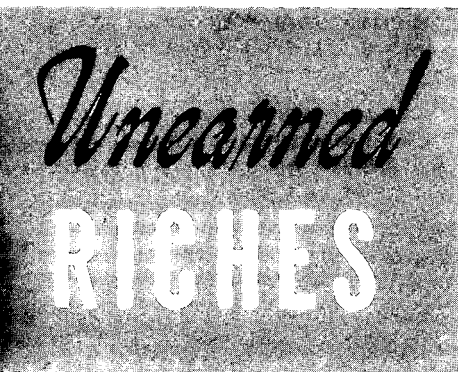


Understanding the fallacy of the labor theory of value is a first step toward respect for privately owned and controlled property, without which there can be neither voluntary exchange nor freedom.



LEONARD E. READ

MANY PEOPLE sincerely believe that the value of anything is determined by the labor used in producing it; that its price ought to reflect quite objectively the amount of labor put into it. The belief in this labor theory of value, however, is founded in myth, not fact. Day-to-day experiences reveal its error. For a farfetched example, the same labor could be used to make mud pies as to make mince pies, yet the value in the market place would differ. A service or a product of little value at one time or in one place may be highly valued at another time and place. For instance, an artist may produce hundreds of paintings considered freakish by others and be

rewarded with starvation for his labors. But, let his style become the fad, and for less labor than before, he can revel in luxury.

Lost and adrift on a raft for days, a man might offer his fortune in exchange for a hamburger. Yet, the same person, following a lusty meal, might not offer a penny in exchange, though the hamburger had changed not at all.

Individuals have varying value judgments. Value in the market sense, therefore, is a subjective rather than an objective determination. In a way, it is like beauty. What is beauty? It is what you or I or other individuals think is beautiful. It depends on subjective or personal value judgments, judgments characterized by constant variation. Value, as beauty, cannot be objectively determined. That all persons may think of a certain sunset as beautiful, a given monster as hideous, gold as desirable, or mud pies as useless does not alter the fact that these are subjective judgments. Such unanimity merely asserts that some subjective judgments are similar.

It is not at all surprising that

many persons in the United States and throughout the world do not subscribe to the subjective nature of value. As far as can be determined, no one understood it well enough to try an explanation until the latter part of the nineteenth century. Prior to that, such a notable as John Stuart Mill and the very best of economists, including Adam Smith and Ricardo, were stymied in their development of economic theory because they accepted the cost-of-production or labor theory of value. They simply could not explain what they otherwise knew to be the great advantages of the free market process of voluntary exchange. They knew full well that both parties must gain when each traded what he wanted less for what he wanted more, yet they could not show that such gain had been "earned," for they were unable to explain it in terms of labor costs. In short, they were unable to see how the free market price might be competitively or subjectively determined by individuals who had no accurate knowledge of the labor or other costs involved in producing a particular item.

How Adam Smith, holding to this labor theory of value, could have seen the great advantages of trade—the untold blessings of others, or society, to the individual—and could have come out in favor

of private enterprise instead of socialism, is a miracle more to be attributed to sound instinct than to economic reasoning.

Marx, as distinguished from Adam Smith, followed the labor theory of value to its logical conclusion: socialism. Marx looked upon all things useful as one great "wages fund" and believed that the entire fund ought to be distributed directly to laborers. To allow any part of this fund as a return on capital would amount to unearned increment and, he argued, would be exploitation. How any advocate of the cost-of-labor theory could believe in anything but socialism is difficult to understand. Smith, Ricardo, Mill, and many others instinctively, not logically, concluded otherwise.

Value Is Subjective

Only if one understands the marginal utility or subjective theory of value based upon the judgments of countless individuals acting freely and voluntarily in the market, may he proceed logically to a belief in private ownership and control of property. With this kind of an understanding, he can see why any person may have a perfect right to consume more than he could ever hope to produce by his own labor. He can, it is plain, properly own anything others will freely offer in exchange for what

he has to offer them. This means gains for all participants in the exchange process, gains which must always appear to be unearned in terms of labor expended. Nonetheless, it reflects the approval of all who are properly concerned in any transaction. The marginal utility or subjective theory of value needs no other justification. Because it is based on willing exchange, it works without coercing anyone. The labor theory of value—the labor theory of price determination — on the other hand, founded on unwilling exchange, cannot function without coercion.

