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A Short History of Value Theory

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Abstract: The economic value theory is the core of economics being an interesting concept for all philosophers and classical and neoclassical thinkers economic until today. The classical thinkers consider that value is born in production process, and only labor is the source of it. This is the ***Labor Theory of Value***. Marginalist Revolution economists found the source of value in exchange, in the market building the ***Marginal Theory of Value***.

Keywords: value; price; market; marginal; utility; labor

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1. The Value Theory in Pre-classical and Classical Economic Thinking

Finding how an answer to the question “what is the value”, it requires a deep analysis of the most important doctrinal confrontations that occurred from Aristotle to the present day. What we want to emphasize is that the value, along with many other economic concepts, raised interest of many economic thinkers.

If for Xenophon, Aristotle and other thinkers of the Middle Ages, the answer was relatively simple, with the emergence of new forms of wealth created first through trade and later through production, paradoxically, the concept of value has become more difficult to define.

When Aristotle seek those principles that support a healthy cities (whose purpose is to lead its individuals to happiness), he speaks about the principle of distributive justice and commutative justice.

About distributive justice, Aristotle claims that equality is not occur when it is distributed each citizen equally, but true equality exists when it is given more those who deserves more, and less, those who deserve less.

Talking about justice commutative (contracts, exchanges), Aristotle made an initial discussion on the value of goods, anticipating both the labor theory of value they find debated by economists XVIII and XIX centuries and explain, also, the value of things by utility (similar neoclassical).

The exchange, Aristotle argues, cannot exist without equality, and equality cannot exist without measurability. And Aristotle considers that in effect it is impossible to be measured very different goods. This statement it was determined Marx to declare that from this point, Aristotle gave up to analyze the form of value. Why? Because Aristotle failed to find the common measure, that element

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what is identical between exchanged goods. This common measure what Aristotle did not find is only labor incorporated into goods. How Ancient Greece, those who worked were slaves (slavery being justified as a indispensable guarantee of free people to be able to devote time to the city of good governance) for Aristotle would have been impossible to find this common measure, the core value still remaining an enigma.

The analysis began by Aristotle is continued by William Petty who considers land and labor the most important elements of wealth (Labour is the Father and active principle of Wealth, as lands are the Mother). The issue that has preoccupied throughout his life was to find a common denominator of land and labor so that the value of any work to be measured only by one of these two factors of production (labor and land). William Petty is the first economist who believes that value of a good it is influenced by labour time spent in in its production and, also, emphasize both quantitative and qualitative implications of labor-value-price relationship (Popescu, 2004).

Étienne Bonnot L'Abbé De Condillac is the first economist who does not agree with the theory of objective value nor labor nor with subjective value theory utility, but considers that both the value and the utility have a psychological substrate, they are the results of individual interest. The value of a thing, says Condillac, it is time for labour performed in the production process, but it makes sense in exchange relations, because "*the value of things is based on need, it is natural that a more strongly felt need gives things a greater value, and that a less pressing need gives them less value. The value of things therefore grows with scarcity and decreases with abundance*". (Abbé de Condillac, 1776).

Condillac concludes that in fact the price of a good influenced its value relative to the value of another property in exchange relations.

In the following period, although Physiocrats were not concerned about the issue of value, however, up to Adam Smith we meet first Ferdinando Galiani and then Anne-Robert-Jacques Turgot who were researches on this difficult issue, the definition value. Galiani disagrees idea that the value of a good is intrinsic, but he is convinced that it is rather a calculation, a report that people make in relationships with other goods (utility and scarcity). In other words, we can conclude that Galiani sees rarity being a source of value. (McGee, 2010)

One of Turgot's remarkable contributions in terms of economic thinking was, undoubtedly, paper ***"Value and Money***" never finished. In his scientific pursuits, Turgot, like later Austrian School also used as a method of research successive approximations and abstraction. First he develops a Crusoe economy, subsequently extended to 2 people, 4 people and then to a full market. In this Crusoe economy, Turot captures, brilliantly, not only individual gives value to different economic goods, but he also compares and choose between them according to their value in relation to its needs. Moreover, not only Crusoe compare and choose among the assets currently owns consumption but also between present consumption and their accumulation for future consumption. (Gordon, 2011).This aspect leads to the idea that Turgot sees a subjective scale of values for each individual. Extending the theory (praxeologically), Turgot is convinced that no exchange cannot take place if every individual does not offer a higher value to the thing he needs then to the thing which it abounds, in the end the gain being equal for each part because each changes an equal values.

