

A PRAXEOLOGICAL ASSESSMENT OF SUBJECTIVE VALUE

MARIAN EABRASU

ABSTRACT: This paper deals with the meaning and the limits of the subjective theory of value. Economists deploy this theory in such various areas as *utility, marginalism, knowledge* and *expectations*. Yet, despite its widespread use in economics, the meaning of subjective value remains equivocal and imprecise. This paper seeks to provide a more accurate praxeological interpretation of subjective value by anchoring it on preferences that are effectively demonstrated in action. This praxeological approach appears to be particularly pertinent for explaining the misuses of subjectivism in relation to utility and marginalism, and in showing the limits of various attempts to extend subjectivism to knowledge and expectations.

KEYWORDS: subjectivism, marginalism

JEL CLASSIFICATION: B10, B20, B41, B53

Dr. Marian Eabrasu (marian.eabrasu@groupe-esc-troyes.com) is Professor of Economics at the ESC-Troyes / Champagne School of Management. The author is grateful for the guidance of Prof. Enrico Colombatto as well as the financial support and the facilities provided by the I.C.E.R. (Turin/Italy) during his stay in 2008, when the first draft of this paper was written. He acknowledges the importance of the discussions with the members of the Austrian research seminar in Paris directed by Prof. Guido Hülsmann. The final draft of the present article was substantially improved in light of the valuable remarks made by the anonymous referees of the QJAE and the attentive proofreading of Deborah Tiedemann. Of course, all remaining errors are the sole responsibility of the author.

INTRODUCTION

The subjective theory of value has a long and uneasy history (Grice-Hutchinson, 1952; Hutchison, 1994). In the course of its wide utilization, subjectivism is often situated at the core of intricate debates in economics. While Mises ([1933] 2003, pp. 183–186) criticizes Menger's ([1871] 1994) conception of subjectivism, Böhm-Bawerk ([1884–1912] 1959) defends it against Jevons ([1871] 1888). Lachmann (1976, 1978b) looks for an extension of subjectivism beyond the extension advocated by Hayek (1952). Rothbard criticizes both propositions for extending the subjective theory of value (1957, 1973, 1997) and defends Mises's definition ([1949] 1998). More recently, this debate has attracted the attention of other scholars. Hoppe (1995, 1998), who reiterates the Rothbardian position, argues against Lavoie (1990, 1994a, 1994b), O'Driscoll, and Rizzo (1985, 1986), who follow the Lachmannian view on subjectivism. Caplan (1999, p. 827)—who sees only insignificant differences between the Austrian school and the neo-classical conceptions of the subjective theory of value—is criticized by Block (1999, pp. 23–25). However, the areas covered by these debates on subjectivism are extremely heterogeneous. For instance, economists deploy subjectivism in relation to *utility*, *ordinal evaluation*, *radical uncertainty*, *expectations*, etc. Yet, despite its widespread use within the field of economics, subjectivism remains an ill-defined term, which accounts for the difficulty in reaching a further understanding of the previously mentioned debates.

The aim of this paper is to provide an accurate definition of subjectivism and, in the light shed by this definition, to explain why it cannot accommodate most of the features that traditionally are associated with it. In order to accomplish this goal, the paper will first provide a praxeological interpretation of subjective value in accordance with the *Euthyphro dilemma*. Second, with this definition in hand, the paper will emphasize the heterogeneous character of the current uses of subjectivism by identifying and systemizing the related concepts: *utility*, *marginalism*, *knowledge* and *expectations*. Third, bearing in mind the initial definition, the paper argues that *utility* is not a *sine qua non* ingredient of subjective value and that subjectivism is not another word for *marginalism*. Fourth, using the same praxeological interpretation of subjective value, this article shows that the reference to human *knowledge* and to *expectations* does

not add supplementary degrees to subjectivism. Finally, the article concludes by pinpointing the theoretical perspectives thus opened.

A PRAXEOLOGICAL INTERPRETATION OF SUBJECTIVE VALUE

For an accurate understanding of subjective value, it is useful to start from the broader idea of “subjectivity.” Our most basic intuitions guide us to say that subjectivity is a property applicable to any feature of our world if its existence *depends essentially* on the acting subject (i.e., it would not exist otherwise). For example, the correctness of the ideas expressed in this article is subjective if it depends on my own opinion; if some readers also considered them correct, then my ideas would be inter-subjectively corroborated. Conversely, the validity of an idea is objective if it is independent of any agent. For instance, the validity of the ideas formulated in my article is objective if it can be established regardless of any subjective consideration. In that case, these ideas would be correct even if everybody considered them false.

When philosophers retrace the origins of the dichotomy between subjectivism and objectivism, they refer to the *Euthyphro dilemma*. (Nozick, 1981, pp. 552–555) “Just consider this question: Is that which is holy loved by the gods because it is holy, or is it holy because it is loved by the gods?” (Plato *Euthyphro*, 10a) If piety depends on the agent (in this case the gods) then we have a subjective interpretation of piety. Otherwise, if piety exists independently of the subject of action (i.e. the gods in this example) we may speak of an objective interpretation of piety. Despite its specific application to piety, the *Euthyphro dilemma* reproduces the general structure of the subjective-objective dichotomy. A “feature-of-our-world” exists either as a result of a subject’s action (hence the subjectivity) or independently of a subject’s action (hence the objectivity).

To concretely apply this rather general definition of subjectivity, we need to spell out the meaning of “feature-of-our-world.” Because this paper is concerned with the theory of value, the discussion will be restricted to the definition of subjective value. At the outset, we notice that scarcity is a *sine qua non* condition for establishing a theory of value. Contrary to a world of abundance, in a world of scarcity, desires cannot be satisfied instantaneously

and simultaneously. It is precisely for this reason that things have value. Given the limited amount of means of which we dispose, within a scarce world, not all ends can be realized simultaneously and instantaneously and, therefore, a choice has to be made in discriminating between the ends to be attained and those to be forgone. Still, this does not tell us if value is subjective or objective. In order to establish which axiological paradigm (subjective or objective) is used in grading the values of various ends, we must refer to the concept of "agent."

