

THE CLASH BETWEEN THE INDIVIDUALISTIC AND THE SOCIAL CONCEPT OF VALUE.

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In economic theory, the concept of value applies in relation to the exchange (buying and selling) of goods and services; no value arises except by exchange. "Robinson Crusoe had certainly accumulated great wealth in his lonely island; but it was not value until the arrival of the first vessel brought him into relation with the rest of mankind."¹ Another writer states that: "without exchange value is not realised; it gains no expression; it is present in the various useful objects which Crusoe has made, but for lack of the social factor they are not stamped as values."² A selection, which, however, is in no sense exhaustive, of further definitions by a number of eminent economists will be found set out in an appendix hereto.

It does not fall within the scope of this paper to review, however briefly, the respective merits of the various theories of value which have held or still hold the stage; rather is it proposed to indicate their inadequacy as criteria where the student or the statesman has to explore the bearings of economic phenomena not from the individualistic but from the social standpoint. The shortcomings in this respect of the various theories have been the subject of criticism at various times and from different sources. "Value being regarded as the result of a purely mental appreciation, the social value of things in the sense of their objective utility, which is often scientifically measurable, is passed over, and a ratio of exchange is exclusively considered. The truth is that at the bottom of all economic investigation must be the idea of the destination of wealth for the maintenance and evolution of society."³ Certain economists still follow

¹ Charles Gide—*Principles of Political Economy* (trans.), p. 225.

² H. W. B. Joseph—*The Labour Theory of Value in Karl Marx* (1923), p. 89.

³ John Kells Ingram—*A History of Political Economy*, p. 241.

the lead of Adam Smith¹ to the extent of drawing a distinction between "value in use" and "value in exchange," but it must be borne in mind that the science, as it is taught, is entirely built upon the latter concept. The categories of the economist are measurable in terms of price; price is to him what the chain is to the land surveyor, the pound weight to the grocer or the pint measure to the milkman. What the economist forgets or ignores is that just as the chain measure would be useless for the milkman or the pound weight to the land surveyor, so also are there certain economic factors of the highest importance to society which are either not measurable at all, or inadequately measurable, by price, or by the value relation of which price is the measure.

It is a commonplace to mention that some of the indispensable requirements of man are the free gifts of nature and as such have no "value" in the economic sense. Sunlight, rain, air, natural temperature all fall within this category because they are free and unappropriated endowments of nature. Other natural resources such as land, primeval forests, fisheries (sometimes), minerals in their natural state, are in some measure privately appropriated, but, as will be shown later, the extent of this appropriation is strictly limited.

Without air, man could not live for more than a few minutes, without water not for more than a few days and without food not for more than a few weeks. Yet air and water, despite man's insistent need for them, are obtainable without payment. Water must sometimes be bought, but the price bears no relation to its objective or human utility; under exceptional circumstances, however, the payment may be enormously high. Sir Neville Wilkinson, who acted for a period during the Great War as Commandant of the Island of Imbros, relates in his recently-published memoirs² the following particulars of how supplies of water were obtained at one time from Egypt for the armies in Gallipoli:

"Taken in the first instance from the Freshwater Canal and brought in lighters to Alexandria, it was then pumped into large tank ships and brought to Mudros. There a small vessel was filled whose draught allowed her to come suffi-

¹ "Locke (Works 1714, ii., p. 21) speaks of the intrinsic natural worth of anything as separate from its value; and Hutcheson (System of Moral Philosophy, 1755, ii., p. 53) observes that the prices and values in commerce do not at all follow the real use or importance of goods for the support of life."

Palgrave—Dict. Pol. Econ. (1926), Vol. III., p. 762.

² *To All and Singular*, pp. 229-30.

ciently near to our breakwater to reach our shore tanks (in Imbros) with a pipe. From these storage tanks the much-travelled drinking water was drawn off in empty petrol tins, packed on motor lighters and landed at Suvla Bay or Anzac for distribution amongst the troops."

He comments that it would take a very capable statistician to calculate the total cost of each pint of the precious liquid when it finally reached a parched throat in the trenches of Gallipoli.

This example has a two-fold significance; firstly, it illustrates the efforts and sacrifices that must be made to supply any of the prime necessities of existence should these for any reason become scarce or difficult of attainment in situations where human life has to be sustained; and, secondly, it shows how an article becomes endowed with exchange value through the amount of human effort, direct and indirect, which is necessary between the first process of winning it from nature and the final one of placing it in the hands of the consumer. The amount of this effort will necessarily vary with the article, but according as the effort is great or little so will the price or exchange value be high or low.¹ Yet despite the insistent necessity for air and water the former, fortunately, is obtainable as a free gift of nature and the latter usually either as a free gift or subject only to a nominal price. Sometimes water must be carried or conveyed over long distances and distributed to large numbers of people by human effort, and such effort, be it little or much, always reveals itself fully in exchange value or price. The price of water in large cities manifests itself usually in the form of a "water rate," but this price bears no relation to the utility of water to the consumer. In other words, its place in a hierarchy of exchange values is low, but in one of human utilities amongst the very highest.

So far, there is no difficulty in perceiving that it is the intervention of labour in the broad sense of the term in bringing the water from nature's storehouse to the consumer that endows it with "exchange value." It is well, however, to bear in mind the theoretical possibility that if man were confronted with a scarcity, whether natural or contrived, of sunlight or air or water he would part with

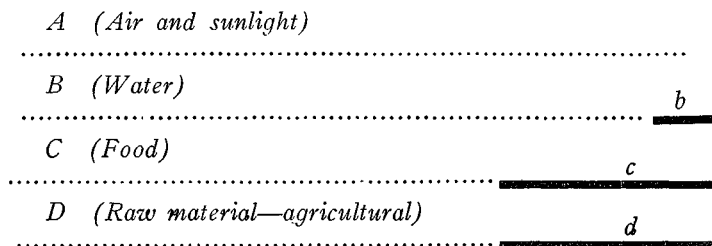
¹ There is a seeming exception in the cases of (1) rare works of art, curios and other objects which in process of time acquire a special scarcity value, and (2) monopolies.

his most cherished possessions in exchange for these objective utilities, but in the world as it exists, the necessity for such a sacrifice rarely arises. It may be nothing more than a coincidence that as commodities descend in the hierarchy of objective utilities they usually ascend in that of exchange values.

Food, although a utility of a lower order of importance than either air or water (since, on balance, life is more independent of food than of air or water), occupies a higher place than either in the hierarchy of exchange values (or price), for the reason that a relatively large amount of human effort is necessary in order to win from nature a quantity of food sufficient to meet the needs of society. Needless to observe, even though food may be regarded as lower in the scale of human utilities than either air or water, its place there, nevertheless, is one of the highest.

The results so far adduced are illustrated in the following diagram :—

DIAGRAM I



The dotted line *A* representing air and sunlight may be regarded as a utility of infinite importance, but possessing no exchange value; water may also be regarded as a utility of immeasurably great importance (represented by the dotted line *B*), but possessing also a small exchange value shown by the thick line *b*.

Similarly, food may be represented by the dotted line *C* indicating its utility and the thick line *c*, the latter line being larger than the line *b* to represent the greater exchange value of food relatively to water. The lines *b* and *c* bear a certain quantitative relation to each other which is measurable in terms of price. There is, however, no known device whereby the relationship subsisting between the utilities represented by the lines *A*, *B*, and *C* can be measured either *qualitatively* or *quantitatively*. Some economists indeed have

argued that because of the existence of this difficulty of measurement the science is compelled to ignore these types of utility.

