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## On the valuation of economic goods<sup>\*</sup>

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### Abstract

The presented study includes an analysis of the category of “good” on the basis of philosophy and economics. Particular attention was paid here to the factors determining the monetary value (price) of an economic good. While achieving the assumed objective of the research, answers to the following questions were sought: What is the difference, therefore, in the interpretation of good as an axiological category and good which economics deals with? What is the basis for the valuation of goods which are the subject of economic analysis? While seeking answers to these questions, an attempt was made to justify the thesis according to which contemporary understanding of the way the market values goods is limited to accepting the price understood as a variable representing a kind of relationship set in a given time period.

**Keywords:** economics, ethics, history of economic thought, theory of value

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## 1. Introduction

The following study provides an analysis of the valuation of goods based on philosophy and its younger sister, economics.<sup>1</sup> Economics, at least in the Anglo-Saxon tradition, evolved from moral studies.<sup>2</sup> For a long time, the theory of value, which aims to explain the monetary value (price) of economic goods, also played an important role in the field. Thus, one may ask: how does the axiological reflection influence the way economists place values on goods? What is the basis for the valuation of goods that are subject to economic analysis?

To answer these questions, the author attempts to support the thesis that the contemporary understanding of the way in which the market values goods is limited to accepting the price that is understood as a variable constituting a kind of relationship which is set in a given time period. The axiological dimension of the nature of goods is generally omitted in economic considerations, and the emphasis is put solely on the formalized process of their valuation.

In order to prove the formulated thesis, the article presents how economists' view on the valuation of economic goods has changed, starting with the classical theory of value. Next, it points to the consequences of the Marginal Revolution, which shifted the focus of considerations to the subjective aspects of the valuation performed by market participants. Developing the concept of the interest rate, the representatives of the Austrian school of economics and Irving Fisher showed the influence of the time factor on the valuation of goods. The value of a good was redefined owing to the supply-and-demand analysis of Alfred Marshall and the Arrow-Debreu general equilibrium model. The evolution of economic concepts was examined in relation to the axiological assumptions in the field of philosophy.

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<sup>1</sup> For more on the category of a goods through the prism of contemporary economics, cf. Malawski, 2007. In his deliberations, the author starts with the broadly understood definition of the term, stating that "goods include all the resources that can be used directly or indirectly to satisfy human needs" (p. 154).

<sup>2</sup> David Hume is recognized as a leading representative of the Enlightenment philosophy owing to the works *A Treatise of Human Nature* (3 volumes 1739–1740) and *An Enquiry Concerning Human Understanding* (1748). Meanwhile, to economists, his most important work is the collection of essays entitled *Political Discourses* (1752). This collection includes, among other things, the following essays: *Of Commerce*; *Of Money*; *Of Interest*; and *Of the Balance of the Trade*, in which Hume outlined the quantitative theory of money and presented arguments for free trade. By developing these concepts, he contributed to the erosion of the mercantilist system, and at the same time, laid the foundations of the classical political economics. Adam Smith is considered the father of economics. Before he presented his main economic work *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), he was known as a philosopher thanks to *The Theory of Moral Sentiments* (1759). Smith was never employed as a professor of economics. During his academic career, he chaired the Department of Logic at the University of Glasgow from January 1751, and less than a year later, in June 1752, he became the Head of Moral Philosophy. John S. Mill's publication record is also the subject of philosophical and economic analysis. Among his most influential works, philosophers enumerate *A System of Logic, Ratiocinative and Inductive* (1843) and *Utilitarianism; On Liberty* (1861), whereas economists point to *The Principles of Political Economy: With Some of Their Applications to Social Philosophy* (1848).

