

## CHAPTER X.

### OF THE POSITIVE THEORY OF VALUE.

A high margin of production both enables and compels society to bid high for the services of its members.

*Simon N. Patton.*

Measurable utilities and disutilities are reduced to a commercial form by the competition of the market. They start from a common point—the point of disutility. They are measured by a common marginal unit—one cent (or one dollar). Their measurements are expressed in the same terms—those of current money. The upper limit of the commercial utility and of the commercial disutility of a given labor-form is fixed by the same point—the point of exchange. Therefore, the commercial utility to the seller—the value—and the commercial disutility to the buyer—the cost—are both expressed in market price. Value and cost are reducible to a common measure, and for this reason are often treated as if they were one and the same thing. They are not thereby made identical, however, any more than two fractions are made identical when reduced to a common denominator.

Let us carefully examine the nature of commercial utility and disutility. When a thing capable of satisfying desire can be acquired without labor, or with so little labor that its disutility is not worthy of consideration, it may be of the highest utility; but its entire utility is immeasurable; it has no economic utility whatever. Thus, a cup

of mineral water dipped from a public spring is handed by one person to another as a mere courtesy. But if the mineral water is transported to a distant city for medicinal use, it ceases to be a spontaneity and at once acquires an economic utility. Let us assume that the disutility of putting a pint of mineral water upon the market in the city is equal to the common marginal unit of disutility—one cent. In normal conditions its commercial utility is greater than its industrial disutility, or it will not be put, or at least not kept, upon the market. Let us, therefore, assume that it sells for two cents a pint. Its disutility to the buyer, or cost, is then the equivalent, in terms of the common unit, of its commercial utility, or value.

Thus, while the particular producer puts a pint of mineral water on the market at an industrial disutility of one cent, the buyer prefers to acquire it at a commercial disutility of two cents rather than stop his regular calling, or otherwise be put to the inconvenience of producing it himself. Doubtless he is so circumstanced that he can not produce it for himself except at a far greater disutility than two cents. The market price, therefore, to him, not only represents commercial disutility, but it measures an avoidance of industrial disutility—a saving of labor-power. The utility in his hands is thus increased by the amount of the industrial disutility saved.

In this way it may be seen that while utility is one thing and disutility another and directly opposite thing, yet the measure of the one is reducible to the terms of the measure of the other, because the diminution of the one is equivalent to a corresponding increase of the other.

It is natural and logical, therefore, that value and cost should both be expressed by price at the point of exchange. It is not logical, however, to ignore the fundamental difference between utility and disutility, or to treat disutility as the principal element of value, as is done in the "labor" and "labor cost" theories of value. As well might the natural philosopher say that cold is the controlling element of heat, or darkness the principal constituent of light.

It is true that the commercial utility of a trade-form is largely its utility in procuring for the seller the labor-power or labor-forms of others. But these facts do not justify a jumbling together of the ideas of value and cost. Men do not buy labor-forms for the sake of acquiring the disutility attending their production, but in order to acquire their present utility. And while a man may buy and sell by one and the same act, he is distinctively either a buyer or seller in the common acceptance of those terms. In actual business life no confusion ever arises upon this point. The problem of every man as seller differs from his problem as buyer. The immediate problem of the seller as a producer is to acquire net value; while the immediate problem of the buyer as a final consumer is to acquire net salvage. The one is interested in the production and sale of capital-forms; the other, in the acquirement and consumption of satisfirms. If the buyer buys to sell again, he thereby converts his net salvage into net value and becomes distinctively a seller. His cost as a buyer becomes disvalue to him as a seller, and he reckons his whole gain upon the last transaction. This

he can readily do since net salvage and net value are both expressed and measured in terms of money.

