Journal of Libertarian Studies
Volume 20, no. 1 (Winter 2006): 17–33

The Labor Theory of Value: A Critique of Carson's *Studies in Mutualist Political Economy*

Robert P. Murphy

Kevin Carson's *Studies in Mutualist Political Economy* (2004) is an impressive work. It first attempts to rehabilitate the classical labor theory of value (by giving it a subjectivist spin), and then traces the history of capitalism to show that it was founded by, and necessarily relies upon, State aggression. Carson finally ends by sketching his vision of a just world based on the principles of "mutualism," in which labor retains its product and every actor internalizes the full costs of his or her decisions.

In the bulk of my article I shall have few kind things to say about Carson's analysis. Specifically, I will argue that his rebuttals to Böhm-Bawerk's famous critique of the labor theory of value, as well as Carson's attempted rehabilitation of the theory along subjectivist lines, utterly fail. Because of this, I wish to state upfront that Carson is a serious scholar; his views should not be dismissed as those of a leftist crank. Even as one who teaches two separate semesters in the history of economic thought, I learned a great deal from Carson's discussion of the classical economists. More important, I had never really considered the origins of the present distribution of property titles, and Carson makes a strong case that the typical libertarian defense of the modern employer/employee relationship may be quite naïve due to ignorance of the historical development of capitalism.

These matters, however, lie outside the scope of the present article. What I intend here is to restate the case for the superiority of the marginal, subjective theory versus the labor (or more generally, cost)

Robert P. Murphy is visiting assistant professor of economics at Hillsdale College. Email Robert.Murphy@hillsdale.edu. His research interests include capital and interest theory, and the history of economic thought, especially the work of Eugen von Böhm-Bawerk.

theory of value, and to show why Carson's modern labor theory (which is quite distinct from that of Marx) is just as unsatisfactory as its predecessor.

ECONOMIC THEORIES OF VALUE

Before proceeding, we should be clear on what an economic theory of value is supposed to do: Its task is simply to explain the *exchange value* of particular goods and services. That is, an economic theory of value must explain why someone selling good X can receive x berries in exchange for it, whereas someone selling good Y will only find someone willing to give up y berries in exchange for his good (where $y < x$).[1]

In the context of a money economy, of course, an economic theory of value must explain the money prices of various goods and services. In this sense, an economic theory of value is really just a theory of price formation. However, any satisfactory theory must be relevant even in a world of purely direct exchange, and (in principle) should be able to explain the exchange ratios prevailing between any two types of goods, regardless of whether one of them is a money commodity.[2]

THE CLASSICAL COST (LABOR) THEORY OF VALUE

The classical economists (by which I mean writers such as Adam Smith, David Ricardo, and John Stuart Mill, but also Fréderic Bastiat) adhered to some version of the cost theory of value, and in particular a *labor* theory of value. Although each writer differed in minor details and points of emphasis, at this level of generality we can take a cost theory of value to state the following: A good's "natural" (or

---

[1]Notice that the task (as I have defined it) for an economic theory of value need *not* concern itself with what Carl Menger (1991) referred to as the relative "saleableness" of various goods.

[2]Indeed, subjectivist value theory was originally applied only to the case of direct exchange, where it was often used to derive merely *relative* (equilibrium) price ratios. Actual *absolute* money prices were then explained by an entirely different mechanism, involving macro aggregates (such as the supply of money and the velocity of circulation). It took Ludwig von Mises's pioneering work (1980) to incorporate the explanation of money price formation into subjective value theory. I will have more to say about this in the conclusion.

long-run) price is equal to its total cost[3] of production. Similarly, a labor theory of value claims that a good's natural price is proportional to the total quantity of labor required to produce it.[4]

At first glance, it would seem as if these two theories were incompatible, and yet one can find numerous passages from a given classical economist in which he seems to support one or the other. How to explain this apparent contradiction? The answer is that labor was viewed as the only fundamental "cost" involved in the production of a good;[5] the costs of a given commodity could thus be ultimately reduced to a certain amount of human toil.