2. The Value Theory in Neoclassical Economic Thinking

In the so-called paradox of value (water and diamonds), Adam Smith again brings into question the two concepts of value researched by Aristotle, use value and exchange value.

By the paradox of value, Smith says us that the value of use is essential for exchange value, but it is not determine it, aspect emphasized later by Ricardo and Marx. Use value is more than an individual problem and subjective one, while exchange value is a social one, and it is observed especially in the market through prices. With no utility theory of consumer at the time, Smith does not see any link between use value and price.

During his approach, Smith handles the exchange value, aiming to answer the following questions: what is the real measure of exchange value, which are components of the real cost and which are circumstances that lead to the differentiation market price of the actual price or natural price.

Regarding goods exchange, Smith strives to show that there is a common element essential for their comparability and upon which the exchange is accomplished. This common element is value.

The Author of Wealth of Nations shows that it is expensive a commodity which requires labor-intensive and cheap that commodity requiring less labor, and as a result, work that does not vary its value can always be appreciated and compared, being the real price of a commodity, money representing a nominal price of this. (market price). Following this reasoning, namely that labor is the real measure of the value of underlying exchange, Smith added to the incipient site ideas about the value a major foundation that will underpin the later labor theory of value. Also, Smith identifies two answers depending on the stage of development of society.

Thus, during the primitive society, labor is the only measure of exchange value. But as society develops and overstays rudimentary phase in terms of capital accumulation, the issue of value becomes more complex. There are new factors of production, capital and land that contribute together the labor in any production process.

What's remains to owner after payment of wages and materials it is profit. So says Smith, the value added by the worker adds to inputs consists of two or three parts: one is paying salaries and another is profit owner and the third is rent, components that are found, evident in the price of goods. So this value new created, consists of income of the three factors of production: wage of workers, profits to capitalist or owners of means of production and the rent back to the landlords. In any society, the price of a good or its exchange value should be under one, two or all the components mentioned above. But although wages, profits and rent is the original source of all values, all of these could not form in the absence of labor. So labor remains the source of value.

David Ricardo believes a correct understanding of the laws of capitalism it is not possible without an elucidation of the most controversial issues drives from Aristotle until his time, namely value. Moreover, in a letter to Thomas Malthus, dated February 7, 1816, Ricardo confesses that *"If I could overcome the obstacles in the way of giving a clear insight into the original law of relative or exchangeable value, I should have gained half the battle ...*" (Bonar, 1887)

Ricardo finds value theory developed by Adam Smith contradictory and unsatisfactory and he is focusing its efforts to understand and explain the interdependence of economic phenomena using the labor theory of value which supports entire his scientific approach.

In his book, ***On the Principles of Political Economy and Taxation***, Ricardo shows the value and usefulness are different terms and the value of a commodity is not found in its usefulness. Utility or use value is a necessary condition of exchange value, but it is not its unit of measure. Goods that are useful (that satisfy people's needs) find their value in rarity and quantity of labor required to produce them. But here, says Ricardo, there are some goods that have value only because they are rare and no quantity of labor could enhance or diminish the value (paintings, sculptures, etc.). If the exchange value should be given to the amount of labor expended to produce the goods, any change to the amount of work should entail a change in the same sense the value of those goods, which is not true.