It is obvious enough that food occupies a lower place in the hierarchy of utilities than either air or water, but how much lower or in what degree lower it is impossible in the present state of economic knowledge to tell; on the other hand, water occupies a higher place in the hierarchy of values than air, and food a place higher than either. But, in the case of articles obtained directly from nature, a certain difficulty in obtaining satisfactory price measurements for a hierarchy of exchange values nevertheless arises. When one speaks of £10 worth of potatoes and £10 worth of water respectively, it is possible to visualise in the one case a hole in the ground which has been tapped and its natural produce conveyed elsewhere through the intervention approximately of £10 worth of human effort, and in the other case a given area of land cultivated and its produce brought within reach of a purchaser, also by the intervention of £10 worth of human effort, approximately. But there is no definite commensurability between the natural agents co-operating in the production of the two commodities—a hole in the ground in one case and a given small area of land with its modicum of light, air, heat, cold, moisture and drought, in the other. It might perhaps be argued that a measurable background of the character described may be found in the average cost of supplying a human being with his daily requirements of food and water, respectively. The position becomes somewhat simplified, however, when one enters the realm of agricultural production, for then a definitely commensurable background arises. The line *Cc* may represent indiscriminately the produce of an acre of grass or of corn or of roots, the *c* being relatively short for the produce of an acre of grass, longer for that of an acre of wheat and still longer for the produce of an acre of roots. But behind all these *c* exchange values there remains the *C* utility subject to the fact that it must vary qualitatively according to the product raised. Provided, however, that the land is devoted to the production of food, qualitative variations in the utility of the raw product are probably confined within narrow limits.

Should the land be devoted to the production of non-food commodities such as flax, barley (for malting), willows, tobacco, or poppies (for opium) there is a decline in the order of the utilities associated with these products, as compared with food, to the accompaniment, however, of an indiscriminate rise or fall or equality in the exchange values

of the products obtained from the given area. The exchange value, whether of articles of food or of raw materials, is governed almost altogether by their respective marginal costs of production, and, as may be seen, this value bears no relation whatever either to the quality or the quantity of the utility passing.

The results so far arrived at are:—

- (1) The lines *A*, *B* and *C*, associated respectively with air, water and food, represent utilities of the highest order of importance which pass out to society as the free endowments of nature;
- (2) These lines are not measurable either qualitatively or quantitatively;
- (3) Nevertheless it is possible to establish the fact that the lines represent descending orders of utility, the lowest being that associated with food;
- (4) The utility represented by *A* has no exchange value, that by *B* a very limited exchange value in some instances, *b*, and that by *C* (food) a still more considerable exchange value, *c*.

Food includes a wide range of products of varying utility and varying price, variation in price being independent or nearly so of variations in utility. These variations manifest themselves in countless ways and in countless combinations. For example, there is the utility represented by the produce of an acre of potatoes as compared with that represented by the produce of an acre of wheat; the aggregate social utility of the former is greater since it is capable of supporting more human life; but it may well be the case, although the possibility of measurement is lacking, that the utility of £1 worth of potatoes is less than that of £1 worth of wheat. The social utility of one pound weight of plain bread is probably equal to that of one pound weight of high-class biscuits, but the price or exchange value of the latter would be several times greater. Here, as elsewhere, the shortcomings of current economic theory manifest themselves. Professor Seligman says:—¹ "When we speak of the utility of a thing we do not pass any judgment upon its moral qualities. Whiskey and opium may be injurious, yet so far as they satisfy existing wants they possess utility. They are called goods because they are good for the satisfaction of some want, no matter

¹ Principles of Economics (1912), p. 8.

how reprehensible that want may be. In order for anything to constitute wealth, the first requisite is that it should possess utility, that is the capacity to satisfy some desire." Thus, if the pound of high-class biscuits exchanged for 10 lbs. of plain bread, the utility (marginal utility) of a lb. of biscuits would be ten times that of a lb. of bread. Similarly the utility of a pound's worth of opium or of thousands of other useless things possessing exchange value would be equal to that of a pound's worth of bread. Yet the science which is capable seriously of advancing as fundamental a theory of the foregoing character presumes to guide and shepherd the statesman in dealing with problems affecting the well-being of society!

An acre of land may be devoted to growing a food crop or an industrial crop—say, potatoes or flax. It happens quite by a coincidence that the cultivation and garnering of the produce of an acre of flax costs nearly as much as an acre of potatoes, and as a result the prices of the produce in the two cases are approximately equal. The fact may be represented as follows:—

DIAGRAM II.

C (Food—potatoes)

c

D (Agricultural raw material—flax)

d

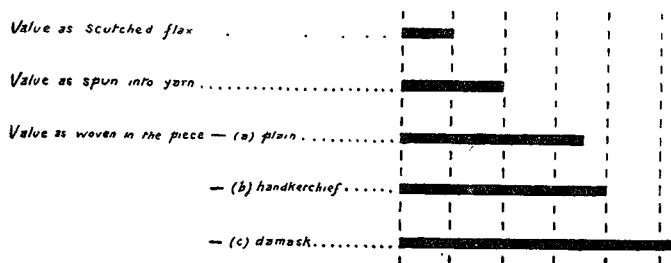
The thick lines *c* and *d* representing equal values are equal, but the lines *C* and *D* representing the free co-operation of nature in the production of the utilities are again qualitatively incommensurable; flax represents a lower order of social utility than potatoes since it ministers to a lower and less insistent want, but in what degree lower and in what degree less insistent it is not possible to tell. Thus *D* occupies a lower place in the hierarchy of qualitative utilities than *A* or *B* or *C*. Although the exchange values *c* and *d* are equal in both cases and represent the exchange of a given quantity of flax for a given quantity of potatoes, this fact is quite arbitrary and accidental. Should nature suddenly become fickle in her co-operation and the produce of an acre of flax be doubled as a result whilst that of an acre of potatoes remained the same the respective measurements *c* and *d* would probably still remain unaltered, although twice as much flax as formerly exchanged for the given quantity of potatoes; society would reap the advantage of nature's

more efficient co-operation in the production of flax. These facts serve to illustrate a principle of all-pervasive importance which, however, has received no adequate recognition from theoretical economists.¹

It is now proposed to pass on to a consideration of the problem presented by raw materials and manufacturing industry in relation to that of food production and the use of the free endowments of nature (air, light, etc.). The line *Cc* may be regarded as representing a typical food product (potatoes), and the line *Dd* a typical industrial raw material (flax), the exchange values *c* and *d* being equal, and nature's unmeasured co-operation in each case, the chief elements in which are an acre of land and the other natural agents (non-human) present and necessary to render it productive, also equal or nearly so.

Food may be regarded as goods in their final form and raw materials as goods in their primary form. The exchange value *c* differs from *d* in that the former, unlike the latter, cannot be increased by the intervention of manufacturing processes. The diagram below, drawn to scale, illustrates the value superadded to the produce of an acre of flax (at 90/- per cwt. of scutched flax) as it passes through the various manipulative processes to the final product (linen) ready for consumption.

DIAGRAM III.

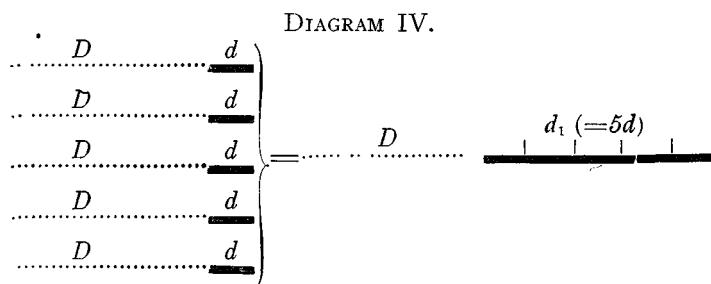


It is disappointing to have to record that economic theory has not yet insisted upon the need for statistical information enabling diagrams of the foregoing type to be constructed for all the leading items of manufactured goods. Without such information it is manifestly difficult to convey any adequate idea of the fundamental economic

¹Carey and Bastiat are conspicuous exceptions (see Appendix).

differences between foods, raw materials and manufactured goods, respectively. On the other hand, diagrams of this kind could be made intelligible, interesting and instructive even to pupils in primary schools and a handsome contribution thus made to the fund of popular economic knowledge.

