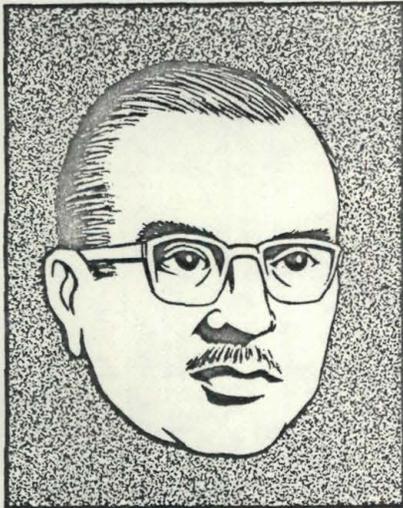


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Box 34718, Los Angeles, California 90034 — July 1967 — One Year, \$2.00 — Single Copy, 25¢

*F. A. Harper's essay included in WRITINGS OF "Vol. II" #39-51*

## THE SUBJECTIVE THEORY OF VALUE



F. A. Harper

The extreme importance of value theory in the science of economics should be noted. Economics deals with those aspects of our lives and living which are capable of commanding a price in the markets of exchange. This arises from the fact that things we desire are not in ample supply to avail us of them without sacrifice of some sort. A thing must be BOTH desired and scarce to be a player on the field of economic affairs; lacking either of these, it must retire to the bleachers.

When anything — whether of the material sort or not, it makes no difference for this purpose — has both desiredness and scarcity, it then has value for any person who concerns himself with it from this binary perspective. Value, then, is at the very base of every economic consideration. To avoid value theory is to avoid the essence of economic science itself.

When early formulators of economic theory grappled with the value concept, many if not most of them began with the assumption that a thing has value in some INTRINSIC manner. They thought of value in a manner similar to, let us say, the pigment of a red pencil — a quality embodied in the pencil itself, so that if you throw it out the window the pigment is still embedded in it; if you lose it forever in the forest, the pigment is still there intrinsically.

Having begun with the assumption of intrinsic value, it was perfectly natural and logical to assume the next step to be that of discovering or inventing the means of measuring the value of any item in an objective sense, i.e. in some manner whereby any two or more persons could agree on the amount of value a specific item contained intrinsically.

### The "Labor Theory of Value"

It is not at all surprising that these early economists hit upon the idea that it is the labor required to produce a thing that gives it value. Everything of value, it seemed to them, had to be "produced" in the economic sense, requiring this or that number of hours of work or thought in bringing it into the form and place wanted. Otherwise, it seemed, the thing would become so plentiful that nobody would be short of it for his needs, and it would become a non-economic item of our environment. Thus there arose in those early days of economic theory, the "labor theory of value" which reigned with favor; in fact its tracks are still wide-spread and fresh, but mostly in forms having this label removed.

Other influential writers held that value was determined by some combination of the so-called contributory factors of production. The various theorists thus explained value by (1) labor only, (2) land and labor, (3) land, labor, and capital, (4) land, labor, capital, and management — etc. Differences of opinion in this respect centered

largely on whether or not a given factor was assumed to be separate or imbedded in another factor. For instance, one leading proponent of "(1)" recognized that capital tools are involved in the production process, economically as well as physically, but he held that capital is really labor expended to produce the tools in the first place; that if one will see its essence rather than its visual form, he will see it all as labor which gives rise to value and thus measures value. A similar view was taken about management, as being only a name given to labor in one of its forms.

It can be seen that all these ideas about the meaning of value were the results of the struggle to find an objective cause and thus an objective measure of value. Whichever of the many solutions a person might choose, he was in effect deciding on a "just price" for any item to be sold in the market place by anyone. To whatever extent the price asked or obtained in the market place deviated from the objective measure of justice, as thus assumed to exist, the item was being unjustly priced — over-priced or under-priced. And the person pricing it unjustly should, by this test of justice, be brought to task for his economic crime.

The writings of most of the early economic theorists were beclouded on these points of value concept, and contradictions appeared. Though one of them might come out with a theory of value based on labor time or labor cost, for instance, at certain points in his writings would appear clear evidence that he felt an uncertainty as to his underlying premise. This may have been more unconscious than conscious, as reality peeked through in unsuspected places.

### The Austrian Value Concept

The distinction of the work of the Austrian School (1) is that for the first time in the development of economic theory there appeared what may be described as a complete and consistent theory of value which made all the predecessors appear to be wrong not only in detail but in a fundamental sense.