A numerical example will be useful. Suppose that the price of a haircut is $6, while the price of a shoeshine is $7.50. A proponent of the cost theory of value could explain this as follows:

> The haircut takes thirty minutes of labor, and the scissors are depreciated by 1/20 of their full value, because (let us suppose) the scissors must be replaced after 20 haircuts. The wage rate is $10 per hour, and a new pair of barber's scissors costs $20, and hence the total cost per haircut is $5 + $1 = $6. In contrast, a shoeshine takes only fifteen minutes of labor, and uses up 1/5 of a can of shoe polish. It costs $25 for a new can of shoe polish. Therefore the price of the shoeshine must be $2.50 + $5.00 = $7.50.[6]

Now a proponent of the labor theory of value could heartily concur with the above cost analysis, and simply push it back one step:

> The *reason* the scissors cost $20 is that (let us suppose) it takes a worker forty-five minutes to turn an ounce of metal into a finished pair of scissors, and the metal costs $12.50 per ounce. Similarly, the *reason* the new can of shoe polish costs $25 is that (let us suppose) it takes a worker two hours to turn $5 worth of wax into the finished product. We thus see that the price of the shoeshine is *really* reducible to the price of 15 + 24 = 39 minutes of labor, i.e., $6.50

---

[3]Let me warn the reader that, in this article, I will quite often completely disregard the modern definition of *cost* as the (psychic, subjective) value of a forgone opportunity. Especially when dealing with the "cost" theory of value, I will use the term to simply mean *expenditures on inputs*, which is what everyone else has in mind in this context.

[4]Note that I have not said a labor theory *equates* a good's price with the quantity of labor necessary for its construction, because (unlike costs) labor is denominated in different units.

[5]As we shall see below, Carson too subscribes to this view.

[6]Obviously I am forced to trade realism for nice round numbers in these scenarios.

> worth of labor, plus $1 worth of wax,[7] for a total price of $7.50. Notice that we have gotten rid of the cost of the can of shoe polish altogether. And were we to continue, we would ultimately reduce the price of the shoeshine into the total amount of labor time that went into it (which we know must be forty-five minutes, since the shoeshine costs $7.50 and the wage rate is $10).

As this simplistic numerical example illustrates, one could theoretically trace back the expenditures on inputs until all intermediate capital goods had been eliminated. This procedure is quite similar, of course, to the process by which Austrians impute all net productivity to the "original factors" of land and labor (e.g., Rothbard 1993, pp. 410–11). The difference, however, lies in the fact that the labor theorist of value does *not* believe the owner of an original *natural* resource can earn a rent on his or her factor input.[8] Because only human beings experience discomfort from providing labor, even the prices of natural resources can ultimately be reduced to inputs of labor; Mother Nature never charges for her services.

A CRITIQUE OF THE CLASSICAL COST (LABOR) THEORY OF VALUE

The cost theory of value has its merits. It *does* provide a coherent explanation of market prices, in particular *relative* prices; good *X* costs twice as much as good *Y* because it costs twice as much to produce good *X*. Empirically, there certainly seems to be a general tendency for prices to equal costs (including the interest cost on invested capital). Moreover, there is a natural mechanism by which to explain this tendency: If the price of a product were to exceed its cost of production, either existing producers or newcomers would increase output, lowering the price of the product and/or bidding up its cost of production. On the other hand, if the price of a product were below its cost of production, it would not pay to continue making it, and the diminished future supply would lead to higher prices for the product and/or lower costs of its inputs.

---

[7]Remember that a can of shoe polish requires two hours (i.e., 120 minutes) of labor, and that each shoeshine uses up 1/5 of a can; therefore each shoeshine requires 15 minutes of immediate labor, plus 120/5 = 24 minutes of labor required for the transformation of wax into polish. Furthermore, each new can of shoe polish requires $5 worth of wax, and hence each individual shoeshine uses up $1 worth of wax.

[8]In some expositions—such as Carson's—the claim is that the owner of an original factor *ought* not receive compensation beyond his input of labor.

Despite these points in its favor, there are serious—in my opinion, fatal—flaws with any cost (and *a fortiori*, labor) theory of value. Let us briefly review some of the most important.

Methodological objections. The most fundamental objection is that a cost theory of (exchange) value entirely neglects the causal role of subjective valuations in the formation of market prices. Human actors are forward looking, and hence past expenditures and effort are irrelevant to the present determination of the relative merits of two different commodities. Even if all memory of previous expenditures were suddenly lost, market prices would still form. Clearly then, the cost theory of value is not the deepest explanation possible.

