

CHAPTER XI.

OF THE ORIGIN OF VALUES.

Utility is the purpose of economic life. Whatever increases utility has value.

F. von Wieser.

A few of the simpler labor-forms may be produced by the application of labor-power directly upon land-forms. But in modern industry practically all production is effected by the interposition and assistance of capital-forms. We have, therefore, for use in normal production three forms of utility, and only three—the utility of labor-power, the utility of capital-forms, and the utility of land-forms. On the other hand, normal production has to contend with three, and only three disutilities—the disutility of matter, the disutility of time, and the disutility of space. It must be understood, however, that the real physical element involved in the first mentioned disutility is not matter but force. Matter is but a manifestation of forces in equilibrium; it has no body or substance of its own. But as all forces manifest themselves to us through what we call matter, we shall, for convenience, use the latter term, meaning thereby the resultant of forces in equilibrium. With this understanding we may divide our physical environment into the elements of matter, time and space. Without each of these neither we nor anything within our comprehension can exist. They are all as necessary to us as sentient beings as life itself; yet each has for us a distinctive disutility.

The disutility of matter manifests itself in resistance to labor-power. Although all production consists simply in changing the form or position of material objects, such changes are attended by irksomeness, just as all movements of machinery, however perfect, are attended by friction. Were it not for the disutilities of matter and space, all satisfirms would be spontaneities, and the exertion of labor-power unnecessary. The only economic disutility would be that of time—the disutility of waiting.

The distinctive function of labor-power is to overcome the disutility of matter. Its utility depends upon its fitness for this purpose. The value of a labor-form which is distinctively the resultant of the utility of labor-power and the disutility of matter we shall call labor value. This term we shall define later.

To a very great extent, but not entirely, the utility of capital-forms is identical with that of labor-power. Capital-forms are themselves the result of labor-power and can only be used in connection with its further exertion. Of themselves capital-forms can do nothing. As labor-forms they sell in the market, subject to the same laws of value and cost as satisfirms. Their prices are fixed by the marginal pair. But aside from being sold outright, capital-forms may be sold for a limited time. One man may be possessed of a labor-form for which he has no immediate need. Another may be in present need of such a labor-form without having it in immediate possession. In such case the latter person, in order to secure its immediate possession and use, may offer to take it, and, at the expiration of a given time, return it, together with a part of

the product acquired by its use as a capital-form. If such an offer is made, it is because the present advantage of the possession and use of the capital-forms is at least equivalent, in the mind of the borrower, to the disutility of its repayment, plus the payment of the part of the product as interest. And if, as is usually the case, the amount of product to be repaid is fixed by competition in the market, and money-forms are borrowed instead of particular capital-forms, the sum borrowed in the present and the sum to be repaid in the future are economically equivalent. For instance, if John on the first day of the year borrows from James in the open market \$100 upon agreement to return \$105 at the end of the year, then, on the day of the borrowing and in that market \$100 for present possession and use, and \$105 for possession and use one year thence are economic equivalents.

If the offer to borrow with repayment with interest is accepted, the capital-form or equivalent money-form loaned acquires a new and distinctive utility. It is no longer merely auxiliary to labor-power in overcoming the disutility of matter, but it is a direct instrumentality in overcoming the irksomeness of waiting—an aid in mitigating the disutility of time.

The labor-form loaned has to men in general less future than present utility because of the disutility of deferred satisfaction. We have already seen that men usually place a lower estimate upon a given labor-form for future than for immediate enjoyment. Under a specialized system of industry, however, some men acquire quantities of labor-forms (or money-forms derived from the sale of labor-

forms) which they do not immediately require for ordinary uses. In such circumstances they are willing to surrender present possession to others who are so circumstanced as to put them to profitable use. On the other hand, other men have present need of the labor-forms, or their equivalent in money, and are willing to undergo a larger future disutility rather than a smaller present one. They do this not because they are improvident of the future, but because the immediate possession and use of the labor-forms as capital-forms will enable them not only to acquire a larger product in the same time, but it will also give them their product in less time. If the use of labor-forms merely assists labor-power in overcoming the disutility of matter, the disutility of time remaining the same, the result is the same as if more labor-power were used, and no additional and distinct disutility is overcome. But if the use of labor-forms enables the possessors to acquire and enjoy the finished products of their labor-power sooner than they otherwise would, it thereby overcomes or lessens the disutility of time. This is the distinctive utility of pure capital in production as distinguished from the distinctive utility of auxiliary capital.