## 2. The economic theory of value and axiology

Although the contemporary theory of economics, and especially its mainstream, avoid forming value judgments, the theory of value holds a central place in the classical works of economics. Trying to understand how prices are established, the economists of the 18<sup>th</sup> and 19<sup>th</sup> centuries studied the issue from the perspective of the theory of value. They were looking for something that sets the price of a particular good that is understood as the monetary expression of its value. While it is difficult to find direct references to the ontological dimension of the existence of value in the economic analyses (as in the case of the contemporary axiology),<sup>3</sup> it is easy to observe two different positions regarding the source of the value of economic goods. The first one characterizes the tradition of classical political economics, which involves the search for the foundations of the value of economic goods as something that is objective and derives from the essence of this good. The value, in this sense, would be independent of the will of a valuing subject, which is, at the same time, an attribute of the object.<sup>4</sup>

In Chapter 7 of *The Wealth of Nations*, titled *Of the Natural and Market Price of Commodities*, Adam Smith distinguishes between the market price—which is variable by its very nature—and the natural price. When it comes to the essence of the natural price, he maintains that

[it] is, as it were, the central price, to which the prices of all commodities are continually gravitating. Different accidents may sometimes keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this center of repose and continuance, they are constantly tending towards it. (Smith, 2007, Vol. 1, p. 70)

The above demonstrates that Smith was looking for an explanation of the causes of establishing a price that would actually represent the value of a particular good. To the Scottish economist, demand factors are rather the cause of the deviation from the natural price, which results from the action of the supply forces that are identified with the inputs of production factors: land, capital and labour. Apart from Smith, David Ricardo and Karl Marx also tried to explain the value of an economic good by pointing to the source of its origin. Considering

<sup>3</sup> Even though ethical problems seen through the prism of philosophy have a long tradition dating back to ancient times, axiology emerged as a separate branch of philosophy at the end of the 19<sup>th</sup> century, thanks to such thinkers as: J.F. Herbart, F.E. Beneke and R.H. Lotze. However, as Sosenko emphasizes, the field of axiology was at its prime in the first half of the 20<sup>th</sup> century due to the works of Scheler, Hartmann and Ingarden. Cf. Sosenko, 1998, pp. 74–75.

<sup>4</sup> The philosopher and ethicist J. Pawlica, considering the problem of objectivity and subjectivity of value in the context of R. Ingarden's views, draws attention to the ambiguity of the notions of objectivism and subjectivism. Among other definitions, he specifies, for example, that "objective is simply what occurs in the object, and subjective—in the subject, in other terms: objective exists independently of conscious experiences, while subjective—on the contrary, and objective does not change despite the changing experiences of the conscious subject, while subjective does change" (Pawlica, 1992, p. 541).

labour as the basic factor that gives value to manufactured goods led to a strong conflict between capital and labour in the 19<sup>th</sup> century. The dispute concerned the justification of workers' wages being low in comparison with the remuneration of capital as a factor of production. This, in turn, triggered a heated dispute related to the economic theory of distribution, in which some positive assertions appeared but also normative visions of a "just" socio-economic system clashed.

Interestingly, even in the development period of neoclassical economics, there were endeavours to objectify the value of a good that is created in the production process. Constructing a neoclassical synthesis (combining the classical theory of value with the marginalist theory of value)\*\*, Marshall attempted to formulate the concept of a representative firm (in the Polish translation of *Principles of Economics*, the term is rendered as "typical firm"). While he made a not entirely successful attempt at constructing the concept of a representative firm,<sup>5</sup> he never presented a framework of an analogical theory with regard to consumer behaviour. And it is difficult to imagine "a representative consumer" if—in line with basic premises of neoclassical economics—we assume his or her independence.

In the 1870s, the critique of classical economics provided a different perspective on the issue of the value of economic goods in the context of subjective assessments of the agent. This way of thinking is mainly identified with the achievements of the Austrian School. The commentary made in this article is limited to the position adopted by the founder of the Austrian school, Carl Menger. In 1871, he put forward the work titled *Grundsätze der Volkswirtschaftslehre* [Principles of Economics], in which the economist clearly states that

value is thus nothing inherent in goods, no property of them, nor an independent thing existing by itself. It is a judgment economizing men make about the importance of the goods at their disposal for the maintenance of their lives and well-being. Hence value does not exist outside the consciousness of men. [...] Objectification of the value of goods, which is entirely subjective in nature, has nevertheless contributed very greatly to confusion about the basic principles of our science. (Menger, 2007, p. 121)

Menger does not confine himself only to proposing a thesis of an ontological character, defining the nature of values. He asserts that the measure of value is of a subjective character as well. "Hence not only the nature but also the measure of value is subjective. Goods always have value to certain economizing individuals and this value is also determined only by these individuals" (Menger, 2007, p. 146).

