Marginal Utility

By F. J. McNEY.

THE marginal utility theory of value is the theory that is used by all the professors of economics in all the universities throughout the capitalist world at the present time, to explain why, in the majority of cases, it is necessary for us to give something in exchange for anything we want instead of getting it for nothing. This theory is therefore the only one worthy of consideration as a rival of the labor theory of value.

For many years it has been the custom of the opponents of the labor theory of value, when writing a book on economics, to state the theory much the same as it was first stated by the classical economists, without making any distinction between individual labor and social labor, between necessary labor and waste labor, or between labor and labor power, and then, after having confused the proposition as much as possible in this way, proceed to abolish it, and replace it by some other theory of value more acceptable to the capitalist class, and since the invention of the marginal utility theory it appears to be the favorite for that purpose.

At the present time, however, very few of the professors of economics take the trouble to mention the labor theory of value at all, or if they do give it mention, it is merely to remark that even the Socialists have abandoned it. The fact of the matter is that they have found it a dangerous theory to monkey with, so they try to avoid it by ignoring it altogether, and represent the marginal utility theory as the only possible method of explaining exchange value.

Now this marginal utility theory of value as it is generally defined and explained by its exponents is somewhat difficult for an ordinary person to understand, and it has cost me a considerable amount of study and meditation to get to the bottom of it, but I think I have solved the problem at last, and if I am mistaken I hope the columns of the Clarion are open to any person who may wish to correct me. To make a long story short, the theory has never been explained to my satisfaction, so I have decided to explain it to suit myself, and if possible make it clear to others as well, taking as the basis of my analysis a few of the definitions and illustrations supplied by two of its foremost advocates.

Before commencing our investigation however, it may be well to point out that our aim is to find what determines the exchange value of commodities, or on what basis do commodities exchange one with another. This is the question that the marginal utility theory is supposed to answer. We must also remember that buying and selling is merely trading, using money as the medium of exchange.

Let us now examine some of the evidence. Our first exhibit is a definition of marginal utility given by Professor Richard T. Ely in his book "The Elementary Principles of Economics." He tells us here that marginal utility is "Utility under a condition of scarcity. To possess value, a thing must be able to satisfy wants, and it must exist in less than sufficient quantity to satisfy all wants."

Read that definition again, and ponder over it, and meditate on it, because it contains the keystone of the whole marginal utility theory. It also contains the snag that punctures the baloon. Note, that no matter how useful a thing may be, it has no value unless it is scarce. And conversely, if a thing sells for a price, it must therefore possess value, and this fact in itself is conclusive proof that it is scarce, because if it existed in sufficient quantity to satisfy all wants it would possess no value and consequently could have no price, so in that case we would get it for nothing. You can't get away from the logic of the argument. It is impregnable.

Our next witness is Fred Rogers Fairchild, Professor of Economics in Yale University. Professor Fairchild is the author of a book just off the press entitled "Essentials of Economics." It is right up to date in every respect, and as we wish to be up to the minute ourselves we will follow Professor Fairchild from now on. In this book the Professor tells us that "the marginal utility of anything to any person decreases with every increase in the quantity which he possesses." This decreasing tendency of the marginal utility of anything to any person is called the "law of diminishing utility." Professor Fairchild illustrates how this law works in buying baseballs, evidently under the impression that buying baseballs will be more interesting to university students than anything else. However, as the majority of Clarion readers are, no doubt, pig philosophers like myself, I will give the illustration in loaves of bread. The idea is to show how the utility of anything to any person decreases from the highest point of utility, which is called final or marginal utility. This lowest point is reached whenever utility comes in contact with scarcity. In other words, it is a collision of diminishing utility with scarcity that determines value. But if there is no scarcity, there is no margin, and consequently there can be no collision, so the utility keeps on diminishing until it disappears altogether, and with it goes value, and both are lost forever in the unfathomable depths of abundance.

