

“Austrian” Subjectivism vs. Objectivism

Part I

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“All things are subject to the law of cause and effect. This great principle knows no exception, and we would search in vain in the realm of experience for an example to the contrary.” - Opening lines of *Principles of Economics*, by Carl Menger

Carl Menger is the founder of what has become known as the Austrian School of Economics. Many modern adherents of that School believe that one prominent feature of the “Austrian” body of thought is its subjective value theory. Ludwig von Mises summarized this view in *Human Action* (p.95-96 in the Scholar’s edition), as he stated that:

“[T]he ultimate ends of human action are not open to examination from any absolute standard. Ultimate ends are ultimately given, they are purely subjective, they differ with various people and with the same people at various moments in their lives. [...] Any examination of ultimate ends turns out to be purely subjective and therefore arbitrary.”

This statement tells us that the ultimate standard for judging value as well as values themselves are completely arbitrary and subjective. In contrast to this view, according to the objective value theory of Objectivism, the ultimate standard of value is life itself and values are objective, i.e. based on facts of reality. From this we can conclude that more than a semantic change of the word subjective into e.g. personal (as Friedrich Wieser had suggested, and that Eugen von Böhm-Bawerk rejected in his *Capital and Interest*, Vol. II, Book III, Ch I, p.125) is required to reconcile the two value theories. But interestingly, both bodies of thought reach the same conclusion about how to organize society; that of laissez-faire capitalism. How is it possible that such contradictory premises can lead to the same conclusion? This is clearly a case for checking the premises.

Starting with Menger, the alleged founder of the subjective value theory, and Böhm-Bawerk, the grand old master of “Austrian” value theory, I will review the earlier ideas on “Austrian” subjectivity and contrast it with the ideas of Ayn Rand’s Objectivism. In this first part, I will first focus on possible differences when it comes to the ultimate standard of value. Next, the value theories of Menger and Böhm-Bawerk are studied to find out where the alleged subjectivity entered the picture. Finally, a possible direction towards the reconciliation of these two great bodies of thought is outlined. In a subsequent part, I will discuss the proposed solution in relation to Objectivism in general, to the theory of marginal utility and to some other aspects of economics. In doing all of this, I believe Menger’s book will not be regarded as any less important - au contraire. For if Menger’s *Principles of Economics* really contains ideas that can contribute to the reconciliation of these two great bodies of thought, the future of freedom and

laissez-faire surely does not look any darker, and because of this, the book must be regarded as even more important.

The Ultimate Standard of Value

According to Objectivism, life is the ultimate standard of value (see Rand's essay *The Objectivist Ethics* for more on this). Now, what did the early Austrians say on this?

Starting with Menger, his words "Aristotle (*Politics* i. 4. 1253b, 23-25) calls the means of life and well-being of men "goods"" (p.286) reveal that he had the very same source to his ideas on value as did Rand. Aristotle's influence is also implied when Menger writes that "the attempt to provide for the satisfaction of our needs is synonymous with the attempt to provide for our lives and well-being. It is the most important of all human endeavors, since it is the prerequisite and foundation of all others" (p.77). From this, the step to saying that life is the ultimate standard of value, hardly could be considered far. Thus, we can conclude that Menger held basically the same idea, at least implicitly, as did Rand. Now, what did Böhm-Bawerk have to say about this - after all, he wrote an essay called *The Ultimate Standard of Value*. In that essay, there is a heading called "The Single Ultimate Standard of Value Is "Human Well-Being"" (*Shorter Classics of Böhm-Bawerk*, p.369), that shows that he recognized that the ultimate standard is life itself. Thus, Böhm-Bawerk seems to share the same idea as Menger and Rand. Finally, what did Mises have to say about this? The final words of the conclusions to his *Socialism*, reads (p.515):

"Whether Society is good or bad may be a matter of individual judgment; but whoever prefers life to death, happiness to suffering, well-being to misery, must accept society. And whoever desires that society should exist and develop must also accept, without limitation or reserve, private ownership in the means of production."

Here, there is an implicit link between value and life itself. But at the same time we have the words from *Human Action* cited above, that must be regarded as remarkable and that leave us in doubt. Now that we have established that the early Austrian explicitly or implicitly agreed on the same standard of life as Rand, and that we cannot rule out the possibility that Mises and his followers might do the same, we can move on to examine the theories of value that these persons confessed to. At the center of this examination lies the question of the alleged subjective value theory of the Austrian School of Economics and its relation to the objective value theory of Rand.

The Early Austrians on Subjectivity

To examine if the Austrian School always has asserted that values are entirely subjective, like Mises does in the quotation above, let us have a look at the theory of value as proposed by Menger, as well as the theory of value of Böhm-Bawerk. But observe that I will only discuss those parts that have a bearing on the subject in question and it is not aiming at being a review.