The concept of "agent" becomes thereby the sufficient condition for defining the subjective value and for distinguishing it from objective value. *The theory of value is subjective if we admit that the values are the outcome of the preferences effectively demonstrated by the agents in the course of their actions. Conversely, the theory of value is objective if we consider that the values of the ends to be pursued by the agent are ordered independently of their effective preferences.* The key element of this distinction is the real action of an intentional subject. Within the objectivist paradigm, it is possible to establish a value scale independently of the real action of an agent. Contrary to objectivism, within the subjectivist paradigm, in order to describe a value scale we must first observe the actual choice of the intentional agent. From the subjectivist perspective, there is no value scale in the absence of a completed action.

Now we can restate more accurately the subjective-objective value dichotomy. The question to be answered is: "Does a commodity have value because an agent has really chosen it in the course of his action?" The subjective value is established by a positive answer to this question while the objective value is established by a negative answer. This formulation of the dichotomy between subjective and objective value, grounded on the *Euthyphro dilemma*, not only validates our most basic intuitions, but also complies with the two logical parameters: exclusivity and exhaustivity. Subjectivism and objectivism do not overlap and they exhaust all possibilities regarding value theory. Any other definition of subjectivism is either partial or overlaps objectivism and would produce misunderstandings. Although we do not claim its originality, we maintain that only this definition of subjective value is accurate (*i.e.*, it can be unambiguously distinguished from objective value).

This approach to value theory is as old as Plato's writings and since then has already been reiterated numerous times. In economics, Ludwig von Mises provides a similar interpretation of subjective value built from three basic pieces. First, the subjective theory of value describes a trilateral relationship comprising the active subject, the end preferred, and the end forgone. (Mises, [1949] 1998, p. 335). Second, within this theory the agent of action is intentional (Mises, [1962] 2002, p. 4). Third, and most important,

...the scale of values or wants manifests itself only in the reality of action. These scales have no independent existence apart from the actual behavior of individuals. The only source from which our knowledge concerning these scales is derived is the observation of a man's actions. Every action is always in perfect agreement with the scale of values or wants because these scales are nothing but an instrument for the interpretation of a man's acting. (Mises, [1949] 1998, p. 95)

Hence, Mises ([1949] 1998, p. 97) concludes that "there is no room left in the field of economics for a scale of needs different from the scale of values as reflected in man's actual behavior."

This conception of subjective value, grounded on the theoretical paradigm of praxeology and assumed by the scholars working within the Misesian tradition assigns a central role to real action. (Mises, [1949] 1998, pp. 1–4, 92–98) From a praxeological standpoint, a subjective value scale only exists as embodied in *real action* (i.e. preferences existing independently of the concrete actions of real agents are therefore objective). From this point of view, if we discard "real action" as a fixed parameter for the distinction between subjective and objective, then all types of preferences (even the preferences that were never demonstrated, that will never be actualized, that are barely imagined, that are not even consciously formulated) might be considered subjective.

To grasp the importance of this praxeological approach to subjective value (which anchors value on effectively performed human actions), it might be helpful to explicate its specific consequences for price theory. Neoclassical economists usually consider that a "subjectivist" price theory relies on unique individual preferences, as opposed to the labor price theory described as "objective," inasmuch as it refers to the number of labor-hours (which obviously remain the same regardless of the observer).

(Endres, 1997, pp. 215–218) Most economists maintain that a subjective price determination consists of taking into account the individuality and/or the singularity of each set of preferences. (Hirshleifer, Amihai and Hirshleifer, 2005) Nevertheless, in the light shed by the praxeological assessment of value, it appears clear that something unique to an individual can still be objective. For example, everybody has a unique pattern of DNA, yet that is an objective feature of the world. This observation allows us to contrast the neoclassical approach, which models agents as having a *given* set of indifference curves (or utility function), with the praxeological interpretation of value, for which the preference scale does not really exist, except insofar as the acting agent *creates* it with his action. In a nutshell, the praxeological assessment of subjective value ties value to preferences effectively demonstrated in action, rather than tying value to individual preferences. This difference is crucial.

From a praxeological standpoint, prices emerge only after the effective action of buying and selling. Objectivists maintain that the price can be determined independently of the real action, by looking at the costs of production, the intrinsic utility of the exchanged good, the imagined individual preferences, etc. The consistent application of subjectivism in its praxeological version leads to the conclusion that the subjective scales of preference do not admit further rectifications. The “correct price” is the free-market price that expresses the subjective preferences of both parties of the exchange. However, economists defending objective value do not consider the free-market price to be accurate, thus the intentional agents should be coerced to exchange their goods at an enforced price. This intervention assumes both the existence of an objective scale of preferences (the descriptive edge of objectivism) and that the acting subjects should follow it (the normative edge of objectivism). This is the reason why, when it is applied to prices, objectivism brings about various economic policies hailing for price-fixing. Indeed, every interventionist economic policy implicitly supposes either that the subject of action has failed in choosing the most valuable end, or that the other subjects have failed in providing it. It is crucial to note that both interventionist and *laissez-faire* economic policies are related to the *real actions* of *real agents* making *real choices*. While the former purports to

correct the agents' preferences demonstrated in the course of their action, the latter maintains that these preferences should not be influenced. To be sure, the applications of the subjective/objective value dichotomy for price determination and for economic policies would be less clear if we were using another criterion than "real action" in distinguishing them.

Considering the aim of this paper, which is to focus on the meaning and the limits of subjective value, we should note parenthetically the debate on the consequences for economic policy. Now, based on the definition of subjective value provided in this section, we can better explicate its misleading interpretations and proceed to demonstrate that subjective value cannot account for most of the features traditionally associated with it: utility, marginalism, knowledge and expectations. Let us pursue our argumentation by initially exposing the non-praxeological interpretations of subjective value that are relevant to economics.

COMPETING INTERPRETATIONS OF THE SUBJECTIVE VALUE

The main praxeological features of subjectivism have been formulated since the Middle Ages (Grice-Hutchinson, 1952; De Roover, 1971; Hutchison, 1994; Rothbard, 1995) and reiterated during modern times, especially in the writings of Condillac (1776, p. 17). However, the famous late nineteenth-century economic debate over the paradox of value largely veiled the praxeological dimension of the subjective value. At that moment, Carl Menger ([1871] 1994), Léon Walras ([1874] 1952) and William Stanley Jevons ([1871] 1888)—keen to reject the classical economists' labor theory of value—stressed the role of individual preferences in determining prices. This maneuver, subsequently called "marginal revolution," consists in determining the value of a good subjectively (*i.e.*, in function of the particular wants varying from one individual to another) and not objectively (*i.e.*, in function of the number of hours, which are always the same regardless of the observer, required for the production of the respective good.)

