Subjectivity of Value –Minarchy

Throughout the course of history, there have been numerous attempts at assigning a definitive value to an assortment of goods; whether that good be water, gold, an automobile, or a telephone. In order to simplify the view of the economy, a theory was derived. The value of an arbitrary item would be directly correlated to the amount of labor that went into the production of such an item. This was accurately named to be the Labor Theory of Value, or LTV. The LTV has been used as a guiding principle of economics by many scholars, notably Karl Marx, Pierre Joseph Proudhon, and even David Ricardo. While it has taken a fairly large following, it has a number of abhorrent flaws, which are often overlooked entirely. The simple fact of the matter is that assigning a value to a specific good is inherently collectivist. It assumes that a number of varying factors always act in accordance to their principles. These include, but are not limited to, the individual’s value of an item and the method that an item is created.

Perhaps the greatest overall influencer of what truly values an item is, without a doubt, the individual who wishes to obtain it. While a government, at its best, may be capable of estimating the value of a product, by looking at how objects are apportioned in the economy, this is a vast overgeneralization. Assuming that an accurate average value is given, (which is most likely too much of an assumption, but for the sake of the example, it is assumed to be true) it still fails to account for the outlier. For instance, imagine that the labor required to produce a gallon of milk is equated to be four dollars in American currency. This may serve well the population that drinks milk on a regular basis. Conversely, it does not give the value of a gallon of milk to a person who is lactose intolerant, and therefore cannot drink milk. Likewise, someone who drinks milk constantly, perhaps a half gallon a day, has a much higher value for the milk than what has been predetermined be the LTV. In its essence, the LTV is a collectivist principle which fails to account for the different desires of individuals in a market economy.

Also left out of consideration by the LTV is the Theory of Diminishing Marginal Utility. This states that as the amount of a good an individual possesses increases, their utility, or demand, of the good will decrease as a function of exponential decay, horizontally asymptotic to zero. To elaborate, recall the average citizen drinking milk on a regular basis. According to the LTV, each and every gallon of milk he purchases will be worth exactly the same price. On the contrary, if he already has three gallons in his house, his temporary demand for the milk, until that stock of three gallons runs low, is naturally diminished. While he may find other uses for the milk, perhaps giving some of the excess milk to a neighborhood cat, that excess product never has the same value as the initial product. Since feeding the cat is clearly his second priority, the man clearly values the excess milk less. Otherwise, he would have an equal impetus to drink the milk himself, or giving it to the cat, proving that even within one good distributed to one person, there is subjectivity within the good’s value.

Moreover, it is worth pointing out the most fundamental flaw directly implied by the LTV, that being that the labor of all individuals is equal. A simple question to ask oneself in this scenario would be who exactly determines the price of labor? Surely, time itself would not suffice, for one man could easily stumble upon ten pounds of gold while on a hike through the woods of Colorado, yet that same man could spend tireless energy producing and purifying a bottle of drinking water. Now without a doubt, the gold is much more valued by society than the water, yet this contrasts the LTV, which would imply that the bottled water is more important, for more labor is required in its production. While some may claim that the water should be hypothetically valued more by society, as it is required for life, it is merely an example. What if, instead of the water, a child’s model car was being created? The intricate designs would take an immense amount of time to properly manufacture, yet on a strict practicality scale, it has little apparent need, when compared to a precious metal stumbled upon.

That being said, there is a further degree which has been ignored up until this point, and presumably ignored by the likes of Marx as well. What if an individual was on a hike, this time with a shovel, having heard from the first man that the trail is laden with gold? In his time there, he spots a piece of gold on the ground and picks it up, only to find another piece, nearly identical in all physical properties, lodged underneath the first one. However, the second shard is wedged underneath the earth, and takes nearly a full hour to dislodge and raise from the soil. Satisfied, the man returns to a marketplace, happily showcasing his spoils. In such a market, buyers have no way of distinguishing the two metals, and hence have no true way of knowing, beyond the man’s word, which has more value. In fact, the man could simply fabricate a timeframe, perhaps four times that of the true elapsed time, to quadruple his profits instantly. Something as crucial as value of a good cannot be entrusted to an over generalized formula, for it can be abused in many forms.

Clearly, the Labor Theory of Value does not accurately depict the true value of a good. Simply put, value cannot be objectively determined in any format, for it is up to the individual to determine their own subjective value of an object. Being one half of a double inequality of value required for trade, the individual faces their own choice, of whether or not the value of a good is greater than the value of the currency which they currently hold onto, or vice versa. This simple principle of praxeology drives market interaction, promotes the general well-being, and ensures the success of a nation’s populace, rather than crippling it to a permanent state of overreliance on an inaccurate means of trade.