Applicable only to reproducible goods. Obviously the cost theory of value can only explain market prices of reproducible goods. An entirely different theory is needed if one wants to explain, say, the relative price of a Van Gogh painting and a guitar played by Elvis.

The time element. The cost theory can only explain the "natural" (long-run) price of a good; it cannot explain the day-to-day fluctuations in market price that characterize any actual good. Additionally—as Böhm-Bawerk stressed—the phenomenon of originary interest destroys any hope to explain the final price of a good by the prices of its inputs, unless "time" is classified as an input with its associated money price.

"Costs" are prices.[9] The cost theory of value is at best a partial theory; it explains the price of a television set by reference to the money costs of the labor, glass, and other resources that went into its construction. But these "money costs" are really nothing but the *market prices* of these particular goods and services (i.e. labor hours, units of glass, etc.). The cost theory of value does not, therefore, build up price from more fundamental building blocks; instead, it merely spells out relationships that must obtain (in the long-run) among the prices of certain goods and services.

In contrast to the classical cost (labor) theory of value, the so-called "marginal revolution" ushered in the modern, subjective theory, whereby market price is determined by the marginal utility of a good. As Böhm-Bawerk's famous horse market example illustrated, one can explain equilibrium prices relying solely on the money valuations of various marginal units of different commodities (II, pp. 215–35). In the exposition of Rothbard (1993, pp. 91–108), the vestiges

[9]In fairness, I point out that this last objection does not apply to the classical *labor* theory of value, since units of labor are not themselves prices.

of cardinal utility have been completely eliminated; equilibrium exchange ratios can be explained entirely by the individuals' *ordinal* rankings of various marginal units.

The marginal utility approach to price determination (in the eyes of its proponents) avoids all of the objections listed above, *and* it can also accommodate the merits of the cost (labor) theory of value. That is, the long-run tendency for a reproducible good's price to equal the money expenditures (including interest on invested capital) necessary for its continued production is entirely compatible with the marginal utility explanation.

CARSON'S DEFENSE OF THE CLASSICAL ECONOMISTS

In light of the above, one might wonder how anyone could possibly deny that this is one case where economic science has truly advanced. Carson's arguments to the contrary are interesting, but in my opinion are quite unsatisfactory.

One of Carson's main points is that the classical economists *conceded* all of the major drawbacks to their theory:

> Since Böhm-Bawerk and others made so much of the various scarcity exceptions[10] to the cost principle, we will examine the treatment of such exceptions in the writings of the classical political economists and socialists themselves. If, as we shall see below, the classicals freely admitted such exceptions, it follows that the marginalists and subjectivists were attacking a straw man; or at the very least, that they had a far different idea of the level of generality necessary for a theory of value. (p. 27)

First, even though the classicals were aware of the exceptions (as Carson ably documents, pp. 28–34), it does *not* follow that Böhm-Bawerk et al. were attacking a straw man. The numerous exceptions to the cost principle really *are* exceptions, and represent a deficiency *vis-à-vis* the marginal utility explanation. It is particularly ironic that Carson should accuse Böhm-Bawerk of attacking a straw man in this manner, since Carson himself quotes Böhm-Bawerk's gentle treatment[11] of Ricardo:

> Ricardo himself only went a very little way over the proper limits. As I have shown, he knew right well that his law of value was only

---

[10]I.e., cases in which relative supply and demand, not cost, determine price.

[11]Readers familiar with some of Böhm-Bawerk's scathing critiques will appreciate the relative courtesy of the above quotation.

