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**THE PSYCHOLOGICAL  
THEORY OF VALUE**

*BY THE SAME AUTHOR.*

**THE LAWS OF SUPPLY  
AND DEMAND.**

With special reference to  
their influence on Over-Pro-  
duction and Unemployment.

Demy 8vo.

# THE PSYCHOLOGICAL THEORY OF VALUE

BY

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CONSTABLE & COMPANY LIMITED  
LONDON BOMBAY SYDNEY

1924

**OXFORD UNIVERSITY PRESS,**  
ELPHINSTONE CIRCLE, BOMBAY.

X:70bS

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**IN PIAM MEMORIAM**  
**W. P. KER**  
**VIRI NOBILIS ET SOCIJ JUCUNDISSIMI**

## PREFACE

Le raisonnement que vous en avez fait est si docte et si beau qu'il est impossible que le malade ne soit pas fou et mélancolique hypocondriaque ; et quand il ne le serait pas, il faudrait qu'il le devint, pour la beauté des choses que vous avez dites et la justesse du raisonnement que vous avez fait.—*Deuxième Médecin.* MOLIERE: *M. de Pourceaugnac*, Act I, Scene 8.

THE present study of Value is advanced in strict sequence to an earlier work, "The Laws of Supply and Demand," published in 1912, which, in many respects, is already out-of-date, yet will not bear republishing. Some repetition of what I have written immaturity before is unavoidable, but the more useful part of it can be organically imbedded in the Theory of Value. Logically, anything worth reading in the two books remains strictly in sequence, and the plan which underlies both together must be explicitly stated.

"The Laws of Supply and Demand" was a study of "economic behaviour." Although, as I have explained in the Introduction, I do not entirely agree with the school of modern psychology, which holds, rather dogmatically, that psychological studies begin and end with behaviour, there can be no doubt that the study of behaviour is a good beginning, and better, or worse, than deductive studies, according to the validity and completeness of the final body of knowledge which arises from it. Mankind will obviously not rest content with a system of conclusions in any science where both methods have not been applied to the full extent of their capacity for dealing with the subject.

From the study of economic behaviour three conclusions were drawn, none of them, however, with sufficient skill, force, or explicitness.

(1) That Demand, in other words, the body of Values, is the governing force in the economic world.

Rider : Demand and Value together, involving also the nature of Price, are psychological forces of the first magnitude.

(2) That Supply, having to follow Demand, has become deeply involved in the business of Selling, which has generally been, and still is, more expensive than Production.

Rider : The difficulties which confront the problem of Selling in the modern world arise from the fact that Production, in order to secure cheapness of Cost, has to be carried on at a great rate and in profusion, while, on the contrary, in order to secure and maintain Prices adequate to reward Production, the task of Selling has to be undertaken at a very slow rate, involving a need of larger Capital than that required for Production itself.

(3) That economic aims are essentially of the nature of moral aims. The contrary is unthinkable. If economic life be not a form of moral life the world is deeply and irremediably unfortunate. The preoccupying aims by which most people are governed are economic aims ; most people have time for little else. They also feel, instinctively, that one is not exclusive of the other.

Rider : It is no less true that the highest moral aims are economically the most efficient in a perfect or highly organised community. Economic efficiency demands essentially no different standard than the highest moral one. Just as in the political world the self-denying doctrines of Christianity broke the military force of Rome, so the highest personal ideals are destined, by the innate forces of human nature, to overcome the intelligent selfishness of individuals. This will not only be true in the most perfect form of economic organisation, but the tendencies in that direction at the present day are apparent.

The present work is a deductive study from these conclusions. It suffers from the inadequate manner in which the previous inductive work was done. In the present volume



some further inductive work has been attempted, but it is probable that it will have to be done again.

The scheme of the present work is as follows: After a general introduction, giving definitions, I deal, in the first part, with the Nature and Operation of Values and Prices, and further attempt to establish the Psychological and Multiple Theory of Value, which are one and the same thing, under different aspects.

In the second part, after an introduction touching on the history of the Theory of Value in the light of the Psychological Theory, I give a very brief sketch of economic progress, leading up to the consideration of the psychological nature of the four Economic Factors in Production, and the relative utility of their services and the proportional justice of their rewards.

The Modern Province of the State in Economics, which is lightly discussed in the latter portion of the book, tends to concern itself with the institution of Capital. As an institution, I believe the latter to have its sources from a fount of human nature secondary only to Value itself, which is akin to life. The order of Economic motives is as follows:

- (1) Life—from which spring Values.
- (2) Foresight for life—resulting in Reserves and Capital.
- (3) Multiplication or fulfilment of life—resulting in Exchange and Prices. But as all progress is effected in stages, and the stages are transitory, any complicated institution, such as Capital, even if it be fundamental, must undergo deep transformation.