The value of the produce of an acre of flax in the final form in which it reaches the consumer may be anything from five to ten times¹ its original agricultural value; but it is necessary to bear in mind that whatever this final value may be it carries with it only the single utility tail D as shown in Diagrams I. and II., although the resulting linen products in their final form would exchange for the produce of five to ten acres of flax or potatoes. The exchange may be represented by the following diagram:—



The equation here shown is an exchange equation arising from the fact that d_1 is equal to 5 times d , but, as may be observed, only the single utility tail D associated with linen passes in exchange for the five D utility tails associated with flax. Similar reasoning would apply if the exchange consisted of potatoes for linen, subject to the reservation that each of the five utility tails passing out with the potatoes would be of a higher order qualitatively than the single utility tail received back with the linen. These examples are quite of universal application; they show that in the exchange of food and raw materials for manufactured goods the original endowments or free gifts of nature present in all material commodities pass out with the food and raw materials in far greater proportion than they are received

¹ *Vide* also question by Mr. Foreman, M.P., and reply by Mr. Kellaway, in British House of Commons on 7th July, 1919, indicating that the cost of certain fashionable garments containing less than 1 lb. of wool (then selling at 26½d. to 70½d.) was as much as six or seven guineas.

back in equal exchange value units of manufactured goods. Hence, there is no assignable limit to the expansion in population and wealth of a community which can in progressive measure exchange its manufactured goods for the food and raw materials produced by another community; the point will be more fully elaborated later on.

Having hurriedly traversed the borderland lying between the producer of food and raw materials and the manufacturer it is necessary, however briefly, to examine some of the principles to which manufactured goods conform. Linen is an article comparatively low in the hierarchy of manufactured goods. Owing to paucity of statistical data it is not possible to set out with any degree of certainty the gradations in a hierarchy of manufactures determined solely by their exchange value in relation to equal cost units of the original raw materials used. Censuses of production show the cost of materials and the total value of the finished products for a wide range of grouped items, but the materials are themselves used as such by different firms at various stages of manufacture; hence, the spread between the summarised results—"value of materials used" and "value of product"—is far less than that between the value of a typical raw material and a typical finished article manufactured therefrom. For example, the United States census of production results (1923) for typewriters and linen goods, respectively, are as follows:—

	Typewriters.	Linen goods.
	\$	\$
(1) Value of materials used...	9,285,000	6,073,000
(2) Value of product ...	42,018,000	11,390,000
(3) Value added by manufacture ...	32,733,000	5,317,000

but it is obvious that if the materials were taken in at their original crude value as won from nature, items (1) would be very much smaller, and hence items (3) very much larger, relatively. Bearing in mind the foregoing limitations, the following table has been prepared from the United States census of production for 1923, and it shows a selection of typical industries arranged in an ascending hierarchy as determined by the percentage of value added by manufacturing processes to each dollar's worth of materials used:—

Particulars of Certain Industries
abstracted from the
United States Census of Production, 1923
(000 omitted)

INDUSTRY	Cost of Materials	Value of Product	Value added by Manufacture	Value added by Manufacture expressed as a percentage of cost of Materials
(1)	(2)	(3)	(4)	(5)
	\$	\$	\$	
Butter	561,308	654,474	93,166	17
Slaughtering and Meat Packing	2,176,010	2,585,804	409,794	19
Cheese	109,522	130,765	21,244	19
Condensed Milk	164,746	200,111	35,365	21
Paper Bags	29,375	42,272	12,897	44
Leather, tanned, curried and finished	321,750	488,898	167,148	52
Tobacco (chewing, smoking and Snuff)	146,375	222,965	76,592	52
Silk Manufactures	479,038	761,322	282,284	59
Cotton goods	1,147,372	1,901,126	753,753	66
Sugar, beet	70,820	118,314	47,494	67
Woollen and Worsted goods	622,731	1,062,559	439,826	71
Knitted goods	484,020	848,177	364,157	75
Confectionery	202,719	366,256	163,537	81
Linen goods	6,073	11,390	5,317	88
Bakery products, other than biscuits and crackers	485,169	911,118	425,949	88
Boots and Shoes	527,457	1,000,078	472,621	90
Beverages, carbonated	69,443	145,828	76,386	110
Tobacco (cigars and cigarettes)	369,491	821,227	451,736	122
Furniture	342,236	776,495	434,259	127
Biscuits and Crackers	89,352	211,788	122,437	137
Agricultural Implements	63,492	151,286	87,794	138
Cement	100,767	264,098	163,332	162
Hardware	80,598	215,960	135,363	168
Glass	113,170	309,353	196,183	173
Optical goods	19,112	54,462	35,350	185
Bookbinding and blank book making	23,073	76,959	53,886	234
Aircraft and parts	3,830	12,945	9,116	238
Pottery, including porcelain	33,600	114,392	80,792	240
Printing and publishing	585,936	2,021,356	1,435,420	245
Instruments, professional and scientific	18,039	63,074	45,035	250
Typewriters and parts	9,285	42,018	32,733	353
Razors	5,753	28,212	22,459	390
Cash Registers and calculating machines	12,482	95,106	82,622	662

It will be seen that whilst butter manufacturing processes, for example, increase the value of the materials used by only 17 per cent., the manufacturing processes involved in the making of cash registers and calculating machines add to the value of the materials used by an amount equal to 662 per cent. As in the equation illustrated by Diagram IV. it is possible now to show that an article such as a typewriter constructed out of one dollar's worth of raw material would exchange for the manufactured product of four dollars' worth of flax. The raw materials in the two cases would be endowed with certain free gifts of nature, although it would be impossible to express any quantitative and very difficult perhaps to establish a qualitative relation between the respective endowments, but if the finished article, a typewriter, is exchanged for linen there is evidently a hidden economic gain for the producers of typewriters as compared with the producers of linen. This gain is not at all likely to manifest itself in the form of greater profit or in a higher standard of well-being among the producers of typewriters; it manifests itself in the capacity to sustain a larger number of human beings relatively to the volume of natural products used. The significance of this example is enhanced when the fact is borne in mind that the producers of typewriters do not exchange their goods for linen, but in the main for those far less highly manufactured, or unmanufactured, articles, such as houserom, clothing, bread, butter, eggs, meat and milk, which absorb the major proportion of the effective demand of an ordinary artizan population.

The Table clearly shows that certain goods require more elaborate processes of manipulation or manufacture than others in order that they may be fitted for use. As these processes increase in complexity and costliness the value of the original material used bears a diminishing ratio to that of the finished article; finally a stage is reached where it is difficult to determine whether commodities may be regarded as "goods" or merely as the embodiment of labour pure and simple, and therefore "services." A newspaper represents in part the product of a manufacturing process and in part a service. The expensive gowns designed by a Parisian costumier are more in the nature of services than goods; and so are the medicines made up by the chemist. As the realm of manufactured goods is left behind and that of services pure and simple entered, so also do the tails *B*, *C*, *D*, etc., disappear and the values *b*, *c*, *d*, etc., remain unassociated with any of the free natural utilities of the character hitherto described. When services are exchanged

for food and raw materials, as ultimately they are to a great extent, a *B* or *C* or *D* and so on in descending order standing for a natural utility passes in association with such goods for which no *B* or *C* or *D*, etc., of any quality or kind is received in exchange. Therefore, whatever may be the capacity for accumulation of wealth and increase in numbers of a community which in whole or in large measure can exchange with another community manufactured goods for food and raw materials that capacity is enhanced if the exchange is in any large and growing measure one of services for food and raw materials.

A great disservice has been done to the cause of sound economic thinking by the failure to recognise the distinctions of fundamental importance that arise as the various products and services that constitute the wealth and minister to the well-being, or merely to the demand of whatsoever character, of a community, pass by almost imperceptible gradations from goods of infinite utility but no exchange value through articles of low exchange value but great utility, articles of high exchange value but lower utility, articles of immense value but very little or no utility, harmful goods, and, finally, "services" good, indifferent and bad.

Price is the measuring-rod employed by the economists. and in order the more fully to appreciate why it is an inadequate measure from the standpoint of the statesman and the legislator it seems desirable to emphasise a little further, even at the risk of some iteration, the significance of its many shortcomings. "When manufacturers have produced their article they, or their partners the sellers, must, by every sort of cunning device, get at the consumer, and teach him, nay, almost force him, to demand it. When they have set demand going by whispering or shouting in mankind's ear, they have attached value to the article. They have 'done the trick.' They have got something which will sell, because it is something, whether good or bad *per se*, that is wanted, i.e., is in demand. That is the simple secret of advertising and of its success. It creates a demand for the thing advertised, and so attaches value to it."¹

The foregoing statement represents an underlying principle of price formation and of value: the following extract from a booklet² recently published by the American National Foreign Trade Council represents the practical application of this principle:—"Advertising of American products has

¹ J. St. Loe Strachey. *Economics of the Hour*, p. 10.

