THE THEORY OF SUBJECTIVE VALUE RECONSIDERED

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The Problem of Subjectivism

The notion of 'subjectivism' has a significant place in the body of economics, most notably in the theory of subjective value.[1] There is, however, one concern that some philosophers have raised about truth in normative judgments which puts economic subjectivism seriously into question. Namely, some critics point out that subjectivism is comparable to arbitrariness since it does not address the problem of error in judgments. The case of counterfeit money is perhaps the most difficult one to reconcile with the notion that what is valued depends on the judgments made by the rational economic agent with given preferences. He, for example, will prefer more to less. Suppose, then, that he is an unemployed Peruvian residing in a shanty town in Lima. He accepts a temporary job from a seedy businessman who will pay him in *Soles* -- Peruvian currency -- at the completion of the assignment. In the one week period of the assignment, he will earn cash which will amount to two months' wages according to the going market wage for unskilled labor. Unbeknownst to him, however, some of the *Soles* he receives as wages -- are counterfeit. His error will produce an economic disruption to his plans and those of others with whom he may transact with. Informal economies exist not only in cases like this, but in any transaction which is kept from being taxable, such as wages paid to illegal aliens, to drug dealers, to babysitters, to moonlighting auto mechanics, and so on. Counterfeit money, though rare, is most likely to occur in informal economies. When it occurs, the rational economic agent with given preferences will value counterfeit money as if it were genuine money. The problem is that, if economic value is subjective, then the theory of subjective value does not help with "the evident problem of our often being wrong about how we judge."[2] This is a concern that can be articulated as the following question: is there truth regarding economic value judgments? The answer to this question is not readily available in the body of economic theory. The ensuing discussion will examine whether the truth of economic judgments can be settled objectively and, if so, how truth is instantiated.

What Is Subjective Economic Value?

When philosophers speak of subjectivism, they employ the term as a predicate of normative expressions of belief, attitudes, or emotions on the part of a judging subject. In economics, however, the meaning of subjectivism is more complex than it appears at first glance. When economists speak of the value of economic goods as subjective, they not only refer to a judgment by an economic agent but, in addition, to the status of the object to which the judgment is directed. There are, then, two senses of subjective which can be described as follows:

1. The interested evaluation of things known to an individual as having causal connection with the satisfaction of an end, and the resulting choice he must make given the constraint of limited resources despite unlimited wants.

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[1] It was not until 1871, with the publication of the Principles of Economics by the Austrian economist Carl Menger that the notion of subjective value replaced the ill-conceived labor theory of value. According to Menger, "value is the importance that individual goods or quantities of goods attain for us because we are conscious of being dependent on command of them for the satisfaction of our needs." See, Carl Menger, Principles of Economics, original publication 1871, New York University Press, New York and London, 1976, p. 115.

[2] See, Tibor Machan, "Subjective Arbitrariness," Vera Lex, Vol. XI, No. 2, 1991, p. 44. Machan writes, "It [subjective value theory] does not help with the evident problem of our often being wrong about how we judge, or of regretting it and indeed acting in light of that fact alone -- confessing to crimes or moral failings, etc." Ibid, p. 44, brackets mine.

2. The social -- and, thus, subject-dependent -- character of objects qua economic goods.

Carl Menger advanced this account of the theory of subjective value in his Principles of Economics, first published in 1871. The significance of Menger's contribution lies in his transcategorial description of social phenomena. While most accounts of value attempt to reduce value either to the mind or to some intrinsic property of things, Menger's account demonstrates that all social phenomena is composed of varying combinations of beliefs and entities, judgments and facts, mental states and matter. In order to achieve such a transcategorial account of value, Menger first provided an epistemic account of economic valuation by grounding the analysis on the experience of the valuing individual. Second, he provided a description of exact laws of economic phenomena thus advancing an ontology of economic objects. The achievement of such a theoretical account of value could not have been reached without the recognition that without exact laws there could not be any science of economics and, without any sort of empirical realism, economics could not be rightfully called a ***social*** science. What will be useful, then, in the task of tackling the question of truth in economic valuation is to explore how Menger employs the notion of subjectivism both epistemically and ontologically.[3]

The Epistemic Sense of Subjective

In considering the epistemic sense of subjective economic value, we must keep in mind two features of the economic species of value. First, economic judgments have an interested nature insofar as the judging agent perceives a personal gain in the possession of the thing being judged. In other words, the agent's evaluation of a thing involves an expectation of what the thing will fulfill for him. According to Menger, an individual makes an economic judgment based on the causal connection he perceives between a thing and the satisfaction of a mediate or immediate end.