> a particular law; he knew, for instance, that the value of scarce goods rests on quite another principle. He only erred in so far as he very much over-estimated the extent to which his law is valid, and practically ascribed to it a validity almost universal. The consequence is that, later on, he forgot almost entirely the little exceptions he had rightly made but too little considered at the beginning of his work, and often spoke of his law as if it were really a universal law of value. (Böhm-Bawerk quoted in Carson, pp. 42–43)

At this point, the equitable reader might defend Carson by suggesting that perhaps Böhm-Bawerk erected a straw man by claiming that Ricardo "practically ascribed to [his law of value] a validity almost universal." But this too is not so, and once again Carson himself provides the evidence, namely, a quotation in which Ricardo says that he views labor as "the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative values of commodities" (p. 87).[12]

So far I have merely played referee to Carson's charge of straw man. Let us now analyze the more substantive claim, namely, that the various exceptions—freely admitted by the classicals—are not a blow against their theory:

> Böhm-Bawerk's straw-man caricature of what the labor theory was intended to demonstrate, certainly, did not hold up at all well under his onslaught. But then, straw-men are deliberately constructed to be knocked down. He would have made as much sense in saying that the law of gravity was invalidated by all the exceptions presented by air resistance, wind, obstacles, human effort, and so forth. The force operates at all times, but its operation is always qualified by the action of *secondary* forces. But it is clear, in the case of gravity, which is the first-order phenomenon, and which are second-order *deviations* from it. (p. 25; italics in original)

Carson returns to this defense again and again—the labor principle is the underlying, driving force of a commodity's natural price, around which the actual market price fluctuates due to disturbances. Yet I humbly recommend that in future editions, he drop (or seriously revise) the physics analogy, for it doesn't serve his cause.

---

[12]In fairness, Carson earlier claims that the term *commodity* should be understood to mean reproducible goods, i.e., precisely those to which the cost (labor) principle applies. Even so, the *other* exceptions to the labor principle (such as temporary fluctuations in demand, and originary interest) would still apply, and render the short quote from Ricardo above inaccurate.

In classical mechanics[13] (i.e., the physics of Isaac Newton), the "law of gravity" was *not* invalidated by air resistance, obstacles, etc. The law of gravity stated (roughly) that the gravitational force between two objects was directly proportional to the product of their masses and inversely proportional to the square of the distance between their centers of mass. Thus a book sitting on one's table would not violate this law at all; the downward force of gravity (given by the law) happens to be exactly counterbalanced by the "normal force" of the table pressing upward.

This is not at all analogous to Ricardo's view of labor as "the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative values of commodities." As Böhm-Bawerk and others showed, this "law" is *simply not true*, because other factors influence a commodity's price besides the quantity of labor required for its production. Therefore a more accurate analogy would have been the law that declares, "Gravity makes everything fall." This law is generally true, but is offset by disturbing forces (such as those provided by a table), just as Carson admits of the labor theory of value. But what self-respecting physicist would cling to *this* law? None would. Physicists would rightly reject such a law as false and seek to discover more precise rules governing an object's motion.[14]

In an attempt to demonstrate the inconsistency of modern Austrians, Carson quotes Böhm-Bawerk on this issue of generality:

> A fourth exception to the Labour Principle may be found in the familiar and universally admitted phenomenon that even those goods, in which exchange value entirely corresponds with the labour costs, do not show this correspondence at every moment. By the fluctuations of supply and demand their exchange value is put sometimes above, sometimes below the level corresponding to the amount of labour incorporated in them. The amount of labour only indicates the point toward which exchange value gravitates—not any fixed point of value. This exception, too, the socialist adherents of the labour principle seem to me to make too light of. They mention it indeed, but they treat it as a little transitory irregularity, the

[13]I am using classical mechanics both because of the analogy to classical economics, and also because its law of gravity is much simpler than Einstein's version.

[14]I don't wish to make too much of this point; there are certainly other principles from the natural sciences that would be analogous to Carson's view of the labor theory of value. I am just pointing out that his particular choice of the law of gravity is a very poor one.

> existence of which does not interfere with the great "law" of exchange value. But it is undeniable that these irregularities are just so many cases where exchange value is regulated by other determinants than the amount of labour costs. They might at all events have suggested the inquiry whether there is not perhaps a more universal principle of exchange value, to which might be traceable, not only the regular formations of value, but also those formations which, from the standpoint of the labour theory, appear to be "irregular." But we should look in vain for any such inquiry among the theorists of this school. (Böhm-Bawerk quoted in Carson, p. 23)

Now how can one possibly object to Böhm-Bawerk's stated goal? A standard criterion of progress in *any* scientific discipline is to come up with laws or principles of greater generality. The epitome of a scientific advance is the replacement of Newtonian mechanics with relativity; Einstein's equations could explain everything Newton's could (because at low velocities they "reduced to" Newton's laws), *and* they could explain things that Newton's laws couldn't. Thus one would think that to answer Böhm-Bawerk, Carson would need to show that Böhm-Bawerk's own preferred theory did *not* fit the bill.

