

CHAPTER VII.

OF VALUE AND COST.

The question of value is fundamental. * * * The smallest error on that subject infects with corresponding error all our other conclusions; and anything vague or misty in our conception of it creates confusion and uncertainty in everything else.

John Stuart Mill.

We have already seen that men may secure satisfactions in two ways; by means of direct production, technically called industry, and by means of exchange. Attending each of these modes there is a certain disutility. In order to distinguish these disutilities, we have named that attending the acquisition of the desired labor-forms by direct production *industrial* disutility; and that attending their acquisition by exchange, *commercial* disutility.

Of those labor-forms which are consumed by the producer and which, therefore, never actually acquire either commercial utility or disutility, the subject we are pursuing takes no immediate account. But when a labor-form enters the market for exchange it must be considered from two different points of view—that of the seller, and that of the buyer. From the standpoint of the seller its significance arises from its commercial utility; from the standpoint of the buyer, from its commercial disutility.

Let us now recall to mind certain matters which we have heretofore discussed, and examine them more fully. We have seen that men in association are constantly develop-

ing their desires, and as constantly seeking to satisfy them with the least exertion. Fitness to satisfy desire we have designated *utility*; while that which alloys or neutralizes the satisfaction of desire we have called *disutility*. We have seen that while increase of utility is the ultimate object sought, the means used are such as diminish disutility, for only in this way, in the absence of monopoly, can further satisfaction of desire be had with the same effort, or equal satisfaction be had with less effort. We are justified, therefore, in anticipating the fact that any inquiry into normal conditions will be concerned with the reduction of disutility.

Although men, in making exchanges, may be looked upon as divided into buyers and sellers, the fact is that, economically considered, they are both buyers and sellers at one and the same time. The man who exchanges a coat for a pair of shoes is a seller as to the coat and a buyer as to the shoes. And if he sells the coat for money, and with that buys shoes, the effect is the same. So in every transaction between merchant and customer there is upon one side of the counter a seller-buyer, and upon the other side a buyer-seller. This is plain enough when the customer exchanges country produce for dry goods; but if he sells his produce for cash, and with the money buys the dry goods, the intervening step is likely to mislead us. This likelihood is increased by the fact that we are prone to attribute to money some mysterious and peculiar utility, instead of looking upon it as the equivalent, in concentrated and current form, of the commercial utility of that for which it is received, or for which it is paid. This tendency toward

mystery is increased by the fact that the money we use has been given a peculiar and artificial utility by law.

As a seller each man is interested directly and immediately in the commercial utility of his trade-form, the disutility of its acquisition being to him a thing of the past. As a buyer each man is interested directly and immediately in the commercial disutility to himself of the seller's trade-form, its utility being to the buyer a thing of the future. The seller desires that the trade-form in question should have for him great commercial utility; the buyer desires that it should have for him small commercial disutility. The attention of each is centered upon the point of exchange, which to both is the *market price* of the trade-form. But the market price, although the same for both, means vastly different things to them. To the seller the market price represents the commercial utility to him of the thing sold. The difference between this commercial utility and the disutility of acquiring the thing sold represents its positive utility to the seller. Later we shall discuss and define this positive utility as net value. To the buyer market price represents the commercial disutility of the thing bought. The difference between this commercial disutility and the disutility to him of direct production represents a saving, i. e., an avoidance, of disutility which we shall later discuss and define as net salvage.

We learned in our discussion of utility and disutility that in their entireties utilities can not be measured. If a man produces a certain labor-form, as, for instance, a coat, it may have for him but one kind of utility. If he be our

Selkirk alone upon an island, its only utility is that of a satisform. He has in his consciousness, if not in his immediate possession, some labor-form which has for him but one unit of positive utility—his marginal labor-form. By means of this unit he may compare the coat with other labor-forms and determine which he esteems most and the order in which he esteems them. But he can not measure the absolute utility of the coat. On a bright, sunny day it might at first have practically no present utility; while within a few hours it might so protect him from a storm and its attendant chill as to save his life. As a mere satisform he may know that he esteems it greatly or but little, but just how much actual utility it may have for him he can not tell.

