THE RELEVANCE OF THE SUBJECTIVE

In a recent exchange in *Reason Papers* (nos. 2 and 3) Sidney Trivus and Michael Gorr engage in an interesting, if often misguided, discussion of theories of value. The central point of Trivus's article is that we should all use *his* concept of value rather than the subjective-value concept of Ludwig von Mises and other praxeologists. His intent seems to be to rescue the idea of value from its "metaphysical" forms as found in Mises (and Marx, with whom I will not deal in this comment).

Trivus is correct, of course, when he points out that "what a thing *is* and what *causes* it to be what it is are different" (*Reason Papers*, no. 3, p. 93). While both Marxist and praxeological notions of value are intimately related to their respective causal explanations, his simple idea of value is supposed to stand apart from all causal explanations. "The economic value of a thing is just what it will fetch in the market" (no. 2, p. 7).

A quick perusal (with which, it appears, Trivus dispensed) of Mises's main treatise, *Human Action*, will prove that this supposedly new concept of value is what the Austrians have been calling exchange-value. There is no doubt that this is an important, even indispensable, idea in economics. But the notion of subjective use-value, which underlies and renders causally comprehensible that idea of exchange-value, is *also* an important and indispensable idea in economics.

The general fact about the economic world that so impressed the classical economists is that some goods tend to exchange in fairly regular proportions to others. The costs of production of a good typically bear some relation to its selling price. Or one could say there are various "equivalence classes" for market goods such that, in Trivus's example, his typewriter can be said to be "worth" \$300—i.e., "what it will fetch in the market." No Austrian economist would deny that we need a concept (exchange-value) to describe such everyday appraisals of marketable goods (see Mises, *Human Action*, 3d ed. [Chicago, 1966], pp. 331–33). A businessman must constantly refer to the market value of his resources in estimating his costs. But if we wish to understand *why* such typewriters and \$300 tend to be in the same market-value "equivalence

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class" we must refer to the intensity of the supply of and the demand for this kind of typewriter, which involves an investigation into the relative preferences of the actors on the market.

If a typewriter identical to Trivus's were found to exchange for $350 instead of $300, this would constitute a profitable opportunity for an entrepreneur to buy low and sell high. It has been shown (e.g., see Israel Kirzner, *Competition and Entrepreneurship* [Chicago, 1973]) that this kind of entrepreneurial action is the force that tends to bring about the general fact with which we began the previous paragraph—that some goods tend to exchange in regular proportions or identifiable equivalence classes. Thus we *could* simply attach a word to our concept of exchange-value, as Trivus seems content to do, or we could also try to understand that concept by reference to the underlying causes that it reflects, as Austrian economics does.

Trivus chides subjectivists for concentrating on their vague, ephemeral, and nonquantifiable subjective value, as opposed to his concrete equivalence classes. If someone were to offer an economic good as collateral for a loan "a hard-nosed banker . . . would determine the economic value of that collateral by consulting the market" by means of clear objective appraisals such as existing price lists. "What that banker most certainly would not do is inquire into 'the strength and content of the *desires* and *preferences*' of potential buyers of that commodity. . . ." (No. 3, p. 93)

The hard-nosed banker analyzing loan collateral is obviously interested in an exchange-value assessment of the collateral, that is, in what he can be sure to be able to get for the thing in exchange. Even he makes some limited judgments of the underlying preferences, for example, when, as is customary, he deducts a percentage from book-value estimates. There are, however, other evaluative purposes in a modern economy for which this "hard-nosed" technique would be entirely inappropriate.

The hard-nosed banker is in the unique position of having to rely on other people to estimate the value of the collateral. He passively observes the existing market prices as a reliable-enough guide to the exchange-value of a particular item of collateral, say a car, about which the banker has no particular expertise. The used-car salesman, on the other hand, would be foolish to blindly sell his car at the listed price in the blue book. It is indeed one of the most important aspects of a salesman's job to try to anticipate the desires and preferences of the potential customer.