However, as we already outlined in the previous section, individual preference is not the appropriate criterion for grasping the meaning of subjective value. Actually, this interpretation of

subjective value might explain the numerous debates which ensued from the marginal revolution. Indeed, based on the account of Menger, Walras and Jevons, economists formed different economic schools of thought according to the line of argumentation they adopted regarding subjective value. (Kirzner, 1995, p. 11) Menger's conception of subjective value, ([1871] 1994, p. 139) for instance, which later inspired the Austrian school, is usually distinguished from other conceptions because of its emphasis on ordinal evaluation of various commodities. Menger ([1871] 1994, pp. 120–121) derives his conclusion from the idea that value depends on the importance assigned by men to various commodities.

Inspired by the Mengerian theory of value, other authors drew attention to some specific aspects of topical issues related to subjectivism: *utility* and *marginalism*. Wieser ([1889] 2005, p. 26) insisted that the insight of evaluating the goods at the margin was made possible by the utility factor. In this way, he brought into focus the relation between subjectivism and marginalism. On the same line of thought, Böhm-Bawerk ([1892] 2002, p. 49) called for an incorporation of the law of costs into the marginal utility theory, while Kaufmann (1933, pp. 391–393) insisted on the importance of wants (as a part of economic plans) for the theory of diminishing marginal utility and ultimately for the subjective value.

However, other contemporary authors dissociate the subjective theory of value from the theory of marginal utility. (Lewin 1994, p. 235) Often, this difference between marginalism and subjectivism is assigned to *knowledge* and *expectations*. Within this theoretical perspective, subjectivism is considered as being much broader than marginalism. Various scholars propose to apply subjectivism not only to tastes but also to knowledge. (Horwitz, 1994, p. 18) This application of subjectivism to knowledge stimulates alternative ways of defining subjectivism: radical, dynamic, or ultra-subjectivism. In the eyes of Shackle (1983, p. 33), “the essence of the radical subjectivist position is that the future is not simply unknown but nonexistent, and the notion of foreknowledge of human affairs is vacuous.”

Associating subjectivism with the concept of “active mind,” O’Driscoll and Rizzo (1985, p. 22) formulate the concept of dynamic subjectivism, a variant of radical subjectivism. (Gloria-Palermo, 1999, p. 138) Moreover, according to Kirzner (2000, p. 71) there is

a conception of subjectivism originating in mainstream economics that he defines as ultra-subjectivism. Moreover, Buchanan and Vanberg (1994, p. 330, n. 8) consider that “there are other versions of ‘economic subjectivism’ that can be distinguished from both its radical and Austrian variety, in particular the ‘opportunity cost approach’ that was systematically stated by one of the present authors [Buchanan].” In addition to the divergence over the meaning of subjectivism, the relation between subjectivism and methodological individualism is also contested. (Don Lavoie, 1994a, p. 58)

Menger’s qualitative approach to *utility* sharply contrasts with the quantitative interpretation of utility provided by the other contemporary actors of marginal revolution, Walras and Jevons. Based on this quantitative interpretation of value, Walras, for example, states that utility can be weighted. “We need only suppose that utility is measurable and we are at once able to give an exact, mathematical account of the influence utility exerts, along with the quantity initially owned, on demand curves and hence on prices.” (Walras [1874], trans. from French in Jaffé 1977, p. 300) In the same line of thought, Jevons ([1871] 1888, pp. 53–54) states that values of different commodities can be measured through the consumers’ degree of utility. Following Jevons, many authors maintained that utility has to be cardinal, so we can measure it. In this way, utility can find applications in various fields of economic theory. For example, Harsanyi applies cardinal utility to welfare economics (1955, p. 316) and to risk-taking actions (1953, p. 434). In addition, von Neumann and Morgenstern (1944) consider that risk and uncertainty cannot be properly studied in the absence of cardinal utility (Quiggin, 1999, p. 592) criticizing thereby the New Welfare Economics, which dismisses cardinal utility. (Hicks, 1939, p. 18)

Despite its conciseness, this presentation suffices to show that the interpretations of subjective value are extremely heterogeneous. We can get a better picture of the fuzziness of subjective value if we isolate the various elements usually mentioned as its determinants: *utility*, *marginalism*, *knowledge* and *expectations*. Furthermore, this picture can be systematized if we distinguish between the debates on the very meaning of subjective value and the propositions to extend it. On one hand, *utility* and *marginalism* are considered as essential components of subjectivism. From this point of

view, evaluating the goods at the margin and/or grounding this evaluation on individuals' utility seems to suffice for formulating a subjective theory of value. On the other hand, when *knowledge* and *expectations* are mentioned in relation to value, it is thought that these concepts are suitable for providing a broader formulation of subjective value. Based on the praxeological definition of subjective value exposed in the previous section, we can now assess both types of interpretations. The following section explains why neither utility nor marginalism can account for the subjective theory of value. The subsequent and final section shows that neither knowledge nor expectation can add supplementary degrees to the subjective value in its praxeological interpretation.

INGREDIENTS OF SUBJECTIVISM: MARGINALISM AND UTILITY

We previously outlined two different types of utility: ordinal and cardinal. While the former was developed within the Austrian tradition initiated by Menger, the latter was built in the neo-classical tradition originating in the work of Jevons. Despite this difference, it can be noted that both authors conceive utility as an extrinsic property of goods (or intrinsic property of human beings). For both authors and traditions, a commodity is not useful *per se* but only in relation with human wants. As Jevons ([1871] 1888, p. 44) declares, "in the first place, utility, though a quality of things, is no inherent quality. It is better described as a circumstance of things arising out of their relation to man's requirements." Menger [1871] 1994, p. 116) also states that value is "nothing inherent in goods, no property of them." This idea encourages the authors of economics textbooks to assert that, notwithstanding their differences, both authors have a similar conception of utility. (Hunt, 2002, p. 257) This remains true in spite of various endeavors to dehomogenize the fathers of marginalism. (Jaffé, [1971] 1983, p. 311; Streissler, 1988, p. 192) Moreover, the shift from labor to utility (as the authors of marginal revolution advocate it) is also seen as the keystone of subjectivism. (Hayek, 1952, p. 38, Hutchison, 1994, p. 197, O'Neil, 1998, p. 41, Gloria-Palermo, 1999, p. 33)

It is precisely in this direction that we will focus our attention. In the light shed by the praxeological interpretation of subjectivism

provided previously, we plan now to argue that utility is not a synonym of subjective value. Following this rationale, the evaluation (being ordinal or cardinal) of a good at the margin must not be confused with the subjective value. If we take into account the praxeological interpretation of value, the nineteenth-century revolution (marginalist and neo-classical) is obviously not a genuine subjectivist revolution. The nub of this superficial assimilation of subjectivism and marginalism is the concept of utility. The incontestable fact that marginalist authors switched Adam Smith's economic discourse about value from labor to utility (Hutchison, 1994, p. 197) does not suffice to credit them as subjectivists in the praxeological sense. Let us now explain why it is erroneous to consider utility as an essential feature of subjective value.