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\*\* The term neoclassical synthesis is also used in connection with macroeconomics. In this context, it denotes the approach that emerged from J.R. Hicks' interpretation of Keynes's theory, which was presented in the article *Mr Keynes and the Classics: A Suggested Interpretation* (1937). Hicks's depiction of the matter (the IS-LM model) made it possible to combine the essential elements of the Keynesian economics with the basic assumptions of neoclassical economics. (*Editor's note*)

<sup>5</sup> It should be stressed that Marshall's concept of a representative firm does not apply to the firm characterized by the average costs associated with the activity in a given branch of industry. This concept is much broader and ambiguous. Cf. Marshall, 1925, pp. 305–306.

Menger clearly indicates that the theory of value precedes the theory of price. The theory of prices, so strongly emphasized in contemporary economics, is simply a theory defining the ratio at which two goods exchange. Moreover, the economist criticizes the principle of equivalence in exchange—in the meaning assigned to it by classical economists (cf. Menger, 2007, pp. 183–184).

The subjectivist standpoint allowed the theory of individual demand to be developed. The triangle presented by Menger showing the process of subjective assessment of the value of a given good soon turned into a formalized theory. Applying the so-called Gossen's laws, economists determined the conditions for optimizing the exchange and formulated a demand curve based on the theory of marginal utility. Later, negating the psychological foundations of economics, they rejected the cardinal utility measurement method and advocated the ordinal utility approach, which excludes the possibility of interpersonal comparisons of utility.

The classical theory of value has its drawbacks, and the subjective theory of Marginalists has them as well. Assuming that the value of goods is determined by the amount of work or production costs, Classicists could not explain, in a convincing way, the value of such goods as works of art. Furthermore, the presumption that the value can be measured with labour causes numerous difficulties owing to the non-homogeneous character of labour. When it comes to the subjective theory of value, the problem lies in the fact that individuals can only determine the value of those goods which they directly consume. And as for other goods, e.g. factors of production, their value was to come from the final goods. It engaged economists—especially German-speaking ones—in the dispute over the so-called theory of imputation.

In the 1890s, Marshall made attempts to reconcile these mutually exclusive economic traditions. He took up a stance that was a compromise, according to which neither the production cost nor usability is a premise that can, by itself, determine the value of a particular good. Only if the two variables (representing supply and demand, respectively) are taken into consideration are we able to understand the essence of the value of economic goods. To illustrate the idea, he made the well-known comparison to scissors that cut a piece of paper. Just as the two scissor blades cut the paper simultaneously, supply and demand factors both participate in determining the value of goods (prices) (cf. Marshall, 1925, pp. 332–333).

Marshall's concept still appears in textbooks of microeconomics since it changed economists' view on the whole process of valuing goods. Gradually, economists began to leave out the philosophical, axiological perspective, and shifted the focus of the analysis to the price theory explained within the framework of physically interpreted equilibrium models. In this sense, prices are understood as relationships which constitute a parameter that allows rational agents to optimize their decisions.

