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On Consumer's Rent

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The depreciation of silver he regards as mainly due to increased production. If indeed the Latin League had continued to coin freely, the old rate of silver to gold might have been maintained for ten or fifteen years. But an agio on gold would soon have made its appearance, and would constantly have increased, until the circulation became virtually silver monometallic. Much the same consequence, but with a slower rise of the agio, would have followed if Germany, the United States, and even England had joined in a Bimetallic league with a ratio of $15\frac{1}{2}$.

As to the future production of the precious metals, silver may be expected long to keep at its present level; the production of gold also will keep up or even increase for the next thirty years, but after that, or at least after fifty years, a definite shrinkage may be expected. But Professor Lexis does not—like an eminent German geologist—find an argument for Bimetallism in this forecast. The countries that have at present a sound and efficient gold standard will be able for the next century to find gold enough to keep the value of their currency steady. However, it seems to be admitted that theoretically (*rein theoretisch betrachtet*) a Bimetallic league, including England, with free coinage at the rate of twenty-one of silver to one of gold, might keep up the price of silver to 44·9 pence, so that a considerable agio on gold might not arise for half a century (p. 11).

In conclusion, Professor Lexis discusses methods of raising the value of silver, short of Bimetallism; in particular the enlarged use of a subsidiary silver coinage in different states, which he thinks might keep up the price of silver to thirty-seven or thirty-eight pence at least.

But there is little prospect of such measures being adopted by a sufficient number of countries. Probably there will be no international monetary convention; and silver will find equilibrium between its cost of production and a much narrowed demand at the price of twenty to twenty-five pence. Silver will be reduced to the position of nickel; while paper money will enter on a new course of development.

ON CONSUMER'S RENT.

WITH reference to the recent controversy on this subject between Professors Edgeworth and Nicholson, I desire, as an interested party, to add a few remarks. In our *Researches on the Theory of Price*,¹ we have throughout—the appendices only excepted—employed ‘money’ as the measure of utility and of cost, and have dealt largely with Consumer's Rent. We did so not without maturely examining the adequateness of such a measure.

¹ *Untersuchungen über die Theorie des Prieses*, T. von Rud. Auspitz und Richard Lieben. Leipzig, Duncker und Humblot, 1889.

We measured the difference of utility attributed by the same individual to two different objects or combinations of such, by the surplus payment of money necessary to render the said individual indifferent to the choice of the one or the other. We never stood in need of a measure for what different individuals feel, and still less did we attempt to sum up such feelings of different persons. Our investigations have no psychological, but exclusively an economic purpose. The feelings and the motives of a rich and of a poor man in spending a shilling for an article may differ widely; the result, the spending of a shilling, has in both cases the same economic effect on the market of this article. The rich man would perhaps not have hesitated to spend much more than a shilling for minor quantities of the article, but since the shilling procures him the last fraction he wants at this moment, he has no reason to offer more. The enjoyment purchased by this shilling's expense may be altogether different in the two cases, but it remains in both cases exactly a shilling's worth of enjoyment. Neither the rich nor the poor man would have given the shilling for something that did not come up to the enjoyment or satisfaction involved in the possession of the shilling. We compare enjoyment with enjoyment, and at the point of equilibrium, when the utility of a certain quantity of an article is just sufficient to determine the purchaser to spend the money required, this sum gives an exact measure of the utility whatever the motives may be. In a factory the engines may be set in motion by water, by steam, or by electricity, at a greater or lesser cost. Anyhow, the amount of horse power generated may always be measured, without going back to the source of the power employed.

In exactly the same way toil and trouble, as an element of cost, can be expressed in money. It is merely a question of cost for a manufacturer to employ a hand more in any one department, or to engage an engineer, a chemist, or a manager, if he wants muscular exertion in the one case, supervision, exercise of knowledge, or of organising talent in the other. The artisan or 'master' of former times, exercising his craft in the midst of his workmen, had to decide whether he preferred continuing to toil himself or employing a hired substitute. In a large factory the personal superintendence of the owner being no longer practicable, it finds its equivalent in the pay of foremen, overseers, and so on. The division of labour progressing by degrees, the engineer and the manager come in, until at last, in a company with limited liability, the owners (being the shareholders) have not the least personal interference left to them, but all the toil and trouble required by the carrying on of a great concern finds its expression in the balance sheets.