² C. C. Martin—*Can we compete abroad*, p. 69.

become widely general, and is bringing large sums into the coffers of the British periodical and daily press. Nationally advertised American products are becoming known in most British households, and a check of periodicals issued by one of the British publishing groups shows the following well-known American names: Pro-phy-lac-tic; Carter's Pills, Pepsodent, Ford Cars, Anglo-American Oil Co., J. B. Williams Co., Palmolive Soap, United States Rubber Co., United States Lines, Sun-Maid Raisins, Dodge Cars, Mothersill's Remedy, Hoover, Forhans, Grape Nuts, Instant Postum, Shredded Wheat, Miller's Musterole, Paige-Jewett Cars, Packard Cars, Overland Cars, Nujol, O-Cedar Mop, Quaker Oats, Underwood Typewriters, Corona Typewriter, Gillette Safety Razor, Remington Typewriter, Alkia Saltrates, Tokalon, Auto-Strop Razor, Ever-Sharp Pencil, Ever-Ready Pencil, Exide Batteries, Ever-Ready Batteries, "Polar Cub" Fans, Gilbert Toys, Danderine, Blue Jay Corn Plaster, Cutex, Dr. Williams' Pink Pills, Euthymol, Kodak, Wrigley's Chewing Gum, Pompeian Toilet Products, Rexall and Mennen's Toilet Powder."

America is still an exporter to a large extent of many low-priced raw food products and raw materials, but the astute author of the booklet seemingly takes no pride in this type of export trade, which he omits even to mention; no doubt he sees greater economic possibilities in exporting goods whose production owes little or nothing to nature and much to capital and labour, and whose value is therefore high; for thus is the natural produce of his country consumed to an increasing degree at home and the development in numbers and prosperity of the population of the United States ensured.

A commodity, whether good, indifferent or bad in itself, possesses value in the individualistic sense so long as people can be found to buy it. A pound's worth of opium, even though its consumption may involve the loss or ruin of a human life, is as valuable in economic theory as a pound's worth of flour which has been instrumental in saving a strong man from starvation:—

"The old-time bargain between Esau and Jacob, when the former sold his birthright for a mere mess of pottage, gave the maximum of satisfaction to both . . . Even if Jacob had offered him a bottle of absinthe instead the result would have been equally satisfactory from a Hedonistic standpoint. The theory takes as little account of hygiene as it does of morals."¹

¹ Gide and Rist—*History of Economic Doctrines*, Bk. V., p. 540.

It is necessary fully to realise that such is the accepted theory of value in order to appreciate the extent to which it is inapplicable to many phenomena of the modern economic world. For example :—¹

“The cotton growers of the South were taught how to increase the production of cotton, upon the theory that it is a blessing to make two blades of grass grow where only one grew before. But the report of the Secretary of the New Orleans Cotton Exchange states that while the cotton crop of 1911-12 increased by four million bales over the 1910-11 crop, the price received by the planter was over one hundred million dollars less. On the other hand, the crop of 1909-10 showed a falling-off in production over 1908-09 by over three million bales, but an increase in value of a hundred million dollars. . . . The wheat farmers produced a bumper crop in 1906, 745,000,000 bushels. In 1907 they produced a hundred million bushels less, but got 60,000,000 dollars more for it. The farmers in 1910 produced the enormous quantity of 1,186,000,000 bushels of oats with a farm value of 408,000,000 dollars. Next year they produced a crop 200,000,000 bushels less, but with a farm value of 6,000,000 dollars more.”

The real significance of the statistics adduced in the foregoing passage lies in the fact that the annual outturn in the United States of many agricultural products is so large that it necessarily affects to a substantial degree the world prices of these products. No doubt it is true that in the long run agricultural activities are determined by the average or the normal prices ruling for the products raised, but there are important seasonal and short-period fluctuations in output and hence in prices which possess a very special significance. Thus, in 1910, the farmers of the United States produced 1,186,000,000 bushels of oats and got \$408,000,000 for it; the following year they produced 986,000,000 bushels and got \$414,000,000, i.e., for a crop 200,000,000 bushels less they got \$6,000,000 more. Hence, ignoring the short time interval of one year, it is found, rather paradoxically, that 986,000,000 bushels of oats are more valuable than 1,186,000,000 bushels. Is this so? What really happened was that as a result of the greater bounty of nature in the United States in 1910 as compared with 1911, 200,000,000 bushels of oats passed out to society in the former year as a free gift, and, as the exports of oats and oaten products in these years were

¹ From *Agricultural Economics*, by Jas. E. Boyle, Ph. D., pp. 9-10.

trifling in amount, the United States secured, almost to the full measure, the enjoyment of this free gift through the consumption of the produce within its own borders. The smaller crop was more "valuable" than the larger only in a very narrow and inadequate sense of the term; society in general was more enriched by the larger than by the smaller crop.

This example serves to illustrate merely how a *differential* free gift arises; as has already been shown, every product obtained mainly by the co-operation of nature is endowed with the free-gift attribute; it existed in the United States oat crop of 1911 as well as in that of 1910, and the gift passed out to society along with the latter as well as with the former, subject only to the difference that in the year 1911 the free gift was less by 200,000,000 bushels. A still more striking example of a similar character is provided by the United States cotton crop of last year. The following figures show the estimated outturn and comparative prices of this crop at like dates in 1925 and 1926, respectively :—¹

COTTON (UNITED STATES).

	Production (Bales)	Producer's Prices (dols. per lb.)	Values of Crops on basis of November prices (bale=500 lbs.)
			\$
Nov., 1925	15,386,000	'181	1,392,433,000
Nov., 1926	18,618,000	'110	1,023,990,000

Thus, on the basis of prices current in November, 1925, and November, 1926, respectively, the United States planter will have obtained 370,000,000 dollars more for the crop of 1925 than that of 1926, although its outturn was less by the large figure of 3,232,000 bales. The outturn of the American cotton crop has been steadily rising since the years 1921 and 1922, and the price per lb. realised by the producer steadily falling since 1923. The average prices per lb. in 1922 and 1923 were \$.193 and \$.270, and in November last only \$.110. Therefore, as compared with 1922, the amount

¹ From *Survey of Current Business*, January, 1927 (U.S. Dept. of Comm.).

of United States cotton that now passes out to society as a free gift is enormous, and it must not be forgotten that even in 1922 cotton was so passing out. It is all very well to denounce and decry the cynicism of such men as Senator Caraway, who is reported as having recently stated that if the cotton planters had burnt 2,500,000 bales of last year's cotton they would have got 300,000,000 dollars more for the remainder, but there is no altruism in international trade, and why, therefore, should any country allow its natural endowments to pass out in the guise of such trade as a free gift? Although society would undoubtedly be poorer as the result of such wilful destruction, there seems no reasonable doubt that the United States planter—and, indeed, the United States as a whole—would be the richer. The conflict between the individualistic, which is the theoretical, and the social, concept of value could not be more definitely knit. *The Manchester Guardian Commercial* of 26th August last published the following report from its New York correspondent in regard to the cotton situation then developing:—"Even now a sort of silent prayer is being offered up in many quarters that weevil ravages or other unfavourable influences will materially restrict the outturn and pave the way for more remunerative prices"; and the New York correspondent of the *London Times* reported on October 1 as follows:—"The Texas Legislature, viewing with alarm the prospect of a superabundance of cotton with its resultant low prices, yesterday passed a resolution calling upon newspapers, banks, civic organisations, merchants, manufacturers, State Legislatures and others to support a campaign for withdrawing from the markets 5,000,000 bales of cotton."

Apparently there is no magic in the gospel of increased production for the United States cotton planter, however much mankind in general benefits by such production.