To begin with, Jevons's assertion "that value depends entirely upon utility" (Jevons, [1871] 1888, p. 25) does not make clear why things have value. Since "utility" is rather an abstract concept, we still need to distinguish between subjective and objective utility. Furthermore, the explanation that things are useful (valuable) only in relation to persons remains unsatisfying. The trouble with this explanation is that it answers the alternative question: "To whom are things useful (valuable)?" instead of answering directly the question: "What is utility (value)?" Any item is potentially useful (valuable) to individuals. So, how can we actually know that a given commodity is useful (valuable) to them? This question cannot be pertinently answered without a reference to praxeological criterion of real action. A commodity is useful either *because* or *in spite of* the agent's effective choice. Why is a house useful? A house is useful either *because* someone really chose to construct it (subjective utility), or *in spite of* the respective person's effective choice to construct it (objective utility). Otherwise, if "utility" means only "useful to individuals" it would remain a perfect synonym for value and, hence, it cannot help us to distinguish between subjective and objective value. For instance, the famous "map of tastes" evoked by Pareto ([1909] 1972, p. 120) refers to individuals' utility, yet it denotes an objective approach to value (since it is constructed independently of the effective action). To sum up, "useful to individuals" does not necessarily match the praxeological account of subjective value.

Mutatis mutandis, there is no logical absurdity in embracing both marginalism and objectivism. Marginalism dehomogenizes goods by showing that the individuals do not consume “water” or “diamonds” but precise units of these commodities. These specific units compose the individuals’ scale of preferences. These insights let us see that the usefulness (value) of a given commodity would increase were one unit taken away. However, marginalism only explains why a thing is more or less useful (valuable) but still it does not answer the question: “What does it mean to be useful (valuable)?” To put it differently, marginalism does not say which criterion should be used in order to sort the value of the various units of a specific commodity. To be precise, this task is facilitated by the praxeological criterion of real action formulated at the beginning of this paper. If we assume that the scale of preferences is revealed by the agents in the course of their action, then we implicitly endorse the subjectivist conception of value. Otherwise we would adopt an objectivist conception of value.

Let us now focus more specifically on the ordinal scale of preferences. Menger ([1871] 1994, p. 125) distinguishes himself from other marginalists by his emphasis on the ordinal ranking of goods. Indeed, the choice of an ordinal evaluation of commodities (which excludes the attribution of cardinal magnitudes) does not allow further mathematical calculus. While very few scholars would consider that the champions of cardinal utility are subjectivist, things are different when it comes to the advocates of ordinal utility. (Horwitz, 2003, p. 266; 1994, p. 18) Even if we may question the fact that Jevons and Walras endorse the subjective theory of value, “we can certainly not deny the subjectivist foundation of Menger’s approach.” (Gloria-Palermo, 1999, p. 33) In view of the praxeological interpretation of subjective value, it is now possible to dispute the common idea that “Menger was in many ways a subjectivist” (Shearmur, 1990, p. 190) and that there is a “*dynamic subjectivism* in Menger’s approach.” (Gloria-Palermo, 1999, p. 33, emphasis in the original)

From the praxeological point of view, even an ordinal evaluation of commodities might be objective i.e., independent of agents’ concrete actions. For instance, Bentham (but also numerous other authors writing within the utilitarian tradition) has already formulated and discussed an ordinal taxonomy of pleasures or

utilities, which is objective in the sense that is not revealed by the agents in the course of their actions. (Bentham, 1823, p. 49–50) However, even Menger ([1871] 1994, p. 122–123) seems disposed to distinguish between real and imaginary value and, at the same time, to consider real value as objectively superior. It is symptomatic that Mises ([1933] 2003, p. 183–186) although recognizing Menger's merits in formulating the law of marginal utility, criticizes him precisely on this ground. The very fact of having an ordinal scale of values (utilities) still does not say anything about the agent's real choices. Such an ordinal scale can be subjective (i.e., revealed in the course of action) or objective (i.e., discovered by and/or imposed on the agent). To sum up, there is no logical contradiction between adopting an ordinal scale of values and claiming its objectivity (i.e., independent of the agent's real choice).

Until now, we have demonstrated that utility and marginal evaluation of commodities (also in its ordinal version) are not specific to subjective value in its praxeological interpretation. It is neither sufficient nor necessary to declare that value depends on utility or that value is ordinal in order to speak of subjective value. As previously stated, the specificity of subjective value can be pertinently grasped only in relation with the praxeological criterion of effective action. From this standpoint, the core of subjective value is the fact that *the agents reveal the value scale in the course of their own actions*. The last section of this paper will show that neither "knowledge" nor "expectations" are able to change the proper meaning of subjective value.

EXTENSIONS OF SUBJECTIVISM: KNOWLEDGE AND EXPECTATIONS

In reaction to the conception of subjective value formulated in the late nineteenth-century and grounded on human wants, utility, preferences, and marginal evaluation, numerous contemporary scholars, writing in the tradition of the Austrian school, consider that subjectivism has additional dimensions, such as *knowledge* and *expectations*. (Vaughn, 1994, p. 4) This is precisely the point that will be challenged in this section. The praxeological interpretation of subjective value—which instead of tying value to "preferences" ties it to "preferences effectively demonstrated in action"—allows

us to understand that knowledge and expectations cannot add any supplementary dimension to subjective value. Value would not become “more” subjective, if we were taking into account the agents’ knowledge or expectations.

