NATURAL VALUE

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EDITOR'S PREFACE

In the preface to my *Introduction to the Theory of Value*, in which I attempted to make clear to English readers the main lines of that theory as expounded by the Austrian School, I said that, in justice to Professor Wieser, I stopped short of his application of the value theory to distribution, preferring to put the translation of his brilliant and suggestive work into the hands of one of my former students. The rendering of *Natural Value* which follows will, I think, justify at once my reserve and my selection of a translator.

The theory of value, of which the Austrian economists are now the chief exponents, is the Final or Marginal Utility theory, best known to English economists through Jevons's great work published in 1871. In the same year, and quite independently, appeared Menger's *Grundsätze*—a work typical of Teutonic thoroughness and strength. This was followed, in 1884, by Wieser's *Ursprung und Hauptgesetze des wirthschaftlichen Werthes*. The *Positive Theory of Capital* of Böhm-Bawerk (1889) contains a masterly exposition of value, price, and costs, on which the author bases his well-known theory of interest. Previous to that, in 1887, Sax published his *Grundlegung*, in which he applied the value theory to the economic functions of the state. Finally came the present work, which at once catches up many loose ends in previous expositions, and carries the whole theory, with its applications, to a higher level of completeness.

The main purpose of *Natural Value* may be read in chap. vi. of Book II. (p. 60). The general reader, however, will possibly find the most suggestive matter in chapters incidental to this main development, particularly in the attacks on Socialist theory. To English economists, again, I venture to think that there are three points which will specially commend themselves as original contributions to our science. These are, the re-setting of the elementary conception of value in Book I., the application to distribution in Books III. and IV., and the bringing of the law of cost of production within the compass of the general Marginal Law in Book V. If an editor's preface has any function it is, I imagine, to elucidate points which his, presumably, close study of the book have shown to be

difficult, and my connection with the Austrian School may, perhaps, justify me in putting these points in my own way.

The first book contains the general statement of the theory of value according to the Austrian School. Its main lines are as follows.

The man in the street, asked the simplest questions about value, betrays the popular belief that value originates in Utility, while he is, at the same time, aware of many phenomena which seem to contradict this faith. For instance, free gifts of nature have no value: some confessedly very useful things have little value. Scarcity, as well as use, confers value: cost seems the very antithesis of value. It is a fundamental principle of the school that the investigation of value is the investigation of human acts of valuations, and, accordingly, no theory of value can be satisfactory which does not bring these contradictions under its law.

A slight analysis shows that, in the last resort, the "use" of goods—or the use we get from them—is nothing but the satisfaction of want, or rather of desire. Goods which do not satisfy some desire are of no use to anybody: if we could satisfy desire without goods we should have no desire for goods:—these two considerations point to the conclusion that it is not goods in themselves that are either desirable or desired, but satisfactions. We must, first, then, look deeper into the nature of wants and satisfactions.

Gossen's law gives us a correct analysis. According to it, want or desire diminishes with every successive draught of satisfaction till the point of satiation is reached. This is true of all desires, higher and lower, if we are careful to consider the same desires and not other varieties of them, and if the desires in question are full grown, and not merely awakening or in course of development. Thus the satisfaction of every want describes a falling scale, and, at each degree on the scale, the sensations of want are of different intensity.

But here are two things which may be spoken of as "want": the want as a whole, or kind, or class, and the individual sensation of want. However we classify the kinds of want—according as we look at them from a moral, or hedonistic, or intellectual standpoint—the more important kinds of want remain the more important. But, in these kinds, the *sensation* of want varies from an indefinite higher point down to zero, according to the circumstances of provision for it. Taken day by day, the appetite for food is constant and important: at any point of the day, its importance depends on the satisfaction afforded by the last meal.

Thus, however we arrange the wants as classes, we constantly find that a want, belonging to what we would recognise as an important class, has no great importance for us in the circumstances. Of two wants the one, of its class, important, the other unimport-

ant, the latter will be felt by us as important if unsatisfied, in comparison with the former if satisfied. In measuring satisfactions of want, then, we have to take both of these into account. The possibilities of want are according to the class; the actualities, according to the satisfaction already reached. It is only in exceptional circumstances that we know much about the possibilities of want within us, just as hunger to most is merely a pleasurable anticipation.