Second, the judgment is called 'economic' because it involves an evaluation directed at making a choice among known alternatives. Every choice concerns some element of scarcity such as limited time, limited income, limited productive resources, physical and intellectual limitations, levels of satiation, and so on. Coping with scarcity is a fundamental feature of the human condition which demands the allocation of means to meet ends. Menger was the first to ground the analysis of economic value on the idea of scarcity.[4] If there is no perceived scarcity, the judgment is not an economic judgment.[5]

Since an economic judgment of value is subjective, its truth or falsity cannot be settled objectively by facts observed by a third party. This does not imply, however, that we may never be wrong in our economic judgments. Menger acknowledged error as the most fundamental epistemological problem.[6] If we can be in error, there must be judgments that are false. The problem is that we only discover our

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[3] I am indebted to John Searle for bringing his clear exposition of the epistemic and ontological senses of subjectivism to the fore of present-day philosophical analysis. For, otherwise, I might not have been able to recognize in Menger's work what Searle's clarification makes so perspicuous. See, John Searle, The Construction of Social Reality, pp. 7-9.

[4] The term *scarcity* does not appear in Menger's analysis. Instead, he describes the phenomenon of scarcity with painstaking elaboration in his Principles of Economics. The closest that Menger comes to providing a name to the phenomenon of scarcity is by calling it *insufficient quantity*.

[5] Instead, it might be a judgment of taste, such as 'I value reading more than watching TV.' In this example, the term 'value' does not refer to an economic judgment of value but, rather, it designates the positioning of one thing over another in a hierarchy of taste made in the abstract. In this case, the term 'value' could be easily substituted by the terms 'prefer' or 'like' without changing the meaning of the statement.

[6] Menger writes, "men can be in error about the value of goods just as they can be in error with respect to all other objects of human knowledge." See, Carl Menger, Principles of Economics, p. 120.

mistakes *ex post*, sometimes immediately after and sometimes long after choice has been made. However, we must also consider the case in which an agent remains forever fooled by an apparent fulfillment of his expectations. Suppose, for example, that Oedipus dies before finding out that Jocasta, the woman he loved and married, was his mother. In this case, Oedipus never finds out his error so he dies convinced that his expectations of love have been fulfilled. Objectively speaking, however, there are facts in the world such as the identity of Jocasta as his mother which are not in agreement with his expectations.

The question that jumps to mind here is this: If agents are not likely to find out whether their economic judgments are true, at least in time to make corrections, can any kind of individual economic planning ever be possible? Let us return to the case of counterfeit money in an economy. Economic agents might be fooled by the token objects they believe to be genuine members of the type-category 'money.' One way to analyze this problem is to attribute the cause to subjectivism. In other words, the criticism would be that any object is arbitrarily designated to be a token instance of a type category by simply believing it to be so. This criticism, however, misconstrues the notion of subjectivism in economic judgments. A better way to view this problem is to consider that an error in a judgment directed at an object does not modify the object such that the object becomes what we believe it to be. As we shall see in the ensuing discussion of the ontological sense of subjective economic value, universal categories such as 'money' are objectively describable by exact laws such that a counterfeit dollar bill is not a genuine instance of the category 'money.' What is important to this epistemic analysis is that instances of error in our knowledge of objects do not alter the object by shaping it according to our mistaken beliefs any more than a false token of a type-category alters the category itself. This brings us to the threshold of the second sense of subjective in Menger's theoretical account of economic value.

The Ontological Sense of Subjective

Menger developed a complex ontology of social objects which have a unique nature. Namely, economic objects are not merely describable by their physical properties since, for example, money is not reducible to the paper, metal, plastic, or electronic components which comprise the various kinds of money we recognize as, and indeed call, money.[7] In fact, there is no single physical property that is common to all the members of the class of objects we call money. But what makes a dollar bill money or, more generally, what makes any one thing an economic good, is a combination of two things. First, the views we hold about things qua economic objects.[8] Second, the exact laws describing the categories of economic objects. Each of these requires some careful elaboration.