Inheritance

Now, let us proceed to the person whose father invested \$500 in an early auto industry and who now wonders to whom he should give the resulting millions. That son is no more the recipient of unearned increment than is the person who today works for a wage in the same company. Both exist on what they themselves do not and could not produce. And if the wage earner were to succeed in cutting off what he might think are the unearned riches of his "lucky" brothers, he would at the same time destroy his own source of livelihood.

Let us contemplate this wage earner. He lives in a house he could

not build. Perhaps, given enough materials and tools properly fabricated and the plans some architect has drawn, he could put together something resembling a house. But he wouldn't know how to make a lowly nail, mine the ore, alloy the metals, construct the furnaces, build the extrusion and other machinery, and so on. Could he make a hammer? A saw? Bring the lumber to its finished state? Even make the string on which his plumb hangs? Grow and gin and spin and comb and weave the cotton from which it is made?

Could he build the machinery that mines the coal he uses to heat his house? He could not make the lamp the miners wear if every ingredient depended solely on his own resources.

What about the automobiles he helps to put together, one of which he owns? Neither he nor any other person on this earth could produce it alone. What about the food he eats? The clothes he wears? The books and magazines he reads? The telephone he uses? The counsel on health that is his? The opportunities that are constantly presented to him? All are done by a vast work and exchange process, millions of individuals with as many varied skills, laboring co-operatively and competitively, a world of complex and flowing energy, the organization of which

is more complicated than any one person can understand, let alone control. Others—society past and present—place within his reach goods and services and knowledge in such an array and abundance that he could not himself produce in thousands of years that portion of it which he consumes in a single day. And he obtains all of this in exchange for his own meager efforts.

The astounding thing is that it is possible for him to gain without any change in his efforts, his skills, his knowledge. Let others become more inventive and more productive, and he may receive more in exchange for what he has to offer. Parenthetically, it is also possible for him to lose out entirely, as might happen if he persisted in offering nothing in exchange but buggy whips.

There is a fact still more astounding. Our wage earner may think of his plight as hapless when compared to the one who inherited his millions. True, the millionaire has gained much from the doings of others. *But the wage earner himself owes his life to the doings of others.* It is not that possessing millions and having life are alternative propositions. That is not the point. The point is that both flow from the same exchange process and that whatever each has—be it autos, houses, food, clothing, heat,

millions, knowledge, or life itself—comes to him unearned in the sense that he alone did not produce all of it. We trade because we can all get more satisfaction from our labor by that means. Vast stores are available to those who have anything to trade that others value. In the free market, each earns all that he receives in willing exchange. This is fantastically more than one could produce by himself.

Blessings of Trade

In order fully to grasp the process by which one can consume in a day that which he could not produce in thousands of years—the process by which he can earn in a day that which he could not earn by himself in thousands of years—it is only necessary for one to see that one's earning power is capable of unlimited expansion by the productivity and exchange and value judgments of others. This world of creative energy, this productivity exterior to self, then, becomes of singular importance to each one of us. Not only does our prosperity—material, intellectual, and spiritual—depend upon it, but life itself comes under its government. In short, each of us is the beneficiary of this productivity through division of labor and capital accumulation and investments by others.

Let us sample this world of productivity through division of labor

from the standpoint of oneself as a potential beneficiary of its largess. The mathematics of nuclear fission is known to some scholars. I, however, do not know that much mathematics. Such knowledge conceivably can be mine. But I can possess it only by increasing my own perceptive powers. It may very well be that the required increase in perception is beyond my competency or that I may choose to increase my perception along other lines to the exclusion of perceptive powers along this line. But, assuming that I do gain this knowledge, do I earn it? Yes, as much as though I gained the knowledge by direct revelation. Direct, or indirect through study of the knowledge of others, does not alter the matter.

