CHAPTER IV

THEORY OF EXCHANGE

Importance of Exchange in Economics

Exchange is so important a process in the maximising of utility and the saving of labour, that some economists have regarded their science as treating of this operation alone. Utility arises from commodities being brought in suitable quantities and at the proper times into the possession of persons needing them; and it is by exchange, more than any other means, that this is effected. Trade is not indeed the only method of economising: a single individual may gain in utility by a proper consumption of the stock in his possession. The best employment of labour and capital by a single person is also a question disconnected from that of exchange, and which must yet be treated in the science. But, with these exceptions, I am perfectly willing to agree with the high importance attributed to exchange.

It is impossible to have a correct idea of the science of Economics without a perfect comprehension
of the Theory of Exchange; and I find it both possible and desirable to consider this subject before introducing any notions concerning labour or the production of commodities. In these words of J. S. Mill I thoroughly concur: "Almost every speculation respecting the economical interests of a society thus constituted, implies some theory of Value: the smallest error on that subject infects with corresponding error all our other conclusions; and anything vague or misty in our conception of it creates confusion and uncertainty in everything else." But when he proceeds to say, "Happily, there is nothing in the laws of Value which remains for the present or any future writer to clear up; the theory of the subject is complete"—he utters that which it would be rash to say of any of the sciences.

**Ambiguity of the term Value**

I must, in the first place, point out the thoroughly ambiguous and unscientific character of the term *value*. Adam Smith noticed the extreme difference of meaning between *value in use* and *value in exchange*; and it is usual for writers on Economics to caution their readers against the confusion of thought to which they are liable. But I do not believe that either writers or readers can avoid the confusion so long as they use the word. In spite of the most acute feeling of the danger, I often detect myself

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