

## THE UTILITY OF THE CONSUMER FROM THE ANCIENTS TO THE CLASSICS

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### **Abstract:**

*The concept of utility is, together with the one of cost, the most important one in economic theory; all economic theories – except for the one of the producer – consider utility in their substantiation. Utility appears involved in the subjective theory of value, in the theory of imputation, of decision, of welfare and of playing. Due to the signification it possesses, utility has been initially debated by philosophers, theologians, scientists, who have inevitably inserted ethic or religious elements in the definition of the concept. To a great extent, economic problems are also ethic problems and the contradictions and interferences between moral and economy or their interdependencies with other social sciences have been a reason of controversial debates, especially during the last decades. This study is first of all a theoretical one, presenting multiple aspects on the evolution of the utility paradigm in the economic theory – starting with Antiquity and finishing with the classics – also considering the progress generated by its development in the science of Economy.*

**Keywords:** *utility, inherent value, use value, happiness.*

**JEL Classification:** B11

### **1. Introduction**

In fact, the concept of Utility, as a motivating factor of human behaviour is previous to the neoclassical economic theory. It is also important and interesting to mention that the evolution of the concept of utility and of its interpretation in different periods of time reflects the gradual transformation of economic science, from an ethic science, born of philosophy, to a moral science, separated from ethic and afterwards to an independent and positive science, with no interest in the study of moral.

A definition of the term may be the following one: utility represents the capacity, either real or supposed of an asset to fulfil a human need by the means of its usage in a production process or in personal consumption, but, when it is naturally brought in discussion, it becomes obvious how useful it can be for a certain individual or group of individuals. This diversity of approaches concerning the term utility, has been observed a long time ago, when preclassical economists and ancient or medieval philosophers considered that utility means satisfaction or value derived from the usage of the product, suggesting that an asset has a certain amount of utility if it is useful. The term used by Aristotle was not utility, but of value derived from usage, or from taking advantage and Turgot brought into attention the idea of estimated value, that is to say the importance given by an individual to his needs or wishes.

The first explicit definition of utility is that of J. Bentham, which defined the concept as happiness, advantage, benefit or pleasure. When J.S. Mill talks about the “perfectly just” conception of utility or happiness as a rule for shaping human behaviour, he uses the concept as short name for the “principle of the greatest happiness”, and the economists or philosophers who subscribed this approach are known as “utilitarians”.

In the following period, W.S. Jevons modified the signification and meaning of the term utility and thus it started to name not the quality of an asset to produce “good”, but the “good” provided by that

object. A. Marshall understood, and so did W.S. Jevons and J. Bentham – that utility is an useful characteristic of assets, but it was difficult to interpret this concept: „The total utility of an asset for any person (that is to say total satisfaction or any other benefit experimented by a person) raises with every raising of the supply of that asset, but not the same time the quantity raises.” [MARSHALL, A., 1920]

## **2. Preclassical school – ancients and scholastics**

The study of economy in western civilization began with Aristotle and Xenophon and minimal contributions from other authors, all of them being called ancients, while scholastics are represented by the groups of researchers active in the XIII-th and XIV-th centuries.

Utility in Antiquity is characterized by the value provided by the use of an asset, and also by the value in case of barter. Considering Aristotle’s conception on the inner value, scholastics have inferred that the inherent value of an asset is less tied to the “human necessities” and more to the “utility” of each individual. Anyway, this opinion undermines the idea that assets should have an inherent value.

“Utility” is not exactly a trait of the asset itself, but a relationship between the goods and the buyers. Aristotle has brought the argument that people’s needs are different, which makes the amount of “utility” vary, this idea of utility justifying the fact that different assets should come with different prices, both for different places and for different times. This idea was later adopted by scholastics.

The problem which appeared after presenting the liaison between “inherent value” and utility was the establishment of a price. Scholastics decided that a product cannot be bought by the buyers for a greater price than the one they are willing to pay, and so, this idea led to estimating the value of an asset.

