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Gloria L. Zuniga

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Gloria L. Zúñiga
Doctoral Candidate in Philosophy
State University of New York at Buffalo

The Problem of Subjectivism

The notion of 'subjectivism' has a significant place in the body of economic theory, most notably in the theory of subjective value.[1] There is, however, one concern that some philosophers have raised about truth in normative judgments that puts economic subjectivism seriously into question.[2] This concern can be articulated as the following question: Is there truth regarding economic value judgments? The answer to this question is pertinent not only for an improved understanding of economic value theory but to such philosophical investigations as realism, epistemology, ontology, and ethics. Nonetheless, the answer is not readily available in the body of economic theory. The ensuing discussion will explore the issue of whether the truth of economic judgments can be settled objectively and, if so, how truth is made known.

What Is Subjective Economic Value?

Subjectivism is commonly predicated on normative expressions of beliefs, attitudes, and emotions by a judging subject. In economics, however, the meaning of subjectivism is more complex. When economists speak of the value of economic goods as subjective, they not only refer to a judgment by an economic agent but also to the status of the object to which the judgment is directed. There are, then, two senses of subjective:

1. The evaluation of an object perceived by an individual as having a causal connection with the satisfaction of an end.

2. The subject-dependent status of objects in their role as economic goods.

The first is an epistemic sense of 'subjective' that provides an account of choice given the constraint of limited resources despite unlimited wants. The second is an ontological sense of subjective that describes the economic character of things as dependent on human acts of valuing.

Carl Menger advanced this account of the subjective theory of value in his *Principles of Economics*, first published in 1871. The significance of his contribution lies in the transcategorical description of social phenomena. While most accounts reduce value either to the mind or to some intrinsic property of things, Menger demonstrated that all social phenomena was composed of varying combinations of beliefs and entities, judgments and facts, mind and matter. In order to achieve such a transcategorial account of value, Menger first provided an epistemic account of economic valuation by grounding his 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, barring exact laws, there could not be any science of economics, and without any sort of empirical realism, economics could not rightfully be 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]

Epistemic Sense of Subjective

When considering the epistemic sense of subjective economic value, we must keep in mind two features of the economic species of value. First, the economic judgments that individuals make indicate the extent to which they believe an object may satisfy their needs. According to Menger, an individual makes an economic judgment on the basis of the causal connection he perceives between a thing and the satisfaction of a mediate or immediate end. Accordingly, an individual's judgment directed at a thing has an interested nature since his evaluation of the thing involves an expectation of what the thing will fulfill for him.

Second, the judgment is called 'economic' because it involves an evaluation directed at making a choice among known alternatives. Every choice involves important elements of scarcity, such as limited time, income, productive resources, physical and intellectual limitations, levels of satiety, and so on. Coping with scarcity is a fundamental feature of the human condition that involves the allocation of means to meet ends. Menger was the first to ground the analysis of economic value on the notion 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 by an objective appeal to 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 err, there must be judgments that are false. Parenthetically, it is also worth mentioning that the discovery of error in our judgments suggests that the fulfillment of expectations corresponds to putative features of the object toward which our judgment is directed. It may be the case, then, that the truth of an economic judgment can be settled objectively by facts about the object that correspond to the individual's expectations. Clearly, no one but the acting subject could make this determination.

The problem with erroneous judgments, to return to the issue of error, is that we only discover our mistakes *ex post*, sometimes immediately after and sometimes long after a choice has been made. However, we must also consider the case that the 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 learns of 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, that are not in agreement with his expectations.

The question that immediately comes to mind 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? This question addresses a central problem in economics regarding the dispersed nature of knowledge. The problem is not that knowledge is dispersed but, rather, that there might be systemic obstacles to acquiring knowledge of the facts relevant to the economic activity of individuals. Such systemic obstacles are always the result of the constraints imposed by economic systems that do not allow for unfettered exchange. Conversely, in free-market systems, prices serve as the medium of communication of facts relevant to economic activity. As Hayek writes, "In a system in which the knowledge of the relevant facts is dispersed among many people, prices can act to coordinate the separate actions of different

people in the same way that subjective values help the individual to coordinate the parts of his plan."[7]

Yet, suppose that there is 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 token object is *arbitrarily* designated to be a member of a type-category such as "money" by simply believing it to be so. This criticism, however, is mistaken since it 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. We have thus come 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 that have a unique nature. According to Menger, 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 that comprise the various kinds of currency we acknowledge as money.[8] 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 as economic objects.[9] Second, the exact laws governing 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 analysis, we find a distinction between things and economic goods that shows us how a thing acquires an economic character and is thus perceived as an economic good.[10] Accordingly, there are certain conditions:

1. A judging subject must perceive a thing as scarce, in relation to his total supply of the thing.

2. Hence, the thing is evaluated in relation to an end known to the judging subject as more urgent than any other end. Otherwise, scarcity would not be an issue at all.

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 the thing acquires its economic character, i.e., it becomes an economic good.