In considering subjectivism as being the main feature that brings about advances in economic analysis, F.A. Hayek (1952, p. 38) suggests that the subjectivist revolution has not been completed. “Every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism.” Since there is room for new applications of subjectivism, Hayek (1952, p. 57; 1945, pp. 259–260) indicates the concept of knowledge as the new “last frontier” in the extension of subjectivism. When Hayek emphasizes knowledge as an additional application of subjectivism, he argues that knowledge is dispersed through society and, hence, no single individual could possibly have complete knowledge of all the circumstances of his action. (Hayek, 1952, pp. 57–58)

Influenced by Hayek’s ideas regarding subjective value—but also by Shackle and Keynes, (Don Lavoie, 1994b, p. 17)—Lachmann (1978a, p. 1) calls for another advance in economic theory by applying subjectivism to expectations. “The first and most prominent feature of Austrian economics is a radical subjectivism, today no longer confined to human preferences but extended to expectations. It found its perfect expression many years ago in Hayek’s statement.” In addition, Lachmann suggests also to take into account the divergent expectations. “It is quite possible that a bastion of extended subjectivism, enhanced by the inclusion of divergent expectations, will offer us an excellent vantage point from which to watch the happening of such a society in a dispassionate perspective, a perspective superior to what we have had before.” (Lachmann, 1976, p. 61)

Hence, *radical subjectivism* became the label for the extension of subjectivism to expectations. (Koppl, 1998, p. 61) In Lachmann’s opinion, to understand human action correctly, we should consider not only the knowledge of the circumstances of action, but also the knowledge of future actions or events. By applying subjectivism to expectations, Lachmann (1976, pp. 55–59) concludes that “the future is to all of us unknowable.” His thought focuses on the premise that the agent has a partial knowledge and that all

knowledge cannot possibly be embodied in one single individual. Furthermore, according to Lachmann, (1978b, p. 57) there is still room for other extensions of subjectivism. "In this century subjectivism has been extended from human preferences to expectations. In years to come it may be extended to the interpretation of so-called information."

Another label associated with the extension of subjectivism is *dynamic subjectivism*. (Kirzner, 1986, pp. 138–139) Although this claim overlaps *radical subjectivism*, the concept of "dynamic subjectivism" gives preeminence to changes and to the individual's reactions to these changes. Under the name of "dynamic subjectivism," O'Driscoll and Rizzo (1986, pp. 253–254) summarize the four major features of subjectivist analysis. "First, the analyst employs the method of mind constructs by modeling fictitious consciousness endowed with goals, knowledge, expectations and constraints. ... Second, the mind construct is portrayed as existing in real time. ... Third, agents are seen to be capable of creative and not just passive decision-making. ... Fourth, there is a recognition that different individuals have different knowledge." At the core of all these various propositions to extend subjective value is the idea that subjectivism is an elastic concept which has several degrees. (Lachmann, 1978b, p. 57) It is also assumed that a higher degree of subjectivism would be preferable to a lesser degree. (O'Brien, 1990, p. 158) These are precisely the ideas that we plan to dispute in the remaining part of this section.

To begin with, one should note that by no means can it be inferred that value is more or less subjective or that subjectivism has degrees, from the idea that value (subjective or objective) has degrees. The existence of value degrees does not make a value more subjective, nor does it entail degrees of subjectivism. The very existence of scarcity implies that not all ends can be accomplished with the same amount of means and that there are more or less valuable ends to be pursued. In the light shed by the praxeological interpretation of subjective value, an agent needs at least to distinguish between more and less urgent ends to be satisfied with a definite amount of means. Obviously, assigning value degrees to the different ends which can be attained with the respective amount of means, does not imply that value is more or less subjective.

Let us now assess the idea that subjectivism can be elastic (have degrees). The praxeological interpretation of subjective value provided at the beginning of this paper states that a value is subjective only if it is demonstrated in the course of a real action. From this point of view, the expression “degrees of subjectivism” means either that value is more or less revealed in the course of the agent’s action, or that the agent is more or less an agent. If we follow the latter alternative, the degrees of subjectivism would be varying alongside the degrees of determination of the subject. If we consider the former alternative, the degrees of subjectivism would be varying alongside the subject’s aptitude to reveal value through his action. In both cases, the degrees of subjectivism depend on the subject’s autonomy. If we suppose that the acting subject is not a fully autonomous person (i.e., his actions are directed by society, nature, or lunar cycles), then the subjective value will be varying alongside the degree of causation. The more the acting subject is controlled by society (let us say 10 percent), the less the subjective theory of value applies (90 percent). Now, it should be clear that subjectivism is at its maximum extent when the acting subject is fully autonomous. Once we admit the acting subject’s full autonomy, subjectivism cannot be enlarged anymore. We can now understand why neither knowledge nor expectations contribute to an extension of subjective value.

The type of knowledge or expectations that might be assigned to a subject of action does not by any means influence his autonomy. Assigning ignorance and expectations to an agent does not make him “more” autonomous. Different subjects have different knowledge and different expectations as Hayek, Shackle, Lachmann, and other advocates of an enlarged subjectivism state.

Living within a universe where information is imperfect, every individual, *because of his action*, benefits from additional knowledge which should necessarily alter his perception of the environment and of the opportunities for satisfaction open to him. The consumer’s subjective judgment is thus modified by the choice made. As at the outset players have different knowledge processes at their disposal concerning their nature, quantity and also their structure, this further information brought by time is unlikely to be interpreted in the same way by each individual. (Aimar, 2004, p. 309)

Indeed, individual knowledge and expectations may modify the agent's value scale. However, it cannot be inferred that the agent becomes more or less an agent, according to the degree and type of knowledge we assign to him. It is not because a "consumer's subjective judgment" changes as a result of his knowledge, expectations, etc. that the subjective theory of value changes accordingly. The acquisition of new information might lead the consumer to regret his past actions, but this does not change the fact that, within the subjectivist paradigm, the consumer made the best choice. Even if *ex post* the agent judges his previous preference scale to be unsatisfying, it should not be inferred that *ex ante* he would prefer less. Regrets about past evaluations have no impact effect at all on the subjective features of the respective scale of value. Considering that neither knowledge nor expectations can have any influence whatsoever on the agent's autonomy, we can conclude that subjectivism cannot be extended in this direction.

