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XI

SOCIAL VALUE

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SOCIAL VALUE

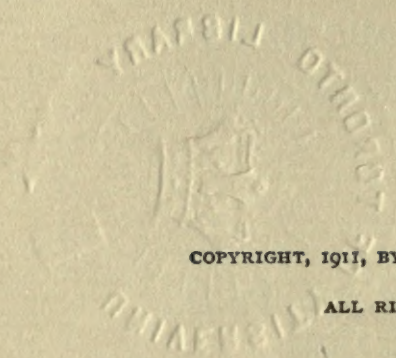
A STUDY IN ECONOMIC THEORY
CRITICAL AND CONSTRUCTIVE

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TO MY FATHER
BENJAMIN M. ANDERSON
OF COLUMBIA, MISSOURI
MY FIRST TEACHER OF
POLITICAL ECONOMY

PREFACE

THIS series of books owes its existence to the generosity of Messrs. Hart, Schaffner, and Marx of Chicago, who have shown a special interest in directing the attention of American youth to the study of economic and commercial subjects, and in encouraging the systematic investigation of the problems which vitally affect the business world of to-day. For this purpose they have delegated to the undersigned Committee the task of selecting topics, making all announcements, and awarding prizes annually for those who wish to compete.

In the year ending June 1, 1910, the following topics were assigned: —

1. The effect of labor unions on international trade.
2. The best means of raising the wages of the unskilled.
3. A comparison between the theory and the actual practice of protectionism in the United States.
4. A scheme for an ideal monetary system for the United States.
5. The true relation of the central government to trusts.

6. How much of J. S. Mill's economic system survives?
7. A central bank as a factor in a financial crisis.
8. Any other topic which has received the approval of the Committee.

A first prize of six hundred dollars, and a second prize of four hundred dollars, were offered for the best studies presented by class A, composed chiefly of graduates of American colleges.

The present volume was awarded the second prize.

PROFESSOR J. LAURENCE LAUGHLIN,
University of Chicago, Chairman.

PROFESSOR J. B. CLARK,
Columbia University.

PROFESSOR HENRY C. ADAMS,
University of Michigan.

HORACE WHITE, ESQ.,
New York City.

PROFESSOR EDWIN F. GAY,
Harvard University.

A NOTE

THE following study is the outgrowth of investigations in the "Quantity Theory" of money, carried on in the seminar of Professor Jesse E. Pope, at the University of Missouri, during the term 1904-5. That a satisfactory general theory of value must underlie any adequate treatment of the problem of the value of money, and that there is little agreement among monetary theorists concerning the general theory of value, became very evident in the course of this investigation; and that the present writer's conception of value, as expressed in a paper written at that time on the "Quantity Theory," was not satisfactory, became painfully clear after Professor Pope's kindly but fundamental criticisms. The problem of value, laid aside for a time, forced itself upon me in the course of my teaching: my students seemed to understand the treatment of value in the text-books used quite clearly, but I could never convince myself that I understood it, and the conviction grew upon me that the value problem really remained unsolved. Hence the present book. It was begun in Dean Kinley's seminar, at the University of Illinois, in the term 1909-10. The first three parts, in substantially their present form, and an outline sketch of the germ idea of the fourth part, were submitted, in May of 1910, in the Hart, Schaffner & Marx

Economic Prize Contest of that year. Part IV was elaborated in detail, and minor changes made in the first three parts, during the year 1910-11, at Columbia University. The book is submitted as a doctor's dissertation to the Faculty of Political Science of that institution.

My obligations to others in connection with this book are numerous. I cannot refrain from thanking my old teacher Professor Pope, in this connection. I owe my interest in economic theory, and the greater part of my training in economic method, to the three years I spent in his seminar at Missouri. I am also indebted to him for substantial aid in the critical revision of the proofsheets. At the University of Illinois, Dean Kinley and Professors E. L. Bogart and E. C. Hayes were of special service to me, as was also Mr. F. C. Becker, now of the department of philosophy at the University of California. Dean Kinley, in particular, criticized several successive drafts, and made numerous valuable suggestions. My chief obligations at Columbia University are to Professors Seligman, Seager, John Dewey, and Giddings. My debt to Professors Seligman and Dewey is, in part, indicated in the course of the book, so far as points of doctrine are concerned. Both have been kind enough to read and criticize the provisional draft, and Professor Seligman has supervised the revision at every stage. My wife's services, in criticism, in bibliographical work, and in the mechanical labors which writing a book involves, have been indispensable.

It is due Professor J. B. Clark, since I discuss

his theories here at length, to mention the fact that, owing to his absence from Columbia University during the year 1910-11, I have been unable to talk over my criticisms with him, and so may have misinterpreted him at points. Of course, there is a similar danger with reference to every other writer mentioned in the book, but the reader will not be likely to think, in the case of others, that the interpretations have been passed on by the writers discussed, in advance of publication. I must also mention here Professor H. J. Davenport, whose name occurs frequently in the following pages. Chiefly he has evoked criticism in this discussion, but it goes without saying that his *Value and Distribution* is a most significant work in the history of economic theory, and my indebtedness to it will be manifest.

THE AUTHOR.

COLUMBIA UNIVERSITY,
May, 1911.

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PART I
INTRODUCTION

SOCIAL VALUE

CHAPTER I

PROBLEM AND PLAN OF PROCEDURE

RECENT economic literature has had much to say about "social value." The conception, while not entirely new,¹ has become important only of late years, chiefly through the influence of Professor J. B. Clark, who first set it forth in his article in *The New Englander* in 1881 (since reproduced as the chapter on the theory of value in his *Philosophy of Wealth*). The conception has been found attractive by many other American

¹ The value concept of Marx is not, strictly speaking, a social value concept. Cf. Pareto, V., *Cours d'Économie Politique*, vol. I, p. 32. Rodbertus, however, has a doctrine of social use value, based on the organic conception of society. "Nemlich so: es gibt nur Eine Art Werth und das ist der Gebrauchswerth. . . . Aber dieser Eine Gebrauchswerth ist entweder individueller Gebrauchswerth oder *socialer* Gebrauchswerth. . . . Der zweite ist der Gebrauchswerth, den ein aus vielen individuellen Organismen bestehender *socialer Organismus* hat. . . . Damit glaube ich also bewiesen zu haben, dass der Tauschwerth nur der historische Um- und Anhang des socialen Gebrauchswerths aus einer bestimmten Geschichtsperiode ist. Indem man also dem Gebrauchswerth einen Tauschwerth als logischen Gegensatz gegenüber stellt, stellt man zu einem logischen Begriff einen historischen Begriff in logischem Gegensatz, was logisch nicht angeht." From a letter to Adolph Wagner, published by Wagner in the *Zeitschrift für die Gesammte Staatswissenschaft*, 1878, pp. 223-24. Wagner indicates his approval of this concept, though he makes little use of it, in his *Grundlegung der politischen Oekonomie*, Leipzig, 1892, pp. 329-30. Ingram, in his *History of Political Economy* (New York, 1888), although he takes no account of social value theories of other writers, suggests one of his own — which is, however, a vague one, mixing technological, ethical, and economic categories. See p. 241.

writers, however, and has become familiar in many text-books, and in periodical literature. Among those who have used the conception may be named: Professors Seligman, Bullock, Kinley, Merriam, Ross, and C. A. Tuttle.¹ Gabriel Tarde, the brilliant French sociologist, has independently developed a social value doctrine, different in many respects from that of the Americans named, which we shall later have occasion to consider.²

In its most definite form, the theory asserts that the value of an economic good is determined by, and precisely accords with, the marginal utility of the good to society, considered as a unitary organism. Professor Clark, as is well known, makes use of the analysis of diminishing utility in an individual's consumption of goods in much the same fashion that Jevons does, but while Jevons makes this simply a step in the analysis of market ratios of exchanges, Professor Clark treats it as analogical, representing *in*

¹ Seligman, E. R. A., *Principles of Economics*, New York, 1905, especially pp. 179-82 and 192-93. Bullock, C. J., *Introduction to the Study of Economics*, especially pp. 162-64. There is no attempt at a psychological treatment in this work, and no clear statement of the meaning of the concept, social. Kinley, David, *Money*, New York, 1904, pp. 125-26. The social value conception runs through the book. Merriam, L. S., "The Theory of Final Utility in its Relation to Money and the Standard of Deferred Payments," *Annals of the American Academy*, vol. III; "Money as a Measure of Value," *ibid.*, vol. IV; an unfinished study in the same volume, pp. 969-72, described by Professor J. B. Clark. Ross, E. A., "The Standard of Deferred Payments," *ibid.*, vol. III; "The Total Utility Standard of Deferred Payments," *ibid.*, vol. IV. These articles by Professors Ross and Merriam were written in the course of an interesting controversy between the gentlemen named. Tuttle, C. A., "The Wealth Concept," *ibid.*, vol. I; "The Fundamental Economic Principle," *Quarterly Journal of Economics*, 1901.

² See chapter XII.

parvo what society does, as an organic whole, on a bigger scale.¹

The precise relation of social value to social marginal utility is variously stated by the writers named: for Professor Clark, value is the *measure* of effective, or marginal, utility;² for Professor Seligman, social value is the *expression* of social marginal utility;³ for Professors Ross, Merriam, and Kinley, value *is* that social marginal utility itself.⁴ These statements are more different in words than in ideas, though some significance is to be attached to Professor Seligman's formulation, as will later appear.

This conception is a bold one. It has, moreover, never been adequately developed or criticized. Its friends have found it a convenient and useful working hypothesis, and Professor Clark, especially, has built a great system upon it, but, with the exception of an article in the *Yale Review* of 1892,⁵ has made no serious efforts, either to make clear its full meaning, or to vindicate it — except that, of course, his whole system may be considered such a vindication. Professor Seligman, in an article in the *Quarterly Journal of Economics*, vol. xv, and also in his *Principles of Economics*, has espoused the conception, and has shown how, assuming its truth, a great many

¹ See especially Professor Clark's *Essentials of Economic Theory*, New York, 1907, pp. 41-42.

² See especially *The Philosophy of Wealth*, 1892 ed., pp. 73-74.

³ *Principles*, pp. 179-82.

⁴ The general references for Ross and Merriam have been given *supra*. Cf. p. 62 of Dean Kinley's *Money*.

⁵ "Ultimate Standard of Value." This article is substantially the same as chap. xxiv of *The Distribution of Wealth*, New York, 1899.

antagonistic theories may be harmonized; but he, also, has failed to treat it with that detail which full demonstration requires. In particular, he has omitted a treatment of the problem of the relation between the value of a good for the individual and for society, and the relation between individual and social marginal utility.¹ The most searching investigation of the theory has come from unfriendly critics, among whom may be especially named Professor H. J. Davenport, and Professor J. Schumpeter of Vienna.²

For the purposes of this discussion, Professor Clark will be considered as the representative of

¹ In his discussion of social value in the *Principles*, Professor Seligman modifies a statement made in his article, "Social Elements in the Theory of Value" (*Quarterly Journal of Economics*, vol. xv). The two discussions are parallel in part, the former being based upon the latter. The passage quoted is from the *Q. J. E.* article, pp. 323-24. The same passage is essentially reproduced in the *Principles* (first edition, p. 180), with the exception of the passages in italics: "I not only measure the relative satisfaction that I can get from apples or nuts, but the quantity of apples I can get for the nuts depends upon the relative estimate put upon them by the rest of society. *Some individuals may prize a commodity a little more, some a little less; but its real value is the average estimate, the estimate of what society thinks it is worth.* If an apple is worth twice as much as a nut, it is only because the community, after comparing and averaging individual preferences," etc. The conception of social value as an average of individual values is withdrawn in the second treatment, and no substitute is offered for it.

² Davenport, "Seligman, 'Social Value,'" *Journal of Pol. Econ.*, 1906; *Value and Distribution*, Chicago, 1908. This last work reproduces, in abridged form, the article on Professor Seligman, in a footnote, pp. 444 *et seq.* Schumpeter, "On the Concept of Social Value," *Q. J. E.*, Feb., 1909; "Die neuere Wirtschaftslehre in den Vereinigten Staaten," *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich*, 1910, pp. 913 *et seq.* In the last-named article (p. 925, n.) Professor Schumpeter indicates that his objection to the social value concept relates not so much to the question of fact as to the question of method. The English article in the *Quarterly Journal* contains Schumpeter's fullest treatment of the topic.

the Social Value School, for the most part, though attention will be given to some of the other writers named as well. It is worth while, consequently, to make clear at this point the relation between Professor Clark and the Austrian School, with which he is sometimes associated by economic writers. His extensive use of the marginal principle, his use of the term, "utility," and his deduction of value from utility, seem to place him at one with them. Professor Clark has pointed out, however, in the preface to the second edition of his *Philosophy of Wealth*, that his theory is to be distinguished from that of Jevons by "the analysis of the part played by society as an organic whole in the valuing processes of the market." And the Austrians, for their part, have rejected the conception that value and social marginal utility coincide, or that society, as an organic whole, puts a value on goods. Thus, Böhm-Bawerk: —

Man pflegt den objektiven Tauschwert im Gegensatz zu dem auf individuellen Schätzungen beruhenden subjektiven Wert häufig auch als den *volkswirtschaftlichen Wert* der Güter zu bezeichnen. Ich halte diesen Gebrauch für nicht empfehlenswert. Zwar wenn man durch ihn nichts anders hervorheben wollte, als dass diese Gestalt des Wertes nur in der Gesellschaft und durch die Gesellschaft hervortreten könne, dass er also das volks- und sozialwirtschaftliche Wertphänomen *per eminentiam* sei, so wäre dagegen nichts zu erinnern. Gewöhnlich mischt sich aber mit jener Benennung auch die Vorstellung, dass der Tauschwert der Wert sei, den ein Gut *für* die Volkswirtschaft habe. Man deutet ihn als ein über den subjektiven Urteilen der einzelnen stehendes Urteil der Gesellschaft, welche Bedeutung ein Gut für sie im ganzen habe; gewissermassen als

Werturteil einer objektiven höheren Instanz. Dies ist irreführend.¹

Equally emphatic is Wieser: —

The ordinary conception, which makes price the social estimate put upon goods, has to the superficial judgment the attraction of simplicity. A good A whose market price is £100 is not only ten times as dear as B whose market price is £10, but it is also absolutely and for every one ten times as valuable. In our conception the matter is much more complicated. . . . Price alone forms no basis whatever for an estimate of the economic importance of the goods. We must go further and find out their relation to wants. But this relation to wants can only be realised and measured individually. . . . And the question how it is possible to unite those divergent individual valuations into one social valuation, is one that cannot be answered quite so easily as those imagine who are rash enough to conclude that price represents the social estimate of value.²

Sax, likewise, expresses his dissent: —

Da für die exacte Forschung die Psyche einer fabelhaften Collectiv-Persönlichkeit nicht existirt, so kann der Ausgangspunkt unserer Untersuchung auch wieder nur der Individualwerth sein.³

Whatever the worth of the conception of social value, it is not the same as the Austrian theory. It is proper to remark here that these strictures of the Austrian writers are probably directed, not against Professor Clark, but rather against the social use-value concept as it had appeared in Germany, in the writings, say, of Rodbertus, and

¹ Böhm-Bawerk, "Grundzüge der Theorie des wirtschaftlichen Güterwerts," Conrad's *Jahrbücher*, N. F., Bd. XIII, 1886, p. 478.

² *Natural Value*, p. 52, n.

³ Sax, Emil, *Grundlegung der theoretischen Staatswirtschaft*, Vienna, 1887, p. 249.

of Adolph Wagner, who accepts Rodbertus' notion.¹

It may be well, at the outset, for the writer to define his own position briefly. We shall find the notion of social marginal utility, and the companion notion of social marginal cost (considering the latter as a "real cost," or pain-abstinence cost, concept), unsatisfactory and unilluminating. Social marginal utility, as a determinant of value, cannot be the marginal utility of a good to some particular individual who stands out as *the* marginal individual in society, nor can it be an average of individual marginal utilities, nor a sum of individual marginal utilities, nor any other possible arithmetical combination of individual marginal utilities, if our conclusions are true. For the term, social marginal utility, we can find only a vague, analogical meaning, if any at all, unless we identify it outright with social value, in which case it is a superfluous term, which itself not only explains nothing, but rather presents complications which call for explanation. We shall find no use for the social utility concept in our analysis. On the other hand, we shall find the conception of social value a necessity for the validation of economic analysis, and a conception which present-day psychological and sociological theory abundantly warrant us in accepting.

I do not desire, at the outset of a comparatively short book, to anticipate my arguments in detail, but a statement of the plan of procedure

¹ See *supra*, p. 3, note 1.

may aid the exposition somewhat. I shall first, through an examination of the logical necessities of economic theory, and of the function of the value concept in economics, set up certain logical and formal qualifications for an adequate value concept. Then I shall examine the efforts made by current theories of value to attain such a value concept, by means of the elements of individual utilities, individual costs, or combinations of the two, and show that such procedure gets into invincible logical difficulties. We shall find the source of these difficulties in the faulty epistemology, psychology, and sociology which constitute the avowed or implicit presuppositions of the economic theory of to-day. Criticizing these faulty presuppositions, we shall endeavor to reconstruct them in the light of later epistemological, psychological, and sociological doctrine, and then, on the basis of the new presuppositions, we shall endeavor to develop a truly organic doctrine of social value, and to link it with what seems valuable — that is to say, the greater part — in the economic theory of to-day.

PART II
CRITIQUE OF CURRENT VALUE THEORY

CHAPTER II

FORMAL AND LOGICAL ASPECTS OF THE VALUE CONCEPT

The study of wealth is meaningless, unless there be a unit for measuring it. The questions to be answered are quantitative. . . . Reciprocal comparisons give no sums. . . . Ratios of exchange alone afford us no answer to the economist's chief inquiries.¹

THIS quotation from Professor Clark raises an issue which we must examine in detail. Professor Clark proceeds, pointing out the need for a homogeneous element, among the diversities of the physical forms of goods, capable of absolute measurement, if goods are ever to be added together, or a sum of wealth obtained. Money, on the surface of things, affords this common standard, but "the thought of men runs forward to the power that resides in the coins." This power is effective social utility, the quantitative measure of which is value. Elsewhere in his writings,² Professor Clark insists on the conception of value as a quantity, an absolute magnitude, and he consistently makes use of this conception. All of the exponents of the social value concept named, except Professor Seligman, follow him in this, and it may be considered an essential feature of the theory. Marginal utility

¹ Clark, J. B., "Ultimate Standard of Value," *Yale Review*, 1892, p. 258.

² *E. g.*, *The Philosophy of Wealth*, chap. v.

is a definite quantity, social marginal utility is a definite quantity, and value, if conceived as identical with social marginal utility, or as the quantitative measure of it (the difference is verbal, for present purposes, at least), must be so considered. A *ratio of exchange*, then, is a ratio between two quantities of social marginal utility, or social value, rather than between two physical objects, and *price*, in this view, is a particular sort of ratio of exchange, namely, one where one of the terms of the ratio is the social marginal utility, or the social value, of the money unit.

It is important to contrast value as thus conceived, in its formal and logical aspects, with other historical conceptions of value. In the classification which follows, the writer has by no means attempted an exhaustive list. Definitions of value are very numerous, but it is not necessary to list them all, since many differ, not so much in their logical or formal aspects, as in the theory of the origin of value which the definition is made to include. There are two principles of classification which will be used, however, which, used in a cross-classification, will enable us to exhibit the contrasts of most importance for present purposes.

The first line of cleavage is between the conceptions which treat value as an ethical ideal, often different from the market fact, and those which accept the value which is expressed in prices in the market as the "real or true" value for economic science. The mediæval conception of the *justum pretium* belongs to the first class,

as does also the conception of President Hadley: "The price of an article or service, in the ordinary commercial sense, is the amount of money which is paid, asked, or offered for it. The value of an article or service, is the amount of money which may properly be paid, asked, or offered for it."¹ And the value theory of Karl Marx, though differing from either of these in points, is yet like them in this one respect: value and price do not necessarily agree for Marx. The value of a thing for him depends on the "socially necessary" labor embodied in it, while some things, as land, command a price in the market, even though embodying no labor.² Opposed to this group of theories are, doubtless, the greater part of present-day writers, who, while differing among themselves at many points, would insist that value is a fact, and not an ideal.

The second line of division is between the conceptions of value as a quantity and value as a ratio, or, to put the thing more generally and more accurately, between the value of a thing as a definite magnitude, independent of exchange relations, and that value as a relative thing, not only *measured* by the process of exchanging, but

¹ *Economics*, p. 92. See also the article by President Hadley on "Value" in Baldwin's *Dictionary of Philosophy*, etc., and "Misunderstandings about Economic Terms," *Yale Review*, vol. iv, pp. 156-70. The same ideas are expressed in all.

² Some of my socialist friends object to the interpretation of Marx given above. I feel strengthened in my position here by finding the same view expressed by Conrad in his *Grundriss*, etc., 4te Aufl., Bd. 1, pp. 17-18. Professor O. D. Skelton's admirable *Socialism* (Hart, Schaffner & Marx Series, 1911) comes to hand while the proof sheets of the present volume are being revised. Cf. his interesting chapter on the Marxian theory of value.

also caused by it, and varying with the value of the things with which the article is compared. Professor Clark and his followers belong in the second group of the first classification, and in the first group of the second classification. The social value of which they speak is a fact, and not an ideal (though Professor Clark has often been interpreted as teaching that the fact corresponds closely with an ideal), and social value as treated by them (noting the exception of Professor Seligman, who does not follow Professor Clark closely), is an absolute magnitude.¹ Karl Marx and Henry George agree with them upon this latter point. Value is a quantity, and not a mere relation, for both.² Wieser would concur here.³

Professor Carver, in a recent article in the *Quarterly Journal of Economics*,⁴ insists on the conception of value as a quantity. Gabriel Tarde states the matter illuminatingly in a passage in his *Psychologie Économique*:⁵ —

¹ Seligman, *Principles*, pp. 184-85. See also Taylor, W. G. L., "Values, Positive and Relative," *Annals A. A.*, vol. ix, pp. 70-106. Taylor, who follows Professor Clark largely, accepts the conception of social value as a quantity.

² Marx, *Capital and Capitalistic Production*, London, 1896, pp. 2-4. George, *Science of Political Economy*, New York, 1898, chap. xi.

³ *Natural Value*, p. 53, n.

⁴ "The Concept of an Economic Quantity," *Q. J. E.*, May, 1907. Professor Carver insists on the quantitative nature of value, taking as his point of departure the point made *infra*, p. 27, with reference to money as a measure of values. But it is not clear that he has entirely freed himself from the conception of relativity, for he continues to speak of value as "purchasing power" (pp. 438-39), and this term has usually the relative, rather than the absolute, significance. Cf. his use of the term "purchasing power" in his *Distribution of Wealth*, 1904, pp. 51-52, where the *relativity* of value is insisted on as a basis for a criticism of Professor Clark's amendment of the Austrian theory.

⁵ Paris, 1902, vol. I, p. 63.

Value is a quality which we attribute to things, like color, but which, like color, exists only in ourselves. . . . This quality is of that peculiar species of qualities which present numerical degrees, and mount or descend a scale without essentially changing their nature, and hence merit the name of quantities.

On the other hand, the doctrine of relativity has characterized the teachings of the English School, of the Austrians (except Wieser), and of many of the more eclectic followers of each in this country. It will appear later that this relative conception follows naturally from their individualistic method of approaching the subject. The essence of the relative conception of value, whether defined as "power in exchange," or "ratio of exchange," or, with Professor Fisher,¹ and others, as a quantity of goods to be got in exchange, comes out in the statement, so common

¹ Fisher, Irving, *The Nature of Capital and Income*, New York, 1906, pp. 13 *et seq.* Ely, R. T. (and others), *Outlines of Economics*, New York, 1908, pp. 156-57. Professor Ely uses the term in a different sense on pp. 99-100; and on the pages first cited indicates that value, defined as a quantity of other goods, is to be distinguished from subjective value. But "subjective" (individual) value would hardly serve as an equivalent for the value described on pp. 99-100. There are, in fact, four pretty distinct uses of the term value to be found in Professor Ely's discussion, inadequately distinguished, and often confused in the treatment: (1) homogeneous quality among the diversities of the physical forms of wealth, by virtue of which a sum of wealth may be obtained (99-100); (2) ratio of exchange (156); (3) quantity of goods obtained in exchange (157); (4) subjective utility (157 and *ante*); and a fifth meaning is indicated for market value on pp. 358-59, where, in explaining the law of rent for pleasure grounds and residence sites, the "general law of value" is declared to be that value measures *marginal utility*. Cf. the confusions of utility and demand pointed out *infra*, chapter v. This loose treatment of the value concept, while doubtless accentuated by the fact that four men have cooperated in the production of the book, is too much characteristic of most of the text-books. There is even to-day little uniformity or agreement as to what value means.

in the text-books, that, while there can be a general rise or fall of *prices*, there cannot be a general rise or fall of *values*, since a rise in the value of one good implies a corresponding fall in the value of all other goods. The incompatibility of the two opposing conceptions comes out strikingly here: if value be an absolute magnitude, then there *can* be a general rise or fall of values without disturbing exchange ratios at all — 12:6::6:3. All values might be cut in half, or multiplied by any factor, and, provided all decreased or increased in the same degree, exchange relations would not change.

Now this difference is fundamental. Vastly more than terminology and definition is involved. Is value a quantity or a relation? Is value a thing which determines causally exchange relations, or is value determined causally by them? To the writer, the former conception seems a logical necessity. Value as merely relative is a thing hanging in the air. There is a vicious circle in reasoning if, when I ask you what the value of wheat is, you refer me to corn, and then when I ask you the value of corn, you refer me again to wheat. And if you put in intermediate links, even as many links as there are different commodities in the market, the circle still remains: the value of A is its power over, or its ratio with, B; the value of B its relation to C; the value of C . . . its relation to Z; and the value of Z, the last in the series, must come back to its relation to one of those named before. This circle is noted and sharply criticized by Wieser:¹ —

¹ *Natural Value*, p. 53, n.

Theorists who have confined themselves to the examination of exchange value, or, what comes to the same thing, of price, may have succeeded in discovering certain empirical laws of changes in amounts of value, but they could never unfold the real nature of value, and discover its true measure. As regards these questions, so long as examination was confined to exchange value, it was impossible to get beyond the formula that value lies in the relation of exchange; — that everything is so much more valuable the more of other things it can be exchanged for. . . . Absolutely and by itself, value was not to be understood. It is significant of this conception to state that one thing cannot be an object of value in itself; that a second must be present before the first can be valued.

Theory has only very gradually shaken itself free from this misconception, this circle. Where an absolute theory was attempted — such as the labour theory, or that which explained value as usefulness — some logical leap generally reconnected it with the relative conception.

Now the validity of this reasoning might be admitted, in so far as it applies to “Crusoe economics” — though Professor Seligman, with strict consistency, insists that even there value arises from a comparison in Crusoe’s mind of apples with nuts¹ — by those who would object

¹ *Principles of Economics*, p. 183. Professor Seligman in the *Q. J. E.* article (*supra*, p. 6, note 1) indicates that Pantaleoni expresses a similar thought (*Pure Economics*, London, 1898, p. 127). This idea is elaborated by Professor Georg Simmel, *Philosophie des Geldes, Erster Teil, Kap. 2*. (A translation of this chapter, under the title, “A Chapter in the Philosophy of Value,” appears in the *American Journal of Sociology*, vol. v, pp. 577–603. The translation was made from the author’s manuscript, before the publication of the book, and does not exactly correspond with the chapter as published by Simmel.) Simmel’s contention is that, even for an isolated economy, value arises from exchange, and that exchange is essential to it. Every value is relative to some other value. But to develop this conception, “exchange” is distorted into a variety of meanings. In one place, exchange takes place between an isolated man and his environment. It makes no difference to him whether he is exchanging with other men or with the order of nature (*Phil. des Geldes*, p. 34). But later,

to its application to value in society. Value there, it would be insisted, is determined through exchange, and does not have any meaning except as a ratio between physical commodities.¹ But

exchange is declared to be "a sociological structure *sui generis*" (*ibid.*, p. 56). Again, only in the vaguest sort of sense is exchange used in this expression, "*wo wir Liebe um Liebe tauschen*" (*ibid.*, p. 33). Yet all these meanings are forced in to fit the exigencies of the argument. The doctrine of cost is brought in, and the exchange is between individual cost and individual utility, and an equality between them is insisted upon, despite the well-known phenomenon of "consumer's surplus." This emphasis on *equality* in exchanges is stressed especially on p. 31, and economic activity is said to derive its peculiar character from a consideration of these equalities in abstraction.

The gist of Simmel's argument comes out in the following: "The object is not for us a thing of value so long as it is dissolved in the subjective process as an immediate stimulator of feelings." Desire must encounter obstacles before a value can appear. "It is only the postponement of an object through obstacles, *the anxiety lest the object escape* [*italics mine*], the tension of struggle for it, which brings into existence that aggregate of desire elements which may be designated as intensity or passion of volition." Value is conditioned upon a "distance between subject and object" (*A. J. S.*, 589-90). — I waive for the moment Simmel's apparent insistence upon the element of conscious desire as essential to value, though I shall attack that doctrine in a later chapter on the psychology of value. It is enough to point out here that this "distance between subject and object" is adequately present, that there is surely "anxiety lest the object escape," if only the object be sufficiently limited in supply, independently of the existence of other objects so limited. — Simmel undertakes to meet this objection by holding that "scarcity, purely as such, is only a negative quantity, an existence characterized by a non-existence. The non-existent, however, cannot be operative" (*Phil. des G.*, p. 57). — But the scarcity, I would reply, is not, as he holds, "the quantitative relation in which the object stands to the aggregate of its kind" (*A. J. S.*, p. 592), but is rather a relation between the object and our wants. A bushel of wheat would be a scarcity, a bushel of diamonds a superabundance, for a man. There is a positive thing here, not a mere "non-existence," and that positive thing is the *unsatisfied want*. Cf. Pareto, *Cours d'Économie Politique*, vol. I, p. 34.

See further, on the psychology of value, chapter x, and on Professor Seligman's theory of the relativity of value, chapter xvi, of the present volume.