But although Carson does indeed question the adequacy of the subjective theory (a topic we will explore below), his immediate reaction to Böhm-Bawerk's quotation from above is the following:

> In fact, this fourth exception [to the Labour Principle] is absolutely devoid of substance, unless one adopts the later Austrian pose of radical epistemological skepticism toward the notion of "equilibrium price." And if, as Böhm-Bawerk said, Ricardo himself admitted the existence of that exception, it can only be deduced that Ricardo did not view it as a fatal flaw in the labor theory. It would seem to follow that Böhm-Bawerk and Ricardo differed in their opinions of the significance of the phenomenon—in which case, Böhm-Bawerk's real task would be to show why Ricardo was mistaken in his views of what constituted an adequate theory. (pp. 23–24)

There are two separate issues Carson raises in this response. The more important is the issue of "adequacy" for a theory of value. *If there were no better explanation*, then yes, it certainly would not be "fatal" that the labor theory could only explain long-run tendencies, and only for a limited class of commodities; a partial understanding is better than none at all. But because Böhm-Bawerk knew of a *superior* theory that did not suffer from these flaws, and itself retained the merits of the labor theory, naturally this is sufficient to prove the "inadequacy" of the labor theory.

The other issue Carson raises is the notion of "equilibrium price." The modern reader must realize that the classical economists (as well as modern economists in the tradition of Piero Sraffa [1960]) would take the term to mean the *long-run price* that would obtain in the absence of disturbances; it is thus analogous to the Misesian notion of *final price* (Mises 1966, p. 245).

But that is not what someone like Böhm-Bawerk (or just about any modern economist) would mean by the term. For them, the equilibrium price is that which equates the quantities of supply and demand *at any moment, considering all relevant influences on supply and demand*.

It is true, even this notion of equilibrium is a hypothetical one; the actual market price at any given moment may not be the equilibrium price. It is also true that many Austrians, following Lachmann, question the validity of such a hypothetical construct. But for those Austrians who continue to endorse the notion of an equilibrium price (while admitting that it may never in fact be attained in the real world, but only approximated), they are still being perfectly consistent in preferring their explanation to that of Ricardo. As Carson himself admits, the lack of realism (i.e., the lack of the equilibrium price to exactly equal the actual market price at any moment) is true for both camps. The difference lies in the generality of the theory: The modern subjectivist has a theory of price that seeks to explain the (time-sensitive) prices that would form in a market, so long as all "pure profit" opportunities had been seized. These hypothetical, possibly changing equilibrium spot prices would incorporate shifts in consumer demand, interruptions in supply, and all other changes so long as they were anticipated, *and* the theory would apply to nonreproducible goods as well.[15] In contrast, the Ricardian theory attempts to explain merely the *single value* of the long-run "equilibrium" (natural) price of a commodity, and is only applicable to reproducible goods. Unless one could demonstrate that the former approach really does lack something provided by the latter, the subjectivist theory is obviously superior.

---

[15]The modern theory can easily handle "pure endowment" (i.e., no production) economies, such as the P.O.W. camps of World War II. In his famous paper discussing the pattern of prices (in terms of cigarettes) in the camp, and their conformity to the laws of supply and demand, Radford says, "It is difficult to reconcile this fact with the labour theory of value" (Radford 1945, p. 193).

