

Value

by O. B. JOHANNSEN

VALUE is order of preference. It is a psychological concept which resides in the minds of men. You value an orange above an apple, which means that in the order of preferences which exist in your mind the orange has a higher place than the apple. Thus, you will gladly exchange the apple you have for the orange which you prefer.

Just why you prefer one thing to another is a problem for psychologists to solve, if they can. Your preference may be due to any number of factors. You may know some of them, but many may be so subtle that actually you may not consciously be aware of them. The determining factors lie hidden within the deep recesses of the insoluble mystery comprising the human personality.

One factor which may affect men's choices is the amount of labor required to produce an article and because this factor is often an important one, it was easy for economists to fall into the error of evolving theories of value based on labor expended or labor saved. Thus, Karl Marx believed that value is determined by the labor time socially necessary to produce wealth, whereas Henry George, reversing this concept, claimed that "the value of anything is the amount of toil which the possession of the thing will save the possessor."

However, it is obvious that the amount of labor expended or saved does not necessarily affect your judgment. If you desire an orange you may make some mental calculations on the labor you think is required to produce it or which its possession will save you. However, this is not neces-

sarily so, and many housewives have absolutely no conception of how much labor is required or saved. You probably never can say definitely how you arrive at your decision to give two apples for the orange.

That does not mean you will have to give that much, for when you come into the market place you may find that someone is willing to exchange one orange for one apple. Now, as men seek to satisfy their desires with the least effort, you will gladly give the apple for the orange and consider that you have obtained a bargain. In other words, the market price—the ratio at which goods and services are exchanged for other goods and services—at that particular time and place, is much less than the price you had independently decided you would be willing to pay. In any civilization above the primitive stage, the price is almost always in terms of the most marketable commodity in the community, which is called money.

Thus, we see that value is purely subjective and the exchange ratio, or price, is determined subjectively by each individual. The price an individual is willing to pay is modified by the effect of other individuals, all of whom are making independent subjective evaluations. The interaction of these prices, through the higgling and haggling of the individuals concerned, results in a particular price at a particular time and place.

Probably all one can say about labor is that for continuous production, the price of the article must be greater than the cost of producing it, which means greater than the labor cost plus other costs. But this is not to say that

labor and other costs determine price. It's the other way around. The price which consumers are willing to pay determines what the costs must be. If no one can produce at costs which are lower than the price the consumers will pay the article ceases to be produced.

Although Henry George speaks of the Austrian school of economists, to whom we are indebted for this subjective theory of value, as "the 'fad' of confused professors," actually he was close to the Austrians in his concept of value. For example, he says, "(Value's) essential element is subjective, not objective; that is to say, lying in the mind or will of man, and not lying in the nature of things external to the human will or mind."²

Then, why did he evolve a labor theory of value? It was probably because he was so anxious to give to labor everything that it contributes in the production of wealth, that he felt labor and value were somehow connected, with labor the causal factor. He knew that value was not directly connected to labor expended as he points out that a diamond may be extremely valuable but the labor required to produce it may be merely the energy required to pick it up. But, by reversing the labor theory from labor expended to labor saved, his theory had greater plausibility because actually it was then in line with the Austrian school's.

This is apparent if one realizes that although labor is not a concrete quantity, nevertheless we can count up the number of hours spent in making a

Oscar J. Johannsen, a trustee of the Henry George School of (Newark) New Jersey, is on the editorial staff of *The Gargoyle*, and associated with the United States Steel Corporation in New York. In an article on "Agrarian Justice," to appear next month, he introduces a famous "precursor" of Henry George, who extolled not only justice and welfare, but freedom and the right to man's natural inheritance.

chair and thus have a rough objective measure of labor expended. But when the "value of a thing is the amount of laboring or work that its possession will save to the possessor"³ we are dealing with an *estimate* of the amount of labor which the customer thinks he will save. It is a guess, an opinion. It is subjective. Thus, it puts George's theory in the psychological or subjective school. He erred in assuming that the estimate of labor saved was the sole factor—the truth is that if it is a factor at all, it is only one of many affecting the individual's estimate of an article's value to himself.

To recapitulate—value is order of preference. Price is the exchange ratio at which goods and services exchange for other goods and services, and in a money economy is the ratio at which goods and services exchange for money. The determination of the price of an article at a particular time and place is arrived at through the give and take of the individuals who come into the market, each with his own subjective evaluations.

¹ *The Science of Political Economy*, p. 245

² *Ibid.* p. 251

³ *Ibid.* p. 246