Even in a small country like Ireland economic tendencies of the character described can be readily discerned. The area devoted to the potato crop being relatively large and the market almost entirely local, it invariably happens that a bumper crop is accompanied by low and a lean crop by high prices. The figures below indicate the position in the two most recent years for which complete particulars are so far available:—

POTATOES (IRELAND),

Year	PRODUCE		Av. Price per cwt. in Dec. quarter	Value of gross produce on basis of price in Dec. quarter
	Gross	Per Acre		
	Tons	Tons	s. d.	£
1924	2,320,953	4'2	7 3	16,827,000
1925	3,306,133	6'2	3 7	11,847,000

It will thus be seen that the comparatively small potato crop of the year 1924, on the basis of prices current, was more valuable than the crop of 1925 by no less a figure than £5,000,000, although the latter crop was larger to the extent of 1,000,000 tons. In Ireland, however, bumper potato crops are not unwelcome because the produce is consumed to a large extent on the farm, but were it the practice, as in the case of most crops grown in the United States, to market the produce in whole or in great part, the Irish farmer's attitude towards a bountiful potato harvest might be considerably modified. It is obvious that in this instance *price* utterly fails to measure the importance of the economic factors involved. Far from being £5,000,000 more valuable, the 2,300,000 tons in 1924 were socially of much less value than the 3,300,000 tons in 1925, but the social value of the latter crop passed out as a free gift in much larger measure than that of the former. The theory of value that demands acceptance of the contrary view as expressed in terms of price is fundamentally inadequate if not indeed fundamentally unsound.

The niggardness of nature rather than her bounty is the parent of price or exchange value; but the bounty of nature is the parent of wealth. If everything that the heart of man could desire were produced in adequate quantity without effort on his part, then the world would be far wealthier than it is, but all the items of such wealth would be of the same economic order as air and sunlight at present. The schedule of the world's wealth would be represented by the economic value, 0. Conversely, as and when nature becomes more niggard, the value of her product enhances.

Modern commercialism has not waited until to-day or yesterday to exploit to its own advantage the principle here discussed. Where nature proves herself embarrassingly bountiful in the commercial sense man frequently intervenes

to deprive his fellow of part at least of the bounty. Thus have arisen the various plans for "limitation of output," "valorisation," "stabilisation of prices," and "regulation of the flow to market," of various classes of goods. The object in all these cases, disguised though it may be under various innocent-looking phrases, is to maintain the exchange value or price of the product at an arbitrarily high level. The following are amongst the natural products whose output is controlled and restricted, namely, potash, rubber, dried currants, tea, Arriba cacao, coffee, hemp, quicksilver, diamonds, camphor, sulphur, cinchona bark, quebracho, natural nitrate, monazite sand. The range of manufactured articles similarly restricted is very comprehensive; indeed, every manufacturer or trader and manufacturing and trading group putting a price or profit margin on goods below which they are not to be sold is, consciously or unconsciously, limiting output.

It is only necessary to recall to mind Mr. Hoover's recent rather outspoken criticisms of the British rubber control scheme in order to realise the importance of such expedients in world commerce. The moral basis of Mr. Hoover's attitude has, however, been seriously prejudiced by the action or contemplated action of his own Government in regard to cotton and other agricultural products. The most portentous of all the recent movements for regulation of output has manifested itself in the large wheat-producing areas of the world—Canada, United States, The Argentine and Australia. The difficulties of control may prove to be insurmountable in a case like this, where the numbers of individual producers are enormous and each is virtually independent of the others, and, at the same time, the areas of production are immense and widely scattered; but if these difficulties are overcome to the accompaniment of a genuine curtailment of wheat production then indeed mankind will be taught a terrible object lesson as to the real value, as distinct from the exchange value or price, of articles of prime necessity obtained directly from nature. A small curtailment in the supply of necessities will lead to an advance in price far more than in proportion to the decline in the stock. In his *History of Prices* Tooke showed that a deficiency of one-sixth in the production of corn in Great Britain sometimes raised the price to double the average, and he said that a deficiency of one-third in the supply available for consumption might raise the price five, six, or even tenfold.

The importance to the student and the statesman of examples such as these lies in the proof they afford of

the manner, and of the degree, in which the exchange values of articles of commerce can be affected by deliberate action on the part of special interests. Jevons says that "value is the most invisible and impalpable of ghosts, and comes and goes unthought of while the visible and dense mass remains as it was,"¹ but it is quite another matter when the economist tells the statesman that this ghost is an adequate criterion or measure of the requirements of national well-being; or, to put the same idea in more popular language, when the economist tells the statesman that the economic well-being of the State is adequately safeguarded when its citizens have liberty to buy in the cheapest market and sell in the dearest, quite irrespective of the character of the things they sell or of the things they buy, of the destination of the things they sell or the origin of the things they buy, of the conditions determining the prices (or exchange values) of the things they sell or those of the things they buy.

What happens in the actual world is that human beings possess varying demand capacities. From the beggar who procures an occasional penny to buy a crust of bread to the millionaire whose effective demand evokes the production of a wide range of goods and services there is virtually an infinity of gradations in the hierarchy of individual demand capacities. Demand, therefore, is not a homogeneous concept like that, say, of 5,000 horse-power. The effective demand emanating from the millionaire is not necessarily of a higher order, qualitatively, than that from the beggar: it occupies the higher position solely by virtue of its greater capacity to evoke the production of goods and services, irrespective of whether these goods and services are good, indifferent or bad. Some of the goods so required are produced with little effort, and are therefore cheap—nature is bountiful and hence the price is low—but others can only be obtained by tremendous effort, and therefore their price is high. These latter goods would scarcely ever be sought out were it not for the existence of the higher grades in the hierarchy of demand capacity, as already defined; moreover, these goods, fortunately for the well-being of society, usually occupy the lowest place in the hierarchy of social utility, although, paradoxically, their "marginal utility" is enormously high. Nothing perhaps could better illustrate the unnatural connotation which economists have forced upon the terms "utility" and "value" than the fact that articles possessing "utility," and therefore "value," also fall within the category

¹ *Investigations in Currency and Prices*, Cap. IV., p. 81.

of articles of "disutility." Ruskin applied to the latter the term "illth" in contradistinction to wealth. The criminal and moral codes of every country recognise goods and services which conform to the concept of illth rather than wealth, even though such goods and services possess exchange value. A notable example is provided by those countries, headed by the United States, which have now in effect scheduled intoxicants for popular consumption under the heading of illth. But intoxicants are still wealth in the economic sense even in the United States, because they possess exchange value there, and, according to Seligman, "wealth is money's worth."¹ Here again it is seen that the issue between the individualistic and the social concept of value is definitely knit. What is wealth to the individual, because it has value, often is only illth in the eyes of the legislature.

Besides many goods and services entering the realm of commerce which are positively harmful to society there is another large class of goods and services endowed with exchange value which may be placed in a neutral category, that is to say neither good nor bad but merely unnecessary. Opinions will naturally differ as to the precise kinds of goods and services which can be regarded as falling within this definition. During the progress of the European war the expression "non-essential industry" entered for a while into the common currency of language. What is a non-essential industry? Obviously one which produces articles possessing exchange value but not contributing materially to human well-being. If, however, such articles can be exchanged with other countries for goods possessing equal value and, in addition, real social utility, then indeed non-essential industries are a national asset to the country in which located. For this reason, if for no other, the civilization of backward races by industrial nations is always a paying proposition for the latter because wants are thereby created and fostered among such races for goods possessing high exchange value but little or no utility, and these goods are paid for usually by natural products readily won from nature which possess great national utility amongst progressive people, but, at the same time, very little exchange value, particularly among the backward races that garner them directly from nature. It would be flying in the face of ordinary human experience to deny that a large proportion of goods endowed with exchange value and of services bought or sold are either "not-wealth"

¹ Principles, p. 19.

in the social sense or "illth." Some of the most highly-priced goods and services fall into one or other of these two categories, but, of course, all highly-priced goods and services cannot be so classed.

In the early part of this paper it has been shown how a loss of utility arises in exchanging products, especially articles of food and raw materials obtained in close co-operation with nature, for manufactured goods. Under modern conditions of social existence which imply as a bedrock principle the division of labour, such loss is inevitable, so far as the seller is concerned. Whether the loss extends through the seller to the State depends altogether upon whether the consumers of the natural products thus disposed of exist within or outside the State.