4. Finally, we must not neglect 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 a thing merely desired 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.[11]

What these conditions describe is the subject-dependent mode of existence of a thing as an 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 intangible ends, such as acquiring an education, acting virtuously, making friends, and finding love. These intangible ends almost always have tangible objects as mediate ends.[12]

We act economically in our attempts to meet any of these ends, not just those of the mundane sort or, as commonly believed, those that involve money or are employed in production. An important implication of this analysis is that the province of economics is broader than what is typically believed. Subjects, for example, can acquire an economic property if we evaluate them in an interested way, such as wanting to meet them, to know them, to spend time with them, to make friends with them, or to marry them. Chicago economists Gary Becker and George Stigler have advanced interesting theories of love and marriage consistent with this economic framework.[13]

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 explanation of the second task of describing the categories to which economic objects belong. Menger advanced exact laws for classifying economic kinds such as money, value, price, capital, and exchange. 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 their essence in everyday social activities 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 all economic phenomena is not of the same kind, it was important for Menger to advance a description of categories such as money, price, capital, and so on. Unfortunately, however, Menger's elaborate description of economic kinds is often cumbersome to read and lacking suitable names for the distinguishing features and conditions belonging to each category. The inadequate attention given to Menger's ontology of economic objects is due in no small measure to his difficult style of writing. Nevertheless, his 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 think 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 nature of the objects they believe to be money. In other words, they have, in effect, purchased very expensive paper but not money. Although the acceptance of a currency as money is one of the conditions for the category "money" in Menger's ontological description, it is not the only condition. As the case of counterfeit money should make clear, individuals may be wrong in their recognition of genuine token instances of commonly-accepted currency.[14] Custom and practice will create certain commonly held beliefs about the usefulness of type-categories, such as U.S. dollars, based on marketability. But tokens that look like instances of U.S. dollars are not always money. There are, Menger writes, legal orders that have an influence on the money-character of token instances of money. In our present nationalized money systems, it is only by means of the sanction of the state that any one token instance of money has "the attribute of being a universal substitute in exchange."[15] This is an important fact in the description of money that offers an objective means to determine real money from counterfeit money, independently of the views or beliefs of individuals in 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 to the initial question in this paper, i.e., Is there truth regarding economic judgments?

The truth of a subject's judgment pertaining to the economic value of a good corresponds to facts in the world about the thing in its role as economic good and the agreement such facts have with the subject's expectation of such a thing.

This statement presents, in a concise way, the ontological and epistemic senses of subjective. On the one hand, an economic object is a subjective entity since its mode of existence depends on it being perceived by a subject as 'economic'. On the other hand, the judgment that the agent makes regarding the economic object is subjective but its truth or falsity can be settled objectively by the correspondence of the judgment with facts in the world.[16] My answer, I believe, follows easily from Menger's framework. The upshot of all this is that Menger's contributions provide us with an ample crop of ideas from which we can draw a rich ontology of subject-dependent economic objects and an epistemology that is both realist and consistent with a correspondence theory of truth. Having answered the initial question posed at the beginning of this paper, let us briefly survey some philosophical consequences that may be drawn from our discussion of economic subjectivism.

Arbitrariness and Cognitive Relativism

It should be clear by now that the way in which the term *subjective* is employed in economics is not as a predicate of judgments that are produced by a particular state of mind, such as feelings or attitudes, which have little or nothing to do with facts, real objects, or states of affairs in the world. This kind of subjectivism is more akin to cognitive relativism: the view that the world has no objective properties but just different ways

of interpreting it. By contrast, economic subjectivism is consistent with philosophical realism.

Furthermore, economic judgments are not arbitrary in the sense that economic agents can arbitrarily designate any object to be whatever he believes it to be. Let us recall from the earlier discussion of exact laws that the economic categories to which genuine instances of these categories belong are not determinable by the wishing or believing of agents. According to economic theory, economic categories obey exact laws that are intrinsically intelligible.

The Problem of Error

The problem of error needs to be addressed once again. We may be wrong in our economic judgments because our knowledge of things in the world is not always in agreement with how things actually are. *A fortiori*, 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.[17] The rest of the facts that are not fully given in knowledge are known to us only with varying degrees of certainty.

Moral Relativism

Perhaps the most troublesome criticism advanced against economic subjectivism is the charge that it is either consistent with, or an endorsement of, moral relativism. This criticism, however, conflates economic value with moral value, two wholly distinct species of value. Epistemically speaking, economic judgments are distinct from moral judgments in the sense that while the former is an interested judgment, the latter is not.

Although many, if not most, actions are economic actions, not all economic actions are morally relevant. There are certain actions that are *only* economically relevant. If, for example, I decide to purchase a hat and have to decide between a red one and a yellow one, this action has no moral relevance. There are also certain actions that are *only* morally relevant. An act of forgiveness has no economic relevance.[18] But if my decision is between buying a hat and donating money to the poor, then this action has two aspects. It has an economic aspect since I have limited resources and I can allocate these resources to only one of the two choices. It also has a moral aspect since being charitable is morally relevant. Frequently, in fact, we may find that judgments that are beneficial from an economic, self-interested perspective, are also wrong from a moral perspective. Having a new hat would be economically beneficial for me since it would add a nice accessory to my wardrobe. However, from a moral perspective, it might be seen as a frivolous choice in light of my knowledge of someone's need for food. Since economic judgments involve a set of considerations that are orthogonal to those involved in moral judgments, there is no necessary relation between economic value and moral value.