¹ Laughlin, J. L., *Elements of Political Economy*, rev. ed., copyright 1902, p. 18: "Value . . . is a ratio between two objective articles." See also Professor Laughlin's rejoinder to Clow's "The Quantity Theory and

even here, it seems to me, the same reasoning must hold. We really do not find a ratio between physical commodities at all. Four gallons of milk exchange for one dollar, or 23.22 grains of gold. The exchange ratio is four to one. But milk is in units of liquid measure; gold in incommensurable units of Troy weight. The ratio, 4:1, is not on the basis of any physical commensurability. If any physical basis of comparison be taken, whether weight, or bulk, or length, or more subtle and less easily measurable physical qualities, the ratio would be found very different. But 4:1 is the market ratio. Now a quantitative ratio is between commensurable quantities. Gold and milk must be, then, commensurable quantities, *i.e.* must have a common *quality*, present in each in definite quantitative degree, before comparison is possible, or a ratio can emerge. This quality is *value*. The difficulty, from the standpoint of logic, is only covered up, and not avoided, if we say with Professor Davenport,¹ "Value is a ratio of exchange between two goods, *quantitatively specified*." [Italics mine.] For the quantitative specification depends on the extent to which the homogeneous quality is present in each of the goods, or, if we assume that the quantitative specification is made before the question of exchange ratio is raised, then the exchange ratio will vary with the extent to which the common quality is present in each of the

its Critics," *Journal of P. E.*, 1902, where Professor Laughlin insists that exchange value is "something physical." Professor Davenport, *Value and Distribution*, Chicago, 1908, p. 569, defines value similarly.

¹ *Value and Distribution*, p. 569.

goods. We can have no quantitative ratios between unlike things. And yet, we must have terms for our ratios. The situation here is not unlike the situation that arises when we compare two weights. We have no unit of weight in the abstract. Weight never appears as an isolated quality, but always along with other qualities, as extension, color, and the like. And when we compare weights, we really compare two heavy objects, and make our weight ratio between the object to be weighed and the physical standard of weight. Nor does value ever appear as an isolated quality. And we have no unit of abstract value which we can apply abstractly in a measurement. Instead, we choose some valuable object, as 23.22 grains of gold, and make our ratio between the given quantity of gold and the object whose value we wish to measure. But we must not forget that this is merely a symbol, a convenient mode of expression, and that the fact expressed is something different — that the real terms of our ratios are so many units of abstract weight, or of abstract value, as the case may be. Otherwise conceived, the ratio itself is meaningless: it has no terms. We have four to one up in the air, not four units of something to one unit of something. The abstract ratio is a thing for pure mathematics, and not a thing for economics. An economic ratio must have “economic quantities” as terms.¹

¹ Professor Davenport, caught between two apparently invincible logical difficulties, accepts this situation frankly, as, seemingly, the only thing possible. See *Value and Distribution*, p. 184, n. The ratio has no terms for him.

The difficulty with the doctrine we are maintaining arises from the difficulty of isolating and defining this quality of value. It is not a quality "inherent" in the good (whatever "inherent" may mean). It does not arise from the simple relation between our senses and the object, or even from an intellectual elaboration thereof. It rather grows out of the relation between our emotional-volitional life and the object, and the definition of this relation, and the determination of the quality, have been so difficult, that some writers, as Professor Davenport,¹ have explicitly given it up as a hopeless task, and have determined to content themselves with the surface facts of relativity. But there is no logical resting place in those surface facts. Relativity implies *things* related, ratios must have quantitative *terms*, additions require *homogeneous* quantities to make up a sum.

Some further distinctions are necessary. When we say "absolute magnitude," we do not mean a magnitude which stands out of all relations to other facts in the universe. There is no intention of setting up a metaphysical absolute here. The terms "positive" and "relative" (suggested by Professor Taylor)² might serve our purpose better, except for the fact that we wish to reserve the term "positive value" to contrast with "negative value" at a later stage of our discussion. Our objection to the relative conception of value really gives our value more, rather than less

¹ *Value and Distribution*, pp. 330-31.

² "Values, Positive and Relative," *Annals*, vol. ix.

relations. Instead of allowing its relation to one particular thing, namely, some other good with which it happens to be compared, to determine its amount, we insist that that relation is so much a minor matter that it can generally be ignored, and that the significant relations — a very numerous set of relations indeed, as we shall later see! — are of another sort. The contention is that value is absolute only in this sense: its amount is not determined by the particular exchange ratio in which it happens to be put, and is not changed *eo ipso* every time a new comparison is made.

Further, it is in the process of exchange, and by the method of comparison, that the value of goods becomes quantitatively *known*, as a rule. That is to say, we find out precisely *how much* value a good has by comparing it in exchange with some other good. In this respect, value is again like other qualities. We measure lengths, weights, cubic contents of objects, all by comparison, direct or indirect, with other objects. But the amount of water in a vessel is not changed when we put it into a measure, and determine how many gallons of it there are. Nor is the amount of value in a good *causally* determined by the process of exchange.¹ We must distinguish between two confused meanings of the word “determine.” It may mean “to cause,” and it may mean “to find out” or “to measure.” We must

¹ It is, of course, recognized that exchange modifies value in so far as exchange is a *productive* process. But the essential thing here is the *transfer* aspect of exchange, which would hold even in a communistic society where value relations might be found out by some process other than exchange.

distinguish, in Kantian phrase, between the “*ratio essendi*,” and the “*ratio cognoscendi*.” Value and evaluation are two distinct things. Value, to anticipate a later part of the study, is primary, and grows out of the action of the volitional-emotional side of human-social life; evaluation is secondary, and is the intellectual process devoted, not to *giving* value, but to *finding out* how much value there is in a good. This distinction between the existence of a quantity, and our precise knowledge of its amount, is brought out by several writers, among them, General F. A. Walker,¹ and the keen mathematical economists, Pareto² and Edgeworth.³

There are two further arguments for the propriety of this conception, considered primarily as a question of terminology, to be drawn from usage in the treatment of other terms. The first is drawn from a consideration of the function of the value concept in economic science,⁴ and of its relation to the concept of wealth. “The notion of value is to our science what that of energy is to mechanics,” says Jevons.⁵ It is clear that a mere abstract ratio, which Jevons two pages later declares value to be, cannot serve such a purpose. Abstract ratios are subject-matter for mathematics, not for economics. “Wealth and

¹ *Political Economy*, New York, 1888, p. 84.

² *Cours d'Économie Politique*, vol. I, pp. 8–9.

³ Edgeworth, F. Y., *Mathematical Psychics*, London, 1881, chapter on “Unnumerical Mathematics,” pp. 83 *et seq.*

⁴ A fuller discussion of the functions of the value concept is given in chapter XI where this argument is materially strengthened. The points here made, however, seem adequate.

⁵ Jevons, *Principles of Economics*, 1905 (posthumous), p. 50.

value differ as substance and attribute.” (Senior, quoted with approval by F. A. Walker.¹) With this view, Marx² would concur. “Wealth is that which has value,” Professor Laughlin states.³ Clearly a qualitative attribute, and not a ratio, must be indicated here, even though Professor Laughlin elsewhere in the book defines value as a “ratio between two objective articles.”⁴ And if we take a definition like that of Professor Seligman, who defines wealth in terms which entirely ignore the ideas of comparison and exchange as consisting of those things which are (1) capable of satisfying desire, (2) external to man, and (3) limited in supply,⁵ we find no basis for insisting on relativity, exchange and comparison, as essential to the idea of value, which is the essential and distinguishing characteristic of wealth. The science loses in coherency from this diversity of definition. The second argument is similar. Current economic usage speaks of money as a “measure” of values. Professor Seligman uses the expression in the chapter on money in the book referred to. But the point made by General Walker against this expression, when value is defined as a ratio, is absolutely valid. He says: —

¹ Walker, *op. cit.*, p. 5.

² Marx, *op. cit.*, vol. I, chap. I.

³ Laughlin, *Elements*, p. 77. Cf. also, Ely, *op. cit.*, 99-100.

⁴ *Ibid.*, p. 18. It is interesting to note that Professor Irving Fisher so defines wealth and value as to divorce the two concepts. Wealth includes free human beings, who cannot be exchanged, while the idea of value is derived from that of price, which, in turn, comes from the ideas of exchange and transfer. (*Nature of Capital and Income*, chap. I.)

⁵ *Principles*, pp. 8-11.

I apprehend that this notion of money serving as a common measure of value is wholly fanciful; indeed, the very phrase seems to represent a misconception. Value is a relation. Relations may be expressed, but not measured. You cannot measure the relation of a mile to a furlong; you express it as 8:1.¹

Only on the basis of a definition of value as a quantity is it proper to speak of a "measure of values."²

I conclude that the value of a thing is a quantity, and not a ratio. It is a definite magnitude, and not a mere relation. What sort of a quantity remains to be seen.

¹ *Money*, p. 288.

² Cf. Kinley, *op. cit.*, Merriam, *loc. cit.*, and Carver, "The Concept of an Economic Quantity," *loc. cit.* Cf. also, Laughlin, *Money*, 1903, pp. 14-16; and Davenport, *Value and Distribution*, p. 181, n.

CHAPTER III

VALUE AND MARGINAL UTILITY

THE method of Jevons and the Austrians, and, for that matter, of the great majority of value theorists, including even the social value school, in seeking the determinants of value, is to start with individual "utilities" or psychic "costs" directly connected with the consumption or production of goods. Such a study, if confined to an isolated individual economy, or if confined to an ideal communistic economy, like that for which Wieser works out his laws of "natural value," seems to yield us quantities of "utility," which may properly be called values, or quantities of sacrifice which may be properly treated as exactly measuring values.¹ But when applied to a competitive society, or to any society where there are inequalities among men in their power to attain the gratification of their wants, it yields us, not quantities of value, but only particular ratios between such quantities, or prices. An examination of the Austrian procedure will make this clear.

If the Austrian analysis be taken as meaning anything more than a method of determining surface ratios of exchange, difficulties at once arise.

¹ This statement must be qualified, as subsequently appears. Even in Wieser's "natural" community, there are psychic factors in value other than mere utility. See chap. XIII, *infra*.

What quantitative relation is there between the satisfaction which an individual man gets from a good and the value of that good? What quantitative relation does the sacrifice, in terms of dissatisfactions endured and satisfactions foregone, of the individual producer bear to the value of his product? Now in thus positing the problem, I wish to distinguish it clearly from another problem, namely: what is the quantitative relation between psychic satisfaction, subjective individual value, and psychic cost, connected with the commodity, in the mind of some hypothetical "normal" man, and market value in a hypothetical market, where only "normal" men are found, and where there is an equality of wealth among these men? The problem is a concrete one: how are the actual desires and aversions of living men and women, no one of them "normal" perhaps, living in a world where inequalities of wealth are everywhere manifest, *quantitatively* related to value in the market?

Let us consider the inadequacy of the old Austrian analysis for this quantitative determination. I assume, without trying to prove here, the homogeneity and commensurability of human desires and aversions. (The Austrians, be it noted, do not explicitly postulate this, and Jevons, as will later be noted, rejects it, but it is necessary for Wieser's argument, and Böhm-Bawerk implies it clearly enough in places.¹)

¹ For further discussion of this doctrine, see chapters IV and VIII of this book. Böhm-Bawerk, *Positive Theory*, p. 149, n., says: "One gives donations, charities, and the like, when the importance of such, measured by their marginal utility, is very much higher as regards the well-being

This does not mean that any two men have, necessarily, the same desire for any particular good, or the same aversion from any particular piece of work, but simply that the desires and aversions of one man are comparable with those of another, and may be fractions or multiples of them, even though not exactly equal. My object in this assumption is to justify the use of the concept of *units* of desires and aversions, which are not the desires and aversions of a hypothetical "normal" man, but are some particular concrete desire and some particular concrete aversion of any man you choose to take. Now let us assume the market as treated in the usual Austrian analysis (somewhat simplified): five men have horses to sell, and five buyers appear in the market also.

	A	B	C	D	E
Sellers will take:	\$20	\$30	\$40	\$50	\$60
Buyers will give:	\$60	\$50	\$40	\$30	\$20

of the receiver than as regards that of the giver, and almost never when the converse is the case." The assumption that emotional states in different minds can be compared is very clear in this passage. Cf. Veblen, Thorstein, "Professor Clark's Economics," *Q. J. E.*, Feb., 1908, p. 170, n.: "Among modern economic hedonists, including Mr. Clark, there stands over from the better days of the order of nature a presumption, disavowed, but often decisive, that the sensational response to the like mechanical impact of the stimulating body is the same in different individuals. But, while this presumption stands ever in the background, and helps to many important conclusions, . . . few modern hedonists would question the statement in the text" [*i.e.*, that comparison of emotional intensity in one man's mind with emotional intensity in another man's mind is impossible]. In the light of the psychological doctrine which I shall maintain in the chapter on the psychology of value, this whole question will seem beside the point, considered as a psychological question. But my interest here is in making clear the psychological implications of the Austrian theory, as I wish for the present to consider their theory on their own ground.

Price is then fixed at forty dollars. Now if all these men were "normal" men, and if all had equal wealth, we could say here, *marginal utility = value*. But such is not the case in real life. Our marginal buyer and marginal seller may be as different as you please. Let us assume that the marginal buyer is a very rich man: forty dollars is to him a bagatelle: surrendering it means one unit of cost to him: he has, further, many horses: he has no special use in mind for the horse he is on the margin of buying: it has one unit of utility to him. The marginal seller, we will assume, is a poor country boy: the horse is one he has raised himself: he has a personal affection for it, and it is immensely useful to him: it has two hundred units of utility to him, and to give it up means two hundred units of sacrifice: but he needs the forty dollars pressingly: it has two hundred units of utility to him. Is marginal utility equal to value here? If so, marginal utility to whom? But this does not exhaust the difficulties of the analysis — if the analysis be designed to show anything except what a particular *price* is, and the utility theorists, when very careful, do not always claim to do more than that.¹ But *price* is not *value*.

We take up now, as an additional point designed to show that marginal utility to an individual is not the same as value, Professor Clark's clean-cut analysis amending the Austrian theory

¹ Böhm-Bawerk and Wieser are certainly seeking an objective value, but Jevons and Pareto are concerned simply with the ratio. See Wieser, *Natural Val.*, p. 53, n. Jevons, Pareto, and Böhm-Bawerk are discussed, with reference to this point, in chap. iv.

which we shall call "Clark's Law."¹ A detailed statement of this law is not necessary here, but its main meaning may be outlined, and its demonstration left to Professor Clark himself. Any good, except the poorest and simplest, is a complex, giving several distinct services. Thus, an automobile gives the service of transportation (a cart would do that); of comfort (a spring-buggy, with top, would do that); of elegance and social distinction (a carriage would do that); of speed and exhilaration (only an automobile can do this last, and the others as well). Now each of these services Professor Clark considers as a distinct economic good, and he constructs a demand curve for each of them. The service of transportation would be worth \$5000 to the marginal buyer of automobiles, if he could not get it for less, but then, he is not the marginal user of carts, and he gets the cart service for what the marginal buyer of it pays, say \$10. The comfort element would be worth \$3000 to him, but he is not the marginal buyer there, and he gets it for what the marginal buyer of buggies pays for a buggy, less the \$10 for the mere transportation-service of the buggy, say \$100 less \$10, or \$90. For the service of elegance and social distinction, he would pay \$4000, but then he does not have to do so, for he is not the marginal buyer of carriages, and he gets this additional service for \$800, less the price of the preceding two services, or less \$100. For the

¹ This law is first set forth by Professor Clark in an article in the *Q. J. E.*, vol. VIII, "A Universal Law of Economic Variation." See, also, *The Distribution of Wealth*, pp. 210-45. A brief exposition of the doctrine is found in Seligman, *Principles*, 1905, pp. 185-88.

additional service of speed and exhilaration he is the marginal demander, and his margin fixes the price, say \$2000, for that service. Now his automobile — and he is the marginal buyer, and he buys only one — gives him satisfaction far in excess of that measured by the price he pays for it. The automobile, economically considered, is several distinct services bundled together, worth to him \$5000 plus \$3000 plus \$4000 plus \$2000. But he pays for the automobile only \$2800, or less than he would have paid even for the first service. Now by the Austrian definition the price of anything is determined by its utility to the marginal user. And marginal utility is the *total* utility of the marginal unit consumed. The total utility of this marginal automobile, to this marginal user, would balance \$14,000 in his mind, and this, by the Austrian analysis, ought to be the price. But the price is \$2800. Marginal utility determines price? Marginal utility to whom? Not to the marginal buyer! To whom, then? Professor Clark says, to *society*, without further defining what he means by that, except in general terms of social organism, etc. But it seems to me clear that, except on the basis of some such conception, we shall have to give up the idea that marginal utility determines price, and say rather that price is something with which marginal utility has something to do! And the quantitative relation between the feeling of any individual and *value* has become very uncertain indeed.

CHAPTER IV

JEVONS, PARETO AND BÖHM-BAWERK

IN the foregoing analysis, the assumption of the homogeneity and communicability of human wants was made. Only on this assumption could value as a quantity of utility appear even in Wieser's "natural" community. How hopeless the case becomes when individualistic methods and assumptions are pushed to the extreme, will appear from a consideration of Jevons and Pareto, both of whom insist on the entirely subjective and incommunicable nature of human wants. Thus, Jevons:¹ —

I see no means by which such a comparison [between the motives of one man and those of another] can be accomplished. The susceptibility of one mind may, for what we know, be a thousand times greater than that of another. But, provided that the susceptibility was different in a like ratio in all directions, we should never be able to discover the difference. Every mind is thus inscrutable to every other mind, and no common denominator of feelings seems to be possible. . . . But the motive in one mind is weighed only against other motives in the same mind, never against the motives in other minds. Each person is to other persons a portion of the outside world — the *non-ego* as the metaphysicians call it. Thus the motives in the mind of A may give rise to phenomena which may be represented by motives in the mind of B; but between A and B there is a gulf. Hence the weighing of motives must always be confined to the bosom of the individual.

¹ *Theory of Political Economy*, 3d edition, p. 14.

This question as to the homogeneity and communicability of emotional states in different men is one fundamental to any value theory which starts with individual feelings or desires as elements — and, indeed, from a somewhat different viewpoint, is fundamental to all value theory. Value, as a concrete quantity of desire or feeling, embodied in a given good at a given time, regardless of who is purchaser and who is seller, can exist only if feelings and desires are homogeneous and can interact — even in Wieser's ideal society, where the complication of differences in wealth does not obtain. And value must have some very different meaning unless this assumption be held. In illustration of this, I wish to quote further from Jevons. Jevons finds for value¹ three distinct meanings, for each of which he employs both a "popular" and a "scientific" name: (1) value in use ("popular" name) = total utility ("scientific" name); (2) esteem, or urgency of desire ("popular" name) = final degree of utility ("scientific" name); (3) purchasing power ("popular" name) = ratio of exchange ("scientific" name). Now the first two of these are purely subjective, individual facts, varying as to their quantities for each individual. The only one that can have social meaning is the third, and that, as Jevons explicitly states, is a numerical ratio, an abstract number.² This is brought out very clearly when he discusses the question of the concrete dimensions of these three quantities. Total utility has dimen-

¹ *Op. cit.*, pp. 76-84.

² *Ibid.*, p. 83.

sions, and so has final utility, but ratio of exchange, which he considers the precise scientific equivalent for the popular term, purchasing power, has no dimension at all. Its dimension is zero. Finding these ambiguities in the word value, Jevons proposes to abandon it altogether, and to use instead either of the three expressions discussed, depending on which sense of the word value is intended.¹ He can find no definite meaning for value as an unqualified term. Now in this I believe he is correct. Economic value is not total utility to an individual, nor marginal utility to an individual, nor is it a mere ratio of exchange. If no other meaning of the term can be found — and no other meaning *can* be found on Jevons's psychological assumptions — then the term should be abandoned altogether.

Pareto's position² is essentially similar. "Ophelimity" (which he uses in place of the more ambiguous "utility" to mean what Jevons means by the latter term) "is an entirely subjective quality." (4.) "On ne doit pas oublier que le vigneron établit l'égalité des deux ophélimités pour lui, et que le laboureur fait de même, mais qu'il n'y a aucun rapport entre l'ophélimité du vin pour le vigneron et pour le laboureur, ni entre l'ophélimité du blé pour le vigneron et pour le laboureur. Il faut toujours se rapeller ce caractère subjectif de l'ophélimité." (21.) Now no quantity of value, irrespective of the particular

¹ *Op. cit.*, p. 81.

² *Cours d'Économie Politique*, vol. I, pp. 1-40. The numerals in the text refer to pages in this volume.

holder of the good, emerges for Pareto. Value is either a "*rapport de convenance*" between a man and a good, i.e., ophelimity, or is a "*taux d'échange*," a ratio between two goods. (30.) The older term, "*puissance d'achat*," power in exchange, which John Stuart Mill makes synonymous with value in exchange, is, at bottom, nothing but a vague conception of ophelimity. (30.) The two conceptions, ratio of exchange and ophelimity, are to be sharply distinguished, power in exchange is ruled out as a vague and confused conception, and value as an objective quantity does not appear at all.

Davenport, who recognizes clearly "the rich-man-poor-man complication,"¹ and avoids, for the most part, the confusion into which others have fallen, of mixing a demand-price curve and a utility curve (a confusion dealt with in detail in the next chapter), and who accepts the psychological assumption of subjective isolation unreservedly,² reaches, as already indicated, the same conclusion regarding the nature of value. For him there is no social validity in value except as a ratio of exchange.³

The same may be said for Böhm-Bawerk, so far as his formal analysis goes. It is true that he recognizes the existence of an "objective value in exchange"⁴ in addition to "subjective value"

¹ *Value and Distribution*, p. 444.

² Professor Davenport's attitude on this point we shall discuss more fully in chapter VIII.

³ *Ibid.*, pp. 184, n., and 330-31.

⁴ It is not wholly clear whether or not Böhm-Bawerk means his "objective value in exchange" to be considered as an absolute or as a relative concept. His formal definition ("Grundzüge der Theorie des wirtschaft-

and "subjective value in exchange," and in addition to price,¹ but he makes no effort to exhibit its nature, or to show its origin. His study has to do with individual subjective ratios, between the marginal utilities of two goods, and the market ratio, or price, that results from the meeting of these individual ratios — *not utilities* — in the market. The nature of his objective exchange value is expected to become clear, somehow, from this surface determination of price: —

Exchange Value is the capacity of a good to obtain in exchange a quantity of other goods. Price is that other quantity of goods. But the laws of these two coincide. So far as the law of price explains that a good actually obtains such and such a price, and why it obtains it, it affords at the same time the explanation that the good is *capable*, and why it is capable, of obtaining a definite price. The law of Price, in fact, contains the law of Exchange Value.²

lichen Güterwerts," Conrad's *Jahrbücher, N. F.*, XIII, 1886, p. 5) is as follows: "Hierunter ist zu verstehen die objective Geltung der Güter im Tausch, oder mit anderen Worten, die Möglichkeit für sie im Austausch eine Quantität anderer wirtschaftlicher Güter zu erlangen, diese Möglichkeit als eine Kraft oder Eigenschaft der ersteren Güter gedacht." The concluding phrase would seem to point to an absolute conception, as would also his criticism of the expressions, "ratio of exchange," "*Austauschverhältnis*," and "*Tauschfuss*" (*Ibid.*, p. 478, n.): "Diese Ausdrücke haben nämlich eine Nuance an sich, die es unmöglich macht, sie sprachlich den Gütern als Eigenschaft beizulegen, oder von einer grösseren oder geringeren Höhe derselben zu sprechen." But, on the other hand, his identification of the concept, "objective value in exchange," with the term "power in exchange" of the English economists (in both the passages referred to) would seem to make the relative implication in the concept unavoidable, and perhaps there is no point to raising the question. His criticism of Hermann in the *Capital and Interest* (p. 203) is based on the relative conception of value. Cf. our discussion of the practical usage of the Austrians in chapters XI and XVIII.

¹ Whether price be defined as a quantity of goods given for a good, or as the ratio between the two quantities of goods exchanged, is for present purposes immaterial.

² *Positive Theory*, p. 132.

But (as will be elaborated more fully in chapter VI), Böhm-Bawerk's law of price does not explain the *why* any more than do those of Jevons and Pareto, and the assumption that an "objective value in exchange" exists, in addition to the ratio of exchange and the subjective values, might just as logically be added to their systems as to his, with the assumption that the problem of its nature and causes had been cleared up. The Austrian analysis, even with Professor Clark's correction, is simply an explanation of the *modus operandi* of the determination of *particular* ratios in the market. It tells us nothing of quantitative values, and, in fact, assumes a whole system of values already predetermined, before the question of any particular price can be approached.¹

¹ See chapter VI, *infra*.

CHAPTER V

DEMAND CURVES AND UTILITY CURVES

MUCH of the foregoing would be needless were it not for the fact that there has been, and is, in the writings of the Austrians and those who have followed them, a confusion of two very different things: on the one hand, the curve of utility for a single individual of a given good, measured in terms of money, on the assumption that the marginal utility of money remains constant to him; and, on the other hand, the demand-price curve of that commodity for a whole community or a "trading body,"¹ made up of many individuals, differing in wealth and in tastes.² The former curve does express a diminishing scale of absolute feeling-magnitudes,³ concerned with the consumption of the good. The latter does not. The latter is not necessarily a diminishing utility curve at all, for the poor man whose price offer is lowest may easily desire the good more intensely than does the rich man whose demand price is highest. These confusions, in the writings of Böhm-Bawerk and Wieser, especially, have been adequately commented on by Pro-

¹ See Jevons, *Theory of Pol. Econ.*, 3d ed., pp. 88-90; 95-96.

² See, especially, Pareto, *op. cit.*, vol. I, pp. 36-37.

³ Our question here is primarily a *logical*, and not a *psychological*, one, else I should choose a different term from "feeling-magnitude." For the present, I am accepting the Austrian psychology, and attacking the Austrian logic. Cf. the chapter in this work on the psychology of value.

fessor Davenport,¹ who adheres pretty carefully throughout to the distinction drawn above, and to the strictly individualistic, subjectivistic conception of price determination, with its correlate of relativity. Jevons's confusion on this point has been noted by Marshall.² It is amazing, really, when one sets about to find them, how numerous are the occasions on which leading economists have been guilty of this confusion — a confusion that utterly vitiates very many of the conclusions based upon it. In truth, Professor Davenport is not far wrong when he asserts that “the general understanding of Austrian theory has come to be that it explains market value by marginal utility, and resolves market value into marginal utility.”³

To go through the roll of the economists in pointing out this confusion is a needless task here, but a few representative names must be called, in addition to those mentioned above. Thus, Pierson:⁴ —

There is nothing to prevent our treating a group of persons as a unit, and examining the position which commodities occupy in relation to that unit. If we do this, we shall see that the above diagram [the regular diminishing utility diagram of Jevons], depicting the position which they occupy in many cases in relation to the individual, must depict the position which they occupy in a still larger number of cases in relation to the group. And the truth of this statement is greater in proportion to the size of the group.

¹ *Op. cit.*, pp. 300, 312, 313 *et seq.*, 320, 325, n., 327, 328, n., 329, and chap. xvii.

² *Principles*, 1898 ed., p. 176.

³ *Op. cit.*, p. 300.

⁴ *Principles of Economics*, London, 1902, p. 57.

Similar confusions appear in Professor Patten's *Theory of Prosperity*, in a number of places.¹ President Hadley's discussion of "Speculation" falls into this confusion, also.² Professor Ely's confusion on this point is instanced in his *Outlines of Economics*, 1908 edition, pp. 358-59.³ Schaeffle, in his *Quintessence of Socialism*,⁴ treats utility as if it were demand. With Professor Flux it seems more a deliberate identification than an unconscious confusion, as he recognizes very clearly the complication which differences in wealth bring in, and yet none the less declares, "The measure of the exchange value is, then, the utility which is on the margin of not being realized, or the marginal utility," and "The series of marginal-demand-prices, corresponding to all the varied possible scales of supply, register, in fact, the utility of the marginal supply for each such scale."⁵ It is somewhat disheartening, however, to find Professor Marshall, who has pointed out the confusion on the part of Jevons, allowing his marginal notes to speak of "utility and cost" when the body of the text, to which they refer, is discussing demand and supply.⁶ And still more disheartening to find Professor Davenport, at the

¹ Page 18, "The consumption of all the individuals in a community or nation can also be represented by this diagram if their feelings, sentiments, and habits are nearly enough alike to create a normal type." — A statement which is defensible only if "habits" be stretched to include incomes! See, also, pp. 28 (diagram) and 82.

² *Economics*, 1904 ed., pp. 101-104.]

³ See *supra*, p. 17, n.

⁴ English edition, London, 1889, pp. 90-91.

⁵ Flux, A. W., *Economic Principles*, London, 1904. Compare pp. 4, 29, and 27.

⁶ *Principles*, 1907 ed., pp. 348-50.

end of his cautiously written volume, marked throughout by the greatest clearness of thought, and by especially painstaking care in the criticism of this confusion in the writings of others, saying: —

Limitation upon the supply of goods relatively to the need gives value. Thus value in producible goods is ultimately explained by human desires over against a limitation of supply due either to the shortage of instrumental goods or to the irksomeness of effort, or to both.

With great esteem for good singing, and with the rarity of good singers, the high gains of prima donnas find sufficient explanation.

This, as a separate, unqualified proposition in the "Summary of Doctrine,"¹ is hardly to be counted anything but a *lapsus*, even though recognition is later accorded to the necessity of backing up "utility" with "purchasing power."

But it cannot be too strongly insisted, in the first place, that only particular ratios, market relations, can come out of the individualistic analysis of satisfactions of consumption and dissatisfactions of production, and that, in the second place, these ratios, and this relativity, are but surface explanations, that point to, and are based upon, something underlying and definite — without which they would be hanging in the air.²

¹ *Op. cit.*, p. 569.