The seller seeks for utility in the form of net value; the buyer seeks utility also, but in the form of net salvage. The seller, as producer, acquires utility directly by creating it; the buyer, as consumer, obtains it indirectly by saving—avoiding—disutility. This explains why it is that both buyer and seller may be benefited, and equally benefited, by an exchange. If the only exchange possible were the exchange of one positive utility for another equally desirable, and there were no place in the process of the market for the negative feature by which disutility saved is the equivalent of utility acquired, then what one person gained in exchange the other would necessarily lose. But since the seller can create utility for the use of another to greater advantage than for his own direct use, and the buyer can acquire such utility for his use at less disutility by exchange than by direct production, the competitive system, in itself, is a labor-saving device of great economic utility. This great principle of the market is overlooked by the omnisocialist. He maintains that in every exchange the gain of the seller is necessarily at the expense of the purchaser. Said Karl Marx: "Circulation [exchange in the market] sweats money from every pore."\*

Let us bring our definitions of value, cost, and price to the test not only of the usual, but of all the phenomena of the market. It has been said that water has great

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\**Das Kapital*: Moore and Aveling's Translation, page 54.

utility, but scarcely any value, while a diamond has great value and *scarcely any utility*. The words italicized are directly opposite the truth when *value* and *utility* are properly defined and distinguished. Utility is simply fitness to satisfy desire, and desire exists not only for necessities, but also for luxuries. Value is but a form of measurable utility, and measurable utility is but a part of entire utility. Hence, to say of a diamond that its value is greater than its utility is to say that a part of utility is greater than the whole, which is impossible in Economics as truly as in Mathematics.

We need not wear diamonds for personal comfort, and, individually, we may not care to do so for personal adornment. Yet we know, as a matter of common knowledge, that in the market diamonds have a very great utility to the seller at the point of exchange. They bear a high price utterly regardless of what we may think of the relative merit of the desire which prompts their purchase. It is not the merit of men's desires, but their relative intensity with which Economics has to deal, and the desire for diamonds is exceedingly intense. The industrial disutility of diamonds is very great, but just so long as some men are willing to acquire diamonds at a great commercial disutility so long will other men undergo the industrial disutilities of their production, and so long will diamonds have great commercial utility for the producer. The price of diamonds is fixed by the marginal pair in the diamond market, but the marginal buyer of diamonds is far above the marginal buyer of staple articles in ability to purchase.

In the current theories of value exception must be made in the case of certain labor-forms which are rare and incapable of reproduction, as pictures by famous painters, heirlooms and the like. It is commonly said that the ordinary laws of value do not apply to these, and various explanations are given for their great value. In the first place, they are frequently spoken of as having great value when they are not in the market at all, and hence have no commercial utility whatever. The word *value* when applied to them is then a misnomer from an economic point of view. But when such things are put upon the market, they are subject to all the laws of value, cost, and price, and do not differ in any wise from other articles which sell in a one-sided instead of a general market.

In this connection we may also consider the case of articles which sell at church fairs, or in other unusual markets for much more than their usual market values. The peculiar circumstances give to such objects increased commercial utility, and they are acquired by the purchaser at increased commercial disutility so far as the transactions have any economic significance. If, however, the additional price paid be considered as a donation rather than as purchase money, such a case is removed from the province of Economics.

The foregoing definitions and explanations of value and cost apply not only to all labor-forms, but to labor itself. We have seen that the expenditure of effort in the satisfaction of desire is not necessarily and always irksome. Up to a certain point exertion may give pleasure, while beyond such point it may become more and more irksome.

Economics takes note of productive efforts only when they involve irksomeness. Those expenditures of effort which give pleasure, or to which men are practically indifferent, correspond to the spontaneities of nature among material substances. Hence, in the matter of human exertion the point where irksomeness begins is the point of disutility. The point at which irksomeness ceases to cancel the benefit derived from exertion is the point of positive utility, and the benefit lying beyond this point is the positive utility of the labor performed. Inasmuch as the concrete result of such labor—the resulting labor-form—avails the laborer in the market, the labor itself possesses a commercial utility and commands a price. The point of exchange becomes the upper limit of commercial utility to the seller, and of commercial disutility to the buyer of labor, and thus all the requisites of value and cost appear in relation to the exertion of labor-power. All the laws of the market prevail with reference to labor just the same as with reference to labor-forms. The exertion of labor-power directly in the form of personal services corresponds in function to the satisfirms among labor-forms; while labor-power expended in the production of labor-forms for future use corresponds in function to capital-forms.