Whilst it is true that ever since the external trade of Ireland attained to any considerable dimensions the export of food and raw materials figured largely therein, the fact must not, nevertheless, be overlooked that even within a century the rural population, which was far larger eighty years ago than now, led very self-contained lives. The needs of the household for many important groups of manufactured articles, especially clothing, were met to a great extent by the industry of the female members of the family; it was possible for a farmer to live out of the produce of a very small agricultural holding because his requirements of purchased goods were very limited. For good or for evil, this social order has changed rapidly within the past seventy years or so, and the changing tendency does not yet appear to have by any means spent itself. Although, within this period, the total volume of agricultural production has declined, the farmers collectively now sell far more and buy far more than formerly.

In the sale of an article control of its ultimate destination is lost to the producer. Where the produce goes is no immediate concern of the seller. Having secured its price, however, he is at liberty to employ as he likes the purchasing power thus obtained; he may, for example, buy food or some little luxuries for his family, a coat for his wife, a piano for his daughter, or he may indulge in the excitement of a bet with a local or foreign bookmaker upon the chances of a favourite horse at the next Punchestown or Ascot race meeting. The utility to him of the things bought will be equal to or greater than that of the things for which exchanged, at least so say the economists, and they are probably right if the utility considered is that which is

merely subjective and personal to the seller. But can this subjective and personal criterion of utility be regarded as absolute and adequate in all circumstances?

The economic significance of buying and selling in the mass is usually veiled by the intervention of money. No matter how often reiterated, the mind is apt to forget or ignore the fact that all buying and selling ultimately resolve themselves into the exchange of goods and services of one kind for goods and services of another, that into this exchange there come all kinds of goods and services from the socially very good to the socially very bad, and that all these goods and services exchange indifferently for each other on the basis of a price determined upon the principles already defined.

It is scarcely necessary to elaborate further the point that socially certain goods and services are more desirable than certain other goods and services or that certain goods produced with the co-operation of land and other natural agents are socially more desirable than certain other goods largely or wholly the embodiment of human labour and services. But the social utility of goods is not the determinant of their exchange values, since harmful or unnecessary services and goods exchange freely for beneficial or useful services and goods. Moreover, all services, as has already been shown, are of a different economic order from goods, and this difference becomes accentuated as one descends the scale of services from those, for example, of a highly competent surgeon to a quack, a "bucket shop" and a betting tipster.

The foregoing facts are struggling for recognition in the realms of economic thought, but they are in danger of submergence in the flood of "orthodox" theory that has welled up in a few super-industrialised and super-commercialised nations:—"From a commercial point of view there is no difference between the production of food and the production of articles of luxury. But from a national point of view it is different. For the production of food guarantees a nation's future, whereas the production of articles of luxury does not; nay, we may go further and say it actually imperils it; for luxury tends to undermine the morale of the race by encouraging a taste for pleasure and distaste for work. For such reasons the commercial . . . point of view must be condemned as inadequate, and a theory of political economy that would exalt it as the criterion by which to judge the validity of all forms of

social and industrial activity is manifestly one that is finally subversive of the social order."¹

It is necessary to observe that in the foregoing passage the author is contrasting the economy of the *production* of luxury goods with that of the production of food *within the State*, and even then he regards the tendency towards luxury production as fraught with danger to the national well-being; what, then, is the extent of the danger when it is a case of the export of food and indispensable raw materials not for highly manufactured and luxury goods alone, but, in addition, for "services" most of which are wholly unnecessary and many actually harmful?

Money, by acting as the representative and measure of the purchasing power secured in the sale of a commodity or of a service which an individual has for disposal, and as the instrument whereby a commodity or a service which is wanted can be purchased, masks the real character of commercial transactions. Confusion of thought in regard to the true significance of the massed facts of buying and selling is the direct and almost inevitable result. People want money and dispose of goods and services in return for it; people want goods and services and get them in return for money. Rarely are the two types of operation completed by a single individual simultaneously, and rarely, therefore, is the true inwardness of the fact grasped that money is itself little or nothing more than a measure of exchange value, and that exchange value bears no relation to the real utility to the State or the community collectively, of goods and services. Sir Josiah Stamp observes that "the first important stage of economic insight is to look beyond money values and outward expressions of wealth to the physical objects of possession behind them."² The concept of exchange value or price introduces a notion of harmony, of measurableness, of equality of the utilities exchanged, which is at variance with the circumstances and the facts of the actual world. Unfortunately, it is the truth that behind a seeming harmony there lurks a disparity in the social utilities of goods and services exchanged on terms of equality which amounts to almost complete anarchy extending over the entire field of commerce, both internal and external. As if this anarchy were not, from the very nature of things, sufficiently deeprooted and widespread, human agency con-

¹ A. J. Penty—*Protection and the Social Problem*, p. 115.

² *Current Problems in Finance and Government*, p. 182.

trives to intensify it in countless ways. On the one hand there are the organisations, often headed by governments, for limiting output and controlling market supplies, such as trusts, cartels and "pools"; again, there are the widely diffused activities of those engaged in "whispering or shouting in mankind's ear"—ranging from the crude devices of a Seequaw to the subtlety of an alluring advertisement or even of a regal function—all successfully seeking to endow goods and services with exchange value. Of advertisement it has been said that it creates "a demand, in many cases, as purely hypnotic in origin as the request of the mesmerised subject for a draught of kerosene." Mr. Hartley Withers,¹ in commenting upon certain modern tendencies in the economic world, says: "as for the doctrine that each man by pursuing his own interest helps to secure the common good, its truth is pleasantly illustrated by the millions nowadays earned by the sellers of worthless medicines and printed trash, which rot the public stomach, bodily and mental. If the economists of the nineteenth century had foreseen the activities and success of the advertisers of the twentieth, they might have modified their optimism."

The problem which this welter of commercial activity creates is two-fold in character, relating in part to internal and in part to external trade. Both problems originate in the necessary and inevitable fact of buying and selling. The seller never thinks of the ultimate destination of his goods, and the buyer but rarely troubles himself about the source of his purchases; the main concern of the one is cheapness and of the other dearthness. A proportion of the purchases and sales is national in character and a portion international, and hence arise the distinctions—domestic trade and foreign trade.

As regards domestic trade, it is a condition implicit in any marketable commodity or service, whether good, bad or indifferent, that it shall exchange on a price basis for any other marketable commodity or service. Despite what has already been stated concerning the inadequacy of price measurements, no other kind of measure is likely to be devised in the near future as a substitute. The potato grower may exchange, on a price basis, the surplus of his produce for a given quantity of clothing or for the services of a bookmaker quite regardless of the quality or quantity of the social utilities passing to and fro with the respective

¹ *Our Money and the State*, p. 19.

goods and services. It can be argued that society is richer rather than poorer by the exchange; social utility is only realised in consumption; what the potato grower loses the clothier or bookmaker gains. The natural resources of the State, in so far as they have co-operated in producing potatoes, are realised by the fact of consumption of the potatoes by citizens of the State.

With external trade the position is greatly different. Here it is necessary to examine what is the predominant character of the goods and services imported as compared with that of the goods and services exported. What has already been stated has been stated in vain if the fact does not now clearly stand out that the exportation of food and raw materials in exchange for manufactured goods is uneconomic; if the goods imported are highly manufactured or of a luxury character, the exchange is still more uneconomic; if foods, raw materials or simply manufactured goods are exported in exchange for highly manufactured or luxury goods or for services the exchange still remains uneconomic; a like position continues if the exchange is the export of goods of any kind for services of any kind; or if the exchange is one of goods or useful services for neutral or harmful services or goods.