To his credit, Carson *does* dispute the explanatory power (and empirical truth) of the subjective theory. One of his main objections is that

> making scarcity and utility depend on the balance of demand and "present goods" at the present moment, [the subjective theory] ignores the dynamic factor. In taking the balance of supply and demand in a particular market at a particular time as a "snapshot," and deriving value from "utility" in this context, it ignores the effect of short-term price on the future behavior of market actors: the very mechanism through which price is made to approximate cost over time. (pp. 26–27)

Later Carson quotes John Stuart Mill, who expresses the point with great clarity:

> It is, therefore, strictly correct to say, that the value of things which can be increased in quantity at pleasure, does not depend (except accidentally, and during the time necessary for production to adjust itself), upon demand and supply; on the contrary, demand and supply depend upon it. There is a demand for a certain quantity of the commodity at its natural or cost value, and to that the supply in the long run endeavours to conform. (Mill quoted in Carson, p. 34)

The alleged superior "dynamism" of the labor theory should be judged in the context of my discussion above; the labor theory is more "dynamic" in the sense that it can *only* deal with long-run trends, whereas the subjective theory attempts to explain the height of spot prices at each point in time, *including* such prices in the far distant future. This is not at all what most people mean when they refer to one theory as static and another as dynamic.

Even so, Carson (following Mill) raises an interesting point: Are the subjectivists failing to see the forest for the trees? Even if the labor theorist admits that, at any moment, market price is determined by supply and demand, if these forces are *themselves* governed by the labor principle, then isn't the labor theory more fundamental in a sense?

We do not need to answer this question, because its premise is not true. *Demand* (not quantity demanded) is indeed completely independent of any cost considerations; Mill is simply being sloppy when he says that demand depends on value. In standard mainstream economics, *supply* of course is determined by (marginal) cost. Yet even so, this does not reduce everything to the labor (or cost) principle; at best it shows (as Alfred Marshall would insist) that it is wrong to attribute exchange value to one or the other. To give a simple illustration: Suppose we are in an initial long-run equilibrium

where the price of cigars is $5. Suddenly there is a huge increase in demand for cigars (i.e. the demand curve shifts to the right). Unless the supply curve is perfectly elastic,[16] the new equilibrium price will be higher, say $8. The "cost principle" is upheld here, of course, but the cost of making a cigar is itself not independent of the market demand; it jumped from $5 to $8 (because of higher marginal costs at greater levels of output). And note that this is not merely a short-run effect; as any principles textbook explains, even *long-run* supply curves can be upward (or downward) sloping in certain regions of output. (Indeed, this is the textbook explanation for why certain industries are "natural oligopolies" or "natural monopolies.") So although it is true that the marginal utility of a good can be influenced by cost considerations (because cost factors can influence the quantity of the good), it is also true that consumers' demand curves can influence the cost of production of a commodity (because demand factors can influence the quantity of the good).

Beyond this, the Austrian economists really do view utility as the fundamental determinant of price. This is because the supply curve is not really determined by "objective" technical facts alone, but is itself dependent upon psychic evaluations of satisfaction on the part of producers. Purist Austrians deny any such thing as "real cost" and insist that all costs of production are really *opportunity* costs, which are defined as subjective *valuations* of forgone opportunities. Thus subjective value permeates not just the demand side, but also the supply side of price determination. The fundamental starting point of modern price theory is the notion of *exchange*, of each party giving up that which he values less for that which he values more. This insight is completely overlooked by any cost (or labor) theory of price.

CARSON'S CONTRIBUTIONS TO A MODERN LABOR THEORY

To his credit, Carson recognizes that Böhm-Bawerk's critique of the labor theory contained at least *some* valid points. Carson thus tries to rehabilitate the theory to rid it of the (admittedly flawed, see p. 87) objective interpretation given by Marx, and also to accommodate the role of time preference. On both points, I must conclude that Carson's attempted repairs are inadequate to save the theory.

---

[16]Lest Carson accuse me of attacking a straw man, let me make it perfectly clear that Carson discusses elasticity. But, as with Ricardo's admissions concerning exceptions to his law, here too Carson simply seems not to realize the significance of the admission.

Searching his chapter on "A Subjective Recasting of the Labor Theory," it is hard to pin down exactly what Carson's new theory *is*. He explicitly denies, for example, that the relative exchange value of two commodities is dependent on the relative quantity (however measured) of labor involved in their production. As far as I can tell, the following is the best summary of Carson's subjective labor theory:

> A producer will continue to bring his goods to market only if he receives a price necessary, in his subjective evaluation, to compensate him for the disutility involved in producing them. And he will be unable to charge a price greater than this necessary amount, for a very long time, if market entry is free and supply is elastic, because competitors will enter the field until price equals the disutility of producing the final increment of the commodity. (pp. 70–71)

Except for his statement that "price *equals* the disutility,"[17] I think most Austrians would agree with the sentiments above. If this makes them adherents to a subjective labor theory of value, so be it. But do the two sentences above really constitute a *theory* of price determination? Could they really replace modern marginal utility analysis?