If Selkirk now produces a rude ax, the utility of this labor-form will be that of an aid-form. The utility to him will be great, but he can not measure its utility as aid-form any more than he can measure the utility of the satisforms in the production of which the ax is used. To Selkirk alone upon his island the utilities of all labor-forms are indefinable at the upper limit. They are comparable with the one at the lower limit—the marginal labor-form—and through it with one another, but as there is nothing definitely to fix the upper limit, no measurement of their entire utilities is possible; for measurement involves not only a starting point and a measuring unit, but also a point to which to measure.

Let us now assume that after Selkirk has returned to civilization he produces a labor-form as at first—a coat—and goes with it into the open market. Its distinctive

utility to him will now be that of a trade-form; its utility to him as a seller in the market will be commercial. This utility may be measured and accurately so, if we secure a proper unit of measurement, since its upper limit is the *point of exchange* and its lower limit the *point of disutility*. Between these two points is a definite utility which stops short, and, it may be, far short of its total utility.

In every civilized community there is a common marginal unit of utility. It is the labor-form having the least utility which men in general will exert themselves to acquire. This common marginal labor-form is typified by the lowest current coin—in the United States a one-cent piece. For unless a labor-form is worth one cent, it is, in general, not worth producing for the market. In the case of those few labor-forms which sell in the market at two or more for one cent, the group which so sells may be considered as a whole, and as a marginal labor-form. The fact that the cent is the lowest coin shows that in the general market it represents the marginal labor-form; the market, like the law, takes no note of trifles.

In practical business, however, one hundred cents, or one dollar, is treated as the unit of trade. Custom in this regard has ripened into law, and for the present we may adopt the customary and legal unit for the measurement of all utility which bears a definite and determinable relation to the common marginal unit of utility. We have, therefore, in respect to utility, when commercial in form, a unit of measurement, a point from which to measure, and a point to which to measure. We now have need of a distinctive term which will express utility when measured;

that is, which will express measurable utility, commercial in form, determined in the market at the point of exchange. For in the absence of an exchange, actual or potential, to determine the point of upper limit no measurement is possible. And this measurable utility is not a common or general utility, but a utility limited to the possessor as a seller in the market. Not only that, but as we shall see, the utility to the seller of a given labor-form is equal, when expressed in price, to its disutility to the buyer.

These elements are all comprehended in the terms *common marginal unit of utility*, *measurable utility* and *value*, which we now define, together with the term *immeasurable utility*.

The **Common Marginal Unit of Utility** is the labor-form having the least utility which men in general will exert themselves to acquire, as typified by the lowest current coin.

Measurable Utility is any utility so circumstanced that it bears a definite and determinate relation to the common marginal unit of utility.

Value is measurable utility at the point of exchange.

Immeasurable Utility is any utility so circumstanced that it bears an indefinite and indeterminate relation to the common marginal unit of utility.

Value is always limited and measured by the point of exchange which is fixed in a general market, not by the total utility of the thing sold, but by its utility to the marginal pair, particularly the marginal buyer. We have also seen that the utility of a labor-form is neutralized more or

less by the disutility of its acquisition. Its value, therefore, takes on two forms—the negative and the positive. To the extent of its disutility its value is negated or canceled, and it is only above the point to which the disutility extends that there is a positive value to the seller. Thus, if a man produces a labor-form at a disutility which may be represented by five dollars, and sells it in the market for ten dollars, the ten dollars represent the total measurable utility to him of the labor-form at the point of exchange, or, in other words, its value. But its value is not all gain. It covers the disutility of production plus the net gain of the transaction. The disutility of production neutralizes the value to that extent, and leaves only a portion of the total value as a positive gain.

We have already learned that some utilities, like those of the air and sunshine in ordinary circumstances, are spontaneous and require no irksome effort upon the part of men to acquire them; that men, by invention, division of labor, exchange, etc., strive to lessen disutility and to attain spontaneity in the acquirement of satisfirms; and that, if this were possible, the point of positive utility would be lowered until it would fall below the point of disutility. If the point of disutility were reached and passed in any case, both value and disutility would disappear, and not till then. Value and disutility, therefore, both begin at the point of disutility. They extend upward together, the disutility canceling the value, until the point of positive utility is reached, while value alone continues to the point of exchange.

