Discussion Notes

TRIVUS ON ECONOMIC VALUE

In his paper, "Dissolving a Muddle in Economics," Sidney Trivus has criticized the account of economic value put forth by von Mises, Böhm-Bawerk, and other members of the Austrian school.[1] According to these theorists, value is not an objective property of commodities but lies, rather, in the subjective attitude of individuals as expressed through their exchange activities in the marketplace. Trivus has argued, however, that such a doctrine is open to the charge of circularity since the only evidence offered for the existence of these attitudes is the very actions they are supposed to explain. He suggests, therefore, that we would do better, on grounds of conceptual clarity, to define the economic value of a thing directly in terms of the actual goods for which it is exchangeable. In so doing, he goes on to point out, we will thereby partition the set of commodities into distinct *exchange* classes, each of which has the mathematical property of being an *equivalence* class with respect to the relation of exchangeability (a fact which admits of potentially fruitful theoretical development).[2] In what follows I will criticize Trivus's account by arguing for the following theses: (1) exchange classes do *not* constitute equivalence classes with respect to the relation of exchangeability; (2) even if they did, it would not be important since the definition Trivus proposes is *logically* dependent upon — and thus cannot be more fundamental than — the subjective use-value theory of the Austrians; and (3) there is reason to believe that we can modify the Austrian theory so as to render it immune to Trivus's objections.

I

The heart of Trivus's account is summarized in the following passage.

Reason Papers No. 3 (Fall 1976) 83-89.

> In general, at any time, the class of commodities is partitioned into subclasses such that all the members of any one such subclass are exchangeable, even-stephen, one with another. For the purpose of economics, the exchange relation is an equivalence relation. For, (1) any commodity is exchangeable for some commodity or other, (2) if one commodity is exchangeable with another then that other is exchangeable with the one, and (3) if one commodity is exchangeable with a second and that second with a third, then the first is exchangeable with the third. From these conditions it follows, by a simple exercise in quantificational logic, that exchangeability is reflexive, symmetric, and transitive, and hence that it is an equivalence relation. It is not unreasonable, therefore, to *define* the value of a commodity as *that exchange class to which it belongs*, and to define the class of values in general as *the class of all such equivalence classes*. [P. 9]

The key question here, of course, is whether Trivus has succeeded in demonstrating that exchangeability *is* an equivalence relation on the set of commodities. To help determine an answer, let us consider a simplified example in which the universe consists of a set of seven commodities partitioned into the following exchange subclasses:[3]

$$\{c_1, c_2, c_3\} \qquad \{c_4, c_5\} \qquad \{c_6, c_7\}$$

If we then assume that nothing counts, by definition, *as* a commodity unless it is exchangeable for *some* commodity or other, we have, of course, trivally ensured the truth of the first of the three conditions Trivus cites. But what about the second condition, the symmetry requirement? Suppose c_4 = an apple and c_5 = an orange. For $\{c_4, c_5\}$ to constitute an equivalence class with respect to the relation of exchangeability, it must be the case that the apple is exchangeable for the orange *and* that the orange is exchangeable for the apple. But need this *always* and *necessarily* be the case? Surely not. It is entirely possible that the apple is exchangeable for the orange (i.e., that the owner of the orange is willing to trade for the apple) but that the orange is *not* exchangeable for the apple (i.e., that the owner of the apple is *not* willing to trade for the orange). Nonetheless, the fact that the apple *is* exchangeable for the orange seems to require that we place the latter in the exchange class *of* the apple.[4] Since equivalence entails symmetry, however, we must conclude that exchange classes are not *necessarily* equivalence classes with respect to the relation of exchangeability.

I am afraid, moreover, that we have no reason to think that transitivity is guaranteed to hold over exchange classes either. Suppose c_1 = a ten-dollar bill, c_2 = a flannel shirt, and c_3 = a steak dinner. Assume further that the shirt is exchangeable for the money and the money for the dinner. Does it *follow* that the shirt is directly exchangeable (at this time, under these circumstances) for the dinner? Certainly not — if it did, how would we be able to explain the desirability *and* necessity of, e.g., three-way baseball trades? We can, in fact, make an even stronger criticism. From the mere fact that my ten dollars is exchangeable for either the shirt or the dinner, we cannot justifiably infer *anything* concerning the *mutual* exchangeability of the latter two items. It would seem, therefore, that exchangeability may be both asymmetric and intransitive over exchange classes;[5] consequently it cannot always be an equivalence relation on such classes.[6]