In fact, there is no possible direction in which subjectivism can be extended. It would be absurd to acknowledge degrees within the subjective theory of value. Even admitting a subject who is less than fully autonomous, he would still make choices according to his remaining free will. Given the scarcity prevailing in our world, we still need to consider a theory of value (subjective or objective) in relation to the choices of a less-than-fully autonomous subject. For this remaining slice of autonomy, we will apply a theory of value (subjective or objective). When considering the slice of external determination, the theory of value simply does not apply. A less than fully autonomous agent can be less responsible for his own actions, but he cannot "less" demonstrate his own scale of values. This is precisely why the theory of value (subjective or objective) applies only to an intentional agent in a world of scarcity.

Subjectivism cannot be extended to knowledge or expectations because these features are already built in the concept of subject: agents act in a world of uncertainty and they have expectations. Actually it would be incongruous (at least from the point of view of our most basic intuitions) to assert that agents are omniscient and that they do not have expectations at all. Indeed, Mises (and numerous authors writing in the same praxeological tradition) made it clear that uncertainty and expectations are definite characteristics of any agent. "Man can never become omniscient. He

can never be absolutely certain that his inquiries were not misled and that what he considers as certain truth is not error." (Mises, [1949] 1998, p. 68) Moreover, Mises's understanding of individual expectations assigns them a particularly dynamic function. "There is neither constancy nor continuity in the valuations and in the formation of exchange ratios between various commodities. Every new datum brings about a reshuffling of the whole price structure." (Mises, [1949] 1998, p. 118) Yet, it is not this particular endowment of the agent of action—uncertainty and expectations—that definitively shapes Mises's theory of subjective value. The specificity of the Misesian subjectivism is that values are the outcome of effective actions pursued by real agents. This interpretation can only be reached within the theoretical paradigm of praxeology.

To sum up, the praxeological interpretation of subjectivism helps us to understand why subjective value can be extended neither to knowledge, nor to expectations. In the course of his action, an agent assigns to commodities more or less important values. Nevertheless, the action in itself, (the assignment of values to commodities) cannot have degrees. This is so, precisely because the agent's specific characteristics, although they are influent on his particular choice, have no influence whatsoever on the theory of value. Inasmuch as an agent can choose, the question to be asked is: "Are the values ranked according to his effective preferences?" A positive answer would presuppose a subjective theory of value.

CONCLUSION

Let us now conclude by restating the praxeological interpretation of subjective value provided in the first section: *Value is subjective if it is the exclusive outcome of a real action performed by an intentional being.* This definition of subjectivism is anchored in an age-old philosophical tradition starting with the Euthyphro dilemma and is reshaped by the praxeological paradigm of the Austrian school. Moreover, the subjective/objective value dichotomy drawn by the criterion of real action confirms our most common intuitions and compels with the logical standards of a pertinent distinction (i.e., exclusivity and exhaustivity). Any other way to distinguish subjectivism from objectivism would be ambiguous: the members of the distinction either would not cover all types of value or they

would overlap. With this praxeological definition of subjective value in hand, the paper pursued its analysis by inquiring into the widespread use of subjectivism and its heterogeneity. This inquiry found that there are two types of ambiguities regarding the use of subjective value. These ambiguities concern, on the one hand, the very meaning of subjectivism (utility and marginalism) and on the other hand its alleged extensions (knowledge and expectations). As to the former, it was argued that neither utility nor marginalism suffices to grasp the specificity of subjective value. As to the latter, it was demonstrated that neither knowledge nor expectations can add supplementary degrees to subjective value.

This argumentation has important theoretical consequences and opens novel perspectives. The most significant consequence for the history of economic thought is that the debate on the concept of utility must be distinguished from the debate on subjectivism. Textbooks on economic history (Schumpeter, 1954; Hutchison, 1994; Hunt, 2002, p. 126) identify labor as being a determinant for the objective theory of value, and utility as being a determinant for the subjective theory of value. This article pinpoints precisely the inadequacy of this assimilation by arguing that the ideas of "utility" and "ordinal hierarchy of value" are not the essential determinants of subjectivism. Marginalist and subjectivist revolutions refer to two different events in the history of economic thought. The former emphasizes the manifest scarcity of commodities and, hence, switches the focus from commodities as such to specific and discrete quantities of commodities. The latter replaces the objective with the subjective conception of value by arguing that value is the outcome of the real choice of the subject of action.

It is precisely for this reason that historians of economic thought should observe a distinction in the analysis of the modern debate on imputation. The debate over the nature of value (labor versus utility) should be distinguished from the debate over the theory of value (subjective or objective). Furthermore, the endeavors to revisit the groundbreaking character of marginal revolution (De Roover, 1971; Rothbard, 1995) may find a support in the central idea of this paper: the praxeological interpretation of value. Further research may find this idea very useful in maintaining that medieval scholars and pre-classical economists have formulated the subjective theory of value more accurately than the celebrated

marginalist authors. For instance, the definition of subjectivism provided in the first section (*value is revealed in the course of action of an intentional subject*) fits better with the definitions formulated by Condillac and the scholars of the Salamanca School, than with the definitions given by Jevons, Menger, and Walras.

In addition to the implications of our argumentation for the history of economic thought, it is also important to stress its theoretical consequences. Hence, we have to observe that advocating subjectivism is an essentially different matter than advocating utilitarianism. Since utility does not suffice to grasp the specificity of subjective value, the results of the debates on value measurability and /or cardinality have no influence whatsoever on the subjective theory of value. Whether value is ordinal or cardinal, it makes no difference in the opposition between subjectivists and objectivists. The issue of value measurability does not influence the subjective theory of value. Although neither utility nor measurability have any influence whatsoever on subjective value, we have to pay attention to this relation when considered the other way around. Further argumentation should be elaborated on the consequences of subjectivism on interpersonal comparisons of value (Crisp and Hooker, 2000). If a value scale can only be revealed in the course of a real action, then there are as many value scales as subjects of action. Therefore, the absence of a common scale of values should impede further comparisons and measures i.e., interpersonal comparisons.

Furthermore, the difference between the objectivist and subjectivist paradigm can also be highlighted when considering the consequences for economic policy. While objectivist scholars might advocate a hypostatization of values, subjectivism establishes an indissoluble link between values and the real action of an agent. For this reason, the advocates of objectivism can sustain a correction of the individual's scales of preferences through redistribution of resources and price-fixing. Conversely, subjectivists must reject any interventionist policy. This idea should better explain the *laissez-faire* economic policies advocated by the scholars writing in the tradition of the Austrian school.