Starting with the ideas of the ancients and of the scholastics, the Salamanca school tried to solve the problem of the fair price by arguing that estimation differs for a person to another. Consequently to this idea, the fair price should be the established price for the competitive markets, and the consumer would not pay a greater price than the utility provided by that asset.

In his work “Ethics”, Aristotle presented the exchange rate of an asset as being, in his opinion, the “inherent value” of an individual. Although there have been other authors who have made referrals to the economic processes and phenomena, Aristotle explicitly describes the exchange and use of money within barter. Aristotle ties the phenomenon of producing goods to fulfilling individual needs, presenting the influence of request on value. For him, the source for the value of a product is represented by the individual’s needs and the exchange between these is dictated by the equivalence between goods. But Aristotle’s essential contribution to the economic thinking treats exchange, the use of money in exchange for goods and developing the concept of utility. Aristotle was the first to make the distinction between the utilization value (*axia*) and the exchange value, this distinction being later developed by A. Smith in his work called “The Wealth of Nations”.

According to certain authors, Aristotle has presented in his works a form of the decreasing marginal utility law: he stated that when the consumed quantity of an asset rises, its value decreases, sometimes reaching negative values. Aristotle argued that human needs are different and that is why their degree of utility fluctuates.

The scholastic period started with the adopting of Aristotle’s system. The problem which appeared in this period is represented by value. The value of an asset could be the just value or the factual value. The just value represented the exchange rate for the goods and the factual value represented the actual value of the good in question.

Utility had a multitude of different definitions. A part of preclassical economists and the ancient or medieval philosophers considered that utility represents the satisfaction or the value derived from the use of a product, suggesting that an asset which has a certain degree of utility is an useful asset. The term used by Aristotle was not utility, but rather value derived from the use or employment of an asset

and *A.R.J. Turgot* came with the idea of estimative value, the sense being here the importance given by an individual to his own wishes and needs.

During the Middle Ages, another man who has brought into attention the concept of utility and economic value is *Jean Buridan*. The first elements of the request theory began to delineate with the help of the ideas he expressed in „*Quaestiones in decem libros ethicorum Aristotelis ad Nichomachum*”. Adept of the value – utility concept, J. Buridan has contributed to the development of a subjective understanding of utility due to the distinction he made between price and value. The deterministic theory that J. Buridan conceived and the relationship between will and intellect have been ridiculed by his opponents. He considered that a person who stays indifferent to two assets which are alike will not fulfil his or her’s needs.

An important contribution to the development of economic ideas regarding utility belongs to *Jean Pierre de Olivi*. He was the one to sustain the idea of individual preferences subjectivity and to present a perspective on the determination of economic value. His greatest contribution was the analytical separation of the concept of utility into two components: objective utility (natural value) and subjective utility (based on the use of an asset).

The work of Jean Pierre de Olivi was continued by Saint Bernardino of Siena, who, in the volume called “*Omnia*”, foresees the solution for the paradox of utility. He says: ”Water is cheap where it is abundant. [...] or, in other places, water is rare. [...] water should be evaluated better than gold, because gold is more abundant here than water”. [BERNARDINO, S., 1591]

The initiator of utilitarianism in Italy, *Ferdinando Galiani*, applies a hedonist argument in order to demonstrate that utility determines happiness. Utility for F. Galiani represents happiness and pleasure while its value is given by utility and rarity.

*Anne Robert Jacques Turgot*, the representative of physiocrate economists is considered the forerunner of the subjective theory of value. In order to demonstrate the gain of total utility that each individual obtains compared to the possibility of an isolated production of a single asset, ARJ Turgot, in his work called “*Values and money*” – which was neither finished nor published – gives an example of two individuals isolated on a deserted island, who exchange assets in order to fulfil their needs. ARJ Turgot uses in this work two ideas: estimative value – which is identical to the use value or utility and appreciative value – which is the exchange value for the asset.