Just as axiological objectivism corresponds to the classical theory of value, and axiological subjectivism to the theory of marginalism, the neoclassical synthesis relates to the views of axiological relationism. In line with axiological relationism, value is neither something objective, an immanent feature of the object, nor a

subjective evaluation of the subject. The value exists in the context of the subject-object relationship. According to Wiśniewski, this view is reflected in the works of Roman Ingarden (cf. Wiśniewski, 2009, pp. 166–167). More recently, the standpoint is represented by Lipiec (1992, p. 13), who claims that:

Value is generated by the object, but only when this object bears a relationship to a human being. Value has therefore a twofold basis for the existence: its carrier is, firstly, the subject and, secondly, the subject-object relationship whose subjective component (the human) becomes aware of the value of the object and of the existence of the relationship itself, in which the value appears as a “for” property—for him or her, the subject.

The fundamental difference between Marshall’s theory and axiological relationism is that the former deals with the way value is determined—a human discovers value based on how markets interact. Meanwhile, in philosophy, the representation of the subject matter focuses on uncovering the nature of value in an ontological manner. Since the late 19<sup>th</sup> century, economists have been less and less interested in the very nature of value, limiting themselves to the problem of valuation, and the dispute that arose from this revolved around the scale for the marginal utility of consumed goods and services.

Despite the fact that Marshall, the author of the model of partial equilibrium, gave rise to the idea of value as a type of relation, the concept was fully developed in the context of Walras’ model of general equilibrium, especially in the works of Kenneth J. Arrow and Gérard Debreu (cf. Arrow & Debreu, 1954, pp. 265–290). Thanks to the formalist narrative of their works, the concept took its most mature form. When in 1983 Gérard Debreu was awarded the Swedish National Bank’s Prize in Economic Sciences in Memory of Alfred Nobel, the press release stated that not only was it given to him “for having incorporated new analytical methods into economic theory and for his rigorous reformulation of the theory of general equilibrium”, but also that the economist contributed to, among other things, gaining a different perspective on the category of good. In the opinion of Malawski, it was Debreu who made the most significant contribution to the process of the axiomatization of the general equilibrium theory, in the scope of which good is considered a primitive notion (Malawski, 2007).

What greatly influenced the separation of the economic theory of value from the axiological reflection was the introduction of the time factor into the economic analysis. These postulates were developed by both, Menger and Marshall; yet, it was in the works of Eugen von Böhm-Bawerk and Irving Fisher that their outcomes were fully demonstrated. The first author conveyed his views in the work entitled *Kapital und Kapitalzins. Positive Theorie des Kapitals* (1889). Although the main inspiration for the theory of interest by the Austrian economist was the valuation of capital goods, it can easily be applied to all type of goods involved in trading. Böhm-Bawerk asserts that “present goods are, as a rule, worth more than future goods of like kind and number. This proposition is the kernel and center of

the interest theory which I have to present” (von Böhm-Bawerk, 1891, p. 237).<sup>6</sup> Thus, the value of goods is determined by the time preference that stands for the willingness to obtain present goods rather than future goods, the consequence of which should be expressed as a percentage—*agio*. The theses proposed by Böhm-Bawerk were developed by Fisher, who, having a better mathematical background than his Austrian predecessor, was able to present the interest rate in a more mathematical manner. The outline of his interest rate concept was presented in 1907 in *The Rate of Interest*, and its extended version in *The Theory of Interest* (1930). This economist argues that the interest rate is a measure of the price that individuals are willing to pay to get income today and not in the future. Fisher employs important categories in the depiction of his idea: *impatience* and *opportunity*. The former was to replace Böhm-Bawerk’s term *agio* (cf. Fisher, 1930, pp. VIII–IX).

Formulating their concepts, both Böhm-Bawerk and Fisher strongly emphasized the idea that the limited availability of goods combined with impatience may be an important element of valuation. Nowadays, people are not content with the simply obtaining goods according to their own scale of preference. Increasingly, they want to have things right here and right now. This impatience makes us pay more and more attention not only to what we have, but also to when certain goods will be available to us. It directly stimulates the development of credit institutions, which are willing to fulfil these expectations for a specific remuneration expressed as an interest rate. Today, time is becoming an increasingly significant value-creating agent. To a large extent, it changes the value of a good that is established by an interaction between the determinants of supply and demand. Figure 1 illustrates the evolution of the approach to the valuation of economic goods, taking into account the economic and the axiological perspectives, and considering the influence of time.