Needless to observe, there is no country which does not embark to some extent upon uneconomic external trade falling under one or more of the foregoing headings, but the fact to be borne in mind is the *predominant* character of the external trade. It is easy for Great Britain, for example, to adopt a generous policy in the matter of permitting the importation of certain classes of manufactured, highly manufactured, luxury, unnecessary or harmful goods or of useless or harmful services, because on balance she exports a far greater proportion of goods and services of this character than she imports. A restrictive external commercial policy might, in such circumstances, be unwise. This fact in itself helps to explain why the Irish people, who have assimilated, practically without dilution, the economic ideas and the economic policy of Britain, have not up to the present hour acquired any clear perception of the economic characteristics, fundamental in character and importance though they be, that distinguish respectively the following groups of commercial articles and commercial activities, namely, food, raw materials, simply manufactured foods, other manufactured goods in their varied gradations from the simply made to the very complex and very costly, luxury goods

(in various stages from the crude to the highly manufactured), harmful goods, manufactured or crude, useful services, neutral services, harmful services. These goods and services may be represented indifferently as a descending hierarchy of social utilities or an ascending hierarchy of exchange values. It requires no great vision, therefore, to realise the necessity for the utmost vigilance on the part of any national government in regard to the character of its import and export trade, and if in the latter it is found that there is a preponderance of those goods obtained close up to nature, to strive with unflagging energy to bring about the conditions favourable to the utilization and consumption at home of an increasing proportion of such goods without, however, restraining their exportation to an extent that would discourage production.

Current economic theories of value, whether the *labour theory*, the *cost of production theory* or the *marginal utility theory*, are probably each adequate to explain and justify the economics of internal distribution and exchange. Having a cow to sell, I am left to judge whether I buy for the price realised a quantity of wheat, a diamond ring, or a bet at the Punchestown or Ascot races; if not given a reasonably wide choice of things to buy, the stimulus to me as a producer or worker might weaken or disappear. But if, as a result of my individualistic choice, which, on the broad average, assumes a tinge of Hedonism, there is an export of goods possessing little exchange value and great national utility for imported goods or services of equal exchange value, but possessing little or no national utility or perhaps only disutility, then my activities become inimical to the well-being of the State because I am exhausting its substance. Current theories of value utterly fail to explain why this is so, and hence they afford no guide to the statesman, the legislator or the practical administrator who is confronted with an all-pervasive fact of the foregoing character and with problems of cause and effect which are its direct outcome. How, therefore, can economists who accept these theories as final and conclusive in all circumstances presume to guide on right lines the footsteps of the statesman? How can the statesman himself approach the problems connected with or arising out of international trade in any informed or truly helpful spirit if he is content merely to accept the prices of goods and services as the only measure of his categories?

In the modern world people live by exchanging the

goods they produce or the services they have to offer rather than by utilising the one or consuming the other directly. In so far as man is a producer of natural goods he is to a far greater extent a reaper than a sower; in undeveloped or economically backward countries his activities may be likened altogether to those of a reaper, for nature there does nearly all the work of production and man merely garners the produce. Hence the resulting goods have little exchange value; nature's co-operation passes into and is distributed by society among its members.

To the full extent that nature co-operates with man, whether in providing his sustenance or in ministering to his comforts or to his luxuries, to that extent society is, and must continue to remain, socialistic. In theory I might fence round my little fee-simple farm with walls so high and strong that no one can scale them or break them down; yet let me leave in that ring fence but one tiny aperture through which I sell my milk, my vegetables and my fruit at prices current, and immediately some members of the community—the consumers of the goods so sold—become part owners with me in that farm. If I sell through that single aperture *all* the produce of my farm, then the consumers of this produce become the effective owners of the farm; I own merely what society gives me by way of exchange. It may, indeed, happen as time progresses that society will give me less and less goods for a given quantity of my produce, in which case I must work harder or adapt myself to a lower standard of living. But what happens then if I am the type of one society in one State and the purchasers of my goods typical of another society in another State? Evidently, were I to work myself to the bone, I cannot save my State from poverty. It might prove a very instructive exercise to relate this hypothetical position to the ascertained and measured statistical record of recent economic history. If, however, the purchasing society exists within the State, even then indeed, ignoring for the moment the possibility of indirect advantages, my day's toil may not be one whit lighter, but I am at least contributing to the wealth of the State of which I am a citizen to a degree which is impossible so long as the natural products of my little farm find their way to, and are consumed by the citizens of another State.

Thus, economic society is, and must remain, predominantly socialistic, whether the power and the ingenuity of man will it or not. Theoretical economics has done a real dis-service to mankind by excessively stressing the importance of

exchange value in relation to social wealth. It has set labour at the throat of capital by at one time telling the former that it was the sole or main source of all value, as it is if by "value" is meant *exchange value*, and at the same time failing to lay bare the multitude of sins that nestle under the mantle of exchange value and the wealth of social utility that lies outside it. In truth, capital and labour are squabbling, not, as they think, over the division of a whole loaf, but over the division of a fraction of one, the remainder having been equally or fairly equally distributed over society independently of both; or, to put the same idea in alternative words, the element of natural utility existing in variable quantities and qualities in material products, including goods sold and bought, passes out to society as a free gift even though a large proportion of such products is placed at the disposal of society by the intervention of *some* capital and *some* labour; the balance of capital and labour left over being either unemployed or devoted to the production of unnecessary and harmful goods and of services ranging from the socially desirable through the socially unnecessary to the socially undesirable.

One of the lessons which the facts adduced in this paper inculcate is that no country can afford to consent to the export, indefinitely and in an indefinite measure, of its natural products in return for manufactured goods and for services. Even new or comparatively new countries with enormous natural resources have learned the truth of this lesson, and are everywhere developing internally consuming capacity for the fruits of such resources. There exists abundant evidence in the economic policies of the various countries that their governments are keenly conscious of the national importance of the distinctions between food and raw materials on the one hand and manufactured goods and services on the other. Broadly, it will be found that the production and importation of food and raw materials is encouraged and their export discouraged, whilst the importation of manufactured goods and services is discouraged and their production and export encouraged.

By its failure to lay adequate emphasis on the importance of the foregoing distinctions, theoretical economics during the last half a century has lagged behind practical statesmanship. The administrators, possibly as a result of discoveries made empirically, have grasped the importance of certain economic principles seemingly still undreamt of in the philosophy of the theorists.

APPENDIX.

"Labour, therefore, 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."

Adam Smith—*Wealth of Nations*, Bk. I., cap. 5.

"M. Say has not a correct notion of what is meant by value when he contends that a commodity is valuable in proportion to its utility. This would be true if buyers only regulated the value of commodities; then indeed we might expect that all men would be willing to give a price for things in proportion to the estimation in which they held them; but the fact appears to me to be that the buyers have the least in the world to do in regulating price; it is all done by the competition of the sellers, and, however really willing the buyers might be to give more for iron than for gold, they could not, because the supply would be regulated by cost of production. . . . You say demand and supply regulate value (sic); this, I think, is saying nothing, and for the reason I have given in the beginning of this letter: it is supply which regulates value, and supply is itself controlled by comparative cost of production. Cost of production in money means the value of labour as well as of profits. . . ."

"I do not dispute the influence of demand on the price of corn or on the price of all other things; but supply follows close at its heels and soon takes the power of regulating price in his (sic) own hands, and in regulating it he is determined by cost of production."

Extracts from two letters from Ricardo to Malthus (Dr. Bonar's Ed. of Ricardo's Letters, pp. 173 6).

"The usual method of stating the Ricardian theory of value is to say that value is determined by cost of production. It is also the correct way, inasmuch as he stated it thus himself. It is, however, quite a different thing to say on the one hand that value is determined by labour, and on the other that it depends on the sum of wages and profits (supposing we omit rent). On this point, as on several others, obscurity of thought alone saves Ricardo from the reproach of self-contradiction."

Gide and Rist—*Hist. Econ. Doc.* (tras.), p. 151.

"A use-value, or useful article, therefore, has value only because human labour in the abstract has been embodied or materialised in it."

Marx—*Capital*, Vol. I., p. 6.

"Demand and supply govern the fluctuations of prices in all cases, and the permanent values of all things of which the supply is determined by any agency other than that of free competition: . . . under the regime of free competition, things are, on the average, exchanged for each other at such values and sold for such prices as afford equal expectation of advantage to all classes of producers; which can only be when things exchange for one another in the ratio of their cost of production."

Mill—*Theory*, Bk. III., ch. xxi., § 1.

"Given mobility and free exchange, goods will exchange according to the 'final' or 'marginal' cost of production, *i.e.*, the cost of the most costly portion of the supply."