Exchange-value appraisal relies on the existing market prices as reflective of the value of goods. But as Austrian economics demonstrates, the market is always in disequilibrium; that is, there are at any moment differences between the underlying subjective valuation of goods and their evaluation on the market. Not every actor on the market can afford to be a price taker; the more alert entrepreneurs defy the blue books and the hard-nosed and make their *own* assessment of the potential market value of goods. It is by noticing discrepancies between generally accepted exchange-values and the actual future preferences of consumers that entrepreneurial profit can be made. Thus *both* notions of value are necessary for understanding a real economy.

Trivus wishes to discard subjective use-value because it involves a causal explanation "purporting to show how it comes about that commodities exchange as they do" (no. 3, p. 94). And, he insists: "An oak tree is not the same as an acorn, although acorns are undeniably (part of) the cause of oak trees. Analogously, though labor expended in production, and subjective attitudes of traders, and many other things besides may well be causally related to the economic values of commodities, those causal influences *are not the same as* the values they bring commodities to have." His idea of value is supposed to be preferable because it "is neutral with respect to all putative causal or functional explanations of how exchanges . . . take place." (No. 3, pp. 93, 95)

So it is taken as a *criticism* of the Austrian concept of value that it is specifically selected for its usefulness in explaining causation in exchange. Presumably a useless (or as Trivus puts it, a "neutral") concept would be better. Why? Because when choosing a concept for its usefulness the resulting theory may be "circular or vacuous."

Specifically, Trivus claims that subjective-value theory is circular because subjective preferences explain actions and the actions explain the preferences. Michael Gorr had responded (no. 3, pp. 86–88) that actions are evidence for the existence of preferences and that Austrians ought to appeal to other *independent* evidence for the existence of preferences, thereby disproving circularity.

All this presupposes that preferences and actions are two different phenomena, each requiring a different and independent explanation. But for Mises, the idea of preference is implicit in the idea of action. For a man to choose the state of affairs X over that called Y, it is already implicit that, ex ante, he *prefers* X to Y. It is a fact that men are purposive beings, in other words, that they attempt rationally to apply means to achieve their preferred ends. We leave the (purposeful?) denial that men are purposeful to those undisturbed by the fallacy of self-exclusion. But for those of us who are willing to agree to the blatantly obvious, there is much to learn from the elucidation of the logical implications of this fact.

One such implication is that in a voluntary exchange both parties (ex ante) view the exchange as beneficial, otherwise they would not have entered into the exchange in the first place. This is an implication so obvious that it could only be denied by means of its utter misinterpretation.

Trivus provides us with such a misinterpretation when he tells us that "what people do is not always what, in any reasonable sense of the term, they *want* to do." (no. 2, p. 5). His so-called counterexamples to this misstated proposition comprise an imaginative collection of misconstruals of the praxeological insight that do not once even make the fundamental Austrian distinction between ex ante and ex post:

1. Forced sales under foreclosure (no. 3, p. 96)

The relevant exchange here, of course, is the original credit contract (wherein provision was made for foreclosure) at which time, ex ante, both parties to the exchange expected to gain. Austrian theory has never tried to say that all events in any economy are to every party's benefit. Praxeology states simply that both parties to a voluntary exchange will ex ante expect to gain by that exchange, otherwise they would not bother. *After* the action, either or both participants may indeed have regrets. In the foreclosure example the "foreclosee" may feel great remorse ex post for having defaulted on his original contract, thus necessitating the (contractually agreed upon) forced sale. This fact is completely irrelevant to the praxeological point at issue.

2. "There are, as well, transactions that do not accord with the subjective preferences of the owners because the owners *don't have* any preferences in the matter" (ibid.); e.g., shareholders of AT&T may not know or care about the company's various acquisitions.

Notice how Trivus has carefully restated the argument he wishes to refute so that what used to read "parties to the exchange" now reads "owners." Whoever the ultimate legal owner of a resource is, the two parties to the exchange are the individuals who actually exchange something. Surely a person who neither knows nor cares about the terms of an exchange cannot be called a party to it. This particular example is complicated by the prior contractual exchanges of delegated responsibility over the use of resources that are implicit in the managerial hierarchy of a modern corporation. But, however the authority is delegated, in any particular exchange it must nonetheless be the case that both *parties* perceive the exchange as beneficial.

3. And then there are "capricious, impulsive exchanges." "People often do give in, even against their better judgment, to fast-talking salesmen, social pressures, passing fads, and so on." (Ibid.)