² As shown in chapter II. An interesting illustration of this general conclusion as to the significance of the results based on the individualistic analysis is found in the reformulation of the law of marginal utility by Professor Irving Fisher in his "Mathematical Investigations in the Theory of Value and Prices," *Trans. of the Connecticut Academy of Arts and Sciences*, vol. IX, p. 37. The theory of marginal utility in relation to prices

"is not, as sometimes stated: 'the marginal utilities to the same individual of all articles are equal,' much less is it: 'the marginal utilities of the same article to all consumers are equal;' but *the marginal utilities of all articles CONSUMED [capitals mine] by a given individual are proportional to the marginal utilities of the same series of articles for each other consumer, and this uniform continuous ratio is the scale of prices for those articles.*" This conception of Professor Fisher's is clear as far as it goes, but it by no means explains the action of individual desires upon prices. It rather explains how an already established set of prices controls individual *expenditure* and *consumption*. Compare, however, Böhm-Bawerk's view, "Grundzüge," Conrad's *Jahrbücher, N. F.*, XIII, 1886, pp. 516 *et seq.*

CHAPTER VI

THE VICIOUS CIRCLE OF THE AUSTRIANS

THE great and permanent service of the Austrian analysis is in the fact that it looks for the explanation of value — a psychical fact — in human minds. Its essential defect is that it takes only a small part of the human mind for that explanation. It makes two abstractions, neither of which is allowable: first, it abstracts the “individual mind” from its vital and organic union with the social *milieu*; and second, it abstracts from the “individual mind” thus abstracted, only those desires and thoughts which are immediately concerned with the consumption and production of economic goods — really, in the narrower analysis of “market price,” only those concerned with the consumption of economic goods. Now it is at once conceded that a science, in explaining its phenomena, must ignore some of the relations which those phenomena bear to other phenomena. No science is called upon to link its facts with all the other facts in the universe. Some abstraction,¹ much abstraction, is legitimate and necessary. Where to draw the line is often a perplexing question,

¹ The extreme abstraction of the utility school is made very clear by Pareto, *op. cit.*, introductory chapter. He is concerned only with “the science of ophelimity” (p. 6), and ophelimity is a “wholly subjective quality” (p. 4).

and I do not intend to lay down a general rule here. But there is one familiar canon which the Austrians have violated in drawing the line so narrowly as they have done: we must include enough in our *explanation* phenomena to enable us to explain our *problem* phenomenon in terms other than itself. Concretely, in explaining value, we have not solved the problem if the explanation assumes value. Rather, we are reasoning in a circle. Now have the Austrians done this? Wieser explicitly rejects the older circle in the *definition* of value,¹ which made the value of A equal to what it would exchange for, B, the value of B being in turn equal to what it would exchange for, namely, A, and does point out that the value of a good must be treated as an absolute thing, independent of the particular exchange that happens to be made. He even works out an explanation of value in purely psychical terms,² as it would exist in a hypothetical individual economy, or in a hypothetical "natural" communistic society, where all men's wants are equally regarded. But when the Austrians come to the explanation of value as it exists in society as actually organized, the attempt to explain value in terms of individual desires for economic goods (or individual aversions in connection with their production) fails, and a circle again emerges: Why has the good, A, value? Because men desire it? No, that is not enough: the men who

¹ See *supra*, chap. II.

² But as later indicated (*infra*, chap. XIII), the apparent simplicity of his analysis simply covers up, and does not eliminate, the complexity of the situation.

desire it must have other economic goods, i.e., wealth, with which to buy it. And why will these other goods buy it? Because they have *value*! For the power is proportioned, not to the quantity of their wealth in pounds or yards or other physical units, but simply to its amount in *value*. — The explanation of the value of these goods then becomes another problem, for which the Austrian analysis can offer only the same solution, with the same circle in reasoning, and the same problem of value at the end. This circle is made explicit in Wieser's treatment: —

The relation of natural value to exchange value is clear. Natural value is one element in the formation of exchange value. It does not, however, enter simply and thoroughly into exchange value. On the one side, it is disturbed by human imperfection, by error, fraud, force, chance; and on the other, by the present order of society, by the existence of private property, and by the differences between rich and poor, — as a consequence of which latter a second element mingles itself in the formation of exchange value, namely, *purchasing power*.¹ [*Italics mine.*]

This *purchasing power* can only be either the inaccurate name of the English School for value itself, or else a consequence of the possession of goods which have value in the sense in which Wieser uses the term value, in the note on page 53 of his *Natural Value* already quoted.² The circle becomes still more explicit in Hobson.³ Hobson attempts to coördinate the Austrian theory with the older cost theory, and in this connection gives a table analyzing the forces that lie

¹ *Op. cit.*, pp. 61–62.

² See *supra*, chap. II.

³ *Economics of Distribution*, p. 81.

back of value, or "importance," from the supply side, and from the demand side. And there, apparently oblivious of the obvious circle, he places "purchasing power" as one of the ultimate factors on the demand side! If the Austrian analysis attempt nothing more than the determination of particular prices, one at a time, on the assumption that the transactions are, in each particular case, so small as not to disturb the marginal utility of money for each buyer and seller, and on the assumption that the values and prices of all the goods owned by buyers and sellers are already determined and known, except that of the good immediately in question, it is clear that it but plays over the surface of things. If it attempt more it is involved in a circle.

CHAPTER VII

PROFESSOR CLARK'S THEORY OF SOCIAL VALUE

AND all attempts to explain value in terms of these abstract factors must become similarly entangled. The Austrians themselves have pointed out that the explanation of value from the standpoint of individual costs involves a circle, that costs resolve themselves into value-complexes, and that the cost theorists are really explaining value by value.¹ I have shown that the same is true of the Austrian attempt to reduce values to terms of individual utilities. It is also true of Hobson's attempt to combine the two explanations, as shown, and the same could be shown of at least the earlier writings of Professor Marshall.² There is another attempt to work out the explanation of value, still in terms of sacrifices in production and satisfactions in consumption, but no longer from the same standpoint, which deserves special attention here. Professor Clark, in the *Yale Review* for 1892, in the article above referred to, "The Ultimate Standard of Value" (since reproduced as chapter xxiv of the *Distribution of Wealth*), has attempted so to add up individual units of cost and individual units of

¹ See *inter alia* Böhm-Bawerk, "Ultimate Standard of Value," *Annals of the American Academy*, vol. v; also his "Grundzüge," p. 516, n.; Wieser, *op. cit.*, bk. v.

² See Laughlin, J. L., "Marshall's Theory of Value and Distribution," *Q. J. E.*, vol. 1, pp. 227-32. See also Marshall's reply in the same volume.

utility, as to get absolute social units of utility and cost either of which might serve as the ultimate standard of value. It will be remembered that I have already quoted from this article with reference to the quantitative nature of value, and that Professor Clark stands as the leading exponent of the conception that value is a social fact, "is social and subjective," the value put on goods by the social organism. In this article, he is seeking the unit of social value, the measure of the importance of a good to society. Either the unit of social utility or the unit of social detriment would serve, but it happens, he holds, that the unit of detriment is the more available for purposes of measurement, and so the final unit¹ of value is the sacrifice entailed by a quantity of distinctively social labor (p. 261). Professor Clark avoids the complication that labor and capital work together, by isolating labor at the margin, in the manner made familiar in his *Distribution of Wealth*. Assume capital constant, introduce or subtract a small quantity of labor, and whatever of product is added or subtracted is due to that labor only (p. 263).

This virtually unaided labor is the only kind that can measure values. Attempts to use the labor standard have come short of success, because of their failure to isolate from capital the labor to which products are due.

Work, however, is miscellaneous and heterogeneous. There is needed "a pervasive element

¹ There is a needless complication here. For Professor Clark's purposes it is not necessary to seek a *unit* of value; what is needed is simply a vindication of the quantitative social value concept. The unit may then be arbitrarily chosen — *e.g.*, the amount of value in 23.22 grains of gold. Cf. the discussion of abstract units of value, *infra*, chap. xvii, pp. 183-84.

in the actions, and one that can be measured." This is "personal sacrifice," which is "common to all varieties of labor." An isolated worker, making and using his own products, readily finds an equilibrium point, where utility and sacrifice are equal, and where he stops his day's work (pp. 364-65). If the product of any hour's labor be destroyed (p. 366) he will not suffer the loss of anything more important than the product of the last hour's labor, for he will forego that, and re-create the good with the higher utility. The utility of the last hour's product and the pain of the last hour's labor are equal. Either is his *unit of value*.

Of society regarded as a unit the same is true.

Take away the articles that the society gains by the labor of a morning hour, — the necessary food, clothing and shelter that it absolutely must have, — and it will divert to making good the loss the work performed at the approach of evening, which would otherwise have produced the final luxuries on its list of goods.

(It might be questioned parenthetically here whether *all* are fed before *any* begin to enjoy luxuries, or, if not, just what is considered the "socially necessary" amount of food, and whom does social necessity require that we feed before we devote an hour to making luxuries?) Professor Clark finds the final hour of social labor-pain to be a compound, the sum of the final hour's dissatisfactions of all the laborers. This sum is the *ultimate standard of value*. It is in equilibrium with the sum of the utilities of the final hour's products to all the laborers considered as consumers. This

is illustrated by a diagram on page 271. But the problem still remains as to the value of particular goods. Granted that the sum of the satisfactions got from the total amount — a vast amount — of the final hour's product is equal to the sum of the pains incurred in producing this giant composite, and granted that the pain incurred by each man in making his part of the composite is equal to the satisfaction gained by him in consuming his part of the composite — *not the same part!* — the problem still remains as to the connection of the marginal utility and the value of the *particular* goods that make up the composite, with social labor. Professor Clark concedes at once that there is no necessary connection between the utility of the good to him who enjoys it, and the pain of making it to him who makes it. What connection is there, then, between the value of the good and social labor? It is at this point, I venture to suggest, that Professor Clark's argument fails. I shall not follow his argument in detail, but shall quote a couple of paragraphs which seem to exhibit the failure (pp. 272-73): —

The burden of labor entailed on the man who makes an article stands in no relation to its market value. The product of one hour's labor of an eminent lawyer, an artist, a business manager, etc., may sell for as much as that of a month's work of an engine stoker, a seamstress or a stone-breaker. Here and there are "prisoners of poverty," putting life itself into products of which a wagon load can literally be bought for a prima donna's song. Wherever there is varying personal power, or different position, giving to some the advantage of a monopoly, there is a divergence of cost and value, if by these terms we mean the cost to the

producer, and the value in the market. Compare the labor involved in maintaining telephones with the rates demanded for the use of them. Yet of monopolized products as of others our rule holds good; they sell according to the disutility of the terminal social labor expended in order to acquire them.

But suppose they are *bought* with monopolized products, and suppose that a monopoly element enters, at some stage or other, into *every* product of the market, and in varying degrees in each, either in the form of control of raw material, or special native mental or physical aptitude, or patent right, or any other of the innumerable forms that monopoly takes? Can these monopoly products then call forth a definite amount of social labor? Or can they merely call out a definite amount of value? ¹ “*Differences in wealth between different producers cause the cost of products to vary from their value.*” (Italics mine.) But surely this is our old circle again. If differences in wealth, which is the embodiment of value, are to modify the working of the “pervasive element” of “personal sacrifice” (p. 263), it is difficult to see

¹ The issue appears to be shifted here. If an ultimate *cause* of value is being sought, it is certain that labor does not supply it for the monopolized goods; and if it be simply a *measure* of the amount of value embodied in the monopolized goods that is looked for, then it is clear that goods produced entirely by competitive labor (assuming that such goods exist, which I deny) can fulfill this function only by virtue of being themselves *valuable* — and that they serve this purpose no better than other goods into which a monopoly element enters. The doctrine here criticized goes back to Ricardo: “If the state charges a seignorage for coinage, the coined piece of money will generally exceed the value of the uncoined piece of metal by the whole seignorage charged, *because it will require a greater quantity of labour, or, which is the same thing, the value of the produce of a greater quantity of labour, to procure it.*” (Italics mine.) Ricardo, *Works*, McCulloch edition, 1852, p. 213.

how that pervasive element can in any way be an ultimate explanation or measure of value.

The rich worker stops producing early, while the sacrifice entailed is still small; but his product sells as well as if it were costly.

If we say that the prices of things correspond with the amount and *efficiency* of the labor that creates them, we say what is equivalent to the above proposition. The efficiency that figures in the case is power and willingness to produce a certain effect. The willingness is as essential as the power. . . . Moreover, the effect that gauges the efficiency of a worker is the value of what he creates; and this value is measured by the formula that we have attained.

But surely the circle is very clear here: the price (the expression of the value) of the good depends on the efficiency of the labor that produces it; and the efficiency of the labor depends on the value (of which price is the expression) of the good produced. Our "pervasive element" is complicated, as a determinant of social value, with several factors, among them *the value of the wealth of the different producers*, and the efficiency, which can be defined only in terms of *value product*, of the workers. Value is an ultimate in the explanation of value, and the effort to make individual costs and utilities an ultimate explanation of value has failed — as it must needs fail — even in the hands of Professor Clark.

The validity of this criticism, assuming it valid, in no way invalidates Professor Clark's contention that value is, after all, the work of the social organism, and that the value of a good, at a given time, measures its importance to the social organism at that time. The difficulty with the

analysis just criticized is that it has not been an analysis of an organic process, but rather, a mathematical study of sums. The individuals have been treated, not as interacting in their mental processes, but as isolated atoms, each of whom has a definite individual *quantum* of pain or pleasure, and the social unit of pain or pleasure has been treated as simply a sum of these. But it is characteristic of an organism that the simple rules of arithmetic do not hold precisely in its activity. The whole is more than the sum of its parts, and something different from that sum. Professor Clark elsewhere says: —

But the owner is a part of the social body, and is the organic whole indifferent to his suffering? If so, society is an imperfect and nerveless organism. It ought to feel, as a whole, the sufferings of every member, and what makes or mars the happiness of every slightest molecule, should make or mar the happiness of all.

A sympathetic connection between members of society exists, etc.¹

True: and indicative of the true line of study for the conception of value as a product of an organic society. But in the foregoing analysis we have no hint of “nerves” or social sympathy or other manifestation of a collective mental activity. The “social psychology” promised on page 261 of the article just reviewed, turns out not a social psychology at all, but simply a summation of the results of many individual psychologies. But the line along which the true nature of value is to be found is clearly indicated in the

¹ *Philosophy of Wealth*, 1892 ed., p. 83.

general conception of the psychological organic unity of society, and it remains for the present writer to make use of the studies in social psychology of Tarde, Cooley, Baldwin, and others,¹ not available, for the most part, when Professor Clark's article was written, in an effort to get nearer the heart of the problem.

The doubly abstract conceptions of individual costs and individual satisfactions, connected with economic goods,—abstracted first from the social *milieu*, and second, from the rest of the individual's interests and desires,—lead us around in a circle, from value to value, but never to anything else. It is the belief of the writer that we get out of the circle only by broadening our explanation phenomena, by giving up these abstractions, and getting back to the concrete reality of the total intermental life of men in society.

¹ Tarde, *The Laws of Imitation ; Psychologie Économique*, 2 vols., Paris, 1902. Cooley, C. H., *Human Nature and the Social Order ; Social Organization*. Baldwin, Mark, *Social and Ethical Interpretations*. Elwood, C. A., *Some Prolegomena to Social Psychology*, Chicago, 1901; "The Psychological View of Society," *American Journal of Sociology*, March, 1910. Hayden, Edwin Andrew, *The Social Will*, 1909. No attempt is made at an exhaustive list here, nor are the writers mentioned to be held accountable for the views maintained in the text, though their point of view is in general that which I shall maintain.

PART III
THE PRESUPPOSITIONS OF ECONOMIC
THEORY

CHAPTER VIII

THE PHILOSOPHICAL AND PSYCHOLOGICAL PRESUPPOSITIONS

THE connection between social philosophy, on the one hand, and metaphysics and epistemology on the other hand, has always been a close one, — a fact not always adequately recognized by writers in the field of social science, in economics, especially. Scientists often “ignore” philosophy, holding that their concern is simply with the world of phenomenal “facts,” and that the injection of philosophic considerations is illicit and unscientific. And this is often well enough in the field of the physical, chemical, and biological sciences, where the procedure is primarily inductive, and the data are got from sense observation. But in the social sciences, where the procedure is so largely deductive, and where the data are often principles of mind, whose truth is assumed as a starting point for investigation, and especially in economic theory, such an attitude cannot be justified. For philosophical assumptions *will* creep in, and the scientist has no option about it. The only thing he can do is to be critical, and know definitely *what* philosophical assumptions he is making, — and most of our treatises on economic theory do not bear evidence that this critical work has been done.

There may be traced in the history of philosophy, in the ancient world, and also in the modern era, three main stages in philosophic thought, each accompanied by a distinctive set of ideas concerning the nature of society. In distinguishing these three stages, in showing the relation of each to social philosophy, and especially in tracing a parallel between the philosophy of the ancients and that of modern times, I recognize the grave dangers of giving a superficial treatment, and of distorting facts to make them fit a schematism. I recognize, further, that a host of details and a multitude of differences must be ignored in tracing the parallel I propose. Considerations of space, moreover, prevent such a detailed justification of the views here presented as would be required were this more than a minor phase of my subject. The need for this is lessened, however, by the fact that much of what follows is part of the commonplaces of the history of philosophy, — albeit a repetition of it seems needed in a criticism of economic theory. The three stages are: the dogmatic stage; the skeptical stage; and the critical stage. In Greek philosophy, the first stage is represented by the cosmological philosophers, as Thales, Anaximenes, and Anaximander, who, with perfect confidence in the power of their minds to solve the riddles of the universe, or rather, without questioning that point at all, proceeded to spin out poetical accounts of the origin and nature of things. The second stage is represented by the Sophists, who, struck by the manifold diver-

gences in the philosophies of the earlier schools, and by the lack of harmony between the god-given laws and rules of morality which earlier tradition had handed down, and the needs of the social conditions among which they lived, found themselves unable to find truth readily, and reached the conclusion that each man is the measure of truth, that there are no universal criteria, or valid standards. The third stage begins with Socrates, who sought for a common principle of truth and justice in the midst of divergences, and this critical movement, continued by Plato and Aristotle, led to conceptions of unity once more.

Now the social philosophy which goes with the first stage is relatively undefined. It is for the most part content with the existing order, recognizes a supernatural basis for it, and raises few questions. The social philosophy of the second period is intensely individualistic. In the third stage, the emphasis upon social solidarity and upon a unified, organic conception of society, a society which is paramount to individual interests and rights, comes to the fore again. The extreme poles of thought are, on the one hand, an individualism which leaves scant room for any very significant social relations whatsoever, and, on the other hand, a socialism — like that of the *Republic* — which swallows up the individual. The compromise view, expressed in the Aristotelian doctrine of the relation between “form” and “matter,” applied to the social problem, finds the individual

very real, to be sure, but still real only in his social relationships. Individual activities are facts, but social activity is more than a mere sum of individual activities. Society and the individual are alike abstractions, if viewed separately.

The mediæval conflict over realism and nominalism really derives its interest from the practical social issues involved, for the reality of the Church, as more than a mere aggregate of its members, and the validity of Christian doctrine, as more than the sum of individual beliefs, are at stake.

The cycle began again in modern times. As representatives of the dogmatic period in modern philosophy, DesCartes and Spinoza may be chosen. They were not, of course, naïvely dogmatic, for philosophy had learned much from its many disappointments, and DesCartes, especially, starts out with reflections which would seem to make him very much a skeptic. And yet each believed in the power of the mind to draw absolute truth from itself, and each proceeded in a highly rationalistic way to build up his system. The very title of Spinoza's great work indicates this attitude of mind: "*Ethica more geometrico demonstrata.*" The conception of society which characterizes this period is, again, not naïve, but still has a supernatural, or at least a superhuman, basis, for it is in a Law of Nature (capitalized and personified) that social institutions find their origin and justification. Critical reflections, starting with Locke, and passing through Berkeley to the absolute skepticism of Hume, bring in

the second, or skeptical, period, in which the rationalistic-dogmatic certitude of Spinoza and DesCartes is banished. And going with this movement in philosophic thought comes the extreme individualism of Rousseau in politics, and Adam Smith in economics. The movement away from skepticism, beginning with Kant, puts the world, and especially society, back into organic connections again, and we have, in Hegel, especially, society to the fore, and the individual real only as a part of society. The organic conception, revived by Hegel, and vitalized by the positivistic studies which applied the Darwinian doctrine to social phenomena, has characterized the greater part of the social philosophy of the last half hundred years — of course, not without protest and highly necessary criticism.

Now all of this is, of course, commonplace. And yet a failure to recognize it has vitiated very much thinking in the field of economic theory. Economic thought is to-day very largely based on the philosophic conceptions which characterize the period in which economics began to be a differentiated science, — the skeptical doctrines of David Hume, the close friend of Adam Smith.¹ The individual is all-important; his world of thought and feeling is shut off from that of every other man; social relationships are largely mechanical, and grow out of calculating self-interest on the part of the individual; social

¹ This criticism applies to the teachings of James Mill, J. S. Mill, and other sensationalist followers of Hume, even more than to Adam Smith. But see Professor Albion W. Small's *Adam Smith and Modern Sociology*, Chicago, 1907, esp. p. 51.

laws are conceived after the analogy of physical laws. Ethics and politics, however, have been far more influenced by later thinking, and the organic conception of society has largely dominated these sciences of late, while the new science, sociology, free to base itself more largely upon present-day epistemological, philosophical, and psychological notions, has gone further than any other in accepting the doctrine of the unity and pervasiveness of social relations, organically conceived. I think there are few things more strikingly in contrast than the conception of society which the student meets in most works on economic theory, and that which he meets in studying the other social sciences. That this is so is due precisely to the fact that the economists have too largely neglected philosophy and psychology, and have accepted uncritically the assumptions of the founders of the science. Doctrines accepted then have become *crystallized*, and still form part of the current stock in trade of economic science, even though rejected by philosophy itself.

To one of these faulty doctrines from the earlier time, attention has already been called. It is that the intensities of wants and aversions in the mind of one man stand in no relation to the same phenomena in the mind of another man, and that there can be no comparison instituted between them. The individual is an isolated monad,¹ mechanically connected with his fellows,

¹ It is easy for "analysis" to separate society into "individual" monads, and impossible for "synthesis" — once the validity of the analytic

who are to him "a part of the *non-ego*,"¹ but spiritually self-sufficient and inaccessible. The doctrine appears in Marshall's statement:² "No one can compare and measure accurately against one another even his own mental states at different times, and no one can measure the mental states of another at all, except indirectly and conjecturally, by their effects." Pareto I have quoted, as also Jevons, in chapter IV. The doctrine appears in Professor Veblen's recent article in criticism of Professor Clark:³ —

It is evident, and admitted, that there can be no balance, and no commensurability, between the laborer's disutility (pain) in producing the goods and the consumer's utility (pleasure) in consuming them, inasmuch as these two hedonistic phenomena lie each within the consciousness of a distinct person. There is, in fact, *no continuity of nervous*

process is accepted — to put society together again. In fact, once the analytic process is begun, and once its results are accepted as anything more than matters of logical convenience, all unity and all organic connections, whether in the social or in other fields, seem to vanish like a dissolving show. There is a psychological doctrine of monadism, quite as logical as the sociological monadology here criticized, which finds it impossible to link together even the elements in a single individual's mind. (See William James, *Principles of Psychology*, 1905 ed., vol. I, pp. 179–80.) Into what inextricable difficulties one falls, in pursuing the monadistic logic, is more dramatically illustrated than by anything else I know by Bradley's *Appearance and Reality*, esp. chaps. II and III. The most useful viewpoint seems to be as follows: unity is as much an object of immediate knowledge as is plurality, — both being, in fact, the products of reflective thought. And unity is no more called upon to justify itself, before we recognize its existence, than is plurality. Cf. William James, *The Meaning of Truth*, New York, 1909, p. xiii; and also his *Psychology*, vol. I, pp. 224–25. Cf. also the writings of Professor John Dewey.

¹ Jevons, *Theory of Pol. Econ.*, 3d ed., p. 14.

² *Principles*, 1907, p. 15 (1898 ed., p. 76). See also Marshall's criticism of Cairnes' conception of supply and demand, in the 1898 edition of the *Principles*, p. 172.

³ "Professor Clark's Economics," *Q. J. E.*, 1908, p. 170.

tissue [italics mine] over the interval between consumer and producer, and a direct comparison, equilibrium, equality, or discrepancy in respect of pleasure and pain can, of course, not be sought except within each self-balanced individual complex of nervous tissue.

In the recent elaborate study, *Value and Distribution*, by Professor H. J. Davenport, the theories based on the conception of the individual as an isolated monad, a self-complete whole, with purely mechanical relationships with other men, find their fullest and most self-conscious expression, and the philosophical presuppositions are explicitly premised. The following quotation from Thackeray's *Pendennis* is given as a footnote,¹ in which Professor Davenport's own conception is expressed: —

Ah, sir, a distinct universe walks about under your hat and under mine — all things in nature are different to each — the woman we look at has not the same features, the dish we eat has not the same taste, to the one and to the other; you and I are but a pair of infinite isolations, with some fellow islands a little more or less near us.

This is, of course, manifestly the theme of the old subjectivistic analysis, by which all things are reduced to thoughts, sensations, and desires within the individual soul, and in accordance with which we have none save conjectural know-

¹ Davenport, *op. cit.*, p. 300, n. It may seem somewhat unfair to hold a man responsible for the view of another writer which he throws into a footnote of his own book. One who has read Professor Davenport's book, however, will recognize, I think, that this quotation does express Professor Davenport's view. His discussion in the text on pages 300-301 affirms virtually this same doctrine, as a proposition of psychology. See also his discussions in small type on pages 336-37. His whole system is based upon this doctrine.

ledge of anything outside of our own souls. Now a general answer might be given that this is an epistemological principle which holds true only for what Kant calls the "*Ding an sich*," — if such a thing there be — and that there is no more reason why it should apply to human emotions, considered purely as phenomena, than to any other of the phenomena with which science busies itself. If this principle be adhered to, its effect will be simply to cast doubt on the conclusions of all sciences, physical as well as psychical. Certainly psychology would be impossible on this assumption, except in so far as the psychologist claims only to be working out a science of his individual soul, which, so far as he knows, is not true of any other individual. But it is precisely *not* this that psychology attempts. It is concerned with the laws and behavior of minds in general, with the "*typisch und allgemeingültig*," and not with the mental idiosyncrasies of the particular individual.

But the doctrine can be met from the standpoint of epistemology itself. The writers who are responsible for this subjective analysis, have held that *mind* is more nearly capable of being known by mind than is anything else, since we can interpret things only in terms of our own experiences. The real nature of a purely physical thing is far more deeply hidden from our view than is the real nature of a mental fact, even though it be in the mind of another. And especially would they grant a degree, at least, of objective currency to clearly phrased conceptual

thought. Now I base myself upon the present day pragmatic philosophy,¹ which is, essentially, concerned with the problem of knowledge. Its principle is that we believe things to be true, not because of any knowledge we have of some mystical, absolute truth, but because of our experiences of utilitarian sort. That is true which works. That is true which we find will satisfy our desires and needs. In a word, desire, volition, *values*, lie at the basis of intellect.² Whence it follows, that if our minds are so constituted that we understand each other on the intellectual side, then there must be a still deeper and more underlying similarity on the desire, feeling, volitional side.³ Consequently, if there be anything at all, outside of our own mind, which we *can* understand, it must be the feelings and emotions of other men.

Considerations of a practical nature give us the strongest possible grounds for a belief that human desires, feelings, etc., are homogeneous and communicable. The fact is that we all have back of us many millions of years of evolutionary history in the same general environment. In the past, with relatively minor variations, the same influences have played upon our ancestors from

¹ See, especially, William James, *Pragmatism*, and *The Meaning of Truth*; John Dewey, *Essays in Logical Theory*; and F. C. S. Schiller, *Humanism*.

² The utter impossibility of adequately summing up a philosophic doctrine in two or three sentences will excuse this statement to those pragmatists who would prefer a somewhat different formulation.

³ I am indebted for suggestions here to Professor H. W. Stuart's article on "Valuation as a Logical Process," in Dewey's *Studies in Logical Theory*, pp. 322-23.

the beginnings of life on our planet. And then, we are born into the same society, and it has given us, not, to be sure, the power of reaction, but certainly all of our most important stimuli.¹ Further, we do get along in society. We laugh together, we play together, we share each other's sorrows, we love and hate each other, in a way that would be wholly impossible if we did not in practice assume the correctness of our "inferences" about one another's motives and desires. And the fact that these "inferences" are in the main correct is the one thing that makes social life possible. We can, and do, understand one another's motives, desires, wants, emotions. We can, and do, constantly communicate our feelings to one another.

It is only on the basis, further, of an intellectualistic psychology that such a subjectivistic conception is possible. If the voluntaristic psychology and the doctrine of "the unconscious" be accepted — and certainly the psychological facts on which the latter is based must be accepted, whether the metaphysical conclusions are or not² — we have no basis whatever for this doctrine that clearness holds within the mind, but that without all is uncertain. Really, only a little part of our mental life is in consciousness at any given moment. The "stream of consciousness" is but a narrow thing, and the unity of the individual

¹ Cf. Baldwin, *Social and Ethical Interpretations*, *passim*, and Cooley, *Human Nature and the Social Order*, *passim*.

² The most interesting discussion of these topics I know is that of Friedrich Paulsen, in his *Introduction to Philosophy* (translated by Professor Frank Thilly).

mind is a unity, not of consciousness, but of *function*. As Goethe somewhere says, we know ourselves never by reflection, but by action. And often does it happen that a sympathetic friend, or even an observant enemy, may interpret more accurately our actions than we ourselves can do, and may measure more accurately the strength of a given motive for us than we can ourselves. In a certain sense, our knowledge of other minds is inference. We see other men's actions, or hear their voices, or watch the muscles of their faces, and so, indirectly, get at their thoughts and feelings. But, in much the same sense, our knowledge of their actions, or of their voices, is inference too. For we must interpret the image on the retina, or the sense excitation in the ear. But practically, neither is inference, if by inference be meant a consciously made judgment from premises of which we are conscious. In a casual walk with a friend, where conversation flows smoothly on easy topics, one is as *immediately* conscious of his friend's thoughts and feelings, expressed in the conversation, as he is of the scenes that present themselves by the way, or even of the thoughts that arise within himself.¹

The significance of this conclusion is not quite the same as that which might be expected from the context from which I have taken the doctrine under criticism. The feelings of men with reference to economic goods are facts of definite,

¹ Cf. Perry, R. B., "The Hiddenness of the Mind," *Jour. of Phil., Psy., and Sci. Meth.*, Jan. 21, 1909; "The Mind Within and the Mind Without," *Ibid.*, April 1, 1909; "The Mind's Familiarity with Itself," *Ibid.*, March 4, 1909. Urban, W. M., *Valuation*, p. 243.

tangible nature, and subject-matter of social knowledge. But we have not yet reached a standard or source of social value. No homogeneous "labor jelly," or "pain jelly," or "utility jelly,"¹ made up by averaging arithmetically, or adding arithmetically, individual efforts or pains or pleasures, will solve our problem for us — as indeed I have been at pains to show in what has gone before. The purpose of the foregoing criticism is primarily to clear the ground for a conception of social organization which is more than mechanical, and in which the individual is both less and more than a self-sufficient monad.