In economics, the considerations on time as a value-creating factor were limited to devising mathematised techniques which allow people to establish how the value of goods changes over time. The idea has never been analysed in depth in relation to economics or axiological reflection. Philosophers usually interpret time on the epistemological level, with regard to the development of physics and mathematics. The example of such an approach is found in the philosophy of Immanuel Kant, who sees time and space as *a priori* categories of the mind that enable the perception of reality. In contemporary philosophy, much less thought is given to the implementation of time in the context of how contemporary man perceives value.

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<sup>6</sup> The English version of Böhm-Bawerk’s work is the translation of the second part of his book *Kapital und Kapitalzins. Positive Theorie des Kapitals* (1889).

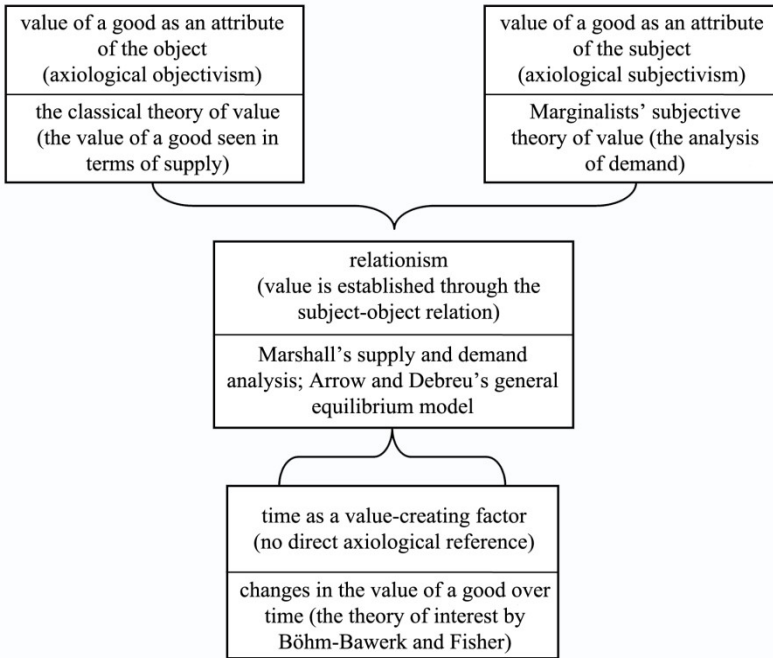


Fig. 1. The axiological and economic approach to value

### 3. Conclusions

Ethical and axiological matters were present in the deliberations of economists almost since the very moment the field of economics started developing. The central problem of economics was the theory of value, as it was a starting point for the analysis of the prices of goods and services. Initially, especially in the Anglo-Saxon tradition, there was a strong tendency to make the value of goods and services objective. The subjective approach entered into the scholars' discussion as a result of the Marginal Revolution, and over time, it progressively gained more support. Thanks to Marshall's neoclassical synthesis, the objective and the subjective approaches were combined into the demand-supply scheme of the market, which is now a widely shared view on the process of price formation.

Contemporary economics, especially those referred to as mainstream economics, rarely talk explicitly about the ontological dimension of the existence of value. It restricts itself to studies on the valuation process performed by rational



agents. The concept understood in this way lost its philosophical depth and let go of the axiological approach to value. Its place was taken by a formalized analysis of the price formation process in the market.

While reflecting on the theory of value, one should bear in mind yet another factor which is not included in the economic and philosophical analyses—the time factor. Up to now, the depiction of time on a philosophical plane was mainly associated with its epistemological dimension within the framework of the philosophy of mathematics and physics. In the sphere of economics, on the other hand, the analysis of how important time is boils down to the use of algorithms that allow us to estimate how the value of a good changes over time. Perhaps this is a reflection on the way economizing subjects value goods, enriched with the time dimension, which could provide a solid basis for economic as well as philosophical research.

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