Ethic of philosophical currents: aristotleism, christianism, sensualism have had a great impact on the ideas tied to value and utility. Utility represents the usage value derived from the consuming of a good or asset, concept which was introduced and used by Aristotle. The same time, utility is given the hedonist signification of pleasure or happiness.

### 3. Classical school

The expression classics has been employed for the first time by Karl Marx in order to designate and separate two economical thinking currents: English, going from W. Petty (preclassical school) to D. Ricardo and Frech, which started with JP Boisguilbert and finished with Sismondi. In JM Keynes’s opinion, classics are all the economists who followed A. Smith’s ideas either by developing them or by learning them and making them known to the world.

The classical approach has the freedom of movement and perfect competition as the key concepts, these conditions sustaining the idea of a supreme consumer – consumer who is not influenced in any way by the exterior and chooses products based on calculations, thus deciding which products will continue to be made by a producer.

Starting with the XVII century, there were science men or economists interested in the concept of utility and among them Daniel Bernoulli, who elaborated a theory on the marginal utility later named “*The Sankt Petersburg Paradox*”. In his work „*Specimen Theorie Novae de Mensura Sortis (Exposition of a New Theory on the Measurement of Risk)*”, D. Bernoulli accepts the idea of the decreasing marginal utility theory as being true, but emphasizes that he uses this theory only for

money, not for assets. The reasoning mistake of D. Bernoulli was to compare the utility of two individuals who had different social situations, the final conclusion being: “utility resulting from an insignificant gain of wealth shall be inversely proportional with the formerly possessed quantity”.

A *Smith* analyzed in his works the reasons which lead to consumers’ request and included the idea that the value in use or the capacity of an asset to be functional represents the various sources of desire and that is why “the request for precious metals come partially from their utility and partially from their beauty” [SMITH, A., 1776]. Beside the feature of being beautiful that assets possess and the possibility of being consumed, there are other sources of utility and also other utilitarian functions. A. Smith neglected the reasons of utility because he didn’t manage to identify, as he should, the theory of request with the one of utility, finally getting to expressing real value by commended work.

In some paragraphs of his work „On the principles of political economy and taxation”, *D. Ricardo* seems to get very close to distinguishing the concept of total utility compared to the marginal one, but raises the value formed at the margin [RICARDO, D., 2001]. If before, in the works of classic economists, utility was the main factor for determining request and measuring value, A. Smith and D. Ricardo considered utility to be more important in detriment to request and the analysis of the offer – request ratio is a means of analyzing the prices on the market, both authors having a predilection on considering the production cost the main factor in determining the price.

*Utilitarianism* is an ethical doctrine which argues that policy or fair behaviour is the one that provides the “greatest satisfaction and joy”. Utilitarianism originates in the Greek philosopher Epicurus’ works, but as an independent thinking school it starts with J. Bentham, finding answers to questions like: “what must be done?”, “what must we admire?”, “how should we live?”, all these questions being formulated with the help of terms borrowed from economy, like maximizing (of utility or happiness), profit (obtaining pleasure). The different forms of utilitarianism are generated based on the variation of two thesis: the consequent thesis – which states that if something is correct, its consequences are good – and the eudemonist thesis – which states what the relevant good (happiness) consists of and what means of evaluation we have. Depending on these thesis we can distinguish between the following types of utility: operational utilitarianism – which represents the criterium and means of determining the fairness or unfairness of a particular action. [PAYNE, S.R., 2006]

The first definition of utility was issued by *Jeremy Bentham*, who oriented the signification of the concept towards a particular type of utility. By utility, he understands happiness, advantage, benefit or pleasure. According to J. Bentham, *the principle of utility* states that actions are judged or evaluated depending on their utility [BENTHAM, J., 1843] or their tendency to produce benefits, advantages. J. Bentham sees people like machines that were created for maximizing pleasure and minimizing suffering. At this point he compares the concept of marginal utility to the happiness derived from health: “Between two people with unequal chances, the one who is richer will be happier. But happiness will not raise proportionally with wealth [...] The effect of wealth in producing happiness diminishes proportionally to the quantity people uses to acquire the goods that provide them happiness; in other words, the amount of happiness provided by a part of wealth (each part having the same dimension) will be smaller for each new part, finally producing less happiness than the first, the third less than the second and so on and so forth”.