Later Carson explains why labor is the only "real" cost, while all other costs are simply opportunity costs (and hence artificial):

> The marginalists themselves, both neoclassical and Austrian, have recognized that labor is a "real cost" in a unique sense. . . . The only cost in the expenditure of a factor other than labor is an opportunity cost—the other uses to which it might have been put, instead. But the expenditure of labor is an absolute cost, regardless of the quantity available. Or to be more exact, the opportunity cost of an expenditure of labor is not simply the alternative uses of labor, but *non-labor*. The laborer is allocating his time, not just between competing forms of labor, but also between labor and non-labor. (pp. 72–73; italics in original)[18]

---

[17]There are places where Carson seems to *rely* on this error, rather than merely being sloppy with his wording. For example, when criticizing Marx's attempt to compare labor hours of different skill, Carson writes that "the only way to make such a reduction without circularity, by market forces, would be by reference to some feature common to both 'complex' and 'simple' labor, *in terms of which they can be compared on a common scale*: i.e., the subjective disutility experienced by laborers." (p. 90; italics added)

[18]Along these lines, Carson elsewhere writes that

> the exchange value of a good derives from the labor involved in making it; it is the disutility of labor and the need to persuade the worker to bring his services to the production process, unique among all the "factors of production," that creates exchange value. (Carson, p. 83)

I must confess that I have never found this alleged uniqueness of selling one's labor (relative to other seller's products) very compelling. Suppose I own a virgin forest next to my house. I am considering all of the different uses to which I could put it. I might clear it and plant tomatoes, I might sell the land to the developer of a shopping center, or I might withdraw it from "production" altogether and leave it in its natural state. To the extent that I would experience genuine physical discomfort to see men chop down the trees, how is this not a "real cost" in Carson's sense?[19] On the other hand, certain goods (such as beer) give a physical satisfaction, while other ones (such as a math textbook) generally do not. Yet we still explain the demand for beer and textbooks by reference to utility, even though the former case includes physiological experiences while the latter does not. Does the beer then offer "real utility" in contrast to the book's "opportunity utility"?

Because of its relevance to the earlier discussion of generality, I cannot leave this topic without mentioning Carson's ridicule of the opportunity cost concept:

> The subjectivists . . . treated the existing structure of property rights over "factors" as a given, and proceeded to show how the product would be distributed among these "factors" according to their marginal contribution. By this method, if slavery were still extant, a marginalist might with a straight face write of the marginal contribution of the slave to the product (imputed, of course, to the slave-owner), and of the "opportunity cost" involved in committing the slave to one or another use. (p. 79)

To this all I can reply is that yes, Mr. Carson, that is *exactly* how I would explain the pricing of slaves (or rather the *rental* price of a slave—the price of a slave himself would depend on the rate of interest, the slave's life expectancy, whether the owner would own any offspring, etc.). The subjective theory of value can explain prices even under conditions that do not conform to our sense of justice.[20] I can also analyze the effects of, say, a tariff on cars, even though I consider tariffs to be immoral and inefficient.

---

[19]For a different example, imagine a widow forced to pawn her wedding ring to avoid starvation. If this causes her "objective" pain, does it count as a "real cost" of her supplying the market with one more wedding ring?

[20]Carson also explains away deviations from natural value due to profit and interest by saying that these items (except for the role of time preference that Carson allows) are "monopoly returns on capital" and would not distort market prices in a mutualist society (p. 24).