If, now, we conceive the value of a labor-form to be rep-

resented by a vertical line, we have three points which must be kept constantly in mind. They are, first, the point of disutility, which marks the lower limit of both value and disutility; second, the point of positive utility, which marks the upper limit of disutility; and, third, the point of exchange, which marks the upper limit of value.

In order that we may distinguish between disutility to the seller and disutility to the buyer, and also between value and that coincident disutility to the seller which negatives value, two new terms become necessary. We shall call disutility to the seller, or the negation of value, *disvalue*; and the positive value which lies between the point of positive utility and the point of exchange, *net value*.

Disvalue is the disutility to the seller of acquiring the thing sold.

Net Value is the excess to the seller of value over disvalue.

E
D
C
B
A

Let the line A B C D E, extending indefinitely as indicated by the dotted extremities, represent the immeasurable total utility of a given labor-form at a given time and place. Let A represent the point of spontaneity, B the point of disutility, C the point of positive utility, and D the point of exchange. Then the definite dark portion of the line extending from B to C represents the disvalue; the definite light portion extending from C to D represents the net value; and the total definite portion of the line extending from B to D represents the value of the labor-form.

A man who has produced or acquired trade-forms for the market is interested, primarily, in their net value. In order that this may be as great as possible he strives to enlarge it at both the upper and lower limit. In order to attain these ends, he becomes interested, secondarily, in market price and in disvalue, seeking to increase the one and to decrease the other. These constitute practical problems of business life. We must defer their consideration for the present, however, and take up a more extended examination of the market—and this time from the point of view of the buyer.

To the buyer the market price represents the commercial disutility to him of the thing bought; its disutility is the disutility of acquiring the price, instead of the disutility of acquiring the thing itself directly by labor. Thus, a man may produce a pair of shoes and sell them for five dollars, with which sum he may buy a coat which he could make at first hand only at a disutility of ten dollars. To the buyer the difference between the disutility of acquiring the price and the disutility of acquiring the thing itself directly by labor represents a saving—an avoidance—of disutility. This saving of disutility in turn results in an increase in positive utility. It is to secure this resulting increase of utility, through the saving of disutility, that all exchanges are made upon the part of the buyer.

We learned in our discussion of utility and disutility that the marginal labor-form of any individual is his unit of comparison not only of utility, but of disutility; also, that the marginal labor-form has one and but one unit of disutility. For unless it had at least one unit of disutility,

its utility would be spontaneous, and no effort would be made to secure it; and if it had two units of disutility, the second unit would neutralize its only unit of utility, and its utility becoming indifferent, no effort would be made to produce it.

In the United States the real marginal unit of disutility is one cent. Labor that is not of the disutility of one cent either will not be exerted at all, or it will ordinarily be exerted gratuitously. Custom and law, however, having fixed upon one hundred cents, or one dollar, as the unit of commerce, we may for the present treat this as the practical common marginal unit of disutility. All disutility has its lower limit at the point of disutility. Commercial disutility is determined by market price, and its upper limit is fixed by the point of exchange. We have, therefore, with respect to disutility, commercial in form, a unit of measurement, a point from which to measure, and a point to which to measure. We now have need of a term which will express commercial disutility when measured, that is, which will express measurable disutility, commercial in form, determined in the market at the point of exchange. For in the absence of an exchange, actual or potential, to determine the point of disutility to the buyer, no measurement is possible. And this measurable disutility is not a common or general disutility, but a disutility limited to the buyer; for the disutility to the buyer is determined by price, which also determines the utility of the same trade-form to the seller.

These elements are all comprehended in the terms *common marginal unit of disutility, measurable disutility* and

cost as we shall now define them, together with the term *immeasurable disutility*.

The **Common Marginal Unit of Disutility** is the irksomeness of attaining the least valuable labor-form which men in general will exert themselves to acquire, as typified by the lowest current coin.

Measurable Disutility is any disutility so circumstanced that it bears a definite and determinate relation to the common marginal unit of disutility.

Cost is measurable disutility at the point of exchange.

Immeasurable Disutility is any disutility so circumstanced that it bears an indefinite and indeterminate relation to the common marginal unit of disutility.