II

Might it still be possible, however, to accept Trivus's basic idea of defining economic value in terms of exchange classes (even though we must acknowledge that such classes are not necessarily *equivalence* exchange classes)? One reason for thinking otherwise is that Trivus's definition is still an *objective* account of economic value and thus subject to Mises's criticism that it thereby precludes the possibility of a fair exchange in the absence of a *prior* determination of the value of each of the objects to be exchanged.[7] Trivus, however, has replied that, on his proposal,

> there is no need for such a prior measurement, for *the consummation of the exchange is the required oper-*

> *ation of "measurement."* That is, the exchange itself is what puts the commodities in their several equivalence classes. [P. 13]

But, unfortunately, it is presumably the case that only *one* of the possible exchanges involving a given commodity will actually transpire. How, then, can commodities for which the exchange is *not* made nonetheless be placed in the same class with the item for which the exchange *is* made?

An obvious solution to this problem would be to adopt the following definition: the *exchange class* of any commodity **X** (at some given time *t*) is the class of all those commodities, each of which *would* be offered by its owner (at *t*) in exchange for X. How, though, are we to determine the truth (or falsity) of a counterfactual claim to the effect that an exchange offer for such and such an item would (or would not) have been made? Surely only by determining the strength and content of the *desires* and *preferences* of the other possible parties to the transaction. It appears, therefore, that utilization of Trivus's criterion *logically* requires the successful completion of an inquiry into those very "subjective attitudes" whose significance he elsewhere deprecates, attitudes which, for Mises, are the *locus* of economic value. But where we have two competing definitions, one of which *presupposes* the application of the other, it is surely appropriate to regard the latter as the more fundamental of the two.

III

As noted earlier, however, Trivus has argued that Mises's definition is unacceptable because circular. Given that his own theory is necessarily even *less* satisfactory (as we have just demonstrated), is there any alternative but to begin a search for an entirely new account of economic value? Before accepting such an unwelcome conclusion, let us carefully consider Trivus's reasons for ascribing circularity to the Austrian view.

> For, what more is discovered about value in exchange, on this view, other than that traders exchange commodities in various ratios? The circularity becomes

> more patent upon recalling that what people do is not always what, in any reasonable sense of the term, they *want* to do. After all, people often act compulsively, impulsively, under duress, etc. Thus the Austrian school must concede that many exchanges occur in ways that do not necessarily reflect the subjective valuation of the principals, unless the term "subjective valuation" is being persuasively redefined as the notion it purportedly helps explain. [P. 5]

Although Trivus does not make this clear, there are two *different* objections being raised here. First is the claim that, contra the Austrians, it is *not* true to say that people *always* do what they want to do. I cannot, unfortunately, do justice to this issue here. It will have to suffice to point out that the matter is a controversial one and that many philosophers have argued otherwise and maintained that intentional action does entail the existence of appropriate behavior-generating wants (in a "reasonable" sense of the term).[8] Some form of *argument*, at the very least, would therefore seem incumbent upon anyone who wishes to deny this.

The second and more important objection seems to be that the Austrian account is circular because the subjective attitudes that are invoked to explain exchanges are themselves explained in terms of those exchanges. But is this correct? What the Austrians *do* maintain is that, for the purposes of economics, the only desires or preferences that are of importance are those that are *expressed* in action *and* that their being expressed in this way is our only evidence for inferring their existence.[9] This does not, I think, involve any circularity. For the claim is not that preferences and actions *explain one another* but, rather, that preferences explain actions while actions are our *reason for believing* that the appropriate explanatory factors — the preferences — exist.[10]

Even if the charge of circularity cannot be upheld, however, the theory certainly seems vacuous if our *only* evidence for hypothesizing the existence of an appropriate intentional state is the behavior it is supposed to have initiated. Fortunately, there is no reason to restrict oneself to such a narrow view. Our ordinary conception of a person's mind or character, after all, is that of a systematically interrelated complex of *dispositions*, dispositions not only to *behave* in certain ways but to *think* and *feel* in certain ways as well. It is, moreover, only insofar as we have *already* (on *independent* grounds) formed an understanding of the content of those dispositions that we feel justified in attributing a person's behavior to some appropriate set of motivating factors. The important point I wish to emphasize, therefore, is that the mere fact that we have observed some external physical movement on the part of some agent does not license us to infer anything about the content of the wants and beliefs that behavior is an expression of (if, indeed, it is an expression of *any* motivational state) in the absence of an appreciation of the agent's character. It is precisely because acquiring the latter knowledge involves a great deal of careful *empirical* observation that we regard the explanation of human actions in terms of desires and beliefs as *significant* and *valuable* in facilitating our ordinary social intercourse.