The first step in understanding the Austrian concept is to realize that value is a subjective thing entirely, not an objective thing. Value, therefore, is something that each individual person weighs on a purely private set of scales, not a public set of scales. To try to find something akin to a yardstick for distance or a balance for weight, by which to measure value so that two or more persons can see and agree on the "just price," is a mistake. There is no such thing. To try to find value that way is like trying to find the trail for an animal, and hence find the animal, when there is no such animal.

Any two persons will not and need not agree on the value of the same item at the same instant of time. If they should agree, it is a coincidence of no significance whatever so far as discovering value objectively is concerned. For any item at any given instant of time, each person sets his own value in a way that is a mystery to all others. He takes into account a vast range of considerations, many of which are peculiar to him alone and which may be so deeply subjective that he cannot even describe them to another person.

Certain qualities of things are, to be sure, intrinsic and measurable, and affect value for this or that person. But they affect value in different ways for different persons, and are at best only a part of the origins of value. To illustrate, age in cheese or in eggs adds value for some persons in the world and detracts from their value for others.

The error of the early search for a universal measure of value in an objective sense should be apparent to anyone by merely visiting a

grocery store and watching business for a few minutes. Did you ever see a housewife inquire about the hours of labor or the labor costs in the production of the loaf of bread before deciding whether or not she would part with 29¢ in exchange for it? Or the storekeeper, in like manner, when he buys it from the baker or sells it to the housewife?

### Not Only Subjective, But Also Relative

In addition to being subjective for each person rather than being an objective thing to be weighed on some universal scale of observable calibrations, value is a RELATIVE concept within the appraisals of each individual. In other words, the loaf of bread does not have an independent value separate from all other things for Mrs. Jones. The value of the loaf of bread is the relationship of the bread to something else Mrs. Jones wants. More specifically, in the market of a money economy, she will usually think of the relative value of bread in terms of money — the particular form of value to which we refer as "price". She will decide whether the bread has a superior or inferior value to the 29¢; if superior, she may buy the bread, if it seems to her the best use for the 29¢; if inferior, she will keep the 29¢ to buy something else.

It may seem to be an amazingly complex problem to buy a loaf of bread, when we consider all the alternative uses of the 29¢ — the almost endless array of values that are alternative choices available to Mrs. Jones. Yet even the most ignorant and careless persons solve such problems easily all the time. They know that someone else cannot appraise things correctly for them, though many "economists" do not evidence this knowledge of value theory which even the most ignorant housewife knows in a workable manner. The child knows it, as evidenced by his great preference to have the pennies to spend by himself rather than to have his parent keep making "mistakes" involving his judgments.

The value of the loaf of bread to Mrs. Jones is not determined precisely — or really, at all — by any one factor in its production or by any combination of factors. Due to the fact that Mrs. Jones and Mrs. Smith attach a different value to the same thing, and also that they both attach a different value at one time from another, it is easy to see that value has no predetermined and fixed quantities in terms of hours of labor, or costs of labor, or whatnot. For if predetermined and fixed quantity ingredients determined its value, this would have to be the same for a person one time and another, and the same for one person as another.

### Two Profits in Every Exchange

Every voluntary exchange, like the purchase of a loaf of bread, yields a gain to both sides of the exchange. Mrs. Jones valued the bread at more than the 29¢, which is the reason she traded. The grocer valued the 29¢ at more than the loaf of bread, and that is the reason why he traded. In economic terms, the gain of an exchange yields a profit to both exchangers. In other words, every voluntary exchange yields a double profit, of amounts that cannot be determined in any exact quantitative sense; in amounts that could not be added together meaningfully, even if they could be precisely determined.

The fact that these profits are not subject to precise measurement in this sense does not mean that they do not exist; nor does it mean that the fact is meaningless to us. It tells us only that we cannot and need not know any more about it than this, for a smoothly and efficiently functioning economy. The other side of the same coin — that value cannot be objectively determined, being the person's subjective appraisals — is that it is not the proper concern of any other person, either. The two persons in the exchange make the decisions which they alone can and should make. Others to whom it is of no proper concern can, if they only will, concern themselves with what is properly their business instead.

The above disconcern of others should not be confused with a certain admitted usefulness of information about prices of exchange. It is a due concern of others what are the terms of exchange for trades of other persons. This is helpful knowledge about "the market". If bread is selling in Zabrisky's grocery for 29¢, housewives want to know this in order to determine the best place to buy bread. This information, in fact, is what sellers pay money to make known — advertised prices. But this sort of information never tells us anything

precisely about value. To say that Zabrisky is offering bread today for 29¢ certainly does not identify the value of bread for either Zabrisky or Mrs. Jones; it tells only the terms of offered exchange, at which price Zabrisky's value for bread is somewhere below the 29¢ figure at which he is glad to part with the loaf. The price measures the value for NOBODY, necessarily. It measures only the terms of exchange for whatever sells at that price; no more.