It is therefore important to point out that a free-market-oriented policy is due neither to the emphasis on utility as value ingredient nor to the proposal to range values on an ordinal scale, but is

exclusively due to the praxeological interpretation of subjective value. Indeed, it would be contradictory to ground interventionist economic policies on the praxeological interpretation of subjective value. Any kind of intervention (taxation, regulation, subsidies) implicitly denies the possibility of an individual to freely choose the end he would want to pursue. An interventionist economic policy diverts the resources of individuals towards goals that are necessarily different from those which would have been pursued otherwise, i.e., in the absence of intervention. Moreover, the absence of a clear-cut definition of subjectivism and its superficial assimilation to utilitarianism may be at the origin of much confusion concerning the type of policy defended.

At any rate, further research should look for a clarification of the implications of subjectivism for economic theory and policy. The attention paid by Mises to the methodological issues, and the fact that Mises represents the nub of recent debates on the redefinition of subjectivism are sufficient indicators to stimulate a deeper research on Mises's own conception of subjectivism. In the meantime, this research can check the debate on radical subjectivism, so fashionable within the Austrian school.

REFERENCES

- Addleson, Mark. 1986. "Radical Subjectivism and the Language of Austrian Economics." In *Subjectivism, Intelligibility and Economic Understanding. Essays in Honor of Ludwig M. Lachmann on his Eightieth Birthday*, ed. Israel Kirzner. New York: MacMillan, 1-16.
- Aimar, Thierry. 2004. "Time Coordination and Ignorance: A Comparison between Hayek and Lachmann." In *Friedrich A. Hayek. Critical Assessments of Leading Economists*, ed. John C. Wood and Robert D. Wood. New York: Routledge.
- Bentham, Jeremy. 1789. *An Introduction to the Principles of Morals and Legislation*. Vol. 1. London: Pickering, 1823.
- Block, Walter. 1999. "Austrian Theorizing: Recalling the Foundations," *Quarterly Journal of Austrian Economics* 2, no. 4: 21-29.
- Böhm-Bawerk, Eugen von. 1884-1912. *Capital and Interest*. South Holland, Ill.: Libertarian Press, 1959.

- . 1892. "Value, Cost, and Marginal Utility," *Quarterly Journal of Austrian Economics* 5, no. 1, 2002.
- Buchanan, James M. and Viktor J. Vanberg. 1994. "The Market As a Creative Process." In *The Philosophy of Economics*, ed. Daniel M. Hausman. Cambridge: Cambridge University Press.
- Caplan, Bryan. 1999. "The Austrian Search for Realistic Foundations." *Southern Economic Journal* 65, no. 4: 823–38.
- Condillac, Étienne Bonnot de. 1776. *Le Commerce et le Gouvernement Considérés Relativement l'Un à l'Autre*. Paris: Jombert et Cellot.
- Crisp, Roger and Brad Hooker. eds. 2000. *Well-Being and Morality: Essays in Honor of James Griffin*. Oxford: Clarendon Press. 21–38.
- De Roover, Raymond. 1971. *La Pensée Economique des Scolastiques. Doctrines et Méthodes*. Paris: Institut d'Études Médiévales.
- Endres, Anthony M. 1997. *Neoclassical Microeconomic Theory. The Founding Austrian Vision*. New York: Routledge.
- Gloria-Palermo, Sandye. 1999. *The Evolution of Austrian School of Economics. From Menger to Lachmann*. New York: Routledge.
- Grice-Hutchinson, Marjorie. 1952. *The School of Salamanca: Readings in Spanish Monetary Theory, 1544–1605*. New York: Oxford University Press.
- Harsanyi, John C. 1953. "Cardinal Utility in Welfare Economics and in the Theory of Risk-taking." *The Journal of Political Economy* 61, no. 5: 434–435.
- . 1955. "Cardinal Welfare, Individualistic Ethics, and Interpersonal Comparisons of Utility." *The Journal of Political Economy* 63, no. 4: 309–321.
- Hayek, Friedrich A. 1945. "The Use of Knowledge in Society." *American Economic Review* 35, no. 4: 519–530.
- . 1952. *The Counter-Revolution of Science*. Indianapolis: Liberty Press.
- Hicks John R. 1939. "The Foundations of Welfare Economics." *Economic Journal* 49: 696–712.
- Hirshleifer, Jack, Amihai Glazer, and David Hirshleifer. 2005. *Price Theory and Applications*. Cambridge: Cambridge University Press.

- Hoppe, Hans-Hermann. 1995. *Economic Science and the Austrian Method*. Auburn, Ala.: Ludwig von Mises Institute.
- . 1998. *Praxeology and Economic Science*. Auburn, Ala.: Ludwig von Mises Institute.
- Horwitz, Steven. 1994. "Subjectivism." In *The Elgar Companion to Austrian Economics*, ed. Peter J. Boettke. Cheltenham, U.K.: Edward Elgar, 17–22.
- . 2003. "The Austrian Marginalist: Menger, Böhm-Bawerk, and Wieser." In *A Companion to the History of Economic Thought*, eds. Jeff E. Biddle, John Bryan Davis, Warren Joseph Samuels. Oxford: Blackwell Publishing, 262–278.
- Hunt, E. K. 2002. *History of Economic Thought. A Critical Perspective*. London: M. E. Sharpe.
- Hutchison, Terence Wilmot. 1994. "Notes towards the Identification and History of 'Subjectivism' in Economic Theory." In *The Uses and Abuses of Economics. Contentious Essays on History and Method*. New York: Routledge, 189–212.
- Jaffé, William. 1971. "Menger, Jevons and Walras De-Homogenized" In *William Jaffé's Essays on Walras*, ed. Donald A. Walker. Cambridge: Cambridge University Press, 1983.
- . 1977. "The Walras-Poincaré Correspondence on the Cardinal Measurability of Utility." *Canadian Journal of Economics* 10, no. 2: 300–307.
- Jevons, William Stanley. 1871. *The Theory of Political Economy*. 3rd ed., London: Macmillan, 1888. Retrieved from: http://oll.libertyfund.org/files/625/Jevons_0237.pdf.
- Kaufmann, Felix. 1933. "On the Subject-Matter and Method of Economic Science." *Economica* 5, no. 13.
- Kirzner, Israel M. 1986. "Ludwig von Mises and Friedrich von Hayek: The Modern Extension of Austrian Subjectivism." In *Die Wiener Schule der Nationalökonomie*. Vienna: Hermann Böhlhaus Nachf., 133–155.
- . 1995. "The Subjectivism of Austrian Economics." In *New Perspectives on Austrian Economics*, ed. Gerrit Meijer. New York: Routledge, 11–25.
- . 2000. *The Driving Force of the Market: Essays in Austrian Economics*. New York: Routledge.

