

The "Law" of Diminishing Utility

A use-value is what it is, that is to say, it possesses utility, because "by its properties it satisfies human wants of some sort or another." A use-value, therefore, can only "become a reality by use or consumption." But the use or consumption of the use-value in question satisfies the want, at least for the time being, that is to say, the want is capable of satiety. At the point of satiety the utility is said to disappear, subjectively considered. For the purpose of this argument we are asked to consider the case of that one-time highly important personage, the "economic man," who, actuated by "intelligent self-interest," spends his time in the solution of the hedonistic calculus, that is, in carefully balancing pain-cost and pleasure-gain. We are, then, to regard this person as being supplied with successive "doses," or "increments," or units of some use-value. As ministering to a very intense want the first unit is supposed to give intense pleasure which, however, diminishes with succeeding units until the point of satiety is reached when consumption gives no pleasure at all. It is a matter of "diminishing unit-importance" as the most recent rhapsodist on the subject calls it. If the supply can be maintained at the point of satiety without (economic) effort then the use-value in question has no economic importance; air for example. In such a case, however indispensable the necessity, the want is not felt and cannot properly be said to exist. A want only manifests itself when there is some limitation of the use-value which corresponds to it and it will be of greater or less intensity according to the point at which this limitation cuts in upon the scale of diminishing utility. By the way, an old Scotch saying has just occurred to me to the effect that "as the soo fills the draff soors." One is almost tempted to state the matter in terms of the Law of Diminishing Returns and say that successive application or increments of any given use-value bring each a proportionately less return in satisfaction until a point is reached where the income, so to speak, is balanced by the expenditure. Use-values, however, are not generally, as are air and sunlight, continuously supplied to the point of satiety. They have to be hunted for or made, that is to say, "produced." There is some effort involved in their attainment and it is precisely that point in the descending scale of utility where the (prospective) satisfaction in consumption is balanced by the effort (to be) expended which marks the margin of utility.

This term "margin" and its adjectival form "marginal" do not appear in "Value, Price and Profit" and, possibly for that reason, are regarded with some degree of suspicion by Marxian students. Nevertheless the marginal concept is a very serviceable one and was quite familiar to Marx and his predecessors as, for example, the "margin of cultivation" or "marginal producers." Some confusion may also be caused by the different senses in which the term is used. For instance we speak of the margin of profit. In this usage the term indicates, so to speak, extension in space, and means the difference between the buying and selling prices of a certain commodity. Property, however, the word indicates, or rather, must be conceived as a line, the line which marks the periphery of the sphere of influence, some force or factor. There is a tacit reference to the analogy of a pool of water in which, of course, the margin refers to the line where the water meets the land. Conditions within this line are said to be intramarginal; those outside are said to be extramarginal or, more generally, sub-marginal.

Now to go back to our friend Homo Economicus. Homo, of course, uses water and he gets it from a well in the yard and he gets it in a bucket. The

first pail of water he draws is for drinking purposes and, since he must drink, this pail of water is indispensable and may be said to have absolute utility. Then he draws another to cook his food and a third to wash himself; a fourth to wash his shirt; a fifth to swill the floor and a sixth to water the geraniums on the window-sill. A seventh pail of water, if he drew it, would be of no use to him so that these seven buckets represent a scale of diminishing utility or of decreasing unit-importance ranging from infinity to zero. But Homo does not draw the seventh bucket of water for the simple reason that he has to put forth a certain amount of effort to do so. Characteristically enough, considering his parentage, Homo considers all work as being irksome, not to say painful, and he will not expend effort unless there is at least a proportionate gain in sight; he balances the pleasure gain against the pain-cost. It is just worth his while to draw the sixth bucket. If he had further to carry it he might not even get this one. This, then, is the marginal bucket of water and since all the buckets are equal and interchangeable it is obvious that no one of them can have any greater importance than the marginal one.

"Marginal utility, then, is quantity of utility or pleasurable sensation afforded by the last increment of commodity actually enjoyed."—Commons, *Dist. of Wealth*, p. 4.

"The marginal utility would be the utility of that part of our stock of which we stood least in need or which approached most nearly to the limit of our wants."—Pierson, *Prin. of Pol. Econ.* p. 58.

"It is the utility of the last unit possessed (the least useful, since it corresponds to the last want satisfied) which determines and limits the utility of all the others."—Gide, *Pol. Econ.* p. 55.

