sense in which Ricardo uses the term has to be discerned from his writings, but it would appear to be little different from Smith's.
19. Some bad tempered thoughts about Marx;

> The contrast between Henry George and Karl Marx could hardly have been greater: George, the unprepossessing artisan's son who left school to go to sea, the natural philosopher who observed the condition of man in many countries at first hand, who personally experienced deep privation, who forged his own science of political economy from first principles and only later bolstered it with help from and criticism of the writings of others; Marx, the bougeois who married an aristocrat's daughter and bore a lifelong contempt for the bougeoisie, the university graduate whose philosophical approach was shaped by Hegel, who never held a proper job and never knew at first hand the hopes and fears of ordinary working men, whose work was composed over many years in the reading room of the British Museum and whose only factual basis was the compendious and sometimes dubious statistics from which he quoted, who "sponged" most of his life from his friends (not least Engels) and therefore led a lifestyle which was the epitome of what his own predicted revolution was designed to sweep away, who poured contempt and derision on his opponents, dismissing their writings as mere progaganda.
>
> (For an interesting discussion of how Marx's personal life and circumstances shaped his opinions and beliefs, the reader is referred to Paul Johnson's *Intellectuals*.)

20. Until Volume 3 of *Capital*, published posthumously, in which in Part Six, entitled "The transformation of surplus profit into ground rent", Marx hints that the source of capitalist exploitation is the expropriation of the land from the masses.
21. Possibly prompted by his own personal indebtedness to usurious moneylenders, something from which, due to his own financial incompetence, he was never able effectively to free himself.
22. Marx lacked the one essential pre-requisite of the true scientist: intellectual humility. He rarely (if ever) publicly admitted the limitations of any of his works, which thus became apparent only in his reluctance to finish them. As Edmund Wilson pointed out:

> "The problems they raised, I believe, were always too much for him to grapple with. ...This is why the first volume of Das Kapital, the only part that Marx published, now stands as a kind of swindle. He leaves the proletarian confronting the capitalist on the verge of a ruthless class war over the issue of labour value. The question of the value created by the many middle men is left at the point at which the manuscript breaks off. But the contagious indignation of the first volume of Das Kapital is what has aroused revolutionaries ever since the book was published. ...What Marx wanted people to read they have read and have experienced the intended emotions." (To The Finland Station 2)

Now, George may have intended the reader of Progress and Poverty to experience a "contagious indignation", but The Science of Political Economy is altogether a cooler work. In it George exhibits the characteristic trait of all great philosophers and scientists, inviting the reader not to suspend disbelief but, rather, not to accept anything he has cause to doubt:

> "The place I would take is not that of a teacher, who states what is to be believed, but rather that of a guide, who points out what by looking is to be seen. So far from asking the reader blindly to follow me, I would urge him to accept no statement that he himself can doubt, and to adopt no conclusion untested by his own reason." (SPE xxvii)

One cannot help feeling that if his reader was unable to follow his arguments, George would have seen this as .a failure of communication on his part. Marx, by contrast, seems to have had much less time for the slow and the faithless.

(The reader is referred, inter alia, to Karl Popper's *The Open Society and its Enemies*.)

23. The reader is referred to *Marshall, Orthodoxy and the Professionalisation of Economics* by John Maloney (CUP 1985)
24. Keynes was purported to have been asked why his General Theory contained no theory of value, to which he replied "Because the only available theory of value is the labour theory and it is totally discredited".
25. From this it is not difficult to see why banking has been the subject of so much fraud, historically, or why a "run" on a bank's reserves may trigger its total collapse.
26. The reader is referred, inter alia, to J.K. Galbraith's *Money, whence it came, where it went*, particularly Chapter 6.

    The reader is also referred to the excellent essay "Economics the Political Science - a study of the corruption of economic concepts" by V.H. Blundell published by E.S.S.R.A., London, 1983.

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