¹ Davenport, *op. cit.*, p. 331.

CHAPTER IX

THE SOCIOLOGICAL PRESUPPOSITIONS

CONCEPTIONS of the social unity fall, in the main, into three classes: the mechanical, the biological, and the psychological. Each of these conceptions recognizes, of course, that the individual has a mind, but the first thinks of that mind as so shut in that the only connections between men must be of an external sort; the second sees modes of collective action *analogous* to the modes of individual action, and reaches the conception of a social mind by analogy; while the third treats the social mind as an empirical fact, the phenomena of which can be studied as concrete things in detail. And there are gradations here, and combinations.

The following extract, freely translated and substantially abridged, is taken from chapter I of DeGreef's *Introduction à la Sociologie*: —

It is in vain that Spencer protests against the accusation that he has assimilated the laws of biology with those of sociology. The confusion is everywhere complete. He has not indicated a single law, nor a single phenomenon, which has not its correspondent, if not its equivalent, in the antecedent sciences. Draper, in his *History of the Intellectual Development of Europe*, adopts precisely the doctrine that the laws of biology apply equally to sociology. Man is the archetype of society. Nations pass through their periods of infancy, adolescence, maturity, age, death. This

sort of thing makes sociology wholly unnecessary. The attempt of Stanley Jevons to explain economic crises by sun-spots, so far from being an effort of genius, is simply a *jeu d'esprit*. It is simply a recognition of the common fact that climate is one of the factors that influence man in society. According to Hesiod, physical forces first engender each other, then in turn the gods and man. Since then, social science has in turn been founded on the laws of astronomy, chemistry and biology. To-day it is the last, vitiated, further, by false psychological notions about the power and unlimited liberty of the reason, and the consciousness of human individuals, and applied by analogy to the collective reason.

The error consists in looking for the explanation of social phenomena in the most general laws. This is natural within certain limits, but has been pushed to extreme, but logical consequences, by the American, Carey (*Social Science*). He looks, in effect, to one of the oldest sciences, and one, consequently, relating to the most highly general phenomena, those of astronomy, for the universal laws of society. Geometry, he holds, gives us principles equally valid for the chemist, the sociologist, and for him who measures the earth. A system assuming to explain complex phenomena solely by the laws of phenomena more simple, may be compared to the effort to give an account of a book, not by reading it line by line, but by examining the cover and the title-page.

As DeGreef elsewhere puts it, there is a hierarchy in science, proceeding from the more general to the less general, depending on the nature of the phenomena studied. This hierarchy has been variously stated. Comte puts it thus: mathematics, astronomy, physics, chemistry, physiology, social physics (sociology). Baldwin,¹ writing much later, of course, puts it thus: —

¹ Baldwin, Mark, *Social and Ethical Interpretations*, 1906 ed., pp. 8-9.

So here, as elsewhere, there is a gradation, a hierarchy, in science: chemistry necessary to life, but not itself of life; forces in the environment necessary to evolution, but not themselves vital; life-processes necessary to consciousness, but not themselves mental; consciousness necessary to society, but not all consciousness social; social consciousness necessary to social organization, but not all social consciousness actually in a social organization.

Now the point with DeGreef is that the special laws of each successively narrower group of phenomena are to be explained only by concrete study, and that it is wholly vain to think that the application of principles drawn from other, more general groups of phenomena give us these laws. Thus the economists talk of "equilibria" between various economic forces, just as if they were physical forces;¹ and a whole school of mathematical economists has arisen, who find economic life a thing that will fit into equations. This work is valuable, but it is not final. Analogies are helpful, but are not ultimate. Similarly, the biological conception, which likens society to a man, has its contributions. The biological analogy has been pushed very far: thus Novikow calls the social intellectual *élite* the social *sensorium*; Lilienfeld likens the action of a mob to female hysterics; Simiand calls the idle rich the adipose tissue of society, the priests also represent fat, while the police are the social phagocytes which eat up wandering criminal cells.² But this, though suggestive, is not an ultimate social philosophy or even an approach

¹ Cf. John Stuart Mill's *Logic*, book vi, on the nature of social laws.

² Cited by Baldwin, *op. cit.*, p. 495, n.

to it. Even DeGreef, as I shall indicate a little later, errs by trying to trace a too rigid parallel between individual structure and social structure. We must introduce a careful study of the peculiarly social phenomena, those phenomena which are to be found only in society, before we are privileged to talk of a social organism or a social mind.¹

On the other hand, it seems to me that Baldwin has erred in the opposite direction. The laws of chemistry do not cease to be operative in the human body, even though more complex biological laws operate there. And the laws of biology are not suspended just because an animal organism develops a mind. The greatest defect of the older psychology, against which the experimental psychology is a reaction, was its failure to take proper account of physical processes connected with consciousness. Now society, according to Baldwin, is best described as analogous to a psychological organization, and such an organization as is found in the individual in *ideal thinking*.² But surely this is an abstraction, and not a fact. Society does not cease to be physical, chemical, biological, subconscious, merely because it has also attained in part a higher form of psychical activity (to which Professor Baldwin would object on the basis of his distinction between the "social" and the "socioeconomic").

DeGreef's conception seems to me better, on this logical point, — though of course Baldwin's

¹ See Giddings, *Principles of Sociology*, 1905 ed., p. 194.

² *Op. cit.*, p. 571.

analysis of facts represents a great advance — but it is not satisfactory:¹ —

Since unconsciousness, instinct, and reflex action characterize the psychic life of inferior beings, and even the greater part of the intellectual activity of those most highly developed, man included, we ought not to be astonished, *a priori*, that the collective force which constitutes the social superorganism presents the same characteristics.

Consciousness is aroused in the individual, and new activities result, which soon, however, lose their conscious character, and become reflex and automatic. So with society.

Then follows an elaborate analogy between the individual brain and nervous system and their functions, and the social structure and its functions, which we need not reproduce here. This analogy seems forced to me. There is little point to trying to find such exact correspondences. It is enough if we have our general organic principle as a method of study, and then proceed to the study of social facts. I shall myself, however, make use of some analogies in what follows, but shall not insist too strongly upon them. I may here express the opinion that society is an organism less highly developed than a man's body or a man's mind, and that its unity is primarily a unity of *function* rather than of *structure*,² though there is some structural unity.

The conception of the social unity which seems most useful for the purpose of our study — and the writer would insist that no social theory is

¹ *Op. cit.*, chap. xiii.

² Cf. Elwood, C. A., *Some Prolegomena to Social Psychology*, Chicago, 1901. Cf. *infra* in this chapter the note on Professor Elwood's view.

valid for all purposes, and that many social theories have value for some particular purposes — is that of Professor C. H. Cooley, as set forth, particularly, in the opening chapters of his *Social Organization*. As this book, however, presupposes certain doctrines set forth in Professor Cooley's earlier book, *Human Nature and the Social Order*, a brief account of certain points in that study must also be given. It may be noted, at the outset, that Professor Cooley neglects the study of the material aspects of society, and centres his attention upon the mental side. His purpose in this is not to deny the significance of the material factors, as he explains in the preface to *Social Organization*, but simply to narrow the scope of his labors. The writer wishes here to make a similar statement regarding his own viewpoint. In the following pages, attention will be centred almost exclusively upon the psychical forces involved, upon what we shall call the "social mind." In this, however, it is explicitly recognized that the physical environment and the biological individuals are essential factors, and that the forces which are manifested in them must be recognized as coefficients with the psychical forces which we shall study, in the determination of any concrete social situation. I have no intention whatever of giving an independent, ontological character to this psychical abstraction. For the purposes of this study we shall regard the physical factors as constant, — an assumption justified for purposes of study, provided we subsequently, in handling concrete

problems, make allowance for the extent to which it is untrue.

In his earlier book,¹ Professor Cooley objects to the customary antithesis between "individual" and "social." They are simply two aspects of the same thing. He discriminates three meanings of the word, social, none of which, he says, is properly to be contrasted with "individual": (1) that pertaining to the collective aspect of humanity, in its widest and vaguest meaning; (2) that pertaining to immediate intercourse; (3) conducive to collective welfare, and so nearly equivalent to moral. But none of these meanings has "individual" as its natural or logical antithesis.

There are several forms of individualistic views: (1) *Mere Individualism*. The distributive phase of human life is almost exclusively regarded. Each person is thought of as a separate agent; all social phenomena originate in the action of such agents. This view is much discredited by evolutionary science and philosophy, but is by no means abandoned even in theory, and practically it enters as a premise into most common thought of the day. (2) *Double Causation*, — a partition of power between society and the individual, both thought of as separate causes. This is ordinarily the view met with in social and ethical discussions. There is here the same premise of the individual as a separate, unrelated agent; but over against him is set a vaguely conceived collective interest or force. People are so accustomed to think of themselves as uncaused causes, special

¹ *Human Nature, etc.*, chap. I.

creators on a small scale, that when general phenomena are forced on their notice, they think of them as something additional, and more or less antithetical. The correction of this error will leave the contest between individualism and socialism, considered as philosophical notions, rather than as names for social programs, among the forgotten *débris* of speculation. (3) The third view he calls Primitive Individualism. The individual is prior in time to society. This view is a variety of the preceding, perhaps formed by mingling individualistic preconceptions with a rather crude evolutionary philosophy. Individuality is lower in rank as well as prior in time. The social is the good, moral, and the individual is the anti-social and bad. Professor Cooley's view is that individuality is neither prior in time, nor inferior in rank, to sociality. If social be applied only to the higher forms of mental life, it should be opposed, not to individual, but to animal or sensual, or the like. Our remote ancestors were just as inferior when viewed separately as when viewed collectively. (4) The fourth form of individualism he calls the Social Faculty view. The social includes only a part, and often a rather definite part, of the individual. Individual and social are two different parts of human nature. Love is social; fear and anger are unsocial and individualistic. Some writers have treated intelligence as an individualistic faculty, and have founded sociality on some form of sentiment. This is well enough if we use social in the second sense of pertaining to immediate conversation,

or fellow feeling. But that these sociable emotions are essentially higher, or pertain peculiarly to collective life, is very doubtful. Cooley holds that no such division of human nature is possible. Social or moral progress consists less in the aggrandizement of certain faculties and suppression of others, than in the discipline of all with reference to a progressive organization of life.

The rest of the book is devoted to a study of society in its distributive aspect, or as we should say ordinarily, using the terms which Professor Cooley objects to, the study of the social nature of individuals. It is based in large measure upon a study of the development of children. Personality is an essentially social thing. The "I" feeling is a thing which only social influences can develop.¹ The thought process within the "individual mind" is a social process, — we think in words, and, indeed, in conversations.² I shall not develop these notions at length. They are of similar nature to those in Professor Baldwin's *Social and Ethical Interpretations*, when he discusses the "dialectic of personal growth." They are interesting and pertinent as showing in a concrete way the tremendous and comprehensive sweep of social factors in the creation of the individual mind.

Social Organization, which appeared in 1909, takes up the collective aspect of human-mental life.

Mind is an organic whole, made up of coöperating individualities, in somewhat the same way that the music of an

¹ *Op. cit.*, chaps. v and vi.

² *Ibid.*, pp. 52 *et seq.*

orchestra is made up of divergent but related sounds.¹ No one would think it necessary or reasonable to divide the music into two kinds, that made by the whole, and that of the particular instruments, and no more are there two kinds of mind, the social mind and the individual mind. The view that all mind acts together in a vital whole from which that of the individual is never really separate, flows naturally from our growing knowledge of heredity and suggestion, which makes it increasingly clear that every thought we have is linked with the thought of our ancestors and associates, and through them with that of society at large. It is also the only view consistent with the general standpoint of modern science, which admits nothing isolate in nature.

The unity of the social mind consists not in agreement but in organization, in the fact of reciprocal influence or causation among its parts, by virtue of which everything that takes place in it is connected with everything else, and so is an outcome of the whole. Whether, like the orchestra, it gives forth harmony may be a matter of dispute, but that its sound, pleasing or otherwise, is the expression of a vital coöperation, cannot well be denied.²

Professor Cooley stresses the unconscious character of many of these social relations. "Although the growth of social consciousness is perhaps the greatest fact of history, it has still but a narrow and fallible grasp of human life." Cooley objects to the Cartesian postulate, which makes "*cogito*," "I think," the fundamental and most absolutely certain fact in the world. He holds that it grows out of the idiosyncrasy of a highly specialized, introspective philosopher's mind, and that, for the normal mind, "*cogitamus*," "we

¹ This analogy is unhappy, if pushed very far — like most analogies between physics and psychics. It serves as a useful figure of speech, however, — which is all Professor Cooley designs it for.

² *Social Organization*, pp. 3-4.

think," is just as obvious.¹ The "I" feeling, and the "we" feeling are differentiated together out of the inchoate experience of the child. And "I" and "we" are alike social in their nature. The self, for Professor Cooley, is not a scholastic "soul-substance" or transcendental ego, but simply a relatively differentiated portion of the social mind. "'Social organism' using the term in no abstruse sense, but merely to mean a vital unity in human life, is a fact as obvious to enlightened common sense as individuality."²

I pause here to contrast this view of the "social mind" with that of some other writers, of whom I may take Professor Giddings as representative. I quote from page 134 of the 1905 edition of Professor Giddings' *Principles of Sociology* : —

The social mind is the phenomenon of many individual minds in interaction, so playing upon one another that they simultaneously feel the same sensation or emotion, arrive at one judgment and perhaps act in concert. It is, in short, the mental unity of many individuals, or of a crowd.

The social mind for Professor Giddings is thus made to depend upon an *identity of content* in many individual minds. For Professor Cooley, it is an organization and integration of many differentiated and divergent minds, in a complementary activity. Professor Cooley's conception, thus, takes in all minds, while that of Professor Giddings would exclude the dissenters. Further, Professor Giddings emphasizes the ele-

¹ *Social Organization*, pp. 6-9.

² *Ibid.*, p. 9.

ment of consciousness; unconscious processes are included by Professor Cooley, whose conception really finds a place for the total psychosis of every individual in society. It may be noted, however, that Professor Giddings, in the more detailed exposition of the classroom, does not stress either the agreement or the consciousness in the absolute fashion that the brief passage quoted would indicate, and readily concedes that for theoretical purposes the more inclusive conception of Professor Cooley's is a very useful one. The difference between his viewpoint, as set forth in the classroom, and that of Professor Cooley, is primarily a matter of emphasis.¹

The following propositions are submitted, partly by way of summary, and partly by way of addition, as embodying the points essential for present purposes as to the nature of society: —

(1) Society is an organism. Organism as here used is a generic term, with the following connotation: (a) an organism has different parts, with different functions; (b) these parts are interdependent; (c) an organism is alive, in the sense in which Spencer defined life, that is, an organism has the power of making appropriate inner adjustments to the external environment; (d) an organism has a central theme, not externally imposed, to the working-out of which the different parts contribute; but the organism — or the

¹ Compare Professor Giddings' more detailed and concrete treatment of the subject in his *Readings in Descriptive and Historical Sociology*, New York, 1906, pp. 124-428.

parts — is not necessarily conscious of this central theme; (e) an organism is constantly changing its “matter” without essential change in “form.” (In a biological organism the process of metabolism goes on constantly. In a society, men are constantly passing out of society through death, or through lapsing into idiocy, etc., and new elements are constantly entering, not through the biological process of birth, but through the process of becoming “socialized,” in the manner described by Baldwin as the “dialectic of personal growth,” or by Cooley, in his *Human Nature and the Social Order*.) (f) An organism grows, by progressive differentiations and integrations.

(2) There is a mind of society, a psychical organism. The minds of different individuals — themselves differentiated into systems of thoughts and feelings that are often lacking in harmonious adjustment to each other — are in such intimate interrelation that they may be said to constitute one greater mind. The physiological basis of this greater mind — if it be thought necessary to locate it — is the brains and nervous systems of individual men, *plus* that set of physical symbols (e.g., language, literature, gestures, art, music, etc.) which are set in motion by the nerve activity of one man, and then stimulate nerve activity on the part of another. This unity is primarily a unity of *function*, however.¹

¹ Professor C. A. Elwood, in the essay mentioned *supra*, *Some Prolegomena to Social Psychology*, is the first, so far as I know, to apply Professor Dewey's psychological viewpoint to the study of the social mind. Chap. II of his book contains a very excellent brief discussion of this point. With-

(3) The fact of individual differences among the minds of men, does not vitiate the conception of a mind of society. It rather proves the *organic* character of the social mind, by introducing the fact of *differentiation*. The integrating element is found in the points which individual minds have in common.

(4) The mind of society, like the mind of a man, is primarily volitional, and not intellectual. (Volition is here used in the wider sense, as including all motor and affective activities in mind.) Like the individual mind, the greater part of it is vaguely conscious or subconscious.

(5) Less highly organized than the individual mind, the mind of society is less rational, and less highly conscious, than most, if not all, individual

out going into the matter at length, it must suffice to say here that the new viewpoint stresses the significance of mental processes for *activity*, for the adjustment of the organism to its environment, rather than the *structure* or *content* of the mental process. It stresses impulse, instinct, habit, etc., and refuses to undertake a synthetic process, which strives to get some sort of mechanical unity by combining abstract, structural elements. The unifying principle in mind is *activity, function*. Professor Elwood holds that, while the individual mind has unity both of structure and of function, the social mind has a unity of function only. I think the contrast is not so sharp as that. There is *some* structural unity in the social mind, there are points of identity among individual minds, common ideals, and a common — even though small — body of knowledge, especially in very elementary matters. And the unity of the individual mind is primarily a unity of *function*. Certainly — and there is no issue with Professor Elwood here! — there is no unifying “soul-substance” lying back of the psychic activities organized in the single individual mind. And the analogy between the mind of an individual and the mind of society is not intended to read into the social mind any of the hypothetical character which an absolutistic, preëvolutionary metaphysics ascribed to the individual mind, but rather — in so far as the issue is raised at all — to divest the individual mind of just that hypothetical character. Cf. Friedrich Paulsen’s *Introduction to Philosophy*, on “soul-substance,” and Wundt’s *Völker-Psychologie*, vol. I, chap. I.

minds. "Social self-consciousness" is a rare, if not non-existent phenomenon.

(6) The mind of society, in its entirety, is of necessity not a matter of perception for any individual. Each individual sees only that part which is in his own mind — not all of that! — and in the minds of other individuals with whom he is in communication.

(7) But the minds of other men may be, and normally are, in part objects of perception for any social individual. There may be an "inferential" element in our perception of mental processes in the minds of other men, but it is not inference.

(8) The individual monad is a myth. His machinery of thought — language and logic — is socially given him, his ideals and interests, his tastes even in matters of food and drink, are socially given, — apart from social intercourse his human-mental life would be mere potentiality.

(9) The worth of this conception of social reality, like the worth of other scientific hypotheses, is to be determined by a pragmatic test: does it relate phenomena the connection between which was previously obscure, without introducing greater difficulties of its own? I believe that, for the problem of value theory at least, it will find such a pragmatic justification.

This lengthy excursion into a field not commonly counted as part of the economist's territory is to be justified on the ground that the economist has not only failed to take account

of the conclusions reached there, but has also, too often, been making and using assumptions which contradict them. It is further necessary, because the conception of "social value," which forms the subject of this book, assumes a "social organism" which can give value to goods, without making it clear what sort of an organism society is conceived to be. The excursion has at least revealed some of the many meanings that lie behind that term. And it is especially necessary in view of the fact that the conception of "social value" has been attacked on the ground that the organic conception has been abandoned by the sociologists themselves.¹ That this is true of the biological analogy, which made society an animal, and drew social laws from biological laws, rather than from the study of social phenomena, is readily granted. But that sociologists have abandoned the generalized conception which gives us primarily a highly convenient schematism on which to group the social facts that we actually find, is by no means conceded. And the question is really one as to those facts themselves rather than as to the mode of grouping and conceiving them. If social activity be nothing more than a *sum* of *similar* individual activities, as Professor Davenport seems to think in the article criticizing Professor Seligman,² and if the individ-

¹ Davenport, *op. cit.*, pp. 467-68.

² *Op. cit.*, pp. 445-46. (The reference is given to Professor Davenport's book for the convenience of the reader. The original article appears in the *Journal of Political Economy* for March, 1906.) "Some linguistic uses connected with collective nouns will offer a point of departure. When thought of merely as indicating an aggregate, a unit, the collective noun

ual be an isolated monad, then Professor Davenport's criticisms will hold. But if the individual

takes a singular verb; if regarded as a collection of units, it takes the plural verb. . . .

"Now, in many cases, though the act or the situation asserted is really one of each individual by himself, there is no occasion for insisting upon this; no ambiguity or inaccuracy or misapprehension is involved in saying that 'the battalion is eating its dinner'; it is a shorthand fashion of speech, but it is perfectly intelligible; it is common enough to think of a battalion as a unit, and the act of dining is a simple one in which all join, and in which all comport themselves in pretty much the same way; from the point of view adopted, the interest proceeded upon, the purpose in hand, no importance attaches to the fundamental separateness of the activities, and to their entire lack either of psychical unity or of purposive coöperation; they are simply similar — roughly simultaneous — and are thought of in block. True, one man eats rapidly and another slowly, some little and others much, and a few sick ones not at all; but the expression serves, and implies its own limitations of accuracy. . . . But when it comes to asserting that the army is brushing its teeth, or has stubbed its toe, or has a stomach ache, there is obvious difficulty. These things are not done jointly, coöperatively, by aggregates, and will not bear thinking over into this form.

"And so we may speak of public opinion, the preference, or habit, or custom, or convention, of society; and no harm need come of it, despite the fact that some men neither think nor choose in the manner implied, but have their own peculiar judgments or choices or wishes, and yet are members of society, entitled to be included in any exact formulation; every one knows that the thought really runs upon majorities of 'most everybodies'; that is, no harm need come of it, if only there were not people to take the notion of a 'social mind' seriously, and to import into cases calling for accurate analysis, and to accept as sober fact, a mere figure of speech, or at best a loose analogy drawn from biological science. For to the biologist and the sociologist it is to be charged — or credited — that the society-as-an-organism formula has found its way into economic thought. And thus hereby a doctrine long since abandoned in economic reasonings is in the way of reappearing; for have we not need of normals and averages? Else our doctrine in getting accurate and actual will get difficult also. And so, by the aid of the sociologist, through the magic of the society-as-an-organism incantation, a resurrection miracle has lately been worked; we salute the average man."

Whether any serious advocate of the organic conception of society will recognize in this caricature the doctrine which he maintains may well be doubted. Certainly it would never occur to us to construct an organism by averaging its organs! Nor do we try to get a social mind by adding a sum of similar physical activities, or even similar mental activities. An organism is a functional unity of *different* and *complementary* parts.

is in vital psychic relation with other individuals, so much so that he is impossible apart from those relations, and if social activity is, not a *sum* of *similar* individual activities, but an *integration* and *organization* of *differentiated* and *complementary* individual activities, spiritual as well as physical, then Professor Davenport's criticisms are not valid. And it is on this point that I would strongly insist. The argument of the following chapters may be put — though not so conveniently — in terms of the mechanical analogy, and the psychical processes treated, not as the action of a unitary, though differentiated, mind, but as a balancing and transformation of forces, and practically the same results for value theory will follow.

PART IV

A POSITIVE THEORY OF SOCIAL VALUE

CHAPTER X

VALUE AS GENERIC. THE PSYCHOLOGY OF VALUE

WE return, then, to the problem of the nature of value. Value is more than the total utility of a good, or the marginal utility of a good, to an individual, and it is more than a ratio of exchange. Economic value is a species of the *genus* value, which runs through other social sciences, as ethics, æsthetics, jurisprudence, etc. Sometimes these various values are so intermingled that it is impossible to tell them apart: thus, what kind of value did a human life have in early Germanic jurisprudence, when a *wergeld* was accepted as compensation for killing a man?

Ethical and legal values we recognize as something very different from the feelings of single individuals, and also as something very different from abstract ratios. In fact, the idea of quantitative ratios in connection with moral values is somewhat startling — though we do apply the “times judgment” pretty far, and say, “he’s twice the man the other fellow is,” or “this is n’t half as bad as that.” But we do not go into refinements, ordinarily, and try to make the ratios more exact, as by saying that the value of this noble deed is three and three eighths times as great as that. The quantitative measure of legal value is a more familiar idea. Thus, a man gets

five dollars fine for a plain drunk, and twenty-five dollars for getting drunk and "cussin' around" (a scale of "prices" recently established in the court of a Missouri Justice of the Peace), or three years in the penitentiary for one crime, and ten years for another. Here we have quantitative measurements of values, but still it is rather strange to our thought to speak of a ratio of exchange between them. We have no occasion to exchange them ordinarily, even though it may happen that a criminal, in contemplating the chances of success in two alternative depredations, will weigh the penalties to which he would be liable in the two cases against each other; and, indeed, the law of supply and demand holds here also (though inversely applied, for we are dealing with negative values). If a particular crime (as "Black-Handing") increases rapidly, we increase the penalty on it to bring it to a stop. But this generalization of the idea of value ought to make clear one thing: exchange, at least in its ordinary meaning,¹ is not the essence of value. Exchange is a factor in estimating value only in economic life. And even there, values are often estimated without actual exchange, and the art of accountancy has arisen for that purpose.

An exhaustive study of this generic aspect of value lies, of course, outside the scope of this book. Ehrenfels, Meinong, and others,² have

¹ See the discussion of Simmel's contention, *supra*, p. 19, n.

² Ehrenfels, C., *System der Werttheorie*, Leipzig, 1897; Kreibig, J. C., *Psychologische Grundlegung eines Systems der Werttheorie*, Vienna, 1902; Kallen, H. M., "Dr. Montague and the Pragmatic Notion of Value," *Jour. of Philosophy, etc.*, Sept., 1909; Montague, W. P., "The True,

made fruitful investigations in the psychology of value, with primary reference to the problems of ethical value, while Gabriel Tarde, approaching the subject with a sociological, rather than psychological or ethical interest, has also made some illuminating suggestions. The most comprehensive work in English, from the psychological point of view, is by Professor W. M. Urban, whose *Valuation* appeared in 1909. His interest is also chiefly in ethical, rather than economic, value. Reference has been made in an earlier footnote¹ to Simmel's views. There is, in fact, a rich literature on the subject. The theory of economic value to be developed in this volume, however, is relatively independent of many of the theories treated in this literature, since, as will appear later, the question I wish to raise is, not so much as to the fundamental nature of value, in its psychological aspects, but rather, as to *what* individual values (and in what *relations*) are significant for the explanation of the particular sort of value

the Good and the Beautiful, from a Pragmatic Standpoint," *Ibid.*, April 29, 1909; Meinong, A., *Psychologisch-ethische Untersuchungen zur Werttheorie*, Graz, 1894; Paulsen, Friedrich, *Introduction to Philosophy, and System of Ethics*; Stuart, H. W., "The Hedonistic Interpretation of Subjective Value," *Jour. of Pol. Econ.*, vol. iv, "Valuation as a Logical Process," in Dewey's *Studies in Logical Theory*, Chicago, 1903; Shaw, C. C., "The Theory of Value, and its Place in the History of Ethics," *International Jour. of Ethics*, vol. xi; Slater, T., "Value in Moral Theology and Political Economy," *Irish Eccles. Rec.*, ser. 4, vol. x, Dublin, 1901; Tufts, J. H., "Ethical Value," *Jour. of Philosophy*, etc., vol. xix; Baldwin's *Dictionary of Philosophy*, etc., s. v. "Worth" (article by W. M. Urban); Simmel, G., *Philosophie des Geldes*, Leipzig, 1900, "A Chapter in the Philosophy of Value," *Amer. Jour. of Sociology*, vol. v; Urban, W. M., *Valuation*, London, 1909. These titles are representative of an extensive literature on the subject.

¹ *Supra*, p. 19, n.

with which the economist is concerned. The exposition which follows will be clearer, however, if a psychological theory of value be premised, and the discussion of social economic value will gain from a consideration of ethical and other forms of value, in their sociological aspects, as treated by some of the writers named. The rest of this chapter will be concerned with the problem of value as it presents itself in individual psychology, and later chapters will treat the problem of social value.

For the experience, and at the time of the experience, a value is a *quality* of the object valued.¹ Values are “tertiary qualities” (to borrow an expression from Professor Santayana’s *Life of Reason*²), just as real and objective as the “primary” and “secondary” qualities. We speak of a gloomy day, or a fearful sight, and the gloom is a quality of the day, and the fearfulness is really in the object — for the experience. When we have sufficiently reflected upon the situation to be able to separate subject and object, and to divest the object of the quality, and put the fear in ourselves, or the gloom in our own emotional life, then the experience is already past, and the value, as the value of that object, has ceased to be. We are already over our fear when we can separate it from

¹ I am indebted to Professor John Dewey for many valuable suggestions and criticisms in connection with this part of my study. My more general obligations to him will be manifest to any one who is familiar with his epoch-marking point of view. Economic, sociological and political philosophy have, in my judgment, more to learn from him than from any other contemporary philosopher.

² Pp. 141-42.

the object. These qualities are intensive qualities, may be greater or less in degree, i.e., are quantities.¹ And they must first *exist*, as such quantities, before any reflective process of evaluation and comparison can put them in a scale, and make clear their *relative* values.²

So much for the experience as an immediate fact. If we break up the experience analytically, however, we of course first distinguish subject and object, and we throw the "tertiary quality," of value, over to the side of the subject. It is a phase of the subject's emotional life. In this analytical process we necessarily make abstractions, — the elements with which we finally come out, put together in a synthesis, will not give us our concrete experienced value again. But, recognizing this, we may still distinguish what seem to be the more important aspects of the value experience, on its psychological side, and set forth the criteria by which a value is to be recognized. First of all, then, value has its roots in the emotional-volitional side of mind. A pure intellect, if we may imagine it, would understand logical necessity, would contemplate the "world of description," but could know nothing of the "world of appreciation," or of values.³ (It is precisely because intellect is never "pure," because it always has its emotional accompaniment and pre-suppositions, that we can objectively communicate our values, as urged in chapter VIII.) But

¹ Cf. Gabriel Tarde, *Psychologie Économique*, vol. I, p. 63, and Urban, *Valuation*, p. 73.