- Koppl, Roger. 1998. "Lachmann on the Subjectivism of Active Minds." In *Subjectivism and Economic Analysis*, eds. Roger Koppl and Garry Mongiovi. New York: Routledge.
- Lachmann, Ludwig. 1976. "From Mises to Shackle: An Essay on Austrian Economics and the Kaleidic Society." *Journal of Economic Literature* 14, no. 1: 54–62.
- . 1978a. "An Austrian Stocktaking: Unsettled Questions and Tentative Answers." *New Directions in Austrian Economics*, ed. Louis M. Spadaro. Kansas City: Sheed, Andrews and McMeel, 1–18.
- . 1978b. "Carl Menger and the Incomplete Revolution of Subjectivism." *Atlantic Economic Journal* 6, no. 3: 57–59.
- Lavoie, Don. 1990. "Understanding Differently: Hermeneutics and the Spontaneous Order of Communicative Process." In *Carl Menger and His Legacy in Economics*, ed. Bruce J. Caldwell. Annual Supplement to vol. 22, *History of Political Economy*. Durham, N.C.: Duke University Press.
- . 1994a. "The Interpretive Turn." In *The Elgar Companion to Austrian Economics*, ed. Peter J. Boettke. Cheltenham, U.K.: Edward Elgar, 54–62.
- . 1994b. "Introduction." In *Expectations and Meaning of Institutions*. Ludwig M. Lachmann, New York: Routledge.
- Lewin, Peter. 1994. "Knowledge, Expectations and Capital: The Economics of Ludwig M. Lachmann Attempting a New Perspective." In *Advances in Austrian Economics*, vol 1., 233–256. London: JAI Press.
- Menger, Carl. 1871. *Principles of Economics*. Trans. James Dingwall and Bert F. Hoselitz. Grove City, Penn.: Libertarian Press. 1994.
- Mises, Ludwig von. 1933. *Epistemological Problems of Economics*, 3rd ed. Trans. George Reisman. Auburn, Ala.: Ludwig von Mises Institute. 2003.
- . 1949. *Human Action. A Treatise on Economics*. Auburn, Ala.: Ludwig von Mises Institute. 1998.
- . 1962. *The Ultimate Foundation of Economic Science: An Essay on Method*. 2nd ed. New York: Foundation for Economic Education. 2002.
- Nozick, Robert. 1981. *Philosophical Explanations*. Boston: Harvard University Press.

- Neumann, John von, and Oskar Morgenstern. 1944. *Theory of Games and Economic Behavior*. Princeton: Princeton University Press.
- O'Brien, Denis P. 1990. "Lionel Robbins and the Austrian Connection." In *Carl Menger and His Legacy in Economics*, ed. Bruce J. Caldwell. Annual Supplement to vol. 22, *History of Political Economy*. Durham, N.C.: Duke University Press.
- O'Driscoll, Gerald P., Jr. and Mario J. Rizzo. 1985. *The Economics of Time and Ignorance*. Oxford: Basil Blackwell.
- . "Subjectivism, Uncertainty and Rules." In *Subjectivism, Intelligibility and Economic Understanding*, ed. Israel M. Kirzner. London: Macmillan.
- O'Neill, John. 1998. *The Market: Ethics, Knowledge and Politics*. New York: Routledge.
- Pareto, Vilfredo. 1909. *Manual of Political Economy*. London: Macmillan, 1972.
- Plato. *Euthyphro*. 2a–16a. Trans. Harold North Fowler. *Plato in Twelve Volumes, Vol. I*. Cambridge, Mass.: Harvard University Press, 1914.
- Quiggin, John. 1999. "Utility." In *The Elgar Companion to Consumer Research and Economic Psychology*, ed. Peter E. Earl and Simon Kemp. Cheltenham, U.K.: Edward Elgar Publishing, 590–595.
- Rothbard, Murray N. 1956. "The Present State of Austrian Economics." In *The Logic of Action I*. Cheltenham: Edward Elgar, 111–173, 1997.
- . 1957. "In Defense of 'Extreme Apriorism.'" *Southern Economic Journal* 23, no. 3: 314–320.
- . 1973. "Praxeology as a Method of Social Sciences." In *Phenomenology and the Social Sciences*. ed. Maurice Natanson. Evanston, Illinois: Northwestern University Press, 31–61.
- . 1995. *Economic Thought Before Adam Smith*. Cheltenham, U.K.: Edward Elgar Publishing.
- Shackle, G.L.S. 1983. "The Bounds of Unknowledge." In *Beyond Positive Economics*, ed. J. Wiseman. London: British Association for the Advancement of Science, 28–37.
- Schumpeter, Joseph A. 1954. *History of Economic Analysis*. New York: Oxford University Press.

- Streissler, Eric. 1988. "The Intellectual and Political Impact of the Austrian School of Economics." *History of European Ideas* 9, no. 2: 191–204.
- Shearmur, Jeremy. 1990. "From Hayek to Menger: Biology, Subjectivism, and Welfare." In *Carl Menger and His Legacy in Economics*, ed. Bruce J. Caldwell. Annual Supplement to vol. 22, *History of Political Economy*. Durham, N.C.: Duke University Press.
- Vaughn, Karen Iversen. 1994. *Austrian Economics in America: The Migration of a Tradition*. Cambridge: Cambridge University Press.
- Walras, Léon. 1874. *Éléments d'Économie Politique Pure ou Théorie de la Richesse Sociale*. Paris: Librairie Générale du Droit et de Jurisprudence, 1952.
- Wieser, Friedrich M. 1889. *Natural Value*. Whitefish, Mont.: Kessinger Publishing, 2005.
- . 1891. "The Austrian School and the Theory of Value." *Economic Journal* 1, no. 1: 108–121.