In the ***Wealth of Nations***, Adam Smith considers the work necessary to produce goods as a measure of value and according to this standard, the goods have a higher or lower value as they can be changed. David Ricardo obviously disagrees Smith, arguing that the labor needed to produce a good is not equal to labor obtained in exchange for good. If the two labor quantities as equal, each could accurately measure changes in other commodities.

One of the major contributions of David Ricardo is that the value of a commodity is given not only to labor for its production, but also the labor incorporated into the production labor tools without the work could not be done. And this is true at any stage of development of society.

Analyzing this, Ricardo focus (like Adam Smith) on labor productivity, also on relationship between it and a good value. Any improvement means a labor saving, so an increase in productivity and, ultimately, a change in the value of goods.

What prevented Ricardo to bring to an end the value theory was failing to find a measure of value which is valid to all things. Such a measure, Ricardo believes it is impossible to find because any commodity or good requires more or less work.

For another classic, Jean Baptiste Say, the wealth is not only the productive sphere, but all useful activities to the individual and society. Wealth is proportional to the aggregate value of all tangible and intangible goods. Regarding the value of a good, it is arbitrary, as long as the utility of a good usefulness is unknown to its owner. Owner of such a good, says Say, is no richer. But if another person is willing to obtain a good offering instead another thing, carrying value or utility, it can be said that both goods creates value. What the author wants to show is that the exchange value is born in the market.

For J.B. Say exchange value is identical to a good price. The current price is the price at which the exchange is carried out between the two sides.

The value is not more labor to produce a commodity. Say sees foundation of value in the ability of each good or service to create utility and satisfying the needs of each individual.

Referring to the use value and exchange value, Say believes that the exchange value must be analyzed in economic terms, because it is the true measure of what to give up someone for other good or service within a market. In fact, this is the most equitable criterion of value. All tangible or intangible goods having exchange value represent, in fact, social wealth.

For John Stuart Mill, the value has an essential in political economy, often mingling with science itself. The concept of value is closely linked to the distribution of wealth and less to production of wealth. A confused with the exchange value is to author a serious error of economic logic. The exchange is not essential to distribution accumulated product, it is only a small part of the instrument that sets in motion the entire process of distribution.

This approach of value, John Stuart Mill rejects theory of value formulated by David Ricardo and in particular the labor theory of value. Also he considers the value theory developed by Adam Smith one full of ambiguities. The utility of a good is only its ability to satisfy a desire. The utility of a diamond is great if it serves a purpose, otherwise it has no value. For J.S. Mill, the exchange value of a good, can often be below its use value. The contradiction occurs when exchange value is greater than use value. Moreover, the exchange value cannot be synonymous with the price. The price of a good is the amount paid, and the exchange value of a good is general purchasing power (Mill, 1848).

Any commodity or good must meet two conditions for having an exchange value: to be able to satisfy a need, to be some difficulty in producing it, as a good offering for free will never have an exchange value.

With the assertion that the “value at any time is the result of supply and demand”, Mill identifies a good value with its price, known that price is caused by the interaction of supply and demand in the goods.

In the first chapter of Capital, K. Marx begins his study of the nature of the capitalist system, analyzing the first the commodity and default the value theory.

A commodity is a material reality with property to satisfy a need, meaning to be useful individual owns. This utility makes the commodity to become a use-value being at the same time exchange value bearing. For Marx all of use values represent material content of wealth.

Marx, like Ricardo and Smith, distinguishing between utility and use value. In terms of exchange value, it is the ratio (it varies according to time and space) at which different use values will change between them. But that proportion in which use values vary by time and space, raises for Marx the following questions: is a relative exchange value or exchange value is intrinsic commodity?

To solve the mystery, Marx gives a simple example with two goods: wheat and iron. If the exchange occurs between a certain quantity of wheat and a certain amount of iron, it means that there is a common element of the same size, but that is neither wheat nor iron. What have in common wheat and iron? Both are products of labor.

