

In view of this attitude toward his subject, it is well to remember that his actual achievements were all in the field of practical economics, thus keeping that poise between logical reasoning and concrete experience which was so marked in Adam Smith and Bagehot. But his mind kept a firm and steady grasp upon the theoretical discussions, no matter how far they wandered into ethical or political complications. This quality appears at its best in "The Reaction in Political Economy," written as a declaration of the editor in the first number of the *Quarterly Journal of Economics*. By showing that the reaction was largely due to the stoppage of scientific inquiry by the failure to extend discussion to the fresh experience of recent times, he made it evident that the differences of opinion as to method were mainly differences in degree, and aided in bringing about in America the present freedom from dispute on this matter. Likewise, by pointing out that the most rigid Ricardian may reject or accept *laissez faire*, without doing violence to his standing as a member of the so-called old school, he explained that it had nothing to do with economic reasoning itself, that it concerned only the applications of such reasoning. His position, then, among modern economists was clearly that of a consistent, broad, philosophical student closely interested in practical problems; too learned to be an extremist; too exact to be visionary; too penetrating to be carried away by any passing fads.

Possessing a frail body, a weak voice, an impersonal manner, and no great magnetism as a teacher, yet no one of Professor Dunbar's friends will ever forget his strong, refined face, his penetrating eye, his self-possession, his deliberation of perfectly-adjusted speech, his keenness, his flashes of humor, his knowledge of human nature, his practical common sense, and his political sagacity. His students everywhere throughout the land will unite in doing honor to his memory.

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DR. MACFARLANE ON "COMPLEMENTARY GOODS."¹

IN Part I of his recently published book Dr. MacFarlane has developed numerous original, and sometimes erroneous concepts. He argues, for instance, that if the Austrians had considered the case of the good made to order, they would have been led to modify their theory at the point where it eliminates the sellers' valuations;² though it need

¹ *Value and Distribution*. Philadelphia: Lippincott & Co., 1899.

² P. 46.

scarcely be pointed out that the price of the good made to order is conspicuously a price with which the seller's valuation has nothing whatever to do. And again, he contends that the Austrians, in arguing that buyers' valuations will range themselves in a nicely graduated differential series, have based their theory on an "unwarranted assumption of free competition."¹ Clearly Dr. MacFarlane must have a novel understanding of the term free competition. In their ordinary use the words connote, I think, the non-existence of advantage on the part of any of the competitors; as applied to buyers they necessarily mean that the buyers are equally capable, or that each places on the good in question precisely the same money valuation. And in this, the ordinary sense of the term, free competition is manifestly incompatible with valuations ranged in differential series; for, however slight the differences by which the series is graduated, buyer Z will nevertheless be at a decided disadvantage in competing with buyer A.

But passing over minor fallacies such as these, I wish briefly to indicate the more fundamental of the several errors contained in Dr. MacFarlane's section on Complementary Goods.

In parting with a complementary good we lose not only the pleasure that would result from the direct consumption of that single commodity, but also an additional pleasure due to the importance of this single good to the complementary group of which it forms an essential part. In other words, a single commodity when it becomes a part of such a group, has, as it were, two marginal utilities or values. This raises the question, "Which of these, or what combination of these, determines the price of the productive good?" . . . Here, as in every instance of scarcity price, the marginal utility of the good to the buyer and its marginal utility to the seller fix the upper and lower limits of the price. The precise point at which the price will be fixed depends upon the relative monopoly strength of the parties to the transaction.

Now it must be objected in the first place that a commodity can have a real utility only to the person who actually possesses and uses it, and that it is therefore meaningless to speak of a commodity as having two marginal utilities. The question becomes intelligible only when we understand that "marginal utility" is Dr. MacFarlane's way of saying "subjective valuation." Moreover, in parting with a complementary good we do *not* lose the "pleasure that would result from the direct consumption of the commodity," for the simple reason that

¹ P. 48.

² P. 60.

complementary goods—land, labor, machines, etc.—are, generally speaking, not directly consumable. If, then, complementary goods yield only indirect utilities, it follows that such goods cannot possess a marginal utility to the seller, in Dr. MacFarlane's sense of the term. In a word, his lower limit to the price of a productive good is purely imaginary.

Facts, patent to be sure, yet very much to the point for the handling of the problem in question, are these: that although the ordinary productive good cannot be directly consumed, it can nevertheless be turned to a variety of uses; in whichever of its several possible uses the good is consumed it will yield a value; and accordingly, therefore, as they can turn it to one use or to another, different entrepreneurs will value the good at quite different figures. If Dr. MacFarlane had taken these facts into consideration, his theory of price must, I think, have issued essentially as follows: In such a market as the economist usually takes for granted, the productive good will go to that entrepreneur who can make it yield the greatest utility, and who, accordingly, puts on the good the highest valuation. His money valuation, or the utmost he is willing to give for the good rather than go without it, is the upper limit of the price. The next highest valuation put upon the good will be the lower limit of the price. And as between these limits—provided the difference is appreciable—the precise point at which the good sells will, in fact, be determined by the “relative monopoly strength of the parties to the transaction.”

It is to be added, however, that this obvious bit of reasoning by no means sounds the depths of the difficulties presented by complementary goods; but that, quite to the contrary, it leads directly to a problem the acquaintance of which Dr. MacFarlane apparently has yet to make. If the price of a productive good is determined between two valuations, the question arises, on what grounds are these valuations made? The answer, of course, is that the entrepreneur must always base his valuations on his own or somebody else's experience. Some such complementary group as he has it in mind to form, has been made to turn out consumable commodities before; and the value which the finished commodities brought in the market has been divided up and a portion of it ascribed to each factor of the group. But this only raises the further question: How are these shares assigned, or according to what principles can we impute to a

complementary good its peculiar contribution to the value of the joint product ?

Now it is from the heart of Wieser's discussion of this second problem of "complementariness" that Dr. MacFarlane draws the following quotation: "The imputation of the productive contribution assigns in this way to every productive good a *medium share*. To calculate the productive contribution, and therefore also the value, at this medium amount is sound common sense."¹ And this quotation, Dr. MacFarlane would have us believe, is a direct answer to that question of his which asks which of the "two marginal utilities" of a complementary good determines its price. "When the Austrians came to the question of complementary goods," he says, "they thought they had found an exceptional complication, for it was clear that in this case the marginal utility to buyer and seller only set limits within which the price may vary. And so, without further analysis, we are told that the price is fixed at a middle point between these limits, or that it is a 'medium amount.'"²

Now I am inclined to think that, even in the light of the above scanty introduction to the problem of imputation, the utter inapplicability of Wieser's words to Dr. MacFarlane's question will appear at once. In the first place, to characterize the "productive contribution and therefore also the value" of a complementary good as a "medium amount" is to say nothing of price. For the value referred to is not exchange value but the "natural" "use" or "theoretical" value which is virtually identical with the "productive contribution" or "economical share." And, secondly, it needs only a glance at the context from which the passage is taken to show that Wieser's "medium share" is not medium between Dr. MacFarlane's "two marginal utilities." Wieser has just stated that to a complementary good must be imputed a *greater* value than it could obtain through its own powers working alone; but a *lesser* value than would be lost if the good were destroyed. And it is between these greater and lesser values—values which have been ascribed to complementary goods by fallacious principles of imputation—that the share imputed by Wieser's rule is said to be a "medium amount."

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¹ *Natural Value*, p. 92.

² *Value and Distribution*, p. 60.