
FREEDOM'S THEORY OF VALUE

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THOSE OF US who wish to assist in a reversal of the present trend away from individual liberty must, among other refinements of the mind, understand, believe in, and be able to explain the subjective theory of value, as forbidding as that term sounds. Except as we understand and apply this correct theory of value, individual liberty is out of the question.

The possessions one accumulates are a reflection of his values. What a man owns — what is his own — is what he is. One's personality and property reflect his subjective values.

But few of us care to live in isolation. We prefer to exchange ideas and goods and services with others. And the problem is to work our strictly personal values into a price or value structure for purposes of peaceful trade. The question to be answered is, how does the subjective theory of value determine the market price?

Here it is: *The exchange value*

of any loaf of bread, of any painting, of any day's work, or of any good or service is whatever another or others will offer in willing exchange.

When Mrs. Smith swaps a shawl for Mrs. Jones' goose, the value of that shawl is that goose and vice versa. Yet, each lady gains in her own (subjective) judgment. Were this not a fact, neither would have willingly exchanged.

Value can make no sense except as it is subjectively determined, that is, as utility or gain is judged by self. Gain or value cannot be determined for anyone by another. What has value for one may have more or less value to someone else: there are those who prefer a chinchilla coat to a college education and vice versa, a freedom library to a vacation and vice versa, the theater to a TV performance and vice versa, ad infinitum.

Assume that I am an artist and

do a painting each month. Unfortunately for me, no one wants "a Read." The value of my work? Zero! Now, assume that a change occurs in the minds of buyers (in each instance, subjective); "Reads" become a popular whim to the point that each will bring \$1,000. The value of my work? \$1,000! For the sake of this illustration, there was no change in the quality of the paintings. Buyers changed their minds and, thus, the value of my work.

It is perfectly plain that the practice of subjective evaluations is the practice of individual liberty or, if you prefer, personal freedom of choice.

It is also easily demonstrable that freedom of the press, freedom of religion, freedom of speech, freedom of assembly are impossible in the absence of economic freedom.¹

This correct theory of value is opposed by the objective theory, that is, by arrangements where someone else, by some standard of evaluation other than your own, attempts to determine the value of goods and services to you. An understanding of the fallacious objective theory and an ability to identify it in its many manifestations helps to accent the im-

portance and the validity of the subjective theory in practice.

Prior to 1870 no one had formulated the subjective theory. Nor was it invented. Three economists — Menger, Jevons, and Walras — from different countries and without collaboration, formulated the theory almost simultaneously. Their enlightenment came by merely observing how common people behave — produce and exchange — in the absence of governmental or other interference. Thus, before 1870 when there was no understanding of the subjective theory, objective methods of arriving at value predominated.

The classical example of the objective theory of value is the labor theory of value. This theory merely affirms that value is determined by cost of production or, stated another way, by the amount of energy expended. While some classical economists knew the theory to be wrong, they were not certain as to what was right.

Pursuing the labor theory to its logical and absurd conclusion, a mud pie would have the same value as a mince pie, provided that they were produced by equal expenditures of energy. If a pearl diver came up with a pearl in one hand and a pebble in the other, they would be of equal value!

Of course, people will not exchange as much for a mud pie or a

¹ See "Freedom Follows the Free Market" by Dean Russell, *THE FREEMAN*, January, 1963.

pebble as for a mince pie or a pearl. So, how does this theory find expression in practice? Simply use the power of government to take from the mince pie makers and give to the mud pie makers! Karl Marx gave the formula: "from each according to his ability, to each according to his need."

However, even the Russians no longer are strictly addicted to the labor theory of value. Yet, they largely rely upon objective standards of one kind or another. That is, self-determination is at a minimum; the government arbitrarily prices nearly everything. Willing exchange is not the mode; individual freedom of choice is substantially taboo; the subjective theory is less used in Russia than elsewhere.

Note that there is no freedom of the press, of speech, of religion, of assembly in Russia. It is because economic freedom is denied; and economic freedom is impossible unless subjective value judgments are respected.

One of the most important points to keep in mind is that the amount of effort exerted or the cost of production does not determine exchange value. It is determined by individual evaluations of personal utility. The market price or value is somewhere within the range of these evaluations.

We who are interested in indi-

vidual liberty and, thus, in the observance of subjective value judgments, must know that the objective theory is antithetical to our welfare, and we should be able to identify its many practices, regardless of how cleverly disguised they are.

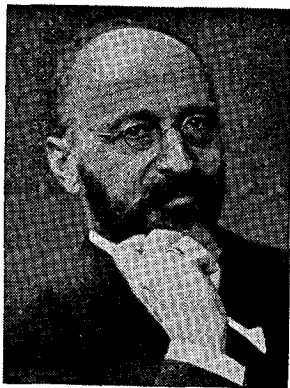
Actually, we need only keep our eyes on unwilling as distinguished from willing exchanges. All unwilling exchanges rest on objective and not on subjective value judgments.

Would you willingly exchange your income or capital for farmers not to grow tobacco, to rebuild someone else's downtown, to put men on the moon, to underwrite power and light for the people of the Tennessee Valley, to pay people not to work? If your answers are negative, you can take the political applications of the objective theory from there. Examples abound by the thousands.²

It is a gross understatement of the case to say that freedom rests on the practice of the subjective theory; subjective value judgments, when honored, *are* freedom! ♦

² See *Encyclopedia of U.S. Government Benefits* (Union City, N. J.: William H. Wise and Co., Inc., 1965). This tome of more than 1,000 pages lists over 10,000 benefits.

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Böhm-Bawerk

The Man Who Answered Marx

DEAN LIPTON

IT IS A SAFE BET that for every million persons who have heard of Karl Marx not more than one or two can recall the name of Eugen von Böhm-Bawerk. In a major sense, this is unfortunate, for Böhm-Bawerk was the man who answered Marx.

Nevertheless, it is quite understandable. Marx was primarily a propagandist, a polemicist, a gifted sloganizer. His life story from the time he was the editor of a radical newspaper in Germany to the years he struggled for control of the First International was the deliberate attempt to sway

the minds of men. He was a politician in the guise of journalist, philosopher, and economic thinker. About all this, Böhm-Bawerk could not have cared less. He was the dedicated scientist searching for truth. He refined economic ideas and concepts in a way that few others ever had or could. Where Marx borrowed heavily — and uncritically — from any past economist whose ideas could help him prove a point, Böhm-Bawerk would cut away at their falsity, never concerned with anything except arriving at the core of essential truth.

It was, of course, only natural that he would eventually clash with the ideas promoted by Karl

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