"Thus from the point of view of progressive acquisition or consumption of any 'good,' we may define marginal utility as the utility of the last unit acquired or consumed." . . . "At any given time the marginal utility of any commodity to its owner decreases with every increase in the stock possessed or consumed."—Ely and Wicker, *Elem. Prin. of Econ.*, p. 101.

Very well, it is clear that for Homo, as for most of us, that water does not possess any very great economic importance notwithstanding the fact that its initial utility is absolute and its total utility very high and he does not have to worry very much about it. There is, however, an old saying to the effect that "we never miss the water till the well goes dry" and we shall now assume that Homo's well does that very thing but in such a way that he is progressively deprived of a bucket per day of his daily supply; that is, that he now finds he can only draw five buckets per day and the next only four and so on. It is clear that for him the marginal utility of water would rise in the same ratio that he was deprived of his supply. The same effect would be produced if we suppose his wants to increase, say, by the keeping of stock, while his supply remained constant.

From what has been said it should be clear that utility alone cannot confer economic importance on any use-value because, as we see, there are utilities which, however necessary such as air and sunshine, have no importance at all in the economic sense. They have no marginal utility and are called "free goods." By far the greater number of use-values can only be obtained by the expenditure of human effort; by the application of human labor to the materials of nature. There utilities are called "economic goods." This condition of affairs is usually referred to as "scarcity." It may be as well to explain a little more at length this term.

Something over a hundred years ago Ricardo, discussing this question, observed that commodities possessed exchange-value for two reasons: first, because of their scarcity in the case of unique objects which could not be reproduced and, secondly, be-

cause of the necessary expenditure of labor in the case of commodities which could be continuously produced. De Quincey, who was an enthusiastic disciple of Ricardo, suggested that these two causes might be comprehended under the term "difficulty of attainment." This was quite in the spirit of a time which believed with the schoolmen that "causes must not be multiplied beyond necessity."

Mill, in his *Principles of Political Economy*, adopted this view of De Quincey's and says: "That a thing may have any value-in-exchange, two conditions are necessary. It must be of some use; that is it must conduce to some purpose, satisfy some desire. . . . But, secondly, the thing must not only have some utility, there must also be some difficulty in its attainment." Since that time, however, probably on account of the cumbersome nature of this phrase, the forces which limit the supplies of commodities relatively to the demands for them are generally referred to under the head of "scarcity." From this point of view we need not object too strongly when Prof. Carver insists that "assuming only that things of any given class are appropriable and not, like the moon and the stars, beyond human control, it is safe to say that utility and scarcity, and these alone are necessary to give them value. When both qualities are present there is always value. Where either is lacking there is no value. The reader is hereby challenged to find an exception to this rule in any civilized community." (*Dist. of Wealth*, p. 12). Value here is to be understood as "power in exchange" as the late Prof. Walker tersely defined it. The ratio of exchange would, of course, be determined by the relative valencies of the factors involved.

GEORDIE.

(To be continued)

CORRESPONDENCE.

EXPRESSING APPRECIATION.

Dear Editor:

During the early part of the week showery weather prevailed, as you may remember. Tuesday about 3 p.m. one of the heaviest of the week-end fell and penetrated my bedroom, and fell in great drops on my counterpane until I was drenched with surprise and pleasure.

This "shower" came not from the heavens but from the women comrades and consisted of a collection of handsome and useful gifts which I shall wear with comfort and use with pride during my stay in the Sanitarium.

The "Dour Mon" admired them greatly and whilst in ignorance as to the names of several articles is quite convinced of their warmth and elegance.

This note, Mr. Editor, is a feeble attempt to express my gratitude (through the *Clarion*) to those ladies I was not able to thank personally. With so many cosy woolies I am fully equipped for Greenland's Icy Mountains and can say with the little boy,

Let 'er snow or blow—I should worry.

Winifred Harrington.

Vancouver, B. C., Sept. 28, 1924.

Editor's Note: We take this opportunity of informing *Clarion* readers that Comrade Mrs. Harrington has been ordered by the doctors to Tranquille Sanitarium for treatment in the symptoms of consumption. We are very sure that the good wishes of all of us go with her in hope for an early and complete recovery to good health. One thing is appreciably apparent: her habitual good humor is unconquerable.

It was Froissard who said, "The Party is a great friendship." With that thought attending us we add this note to Mrs. Harrington's letter, whereby we would express the concern for her that will be felt over a wide area.

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