So labor is the common element that gives us the true measure of value and labor time value required to produce goods determine their relative prices. Labor is the substance creating value. But saying this, Marx refers to the ***socially necessary labor time*** to produce a value. If the value should be determined only by the necessary labor time to produce a good, then it would follow that a less skilled worker would create a commodity with greater value, as the time spent on its production, due to his ignorance.

Any commodity that is useful to an individual, obviously, it has use value. But Marx says not any commodity that has use value (it is useful) it must have value. When this happens? When the use value is not a product of labor, referring here to free goods. Also, the individual can create a use-value as a result of his work, but at the same time this is not a commodity. To become a commodity, a man must create a social use value, (a use-value for the others, also), transmitted to others through the exchange. So, even a good or a commodity is the product of human labor, for creating value it is required to be useful.

At this point of the analysis, the problems do not disappear. Once we exclude the use value of a commodity, it disappears concrete labor required for production of that commodity meaning that no one thinks that a good is the product of one's labor. By thinking so, all goods are reduced to abstract human labor.

For the first time in the history economic thought, Karl Marx analyzes the value creating labor from two perspectives: concrete labor and abstract labor.

For Marx ***abstract labor*** is a physiological truth and represents that "consumption of the brain, muscles, nerves, organs human sense." Abstract work is the same regardless of use value created. (Marx, 1849)

The concrete work is different from individual to individual and represents that human physical effort made for a specific purpose, to satisfy a particular need and obviously to create a use-value. If concrete work would be no different, as would happen for created use values, and such a situation would not justify the existence of the exchange, because nobody would change goods which are identical.

For neoclassical thinkers the value is determined by labor. Labor is, for them, the source of value concluding that just commodities have value.

The neoclassical economics reject labor value theory, called the objective value theory and proceed to claim with arguments that value is determined by utility. This idea was not new. It advanced first by Jacques Turgot, when he says that there is a large subjective values for each individual and, later, Jean Baptiste Say who considers the value as arbitrary as long as the utility of the good is not known its owner.

Developed by the neoclassical theory of value based on subjective assessments of individuals is called subjective theory of value.

The year of 1871 is an important resonance in theory and economic thought, because it is the year of birth of the new paradigm of neoclassical, the beginning of the marginalist revolution.

Marginal revolution is born simultaneously in three schools of thought in three different countries within 4 years.

The three leaders of the revolution are marginalist William Stanley Jevons (England), Carl Menger (Austria), Leon Walras (Switzerland). These three great economists, considered the founders of neoclassicism, writing independently, one of another, have the common approach analysis based on the utility, the value of the last consumed unit from good, called ***marginal utility.***

For classics, the value or price of goods or labor incorporated depend on material and financial efforts incurred in the past. On the contrary, neoclassical school of thought support and demonstrate the concept of marginal utility meaning that the value of the goods does not come from their past but the future. High costs, consider both Jevons, Menger and Walras does not mean high prices. Regardless of the costs, once a commodity is on market, its price or value depends on utility or importance that this poses to the consumer.

S. Jevons says that the labor incorporated in a good does not influence anything price or value of goods. And here, Jevons refers to periods when stocks are accumulated as a result of declining demand leading to lower market prices than production costs. (Landreth & Collander, 2001)

The value is not intrinsic to property as a result of being incorporated into their work. The source of value is not labor, it must be sought only in the utility and scarcity of goods. To explain how the utility and scarcity determines the value of a good, Jevons introduces the concept ***final degree of utility*** (marginal utility).

For S. Jevons the final degree of utility is the key to the entire economic mechanism. This important concept - the final degree of utility is the utility felt by an individual at last amount of a good consumed.

As a general law, says Stanley Jevons, the final degree of utility varies on the amount consumed, it decreases as the amount consumed increases. This is what we know today as the law of diminishing marginal utility, elaborated by H.H. Gossen in 1854.

The value depends on the utility of the last unit (less valuable). The value or price of a commodity will decrease with increasing amounts consumed of commodity and its price or value will increase with the decrease in consumption.