Capital is labor-forms so circumstanced that their distinctive utility is manifested either in overcoming the disutility of time, or in assisting labor-power to overcome the disutility of matter.

Pure Capital is labor-forms so circumstanced that their distinctive utility is manifested in overcoming the disutility of time.

Auxiliary Capital is labor-forms so circumstanced that

their distinctive utility is manifested in assisting labor-power to overcome the disutility of matter.

The labor-forms involved in capital, whether pure or auxiliary, are distinctively possessed of intermediate utility and hence are capital-forms. *Land-forms never constitute capital*, either auxiliary or pure.

Both pure capital and auxiliary capital may consist of aid-forms, ordinary trade-forms, or money-forms. If these forms, or any of them, are used to assist labor-power in overcoming the resistance of matter, they are auxiliary capital; if used specifically to overcome or to lessen the disutility of time, they are pure capital.

Auxiliary capital, when put upon the market, is sold outright and at its labor value. Its distinctive value is expressed in price. But pure capital is not sold outright, but only for a limited time. Its distinctive value is not expressed in price, but in terms of interest, and is not a labor value but a capital value.

Labor Value is that value which is distinctively the resultant of the utility of labor-power (with or without the use of auxiliary capital) and the disutility of matter.

Capital Value is that value which is distinctively the resultant of the utility of capital-forms and the disutility of time.

In order that we may distinguish clearly between capital value and labor value, let us consider a simple illustration. Two men working side by side produce separate labor-forms. Their customers are fishermen. One worker produces a hammock suitable for a fisherman's home; the other, with like materials and equal disutility, produces a

fish net, or seine. Together they go into the market and offer their wares for sale. In their hands the two products are capital-forms. After they are sold, the seine remains a capital-form (changing from a trade-form to an aid-form) and the hammock becomes a satisform.

Each of these articles can be made by any person of ordinary skill, and the materials can be acquired in the open market or made at first hand with very little disutility. It will take the ordinary fisherman as long to stop his work and make the one as the other. In these circumstances the tendency is that the hammock and seine will sell in the open market at the same price. It is true that the hammock as a satisform does not assist its purchaser in catching fish, while the seine as a capital-form may double or quadruple the catch of its possessor. Yet the satisform and the auxiliary capital-form may have the same value—they may be economic equivalents.

That this should be true may at first seem strange. But if we have thoroughly mastered the laws of the open market, we shall readily understand why it is so. If the fishermen were to pay more for seines than for hammocks, the hammock makers would all turn seine makers, inasmuch as they would thereby gain more compensation for the same disutility. This would cause so great competition among the sellers of seines that the marginal seller would bid down to what he could make by selling hammocks, and all others would be compelled to sell at his price. It must be remembered that value does not express utility in general, but only measurable utility at the point of exchange, and the point of exchange is determined by the

competition of the marginal pair. In so far as value is expressed in the market price of labor-forms there is no distinction between the values of capital-forms and satisf-forms—all are labor values. They are values which distinctively result from the utility of labor-power applied directly or indirectly, and the disutility of matter.

But while the use of labor-forms in overcoming the disutility of matter simply increases the efficiency of labor-power in that respect, and so merely affects labor values, yet labor-forms may be so circumstanced as to overcome the disutility of time. Suppose that in the seine and hammock market there is a buyer who has a hammock but is without a seine, the present possession of which would be of great advantage over its future possession. He may work at fishing with a hook and line, and in the course of a year may acquire the price of a seine, thus suffering all the irksomeness of deferred satisfaction; or, he may buy the seine at an enhanced price payable at the end of the year. By obtaining possession of the seine he can enter *at once* into the enjoyment of the maximum fruits of his labor-power, and thus obviate to a large extent the disutility of time. With him it is not merely a matter of having more fish, but of having them to-day rather than next year.

In such circumstances he may either buy a seine "on time" at a higher price, or he may borrow the present cash price and repay the loan in one year with interest. In the former case the seine sells at its labor value plus its capital value, and both are expressed in price—the interest is added to the principal in advance. In the latter case

the seine sells at its labor value as expressed in cash price, while the money-forms borrowed sell for a limited time at their capital value as expressed in terms of interest. The distinctive utility of auxiliary capital is its fitness to assist labor-power in overcoming the disutility of matter; its value is always a labor value, and is always expressed in price. The distinctive utility of pure capital is its fitness to overcome the disutility of time; its value is always a capital value and is usually expressed in terms of interest; but whether so expressed or not, it is, in fact, interest or its economic equivalent.