All that has been said before goes in like manner for the selling of one's time to an employer (wage rates), or the lending of money (interest), or any other form of expression of value of goods and services. Traders on both sides of every exchange make a profit in every voluntary exchange, due to the spread between their value and the terms of that exchange.

By the same reasoning, every compulsory or involuntary exchange, where one person confiscates the goods or services of another, or dictates the terms of the exchange under force or the threat of force, entails an economic loss that is forced upon unwilling participants. Economically as well as morally, all such processes are of the same type as outright theft.

### The Market Price

Since values are subjective, independent, and highly variable as well as changeable, it may seem perplexing that there is any prevailing "market price" for any item of goods or services, around which all exchanges tend to hover in close proximity. How can this be? How can the market find one answer to all these unknown quantities?

The answer lies in the simple fact that each person attempts to maximize his profit in each exchange. Each buyer tries to buy as cheaply as possible; each seller tries to sell as dearly as possible. Each would push his gain to unlimited proportions, were it not for the fact that the other party whose willing cooperation he must have for an exchange to take place has alternative opportunities. Others are buying and selling, too. The buyer can always go without this thing altogether, accepting substitute satisfactions available for his dollars. Sellers can always keep their offerings for later sale, or quit producing it for future supplies.

Since all buyers will buy as cheaply as they can, and all sellers will sell as high as they can, open knowledge in the market drives all trades toward a uniform price in a manner similar to the way a body of water tends to settle to a common level over its entire surface, no matter how large; the winds and the tidal waves and all sorts of other forces — comparable to unfreedoms introduced into the free market — may come and go, but the leveling force persists just the same.

According to the theory of the Austrian School, the meaning of a just price is that of internal decisions of all the free participants, not of some outside person sitting in arbitrary authority over the prices of trades. Subjective values of all persons who are dealing with their own property in time, goods, and services determines the just price. The justice of the prices so determined is to be found in the PROCESS, and not in the magnitude of the price.

### The Free Market and the Authoritarian Alternative

We are indebted to Pareto for a vivid illustration of the process of the free market in resolving the complexity of varied values and widely differing opinions of persons in the market place. He calculated that for a small and simple society of only 100 persons trading only 700 items of goods and services, it would require solution of 70,699 simultaneous equations in order to equate supply and demand in the manner that the free market does so easily. If one recalls how difficult is the task of solving only two or three simultaneous equations in algebra class, he will realize the task of solving 70,699. Not only that, but the equations keep changing all the time for all sorts of reasons, including the "whims" of every trader. Yet this complex equation becomes solved by free exchange among persons who may be hardly able to count and who cannot even read in some instances.

With value determinations being subjective by nature, economic decisions cannot be delegated by one person to another; they can only be abdicated to the other person. In its extreme form this means acceptance of a complete dictatorship, with its lesser degrees

and forms being the same thing by other names. But none of these alter the nature of value; they alter only WHOSE value is being accommodated. The dictator makes value decisions in the same way as any other person, on a purely subjective basis.

Suppose the dictator were "benevolent," and were to try to make his value decisions by taking into account the presumed wishes of those whose determinations he has acquired, he cannot really do so accurately. The welfare of others is likely to be better assured when their benefactor has no power whatever over them — when he leaves their decisions for them to make in their own right, and acts in their interests only with his own means as a friend. When a person acts with power rather than with good will and friendship devoid of power, he is much more likely to ignore their value preferences and be "benevolent" only in the sense of forcing upon them what he thinks they SHOULD want but which in fact they do not want.

Who Owns It?

When one accepts the views of the Austrian School, as to subjective value and all this entails, he sees a deeper meaning in individual rights and the concerns of private property. He sees how one person cannot accept the responsibility of making another person's decisions for him.

The key question in many of the problems which so much perplex us and which seem so complex and difficult is: WHO OWNS IT? He who owns it has thereby the right to determine its use and the terms of its disposition; he alone, under the Austrian School of value theory, can make this determination; to do so is his exclusive right. F. A. HARPER

(Dr. Harper is President of the Institute for Humane Studies, 1134 Crane St., Menlo Park, Calif. 94025. This article has been condensed from Dr. Harper's study, "Austrian School Economics — a Resume," an Institute publication. Author's Common Law Copyright established August, 1966.)