We finally come to Carson's discussion of time preference. Recall that one of Böhm-Bawerk's objections to the labor theory was that it ignored (what he would call) originary interest. To give a simple example, the market price (even in the long-run) of twenty-year-old wine will be higher than of ten-year-old wine, even though the quantity of labor involved in producing both bottles is virtually identical. Thus a Marxist approach, in which the "total labor" involved in a good's production involves objective quantities (however measured), cannot possibly deal with a case such as this.[21]

Carson deals with the problem by declaring, "Even if today's labor is exchanged for tomorrow's labor at a premium, it is still an exchange of labor" (p. 111). To this one might simply ask, "Why? Why isn't the exchange of the *product* of today's labor for the *product* of tomorrow's labor really an exchange of *product*?" But then Carson moves into demonstrable error:

> When labor abstains from present consumption to accumulate its own capital, time-preference is simply an added form of disutility of present labor, as opposed to future labor. It is just another factor in the "haggling of the market," by which labor's product is allocated among laborers. (p. 111)

This will simply not do. Carson has here confused the lower *utility* attached to a future product, with a higher *disutility* from producing it. Carson is familiar (p. 105) with Böhm-Bawerk's critique of the abstinence theory, in which he made this distinction with great clarity, yet apparently Carson missed Böhm-Bawerk's point. Let me therefore apply the argument to our example of wine: In what sense is there greater disutility in producing wine that is intended for sale in twenty years, versus wine that is intended for sale in ten years? If someone breaks in and steals such a bottle, does the producer "lose" more if he had intended to sell that bottle in twenty years (versus ten)?

Of course not. The reason the laborer who makes a bottle of wine and sells it after twenty years may receive three pigs, while the laborer who sells a bottle after ten years only receives two pigs, is *not* that it took more physical exertion (or psychic disutility in general) to make the former bottle. Rather, it must be (given our stipulated numbers) that the workers get more *utility* from pigs delivered sooner rather than later, and that (for example) someone wishing to

---

[21]The marginal utility approach can explain this easily, of course: In the first place, the older wine tastes better and thus consumers value it more.

sell three pigs to be delivered in ten years would only be able to fetch two pigs *now* in exchange.

This leads to my final comment on Carson's treatment of time preference. After admitting that even in a mutualist society, present goods would exchange at a premium for future goods, Carson writes, "It is only in a capitalist (i.e., statist) economy that a propertied class . . . can keep itself in idleness by lending the means of subsistence to producers in return for a claim on future output" (p. 112). What happens, I wonder, in a mutualist society if an industrious worker accumulates a large stockpile of consumer goods, and sells them in exchange for future goods? Could he not live indefinitely off the interest? Would this be forbidden, or does Carson just deny that it would ever happen in the absence of State intervention?

CONCLUSION

Kevin Carson provides a knowledgeable discussion of the classical theory of value, but he fails to rescue it from the critique of Böhm-Bawerk. There are numerous flaws with the labor theory, none of which applies to the modern subjective theory. In addition, everything true of the cost (labor) theory can be incorporated in the subjective theory of value.

Furthermore, not only did the subjective value theory of Böhm-Bawerk and others provide a better alternative to the labor theory, but it also ultimately allowed for the explanation not merely of *relative* prices, but also of absolute money prices. (Because of its disregard of utility, it is difficult to conceive of a cost theory that could adequately explain the *absolute* height of money prices.) Initially, the handling of money prices was an embarrassment for subjective value theory, but in the hands of Mises (1980)—if I may be permitted a Marxist spin—this apparent deficiency in the subjective theory was transformed into its glorious fulfillment.

REFERENCES

Böhm-Bawerk, Eugen von. [1884] 1959. *Capital and Interest*, 3 vols. South Holland, Ill.: Libertarian Press.

Carson, Kevin A. 2004. *Studies in Mutualist Political Economy*. Fayetteville, Ark. http://mutualist.org/id47.html.

Menger, Carl. 1991. "On the Origin of Money." In *Austrian Economics: A Reader*. Richard M. Ebeling, ed. Hillsdale, Mich.: Hillsdale College Press. Pp. 483–504.

Mises, Ludwig von. [1912] 1980. *The Theory of Money and Credit*. Indianapolis: Liberty Fund.

——. 1966. *Human Action: A Treatise on Economics*. 3rd rev. ed. Chicago: Contemporary Books.

Radford, R.A. 1945. "The Economic Organization of a P.O.W. Camp." *Economica* n.s. 12, no. 48 (November): 189–201.

Rothbard, Murray N. [1962] 1993. *Man, Economy, and State*. Auburn, Ala.: Ludwig von Mises Institute.

Sraffa, Piero. 1960. *The Production of Commodities by Means of Commodities*. Cambridge: Cambridge University Press.