Concerning our views about things, the economic character attributed to the thing to which the judgment is directed depends on the perceived significance of the thing in relation to an end. In Menger's

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[7] Jerry Fodor might disagree with this view. He argues in his article "The Special Sciences, or The Disunity of Science as a Working Hypothesis," (in Synthese 28, 1974, pp. 97-115) that the generality of the science of physics implies that any economic theory has a physical description which can be subsumed under the laws of physics. Therefore, bridge statements about economic laws can be made such that they express token event identities with their physical properties. John Searle, however, disagrees with Fodor because there is no one-to-one correspondence between mental and physical events. Searle argues that money is money because we believe it to be money and, as a result of such a self-referential feature of social phenomena, there are no necessary physical identities to which any such social phenomena can be reduced. Searle adds that there is a radical discontinuity between the social sciences and physics. [From discussions with Searle and his lectures.] See, also, John Searle, Minds, Brains and Science, pp. 71-85.

[8] Friedrich A. von Hayek makes this point in "The Facts of the Social Sciences," Individualism and Economic Order, The University of Chicago Press, Chicago and London, 1948, p. 59. Hayek writes, "Money is money, a word is a word, a cosmetic is a cosmetic, if and because somebody thinks they are." Ibid, p. 60. John Searle has argued similarly in, for example, Minds, Brains and Science and The Construction of Social Reality, that money is what people think, use and treat as money.

analysis, we find a distinction between things and economic goods by means of which we may better understand how a thing acquires the property of an economic good.[9] Accordingly, there are certain conditions for a thing to acquire an economic character:

1. A judging subject must perceive a thing as scarce, relative to his total supply of the thing.
2. A thing must be evaluated in relation to an end known to the judging subject as more urgent than any other end; otherwise, scarcity is not an issue.
3. The thing thus acquires an importance to the judging subject in relation to his unmet need or want since the judging subject perceives a causal connection between the thing and the fulfillment of his need or want. It is with the association of the judging subject's expectations to the thing that it acquires an economic character, i.e., it becomes an economic good.
4. Not least in importance is the judging subject's belief that he has a feasible command of the thing sufficient to be able to direct it to the satisfaction of his need or want. If, for example, the subject merely wishes to own a castle but he knows that this wish is beyond his means, then the castle is merely a thing wishfully thought of on occasion. Unless he evaluates the castle as a serious alternative in making a choice directed at fulfilling a need or want, the castle does not enter into any economic valuation and, thus, it does not acquire an economic character.

What these conditions describe is the subject-dependent mode of existence of a thing qua economic good. Hence, the economic character of a good cannot be instantiated in a thing apart from a judging mind. Now, this analysis applies not just to material objects but also to those intangible objects, such as acquiring an education, acting virtuously, making friends, finding love. Chicago economists Gary Becker and George Stigler, for example, have advanced interesting theories of love and marriage according to this economic framework.[10] Intangible objects almost always have tangible objects as mediate ends.

Since we have now completed the first task of identifying what makes subjects hold economic views concerning particular objects, we can move on to the second task of demonstrating that there are exact laws which describe categories of economic objects. Menger advanced exact laws for classifying economic kinds, such as money. Without doing a survey of all of the economic categories in Menger's analysis, we may get a glimpse of his ontological enterprise by presenting the method he used.

For Menger, economic kinds have an intrinsic intelligibility since human beings discover the essence of economic kinds in spontaneous social activity of an economic nature. In his theoretical framework, Menger was able to reconcile the subject-dependent status of economic phenomena with the objectivity of description concerning the nature of such phenomena. Since not all economic phenomena is of the same kind, it was important for Menger to advance a description of economic categories or kinds. Menger's description is significant because it offers the truth-making conditions for settling objectively whether the views individuals have about an instance of an economic kind indeed correspond to that kind.

For example, suppose that individuals in Peru buy dollar bills in the black market because they

[9] See, Carl Menger, Principles of Economics, p. 52. The ensuing exposition of conditions for a thing to acquire a goods character is slightly different than that described by Menger. For example, I employ the term 'thing' to refer to what Menger calls 'free goods.' Most of the alterations to Menger's conditions that I have made are either cosmetic or they bring forth points made by Menger later in the discussion which shed explanatory light on the conditions themselves. Nonetheless, my alternations are consistent with the whole of Menger's theoretical framework in his Principles.