(1) The term "School" as used here refers to a general body of theory and not to any corporate set of buildings or geographic seat of learning. It was in Austria where leading exponents of this development in the 1870's and 1880's resided and did their work. This is a rough and inaccurate reference, however, because some persons with essentially the same theory lived both earlier and elsewhere. Subsequently, the concept was exported to widely scattered spots, including a considerable number of noteworthy exponents in the United States.

HISTORICAL NOTE

Credit for laying the foundations of the modern theory of value explained above by Dr. Harper is generally given to Carl Menger, Leon Walras, and William Stanley Jevons, whose works were published independently and almost simultaneously in three different nations in the 1870's. Twenty years before, however, in a neglected work, Hermann Heinrich Gossen set forth some of the essential principles in Germany. Gossen postulated that the source of value is in people, not in things; value is determined by "margins psychologically measured," that is, by marginal utility to the individual, and not by any average or "social" utility. Or, as Jevons said, the value of a good is determined by how badly one wants "a little more" of it.

Later writers built upon this foundation, applying the fundamentals to hitherto unsolvable problems in economic science. Some of the early important treatises were:

- Hermann Heinrich Gossen, "The Development of the Laws of Human Exchange"
- Carl Menger, "Principles of Economics"
- Leon Walras, "Elements of Political Economy"
- William Stanley Jevons, "Theory of Political Economy," and "Money and the Mechanism of Exchange"
- Friedrich von Wieser, "Social Economics"
- Eugen von Boehm-Bawerk, "Capital and Interest," and "The Positive Theory of Capital"

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"This theory has as yet no short distinctive name. If I were to give it one from a characteristic of its chief professors, I should call it the Socialist theory of interest. If I were to try to indicate by the name the theoretic purport of the doctrine itself — which to my mind would be more appropriate, — no name seems more suitable than that of the Exploitation Theory." — Eugen von Boehm-Bawerk

The Exploitation Theory

The Exploitation Theorist looks out at the world and sees that there is a worker, W, engaged in making widgets for businessman, B. But the wages paid to W are less than B gets for selling the finished widgets. Even after all equipment costs, transportation expenses, risks, managerial salary, and what have you, have been duly compensated, there is still a "surplus value" left over for B. Furthermore, B doesn't have to DO anything to get this surplus. It comes to him in proportion to how much he has invested in the business, and for how long he has invested it — in other words, in proportion to how rich he is already. What's worse — this surplus value may not even go to B at all, but instead to some stockholder, banker, or other "parasite." And where does this surplus value come from? According to the labor theory of value, the full value of the widgets is due to the labor that went into making them. If B is getting an "unearned" surplus, it must be coming from W, who has been robbed of it. Thus one class of society — the capitalists — because of their ownership of the wealth necessary for production, are able to exploit those less fortunate than themselves, who must either work or starve. And the rich get richer and the poor get poorer.

The fallacy of the Exploitation Theory from the point of view of the subjective theory of value is the following. W sells one set of services to B, in, let us say, New York, in January. But B sells something else entirely, finished widgets, in Omaha, Nebraska, in July. It is not correct to say that B obtains a "surplus" by buying and selling the same thing at different prices; B gets instead the difference between the values of two DIFFERENT things — work done in New York in January, and a finished product sold in Omaha in July. He hopes, of course, that the difference will be in his favor; that is why he undertook this course of activity in the first place. But there is no built-in reason why it should be. The values, and hence the prices, in each case are determined by independent subjective judgments of the individuals involved. No exchange takes place anywhere along the line unless these individuals consider it to be to their own advantage.

Since value is subjective in nature, the value of goods will depend not only on their physical qualities but also on the time and place that they are made available. Virtually everyone will place a higher value on goods available close by than on goods available far away; virtually everyone will place a higher value on goods available now than on goods available later. It is this near-universal preference for present goods compared with future goods that gives rise to "interest" — interest may be regarded as a "discount" on future goods or alternatively as a "premium" on present goods.

All goods in the process of production are future goods, economically speaking. In the production of widgets, what really happens is this B buys future widgets from W in January, and sells the (now present) widgets in July. In a sense, B has made a loan to W. That this loan goes under the name of "wages" makes no difference. W would rather be paid in January than wait until July; that is why he is working for B instead of going into business for himself.

"Capitalists," then, do not obtain a "surplus value" by some mysterious process of exploitation and robbery. They simply make

(continued on next page)

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(continued from previous page)

exchanges of present goods for future goods. They make loans. It no doubt seems unfair that some people — the "rich" — have present goods to spare, and can so easily advance them in exchange for future goods, and then sit back and get richer still as these future goods ripen into present goods. But their apparent increased wealth is not obtained at anyone else's expense, but only through mutually profitable exchange. As the rich get richer the poor get richer, too.  
 R. BRAY