Praxeology does not claim that an actor's preferences are the result of sober and rational reflection. They are just what he *actually* (through his *actions*) prefers, for whatever capricious reasons. If, upon further reflection, the actor (ex post) regrets his past impulsive choice, this fact still has no relevance to the point that if he did not *at the time of the decision* prefer the chosen state of affairs to the alternatives he then considered, he would not have made what he now considers an impulsive mistake.

4. People "comply with government edicts" (no. 3, p. 97).

This is not an example of a voluntary exchange and hence has no relevance to the issue.

5. "Another thing people do is make mistakes" (ibid.).

Yes, indeed. For example, one might make the mistake of trying to criticize an economic theory one knows very little about. (It has, for the record, occurred to praxeologists that people make mistakes.) Where one knows a potential action ahead of time to be a mistake, one would ipso facto avoid it. A mistake is a past action that one now believes one should not have taken; it reflects ex post regret. Again, this is inconsequential to a theory that discusses ex ante benefits in voluntary exchange.

6. "People often do things unaware. . . ." (Ibid.) Indeed, Mises would go even further:

> Most of man's daily behavior is simple routine. He performs certain acts without paying special attention to them. He does many things because he was trained in his childhood to do them, because other people behave in the same way, and because it is customary in his environment. He acquires habits, he develops automatic reactions. But he indulges in these habits only because he welcomes their effects. As soon as he discovers that the pursuit of the habitual way may hinder the attainment of ends considered as more desirable, he changes in his attitude. A man brought up in an area in which the water is clean acquires the habit of heedlessly drinking, washing, and bathing. When he moves to a place in which the water is polluted by morbific germs, he will devote the most

> careful attention to procedures about which he never bothered before. He will watch himself permanently in order not to hurt himself by indulging unthinkingly in his traditional routine and his automatic reactions. The fact that an action is in the regular course of affairs performed spontaneously, as it were, does not mean that it is not due to a conscious volition and to a deliberate choice. Indulgence in a routine which possibly could be changed is action. [*Human Action*, p. 47]

Trivus had prefaced these so-called counterexamples with the statement that "if the theory were to maintain, *nonvacuously*, that exchanges always occur in accordance with the preferences of all parties to the transactions, it would have to overcome prima facie evidence already available against it" (no. 3, p. 96, emphasis added).

Trivus's failure to suggest prima facie evidence against the praxeological statement at issue is no reflection on his considerable analytical abilities. Even *he* cannot perform the impossible. He is looking for factual refutation of a tautology. Mises had clearly explained that "action is an attempt to substitute a more satisfactory state of affairs [more preferred] for a less satisfactory one. We call such a willfully induced alteration an exchange. A less desirable [or preferred] condition is bartered for a more desirable." (*Human Action*, p. 97) By what praxeologists mean by "preference," by "action," and by "exchange," it is necessarily true that a purposive actor in choosing one state of affairs over another thereby manifests his ex ante preference of that chosen over that set aside.

Analogously, Trivus might have argued that if the Pythagorean Theorem were to maintain, "nonvacuously," that the square of the length of the hypotenuse of a right triangle is always equal to the sum of the squares of the lengths of the other two sides, it would have to overcome prima facie evidence already available against it. And then he might have similarly proceeded to suggest an equilateral triangle, a triangle in non-Euclidean space, and a trapezoid as equally damaging "counterexamples."

With respect to the charge of circularity, T. W. Hutchison explains the nature of pure theory, that is, for praxeology, what follows from the empirical fact that human beings are purposive.

> To criticise a proposition of pure theory *as such* as tautological, or circular, or as assuming what it requires to prove, is beside the point, the *applicability* of the assumptions of a

> piece of pure theory may be criticised; but this is purely a question of fact, having nothing to do with the *form* of a proposition of pure theory, which *must* necessarily be "tautological", "circular", and "assume what it proves"—for what it proves must be contained in the assumptions, and cannot be obtained from any other source. [*The Significance and Basic Postulates of Economic Theory* (London, 1938; New York, 1960), p. 36]

Neither Misesian nor Euclidian deduction can be pronounced "vacuous" or "circular" for all their insulation from empirical falsification. And surely neither theory should be so denounced before the critic has attained at least an elementary understanding of the theory under criticism.

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