John A. Hobson—*International Trade* (1904), p. 26.

"Value means, in the last resort, exchange value."

J. S. Nicholson—*Money and Monetary Problems* (6 Ed.), p. 26.

"If, in exchange for a given weight of gold, I can get more silver, but less copper, than I used to do, the value of the gold has risen with respect to silver, but fallen with respect to copper. It is evident that an intrinsic property of a thing cannot both increase and decrease at the same time; therefore value must be a mere relation or accident of a thing as regards other things and the persons needing them."

Jevons—*Money and the Mechanism of Exchange*, pp. 11, 12.

"Repeated reflection and inquiry have led me to the somewhat novel opinion that value depends entirely upon utility."

Jevons—*Theory*, p. 1.

"As the moon reflects the sun's rays on the earth, so the many-sided costs reflect the value, which they receive from their marginal product, on to other products."

The principle of value is never in them, but outside them, in the marginal utility of their product."

Boehm Bäwerk—*Positive Theory of Capital* (tras.), p. 189.

"The value of things is determined by the utility of their last increment, their final utility, as Jevons calls it, or their marginal utility. . . . The marginal utility would be the utility of that part of our stock of which we stood least in need, or which approached most nearly to the limit of our wants. . . .

"'Many of the errors of Political Economy,' says Ricardo, 'have arisen from considering an increase of riches and an increase of value as meaning the same thing.' Far from meaning the same thing, the one expression sometimes means the very opposite to the other.

"In proportion as things become more plentiful they diminish in value, and yet wealth consists in abundance."

Dr. Pierson—*Principles of Economics* (tras. by Wootzel), Vol. I., pp. 58 & 60.

"Utility and value seem to vary inversely with each other; commodities such as bread, air, water, with the greatest utility—or, as Adam Smith called it, value in use—have often the lowest value in exchange. . . . The importance of the want satisfied by a commodity seems to have no effect on its value. The explanation of the difficulty lies in the fact that the *utility of the total supply of a commodity is a very different thing from the utility of a given quantity of it*, and it is the latter that we consider when comparing and measuring values."

Henry Clay—*Economics for the General Reader*, p. 286.

"Value is a relation. . . . A price expresses the value of a commodity relative to the unit."

Hawtrey—*Monetary Reconstruction*, p. 67.

"Insisting on the idea that value does not denote anything inherent in the objects to which it is attributed, he (Bastiat) endeavoured to show that it never signifies anything but the ratio of two services. . . . Only the natural services of human beings, according to him, possess value and can claim a retribution; the assistance given by nature to the work of production is always purely gratuitous, and never enters into price. Economic progress, as, for example, the improvement and larger

use of machinery, tends perpetually to transfer more and more of the elements of utility from the domain of property, and therefore of value, into that of community, or of universal and unpurchased enjoyment. It will be observed that this theory is substantially identical with Carey's, which had been earlier propounded; and the latter author in so many words alleges it to have been taken from him without acknowledgment."

J. K. Ingram—*History of Political Economy*, p. 177.

"Ricardo's law of rent was the optimists' nightmare. Should it by any chance prove to be true, then the institution of private property must be abandoned altogether, and victory must lie with the Socialists, whom the economists regarded as somewhat of a social nuisance. It was necessary, then, at all costs to show that this law had in reality no foundation, and with this end in view Bastiat attempts to defend the paradox that nature or land gratuitously gives its products to all men. But, must we really say that corn and coal, the products of soil and mine, literally do not pay for the trouble of getting them. In other words, have they no value? Bastiat replies that they doubtless possess some value, but that the price paid for them does not cover the natural utility of these products. It merely covers cost of production, and is only just sufficient to re-imburse the proprietor for the expense incurred.

"Every product contains two layers of superimposed utilities. The one is begot of onerous toil, and must be paid for. It constitutes what we call value. The other, which is thrown into the bargain, is a free gift of nature, and as such is never paid for. This lower stratum, though it is of considerable importance, is ignored simply because it is not revealed in price. It is invisible because it is free.

"But whenever a commodity is free, like air, light, or running water, it is the common possession of everybody. The same idea may be expressed by saying that below the apparent layer of value which constitutes individual property there lies an invisible layer of common property which benefits everybody alike."

Gide and Rist—*Hist. Econ. Doc.*, Bk. III.,
Cap. I., pp. 335-6.

"The 'cost of production' principle and the 'final utility' principle are undoubtedly component parts of the one all-ruling law of supply and demand; each may be

compared to one blade of a pair of scissors. When one blade is held still, and the cutting is effected by moving the other, we may say with careless brevity that the cutting is done by moving the second; but the statement is not one to be made formally—defended deliberately.”

Marshall—*Principles*, Appendix I., p. 820.

“The demand of the Marxians was not formally put forward as a proposal of changes in social arrangements designed to secure future social well-being, nor was it accepted as such by the economists. It was rather a claim, based upon the right of production, to the whole product of labour or of industry. Accordingly the economists assumed a juristic attitude and proceeded to sit in judgment upon the case. To that end they assumed both the immutability of existing arrangements and the validity of the ethical standard that one had a right to what he had produced, and set about finding and imputing personal responsibility for the pecuniary dividend which was the property at issue. This search took the form of a diligent and protracted inquiry into the ‘origin of value’ and of its most controversial manifestation, ‘interest.’ At first, seemingly zealous to escape the Marxian interpretation, they renounced outright the ‘cost of production theory,’ from which, by disregarding all costs save one, the labour theory had been evolved. This seemed to belie the task of imparting personal responsibility, which was the object of their quest, for it forced them to take refuge in the demand side of the equation. This led to a protracted journey beyond the frontiers of economics into the unfamiliar province of psychology, where an ultimate was found in a ‘subjective’ personal utility, antecedent to market price. So convincing seemed this that for a time a significant group of economists viewed ‘cost’ as a mere instrument by means of which utility was assessed and conveyed along the productive sequence, and it was many years before an ‘equilibrium’ theory of the origin of value embodying both utility and ‘disutility’ came again into general repute.

“It seems apparent that this argument served to deny the claim of labour without finding a basis for a claim by capital to any part of the product. Accordingly it was supplanted by a general re-examination and re-statement of the doctrine of interest, which necessarily involved some overhauling of the accepted theory of wages. The logic which discredited ‘costs’ had, of course, robbed ‘abstinence,’ ‘waiting’ and other dis-

utilities incident to capital accumulation of their efficiency. Even if expediency required a compromise to be patched up with logic, the idea of the sacrifice involved in saving could not be retained under the old names. It required alike a rechristening and bolstering with new supports. To the latter end a second excursion was taken beyond demand and an antecedent of interest, free from any suspicion of the influence of labour, was found in the 'productivity of capital' openly avowed or thinly veiled by some such concept as 'technical superiority of present goods.' Whether consistent with the utility theory of value or not, the former demand was met by a reappearance of the older idea of 'abstinence' in the newer form of 'the preference for the present over future goods.' These two propositions, given different names by different economists, and often appearing in strange and unfamiliar forms, served further to discredit the inclusive claim of labour and to establish the right of capital to a share in distribution.

"The concept of productivity, which was the heart of this explanation, furnished a clue for an elaboration into an exact quantitative system of all the problems of distribution. The idea that capital created its own return suggested that each of the instruments of production did likewise."

W. H. Hamilton—*Journal of Pol. Econ.*, April, 1918.

"To be 'valuable,' therefore, is to avail towards life. A truly valuable or availing thing is that which leads to life with its whole strength. In proportion as it does not lead to life, or as its strength is broken, it is less valuable; in proportion as it leads away from life, it is unvaluable or malignant.

"The value of a thing, therefore, is independent of opinion and of quantity. Think what you will of it, gain how much you may of it, the value of the thing itself is neither greater nor less. For ever it avails or avails not; no estimate can raise, no disdain repress, the power which it holds from the Maker of things and of men.

"The real science of political economy, which has yet to be distinguished from the bastard science, as medicine from witchcraft, and astronomy from astrology, is that which teaches nations to desire and labour for the things that lead to life; and which teaches them to scorn and destroy the things that lead to destruction."

Ruskin—*Unto This Last*, p. 119.