Division of Labor

The same principle applies to a product as to an item of knowledge. Luxurious yachts are available. Their making is as foreign and as unrelated to me as presently is the mathematics of nuclear fission. I do not have one. Such a possession conceivably could be mine. I could become the beneficiary of its existence by increasing my own exchange powers or, should all others become sufficiently productive, I could have one in exchange for efforts no greater than I now exercise. But assume that I do obtain one in exchange

for my present meager efforts. Do I earn it? Yes, even though it is in the sense I earn a deer by choosing the path I will walk and by pulling the trigger on a gun. All else is supplied. The deer, a miracle about which man had nothing to do, crossed my path. The gun, the powder, the shot represented creative ingenuity flowing through space and time about which I have but the dimmest of notions. As with the deer, so with the yacht. I earn it as though I had done it all myself. Others in their productivity, knowledge, skills *willingly* exchanged what I offered them.

Someone may argue that I could have exchange power to obtain a yacht had I been born the son of a father who "hit it lucky." By the same token, I might have the perceptive powers to understand the mathematics of nuclear fission had my parentage been different.

Seeing oneself in true perspective as related to all others is utterly impossible. We but dimly comprehend ourselves; the comprehension of others is much dimmer. However, it is not necessary that this perspective be perfect. It is only necessary that we grasp the idea of being a beneficiary of this benefactor, this division of labor, and that we understand and appreciate our dependence on and our relationship to it.

No better example of the benefi-

cent effects of the division of labor together with capital accumulation is to be found than in the area of our own 48 states. Here, less than 400 years ago, there were perhaps 200,000 Indians. Why was the population limited to this number? Certainly it was not for any lack of natural resources, friendly climates, or fertile soils. Nor was it because of the Indians' inability to breed. The population was limited and the standard of life was relatively impoverished because of a low form of cooperant society. They lived in a foraging economy, all of them in a near sameness. There was little in the way of division of labor, of variable skills, knowledge. Their society was indeed so uncooperative that as a result only 200,000 could live in it, and they not very well.

Today, in this same area, 168,000,000 persons, 840 times as many, live in relative luxury, be luxury measured in terms of goods and services, leisure, opportunities, knowledge, or insight into the nature of things. It is fair to say that 167,800,000 of us have life, and a rather full one at that, due to a higher form of cooperant society, to the freeing of creative energy, to large capital investments per head of population, to an advanced state of division of labor. It is fair to say that nearly all of us exist and have the pos-

sessions we enjoy because of a greater division of labor in a market economy. These millions of people with their varied skills and specializations, taken together, constitute a benefactor without which most of us could have no life at all. Each one of us is a beneficiary of this phenomenon.

Self-Improvement

Looked at in this light—oneself as a beneficiary and division of labor as a benefactor—it becomes pertinent to re-examine one's own behaviors, attitudes, actions. If we would best serve our individual self-interest, we would do well to live in harmony with the facts of life, not in disharmony with them.

Looked at in this light, one should do everything possible to increase his own perceptive and exchange powers. It is only by self-improvement that one can best serve self. And, clearly, it is only by self-improvement that one can better serve others—that is, add to someone else's well-being.

Who composes this benefactor of ours, this storehouse of energy? It is composed of individuals who, like ourselves, are different from all others and who, like ourselves, depend on others. And what ought to be our attitude toward these millions of others if looked at from the standpoint of self-interest?

1. Self-reliance, a great virtue,

should be emphasized. The way to be self-reliant is to keep off the backs of others and to engage in willing — never unwilling — exchange. This is the *free market*.

2. It is a primary fact of observation that these others, like oneself, will work at their best if permitted the ownership and control of the fruits of their own labor—and of their own participation in the exchange process. It is in one's interest to preserve his incentive. This is the institution of *private property*.

3. As with oneself, these others will act at their best creatively if left free to do so. One should, therefore, look with great disfavor on any interference with creative activity and on any inhibitions to free exchange and communication of creative action. One's own interest is impaired if there are marauders or robbers or authoritarians among these others; if there are men among them practicing violence, fraud, misrepresentation, or predation. One's own interest suffers if voters use the political apparatus to gain their own ends at the expense of the vast majority of the public. The form of government that protects the smooth operation of the free market economy and its voluntary division of labor is *limited government*.