It will be always highly interesting to speculate in what way the objective prices are influenced by subjective motives. But as a matter of fact it is open to anybody's observation that prices are regulated by the money which buyers and sellers really exchange, and that they are influenced by the greater or smaller sums which the first

are willing to expend for greater or smaller quantities of the article, and for which sellers are ready to deliver up more or less of it. It is quite irrelevant to the rise or fall of the price whether the demand for the article springs from purposes of urgent necessity or of luxury, of benevolence or of speculation. We have therefore never been obliged to assume identity of individuals or identity of motives.

We readily admit that we have used assumptions differing from reality in order to simplify the problems treated. It would have been impossible to study the effect of the variation of one element, when at the same time all the other elements were considered as varying likewise. We therefore have assumed that the utility of money does not vary, an hypothesis practically admissible only as long as the alterations in the amount of expenditure are small. We have not omitted to draw special attention to this assumption, although our appendix shows that the greater part of our conclusions is scarcely affected by the dismissal of this hypothesis, and that only the elegance of the demonstration is impaired by it.

We have studied the variations in the price of one article under the assumption that the prices of all other articles did not vary meanwhile. Although this assumption is far from agreeing with the actual course of economical phenomena, the investigation has, as we believe, thrown a very clear light on the interdependence of prices. It has moreover shown that nearly all marketable articles, the necessities not excepted, have substitutes. The conception of the total utility, as measurable in money, is rendered more easy by taking this fact into consideration. For any individual and for any definite quantity of a certain article, a sum of money is imaginable which represents the maximum he is willing to expend for it. Rather than pay more, the individual in question would renounce the acquisition and enjoyment of the quantity in question. Substitutes, extraordinary cases excepted, being always at hand, this forbearance does not involve the absolute renunciation of the enjoyment to be procured by the said article, an analogous enjoyment by means of a substitute being available at its fixed price. The hypothesis of constant prices of all other articles contributes here greatly to render the problem accessible to the control of practical experience. In the absence of this hypothesis some other assumption as to the prices of all articles which bear any nearer or farther relation to the article in view would become indispensable. Without any assumption as to the prices of all other articles, the problem would become so entirely vague and wanting in distinctness that no advance could be made towards its solution.

It is one thing to make assumptions necessary for giving clearness and definiteness to subjects of investigation, and another to attempt giving numerical precision for theoretical conceptions, as Consumer's Rent and the like. Statistics can never make abstraction from reality and from the continual intervening fluctuations of all prices. Therefore they can never correspond to any assumption, howsoever indispensable

it may be for elucidating a complicated problem. We feel sure that no researches concerning causes and effects of economical phenomena can dispense with assumptions and hypotheses, but we do not at all feel sure of the help statistics can afford to those engaged in this line of investigation.

RICHARD LIEBEN

ONE WORD MORE ON THE ULTIMATE STANDARD OF VALUE.

THE Editor of this journal has been kind enough both to place before his readers a critical notice of my views on the ultimate standard of value, and to invite me to reply to his criticism. It is with much pleasure that I accept this invitation. Even in his criticism Prof. Edgeworth was able to allow 'that the opposition (between our views) is slighter than may have been supposed.' I believe myself that it is, as a matter of fact, even less than it appears in Prof. Edgeworth's review; and I will attempt in a few remarks to assist towards a complete explanation of the matter.

Before touching upon what still divides us (which seems to me to be very little), I should like to make more clear one point which I take to be the most important for the understanding of the whole situation, and concerning which there is, if I rightly grasp Prof. Edgeworth's meaning, no disagreement between us. It is the recognition of the fact that the 'costs' of the famous and empirical 'law of costs' which has been taught by the classical school since Adam Smith and Ricardo, and which every empiricist sees actually ruling in our industrial life, are something other than, and essentially different from, the 'disutility' of which Adam Smith himself occasionally spoke under the name of 'toil and trouble' of labour, and which in recent systems of Political Economy—especially since Jevons—is generally placed side by side with utility, or final utility, as a second standard of value. Just as carefully must we distinguish also between two essentially different laws which are connected with these two ideas. The one, which we may call the *law of cost*, is the famous law which has the widest possible application—*i.e.* to all commodities reproducible at will—that the normal value of commodities tends in the long run to be equal to the sum of their costs, in the sense of the expenses of the producer, or, if we reduce these to their simplest elements, to the sum of the wages and interest paid in the various stages of production. The other, which we may call the *law of disutility*, states that the normal value of certain commodities (and these may be either reproducible at will, or not reproducible at will) tends under certain conditions (which are much narrower than those of the 'law of cost') to correspond to the magnitude of the personal inconvenience or dis-