Now suppose you were out on the desert somewhere starving to death, and just when you were about to croak, a bread merchant came along with a wheelbarrow load of bread and offered to sell you a loaf for ten dollars. You would not stop to haggle with him over the price, you would not have time, and besides, a loaf of bread would appear cheap to you at ten dollars, under such circumstances, because its utility to you would be absolute, it would save your life. So you would give him the ten dollars, and devour the loaf. But now that your hunger has been appeased to some extent, you would be in a position to bargain over the price of the second loaf. You would want another loaf of course, but you would not want it so much as you did the first one, consequently you would not pay so much for it. You would perhaps pay eight dollars for the second loaf, and so on down the scale until you had consumed ten or a dozen loaves, and were fairly well "fed up" for the time being, then you might buy one more loaf at the price of say a nickel, to take with you in case you got hungry again on the way home. But that would be all. Your wants are now all satisfied, and as far as you are concerned the bottom has dropped out of utility entirely. No doubt, the bread merchant would offer to sell you the remainder of his stock for a nickel a loaf, but you would tell him to take the remainder of his loaves and go "over on the other side" where Conan Doyle's friends live. Bread would have no more exchange value to you just then, because you could not use any more of it. But suppose there had been a scarcity of bread. Suppose the peddler only had six loaves, and ten were necessary to satisfy your wants. Then the last loaf would still have considerable exchange value to you, because the utility value of bread to you had not yet been exhauted.

Of course you understand that nothing like this actually takes place, it is merely a supposition, a theoretical proposition to illustrate how the law of diminishing utility works from the highest point, absolute utility, to the lowest point, the margin of utility which is supposed to determine exchange value. What actually happens is as follows:

You walk into a bakery to buy a couple of loaves of bread. You may not even be hungry at the time, but you know you will be in a few hours. You find that loaves of the same weight are all the same price no matter whether you buy one or fifty. But you don't want fifty loaves, they would only spoil before you got them used up, so you buy two or three loaves at, say a dime each, enough to do you for two or three days. And now, your wants are all supplied in the matter of bread just for the present, and so far as you are concerned the remainder of the bread in the bakery has no more utility to you, and therefore no exchange value. Yes, but you are not the only pebble on the beach. There are other people who want bread, and who are coming in to buy it every minute of the day. We are not all supplied at the same time. And so long as there is always somebody who wants a loaf of bread bad enough to pay for it, or give something else in exchange for it, why, bread must be scarce, because if it existed in sufficient quantity to satisfy all wants, it would have no exchange value, and consequently could have no price, so everybody would get it for nothing. Do you get the idea? Then we would have a state of affairs in which something would exchange for nothing, instead of one commodity exchanging for another in certain proportions. Now if you understand what the marginal utility theory of value is, we will go on to the next proposition.

The next thing on the programme is the proofs of the correctness of the marginal utility theory, and the first one we come to is what might be called the air proof, or the air test, for want of a better name. This test is very popular with the majority of the exponents of marginal utility, and Professor Fairchild is no exception. It is also very appropriate because they spend most of their time up in the air. In fact, if they had kept a little closer to terra firma they might have noticed the leak in their theory before it was too late, and saved themselves from becoming the laughing stock of future generations. Here is part of what Professor Fairchild has to say about air:

"Air, the most useful thing in the world, therefore has no value. The only things that have marginal utility and so have value are those that are limited in quantity, so that there is not enough to satisfy everybody's wants. This condition is called scarcity."

Everybody will admit that air is a very useful thing. It is indeed. It is useful for many purposes. And it is so abundant that it has no exchange value. In fact, so abundant is air that the greater portion of the professor's book on economics, consists of air, of a high temperature. But there is one thing that this air test does prove, and that is that the whole theory of marginal utility is based on the idea of scarcity. And the scarcity superstition appears to be based on air.

After circling around in the dizzy heights of the atmosphere for considerable time our Professor descends to earth at last. He is now adrift upon the waters. He points out that when we are out in the country, or in the mountains, where there are numerous springs and streams, water is abundant, there is plenty to satisfy the wants of everybody, and consequently it has no exchange value, but when we are in the city, ah! here we are on the trail of the beast again, that same old skunk scarcity. The Professor explains thus:

"Here water is scarce. It must be collected at great expense in reservoirs and brought in, often from long distances. It is therefore owned, either by a water company, which sells it to the citizens, or by the city itself. Here water has value."

The difference between the water out in the mountains, and the water in the city, is a difference of "great expense." There is "great expense" connected with bringing the water into the city, and this "great expense" makes it scarce, and the scarcity gives it exchange value, and there you are. Why it is as simple as falling off a log, and I never noticed it before. There is one question yet to be answered, however: the Professor has forgotten to state, and I have not got the least idea myself, what it is that causes this "great expense." Why there should be any "great expense" connected with building reservoirs, digging tunnels and ditches, and

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