

V

VALUE

THE definition of land value in the last chapter renders necessary, and, at the same time, suggests a new definition of value as a general term. It might be more correct to say that it makes one definition used by several economists applicable to all cases. To account for the existence and nature of land value most writers have felt it necessary to split the basis of political economy into two or more heterogeneous and inconsistent parts. Since the same difficulty extended to the more inclusive conception of value, the same split appeared in its treatment. Ricardo broke up the consistency of the science to provide accommodation for two definitions of rent. Adam Smith had performed the same service at an earlier date on behalf of value. In his discussion of the subject, he unfortunately brought in a consideration from a world outside of economics, and we have never got rid of the confusion arising from this unscientific mixture.

“The word *value*,” he says, “has two different meanings, and sometimes expresses the utility of some

particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use'; the other 'value in exchange.'"¹

But "value in use" is a matter with which economists have nothing to do. Theirs is a mental science, which deals only with social laws and is not concerned with the utility of things any more than with their colour. This is a consideration for housekeepers, blacksmiths, farmers, carpenters and other people skilled in the management of tools. Value in the economic sense only arises in the relationships of men with each other, and never in the relationships of men with material objects. The relationships are perfectly distinct in their nature.

Taking what Adam Smith calls "value in exchange" as value in the only relevant sense of the word, a sufficient explanation of economic phenomena is obtained.

"Labour," he says, "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."²

The difficulty of accounting for the wide disparity in the values of water and of diamonds according to this principle seems to be the cause of Smith's suggestion that there are actually two

¹ *Wealth of Nations*, Bk. I. chap. iv.

² *Ibid.*, Bk I. chap. v.

kinds of value in economics. The view that labour is in every possible case the thing which is valued either did not occur to him, or did not satisfy him.

The difficulty was developed more clearly by two later economists. Bastiat defined value in a simple and consistent manner without proving sufficiently that it applied in every case.

"Value," he says, "is the relation of two services exchanged. The idea of value entered the world the first time a man said to his brother: 'Do this for me, I will do that for you.' They agreed, because then, for the first time, they were able to say: 'The two services exchanged are of equal value'"¹

Cairnes advances the obvious objections to this theory. He thought it did not explain certain kinds of value.

"For example," he says, "the value of a pearl picked up accidentally on the seashore; the high remuneration obtained by persons endowed with natural gifts of an exceptional kind—painters, singers and *artistes* generally; above all, the value of land possessing natural fertility or peculiar advantages of situation;—value in these and other similar instances does not seem to lend itself very easily to the doctrine that all value consists in and represents human effort."²

In discussing this subject the most important thing to remember is that value is measured by an operation in the minds of those who wish to

¹ *Harmonies Economiques*, chap. v.

² *Essays in Political Economy*, on Bastiat, p. 332.

possess the thing valued, and who estimate or weigh the amount of labour which it has cost the seller, and will save the purchaser.

The value of pearls, or of diamonds, is not due so much to the labour of the man who finds them, or mines them, as to the labour which has gone to provide the markets for them. Capital cities, and other centres of society in the civilized world, are the markets for diamonds, and they have not been created, nor are they maintained, without labour. This is the reason why, on an average, royalties on precious stones and metals are so high. Governments and landlords have this firm ground on which to bargain with the diamond owner. "We give you a market," they say, "which you would not otherwise have. You might take your diamonds into Central Africa, or you might leave them in the mines, but we know that, so long as you get markets and make money on them in New York, London, Paris and Berlin, you will not be so foolish as to do anything of the kind, and we intend to get as much as we can out of you in respect of the value of these markets to you." But markets for diamonds depend on a highly developed system of common services which make a comfortable and even gay social life possible. If these services were suspended for a month in such cities, society would be disintegrated, and diamonds would have the value which they had for natives of South Africa a century ago.

The same consideration explains the experience of "painters, singers and *artistes* generally," so far as it requires explanation. In view of the risks which they take, it is doubtful if their remuneration is high enough to cause any reasonable surprise. However this may be, labour determines the reward of the artists in every detail. The patrons of their art are able to come together only in towns or cities, and the task of governing and administering their affairs is labour, the patrons' estimate of the value of the art is determined by the wealth in their possession, which is produced by labour, and the art itself is labour. These forms of "human effort" seem to account for everything here.

This view carries us a step beyond the usual analysis of the causes of value, which stops at supply and demand. It introduces a third cause, and assigns them all as effects to one fundamental cause. Labour is the cause of supply, labour is the cause of demand, and labour provides the means by which supply and demand come together. The use of the two different terms "supply" and "demand" conceals the identity of their origin, and the more accurate way of thinking might be to regard demand always as a form of supply, as the term itself does not indicate so clearly that it depends on labour. Taste or choice only gives direction to demand; labour gives it volume or power. Value is therefore really determined by the relation of different forms

of supply to each other. On this principle, it is possible to define the value of anything as (the estimate accepted by those who desire to possess or enjoy that thing of) the amount of labour required for its production.

Strictly speaking, therefore, the valuation of land and of everything else is simply the valuation of labour. This is the most active and universal of all mental processes. It becomes more active and widespread with the growth of societies, and with the more frequent transaction of business between men. In order that they may be efficient producers, this work must be done to their satisfaction. Great Britain and the world were startled recently by the general strike of coal miners, who insisted that this work of valuation, so far as it affected them, should be done more thoroughly than ever it was done in the world's history. Confronted with this problem, which Carlyle would have delighted in describing as the Sphinx riddle, the Government acted promptly and wisely. They established thirty local boards or tribunals to value the labour of the miners, or to give them and the employers an opportunity of valuing it themselves. Nothing promises better for the future, although our prejudice would have preferred this economic activity on the part of the Government to have commenced with the thorough valuation of the other kind of labour with which they are more directly connected—the labour which produces the value of land.

The two activities will complement each other. The intervention of the miners was a contribution to economic science and practice, and the principle they have established in a small way will extend.

It is possible that, if there had been time for theoretical economists to discuss the subject, strong reasons would have been urged against such a departure from what are supposed to be sound economic laws. But, fortunately, the attitude of the miners and of the Government saved the country from this discussion. With the taxation of land values wages are going to rise steadily, and it is essential to have the best machinery for rendering this upward movement as little disturbing to industry as possible.