While I believe Capital to be fundamental, I notice the changes that are already occurring in its character and draw three conclusions:

- (1) Capital, like all else in Economics, is psychological in character.
- (2) Its psychological functions must change, and are changing.
- (3) It will be long before the psychological functions of

Capital can be delegated completely to any common institution such as the State. Although the system of delegation of former capitalist functions has begun, and is proceeding, it tends quite as much in directions away from the central power as towards it.

The brief history of the Theory of Value is, to some extent, a digression, but is, perhaps, unavoidable. It is of interest, both as showing a tendency to lead the way to the Psychological Theory of Value and to confirm its validity. But it is of more importance as exhibiting very plainly the transitions of economic thought, as well as the evolution of economic behaviour.

The present stage of economic theory is a theoretical indifferentism from which it is my present aim to arouse the minds of young thinkers. Immersed, as they are now, in empiricism, they must, after trying all the short cuts to progress, return to renewed hard work in thinking out thorny problems. Perhaps this book may have the privilege of showing the depths of the difficulty, even if it does not immediately provide a way out and upwards.

Among the experiments we have to prove in the near political future we may expect many moral ones in both directions owing to the increased influence of women. In fact, in England the process has already begun. The Deborahs of Manchester have transformed our political system, and the Zipporahs of Poplar and Gloucester are questioning the validity of preventive medicine.

The economic world can no more dissociate itself from the political world than it can from the moral world. Democracy has now become a reality in a sense which has never yet been true in any country except the United States of America after the Civil War. The new power is bound to perpetrate a great deal of fumbling with the too considerable number of institutions, whose endeavours to control economic and political life overlap one another. Self-contradictory social aims will tread on each other's heels to secure fulfilment.

Society, according to Mr. Tawney, is sick because it is acquisitive. I should have thought it was characteristically spendthrift to an extent which will force it to become far more acquisitive in the near future than it is at present. But there are different ways of looking at Society.

To some small extent economic aims have been, and may be, dissociated from moral and political ones. A certain conscious purpose in this direction survives from old times and continues to do good work. It appears to me, however, that the old ideals of the *Laissez-faire* policy have exhausted themselves or lost their objects. The indirect consequences of their assumptions have not.

It is necessary for those, who consciously construct an economic policy to be steadily pursued among frequently changing, and usually confused, issues, to bear in mind that the population of the existing world can be exceedingly rich in a comparatively short period, whenever various sections can cease their disputes about the partition of rewards and work together on an organic instead of a mechanical system. The immediate path towards their aim should be :

(1) *THE ASCERTAINMENT OF VALUES*, in other words, the interpretation of ideal modes of living in the use of various commodities. The higher the ideal, the better will be the choice of objects for expenditure. Expenditure must not aim at reckless quantity, but at healthful and, if one may say so, spiritual enjoyment. We cannot live with so few goods as formerly on the shores of Galilee, but we can do with a great deal less than what is now considered necessary in the great cities of the world.

(2) A second economic aim, which accomplishes itself, to a large extent, spontaneously when the first has been developed, is what I have named before in the "Laws of Supply and Demand," the facilitation of the *GREAT EXCHANGE*,\* which is the mutual and just requital of two approximately

\* See pp. 144 and 266.

equivalent sacrifices by the satisfaction of two approximately equivalent wants.

The crude fact about Economics is that in the present stage of world-development, with its advanced system of productiveness, the sacrifices are much more easily ascertainable than the wants, both in nature and quantity.

The greater part of this book was written, and all of the first part, which has not been subsequently altered, before the publication, at the end of 1923, of Mr. J. M. Keynes's very able "Tract on Monetary Reform." I am encouraged to think that I may legitimately quote a note of his on p. 34 as confirming the validity of one of the main features of the Psychological Theory of Value, that the psychological groups of this theory are not groups of complete individuals, but groups of mental attitudes, so that the same man can, and does, belong to more than one group at the same time, in so far as he envisages different problems. Mr. Keynes remarks :

" . . . the interests of the same individual will often be those of one of the groups in one of his capacities and of the other in another of his capacities, etc. . . . "

It will be sufficiently evident that the material points, opened up in the second part of the book, need to be dealt with more fully and in more considered fashion than I have space for in the scheme of the present book. They also need more thought.

I hope before long to expand the scope and to fill in the outline here given of the psychological functions of the four factors in the creation of wealth.

I ought to add that the great length of the Introduction in both parts is due, chiefly, to my desire to keep within them and outside the substantial part of the argument, most of those allusions to, and quotations from, previous authors which could not be omitted by me. I tried, therefore, to put them all together, where they could be read with judicious swiftness or summarily taken for granted by those who do not wish to enter fully into that part of the subject.

**PREFACE**

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• Finally, I desire to thank my friend, Mr. H. D. O'Neill, for a very important contribution in support of my own ideas of a future form of the State, to which we are already tending, whose functions will become more and more identified with insurance.

**G. B. DIBBLEE.**

**DOVER, 1924.**

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