² Urban, *op. cit.*, p. 32.

³ Paulsen, Friedrich, *Ethics*, *passim*.

what phases of the emotional-volitional side of mind are most significant? For hedonism, an abstract element, a *feeling*, a pleasure or a pain, is the essence of the value, — in fact, *is* the value. Critics of hedonism, as Ehrenfels¹ and Professor Davenport,² have made *desire*, rather than feeling, the worth-fundamental. The psychology lying back of this conception represents a great advance over the passive, associationalistic, element psychology of the hedonists, and is especially significant as emphasizing the impulsive, dynamic nature of value, but it is still too abstract, — indeed, it abstracts from a very fundamental aspect of the value as *experienced*, namely, the feeling itself. Moreover, in many cases, value may be great with desire at a minimum, else we must say that value ceases when an object is *possessed*, and desire is satisfied. I may value my friend greatly, may be vividly conscious of that value, and yet, because he *is* my friend, because I already possess him, may find the element of desire a minor phase in his value, even if it be present at all.³ Hedonism abstracts a prominent and important phase of the value experience, and while it errs in making that phase the whole of the experience, and while it has sadly misinterpreted that phase (for feelings of value cannot be reduced to pleasure and pain feelings), still we cannot afford to disregard it. Just because the hedonistic analysis is crude, it has to seize on something obvious. If we must choose between

¹ *System der Werttheorie*, vol. I, chap. I.

² *Op. cit.*, p. 311.]

³ Cf. Urban, *op. cit.*, p. 36; Meinong, *op. cit.*, pp. 15-16.

feeling and desire as *the* value-fundamental, we must, I think, with Meinong and Urban,¹ settle on feeling rather than desire. Our point will be, however, to protest against the identification of value with either of these, and to distinguish both of them as *moments*, or phases, in value, and value itself as a moment or phase in the total psychosis. Value is not to be understood apart from what Urban calls its "presuppositions."² Every value presupposes a going on of activity, and is intimately linked with the total psychosis, — a moving focal point of clear consciousness, with a surrounding area of vaguer processes, gradually shading off into the subconscious and unconscious at the borders. Every value is linked with the whole body of ideas, emotions, habits, instincts, impulses, which, in their organic totality, we call the personality. Back of the value stands a long history, which persists into the present in the form of dispositions and activities, of which we are unconscious so long as they are unimpeded, but which spring into consciousness at once if arrested. If the object be one that appeals to simple biological impulses, we may, as a rule, safely abstract from most of these "presuppositions," and centre attention upon the biological impulse and its accompanying feelings and ideas. But as we rise to objects that appeal to wider and higher interests, the essential presuppositions include more and more till, in vital ethical values, virtually the whole personality is essentially in-

¹ Meinong, *op. cit.*, pt. I, chap. I; Urban, *op. cit.*, pp. 38-39.

² *Op. cit.*, pp. 14-16, and following chapter.

volved. Of these presuppositions, or "funded meaning," we need not be conscious in any detail. The value, which is the emotional-volitional aspect of this funded meaning, is, of course, sufficient, so long as it is unchallenged by an opposing value, for the motivation of our activity — which is the essential function of values. The presuppositions tend to become explicit when the value is challenged by another value, though they never come entirely into light, in the case of the higher values, and to make them even approximately clear is the work of long conflict in an introspective mind. A frequent result of conflicts among values is a sort of mechanical "haul and strain," producing "more heat than light." The question of the relations among values is a separate topic, which will be discussed for its own sake later. We are here interested in it as making clearer the nature of the "presuppositions" of value.

Now in the value, as has been said, we may distinguish both desire and feeling. The feelings, in Professor Dewey's phrase, are "absolutely pluralistic" and cannot be reduced to any one type, or two types, as pleasure and pain. The desires may be either intense or slight, without reference to the amount of the value, depending on circumstances. As stated, if we *have* the object we value, the element of desire must be reduced to an *attitude*, to a disposition to desire, in the event the object should be lost. It remains a vague background of concern, of "anxiety lest the object escape," capable, of course, of springing into full

intensity if need be. In esthetic values, and in the values of mystical repose, we have cases where desire is,¹ thus, at a minimum. Strictly speaking, desire, as a conscious fact, has in it always a negative aspect, a privative aspect, — we desire when we are incomplete, when we lack. It is this negative aspect of desire which the Greek philosophers, as Aristotle, stressed, and which has led absolute idealism to eliminate desire from its conception of the Absolute Spirit. But desire has also a positive or active aspect, and in this aspect it remains in all values. Where the activity is perfectly unified, — a situation which we sometimes approximate, — we may not be conscious of desire, even though intense activity is going on. Since, however, the human mind is rarely in this state, and never completely in it, we may hold that desire, in its privative aspect, is always to some degree present, if only as a vague uneasiness. And as a disposition to activity, if the value should be threatened, desire is always present.

Conversely, desire may be at a maximum, and feeling at a minimum. If we do *not* possess the object, if we are striving for it, while there may be and doubtless is feeling in connection with the desire, it cannot, obviously, be the *same* feeling that we would experience if the object were present and quenching the desire. Indeed, it may be held that much of the feeling-accompaniment of intense desire is extraneous to the value-moment: that it is, in fact, kinæsthetic feel-

¹ Urban, *op. cit.*, p. 39.

ing, due to the stress of opposing muscular reactions, etc. The disposition to feel is there, and, if the object of desire be one that is familiar, the mere anticipation of it may call up traces of the feeling that its presence has in the past produced and will produce again. But the feeling element in such a situation is a minor phase.

Finally, unless we mean to insist that all the objects which one values, and whose values motivate one's conduct, are present in consciousness all the time, we must recognize that neither desire nor feeling need be actual, present, conscious facts, for the value to be effective. It may happen that the object of value is one reserved for later use, and that it is not threatened. In such a case we may accord its value intellectual recognition, with desire and feeling both at a minimum, and that recognition may serve as a term in a logical process which may lead to a practical conclusion of significance for action. Or, a value may form part of the unconscious "presupposition" of another value, which is consciously felt at the moment. Mind is economical. Consciousness is not wasted, when there is no function to be served by it. The essential thing about value is that it motivate our conduct. If a satisfactory set of habits be built up about a value, it may serve this purpose perfectly, without coming into consciousness very often. But both desire and feeling must be potentially there.

A further element is necessary. Meinong insists upon an existential judgment, a judgment that the object valued is real, as essential to

value.¹ Gabriel Tarde² makes a similar contention, holding that belief, as well as desire, is involved in value, and that a diminution of either means a lessening of the value. Urban's opinion, which seems to me the correct one, is that we need not and cannot go so far as this.³ In many cases such judgments are explicit and the value could not exist if the object were explicitly judged unreal. But the mere unconscious assumption or presumption of the reality of the object, the mere "reality-feeling," is sufficient, — as is obvious enough from the fact that we value the objects of our imagination. We shall often find, especially in the field of the social values to which we shall shortly turn, that Tarde's contention is highly significant, particularly with reference to economic values, and there, particularly in the matter of credit phenomena.⁴ But explicit affirmation, even there, is not necessary, provided the question of reality is not raised at all. A "reality-feeling," however, is essential. It should be noticed, too, that this "reality-feeling" is an essentially emotional, rather than intellectual, fact. It is the emotional "tang" which distinguishes *belief* from mere ideation, and, if it be present, the ideation and explicit judgment may be dispensed with.

In the value experience, as a conscious experience, and from the structural side, we may distin-

¹ *Psychologisch-ethische Untersuchungen zur Werttheorie*, Graz, 1894, pt. I, chap. I, esp. p. 21.

² "La psychologie en économie politique," *Revue Philosophique*, vol. XII, pp. 337-38.

³ *Op. cit.*, pp. 41 *et seq.*

⁴ See chapter XVI, *infra*.

guish these phases: feeling, desire, and the reality-feeling, each present at least to a minimal degree. And yet it seems to me that we have in none of these, considered as phases *in consciousness*, the most essential aspect of value. For our purposes the structural aspect is not the most significant. The *functional* aspect is of more importance. And the function of values is the function of *motivation*. That value is greatest which counts for most in motivating activity. A well-established and unquestioned value, which in a concrete situation has the *pas* over all the others concerned, has little need to awaken the emotional intensity that other, less certain, values, whose position in the scale is as yet undetermined, may require. A girl is arranging a dinner-party. Whom shall she invite? Well, her chum of course must be there. No question arises. There is no need for conscious emotion. One or two others are settled upon almost as readily, and with as little emotional intensity. But now comes the problem *at the margin!* For eight or ten others are almost equally desirable, and there are only six places. The lower values, compared with each other, must show themselves for what they are, must come vividly into consciousness, must be felt and desired *in order that they may be compared*, — not in order that they may *be!* From the functional side, then, the test of a value is its influence upon activity. The “common denominator,” or, better, the abstract essence, of values, is, not feeling, nor desire, but power in motivation, and the expression of this is of course the

activity itself. The *functional* significance of the consciously realized desire and feeling aspects of values comes in when values are to be compared and weighed against one another, and — a phase that was stressed in a preceding section, and will again be adverted to shortly — when values are to be *shared* consciously by different individuals, when they are to be communicated and discussed, — that is to say, are to become objects of a group consciousness.

The significant thing about value, then, from this functional point of view is its dynamic quality. Value is a *force*, a motivating force. But now we must revert to our original point of view, — the total situation. We have, by an analytical process, sundered subject and object, and then, within the subject, have discriminated phases which psychological analysis reveals. But in the course of activity, these elements are not discriminated. The value is, not in the subject, but in the *object*. The object is an embodiment of the force. It has power over us, over our actions. If the object be a person, we are under his control — to the extent of the value. If the object be a thing controlled by another person, we are subject to his control — to the extent of the value. I do not wish to be understood as picking out this abstract phase of value as the whole of the story, or thinking that it is possible for value to exist in this abstract form. Qualities are never separate. But I do contend that this is the essential and universal element in values, and that for an individual engaged in the active conduct of life, this

aspect is so significant that it may often be the sole feature to engage his attention — because it is the sole feature that *need* engage his attention for the activity to go on in harmony with his values. Here, then, is value “stripped for racing”: *a quantity of motivating force, power over the actions of a man, embodied in an object.* All the other phases, in the course of the active experience itself, may be relegated to the sphere of the implicit.

A necessary limitation has been definitely indicated in what has gone before, but, to avoid misunderstanding, it may be well to indicate it more explicitly. Not every form of impulse is to be counted a value. Every state of consciousness is motor, and tends to pass into action, even vague, undefined feelings, and half-conscious fancies. A value must have its organic presuppositions, as indicated before, and must be embodied in an *object*. The objects of value may be infinitely various: they may be economic goods, they may be persons, they may be activities, they may be other values, they may be ideal objects, the creatures of our imaginations, they may be social utopias or the Kingdom of Heaven. But there must be an object, and the value is a quality of the object. But, functionally, the essential thing about this value is its dynamic character.

Values are positive and negative.¹ A “fearful sight” repels us, has a negative value, tends,

¹ The German, with its facility in compounding, offers a convenient nomenclature here: *Wert* and *Unwert*. Cf. Ehrenfels, *op. cit.*, for a brief discussion of negative values (pp. 53-54).

to the extent of its strength, to make us withdraw. A bad act, an ugly woman, a cruel man,— here we have negative values. Little need be said further with reference to this point. They alike are motivating forces, the positive values attracting us, the negative values repelling us.

The question of the relations among values we shall discuss rather briefly, not that it is unimportant, but that much of it is familiar. Values may be complementary — as when several objects are all essential to one another if any of them are to be of use. Values may depend on other values, as the value of the means depends on the value of the end, which is its essential “presupposition.” Values may antagonize each other, and here two cases are to be distinguished, which differ so much in degree that the difference may be regarded as qualitative. Values may be in their nature quite compatible, so that nothing in their character prevents the realization of both, but there may not be *room* enough for both, owing to the limitation of our resources,—as when the young lady of our illustration had only six seats at her dinner, and so was obliged to exclude some of her friends. But the values may be qualitatively incompatible. We may be unable to realize them both because the one involves a different sort of *self* from the self that could realize the other. This is the typical case in ethical values, where the presuppositions, especially in ethical crises, involve the whole personality. In case of such conflicts, say between the value of Sabbath observance and the allurements of Sunday base-

ball in the case of an orthodox "fan," we may have, as before indicated, a mere mechanical haul and stress, in which one or the other wins by sheer force, to the very considerable discomfort of the uneasy victim. But the conflict may lead to a reëxamination of the presuppositions of each value, to a process of bringing each into more organic relation to the whole system of values. In this process, other values may be called into play, may reënforce one or the other of the two alternative values. And, after such a process, both values may be different from what they were. There may emerge some higher value which comprehends them both, or one may be reduced to a minor place, and the other may prevail. Values are no more permanent than any other phase of the mental life. Constant transformations, even though not always fundamental transformations, take place.

There is another case which is so familiar to economists that it need merely be adverted to. Where objects of value are indivisible, we must take one *or* the other, if there be a conflict. But, in the case of qualitatively compatible objects, a different situation is the rule. We may have *part* of one, *and* part of the other, and the question arises as to *how much* of each. Here the Austrian analysis gives us an answer, which, when we generalize it, despite its antiquated psychology, may be accepted with little modification.¹ The law of "diminishing utility" as we increase the incre-

¹ For this generalization, see Urban, *op. cit.*, chap. vi; Ehrenfels, *op. cit.*, vol. II, chap. III, esp. p. 86.

ments of each object, holds, and the problem is that of a marginal equilibrium. The young lady of our illustration would certainly have her chum if she have only one dinner, but if she have a number of dinners, the "marginal utility" of her chum's presence may sink so low that she may find the presence of some one hitherto excluded more valuable at the sixth or seventh dinner. And, indeed, our conception of qualitatively incompatible values must not be made too absolute. Human nature is accommodating and practical, and a little wickedness may be tolerated by a good man for the sake of a value which would not induce him to tolerate more. He may find the "final increment" of his Sabbath observance lower than the "initial increment" of his Sunday baseball.

Two antagonistic values may cohere in the same object. Our *fearful* sight may also be an *interesting* sight. And the initial increment of the interest may outweigh the initial increment of the fear. But, as the interest is partially satisfied, the fear may grow, until it finally overcomes the interest, and we flee. Indeed, it may be laid down as the law of negative values that as the "supply" increases (*cæteris paribus*) the negative value rises — the obverse of the law of "diminishing (positive) utility" — a doctrine recognized, in one of its aspects, in the economic doctrine of "increasing (psychic) costs."

A further point is to be noted in the case (especially though not exclusively) of these qualitatively incompatible values, where a quantita-

tive compromise of the sort described is worked out between them. The personality itself may change, through a growing familiarity with the negative value. It may cease to be a negative value, and may become positive. And if, as may happen, this change takes place quickly, in the course of a moral crisis, our process would be, first, a gradually increasing negative value, as the "supply" of the objects of negative value is increased; next, a sudden shift from a high negative to a high positive value, as the personality changes, and we come to love what we have hated; then a gradual sinking of the new positive value as the supply is still further increased.¹

The case of the conflict between qualitatively incompatible values is the typical case of the conflict between "duty and pleasure," between "obligation and inclination," etc. Certain values present themselves as "categorical imperatives," as "absolute universals," and refuse, or tend to refuse, any compromise. Our analysis would tend to cast doubt on the "absolute absoluteness" of these values (taking absolute in the sense in which it has been used in the history of ethics, as distinguished from the sense in which I have earlier used it in this book²). The most

¹ An analogue in the field of social values is readily suggested. A new heresy starts, opposed by the dominant element in the social will, *i.e.*, having a negative value for the majority. As the heresy increases, the negative value rises till, in a crucial point, the tide turns, and the heretics become the dominant element in the society. Then — since their position is far from certain — new recruits to the heresy have a high positive value, but, as the heresy still further spreads, additional recruits count for less and less.

² Cf. Urban, *op. cit.*, *passim*; Ehrenfels, *op. cit.*, vol. I, pp. 43 *et seq.*;

significant thing about these "absolute" values from the standpoint of our present inquiry, seems to be the resistance which they offer to the "marginal process." They seem to insist that their objects be taken *in toto* or not at all. They tend to universalize themselves, attaching to the remotest possible increment of the "supply" quite as strongly as to the initial increments. They refuse to place their objects in a scale of "diminishing utility." Such values are those which have been so fortified by habit and education that they are vital parts of the personality, and that any compromise where they are involved seems treason to the inmost self. If we wish to make precise analogies between our social and our individual values, we shall find here the nearest approach in the individual field to those fundamental legal values which determine the inmost character of the state, and which present themselves as "practical absolutes" in the legal value system, e.g., democracy, or personal liberty — or fundamental sociological values, like the "color line."

It will be noted, further, that our analysis draws no hard and fast lines between the different sorts of value, ethical, economic, esthetic, religious, personal, etc., in the sphere of the individual's psychology. Such lines do not exist. There are shadings, gradations, quantitative differences which become distinct enough to justify a

Mackenzie, criticism of Ehrenfels and Meinong in *Mind*, Oct., 1899. Cf. also, Wicksteed, *The Common Sense of Political Economy*, London, 1910, pp. 402 *et seq.*

classification of values. But values never become, on the functional side, so fundamentally different in character that there can be no reduction of them to the "common denominator" of power in motivation. And especially is that a false abstraction which would separate the different sorts of value, ethical, economic, etc., into separate, water-tight systems, and let each system have its own equilibrium and its own interactions, uninfluenced by the other systems. The fact is, simply, that ethical and esthetic values may constantly reinforce economic values, economic values reinforce ethical values, or economic and ethical or other values may oppose each other, and marginal equilibria are constantly worked out between them. Or, better, *among* them, for, while in the consciousness of the moment we may have only *two* opposing values in mind, and may have our equilibrium apparently between just two, yet in fact the whole system of values is constantly tending toward equilibrium, ethical, religious, economic, esthetic, all asserting themselves, and finding their place in the scale, and getting their "margins" fixed,—extensive margins and intensive margins. But this is so obviously merely a generalization of well-known economic laws, that further detail is needless. One point may be mentioned, however. *Price* is to be generalized in the same way as value. Since this equilibrium among values holds, then any object of value may be used to *measure* the value of any other. If the presence of her chum at the fifth dinner is in equilibrium with

the presence of some hitherto excluded friend, for our young lady, then the one is the *price* of the other, and measures her value. A material good which one takes in return for an immoral act is the price of that act. And if, in a moment of fundamental ethical crisis, a man surrenders a cherished purpose about which his whole life has been built, to the allurements of some dazzling temptation, it is much more than a metaphor to speak of "the price of a soul."¹

The Austrian analysis was essentially faulty, then, not so much in its hedonistic psychology — for it can be freed from that² — as in its abstraction of the economic from other aspects of the individual's value system. Equilibria among economic values will not explain even the individual's economic behavior — do not by any means constitute a self-complete system. This abstraction has been noted before.³ The other abstraction of the Austrians, the abstraction of the individual from his vital, organic connection with the social whole, we shall treat more fully later.

So far, we have kept pretty strictly within the field of "individual psychology" and "individual values." But we shall find, when we come to the field of the social values, that essentially the same laws hold. On the *functional* side, the

¹ The generalization of the idea of price, while not original with Wicksteed, is interestingly developed by him in chaps. I and II of his *Common Sense of Political Economy*, London, 1910.

² Davenport, *op. cit.*, pp. 303-11, gives a good summary of economic discussions of hedonism. His own view is that the Austrians are not essentially bound up with hedonism.

³ *Supra*, chaps. VI and VII.

analogy between the individual mind and the social mind is a very close one, and the correspondences on the *structural* side are numerous also. While we shall not try to find analogies in the social field for all these laws of individual value, it is not because of any difficulty that the problem presents, but rather, because it is unnecessary for the vindication of our thesis to do so.

CHAPTER XI

RECAPITULATION. THE SOCIAL VALUES. FUNCTIONS OF THE VALUE CONCEPT IN ECONOMICS

OUR conclusions reached in previous chapters, from the standpoint of economic theory, and from the standpoint of sociological theory, alike forbid us to stop with the results so far obtained as to the nature of value. From the standpoint of social theory, we are unable to consider the individual values discussed in the last chapter as completely accounted for on the psychical side by what goes on in the individual mind: every individual mind is a part of a larger whole; every thing in the individual mind has been influenced by processes in the minds of others; every process in the individual mind influences, directly or indirectly, processes in the minds of others. There is a social mind. And the values in the mind of an individual constitute no self-complete and independent system, either in their origin, in their interactions, or in their consequences for action. In our psychological phrase, their "presuppositions" include elements in the minds of other men, and they themselves constitute part of the "presuppositions" of the values in the minds of other men. Finally, there are values which correspond to the values of no individual mind, great social values, whose presuppositions are tre-

mendously complex, including individual values in the minds of many men, as well as other factors which we shall have to analyze in considerable detail, great social values whose motivating power directs the activities of nations, of great industries, of literary and artistic "schools," of churches and other social organizations, as well as the daily lives of every man and woman — impelling them in paths which no individual man foresaw or purposed. In Urban's phrase, —

between the subjectively desired and the objectively desirable in ethics, between subjective utility and sacrifice and objective value and price in economic reckoning, between the subjectively effective and the objectively beautiful in art, there is a difference for feeling so potent that in naïve and unreflective experience the feelings with such objectivity of reference are spoken of as predicates of the objects themselves.¹

And our theory carries us even further than Professor Urban cares to go here. Naïve and unreflecting experience is perfectly justified in treating these objective values as qualities of the objects themselves. To the individual man, an objective value, say the value of an economic good, *is* as a rule, a quality almost wholly independent of his personal subjective feelings or point of view. The average man, "by taking thought," can no more affect the value of wheat or corn or other big staple than he can "add a cubit to his stature." For the great mass of men, and the great mass of commodities, this holds true. The individual finds the world of

¹ *Op. cit.*, p. 17.

economic values a part of the brute universe, like the force of gravity, or the weather, or the law against murder — less invariable than the force of gravity, and less variable, as a rule, than the weather — to which he must adapt his individual economy. He is not wholly impotent to change this world of economic values, nor is he wholly without influence on the balance of cosmic forces. And, if possessed of enough social *power* (which we shall find to constitute the essence of these social values) he may substantially modify the action of the law against murder, or the values of those commodities about which the rich may be capricious; or even, if intelligent in the use of his power, he may undertake a successful “bull” campaign, and force up the value of wheat or cotton. But even in such cases, he deals with objective facts, — which often, in the midst of a bull campaign, behave in a most surprising and disconcerting manner!¹ The existence of external constraining and directive forces are matters of every day experience. Laws, moral values, social constraints of a thousand subtle and obvious kinds, are facts so well known that education has made it its central task to teach the individual how to adjust himself to them. They have been described and elaborated in innumerable books.² *That*

¹ Cf. Royce, J., *The World and the Individual*, New York, 1901, vol. 1, pp. 209–10, and 225.

² I may refer here particularly to Durkheim, *De la division du travail social*, Paris, 1893. In giving this reference, of course, I do not commit myself to the “mediæval realism” of which Durkheim has been, perhaps justly, accused. Cf., also, Professor Ross’s admirable *Social Control*.

they exist is certain. Their origin, nature and function we shall study in what is to follow.

We were led to a similar conclusion by the analysis of the necessities of economic theory. Economic value as a quality, present in a good in definite, quantitative degree, regardless of the idiosyncrasy of the particular holder of the good, we found a necessity of economic thought. The argument may be briefly recapitulated, and a few points added. If goods are to be added together and a sum of wealth obtained, there must be a homogeneous element in them by virtue of which the addition can be made. We do not add a crop of wheat and a lead-pencil,¹ and a gold watch, and twenty dollars and a theatre ticket, on the basis of length or weight or other physical quality. Only by picking out the homogeneous quality, value, can we add them. We cannot compare two economic goods, and put them into a ratio, except on the basis of such a homogeneous quality. We have no terms for our ratios apart from quantities of value, and yet our ratios must have terms. We find economists speaking of value as the essential characteristic or quality of wealth. We find theorists speaking of money as a "measure of values" — a conception only possible if value be a quality of the sort of which we speak, present both in the money measure and in the thing measured in definite quantitative degrees. A point or two may be added. We find economists, notably the

¹ Cf. Ely, *Outlines of Economics*, 1908 ed., pp. 99-100, and Tarde, *Psychologie Économique*, vol. 1, p. 85, n. See *supra*, chap. II.

Austrians, undertaking the problem of "Imputation," breaking up the value of a consumption good into different parts, one part being assigned to the labor immediately concerned in its production, and other parts of that value to goods of the next "rank" — owned by people different from those who consume the good — and this value further subdivided among goods of remoter ranks, — the whole process possible only if the original value be an objective quantity of the sort described. We find a differential portion of a crop of wheat compared with the land which produced it, and spoken of as a percentage of the land, which is true only if the *value* of each be considered — and indeed is meaningless, else. Or, we find merchants reckoning their gains in the form of money at the end of the year, as a certain percentage of their capital — which has consisted throughout the year of goods of various sorts. Everywhere in the economic analysis this conception of value has been essential for the validity of the analysis, and this is especially true when we come to the ultimate problems of monetary theory. We may ignore, sometimes, the element of value when dealing with non-monetary problems, in terms of quantities of money, simply because it is not necessary to refer to fundamental principles explicitly all the time. But when we come to the problem of money itself, we must make use of the value concept, and the value concept is implicit in the whole procedure.

Further, the value concept has been called

upon to explain the motivation of the economic activity of society, and value has been conceived of as a motivating force.¹ Schæffle, especially, has stressed this phase of the matter in his criticism of the socialistic theories of value. "Utility value," he holds, does direct industry into proper channels, but a value based on labor-time would get supply and needs into a hopeless discrepancy.²

No ratio "between objective articles" will serve these functions which the economists have put upon the value concept. Value as a purely individual phenomenon, varying from man to man, will in no way³ serve these purposes of the economists. Value as a mere brute quantity of physical objects given in exchange for other physical objects, could in no way serve these purposes. Value must be an objective quality, a *power*, embodied in the object, independent of the individual judgment or desire. A strong feeling that this is so is manifested in the term which the

¹ Cf. Wieser, *Natural Value*, pp. 65, 162-63, 210-12, and 36; Flux, *Economic Principles*, chap. II.

² *Quintessence of Socialism*, London, 1898, pp. 55-59, 91 *et seq.*, 123-24.

³ I take pleasure in availing myself of the privilege which Professor W. A. Scott, of the University of Wisconsin, accords me, of quoting him to the effect that "such a conception of value [a value concept which makes the value of a commodity a quantity, socially valid, regardless of the individual holder of the coin or the commodity, and regardless of the particular exchange ratio into which the value quantity enters as a term] is absolutely essential to the working-out of economic problems." Professor Scott has been driven to this conclusion in the course of his studies in the theory of money. Dean Kinley expresses a somewhat similar view in his *Money*, p. 62. It is, of course, in the theory of money that the need for such a concept makes itself most acutely felt. But the same view is expressed by Professor T. S. Adams, from the standpoint of the statistician. See his article, "Index Numbers and the Standard of Value," *Jour. of Pol. Econ.*, vol. x, 1901-02, pp. 11 and 18-19.

English School so often uses as the equivalent of value, namely, "purchasing power"¹ — a term which Böhm-Bawerk approves.² The notion of relativity which has, historically, been bound up with this term, we have criticized in chapter II, and it is not necessary to repeat the argument here. But the other aspect of it, its recognition of the dynamic character of value, and of the quantitative character of value, even though often confusedly and vaguely, seems very much to strengthen the case for the thesis I am maintaining.³

The effort of the Austrians, and of other schools of economic theory, to explain and justify this notion of value as an objective quantity, has already been considered, and our conclusion has been that, through a too narrow delimitation

¹ Even Professor H. J. Davenport finds a quantitative value concept necessary in places. For example, on page 573 of his *Value and Distribution*, he speaks of capital, considered as a cost concept, as standing "for the total invested fund of value, inclusive of all instrumental values, and of all the general purchasing power devoted to the gain-seeking enterprise." It might be unkind to remind him of his definition of value on page 569, and ask him what a "fund" of "ratio of exchange" might mean! And the notion of value as a quantity, instead of a ratio, is involved, as indicated in the text, in the term, "purchasing power," which he also uses in the passage quoted. This term, "purchasing power," as apparently a substitute for value, Professor Davenport uses in several instances, where the ratio notion clearly will not work: on page 561, "distribution of purchasing power," page 562, "redistribution of purchasing power," and page 571. I say "apparently," for I do not think Professor Davenport anywhere in the volume gives a formal definition of "purchasing power."

² "Grundzüge," etc., Conrad's *Jahrbücher*, 1886, pp. 5 and 478, n.

³ This line of argument, drawn from the usage of the economists in the treatment of other terms, and in the handling of problems, might be almost indefinitely expanded. Almost everybody has a quantitative value concept in mind when he is reasoning about practical problems. The trouble comes only when a value theory has to be constructed! Cf. the discussion of production as the "creation of utilities," *infra* chap. XVII.

of their determinants, they have been led into circular reasoning. A further criticism is now possible, in the light of our sociological and psychological conclusions: the picking out of *any* abstract elements, however numerous, with the effort, by a synthesis, to combine them into a concrete social quantity, must fail. In the process of abstraction we leave out vital elements of the concrete social situation; how shall we expect these vital elements left out to reappear when we put the abstract elements into a synthesis? They cannot, if the synthesis be logically made. And it is precisely because Professor Davenport is so accurate in his logic that he fails to get a social quantity out of the abstract elements of subjective utility, etc. But the majority of economists, less careful in their formal logic, but more impressed by the facts of social life and by the exigencies of getting a working set of concepts, have assumed and used the quantitative concept, with satisfactory results so far as practical problems are concerned, but without fundamental theoretical consistency. The elements which the abstract theories suppress persist, under the guise of economic value itself, in the facts of life, and take their vengeance on the theory by forcing it into a circle. Our problem, then, is not to find out certain elements out of which to construct social value by a synthesis. The proper procedure will be the reverse of that: to take social value as we find it — i.e., as it *functions* in economic life, — and then to analyze it, picking out certain prominent and significant

phases, or moments, in it, which, taken abstractly, are not the whole story, but which furnish the criteria of social value, and control over which is significant for the purpose of controlling social values.