If this sketch[11] of the function of our "subjective attitudes" is satisfactory, there seems no reason why it could not be utilized for the purpose of helping to provide a foundation for economics, particularly an account of economic value. If the Austrians take such a step I contend that they will thereby avoid the charge of vacuousness implicit in Trivus's criticism. This, indeed, is a result Trivus himself should not find entirely unwelcome, given our demonstration of how his own definition is parasitic on that of the Austrians.[12]

Brown University MICHAEL GORR

1. *Reason Papers,* no. 2 (Fall 1975), pp.1-14. All page references are to this essay.

2. Something is an *equivalence relation* on a set if it is reflexive, symmetric, and

transitive on the members of that set. For any given member of such a set, its *equivalence class* is the subclass of members of that set that bear the relation in question to the given member. For more formal definitions, consult any standard account of elementary set theory (e.g., Robert R. Stoll, *Sets, Logic, and Axiomatic Theories* [San Francisco: W. H. Freeman, 1961], pp. 32-33).

3. It is a theorem in set theory that the distinct equivalence classes of an equivalence relation on a set provide us with a *partition* of that set (ibid., pp. 33-34).

4. This, at any rate, seems to be suggested by the most plausible interpretation of Trivus's assertion that "the economic value of a thing is just what *it* will fetch in the market" (p. 7, emphasis added). It is just possible, however, that Trivus intended to incorporate the symmetry requirement into his very *definition* of an exchange class. If so, his proposal is even less defensible. For it would now require, among other things, that we *deny* economic value to any object that someone is unwilling to exchange, regardless of what exchange offers others might be willing to make *for* that object. But this is absurd. My car has a monetary value of $500 *if* someone is willing to pay such an amount for it — my willingness or unwillingness to *accept* such a price is another matter entirely.

5. Although I have not attempted to show this, reflexivity also fails to be a necessary property of exchange classes (with respect to the relation of exchangeability).

6. Why, it might be asked, did Trivus ever come to even suppose that the notion of an *equivalence* class might be relevant to the analysis of the economic exchange relation? The answer, I suggest, is that he assumes the correctness of the Marxist claim that all exchange should involve the reciprocal transfer of *equivalent* commodities (Economists have always known that commodities that exchange evenly . . . are of *equal value*" [p. 10, emphasis added]). As the Austrians have long pointed out, however, no one would ever bother to exchange a good for one that was only valued *equally;* on the contrary, exchange occurs only when each party values what he receives from the other *more* than what he gives up. See, for example, Murray Rothbard, *Man, Economy, and State* (Los Angeles: Nash, 1962), pp. 72-73 ff.

7. Ludwig von Mises, *The Theory of Money and Credit*, trans. H. E. Batson (New Haven, Conn.: Yale University Press, 1953), p. 38 (cited by Trivus).

8. Two representative examples are Alvin Goldman, *A Theory of Human Action* (Englewood Cliffs, N.J.: Prentice-Hall, 1970) and D. M. Armstrong, *A Materialist Theory of the Mind* (New York: Humanities Press, 1968). This view is also defended in my doctoral dissertation, "The Structure of Human Action" (Brown University, 1975).

9. For a particularly explicit account of this "demonstrated preference" theory, see Murray Rothbard, "Toward a Reconstruction of Utility and Welfare Economics," in *On Freedom and Free Enterprise*, ed. H. Sennholz (Princeton, N.J.: Princeton University Press, 1956), p. 225 ff.

10. This distinction is forcefully emphasized (in another context) in an unpublished paper by Robert Nozick, "On Austrian Methodology."

11. And a *sketch*, of course, is all that it is. For an example of what a more developed account would look like, see any of the works cited in note 8.

12. I am grateful to Mark Weinburg for extensive discussion of the issues and arguments in this paper.

Reason Papers

A Journal of Interdisciplinary Normative Studies

Articles

Discussion Notes

Book Review

No. 3 *Fall 1976*

Reason Papers No. 3 *Fall 1976*

Reason Papers is published at the Department of Philosophy, State University College at Fredonia, New York 14063, U.S.A. Its purpose is to present studies concerned with interdisciplinary normative and related issues. All editorial correspondence and orders ($4/copy or $3/preorder) should be sent to the editor at the above address. Manuscripts should be accompanied by return postage and envelope.