[10] See, Gary Becker, "A Theory of Marriage: Part I," and "A Theory of Marriage: Part II," in The Essence of Becker, Kurt R. Leube (ed.), 1995, pp. 273-328; and A Treatise on the Family, 1981. See also, George Stigler, "The Economics of Information," Price Theory, 1987, p. 246.

view that the dollar has greater stability than the *Sol*, the Peruvian currency. Further suppose that some of these dollar bills are counterfeit but the individuals view them as genuine money. Clearly, their views do not affect the actual nature of the objects they believe to be money. In other words, these Peruvians have in effect purchased very expensive paper but not money. As this case of counterfeit money should make clear, individuals may be wrong in their recognition of genuine token instances of a commonly-accepted currency. In Menger's ontological description, there are at least three conditions that describe the objective character of the natural kind 'money.' These are:

1. The widespread acceptance of a type-currency as money.[11]
2. The marketability of tokens based on the marketability of a type-currency.
3. Legal orders which legitimize tokens as universal substitutes in exchange.

In our present nationalized money systems, it is only by means of the sanction of the state or a central bank that any one token instance of money has "the attribute of being a universal substitute in exchange."[12] This is an important fact in the description of the category money which offers an objective means to determine real money from counterfeit money, independently of the views or beliefs of individuals about particular instances.

Truth in Economic Judgments

> Having laid out the epistemic sense of subjective in economic judgments, and the ontological or subject-dependent status of economic goods, I will offer the following answer describing the way in which the economic agent knows whether he has made a true judgment. ***The truth of the subject's judgment pertaining to the economic value of the good corresponds to facts in the world concerning the thing and the agreement such facts have with the subject's expectations of such a thing qua economic good.***

The above presents, in a concise way, the ontological and epistemic senses of subjective in Menger's framework. On the one hand, an economic object is a subjective entity since its mode of existence depends on it being perceived by subjects as a good. On the other hand, the judgment which the agent makes regarding the economic object is subjective but its truth or falsity <u>can</u> be settled objectively by the correspondence of his judgment with facts about the object.[13] Another way to put this is to say the following. If the presentation of an object produces an interested evaluation on the agent's part based on putative features of the object which the agent believes are connected to the fulfillment of a need or want, then the object acquires an economic character. But the fulfillment of this need or want is dependent on certain facts about the object which correspond to the agent's expectations. Any truth claims about the economic judgment are, then, objectively determinable by such facts. The upshot of all this is that Menger's contribution provides an ample crop of ideas from which we can draw a rich ontology of social entities, such as money, which are not reducible to either mental states or to any presupposed intrinsic properties of things.

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[11] Menger calls this acceptance of a type-category, such as the U.S. Dollar for example, the *general acknowledgement* of any one commodity. See, <u>Principles</u>, p. 261.

[12] Carl Menger, <u>Principles</u>, p. 262.

[13] This consistent with Searle's description of the epistemic and ontological senses of subjective. Although economists call economic judgments of value *subjective* and Searle would call these *objective*, whatever difference in terminology is insignificant and only a matter of semantics. See, John Searle, <u>The Construction of Social Reality</u>, pp. 7-9. The important point is that a true judgment is *objective* (in Searle's terminology) insofar as it corresponds to objective facts. The truth of economic judgments, as we have shown, can be settled by objective facts.

We may be wrong in our economic judgments because our knowledge of things in the world is not always in agreement with what is the case, or how things are. The chief point here is that economic judgments depend on minds for their existence, but they do not depend on minds for their truth. Therefore, truth in economic judgments is not dependent on the subject's knowledge of the correspondence between his expectations and the facts about the object to which his judgment is directed. There are very few facts of which we may be indubitably certain.[14] The rest of the facts which are not fully given in knowledge are only known to us with varying degrees of certainty.

[14] Husserl speaks of these facts as 'objectivity in itself.' When such 'objectivity in itself' is given in knowledge, such objectivity is possessed by the mind and thus it becomes subjective. See, Dallas Willard, "Knowledge," in The Cambridge Companion to Husserl, Barry Smith and David Woodruff Smith (eds.), p. 161.