Early on in *Principles of Economics*, Menger identifies what a good is (p.8):

"If a thing is to become a good, or in other words, if it is to acquire goods-character, all four of the following prerequisites must be simultaneously present:

1. A human need

2. Such properties as render the thing capable of being brought into causal connection with the satisfaction of the need
3. Human knowledge of this causal connection
4. Command of the thing sufficient to direct it to the satisfaction of the need

Only when all four of these prerequisites are present simultaneously can a thing become a good.”

For a thing to become a good in the first place, a valuer with sufficient knowledge is required. Hence goods are man-made.ⁱ Already at this stage, we can observe a difference between Menger and Böhm-Bawerk. The latter starts his chapter on value by making a distinction between goods of intrinsic value, that possess value for their own sake, and goods of extrinsic value, that possess value only as a means to an end lying outside themselves.

Böhm-Bawerk clearly states that value can exist totally apart of any valuer (Capital and Interest, Vol. 2, Book III, Ch. I, p.121). He is in opposition on this matter against Menger, Rand and Aristotle. Let us therefore continue with Menger.

Remember that Menger calls the means of life and well-being of men “goods”, as did Aristotle, and Menger also showed us how things become goods, capable of serving as means of life. The quantities of goods that an individual must have to satisfy his needs, Menger calls his requirements. These requirements may be either less than or greater than (or equal to) the quantity of the good that is available. Examples of the first kind are air and sun light, i.e. where the needs for the goods are fully assured and it is impossible to exhaust when fulfilling the needs. Menger calls these non-economic goods. Economic goods, on the other hand, are most goods around us, from apples to ships. If a unit of an economic good ceases to be a good, it leads to an unsatisfied need.

Therefore, the individual wants to (i) maintain it at his disposal, (ii) conserve its properties, (iii) make choices between different uses of it, and, (iv) obtain the greatest possible result with a given quantity (or a given result with the smallest possible quantity). These four objectives of the individual is the meaning of economizing.

Hence, economic goods require economizing.

The difference between an economic and a non-economic good lies in the relation between the requirements and the available quantity. It is not an internal property of the good itself. A non-economic good can thus become an economic good, and vice versa, if the context changes. This last is a crucial point and I quote Menger on it (p.102):

“Experience, moreover, teaches us that goods of the same kind do not show economic character in some places but are economic goods in other places, and that goods of the same kind and in the same place attain and lose their economic character with changing circumstances.”

Thus, a specific good can be either an economic good or a non-economic good depending on the context. Variations in our requirements and/or the available quantity may occur over space as well as time.

The next chapter in Menger's book is devoted to his famous theory of value, later to be called the theory of marginal utility. Early on he notes that for economic goods, the satisfaction of a human need depends on the availability of each concrete, practically significant good. If an economizing individual become aware of this, the good will attain a significance called value. "Value is therefore nothing inherent in goods, no property of them, but merely the importance that we first attribute to the satisfaction of our needs, that is, to our lives and wellbeing, and in consequence carry over to economic goods as the exclusive causes of the satisfaction of our needs," Menger writes and continues "From this, it is clear why only economic goods have value to us, while goods subject to the quantitative relationship responsible for non-economic character cannot attain value at all" (p.116). Furthermore, "Non-economic goods [...] not only do not have exchange value, as has previously been supposed in the literature of our subject, but no value at all, and hence no use value" (p.118). ii Thus, Menger clearly states that goods that do not require economizing, have no value whatsoever iii.

Now Menger is close to presenting his theory in full, but before he does that he makes some important notes on the issue of objectivity. He writes, "The value of goods is [...] nothing arbitrary, but always the necessary consequence of human knowledge that the maintenance of life, of well-being, or of some ever so insignificant part of them, depends upon control of a good or quantity of goods" And he continues, "Regarding this knowledge, however, 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" (p.120). On the next page, he writes, "Hence, value does not exist outside the consciousness of men. It is, therefore, also quite erroneous to call a good that has value to economizing individuals a "value", or for economists to speak of "values" as of independent real things, and to objectify value in this way. For entities that exist objectively are always only particular things or quantities of things, and their value is something fundamentally different from the things themselves; it is a judgment made by economizing individuals about the importance their command of the things has for the maintenance of their lives and wellbeing. Objectification of the value of goods, which is entirely subjective in nature, has nevertheless contributed very greatly to confusion about the basic principles of our science" (p.121. Emphasis in original.).