The labor-cost theory of value looks upon irksomeness as the distinguishing characteristic of labor-power and treats labor wholly as a matter of cost, or disutility. But labor-power has utility as well as disutility, and it is its positive utility which gives to it its real economic significance. Wages are paid for the utility of labor-power;

its disutility is a mere circumstance which prevents its utility from being spontaneous. It is only negatively that disutility enters into the question of value. The positive theory of value is the theory based upon utility.

There is still another phase of the phenomena of value and cost to which our definitions and discussions must apply, if correct and complete. They must apply to the phenomena of the market with reference to land-forms. In order that we may make a necessary distinction between utilities which are the distinctive results of labor-power and those which are not, we shall repeat two of our definitions and then add a new one, as follows:

**Labor-Power** is the physical or mental power of man irksomely exerted for the satisfaction of desire.

A **Labor-Form** is any material substance, great or small, so circumstanced that its present distinctive utility is the result of labor-power.

A **Land-Form** is a definite portion of the earth's surface, great or small, together with all the utilities which may be enjoyed thereon or in connection therewith, except those utilities which are distinctively the result of labor-power.

It may appear at first blush that it is difficult, if not impossible, in many cases to distinguish between labor-forms and land-forms. This is especially true in those cases in which the change made by labor-power is comparatively slight and does not separate any material substance from the soil. But all difficulty practically vanishes as soon as it is remembered that Economics treats not of forms merely, but of utilities and disutilities; and not of



utilities in general, but of those distinctive utilities which may be measured. Thus, a field in its natural state may be of the value of fifty dollars per acre, while its added utility, when plowed, is one dollar per acre. It is not necessary in such case to say that the field, when plowed, is merely a land-form, or entirely a labor-form. The added utility given by labor is capable of separation and measurement. So long as the two utilities are so distinct that a price may be set upon each, there is no difficulty in separating them, either in thought or in actual business transactions. It is not unusual in the sale of farms, after plowing has been done, for the land to be priced at so much per acre, with an additional charge per acre for the plowed fields. To the extent of their added value these fields are practically labor-forms. Whenever natural and artificial utilities are so blended that all market distinction is lost, there is no necessity for their separation in thought or otherwise, and all economic distinction as to form ceases.

A similar difficulty arises in the minds of some with respect to distinctions between land-forms and improvements thereon. Yet it is well known that bare land-forms have a value wholly separate and distinct from the values of the improvements; when all improvements upon a land-form have been swept away by fire this is easily seen. Buildings are often erected upon leased land, and thereafter the buildings and the bare land-forms are valued and sold separately. Not infrequently city lots are sold with leave to the seller to retain and remove all improvements. And even in those cases in which the improve-

ments are practically inseparable from the land-form itself, as in the case of drain tile, the value of the utility added by labor may be computed. The difference between the values of tiled and untiled land in the same neighborhood and of like natural fertility is well known. In such cases as these, as in the case of the plowed field, whenever there is such a merger of labor-form and land-form that the distinction can not be noted in the market and expressed in price, the economic distinction as to form ceases, the land-form absorbing all utility.

In all cases in which the substance in question is separate from the soil, the test as to whether it is a land-form or a labor-form is simply this: What is its present distinctive utility? Is, or is not this distinctive utility the result of labor-power? If its distinctive utility results from a change of form or place, or both, brought about by labor-power, then it is a labor-form; otherwise it is a land-form.