In subsequent chapters, we shall, carrying out this plan, try to put concrete meaning into our abstract formulation of the problem.

CHAPTER XII

SOCIAL VALUE: THE THEORIES OF URBAN AND TARDE

OUR point of view will be more adequately defined if we consider briefly the theories of social value, set forth from the angle of a general (as opposed to a specifically economic) conception of value, by Professor W. M. Urban and Gabriel Tarde. These theories contain some elements which we shall need, and our criticism of them will bring into clearer light the need for the distinctive point of view of this book.

Professor Urban's conception as to the nature of value, in its individual manifestation, has been already indicated, in part, in chapter x. Stressing the organic nature of the relations of a value to other phases of the mental life, insisting on a recognition of the "presuppositions" of value, and recognizing that both feeling and desire (or desire-disposition) are involved in value — our cursory account cannot begin to do justice to the subtlety and exhaustiveness of his masterly analysis — he still insists on finding the fundamental nature of value in a phase of its *structure* (rather than in its function), namely, in the *feeling*. From this part of his doctrine we have found it necessary to differ. When he comes to the problem of social value, he carries over the same conception of value, and he finds that social

values appear when many individuals, through "sympathetic participation," *feel* the same value. With our conclusion (chapter VIII) that we can share each other's emotional life he is in thorough accord. His argument in this connection is admirable.¹ His interest is primarily in moral social values, and he attempts no detailed treatment of economic social values, seeming to hold that the Austrian treatment of objective value is adequate.² Both moral and economic values are "objective and social."³

Collective desire and feeling, when it has acquired this "common meaning," when the object of desire and feeling is consciously held in common, we may describe as Social Synergy; and the objective, over-individual values may be described as the resultants of social synergies. The introduction of this term has for its purpose the clearest possible distinction between social forces as conscious and as sub-conscious. It is with the former that we are here concerned.⁴

Conscious collective feeling is thus insisted upon as an essential in social values, and Professor Urban insists⁵ that the value ceases to be a value as this conscious feeling wanes — even though conceding⁶ that it retains the power of influencing the *felt* values, after it has passed into the realm of "things taken for granted."

But this stressing of the conscious element of feeling — which as I have previously shown is a variable element even within the individual psychology, and has no necessary quantitative relation to the functional significance, the amount

¹ *Op. cit.*, chap. VIII, esp. p. 243.

³ *Ibid.*, p. 312.

⁵ *Ibid.*, pp. 333-36.

² *Ibid.*, p. 319.

⁴ *Ibid.*, p. 318.

⁶ *Ibid.*, p. 335.

of *motivating power*, of the value — makes it really impossible for him to resolve the question of how the *strength* of a social value is to be determined. He does, indeed, undertake something of the sort ¹ (he is speaking of ethical values), making the quantity of value depend on “supply and demand,” the supply depending on the number of people willing to supply a given moral act, and the intensity of their willingness to do it — extension and intention both being recognized. And demand is similarly determined. The thing seems to be nothing more than an arithmetical sum of intensities of individual feelings, or, most justly, individual values. But this leaves us no wiser than before as to the social *weight*, the social *validity*, of these social values. An infinite deal would depend, both in the case of supply and demand, on *who* the individuals are. A demand for a given act from a poor group of fanatics, however intense, might count for little, while such a demand coming from a group with great prestige, with great social *power*, might have a very great significance. If we are trying to get an objective quantity of social value, which shall have a definite weight in determining social action — the function of social values — we are as poorly off as we were with the Austrian analysis which, in order to get an objective quantity of economic value out of individual “marginal utilities,” has to assume value in the background as the validating force behind these individual elements. The error here,

¹ *Op. cit.*, pp. 329–30.

as there, comes from an abstraction, from centring attention upon the conspicuous conscious elements. And it comes in stressing the structure, the content, of social values, to the exclusion of their functional *power*. Here is our real problem, if we would determine the social validity of values. This lurking element of social power remains an unexplained residuum.

This residuum of *power*, backing up the conscious psychological factors, gets explicit recognition, even though no real explanation, at the hands of Gabriel Tarde,¹ to whose theory of social value we now turn. I quote chiefly from his *Psychologie Économique*, and the numerals which follow refer to pages in volume I. (63-64) Value understood in its largest sense, takes in the whole of social science. It is a quality which we attribute to things, like color,² but which, like color, exists only in ourselves. . . . It consists in the accord of the collective judgments . . . as to the capacity of objects to be more or less, and by a greater or less number of persons, believed, desired, or admired. This quality is thus of that peculiar species of qualities which present numerical degrees, and mount or descend a scale without essentially changing their nature, and hence merit the name of quantities.

¹ "La croyance et le désir: possibilité de leur mesure," *Rev. philosophique*, vol. x (1880), pp. 150, 264. "La psychologie en économie politique," *Ibid.*, vol. xii (1881), pp. 232, 401. "Les deux sens de la valeur," *Rev. d'économie politique*, 1888, pp. 526, 561. "L'idée de valeur," *Rev. politique et littéraire (Rev. Bleue)*, vol. xvi, 1901. *Psychologie Économique*, Paris, 1902.

² Cf. Conrad, *Grundriss zum Studium der politischen Oekonomie*, Jena, 1902, Erster Teil, p. 10.

There are three great categories of value: "*valeur - vérité*," "*valeur - utilité*," and "*valeur - beauté*." To ideas, to goods (in a generic sense of the term), and to things considered as sources "*de voluptés collectives*," we attribute a truth, a utility, a beauty, greater or less. Quite as much as utility, beauty and truth are children of the opinion of the mass, in accord, or at war, with the reason of an *élite* which influences it.

(It may be noted in passing that Tarde's "trinitarian" conception of value is not as artificial as it seems. It is simply a method of classification, and there are many subdivisions under each head. Economic value, e.g., is a subspecies within the group of utility values — "goods" include "*pouvoirs*," "*droits*," "*mérites*," and "*richesses*" (66). Our own conception is, of course, that values are thoroughly "pluralistic" as to their structure, and are "monistic" in their function.)

(64) The greater or less truth of a thing signifies three things diversely combined: the greater or smaller number, the greater or less social importance ("*poids*," "*considération*," "*compétence*" "*reconnue*") of the people who believe it, and the greater or less intensity of their belief in it. The greater or less utility of an object expresses the greater or less number of people who desire it in a given society at a given time, the greater or less social "*poids*" ("*ici poids veut dire pouvoir et droit*") of the persons who desire it, and the greater or less intensity of their desire for it. And so with beauty.

Here is, then, an explicit recognition of the element of the social *weight* of those who create a social value, as a factor coördinate with their number and the intensity of their desires, etc. Toward resolving it, however, Tarde makes no real contribution. If enough be read into the parenthetical expressions given above, following the word "*poids*" in each case, they would be found to harmonize with the theory of the writer, shortly to be set forth. As it happens, however, Tarde attempts to resolve this factor of the social weight of a participant in a social value, in an analogous case, and gives us a different sort of explanation. He is seeking a "*glorio mètre*," or measure of glory — for glory is a social value too. He finds that to determine a man's glory we must take account of two things: one his notoriety, and the other, the admiration in which he is held (71-72). The first is simple: we will count the number who watch him and talk about what he does. The second is harder, for we must not merely count the number who admire him, but also determine the importance of each as an admirer. But how get at this? Tarde suggests that the study of the cephalic index will throw light upon the problem — no satisfactory solution, I think! — but says that anyhow the problem is practically solved every day in university and administrative examinations.

Apart from the fact that conscious desire (or conscious belief, etc.), rather than functional power, is made the basis of Tarde's social value, and apart from the failure to give any real ac-

count of the origin of this "social weight," of the individuals in the group which creates the social value, there is a further defect in Tarde's analysis which cannot be strongly objected to. It is his effort to treat organic processes as if they were an arithmetical sum of elements. A sum of abstractions will not give you a concrete reality. A man's social weight is not a thing independent of relations, a thing which can be thrown now here and now there with the same results in each case. And two men, each with a definite social weight, do not have precisely twice that social weight when they combine with each other. Two great leaders of opposing, evenly balanced political parties, combining their influence, may secure wonderful results, leading both parties to agree on a programme, and carrying it through. Two equally great leaders, but both within the same party, may be unable to accomplish anything by combining their efforts. And it may happen that two men, each with great weight in his own sphere, would be so incongruous if they tried to coöperate, that their joint weight would be less than the weight of either alone. It is not a matter of arithmetical addition. Social power can be used in certain ways, and in certain organic connections. If we care to use a mechanical phrase, the effort to use it out of organic connections is apt to result in so much "friction" that much of the power is lost.

The objection to the insistence on the amount of conscious desire or feeling as a criterion of the amount of value holds for social values quite

as much as for individual values. The social value of the gold standard, judging by the amount of desire and feeling involved, by the degree to which it was a factor in consciousness, was vastly greater during the campaign of 1896, while its validity was still in question, than it was after it had been validated, and made a really effective fact. Social value depends, not on conscious intensity, but on motivating power. The social consciousness, as the individual consciousness, is economical. And the need for conscious feeling, for conscious desire, in connection with social, as with individual, values, arises when values must be compared, when they are in question, when they must show themselves for what they are, that they may be brought into equilibrium with antagonistic values. And the amount of consciousness will not be greater than the need for it — and, alas, is rarely as great as the need! When a value becomes accepted, when its place is secure, when the equilibrium is established, conscious feeling and desire with reference to it tend to pass away, and peace comes.

Tarde seems to recognize this, indeed, when he says (72, n.): —

Of nobility, as of glory, it is proper to remark that it is a force, a means of action, for him who possesses it, but that it is a faith, a peace, for the people who accept it, and who, in believing in it, create it.

CHAPTER XIII

ECONOMIC SOCIAL VALUE

How are we to get out of our circle: ¹ The value of a good, A, depends, in part, upon the value embodied in the goods, B, C, and D, possessed by the persons for whom good A has "utility," and whose "effective demand" is a *sine qua non* of A's value? The most convenient point of departure seems to be the simple situation which Wieser has assumed in his *Natural Value*.² Here the "artificial" complications due to private property and to the difference between rich and poor are gone, and only "marginal utility" is left as a regulator of values. But what about value in a situation where there are differences in "purchasing power"? How assimilate the one situation to the other?

A temporal *regressus*, back to the first piece of wealth, which, we might assume, depended for its value solely upon the facts of utility and scarcity, and the existence of which furnished the first "purchasing power" that upset the order of "natural value," might be interesting, but certainly would not be convincing. In the first place, there is no unbroken sequence of uninterrupted economic causation from that far away hypo-

¹ See chaps. VI and VII, *supra*.

² Bk. II, chap. VI.

thetical day to the present, in the course of which that original quantity of value has exerted its influence. The present situation does not differ from Wieser's situation simply in the fact that some, more provident than others, have saved where others have consumed, have been industrious where others have been idle, and so have accumulated a surplus of value, which, used to back their desires, makes the wants of the industrious and provident count for more than the wants of others. And even if these were the only differences, it is to be noted that private property has somehow crept in in the interval, for Wieser's was a communistic society. And further, an emotion felt ten thousand years ago could scarcely have any very direct or certain quantitative connection with value in the market to-day. Even if there had been no "disturbing factors" of a non-economic sort, the process of "economic causation" could not have carried a value so far. It is the living emotion that counts! Values depend every moment upon the force of live minds, and need to be constantly renewed. And there would have been, of course, many "non-economic" disturbances, wars and robberies, frauds and benevolences, political and religious changes — a host of historical occurrences affecting the weight of different elements in society in a way that, by historical methods, it is impossible to treat quantitatively.¹

¹ Cf. Davenport, *op. cit.*, p. 560. "For, in truth, not merely the distribution of the landed and other instrumental, income-commanding wealth in society, but also the distribution of general purchasing power . . . are, at any moment in society, to be explained only by appeal to a *long and*

What is called for is, not a *temporal regressus*, which, starting with an hypothesis, picks up abstractions by the way, and tries to synthesize them into a concrete reality of to-day, but rather a *logical analysis* of existing psychic forces, which shall abstract from the concrete social situation the phases that are most significant. This method will not give us the whole story either. Value will not be completely explained by the phases we pick out. But then, we shall be aware of the fact and we shall know that the other phases are there, ready to be picked out as they are needed, for further refinement of the theory, as new problems call for further refinement. And, indeed, we shall include them in our theory, under a lump name, namely, the rest of the "presuppositions" of value.

complex history [italics mine], a distribution resting, no doubt, in part upon technological value productivity, past or present, but in part also tracing back to bad institutions of property rights and inheritance, to bad taxation, to class privileges, to stock-exchange manipulation . . . and, as well, to every sort of vested right in iniquity. . . . *But there being no apparent method of bringing this class of facts within the orderly sequences of economic law, we shall — perhaps — do well to dismiss them from our discussion. . . .*" [Italics are mine.] It may be questioned if the "orderly sequence" is worth very much if it ignore facts so decisive as these. It is precisely this sort of abstractionism which has vitiated so much of value theory. Most economists slur over the omissions; Professor Davenport, seeing clearly and speaking frankly, makes the extent of the abstraction clear. I venture to suggest that the reason he can find no place for facts like these within the orderly sequence of his economic theory is that he lacks an adequate sociological theory at the basis of his economic theory. A historical *regressus* will not, of course, fit in in any logical manner with a synthetic theory which tries to construct an existing situation out of existing elements. Our plan of a *logical analysis* of existing psychic forces makes it possible to treat these facts which have come to us from the past, not as facts of different nature from the "utilities" with which the value theorists have dealt, but rather as fluid psychic forces, of the same nature, and in the same system, as those "utilities."

Our reason for choosing a logical analysis of existing psychic forces instead of a temporal *regressus* — instead, even, of an accurate historical study of the past — is a twofold one: first, we wish to coördinate the new factors we are to emphasize with factors already recognized, and to emerge with a value concept which shall serve the economists in the accustomed way — it is illogical to mix a logical analysis with a temporal *regressus*. But, more fundamental than this logical point, is this: the forces which have historically *begot* a social situation are not, necessarily, the forces which *sustain* it. The rule doubtless is that new institutions have to win their way against an opposition which grows simply out of the fact that we are, through mental inertia, wedded to what is old and familiar. We resist the new *as* the new. Even those who are most disposed to innovate are still conservative, with reference to propaganda that they themselves are not concerned with. The great mass of activities of all men, even the most progressive, are rooted in habit, and resist change. When, however, a new value has won its way, has become familiar and established, the very forces which once opposed it become its surest support. Or, waiving this unreflecting inertia of society, as things become actualized they are seen in new relations. What, prior to experiment, we thought might harm us, we find beneficial after it has been tried, and so support it — or the reverse may be true. The psychic forces maintaining and controlling a social situation, there-

fore, are not necessarily the ones which historically brought it into being.¹

We turn, therefore, to a logical analysis of existing social psychic forces for our explanation of social economic value, and for the explanation of the motivation of the economic activity of society. It will still pay us, however, to halt for a moment in Wieser's hypothetical "natural" community, for we shall find there that many of the concrete complexities which he sought to eliminate have really persisted in slight disguise. Really there is no such simplicity as Wieser supposes. The "natural" society has, indeed, no private property, or differences between rich and poor, but it has, none the less, *legal* and *ethical* standards of *distribution*, which are just as efficient in the determination of economic values as are the results of our present system of distribution. The term, "natural," has misled Wieser, when it leads him to say that marginal utility alone will rule. For "natural" here means, not "simple," but "ethically ideal." The word has — as Wieser and others who have used it often fail to see — a positive connotation of its own: a definite set of legal and ethical values are bound up in it in this case. That such a society should exist, and that in it "marginal utility" should be the only *variable* affecting value (apart from the limitations of physical nature), implies the legal rule of equality in distribution, and such a set of moral values actually ruling the behavior

¹ I do not, of course, mean to question the immense light which history throws upon the nature of existing social forces.

of the people as to make this legal rule effective, — or else the most extraordinary activity on the part of the government to maintain the rule. Wieser himself fails to see this, for he concedes that the “moral” principle of distribution in such a society would recognize the superior merits of the leaders who furnish ideas and direction, as entitling them to a higher reward than the merely mechanical laborers.¹ But this, it is evident, would give them an excess of that same vexatious “purchasing power”² — whether embodied in gold or commodities or labor-checks matters little — and so would destroy the efficiency of the principle of “marginal utility” as the ruler of values.

As phases in the “presuppositions” of economic value, then, coördinate with “marginal utility,” our theory puts the legal and ethical values concerned with distribution, which rule in a community at a given time. Reinforcing and validating the values of *goods* are the social values of *men*. President F. A. Walker³ defines value as “the power an article confers upon its possessor *irrespective of legal authority or personal sentiments*, of commanding, in exchange for itself, the labor, or the products of the labor, of others.” [Italics are mine.] In our view, this definition is precisely wrong. A change in laws or in morals respecting the social ranking of men, respecting property rights, will at once affect economic values. Earlier economists often wrote as if

¹ Wieser, *op. cit.*, pp. 79–80.

² *Ibid.*, p. 62.

³ *Pol. Econ.*, 1888 edition, p. 5.

distribution were primarily a physically determined matter, and so we got from them an "Iron Law of Wages," etc. But it is pertinent to quote from one who, though in many ways allied to the older school, and in value theory avowedly their follower, still stands as a bridge between the theories I am criticizing and my own. John Stuart Mill¹ says: —

The laws and conditions of the production of wealth, partake of the character of physical truths. There is nothing optional or arbitrary in them. . . . It is not so with the Distribution of Wealth. That is a matter of human institution solely. The things once there, mankind, individually or collectively, can do with them as they like. They can place them at the disposal of whomsoever they please, and on whatever terms. Further, in the social state, in every state except total solitude, any disposal whatever of them can only take place by the consent of society, or rather of those who dispose of its active force. Even what a person has produced by his individual toil, unaided by any one, he cannot keep, unless by the permission of society. Not only can society take it from him, but individuals could and would take it from him, if society only remained passive; if it did not either interfere *en masse*, or employ and pay people for the purpose of preventing him from being disturbed in the possession. The distribution of wealth, therefore, depends on the laws and customs of society. The rules by which it is determined, are what the opinions and feelings of the ruling portion of the community make them, and are very different in different ages and countries; and might be still more different, if mankind so chose.

The distribution of wealth, then, depends on social psychic forces. And among these are the social, ethical and legal values of men and of so-

¹ *Principles*, bk. II, chap. I.

cial classes. Economists of an earlier school took these factors for granted, when they thought of them at all, and assumed that they are constant, relatively unchangeable things, a sort of fixed framework within which the forces of a Malthusian biology, or the forces of "self-interest" might work. Commonly, indeed, they thought of them not at all, and wrote as if the factors which they allowed to vary told the whole story. Such is, indeed, still the procedure, in our present day "pure economic" theories of distribution, which either exclude the non-economic factors,¹ or else relegate them to the "pound

¹ Professor Clark seems to desire to exclude all phases of social life except the "pure economic," from his static conception, as indicated by the footnote which follows, taken from page 76 of his *Distribution of Wealth*: "The statement made in the foregoing chapters that a static state excludes true entrepreneurs' profits does not deny that a legal monopoly might secure to an entrepreneur a profit that would be as permanent as the law that should create it — and that, too, in a social condition which, at first glance, might appear to be static. The agents, labor and capital, would be prevented from moving into the favored industry, though economic forces, if they had been left unhindered, would have caused them to move to it. This condition, however, is not a true static state, as it has here been defined. Such a genuine static state has been likened to that of a body of tranquil water, which is held motionless solely by an equilibrium of forces. It is not frozen into fixity; but as each particle is impelled in all directions by the same amounts of force, it retains a fixed position. There is a *perfect fluidity, but no flow*; and in like manner the industrial groups are in a truly static state when the industrial agents, labor and capital, show a *perfect mobility, but no motion*. A legal monopoly destroys at a certain point this mobility [so would a law forbidding the manufacture of, say, opium or liquor, or any law or moral force that prevents the individual's using his labor and capital in the manner most advantageous to himself regardless of public consequences], and is to be treated as an element of obstruction or of friction that is so powerful as not merely to retard a movement that an economic force, if unhindered, would cause, but to prevent the movement altogether." This would seem to leave economic forces working *in vacuo* in Professor Clark's static state — if "unhindered" is to be taken literally. It is probably a juster interpretation, however, to hold that Professor Clark has in mind a con-

of 'cæteris paribus.'"¹ If ours were a stagnant civilization, this procedure might be safe, but

stant legal situation, in which absolutely free competition is assured by law. But even in his scheme for an economic dynamics, there is no place for legal or ethical changes. There are five general sets of dynamic changes which Professor Clark mentions, whose operation is to constitute the subject matter of economic dynamics. They are (*Essentials*, p. 131, and *Distribution*, pp. 56 *et seq.*): (1) population increases; (2) capital increases; (3) methods of production change; (4) new modes of organizing industry come into vogue; (5) the wants of men change and multiply. These five categories are all, primarily, at least, economic in character. While legal and ethical changes would doubtless influence them, they certainly cannot comprehend the full influence of these legal and ethical changes, especially those affecting the ranking of men, and the distribution of wealth. There seems to be a marked difference between Professor Clark's point of view in his *Distribution of Wealth* and that of his earlier *Philosophy of Wealth*, and I must confess my preference for the earlier point of view. In saying this, of course, I am far from impeaching the masterly economic analysis which the later book contains — rather, I join heartily in the general estimate which counts that book as of altogether epoch-marking significance. My point is, rather, as will be indicated more fully in the chapters on the relation between value-theory and price-theory, that the presuppositions and significance of such a study as Professor Clark's need clarification and interpretation in the light of a theory of value which takes account of the rich complexity of social life.

Professor Joseph Schumpeter, of Vienna, carries out economic abstractionism to its logical limits, both in "statics" and in "dynamics." For an estimate of his statics, *vide* Professor Alvin S. Johnson's review of Schumpeter's *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie* (Leipzig, 1908), in the *Journal of Political Economy*, 1909, pp. 363 *et seq.* His dynamics is also to be "*reinwirtschaftlich*." An essay in economic dynamics, the introduction to which sets forth his general point of view, appears in the Austrian *Zeitschrift für Volkswirtschaft*, etc., 1910, under the title, "Das Wesen der Wirtschaftskrisen." In this Professor Schumpeter narrows, by a process of exclusion, the conception of what would constitute a "pure economic" explanation of crises virtually to a pinpoint — and then fails to carry out his program of giving us a "*reinwirtschaftlich*" theory. For, in order to get any *periodicity* into his economic movement, he is obliged to bring in, from the field of sociological theory, the factor of *imitation* — he does not use the term, imitation, though he does use the verb, "*kopieren*." (*Vide esp.* pp. 298-99.) Professor Schumpeter very explicitly recognizes the existence of factors other than the "*reinwirtschaftlich*," but counts them as "external" factors.

¹ Cf. Professor Marshall's discussions in his sections on economic law and method, and Professor Davenport's classification of the factors in the economic environment (*Value and Distribution*, pp. 514-15).

in a highly "dynamic" society, where laws, morals, class relations, the very fundamentals of organization, are being made the subjects of scrutiny, agitation, class struggle, etc., are being subjected to "transvaluations," and are continually changing them with the principles, machinery and results of distribution, and so one of the biggest factors lying back of economic values, no study of value can afford to ignore them.

It is of course recognized that a purely ethical and legal theory of distribution would be as much an abstraction as the "*reinwirtschaftlich*" theory of distribution — and probably a much less useful abstraction. Either abstraction is legitimate, if it do not seek to abolish the other factors. We may safely enough define a set of legal and moral values, concerned with the organization of society and industry, and, assuming them constant, a sort of frozen framework, let man's values with reference to the immediate consumption and production of economic goods ("utilities and costs" in current phrase) vary, and see what the consequences, both on the ranking of men, and the ranking of goods, will be. Or, assuming "utilities and costs" constant, we may let the legal and moral values vary, and see what consequences would follow. Or, assuming all other factors constant, we may vary the size of the population, or vary the proportions between labor and productive instruments, or between land and population, or pick out any other factor of the concrete situation we happen to be interested in, as the "standard of living,"

and let it change, and see what consequences flow therefrom. But, in doing this, we must not forget that the other factors remain essential, equally potent in the general situation with the one on which we have centred our attention. And we must not forget that changes in one factor, while we may in thought allow it to occur alone, cannot occur without bringing in changes in the others as well. An increase in the number of laborers, e.g., may also mean an increase of *voters* of a given political tendency, and may mean a change in the political power of classes, and a change in the laws. And it may be tremendously significant whether the increased number of laborers consists of Irish Catholics, or of Russian Jews, or of native Americans, or of negroes, — significant from the standpoint of distribution, of the values of economic goods, and the direction of economic activity.¹ Reduce your labor force to “efficiency units,” so that from the standpoint of productive power of the additions no difference is made whether they be of the one class or the other, and still it is a matter of

¹ The danger of the abstract individualistic study, from the entrepreneur's viewpoint — a useful enough method within limits — is well illustrated by Professor Davenport's contention that “men as employees are passive facts, mere agents under the direction of managing producers, and are therefore only potentially directing forces. The problem of production and of marginalship is, accordingly, an entrepreneur problem.” (*Op. cit.*, p. 279, n.) This is set forth as a limitation on the doctrine, stated in the paragraph which precedes it, that “man is to be conceived as the subject and centre of economic science, etc.” Surely Professor Davenport's contention is an impossible abstraction from the rich facts of social control. The managing entrepreneur knows better, when he deals with union rules and walking delegates. And the economist, tracing the subtler forces that underlie values, and so motivate the direction of industry, should know more, rather than less, than the entrepreneur.

consequence, from the standpoint of distribution, and ultimately of the values of goods, whether they belong to one class or the other. One sort of laborer may be capable of efficient labor-union organization, with the result that a large share of the product goes to labor. Another sort of laborer may be incapable of much organization, may work at cross-purposes with the rest of the labor force, and may be an easy victim of exploitation. "Other things equal," we may concede that productive efficiency, or "standard of living," or other abstract principle, determines the share that goes to labor — but many indeed are "the other things." The distribution of wealth is not an "arbitrary" matter — if by that it be meant that no scientific laws can be worked out to describe it. Mill himself would be first to protest against any metaphysical "freedom of the will" here. But it is a matter into which law and morals and personal friendship and monopoly privilege and charity and benevolence and statesmanlike purpose and selfish struggle — in a word, the whole intermental life of men in society — are involved. And any principle of distribution that we may select is only true, not only if other things are "equal," but also if other things are in a particular set of relations. We have seen the assumptions of a non-economic sort that are implicit in Wieser's conception of a "natural society." It may be interesting to note what is involved in the situation which Professor Clark treats in his *Distribution of Wealth*. That his system should hold,

we must have, of course, private property, and personal freedom. We must have perfectly free competition. We must have absolutely no monopoly privilege of any sort. We must have such rapid and free communication of ideas that no monopoly of knowledge should exist. But imagine the moral values that must rule in a society where such a situation holds! How are men to be prevented from getting monopolies? How prevent laws in the interests of the alert and influential? How prevent the monopoly of ideas? A very different moral situation must obtain in such a society from that we know. And a very different system of laws. In saying this, of course, I say nothing that was not obvious enough to Professor Clark when he constructed his system on the basis of "heroic abstraction," but still it cannot be neglected. Not every one who has undertaken to interpret Professor Clark, and to make practical application of his theories, has seen these limitations.

Or, again, what does the system of competition mean? Why do we have such varied estimates from different writers? Why do some see in it a benevolent influence, while for others it is a ghastly nightmare? The answer is, I think, that competition is an abstraction, which each makes in his own way. If we look on competition as a system where each is free to follow his "pure economic" tendencies in the shortest and simplest manner, I think there can be no question but that we must condemn it. The "pure economic impulse," namely, the im-

pulse to get the maximum of wealth with the minimum of effort, left unchecked and unguided by any other social forces, would lead, by the shortest and simplest path, to theft, robbery, and murder. They are easier than work! And more sensible than work, if one be "*rein-wirtschaftlich*," and live in a society where there is little chance that he who creates wealth will enjoy it. Or, partly checked by social constraints (thinking of these as "external" matters solely), the "economic tendency" may lead — as it has led — to the dynamiting of rival plants, to the securing of preferential rates from common carriers, to the corrupting of legislatures and judges, to the spreading of false rumors, etc. On the other hand, if the "rules of the game" are high, if competition be limited to doing things which result in a better commodity with a decreased outlay of human effort and physical resources, and with kindly feeling among competitors (or even without this last), we may see in it a great source of justice and progress. It all depends on what Professor Seligman calls the "level of competition."¹ That is to say, it depends on the extent to which the system includes factors of moral, legal and social nature, other than the "pure economic" — a thing "that never was on land or sea."