However, this is not the same idea as Böhm-Bawerk propounds. Having emphasized that the goods of intrinsic value are not having economic value, Böhm-Bawerk concentrates on the goods of extrinsic value. Value in its subjective sense "denotes the significance which a good [...] possesses for the well-being of a certain subject" (Vol. II, Book III, Ch. I, p.121). He continues by writing that "The other kind of value is objective. It signifies our estimate of the capacity of a good to bring about some definite extrinsic objective result" (p.122). As an example of objective value he speaks of the relative fuel value of wood and coal, the physical characteristics of these different materials. (He goes on by declaring that goods, however, also have an objective exchange value. Thus, goods have subjective value to an individual but when taken to the market they gain an objective value. "Objective exchange value is one of the important results which it behooves economics to explain; subjective values belongs to the means or tools by which economics is to achieve some of its explanations." (p.123))

As with the fundamental difference between Menger and Böhm-Bawerk when it comes to the latter's acceptance of goods of intrinsic value, I believe there is a fundamental difference hidden also in the view of the subjectivity and the objectivity of value. While Menger implies that there

is no such thing as an objective value inherent in a good, Böhm-Bawerk means that there is. Moreover, and as a consequence of this, Böhm-Bawerk thinks that the next stage is that the individuals, i.e. the subjects, value these goods different, apart from their objective values (used in his sense). They are totally subjective. Menger on the other hand, uses the same term, but is not implying the same thing as Böhm-Bawerk does. But what does his use of the word imply then?

The Contextual Individual Objective Values

The idea that Menger must have had in mind when developing theory of marginal utility was not that values are subjective, not even in the sense personal. In understanding what idea Menger must have had in mind, I believe the path towards the reconciliation of his value theory with Objectivism lies open. I believe that all that is required to solve the "problem" of the Austrian 'subjectivism' vs. Objectivism, is to note that all values depend of the context. Menger did emphasize this. Values depend on the context. Without this idea, Menger would not have been able to solve the old "value paradox" of the classical economists (i.e. why diamonds are more valuable than water). It is this basic idea that allowed Menger to develop his idea of goods having different value depending on the available quantity.

Let us see where this takes us by running through Menger's theory presented so far, and keeping this in mind all the time. First of all, the ultimate standard of value is life. But who's life? The life of the individual. For even if the individual has to figure out what kind of "Life" he as man qua man must live, applying "Life" in this abstract and impersonal meaning to the his own concrete life means that it is his life that is the ultimate standard of value.

The ultimate standard of value is the life of the individual valuer. (This is of course fully consistent with Rand's philosophy, for clearly, Rand did not suggest that someone else's life to be the standard of value for an individual.)

The second important thing that Menger points out, is that all the world around us consist of things, and some of these things could be turned into goods. A crucial prerequisite for this is the knowledge of the individual. But even if a thing is a good to the individual, it still need not have a value to the individual. For if a good is available in a quantity greater than our requirements, i.e. our needs in the specific context, a loss of one unit of the good does not affect the life of the valuer. Thus, it cannot possess a value. And as all goods of that kind are the same, they cannot, each and every one of them viewed separately, have a value. Hence, for a thing to possess value, we first recognize that the thing is a good that can serve our ends, then we proceed to check the availability and compare it to our requirements, and finally, if the requirements are greater than the availability, we determine if it is valuable to us. This implies that there is no such thing as an objective value inherent in a good. Instead, he writes that "entities that exist objectively are always only particular things or quantities of things, and their value is something fundamentally different from the things themselves; it is a judgment made by economizing individuals about the importance their command of the things has for the maintenance of their lives and well-being" (from the quote above). What this in turn implies is that a thing cannot possess value out of the concrete context. It cannot possess some sort of universal value, the same in all possible contexts (if not only by extreme coincidence). The value is totally separate

from the good itself. However, Menger clearly states that values are judgments made by individuals.

These two points in the last two paragraphs together imply: (i) a thing possessing a value without a valuer would imply an intrinsic value and (ii) a thing valuable to a valuer without a concrete context implies a universal value, constant over all contexts. The first is an impossible contradiction and the second – “we would search in vain in the realm of experience for an example” of it, to paraphrase Menger. Hence, values can exist only within the concrete context of an individual valuer’s life.

So far we have seen that both a valuer and a context is a necessary (but not sufficient) prerequisite for a value to exist. This helps us to understand the way in which the idea of objective values can be integrated into the ideas of the Austrian School of Economics. It does so by implying, among other things, that:

1. A good has the same objective value to two individuals in the same context
2. A good has different objective value to an individual in different contexts
3. A good has the same objective value to an individuals in the same context

As an example of the first case, consider the situation where Menger and I were sitting on the North Pole, with only one piece of wood left. Since the specific piece of wood, within the context, could mean the difference between life and death to each of us, it is plausible to say that it possesses the same objective value to each of us.