In the above illustration we find that if the purchaser of the seine buys it on a year's time, the seller adds to the cash price a year's interest and collects it as a part of the price payable at the end of the year; while if the purchaser borrows the money and pays the present cash price for the seine, he pays the lender the interest at the end of the year *as interest*. In either case the effect is the same, and each transaction results in the payment by the purchaser of the labor-form of positive economic interest.

In another class of transactions economic interest appears in a negative form very similar to that commonly called commercial discount. In many business enterprises a long time must necessarily intervene between the beginning of a given product or project and its completion. Let us assume that a large factory is to be built and equipped with modern machinery, and that its erection and equipment will occupy a year's time. If all the men engaged in the work could and would wait until the end of the year and as much longer as might be necessary for

the factory to pay them out of its earnings, their daily wages would be relatively higher. But as is practically always the case in such circumstances, the workmen are paid daily or weekly or monthly wages by the owners of the enterprise, or contractors under them, and the owners wait until the factory is in operation to reimburse themselves for their outlay. The wages paid are consequently lower than they would be under the arrangement first suggested by the amount of interest at current rates for the average time to elapse between the payment of the wages and their anticipated reimbursement. This difference in wages on account of present rather than future payment is economic interest in the form of discount paid by the workmen to their employers for present rather than future enjoyment of the results of their labor-power. The workmen thus avoid the disutility of time at the expense of their employers who recoup themselves by the payment of wages lower than if paid at a future time out of the actual earnings of the enterprise.

This element of interest in the form of discount manifests itself in lower prices of labor-forms which enter into long-time enterprises as well as in lower prices for labor-power, or wages. Dealers who contribute raw materials or labor-forms of any kind towards the construction and equipment of such a factory receive a smaller cash price for their products than if they waited until the completion and partial operation of the factory. Economic interest is more apparent in this case than in the case of wages because in the sale of labor-forms a commercial discount for cash, measuring the economic interest, is commonly

allowed upon the face of the transaction; while in the sale of labor-power such a commercial discount is practically unknown as between employer and employe, and wages are usually payable at the end of each week, fortnight, or month, and are lower accordingly.

From these illustrations we learn that there is a disutility of time; that pure capital-forms have fitness for mitigating this disutility; and that for this reason men pay a premium for their immediate possession just as readily as they pay a price for auxiliary capital-forms which will enable them to overcome more readily the disutility of matter; and that, on the other hand, a person who has acquired labor-forms has a choice of their immediate and direct consumption as satisfirms; their out and out sale to others for use either as satisfirms or auxiliary capital-forms; their limited sale, or loan, as pure capital-forms; and their use by himself as capital-forms, either auxiliary or pure. In case they are used by himself or another as pure capital, they have distinctively a capital value which is measured directly or indirectly by the current rate of interest for capital-forms put to similar uses.

We also learn that not only do capital-forms assume a different aspect according as they are used as auxiliary capital or pure capital, but that pure capital-forms likewise assume a different aspect according as they are used positively or negatively—according as they are measured in the market by commercial interest or commercial discount, or their commercial equivalents as additions to or deductions from current prices of labor-power and labor-forms.

The value of a land-form is neither labor value nor capital value. It is not the resultant of the utility of labor-power or capital-forms applied to overcome any disutility of the land-form. This may be seen from the fact that vacant land-forms upon which not a stroke of labor, or a dollar's worth of capital has ever been expended, may acquire enormous value, if well located in a populous community. The origin of the value of a vacant lot or of any land-form irrespective of the improvements thereon must be sought elsewhere than in the utility of particular labor-power and capital-forms. The commercial utility, or value, of any land-form depends, primarily, upon its location with reference to population; secondarily, upon its natural utility. The most fertile spot on the earth may be valueless, if far from any civilized community, or, for any reason, inaccessible. On the other hand, the most barren spot may be of almost fabulous value for building purposes, if situated in the heart of a great city.