And what shall we say of "inevitable economic tendencies"? A good many of them — leading in diverse directions — have appeared in the literature of economics. On the one hand, in-

¹ *Principles*, 1905 ed., pp. 147 *et seq.*

evitable tendencies towards a divine "economic harmony." On the other hand, inevitable tendencies toward monopoly; toward ever more numerous panics; toward greater concentration of wealth; toward proletarian misery of an ever more hopeless sort — all bringing us finally to a socialistic state. I see no inevitable economic tendencies anywhere. The "economic motive," as already indicated, if left free to work *in vacuo*, would lead us to anarchy. But it does n't work *in vacuo*. And the question as to where the infinite complex of social forces may lead us is not one that can be settled "*reinwirtschaftlich*." We can only say that economic values, at a given moment, are the focal points at which the laws and moral values and loves and hates, and "utilities" and "costs" directly connected with economic goods, and the multitudinous other values of concrete social life exert their motivating influence on the economic activities of society. Then, given these economic values, and assuming that they alone are of significance for the activity of society, we may see where they would lead us. But we should still be in a world of abstractions if we did so. For the economic social values do not exhaust the social forces of motivation. Very much of social activity is non-economic in character. And the force of a given moral value — say that of elevating the condition of a degraded class — may be divided, tending indirectly by raising the value of a certain sort of economic good, to encourage its production, and tending directly to prevent its pro-

duction. Let us assume, for example, that this moral value leads to an increase in the income of the degraded class, and so tends to increase the demand for liquor; but assume, further, that this same moral value is the force leading to a prohibition law, that forbids the production and sale of liquor. Ethical, religious, legal, esthetic, and other values may indirectly motivate the economic activity of men through entering into economic values, or they may directly, in their own form, antagonize these economic values, by constraining those who do not "participate" in them, and by impelling those who do feel them to activities in lines other than those where the greatest surplus of economic value is to be gained. Even, then, though we have a theory of economic value which includes these other social forces, we have no right to speak of "inevitable economic tendencies." Social life is one organic whole. There is no phase of social activity which is wholly directed by one set of values, and there is no one set of values that exclusively depends on one sort of motive. And when we give exclusive attention, in our study, to one set of values, as it is often necessary to do, we must recognize that we are handling an abstraction, that the other forces remain, and must be dealt with before our conclusions have any validity for practice.

CHAPTER XIV

ECONOMIC SOCIAL VALUE (*continued*)

BACK to the concrete whole, then, of social-mental life. The abstract elements with which the Austrians and the pain-abstinence cost school undertook to solve the value problem, have their place in this whole. The "utility" of goods to individuals, growing out of the nature of their wants, depends very largely on social causes. Mode,¹ fashion, custom — how powerfully they mould our wants. And individual "cost," likewise: a university athlete could dig a ditch far more easily, so far as bodily pain is concerned, than could an aged negro, and yet would suffer much more in doing it than would the negro. A social standard would bring a feeling of shame to him which the negro would not share. If we abstract from the concrete forms which individual wants and "costs" take, and define them in their lowest physical terms, we might leave out a social reference. But men do not desire raw meat, and the skins of beasts, and caves in which to live. Their food they wish to eat in accordance with the conventions of their class, and of a sort that their fellows eat, their water, of late, they wish free from germs, their houses

¹ *Vide* Ross, *Foundations of Sociology*, chapter on the "Sociological Frontier of Economics," and Tarde, *Psychologie Économique*, *passim*.

and clothing must be "in style," — facts well enough recognized, though not in themselves enough for a theory of "social value." These individual "utilities" and "costs" have little meaning till we know the social ranking of the men who feel them, till we know how much the men who have them count for in the scale of fundamental *human* values. And their effect on "supply price" and "demand price" — the money measures of infinitely complex social forces, to which the entrepreneur immediately looks for his "cue" — has absolutely no constant relation to their intensity. The wants of slaves may count for little. The utterly unattractive and inefficient man may starve. The gilded parasite of a prerevolutionary French monarch may command untold resources, while the useful and productive millions may barely exist. On the other hand, with a changed set of legal and moral values, we may have men of social influence and power striving constantly to increase the incomes and relieve the sufferings of the poor and helpless. Our legislatures may be busy with laws shortening the hours of all labor, laws prohibiting child labor, laws restricting the labor of women, laws for the protection of miners, laws relating to the conditions of pay for labor and to compensation for accidents — which promptly reflect themselves in the values of the goods produced in the industries affected, and in the increased values — through increased "demand" — of the goods consumed by these classes.

The ideal of "no pay without function" may

attain — as I think it is to-day attaining — a value of increasing power. And it may lead men to strive for the abolition of monopoly incomes, and the correction of the gross inequalities in the distribution of wealth. If it do not succeed — and it does not by any means succeed — it is because opposing values check it. At any given moment, there is an equilibrium, usually unstable, between the forces tending to correct, and to perpetuate, these inequalities. And it need not be an evil force that is the real obstacle to the realization of greater justice in distribution. The legal value of private property — one of those social “absolute values” which do not readily lend themselves to the “marginal process” — checks at an early stage many of our well-meant, but badly planned, efforts at justice. Glad as most of us would be to deprive plutocratic pirates of what they have not earned, we still do not care to upset the fundamentals of our social system in the process. But the conflict between these values brings them both into clearer light. We see, and feel, the significance, the “presuppositions,” the “funded meanings,” of each. And while, for the present, there is a “mechanical haul and strain” between them, which, if no more light comes, may ultimately lead to the triumph of one and the complete defeat of the other, still, we may hope to get a result like that which often comes in the case of conflicts between values in the individual psychology — a fuller appreciation of the significance of both values, which will get us away from the

“absoluteness” of each, and effect a marginal equilibrium between them, or, perhaps, get a new value which will comprehend them both. Of course, the thing is not so simple as this. It is not a conflict simply between two values, both of which the same man may “participate” in. Our plutocrats are also parts of the social will. They count! The economic value they control may bribe lawmakers, may corrupt judges, may seduce writers and preachers and teachers and others who have to do with the making of public sentiment and the shaping of social values. And, in subtler ways, through the social prestige which their mere wealth too often gives, through the ideals which they themselves honestly feel, and communicate to those about them, do they create values opposing the values making for a juster distribution of wealth. Infinitely complex is the situation, many and varied are the values, which reinforce each other, oppose each other, and come into equilibrium with each other, in a given moment in the social will.

Older egoistic theories of political economy, which assumed perfect freedom of competition, and gloried in the “harmonies” which result therefrom, whereby the interests of the individuals and of society converge, and the maximum of social welfare is attained by the individual’s attaining his own interests — these theories have been much attacked of late by those who accept the premise of egoism, but reject the premise of freedom. To them economic “friction” means simply an opportunity for the strong to prey upon

the weak, and the social outlook is gloomy indeed. The harmonies are shattered and gone. If we reject the other premise also, however, as necessarily a dominant principle, the outlook is changed or may be changed. It is true that there are ignorance, helplessness, and passions among men, and that wolves prey. But it is also true that there are forces of righteousness alert and militant in the world, not merely in the pulpit and cloister and missionary field. And the struggle between these contending forces is pregnant with implications for value theory. An astute corporation lawyer argues before a court; an honest attorney-general defends the rights of the people; and the ticker on 'Change records whether right or wrong has prevailed. Prices are big with the moral tidings they would speak — shall we read in them only mathematical ratios between quantities of physical objects?

It is by turning, then, to the concrete whole of social-mental life, and especially to the moral and legal values of distribution, that we break the circle¹ of our economic values. Economics

¹ It may be objected that instead of "breaking the circle," we have simply widened it — that economic values, working through other forms of value, affect other economic values still. In a sense, of course, this is true. In any truly *organic* situation, we have the phenomenon of *reciprocal causation*. An organic situation *must* be circular in this sense. The parts are *interdependent*. And our objection to the theories criticized is based on the fact that they are essentially efforts to describe a process in *rectilinear causation* — in the case of the Austrians, *e. g.*, the process is *from* subjective utility, *to* objective value of consumption goods, then *to* the values of the production goods of the nearest rank, and then on and on to goods of remoter ranks, etc. Böhm-Bawerk recognizes very well that the charge of circular reasoning, if it could be brought home to the Austrians, would vitiate their system. *Vide* "Grundzüge," Conrad's *Jahrbücher*, 1886, p. 516. And Professor Clark likewise recognizes that value

has failed to profit by the example of the other social sciences here. Ethics has frankly recognized the tremendous import of economic values for ethical values. Jurisprudence has frankly accepted the fact that law grows, in large part, out of economic needs — even though it remains behind the needs of the present economic situation. But economic theory has sought to make itself too much a thing apart, to isolate its phenomena from other phases of social life, and has busied itself exclusively with “utility” and “cost” and “prices,” and the like. And where the economist has consented to consider the relations between his own field and adjacent fields, he has done so with a preconception of the priority of his own phenomena, and his results have been an “economic” interpretation of history, ethics, jurisprudence, etc. That the economic interpretation of the other fields has much to commend it is certain, but it is equally certain that law and morality react on economic values, especially in the higher stages of civilization. This has been so fully and convincingly stated by Professor Seligman, in his *Economic Interpretation of History*, that I forego further elaboration here. One comment is necessary however: even though we might grant Marx and Buckle that the physical environment and the progress of

theory of the sort he is treating is spoiled by circular reasoning, as indicated by his criticism of a certain form of the labor theory in his *Distribution of Wealth*, p. 397. Whenever a small set of abstractions is picked out, as the source and cause of the rest of a movement, such a process of rectilinear causation is implied. And a rectilinear process has no right to get into a circle!

economic technique are of ultimate ruling significance for the direction of social progress, it is still a far cry from that doctrine to the doctrine that the "utilities" and "costs" directly connected with the production and consumption of economic goods, in the minds of individual men, are an adequate explanation of anything.

Were we interested in ethical and political values for their own sake, it would be easy to show that our conception of the nature of society and of social values has a similar significance for politics and ethics. There is no one distinctive emotion, as fear, or the love of domination, that lies at the basis of the state; there is no one emotion, as sympathy, or the love of pleasure, which constitutes the essence of the moral values, nor is there any single type of mental activity, as imitation, or consciousness of kind, which furnishes the peculiar theme of sociology. Social life is not in water-tight compartments. It is one whole, of which the different sciences study different aspects. And the principle of division of labor among the social sciences is not that one science shall offer one theory of society and another science another theory, but rather, that each science shall take as its problem a phase of society, and explain it by reference to a general set of facts which all have in common. The differentiation comes not in the *explanation* phenomena¹ — no science has

¹ Pareto, in the introductory chapter of his *Cours d'Économie Politique*, defines economics in terms of the narrow abstraction which he has chosen for the explanation phenomenon, as the "science of ophelimity" (p. 6).

any monopoly on any set of forces which may be used for the purpose of explanation — but in the phenomena to be explained, in the *problem* phenomena.¹

and ophelimity is “an entirely subjective quality” (p. 4). There are two objections to this procedure: you neither completely explain your problem phenomena, nor do you exhaust the possibilities of your explanation phenomena — for the same sort of mental facts have bearing on ethical and other social problems as well as on economic problems.

¹ I am indebted to Professor E. C. Hayes, of the Department of Sociology of the University of Illinois, for this distinction.

CHAPTER XV

SOME MECHANICAL ANALOGIES

IT may help the exposition if we throw the argument, briefly, into terms of the more familiar mechanical analogies, and speak of the equilibria and transformations of social forces. Of course, mechanical analogies have been used from time to time already in our discussion — psychologists themselves often find it useful to conceive of their phenomena in mechanical terms. And while, in the exposition, we shall find frequent reason to prefer our plan of conceiving society as a psychical organism, and the social forces as phases in an organic process, still certain relations may be clearer for being put into the other form.

Social values may be transformed into other forms of social value — as heat may be transformed into electricity, or into motion, or motion into heat, etc. Professor Clark, with his distinction between “capital” and “capital goods,” has shown how economic value may undergo constant transformation, as to its physical embodiment, and yet remain generically the same. But the possibilities of transformation are not confined to the economic sphere. We may generalize the notion. A man may use economic value to attain political power; having the political power, he may use it to get economic value

back again, by direct barter and sale, if he wishes to take bribes, or by subtler, but still all too familiar means. Or, the political power may be transformed into personal prestige, if used in ways that please those whose good will means prestige. And personal influence — “live human power” (in Professor Cooley’s phrase),¹ may be transformed into values of numerous sorts, into political power, into moral values — if he who has it wishes to make a propaganda — into prestige for other men, into economic value — for cannot an inspiring man command the purses of others in behalf of his plans and purposes? And may not popular confidence in a great statesman or financier in times of panic cause fears to be allayed, and values to return to goods that had lost their value? A man who has goods for which no demand exists, and which have, hence, little value, may, employing those who possess the art of creating demand to make public opinion for him by advertising, find his investment, transformed into public belief and interest, return to him a golden harvest. A religious value may flow into the economic value of religious books. A moral or religious value may be transformed into a law. A legal value — as a franchise right² — has often a definitely recognized economic value as well. Economic value, spent in an educational campaign, may

¹ *Social Organization*, p. 264.

² Professor J. R. Commons has made some interesting comments in a note (“Political Economy and Business Economy,” *Quar. Jour. Econ.*, Nov., 1907), as to the extent to which intangible objects have come to have economic value. The legal and psychical nature of such values is, of course, very manifest.

result in the establishment of a new moral or legal value. And so on indefinitely. Enough has been said to show that there is some sort of analogy between social and physical forces, in that both can be transformed into other forms of force. The analogy might be pushed further. It is often difficult to make the transformation in both cases — there's lots of "friction" if a man starts out publicly and brazenly to buy a political office, and a great deal of waste in the process. But enough has also been said to show the weakness of such an analogy: in creating personal prestige through the wise use of his political power, an officer may actually increase, instead of exhausting, his political power. Or, in the moment of attempting certain transformations, the original power may be suddenly wiped out — as if a great political leader should undertake to popularize some form of immorality. There is no law of equivalence, of conservation of energy, in social forces. Their nature and their relations are organic, and not mechanical.

Or, we may speak of equilibria among social forces. Economists have for a long time been used to this, speaking of equilibria between supply and demand, between labor and capital, between enterprise and the other factors of production, between intensive and extensive margins, etc. But we may also have equilibria between, say, demand and moral values, as when moral forces oppose the consumption of liquor, or between supply and law, as in the case where regulation, rather than total suppression, of

certain vicious businesses is the practice, or where the effort at total suppression falls short. And equilibria between enterprise and law and morals are being constantly worked out — entrepreneurs seeking to produce at the minimum expense, even at the cost of the lives and health of their employees, and law and morals¹ drawing limits beyond which they must not go, with a struggle between them at the margin — and the money prices of the products reflect the marginal equilibrium attained. Supply may be in equilibrium with a protective tariff, or an internal revenue excise — legal values which the economists have long been accustomed to treat quantitatively by the laws of incidence, and whose strength they measure in terms of money prices.² Not “utility and cost,” but an infinite complex of social forces are in equilibrium in the economic situation.

And the social forces in equilibrium at focal points are themselves composites of many forces, coöperating and reinforcing each other, each of

¹ Moral values, like economic values, in the sense in which I use the term here, are actual facts, and not mere ideals. A moral value *is* a value, to the extent that it is an effective *power in motivation*, to the extent that the social will backs it up, and punishes with its disapproval and with the subtle penalties which social disapproval involves, infractions of the moral standard in question. I am not here passing judgment on moral values themselves in the light of any ideal standard, but simply describing the manner in which moral values function.

² Intrinsically, there is no more reason why the economist should concern himself with measuring quantitatively the effect of tariff laws than with a similar treatment of other legal values. Tariffs do not affect industry any more intimately than hosts of other laws. The obvious reason why the economic laws of taxation have been worked out and the others ignored, in our economic analyses, is that the tax laws, being themselves expressed in money terms, are more easily handled by the economist.

these forces having its own equilibria with other minor forces — a net resultant sending the unneutralized energy of both in a common direction, to form part of a bigger stream of energy. "Demand" is a stream of energy fed by many springs, among which, no doubt, individual wants for the good in question are to be found, but which include the legal and moral values of *men*, also, and an infinite host of other forces.

And, just as one form of physical energy may be substituted for another, under different systems of technique, electricity taking the place of steam power, steam doing the work formerly done by horse or human power, so, in particular forms of social organization, one form of social force may do the work that is better done by some other form of social force under a different form of social organization. Thus the regulation of the details of conduct, a matter of iron law (or of custom with the force of law) in certain stages, we now leave to the control of subtler social forces. At one stage we depend on religious values, the curse and the benediction of the church, as a tremendously vital power in social control; now we find other modes of social energy frequently more efficacious. Now we depend primarily on economic social values, under a competitive system, to motivate the economic activities of society, to determine whether this piece of land shall be planted in wheat, or in some other crop, or fertilized in this or that manner; in the mediæval English manor, many questions like these were settled by vote of the manor court.

But whatever the form in which the social energy of control and motivation manifests itself, its functional character is the same. It has its origin in, and receives its vitality from, the social will — or better is a phase of the social will — as steam power, electric power, and the energy in human muscles, are species of the same generic force.

The effort has not been made to put the whole of our argument into these obviously uncongenial terms. The mechanical analogies, often useful for particular purposes, fail to bring out the rich complexity, the organic nature, of the social processes, and, by their very simplicity, often lead to the ignoring of essential factors. For the purposes of the practical economist, however, concerned with price analysis in a situation which is so complex that he can give attention to only one set of forces, or tendencies, at a time, and where quantitative measurement is essential, it is often highly necessary to abstract from the organic complexity, to assume that other forces than those he is measuring are constant, and to put his argument into mechanical terms. My conception involves no radical revision of economic methodology in this matter. It is primarily concerned with the interpretation and validation of this methodology. To this topic I shall return in the chapters on the relation between the theory of value and the theory of prices.

CHAPTER XVI

PROFESSOR SELIGMAN'S PSYCHOLOGICAL DOCTRINE OF THE RELATIVITY OF VALUES

PROFESSOR SELIGMAN'S discussion of value theory has been extremely fertile in suggestions for me, and I find the spirit of the positive theory outlined in this book much closer to the general point of view of his doctrines than to those of any other economic writer. His recognition of the generic character of value, of the fact that economic value is but a species within a genus,¹ his contention that, while ethical principles depend on economic considerations in primitive life, they still, in later and higher stages, attain a relative independence, and react on economic life,² his recognition of the essentially social nature of even the individual's wants,³ his discussion of the legal and moral "level of competition,"⁴ and, in general, his insistence upon a sociological point of view, especially in the treatment of all practical problems, have been of marked assistance to me in freeing my mind from the individualistic bias of the narrow price analyses, and in making clear the gap between existing theories of value and the function of the value concept in economic science. At certain

¹ *Principles*, 1905, p. 174.

² *Economic Interpretation of History*, *passim*.

³ *Principles*, p. 175.

⁴ *Ibid.*, pp. 147-48.

stages, as already indicated in part, his theories differ pretty radically from that set forth in the preceding pages. For one thing, I find no place in my scheme for the notions of social utility and social cost¹ which are prominent in his discussions, as, indeed, in the discussion of most of the adherents of the social value school. There is one further point of difference, however, to which I wish especially to call attention, as criticism of Professor Seligman's view brings to light certain significant points in the theory I am defending. The following quotation is from his article, "Social Elements in the Theory of Value," from the *Quarterly Journal* of May, 1901:² —

Progress consists in reducing costs, so that we gradually approach gratuity. But, in reducing the value of certain things, we necessarily increase the value of other things. By diminishing the efforts required to satisfy one want, we liberate the efforts needed to satisfy a new want; it is only when we can satisfy this new want that the means of

¹ It might be possible to put the argument into terms which would give an analogical meaning to "social utility" and "social cost." The diagram representing the intersection of the demand curve and the supply curve, fixing price, may be taken equally well to represent the balance of social forces which lies back of the market phenomena in the case of a given commodity. The demand curve might then be called a "social utility" curve, and the supply curve a "social cost" curve, if only it be remembered that cost and utility here have only a vague, analogical meaning, and cover up a host of factors which, while they fall conveniently into two opposing groups, like the individual's "cost" and "utility," are yet much more than the latter. But they are really so very much more than the latter, that it seems to me misleading to continue the use of the terms, utility and cost, when the associations of these terms in economic theory are remembered. The tendency would be to make the student feel that value depends on two abstract phases of social-mental life, instead of being an outcome of the organic whole.

² Pp. 342-43.

satisfaction acquires value. For the pioneer who with difficulty is able to clothe and feed himself a piano has no value. It is only as clothing and food take up less of his energy — that is, become of less value to him — that he will appreciate the new want, until finally in civilized society a piano is worth far more than a suit of clothes. Since value, as we know, is simply an expression for marginal utility, we cannot affirm that value in general ever increases or decreases. As pianos are worth more, clothing is worth less.

The relativity of value is here made to depend on a ground different from that which lies at the basis of the English School's doctrine of relativity. The ground of the latter is *logical*; the ground for Professor Seligman's view is *psychological*. Values considered as mutual relations between two goods cannot both fall — a fall in one means that it goes lower *than the other*, whence inevitably the other must rise, as a matter of logical definition. For Professor Seligman, on the other hand, value is a quantity of marginal utility. So far as the logic of the situation is concerned, an increase in the supply of good diminishes *their* marginal utility, and so their value.¹ But, as soon as that is done, a new want springs into existence, a new object receives value therefrom, and the total quantity of value remains as before. In the article from which the quotation is taken, the doctrine is merged to some extent with the English doctrine of logical relativity, as indicated by the discussion

¹ The reader will understand that I am using accustomed phraseology and making customary assumptions, not because I approve of them, but because the point at issue here is not affected by the question as to the relations between value and utility, etc. The distinction between a utility curve and a price curve does not affect the argument here.

on page 343, and by the footnote on page 344. The English doctrine is also suggested by the treatment in the *Principles of Economics* (pp. 184–85), where it is stated that “prices may rise or fall with reference to this standard, but we cannot speak of a general rise or fall of values, because there is no fixed point.” It is clear, however, that the argument for relativity in the passage first quoted, is wholly distinct from, and independent of, the logical relativity of definition. Professor Seligman, in conversation with the writer, has so distinguished it, and has indicated that, rejecting the logical doctrine of relativity, he now holds this psychological doctrine of relativity, as distinct, both from the absolute conception of Professor Clark, and the relative conception of the English School.

As preliminary to a criticism of Professor Seligman's doctrine, certain distinctions must be made. Values may be relative in Professor Seligman's sense without being relative in the sense in which the English School uses the term: the English School thought only of the relations among, say, a *unit* of wheat and a unit of corn, a unit of woollen goods, a unit of wine, etc.: Professor Seligman is thinking of the *total stocks* of these various commodities. Assume, for simplicity, that the stocks of all commodities were doubled, and that the demand curves for all the commodities have the same shape, and that form is the rectangular hyperbola,¹ so that

¹ Analytically expressed $xy = c$. This curve, by definition, leaves the “value area” (xy) constant.

the absolute value of each unit of each commodity would be exactly cut in half. The English School would say that there had been no change in the values of the units; Professor Seligman would say that there had been no change in the value of the *stocks*, but would concede at once that every unit has had its value cut in half.¹

Another distinction must be made. There is, to be sure, at any given time, a pretty definitely limited² amount of social *productive energy*. This energy can be distributed among only a limited number of products. Hence, there can be only a limited number of objects to receive value from the mental energies of society. But does it follow from this that what we may call the social energy of value-giving is a limited thing? Or, granted that it is limited, does it necessarily follow that the limits are fixed and rigid? Cannot circumstances arise which will make it vary in amount? If a new want arises, does it necessarily follow that all the old wants become less intense in the exact degree that the new want is intense? Must a quantum of value be withdrawn from the old objects precisely equal to that which is attached to the new object? This

¹ A complication must be noticed here, due to my use of the term, "demand curve." I am tacitly assuming that the absolute value of the money unit remains the same in this process, and so must say that the English School would concede that the value of the money unit has doubled even though holding that all the other values remain unchanged, except with reference to the money unit. For Professor Seligman, the value of money (*i.e.*, the total stock) has not changed.

² But the limitation is not absolute. New incentives may call out substantial increases in productive activity.

doctrine is deliberately affirmed, so far, at least, as the individual is concerned, in the article on "Worth"¹ in Baldwin's *Dictionary of Philosophy*, etc.: —

The struggle for existence among dispositions, which are at once the objects of ethical valuation and the source of value reactions, springs out of the nervous conditions of these dispositions. While there dwells in each the tendency to utmost activity under the given conditions, yet, since the valuing subject is master of only a limited energy of valuation, i.e., nervous energy, the increase of value of any given disposition must necessarily cause others to decrease. In any case increase of values is always relative.

Now two lines of criticism suggest themselves. In the first place, the concluding sentence of the quotation is a *non-sequitur*. If there be a definite, absolute quantity of energy, then its distribution among objects can give absolute quantities of value. Reservoirs connected by pipes may among them contain a definite quantity of water, and increase in the volume of water in one may be at the expense of all the others. But still the amount of water in each is an absolute amount. This criticism, I may note, Professor Seligman concurs in. Conceding that a definite amount of value may exist in each object, he holds that there is, none the less, a relativity about value in the sense that increase in the value of one item can only come from a decrease in the value of another, and *vice versa*. The other line of criticism calls attention to the

¹ Written by Professor W. M. Urban, author of *Valuation*, to which frequent reference has been made. *Vide Valuation*, p. 4, n. The article was, of course, written several years before the book.

identification of "energy of valuation" with "nervous energy." That the two are identical would be maintained only by the crudest materialism. The one is a physical force; the other is a psychical force. While nervous energy and energy of valuation may be connected, the nature of the connection is surely not so well known as to justify the assumption that definite limitation in the one implies a precisely corresponding limitation in the other.¹ There is no justification — at least in the present state of psychological knowledge — for holding that the law of the "conservation of energy" applies to psychical energy.²

Some concrete illustrations will make clearer the difficulties of the doctrine, as applied to economic life. Assume a group of men on board a whaling vessel, who suddenly discover that they will be obliged to spend the winter in the ice-zone, instead of reaching home in the fall as they had planned. Will not the value of everything in their store of provisions be increased? Will not their whole stock of wealth have a greater value? But this, Professor Seligman objects, is because they are in a situation such that opportunity for reproduction is lacking, and he raises the question as to whether the same situation is possible in economic life on a large scale, where wealth is being constantly produced. Well, assume that a crop failure on a large scale occurs.

¹ In this view I am sustained by Professor John Dewey.

² Cf. Stuart, "Valuation as a Logical Process," in Dewey's *Studies in Logical Theory*, pp. 328, n., and 330.

Will not the value of the total existing supply of the articles in which there is a failure be raised? And will not other competing articles of food have their values increased also? But, Professor Seligman would retort, these increases would be at the expense of the values of the half-grown fields of grain, and at the expense of articles other than food. Granted: but what evidence is there of exact equivalence? And further, assume that half of every existing stock of commodities, of every sort, were suddenly wiped out. Would the sum total of values remain the same? Only on the assumption that the social value curve for this totality of commodities is a rectangular hyperbola.¹ That this particular shape of the curve holds for any particular commodity would be difficult to prove. That it does not hold at all for the necessities of life is one of the common-places of economic analysis. Initial items in a stock of necessities have a very great value, when there are no other items of the stock, and the curve often descends very abruptly. Gregory King has undertaken to show, in terms of money, the shape of this curve for wheat in the England of his day. Other commodities have curves which behave very differently. While the argument from the part to the whole is not a valid argument in the presence of specific reasons making the whole obey different laws from the parts, it still, in the absence of such special considerations, does raise a strong presumption. And I must confess that I see no reasons why the

¹ See *supra*, p. 165, n.

curve for the totality of commodities should take the particular form of a rectangular hyperbola, instead of some other form. *A priori*, the presumption would seem to be that its form would be irregular.

There is another point of view which seems to support Professor Seligman's contention, and that is the money-price viewpoint. At a given moment, each man has a definite quantity of money — or of bank-credit — which he can use in purchasing commodities. If he spends it for some commodities, he cannot spend it for others. As he joins one group, demanding one commodity, he must — at least to the extent of that amount of money — withdraw from other groups demanding other commodities. At a given instant, therefore, there is a definite demand-situation with reference to every item of every stock, and one can increase its money-price only by drawing upon the demand for others. But let a panic now come. Let these bank credits become unstable: let *social confidence* be wiped out, and what happens to general prices and values? Does the value that leaves the general range of commodities all betake itself to the gold supply? That cannot be, for the supply of gold, as compared with the supply of other commodities, is well-nigh infinitesimal, and if the whole of the values that left the commodities went into gold, then every unit of gold would be tremendously increased in value, and prices in terms of gold would fall, not two-thirds, but a thousandfold. What has become of the values?

They have simply been wiped out. A psychical change has taken place, a malady has afflicted the social mind, its integrity is shattered, doubt has taken the place of confidence, panic fear has replaced buoyant expectation, demoralization and disorganization have lessened the social psychic energy — or dissipated it in inchoate, unorganized individual activities. The sum total of values is lessened. Of course, the reverse may happen. Let confidence be restored, let the social psychic organization function normally once more and values rise again. As we have indicated in our discussion of the psychology of value, *belief*, as well as desire and feeling, may often be a very significant phase in the value situation, and have a motivating power quite as great as the other phases. *Credit*, while it exists, is a real addition to the sum of values — has, that is to say, a real power in motivating economic activity, calling forth new productive efforts, and directing labor, capital, and enterprise to new channels. This is not, of course, asserting the doctrine of John Law. Credit cannot be manufactured out of whole cloth. Beliefs, at least to some extent, follow rational laws, and, except in moments of hysteria, there must be something for people to believe in before strong belief can emerge. Sometimes, of course, an unstable but momentarily powerful belief, based on nothing rational, may dominate a situation, and radically upset the existing scale of values — with a sad reaction following shortly after. And, in the absence of belief, the most rational justifica-

tion for belief is impotent. Witness the bankruptcies, in times of panic, of men whose assets turn out later perfectly adequate, but who are unable to liquidate them at the time of the panic. Note, too, in this connection, the tendency in times of panic to turn to government for aid in sustaining values — to substitute for the waning social force of belief the power of a new legal force.

A case parallel to the panic, as inducing a diminution of the total psychic energy of control, is presented by widespread epidemics. Gabriel Tarde, criticizing Mill's contention that all values cannot rise or fall, instances the general fall in all values which an epidemic occasions, and the recovery of values after the epidemic.¹ This criticism of Tarde's will not, of course, hold as against Mill's doctrine (indeffensible on other grounds) which bases the relativity of values upon a logical definition, but it will hold as against the psychological doctrine of relativity under discussion.

A further point is to be noted. Even granting that the sum total of social power of motivation is definitely limited, it still does not follow that the sum total of economic value is so limited. For not all of this social psychic energy goes into economic values. Religious, æsthetic, patriotic, moral values, all call for their share of this energy, and the amount given to each varies from time to time. This phase of the matter is discussed

¹ "La psychologie en économie politique," *Rev. Philosophique*, vol. XII, p. 238.

in detail by Professor Ross, in the chapter on "The Social Forces" in his *Foundations of Sociology*, and I shall not expand the discussion here.