Some land-forms may be acquired without disutility, either industrial or commercial. In such case they have no commercial utility so long as land-forms equally desirable may be acquired by others in like manner. But as soon as the acquisition and possession of a land-form carries with it a utility for which men will compete, such land-form acquires both commercial utility and commercial disutility. The point at which competition for land-forms begins is the point of disutility, while the point at which the effort to acquire them ceases to cancel or neutralize the utility of their possession and enjoyment is the point of positive utility. Since land-forms furnish the materials out of

which all labor-forms are made and from which all material satisfactions arise, they will, when reduced to exclusive private possession, bear prices in the market according to their relative utilities. Their price will fix the upper limit of both their commercial utility to the seller and their commercial disutility to the buyer. Land-forms, therefore, acquire all the elements of value and cost, and are amenable to all the laws of the market. The distinctive conditions, however, which tend to govern the prices of land-forms as to whether they shall be high or low are not the same as those which tend to govern the prices of labor-forms. In fact, the tendencies of their respective prices are in opposite directions. The prices of land-forms tend to increase, while the prices of labor-forms tend to diminish as population in any given territory increases. The reason of this is that an increase of population within a fixed territory tends to develop a one-sided market as to land-forms, and a general market as to labor-forms. In one case the tendency is for the price to be fixed by the necessities, and in the other by the indifference of the marginal buyer.

For the sake of brevity and clearness we have hitherto assumed the presence of normal economic conditions. The definitions which we have developed, however, apply to abnormal conditions, also, subject to necessary qualifications. For instance, a labor-form may sell upon the market at less than the cost of production, or, as we would express it, its value may be less than its disvalue. In such case, the point of exchange will lie below the point of positive utility, and the disutility will more than cancel

the utility. And since the disvalue will exceed the value, there will be a loss instead of net value to the seller.

Such abnormal conditions can not long persist. In the ordinary course of business the value must be sufficiently great to create a net value, or the producer will cease his efforts. It is well to note in this connection, moreover, that neither the cost of present production nor the cost of present reproduction of the particular labor-form determines its price. The price, as we have seen, is determined partly by the disutility of like labor-forms to the marginal producer, and partly by their utility to the marginal buyer, the tendency, in a general market, being toward the latter. For just as the price in such a market is fixed independently of any particular buyer or seller above the margin, so it is fixed independently of the industrial disutility, past or present, of any particular labor-form above that produced and purchased by the marginal pair. The industrial disutility of particular labor-forms even at the margin must be less than the market price, or their production will cease; but once they are produced and put upon the market they will sell, if at all, at the price fixed by their utilities and disutilities to the marginal pair. As we have already seen, a labor-form is not produced in the economic sense until it is put upon the market. An ax is not produced when it is completed at the factory. It must, under the present system, be boxed or crated, and then carted and shipped, first to the wholesaler, and then to the jobber, and finally to the retail dealer, to be exposed by him for sale to the final consumer. All the men so handling the ax prior to its final sale are pro-

ducers. Exchange is just as truly a part of the economic process of production as industry. A seller, economically speaking, is a producer.

If it be true, as the theory which we have developed maintains, that value is essentially a limited or measurable portion of utility, that its lower limit is fixed by the point of disutility, and its upper limit by the point of exchange, which, in turn, is determined by the utilities and disutilities of the marginal pair, then it behooves Economic Science to inquire into all the conditions which may surround or affect the men who produce and purchase at the margin. For if they are the determiners of value, cost and price, then all economic research must extend to them and not exhaust itself in a study of those conditions which chiefly surround those who are farthest from the margin. And if it be true that the practical problems of industry arise from man's attempt to secure the greatest net value with the least exertion, and that net value lies between two movable points—the point of positive utility and the point of exchange—then it behooves the economist of a practical era to examine critically all those means by which each of these points may be raised or lowered. And since under the theory herein discussed the ultimate end and aim of the problems of Economics is the acquisition and enjoyment of net value and net salvage, by seller and buyer, respectively, the questions of value, cost and price, and the means by which they may be manipulated, become of supreme economic importance both to the individual and to society.