For each individual to save his own skin and soul he must give at

least as much concern to the rights of others as he does to his own. He would be as eager to protect the creative energies and the free exchange and communication of others as he would his own. For each of us can truly say, "I am the beneficiary of their existence."

Ideals of Freedom

If we as individuals would save our own skins and our own souls, we would use all the moral suasion at our command to see that all men are free:

- to pursue their ambition to the full extent of their abilities;
- to associate with whom they please for any reason they please;
- to worship God in their own way;
- to choose their own trade;
- to go into business for themselves, be their own bosses, and set their own hours of work;
- to use their honestly acquired property or savings in their own way;
- to offer their services or products for sale on their own terms;
- to buy or not to buy any service or product offered for sale;
- to agree or to disagree with any other person;
- to study and learn whatever strikes their fancy;

—to do as they please in general, as long as they do not infringe the equal right and opportunity of every other person to do as he pleases.

According to these observations, here is a way of life harmonious with the interests of others. The envy of others for accomplishments or rewards can be made naturally and easily to give way to appreciation and pleasure. Inequality, being but the teammate of variation without which survival is impossible, would, therefore, be favored rather than disparaged.

Are the riches received in a free

society unearned? Only in the sense that all producers reap fantastically more than they could earn in isolation. The benefits flowing from our division of labor are available to all of us in willing exchange if freedom prevails. Such are the thoughts of one who believes himself a beneficiary and who believes that all others who act creatively are his benefactors. I owe my life to them; hence if I would live and prosper, I shall work as diligently for their freedom as for my own. • • •

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The Right To Own Property

IT IS A MISTAKE to belittle the importance of property rights. Respect for these rights is basic to organized society, and the instinct of individuals to acquire property is at the root of all economic progress.

The right to own property means the right to use it, to save it, to invest it for gain, and to transmit it to others. It means freedom from unreasonable search and seizure and from deprivation without due process of law or without just compensation. It might also be fairly taken to imply a limitation upon taxation because "the power to tax involves the power

to destroy." For a like reason, it should imply assurance against governmental dilution of the money whereby the government takes property which otherwise could be claimed by wage and salary checks and other credit instruments. Further, it should insure against other measures so burdensome or restrictive as to prevent the employment of savings in legitimate productive enterprise with a reasonable prospect of gain. Violation of any of these rights can nullify, in whole or in part, the right to property.

PAUL L. POIROT,
Property Rights and Human Rights

Even the most stout-hearted libertarian occasionally despairs of saving freedom. At such times, this essay may afford encouragement.

Albert Jay Nock (1870-1945) was Editor of THE FREEMAN (1920-1924) and author of many books and articles on the philosophy of government and human freedom. "Isaiah's Job" is extracted from his book, Free Speech and Plain Language, now out of print, published by William Morrow & Company, New York, 1937.

ISAIAH'S JOB

ALBERT JAY NOCK

ONE EVENING last autumn, I sat long hours with a European acquaintance while he expounded a politico-economic doctrine which seemed sound as a nut and in which I could find no defect. At the end, he said with great earnestness: "I have a mission to the masses. I feel that I am called to get the ear of the people. I shall devote the rest of my life to spreading my doctrine far and wide among the populace. What do you think?"

An embarrassing question in any case, and doubly so under the circumstances, because my acquaintance is a very learned man, one of the three or four really first-class minds that Europe produced in his generation; and naturally I, as one of the unlearned, was inclined to regard his lightest word with reverence amounting to awe....

I referred him to the story of

the prophet Isaiah. . . . I shall paraphrase the story in our common speech since it has to be pieced out from various sources. . . .

740 B.C.

The prophet's career began at the end of King Uzziah's reign, say about 740 B.C. This reign was uncommonly long, almost half a century, and apparently prosperous. It was one of those prosperous reigns, however—like the reign of Marcus Aurelius at Rome, or the administration of Eubulus at Athens, or of Mr. Coolidge at Washington—where at the end the prosperity suddenly peters out and things go by the board with a resounding crash.

In the year of Uzziah's death, the Lord commissioned the prophet to go out and warn the people of the wrath to come. "Tell them