The doctrine that there is a definite, unchanging sum of economic values, therefore, cannot, in my judgment, be maintained. And yet, it must be conceded, there is a substantial element of truth in Professor Seligman's contention. At a given time, or through a considerable period, assuming social conditions to change slowly, there are fairly definite amounts of social energy, both of production and of control over production (value-giving energy). The surface fact here is that men have definite incomes. If this energy is disposed of in one way, it cannot be disposed of in another. If men elect to have one good, they must dispense with something else. And in using their control over social forces to increase the value of one good, they must refrain from using it to increase the value of another. In the long run, these quantities are subject to change. At a given moment, a sudden disturbance may radically change them. But, as a statement of tendency, Professor Seligman's doctrine must be admitted.

Professor Seligman's view differs from that of Professor Clark simply in that it adds an element. On its logical side, it conceives value in the same way. Value is a quality, with degrees, i.e., a quantity. This quantity in a particular good is an absolute fraction of an absolute quantity. It is not changed merely in consequence

of being compared with some other good — it remains the same, regardless of what price-ratio it is put into. On its formal and logical side, therefore, Professor Seligman's concept is to be classed with that of Professor Clark — with which, as indicated in chapter II, I am in hearty accord, in so far as the issues raised in that chapter are concerned.

CHAPTER XVII

THE THEORY OF VALUE AND THE THEORY OF PRICES

IN most English treatises on economics, a price means a sum of money given in exchange for a commodity, or the ratio between the money and the commodity, or the ratio between the value of the money and the value of the commodity. In any case, price as a rule involves the idea of money. With the Germans, on the other hand, *Preis* means any exchange ratio (or a quantity of commodities of any sort given in exchange for a good), whether or not one of the terms of the ratio involves money, and the distinction between price and value (*Preis* and *Wert*) is, commonly, the distinction between the measure and the thing measured, or between "relative value" and "absolute value" in Ricardian phrase.¹ The conception of price has been broadened by some later writers in English, however, to correspond with the German usage, notably by Professor Patten,² and by Professor Schumpeter,³ in an English article contributed recently to the *Quarterly Journal*. I do not care to argue a merely terminological question, and I readily concede that there are disadvantages in departing from

¹ Cf. Davenport, *op. cit.*, pp. 296-97.

² *Theory of Prosperity*, New York, 1902, pp. 16-17, 89.

³ "On the Concept of Social Value," *Quar. Jour. Econ.*, Feb., 1909, pp. 226-27.

familiar usage. But, on the other hand, since I am convinced that ratios of exchange in general, and money prices in particular, are generically the same, while ratios of exchange and values are generically as unlike as it is easily possible for two things to be, I shall use the term price in this wider meaning, and confine the word value, in the exposition of my own theory, to the non-relative meaning.

The distinction between prices in this sense and absolute values appears in Adam Smith and in Ricardo. These writers do not adhere very strictly to either meaning of the term, value, however.¹ The conception of absolute values is

¹ See *Wealth of Nations*, introductory part of chap. viii of bk. i (pp. 66-67 of the Cannan ed.) For Ricardo, see *Works*, McCulloch ed., London, 1852, p. 15. Adam Smith seems occasionally to use value in the relative sense, as on p. 183 of vol. ii of the Cannan ed. Ricardo, though indicating that he is concerned only with relative values on the page cited *supra*, still speaks of values as simultaneously falling, in ch. xx, on "Value and Riches," which, of course, is impossible on the basis of the relative concept. There is no point to torturing these passages unduly, however, in the effort to find our distinctions in them.

Professor Seligman calls my attention to a most interesting forty-page discussion of the theory of value by W. F. Lloyd, *A Lecture on the Notion of Value, as Distinguishable not only from Utility, but also from Value in Exchange*. The lecture was delivered before the University of Oxford, in Michælmas Term, 1833, and published, in accordance with the rules of the foundation which provided funds for the lecture, in London, 1834. The writer insists on the conception of value as absolute, and devotes pp. 30-40 to a defense of the absolute conception. He cites the passage in Adam Smith referred to *supra*, in which Smith distinguishes real dearness from apparent dearness (introductory part of chap. viii of bk. i). The most striking thing about this lecture, however, is its anticipation of Jevons's doctrine of marginal utility, and its emphasis upon the subjective character of value. The word, margin, is used in virtually the sense in which Jevons uses it, on p. 16.

The book is very rare,—only three copies, one in Professor Seligman's library, one in the British Museum, and one in the Goldsmiths' (formerly Foxwell) Library in London, are known to exist. It seems to have made no impression upon the economists of the time of its publica-

lost by J. S. Mill, and the distinction which he draws in connection with the problem of the standard of deferred payments (not so called by Mill) is between values (relative) and *cost of production*.¹ In Cairnes, the two conceptions are hopelessly confused on a single page,² while Marshall's whole treatment runs in terms of price.

In what follows, I wish to generalize the conception of price, to show the function of the price concept in economics, to distinguish carefully between the theory of value and the theory of prices, and to see what light the theory of value outlined in this book throws upon the problems of the price analysis.

In chapter II, the distinction between "absolute and relative values," or, in our present phrase, between values and prices, was sufficiently indicated not to need further elaboration here. The relation between them was made clear — the absolute value must first exist before the price, which is the expression of the value of a good in terms of some other valuable object which is chosen as a measure, can be determined. In fact, *two* values, the value of the good measured, and the value of the good which is to serve as the measure, must first exist, as absolute quantities, before a price-ratio can be made

tion. A reprint to-day would enable the economic world to do belated justice to a very acute and original thinker. Cf. Professor Seligman's article "On Some Neglected British Economists" in the *Economic Journal*, vol. XIII, esp. pp. 357-63.

¹ *Principles*, bk. III, chap. xv, par. 2.

² *Leading Principles*, editions of 1878 and 1900, pp. 12-13.

between them, and their "relative values" shown. In the chapter on the psychology of value, the notion of price was generalized, and we spoke of the price measure of values of non-economic sort. This notion is one of very general application and one of significance for the whole realm of social and psychical phenomena: not merely where the question of exchanging economic goods is involved, but wherever choice among alternative goods, or courses of action, or men, or institutions, or works of art, or other objects of value, is necessary, we *compare* them with each other, we *measure* them by each other, we *price* them in terms of each other. We arrange them in *scales* of value, or in series, seeing which is higher and which lower. Where only two goods are involved, we may call either the measure, depending on the point of view. But where many goods are to be compared, it is highly convenient to pick out some one as the common measure of all, so that they may be reduced to common terms. For measuring economic goods, money is, of course, the standard, or common measure *par excellence*, for most purposes. If we are measuring the value of the political institutions of various countries, we usually take the institutions of our own country, with which we are most familiar, as the common measure or standard. Or, in measuring the moral systems, or the literary masterpieces, of other countries, we again find those of our own people the most convenient standard. But it is significant of the correctness of our general point of

view that values of different species may be measured in terms of each other. *Money*, in particular, is a very general measure, which may serve for many values outside the economic sphere. Thus, I have pointed out how legal values may be measured in terms of money, as when the fine for one offense is five dollars, and that for another twenty-five. Gabriel Tarde¹ points out that by comparing the theatre receipts of theatres representing different dramatic schools we may compare the vogues of each, or that by comparing the income of the clergy in different periods we may get some index of the variations of religious sentiments. He suggests that while money as a measure of economic values usually functions in exchange, it may, as a measure of beliefs or other social forces, function through gifts, through popular subscriptions to build this or that statue, for the support of scientific work or philanthropies, or even through thefts: "Quelquefois même c'est par des vols où se montre la perversion d'un esprit sectaire, l'aberration et la profondeur de ses convictions passionnées."

Commonly, indeed, money performs even this function, that of measuring currents of belief, passion, enthusiasms, etc., through the process of exchange, and, ordinarily, it is difficult to get any single current separately. We simply get the resultant of an equilibrium of a complex of forces in economic values. But sometimes a single factor stands out so prominently that we can

¹ *Psychologie Économique*, vol. 1, pp. 77-78.

abstract from the rest, and let money changes measure changes in it alone. For example, during the three days of the battle of Gettysburg, the premium on gold, as measured in terms of Federal paper, fell from forty-five per cent to twenty-three and a fourth per cent.¹ For the market, this means simply a change in the economic value of Federal paper. But for one who cares to look even superficially behind the scenes, it means an increased volume of belief in the triumph of the Federal arms — a belief that at once affected economic values, and was measured in terms of money. Or, the economist may abstract a single legal factor, as a tax law, and measure its influence on the assumption that the rest of the situation is constant, in the well-known laws of shifting and incidence.

Such clean-cut instances are not the rule, however. The organic complexity of the social forces lying back of economic values makes it difficult to disentangle single elements, and measure their force. For one thing, variations in one factor usually mean movements in the others. If we may borrow terms from chemistry, while the economist may give us a *qualitative* analysis of these forces, it is hard for him to give us a *quantitative* analysis. And the characteristic of pure economic theory has been its effort to get quantitative, quasi-mathematical laws. The "pure theorist," therefore, does well to start with a quantitative value concept (a convenient shorthand or symbol for the infinite

¹ Scott, *Money and Banking*, 1903 ed., p. 60.

complexity that lies behind it), a value quantity in which the net outcome of social interactions does precisely manifest itself, and study the laws which it manifests. His chief interest is, not in the origin of economic value itself, but in the changes in quantities in value in different goods and services as these manifest themselves in the market, and submit themselves to economic measurement. In a word, his chief interest is, not in value, but in *prices*.¹ And the great bulk of pure economic theory, and practically all that is of greatest importance in pure theory, is in the theory of prices, and not in the theory of value. Lest I be misunderstood, the qualification must be repeated: prices here mean, not money-prices, but prices in the generic sense. In this sense of the word price, it is just as accurate to speak of the price of money in terms of commodities, or of a composite of commodities, as to speak of prices of commodities in terms of money.

That is to say, the economist gives himself little concern, in his quasi-mathematical study, as to the ultimate nature of the social forces that manifest themselves in the market. A host of forces lie back of demand, but the economist puts the phenomena of demand into a curve which is the function of two variables, one a quantity of money, and the other a quantity of goods. Lying back of these quantities of goods and money, and giving meaning to the curve, are the more fundamental quantities, the value of

¹ Cf. Schumpeter, *Quar. Jour. Econ.*, Feb., 1909, pp. 226-27.

the goods and the value of the money. Further than this, for the purposes of his quasi-mathematical, pure theory, the pure economist has no real occasion to go — in proof of which it need be remarked simply that the most divergent theories as to the nature of value, none of them adequate if the theory set forth in this book be true, have not prevented the development of a vast, highly organized, and immensely useful body of price doctrine, shared by economists of many schools. If only the economist have a quantitative value concept, he can do wonders. And, if the question be regarding relations between factors where the question of the value of money may be ignored, he may often safely abstract from the idea of value, and speak simply of money quantities, and relative changes in these money quantities. Such is, indeed, Professor Marshall's procedure in a large part of his great work. Professor Davenport's contention that, from the standpoint of the entrepreneur, the whole thing may be looked at in pecuniary terms, is true of many problems. Cost for the entrepreneur is simply a money matter. And while, for the more fundamental analysis, we of course must insist that a host of psychic forces determine what those money costs shall be, our analysis will justify the contention that it is impossible to treat them in any but price terms, in a precise and quantitative manner. They are too complex. Certainly labor-pain and abstinence, looked on as abstract individual feeling-magnitudes, will not explain the supply-

prices of labor and capital, any more than individual "utilities" will explain demand-schedules. And we may add that the terms "social cost" and "social utility" can, in our scheme, get no meaning that will make them useful. The social value concept seems to us absolutely essential for the validation of the whole procedure of the price analysis, and to be implied in every step in it, but the only meaning we can find for the concept of social marginal utility would be one which would make it identical with social value; and against that there are two objections: first, it would be superfluous, and second, it would be misleading. "Social utility" can get only a vague, analogical meaning in our scheme. Instead of explaining social value, it would itself present a problem.¹ A measure of social economic value in terms of a feeling-magnitude which an individual can appreciate is not to be had. Value can be measured and quantitatively handled only in terms of *price*.

In saying this, I do not mean to impeach that more abstract procedure which speaks of abstract units of value, and uses arithmetical numbers which designate no particular commodities, or algebraic symbols, or even ordinary speech, to indicate quantitative relations among different sums of these abstract units. Such procedure is thoroughly correct, and often highly convenient, if one be dealing with highly general laws, or if one wish to avoid any complications from changes in the value of any concrete

¹ See *supra*, p. 163, n.

commodity which might be chosen as the standard of value. Only, I would insist, such procedure is simply an abstraction from the price concept, and so presupposes it. A unit of value, in the concrete, must be the value of some particular concrete good, which is chosen as the standard. *What* good is chosen is a purely arbitrary matter, determined by convenience. Abstract value, apart from valuable things, is an utter impossibility — only a Platonic idealism or mediæval realism could hold the contrary view. And, in order to show how many units of value there are in a good, we must compare it with another good, whose value is the unit, unless, indeed, we arbitrarily choose as our unit the good in question, and say that its value is one unit, or several units, in case we arbitrarily define the unit as a fraction of its value. But clearly this latter procedure would tell us nothing after all as to the amount of the value in the good. It would be a purely formal process — like renaming a “hocus-pocus” and calling it two “Abracadabras.” Any real measuring — and real measuring is essential for any quantitative manipulation — implies *two* things, one of which shall serve as the measure of the other. The conception of abstract *units* of value, therefore, is an abstraction from the price conception, and presupposes it.¹

¹ Cf. p. 50, n. It is sufficiently clear, I trust, that this argument is concerned with the relativity of *knowledge*, and not with the relativity of *value*. We can *know* things only in terms of our “apperceptive mass,” but that does not mean that things *exist* only by virtue of our apperceptive mass. And even knowledge is relative only when it is “*Knowledge-about*.” Cf. James, *Principles of Psychology*, vol. 1, p. 221, and *The Meaning of Truth*, p. 4, n.

A valid price procedure, in my view, is essentially this: we take our quantitative value concept, summing up the multitudinous social forces which determine values: then we assume a given set of ethical, legal, and social values of a non-economic sort,¹ as a sort of frozen framework within which our economic values are to operate, and which shall remain constant during the investigation: then, measuring the economic values in terms of a common unit, we let them exert their influence on the situation, and see what results follow. We vary first one and then the other, and see what readjustments any change involves. Since the situation is so infinitely complex, we bring about this artificial simplicity in thought, that we may study the tendencies one by one. But a given economic change will work out its consequences fully only on the assumption that other economic changes are not occurring. We can in thought let them vary one by one, but they do in fact all vary at once. And further — and for this fact price theory has made no allowance — the “frozen framework” of legal, moral, and other non-economic social values, is not “frozen.” Changes in economic values lead to readjustments, not only in the other economic values, but also in the legal, ethical, and other values of the framework. These last are fluid, psychic forces, just as truly

¹ Marshall accords a limited recognition to our doctrine. See *Principles*, 1907 ed., p. 35, where he indicates that certain parts of the theory of value assume the prevailing ethical standards of our Western civilization, and that prices of various stock exchange securities are “normally” affected by the patriotic feelings of purchasers, and even brokers, etc.

as are the economic values. They change because of changes in the economic values; they initiate changes in the economic values; and they initiate changes which deflect the tendencies of changes in the economic values. So that, even though we premise a thoroughly organic theory of social value, in which the influence of the non-economic social values, working *through* the economic values, is carefully provided for, we still have to correct the results of our price analysis, before applying it to practice, to account for changes in the non-economic values working to deflect the tendencies which the economic values would lead to if the other values had remained constant.

This last, of course, most economists in practice constantly try to do. Present day discussions of practical economic problems are rich in data of a non-economic sort. In practice the economist recognizes that his mission is, not to see how far a few abstract factors will go in the explanation of economic life, but rather, to *explain* that economic life by any means in his power, though he ransack heaven and earth in the process.

Of course, it is but a commonplace to add that the economist, in practice, does try to take account of the extent to which his assumptions as to the legal and social "framework" hold: how far there is real freedom of competition, how far real "intelligent self-interest," how far mobility of labor and of capital, how far monopoly privilege, etc. Or, at least, he usually tries to make

himself think that he has done so. It still remains lamentably true that a great deal of reasoning even on practical problems is an effort to apply theories without any adequate understanding of the extent to which the theories grow out of abstractions made for purposes of study, or any effort to put back the concrete facts from which the abstraction was made. The practical business man knows how these various forces operate on values. He studies them, tries to estimate their force in quantitative price terms, and adjusts his plans to them. If a religious wave sweeps over a large section of the country, the wholesaler sends in larger orders for Bibles, and smaller orders for playing cards. If a rate-reduction agitation is going on, the manufacturer of steel rails and railroad supplies plans to cut down his output. If trades-unionism grows strong, employers of labor recognize that they must readjust their budgets.

CHAPTER XVIII

THE THEORY OF VALUE AND THE THEORY OF PRICES (concluded)

MY strictures upon the Austrian, or "utility" theory of value in what has gone before seem to call for further qualification here. As a theory of *value*, as a theory to explain the nature and origin of value, I am convinced that the Austrian theory is utterly and hopelessly inadequate. And yet, for the work of the Austrian economists, taken by and large, I have the highest admiration. Their treatment of margins, their conception of the motivating function of value, and their new stress on the demand side of the price-problem, constitute a marked advance over the point of view of the earlier English School, even though perhaps too extreme a reaction. And their detailed work in the price analysis, despite the utterly inadequate basis which the utility theory of value affords for it, has been marvelously accurate, sound, and useful. Having no logical warrant for an objectively valid quantitative value concept, they have none the less assumed and used one — and used it marvelously well. Sometimes that objective value is called by the name, "objective value." Sometimes they call it "marginal utility," and yet it is clearly anything but the feeling of an individual,

for it is broken up into different parts, and reflected back and back through different productive goods of remoter and remoter rank till it has got very far from the individual who may be supposed to feel it. Production is the production, not of material things, but of "utilities" — and yet these utilities, as treated in the analysis, are anything but individual feeling-magnitudes, and the actual reasoning on the basis of them would not be different if they were called quantities of value outright. By logical leaps, by confusing "utility" with demand, or by confusing "marginal utility" with objective value,¹ the Austrians have got what the practical exigencies of price theory demand. A detailed estimate of the work of the Austrian School is, of course, out of place here, but I do not wish to be understood as failing to recognize the immense value of the work of men who have given so great an impetus to economic thought as has been the case with the Austrian masters.

There is a further topic in connection with the relation between value theory and price theory that calls for more explicit attention here, though frequent reference has been made to it already. What is the relation of the distributive problem to value theory and to price theory? Is distribution a price problem or a value problem?

It may be looked at from either angle, and treated in either way. A complete theory of distribution involves many of the most fundamental social values. Indeed, it is through the

¹ *Vide supra*, chaps. v and xi.

machinery of distribution that the non-economic values most vitally affect economic values. Wages, interest, competitive profits, are surely legal categories, and are possible only in a society where there is free labor and private control of industry. We may agree with Wieser¹ that, as categories of economic causation, interest, rent, and wages will remain even in a communistic society (and, doubtless, also profit and loss), but that is far from saying (as Wieser of course recognizes) that they would remain as distributive shares. Each social system has its own distributive scheme.

But, in a system like that of Western civilization to-day, where human services and the uses of land and instrumental goods are offered in the market like other commodities, we may treat them in terms of the price analysis with as much propriety as the other commodities. The prices paid for them measure a complex of social forces, but we cannot always disentangle these social forces and measure them separately. It is hard to tell precisely how much influence on the price of labor has been exerted by a speech from Mr. Gompers, or a Federal injunction, or a law for the exclusion of certain classes of immigrants. If we wish to handle distribution quantitatively, we must do it superficially, studying in the market the effects which the underlying social forces manifest there with reference to the rewards of the different factors of production. This has been increasingly the case

¹ *Natural Value, passim.*

with later theories of distribution. If, on the other hand, we take the discussion which J. S. Mill gives in book II of his *Principles*, we shall find that the price analysis plays relatively little part, and that he considers chiefly the influence of the more fundamental social values.¹

A failure to recognize the distinction between value theory and price theory seems to lie behind the complaint which Professor Davenport makes against the "Social Value School" in his criticism of Professor Seligman: "As soon as we turn from the value problem to the separate treatment of the distributive shares, we find ourselves to have descended from the cloud-land mysteries of transcendental economics to the old and beaten paths of the traditional analysis."² To this complaint the obvious answer is that we have turned from fundamental value theory to abstract, quantitative price analysis. And the social value theorist has as much right to do this as has any other economist — in fact, if our theory be true, only on the basis of a social value doctrine has any economist a right (logically) to take up price analysis.

¹ Mill's self-congratulation on having written two books of his treatise without taking up the theory of value has been commented on by many economists. He was able to do this, because value theory meant price theory for him. Value theory in the sense of the theory of the forces of social control and motivation does appear in plenty in Mill's first two books, and also the wealth concept, which he connects with the idea of value, and a quantitative value concept, not formally defined, but probably all the more useful on that account. It was a sound instinct that led Mill to take up the problem of distribution before taking up the problem of "value." Really, in discussing distribution as he did, he was making a very real contribution to the ultimate value problem.

² *Value and Distribution*, p. 451.

The theory of value, as I conceive it, is, then, not a substitute for detailed price analysis, but rather a presupposition of it. The theory of value is to interpret, validate, and guide the theory of prices. If the theory here outlined be true, it will have significant consequences for the theory of prices, in that it will open up new problems for the price analysis to attack. There are many social forces which can be measured with substantial accuracy, and many more which can be, for purposes of theory, disentangled from the complex in which they appear, and treated by the methods of price analysis already discussed, which economic theory has not yet thought it worth while to attack. The economist must emulate the practical business man, in trying to treat in price terms the various social changes which affect economic values. There is much left for the theory of prices to do. The theory defended here, with its sharp sundering of values and prices, will, of course, criticize the mixing of the two. One chief criticism of the Austrian theory, and also of the theory of the English School in so far as it attempts to give a "real cost" doctrine, is that they are attempts to give both a theory of value and a theory of prices at the same time. Certainly we must object to Böhm-Bawerk's contention that the solving of the price problem *ipso facto* solves the value problem.¹ The purpose of this book is, not *destructive*, but *reconstructive*. A detailed criticism of the various economic theories that have ap-

¹ *Vide supra*, chap. iv.

peared, as theories of prices, is manifestly too big a task to be undertaken here. All of them cannot, of course, be accepted *in toto*, for there are, doubtless, irreconcilable differences among them at points. But it is the belief of the writer that the great bulk of what has been done in the study of the quasi-mathematical laws of prices is of substantial worth, that a recognition of the distinction between value theory and price theory, and of the confusions that result from mixing the two, will remove many seemingly irreconcilable differences between opposing schools, and that existing price theories are less to be criticized for what they affirm than for what they ignore and deny.

Much of the significance of the theory of value for the interpretation of price theory has been indicated from time to time, in what has gone before. Prices have *meanings*. They express *values*. To understand the meanings of prices, we must know what the values mean. There is one further point in this connection which is so important that we shall give a separate chapter to it.

CHAPTER XIX

THE THEORY OF VALUE AND THE SOCIAL OUTLOOK. SUMMARY

THE belief that social optimism and social pessimism are in an essential way linked with the theory of value is one that finds expression in a good many writers. The socialist theory of value is supposed to serve as a condemnation of the existing social *régime*; Professor Clark's system of value and distribution is often interpreted as justifying an optimistic outlook. This view is expressed by Professor Frank Fetter, for one, who especially stresses this aspect of value theory.¹ Professor Joseph Schumpeter, in his article on social value several times mentioned,² indicates that an optimistic social outlook is a necessary corollary of the theory of social value. Wieser's objection to the doctrine that economic value signifies social importance³ seems to be based on the belief that the doctrine means, not merely that society is responsible for the existing value situation, but also that that situation is consequently a just and righteous one. And the same notion seems to be, in part

¹ *Principles of Economics*, New York, 1905, pp. 415 *et seq.*

² "On the Concept of Social Value," *Quar. Jour. Econ.*, 1909, pp. 222-23.

³ *Nat. Val.*, p. 52, n. Quoted *supra*, chap. I.

at least, the inspiration of Professor Davenport's attack in his recent article in the *Quarterly Journal*.¹

¹ "Social Productivity *vs.* Private Acquisition," *Quar Jour. Econ.*, Nov., 1910, pp. 112-13. "Economic productivity is not a matter of piety or merit or deserving, but only of commanding a price. Actors, teachers, preachers, lawyers, prostitutes, all do things that men are content to pay for. So wages may be earned by inditing libels against a rival candidate, or by setting fire to a competitor's refinery, or by sinking spices. The test of economic activity in a competitive society is the fact of private gain, irrespective of any ethical criteria, and unconcerned with any social accountability. . . . If whiskey is wealth, distilleries are capital items. If Peruna is wealth, the kettle in which it is brewed must be accepted as capital. Then so is the house rented as a dive; and if the house is productive, and is therefore capital, so, also, must the inmates be producers according to their kind. The test of social welfare is invalid to stamp as unproductive any form of wealth, or any kind of labor. If jimmies are capital, being productive for their purpose, so also is burglary productive; if sandbags, so highway robbery. . . . Always and everywhere, in the competitive *régime*, the test of productivity is competitive gain."

If only my conception of social value is granted, I may safely enough concede Professor Davenport all the depravity he can find in society, and recognize that that depravity has its part in the determination of the concrete values. Only, I would insist, virtue as well as depravity is a factor in the social will, and plays its rôle in determining economic values, and motivating economic activities. Legal values are not "absolute" values, in the sense that everybody obeys the law, but laws as well as lawlessness affect economic values.

It may be well at this point for me to make clear my relation to Professor Davenport. Throughout this book, his theories have been subject to frequent criticism. The obvious reason is, of course, that he has made himself the leading critic of the social value concept, and hence, if that concept is to be defended, his point of view must be met. But, if that were all, he would have occupied far less of our space than has been the case. The fact is, in my judgment, that Professor Davenport is one of the commanding figures in economic theory. I think no economist has even approximated the clearness and explicitness with which he has set forth the presuppositions of the view which this book opposes, and that no economist has ever reasoned more clearly upon the basis of these presuppositions. Professor Davenport thus presents the very best object of attack, if one is to justify the social viewpoint in economic theory. My indebtedness to him is marked, and I have tried to indicate the fact from time to time in notes. His book has aided me greatly in clarifying my own ideas, and has also substantially abridged my bibliographical labors. With many of his criticisms of existing value theory, those criticisms, especially, which are concerned with the internal logical contradictions

It is not necessary to discuss here the question as to whether Professor Clark means that his theory should be so interpreted.¹ What I wish to insist upon is that no implication, either optimistic or pessimistic, as to the existing social order, can be drawn from the theory defended in this book. Whether or not economic values in particular cases correspond with ethical values, whether or not goods are ranked on the basis of their import for the ultimate welfare of society, and the extent to which this is the case, will depend on the extent to which the ethical forces in society prevail over the anti-ethical forces. The theory as such is neutral. Assume our existing society, modified in the one particular that competition shall henceforth be perfectly free, and still the conclusion does not follow. Idle sons of our multimillionaires may inherit ill-gotten wealth, may invest it and draw an endless income from it. With this income to back their desires, they may make the services of panders worth more than the services of statesmen and inventors. The values of goods depend on the more fundamental values of men, even though the values of men, under abstract eco-

of existing value theory, I am in hearty accord. The chief difference between us at this point will be, I think, that I try to go further than he has gone. And the fundamental differences between his view and mine grow out of the different psychological, philosophical, and sociological presuppositions with which we start. I feel that the individualistic method of approaching the value problem is foredoomed, provided it be logically carried out, and I think Professor Davenport has logically carried it out!

¹ I regret exceedingly that Professor Clark's absence from Columbia University during the academic year, 1910-11, has prevented my discussing this, and a host of other questions raised in this book, with him.

conomic laws, depend upon the value productivity of their labor or their possessions. The theory is a theory of economic value, even though the tremendous influence of ethical and other values be recognized as entering into economic values. They may be overpowered by opposing forces. The theory is a general theory, and holds for a decadent as well as for an improving society; for a society where justice reigns, if such a society there be, and for a society where corruption is rampant, and wolves prey. The justification of the existing social order is to be sought elsewhere — the theory of economic value, as such, does not contain it.

The main steps of our argument may be briefly recapitulated here: Value is a quantity, socially valid; value is not logically dependent upon exchange, but is logically antecedent to exchange; a circle in reasoning is involved if the relative conception of value be treated as ultimate; the Austrian theory, and the cost theory, and combinations of the two, all fail alike to lead us to an ultimate quantity of value; they fall into another circle, that of explaining value in terms of value, if they attempt to do so; the defect is in the highly abstract nature of the determinants of value which these theories start from; they abstract the individual mind from its connection with the social whole, and then abstract from the individual mind only those emotions which are directly concerned with the consumption and production of economic goods; this abstraction

is necessitated by the individualistic, subjectivistic conception of society, which, growing out of the skeptical philosophy of Hume, has dominated economic theory ever since; present day sociology has rejected this conception of society, and has reestablished the organic conception of society in psychological (rather than biological) terms, which make it possible to treat society as a whole as the source of the values of goods; this does not obviate the necessity for close analysis, nor does it, in itself, solve the problem, but it does give us an adequate point of view; the determinants of value include not only the highly abstract factors which the value theories here criticized have undertaken to handle arithmetically, but also all the other volitional factors in the intermental life of men in society — not an arithmetical synthesis of elements, but an organic whole; legal and ethical values are especially to be taken into account in a theory of economic value, particularly those most immediately concerned with distribution; the theory of value and the theory of prices are to be sharply distinguished.

The function of economic values is the motivation of the economic activities of society. Value as treated by the cost theories, or value as a sum of money costs, is a blind thing, a product rather than an end, and fails utterly as a guiding, motivating principle for economic activity. It is the merit of the Austrian School to have pointed this out. But the abstract individual factors which the Austrians have substituted

are just as helpless in explaining the motivation of social activity. Every man's course is made for him far more by outside forces than by his own individual motives. Economic activity in society is an intricate, complex thing, for the motivation of which no individual's motives can suffice. If motivated at all its guidance comes from something superindividual, and that something is social value. Ends, aims, purposes, desires, of many men, mutually interacting and mutually determining each other, modifying, stimulating, creating each other, take tangible, determinate shape, as economic values, and the technique of the social economic organization responds and carries them out.

THE END

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