The argument for truth in economic judgments, however, has a significant philosophical import to ethics. If economic judgments can correspond to facts and thus instantiate truth, then other normative judgments, such as moral judgments, can be similarly consistent with realism. For example, consider the following: The truth of a moral judgment may be instantiated in the correspondence of the moral agent's intuition of the action as a good action and the objective essence of the act as a morally good act. This can be construed as a defense of moral realism.

Ontologically speaking, the objective essence of a moral act can be either good or evil, right or wrong, depending on the context. It is the context of the moral act that will identify the moral category to which it belongs. Killing is wrong, but if I kill in self-defense, then the act might not belong to the moral category "killing." Instead, it may fall into another category such as "defending life," "protecting life," or some other designation. Clearly, these desultory remarks on moral value are inadequate to the complexity of this topic. Nonetheless, this brief analysis of the philosophical consequences of economic subjectivism shed light on the possibility of importing economic realism into the sphere of ethics in the form of moral realism.

Notes

[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* (New York and London: New York University Press, 1976), 115.

[2]See Tibor Machan, "Subjective Arbitrariness," *Vera Lex* XI (1991): 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."

[3] I am indebted to John Searle for bringing his clear exposition of the epistemic and ontological senses of the term *subjective* 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. For a detailed statement of his argument, see John Searle, *The Construction of Social Reality* (New York: The Free Press,1995), 7–9.

[4] Menger does not use the term *scarcity* in his analysis but the meaning is implicit in his use of the expression *insufficient quantity*. Carl Menger, *Principles of Economics*, trans. J. Dingwall (New York: New York University Press, 1976 [1871]).

[5] Instead, it might be a judgment of taste, such as: "I value reading more than watching television." In this example, the term *value* does not refer to an economic judgment of value but designates the positioning of one thing over another in an abstract hierarchy of taste. In this case, the terms *prefer* or *like* could easily be substituted for the term *value* 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." *Principles of Economics*, 120.

[7] Friedrich von Hayek, "The Use of Knowledge in Society," in *Individualism and Economic Order* (London: Routledge & Kegan Paul Ltd., 1949), 85.

[8] Jerry Fodor might disagree with this view. In his article, "The Special Sciences, or The Disunity of Science As a Working Hypothesis," *Synthese* 28 (1974): 97–115, he argues that the generality of the science of physics implies that any economic theory has a physical description that 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. Cf., John Searle, *Minds, Brains, and Science* (Cambridge, Mass.: Harvard University Press, 1984), 71–85.

[9] Hayek makes this point in "The Facts of the Social Sciences," in *Individualism and Economic Order*, 59. He writes, "Money is money, a word is a word, a cosmetic is a cosmetic, if and because somebody thinks they are." lbid., 60. John Searle has argued similarly in *Minds, Brains, and Science* and *The Construction of Social Reality* that money is what people think, use, and treat as money.

[10] In *Principles of Economics*, Menger calls "free goods" what I have referred to as "things."

[11] This exposition of conditions for a thing to acquire a goods-character is slightly different from that described by Menger but is consistent with his principles. See Menger, *Principles of Economics*, 52.

[12] Consider, for example, that books are necessary, mediate objects toward pursuing an education. Or consider further that a particular person is necessarily involved in the development of friendship or love. Perhaps only some virtuous acts do not require mediate, material objects for their fulfillment.

[13] Gary Becker, "A Theory of Marriage: Part l," and "A Theory of Marriage: Part II," in *The Essence of Becker*, ed. Ramon Felereo and Pablo S. Schwartz (Stanford: Hoover Institution Press, 1995), 273–309, 310–28; and *A Treatise on the Family* (Cambridge, Mass.: Harvard University Press, 1981). See also George Stigler, *The Theory of Price*, 4th ed. (New York: Macmillan Publishing Company, 1987), 246–47. For a critique of Becker's theory, see Christopher Westley, "Matrimony and Microeconomics: A Critique of Becker's Neoclassical Analysis of Marriage," *Journal of Markets & Morality* 1 (March 1998): 67–74.

[14] Menger calls this acceptance of a type-category, such as the U.S. Dollar, the *general acknowledgement* of any one commodity. *Principles of Economics*, 261.

[15] Ibid., 262.

[16] This explanation is consistent with Searle's description of the epistemic and ontological senses of subjective. The important point is that a true judgment is 'objective' insofar as it corresponds to objective facts. Searle, *The Construction of Social Reality*, 7–9.

[17] Edmund 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 becomes subjective. See Dallas Willard, “Knowledge,” in *The Cambridge Companion to Husserl*, eds. Barry Smith and David Woodruff (Cambridge: Cambridge University Press, 1995), 161.

[18] I am indebted to Barry Smith for this insight.