An example of the second case, is that the piece of wood certainly would not be as valuable to Menger in a virgin forest, as it was in the former context (or if, on the Pole, half an hour later help arrived, with lots of fire wood. Time is an important element here.). But if somehow, Menger suddenly found himself back on the North Pole, back in the first context, the piece of wood would have the same value again. That is an example of the third case. The first case, most objectivists would agree on directly. The second case the Austrians would agree on directly. The third is perhaps less controversial. But would both Austrians and objectivists agree on all three cases? Maybe not at this point, but let me explain how subjectivism fits into the picture.

Observe that there is nothing arbitrary or subjective in the three cases above. Subjectivism would enter into the picture if, in the first case, Menger did not realize the value of the piece of wood and, to my great anger, threw it to a seal. The point is that the objective value of the good is not printed on it. We have to figure it out. We have to make it a good, by being able to put it in causal connection to the heat it can give us and to the fact that heat is very valuable in the context of the North Pole. However, normally the context is far more complex and it is harder to find the objective value of a good, in the particular context of the moment. If I manage to figure it out, it is still objective though (and not subjective). If I do not, the departure from the objective value is a case of subjectivism. There might in complex contexts of everyday life be a fair amount of subjectivism present in value judgments of individuals. It might be the case that we very seldom find the objective values of goods in the specific contexts. But that is really beside the point. Man is not omniscient. To further our lives we have to try to find the objective values. That is nothing different from saying that we have to try to figure out what is the best thing to do in every moment of our lives. The point is that there are objective values, and that

we all have to try to find them since our lives and well-being depend on it. In doing this, the subjective dimension might play an important or even dominant role, and it will be more important the more complex the situation is, and the less able people are to figure things out.

There is another point in support of what I mean. When an individual passes a value judgment, it is from the point of view of what is his idea of the objective value in the context. The context involves his life-time story, and, thus, the objective value for him might be different from the objective value of another individual. The differences in their life-time stories might be so large, that the objective valuations might differ, simply because the full context is so different. This would sound good to an Austrian, but perhaps less good to some objectivists.

I think an example will clarify the point.

Imagine an auction where different individuals are allowed to bid on a table. They are all in the same place at the same time. They might appear to be in the same context, but are they really? Any differences in the bids of the persons would normally be attributed to differences in their subjective valuations. Economists in general, and modern Austrians in particular, would be happy with that. Some objectivists would probably say that the table has a metaphysical objective value, and that differences are a case of irrational subjectivism. But are they really entirely subjective? The question could be answered by thinking of the three cases I just presented above.

Suppose two person where bidding for the table, me, a relatively poor Ph.D. student from poor Sweden, and a wealthy Bill Gates. In the context of my life, given my income and all other needs I have to satisfy, it would not be good for my life in total if I placed a bid on the table of \$10.000. That would ruin me, even if I managed to come up with the money. Given that, if I actually did place the bid, that would be a case of subjectivism. I would have placed a bid like if I was rather wealthy, which I am not. Similarly, if Bill Gates had placed a bid on the table of \$10.000, that would not have been a thing that ruined him. It could, given his wealth and income and all his other needs that he has to satisfy, be a perfectly reasonable thing to do. It could possibly be furthering his life.

But if Bill Gates placed a bid on the table of \$10.000.000, one could ask if that was a wise thing to do, since that is a lot of money for a table and probably nobody else would be close to matching that bid. From this example we can conclude that the differences in the bids on the same table between different individuals in the same place at the same time, can have both objective and subjective reasons. The individuals are not fully in the same context, even if simple inspection might suggest they are.

Noting that valuations are contextual, implies that they often are very individual. But they could nevertheless be objective. And if the individual within a given context fails in finding the objective value, the difference is called subjective. This idea, I believe, puts the Austrian School of Economics on par with Objectivism. The only thing "subjectivist" Austrians have to realize that things in given contexts have an objective value and to replace the word "subjective" by, for example, "contextual individual objective". The only things some objectivists have to change in their minds, is to realize the obvious fact that individuals might have different valuations of the same thing, depending on the concrete context of each individual's life, and that things need not possess universal value.

In the next part, I will discuss the concept of contextual individual objective values (CIOV) in relation to Objectivism in general, to the theory of marginal utility and to some other aspects of economics.

Endnotes

i In the words of economist George Reisman, “[...] iron, which has been present in the earth since the formation of the planet and throughout the entire presence of man on earth, did not become a good until well after the Stone Age had ended. Petroleum, which has been present in the ground for millions of years, did not become a good until the middle of the nineteenth century, when uses for it were discovered. Aluminum, radium, and uranium also became goods only within the last century or century and a half.” See his article, *Environmentalism Refuted*, readable at www.capitalism.net.

ii Menger differentiates between use and exchange value.

iii However, both economic and non-economic goods possess utility, but, as just said, only the later, can possess value. “Utility is the capacity of a thing to serve for the satisfaction of human needs, and hence (provided the utility is recognized) it is a general prerequisite of goods-character.” (p.119)