Utility being the general capability of satisfying human want, or, as Jevons defined it, "a circumstance of things arising out of their relation to man's requirements"; if the "use" of goods amounts to satisfaction of want, and if satisfaction depends, partly, on the importance of the class to which the want belongs, and, partly, on previous satisfaction attained, we have already come in sight of that influence of quantity or Supply on the estimate of utility and of use which becomes so prominent in the estimate of value. It is a commonplace that value is not inherent in things: it is not so well recognised that neither is utility. There is nothing "useful" except in relation to a being who finds it so, but even the useful is not "of use" if that being has already enough or too much of it.

Here we reach the point of view from which the utility of goods is defined and measured. It is only as we find that satisfaction depends on having, and non-satisfaction follows on not having or losing goods, that we transfer our interest in satisfactions to the material conditions on which these satisfactions are dependent. We attach no importance to goods when they are to be had in superfluity—not even to that portion of them which we use, because satisfaction is not *dependent* on those we use. If our wants were few we should perhaps attain something like superfluity of goods as regards many of them, but the fact that our wants are many and varied makes us desire many goods, and distribute our effort at acquisition over a wide field. Thus we find that, as a rule, the supply of commodities in the control of any person is not sufficient for all the possible and even actual sensations of want for these commodities. There must, then, be a point, short of complete satiation, at which satisfaction is broken off. This is the marginal satisfaction: the least utility economically obtainable in the circumstances. It is this Marginal Satisfaction that determines the value of goods to us.

It will be noted that this marginal satisfaction is not the general capacity of use, nor even the actual use made of goods, but the last or least use in the circumstances of the individual demand and the individual supply. Suppose that commodities were represented and ranked in importance according to the letters of the alphabet. A being the most important, we should strive to

obtain it first, but only till such time as some supply of B became more desirable than a further supply of A. In the same way we should leave off accumulating B whenever the decreasing satisfaction from it made it more desirable to obtain some supply of C. In A and B, then, there emerges a marginal satisfaction—the least permissible in the concrete circumstances. We say that this is the economic margin, inasmuch as persistence in accumulating A or B would result in the total sum of satisfaction attainable being less than by drawing the marginal line at a point short of further satisfaction, and proceeding to the satisfaction of C.

When goods are valued by themselves there is no comparison of utilities, and, therefore, no marginal utility; in this case goods do get their value from the actual use made of them; and, of competing uses for the good, it is, of course, the highest which decides the value. But few goods are valued in this way: they are generally valued as items in a stock or supply of similar items. Suppose that a person gradually acquire several of these items, he will successively put them to less and less important uses. But however many or few goods he has, there will always be a least use—unless the good is a "free gift"—to which he puts the goods. The larger the stock the less will be this marginal use. But if the goods are similar, any one of them may be the last used. The value of each item, then, cannot be more than the least: and the value of the whole stock must be a multiple of that least. In a stock of ten goods—assuming unchanged demand—the value of each good cannot be more than the tenth use to which the goods are put; and the value of the whole is ten times the tenth use. Of a stock of a million items, the total value is a multiple of the millionth use. Thus, then, all these uses above the marginal ones are unrepresented in value, and it is on the same principle that the uses actually obtained from free goods are not represented in value at all. Here in the main is the solution of the contradictions with which we started. If iron is little valued, it is not because its usefulness is little, but because the supply is so great that the marginal use of iron is quite insignificant, and the total value of iron is a multiple of this insignificant use. If air is not held of any value, it is because the supply is so abundant that the marginal use is never reached, and its total is multiplied, if we may say so, by zero.

But this determination of value by marginal utility brings with it a paradox of its own. If increase of supply has lowered marginal utility till value disappears with superfluity, it is evident that somewhere there has come a point at which further increments of supply not only did not increase the total value, but actually diminished it. Suppose that one item yields ten units of satisfaction, and two items eight units each—corresponding with the diminution in desire with successive satisfaction—and three items six units each,