In “Utilitarianism”, J. S. Mill states that the principle which governs the utilitarian ethic theory is “the principle of the greater happiness”; but this is not about the greatest amount of personal happiness of each particular individual, but the greatest amount of happiness which can be obtained globally: “The principle of the greater happiness does not target the greatest happiness of the agent itself, but the greatest total amount of happiness. As this is the purpose of human actions, it is also the only moral standard”. [MILL, J.S. 2001] For J.S. Mill utility is the fundament of moral according to which actions are directly proportional to their tendency to promote happiness and are wrong to the extent to which they tend to produce unhappiness. The concept of happiness represents for John Stuart Mill the presence of pleasure and the absence of pain. He also does not abandon J. Bentham’s theory according to which utility is a principle of moral value. Thus, any action can be judged depending on the happiness it produces to a certain number of individuals.

Anticipating neoclassicists, *Jean Baptiste Say* considers the consumer and the consumption to be the terminal point: “Any consumption represents a destruction of value, a loss” [SAY, J.B., 2001] and the source of value and consequently of wealth to be utility. In „A Treatise on Political Economy; or the Production, Distribution, and Consumption of Wealth” he brought arguments to this statement: “...when an individual sells a certain product to another individual, he actually sells the utility of that asset; and the buyer does only buy it for this reason, for its utility [...]. If, for a certain reason, the buyer has to pay beyond the provided utility, he actually pays for a non-existent value...” [SAY, J.B., 2001].

Considering utility to be alpha and omega, J.B. Say also sustains the principle of outlets, according to which a product that has no buyers interested in it is not a real product, as it has no utility.

J.B. Say opens the road to neoclassicism by putting utility at the origin of value: “Any product is likely to be consumed, because its value, which can be added to consumption, can be subtracted from any object” [SAY, J.B., 2001]

In the first tome of his work „Kapital”, Karl Marx states his opinion on utility: “The utility of a thing is what gives it usable value. But this utility does not float in the air. Determined by the properties of the merchandise body, without this it cannot exist. The use value is only possible by use and consumption. The use values form the material background of wealth, independently from the social form of this wealth” [MARX, K., 1867].

#### 4. Conclusions

At the finale of my work I shall take the liberty of formulating a few conclusions, from a theoretical point of view. More specific, I would like to emphasize the special connotations of the concept of utility.

Utility is the extent to which an object is useful to an individual; in other words, it is about the value associated to the object by an individual. The associated utility of an object can differ from one individual to another, according to his system of values, to the social context in which he or she evolves and the resources he controls.

The need for the concept of utility has imposed itself from the moment when it was observed that the appreciation of all goods in their monetary value did not reflect the real value that individuals gave them and its evolution has been influenced by the development of economic science as a moral science, that is to say that there was a change, from a normative conception, like use value or happiness to a positive conception and particularly preferences.

Thus the concept of utility or happiness, became a universally used concept in economic theory.

Economic cybernetics has assigned a great importance to the elaboration of utility functions, meant to transpose utilities in numerical measures. [OPRESCU, GH., IMPERATO, A., ANDREI, A., 2004 ]. The purpose is obviously tied to ensuring the comparativeness of utilities associated to different assets.

J.R. Hicks (1939) pleaded for an ordinal function of utility, while J. von Neumann and O. Morgenstern (1944) proposed that utilities should be treated as numbers associated to each asset. This is a dimensionless measure which has been used until these days in most studies. The two authors analyzed the behaviour of utility functions by emphasizing their properties in a pretty well built theoretical construction. The reproof that can be made to von Neumann – Morgenstern – type approaches has to do with their normatively, as the proposed model does not consider real risk situations that individuals can find themselves into and the hierarchy of their preferences.

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