To enunciate a theory of value based solely on subjective principles, Carl Menger analyzes economic and non-economic character of goods, and the link between them.

The most important concern of human activity is undoubtedly for satisfaction of needs. Each individual sees goods from its own perspective and closely related to the intensity and diversity needs. This perspective by which an individual is related to all of the property he owns is different for each individual separately, sometimes even differ for the same individual.

Goods that have the capacity to satisfy the needs of the individual (they are useful) and they are limited relative to needs, they are called economic goods.

There are, however, situations when the quantity of a good is superior to the need felt by an individual or by a group. Such goods are abundant and individuals’ effort to get them is minimal or missing, they are not object of human economy and they are called non-economic goods.

The Value of goods arises naturally from its relationship with the individual's needs and is not intrinsically good question.

The value of goods, for Carl Menger, is an entirely subjective notion, is a judgment on the importance of individual goods available for surviving and thriving.

Contradict the labor theory of value supported by the whole classical school of economics, (for them the value appears in the production and exchange, and the source and the source thereof is labor) Carl Menger claims that all economic goods have value. The value is determined by each individual, depending on the dynamics and intensity of needs, but this time the source value is found in utility of goods in possession of every individual.

The value is higher or lower in relation to the importance that the individual gives to obtained satisfaction. All of obtained satisfactions are different in importance and depend exclusively of a certain amount of goods available. But for Carl Menger, it is very important to discover that particular satisfaction that depends only on a certain part of the consumed goods.

Known that economic goods are limited compared to the needs, those individuals will satisfy the most pressing needs. The value of goods will be equal to “the importance of satisfaction least important.”

The marginal utility, a concept underpinning the whole consumer theory of modern microeconomics, represents increase utility or satisfaction achieved by an individual when consumption of a good changes with a supplementary unit.

Menger's argument rests on the following principles:

1. goods that have the most value are those goods that depends on individual needs;
2. the importance of satisfying needs is uneven;
3. the intensity of importance of satisfying needs is also uneven;
4. the value is equal to the importance of the least important satisfactions;
5. every need decreases in intensity as satisfied.

Once stated and understood these principles, Carl Menger believes that the problem of paradox of value (water and diamonds) is solved. Diamonds being so rare individuals meet their most important needs, while abundant water that allows the individual to fully satisfy needs that depend on this good even significant amounts of water remain unused. This causes the water to have a little value or no value to the individual, while diamonds will have a great value.

Marshall's theoretical approach of the value and utility is largely an attempt to reconcile classical thinking on the one hand and neoclassical thinking, on the other hand. The value of a good depends on the cost of production, as the classical economists argue, or value of a good depends on its utility, referring to capacity of good to satisfy a need (demand)?

He recognizes and demonstrates influence on the determination of cost of production, but arguments related solely logic of marginal concept. Both supply (cost of production) and demand (utility) participates in value formation.

Marshallian approach brings clarity on the issue value and utility once realized that the key is period under review. The study economic phenomena over short periods and long periods is one of many methodological contributions whom we owe Marshall, along with other useful concepts using today: substitution, elasticity coefficient, producer surplus, consumer surplus, the additional cost.

In the short term, when supply is rigid and cannot respond the demand, value theory is verified from utility perspective. The demand in the short term, strongly influences the value and price.

Long term, however, confirm the theory of labor value as the good price will stay permanently around production cost. In this case, the value and price are influenced decisively on supply.

3. Conclusions

The most important schools of economic thought have built the entire scientific approach on the **Theory of Value**.

All economists have tried to find a measure of true economic value. Knowing this measure, it provides answers to lots unsolved questions: what is the profit and its source, how it is born the market price, what factor determine the demand and supply, what is a justice distribution income, what forces the influence of the economic growth, etc.

Every economic process takes place around the value. Economic value is the basis of economic life, and once we understand how it is born, we, also, know what to produce, how to produce, for whom to produce, and how entire output is distributed in economy.

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