All land-forms of value have utility enough of one or both kinds to cause competition for their possession and use. This leads to the manifestation of the distinctive disutility of land-forms. It arises, not from the resistance of matter nor the irksomeness of waiting, but from the physical fact that two human beings can not have the exclusive occupancy, use or control of the same land-form at the same time. Impenetrability—that property of matter by virtue of which two bodies can not occupy the same space at the same time—manifests itself in Economics as well as in Physics. If all men with equal facility could occupy and enjoy the utilities of the same land-form

at the same time, no land-form would acquire any value, however fertile it might be; for all men could appropriate it and enjoy all its utilities with equal disutilities. But if all land-forms were of equal fertility, all could not be at the centers of population and exchange. All stores could not be on the public square; nor could all farms be equally distant from post-office and railroad station. A farm growing an average of 15 bushels of wheat per acre, but near a market, may be of greater value than one of equal size growing 20 bushels per acre farther away.

The disutility which arises in the use of land-forms is the disutility of space. We are acquainted with this disutility through the physical phenomena of distance and impenetrability. With reference to distance, it manifests itself to us through the irksomeness of travel and transportation; with reference to impenetrability, in the irksomeness of *standing aside*. It is one thing to be deprived of the use and occupation of a given grade of land-forms when such grade does not exist in a particular community; but it is quite a different thing to be deprived of such use and occupation when and where such land-forms do exist and are exclusively used and occupied by others. The irksomeness of *standing aside* while another occupies and enjoys is a real, though intangible, irksomeness, similar in that respect to the irksomeness of waiting.

The more travel and transportation necessarily involved in the occupancy and use of a given land-form with reference to market and other advantages furnished by society, the less valuable the land-form; and the greater the distance one stands from these advantages, the less

value the land-form which he occupies. Inversely, the value of an advantageous land-form does not result from irksomeness in the possession and use thereof, but from the comparative absence of irksomeness. It is the disutility which may be avoided and not that which is engendered by the possession, use or control of a well situated land-form which gives it value in so far as the factor of disutility is concerned. The irksomeness of travel, transportation and standing aside may all be avoided or reduced by the occupancy of a well situated land-form.

The man who desires to occupy some land-form as owner must either dispossess the present owner of a land-form near to market, or otherwise well situated, or he must undergo the continuing disutility of transportation of person and property which necessarily attends the occupation and use of a land-form far from market, or otherwise ill situated, as well as the continuing disutility of seeing another possess and enjoy desired advantages from which he is debarred. In countries where land laws similar to ours prevail the present owner is dispossessed, not by force, but by purchase; by inducing him to relinquish his claim upon a certain area of the earth's surface; for in Economics, as in the law, the right to superficial area of land-forms carries with it the exclusive control of all terrestrial space above and below, and all the forces, resources and opportunities of nature therein contained. The disutility in the acquisition of land-forms is therefore the disutility of space. For, although the problem of the purchaser in acquiring a desirable land-form just at hand

is the dispossession of the present owner, this is but incident to the fact that both can not occupy or exclusively control the same space at the same time. And if instead of purchasing the more desirable land-form, a man concludes to occupy one upon the margin, the disutilities of travel, transportation and standing aside which he undergoes are also but exemplifications of space relations.

All things which are produced by the exertion of labor-power necessarily involve the disutility of matter and of time. Production consists simply of changes wrought by labor-power upon material objects, and these changes imply the passing of time. Land-forms, as we have defined them, can neither be produced nor reproduced by labor-power, so that no disutility of matter or of time can affect their value directly or indirectly. In the competition of the land market two factors arise with reference to every land-form—its natural utility, whether arising from fertility or location—and the disutility attending terrestrial space. The resultant is land value.

Land Value is that value which is distinctively the resultant of the utility of land-forms and the disutility of space.

Although a land-form in Economics and in law involves the three space dimensions—length, breadth and thickness—we usually think only of length and breadth. A title deed carries with the land conveyed the exclusive right to the air above and the earth (to the center) beneath, yet the description given is of so much length and breadth upon the surface. The land question at bottom is a ques-

tion of standing room—standing room accessible to the market.

The matters discussed in this chapter naturally lead to the question of wages, interest and ground rent. We will not, however, stop to discuss them here as they may be more comprehensively treated in another place. It may be well to state in passing that wages, interest and rent are not matters of quantity, but of value. Wages is labor value; interest is capital value; and ground rent is land value determined in the market at the point of exchange, and expressed in terms of money. We shall now examine and classify values with reference to their distribution.