

A Note On Jean-Baptiste Say and Carl Menger Regarding Value

Kenneth K. Sanders*

In this journal, an enlightening article appeared by Joseph T. Salerno (1988) concerning the neglect of the French liberal school in Anglo-American economics. The purpose of the present note is to reinforce a point contained therein. That point is: "The tradition [Smith-Say type approach to value theory] culminated in the work of F. B. W. Hermann who, starting from basic concepts formulated by Say, developed an approach to price theory 'emphasizing consumers' desires and incomes,' which came to serve later 'as the starting point of Menger's utility analysis'" (1988, p. 123).

Offered below, as evidence of an intellectual kinship on value between Say and Menger, is a citation from each. The quotation by Say is an excerpt from a letter that he wrote to Charles Robert Prinsep, the English translator of Say's *Treatise on Political Economy*. The letter is dated 1821.

The costs of production are not the foundation of price; the foundation is found uniquely in the need that men experience for making use of the product. They consent to pay for making use of the product. They consent to pay the pains (the toils) or the price that the product costs, only by reason of the utility that it has. If this utility is great enough in order that the consumer consents to place on it the price which it costs, one makes it or else one acquires it from those who have made it; if its utility does not appear sufficient in order to be worth this expense, one does not create it, or one does not buy it if someone has had the folly of making it. I have need of a piece of cloth of a certain quality; this need determines me to employ 20 shillings for it; if its costs of production, or what you call *difficulty of attainment*, do not permit that one produce it at less than 25 shillings, I do not want it

*Kenneth K. Sanders is assistant professor of economics at Southwestern Oklahoma State University.

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any more; I would serve myself of another cloth; the difficulty which accompanies the possession of the first does not contribute to raise the price; it is not then a necessary *element* of its value, and when you reproach me in twenty places of not having expressed it thus, you reproach me of not having sustained a doctrine essentially false. What seems to me incontestable is only that the utility of things is the cause of the price that we place on them; but that this price would not be known to fall below the costs of production. When we present a vase under a fountain, it is not the rim of the vase which holds the water of which it is filled, but it is the rim of the vase which prevents the liquid from falling below a certain height. (Say 1833, pp. 144–46)

Similar sentiments were expressed by Menger in his *Principles of Economics* in 1871.

The value an economizing individual attributes to a good is equal to the importance of the particular satisfaction that depends on his command of the good. There is no necessary and direct connection between the value of a good and whether, or in what quantities, labor and other goods of higher order were applied to its production. A non-economic good (a quantity of timber in a virgin forest, for example) does not attain value for men if large quantities of labor or other economic goods were applied to its production. Whether a diamond was found accidentally or was obtained from a diamond pit with the employment of a thousand days of labor is completely irrelevant for its value. In general, no one in practical life asks for the history of the origin of a good in estimating its value, but considers solely the services that the good will render him and which he would have to forgo if he did not have it at his command. Goods on which much labor has been expended often have no value, while others, on which little or no labor was expended, have a very high value. Goods on which much labor was expended and others on which little or no labor was expended are often of equal value to economizing men. The quantities of labor or of other means of production applied to its production cannot, therefore, be the determining factor in the value of a good. Comparison of the value of a good with the value of the means of production employed in its production does, of course, show whether and to what extent its production, an act of *past* human activity, was appropriate or economic. But the quantities of goods employed in the production of a good have neither a necessary nor a directly determining influence on its value. (Menger 1976, pp. 146–47)

In ending, a warning (and a plea) must be extended to Austrian economists—there is a danger, not of complete neglect of the French

liberal school, but of a lack of full use by Austrian economists of that tradition (Say in particular). Say presented a “mutual interdependence analysis of market processes” (Salerno 1988, p. 120) which is crystallized in his own Law of Markets. A *complete* understanding of Say’s own Law of Markets, which is based on exchange and subjective value, would be of great theoretical and practical value to the Austrian school of economics. A reading is recommended of Say’s *Cours Complet d’Économie Politique Pratique* (1828–1833). Also see Sanders (1990).

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