

The Debate on “Radical Subjectivism” Revisited

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Introduction.

The subjective theory of value has a long and uneasy history. Being at the origin of numerous disagreements in economic theory, subjectivism received various formulations. These formulations became one important criterion of distinction among different schools of economics such as Austrian and Neoclassical School of Economics. Therefore the question one could ask: “How many different definitions, the subjective theory of value could bear?” To be sure, the aim of this article is way narrower than the analysis which will allow us to answer to this question.

We will centre this article on one particular debate raised in the second part of the XX-th century within Austrian School of economics. Since Carl Menger, the subjectivism became one of the most prominent marks of Austrian school of economics². “Economists of the Austrian school put special emphasis on subjectivism.”³ Within this school of economics, the importance of “subjectivism” for economical theory was especially revealed to us through the efforts of Ludwig von Mises.⁴ Being intrinsically related to the concept of “value,” subjectivism is clearly an essential ingredient of any economic theory. Therefore, depending on the connotation we attach to them, our very understanding and explanation of economic events, changes accordingly.

Since Mises, the economists who endorsed the label of “Austrian School of Economics” entered into a profound disagreement about the significance and the application of this concept. The divergences of interpretation are provoked by the possibility of extending subjectivism to others concepts: namely knowledge and expectations. “The next step forward in the subjectivist paradigm was to recognize that the subjectivity of value depended on a

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² Friedrich M. Wieser, “The Austrian School and the Theory of Value,” *Economic Journal*, (I, March, 1891) pp.108-121, Carl Menger, *Principles of Economics*, translated by James Dingwall and Bert F. Hoselitz, (Grove City, PA: Libertarian Press, 1994); Eugen von Böhm-Bawerk, *Capital and Interest*, (South Holland, Illinois: Libertarian Press, 1959.)

³ Leland Yeager, “Why Subjectivism,” *The Review of Austrian Economics*, 1987, 1 pp. 5-31.

⁴ Ludwig von Mises, *Human Action. A Treatise on Economics*, (Auburn, Alabama : Ludwig von Mises Institute, 1998), Ludwig von Mises, *Epistemological Problems of Economics*, translated by George Reisman, third edition, (Auburn, Alabama: Ludwig von Mises Institute, 2003), Ludwig von Mises, *The Ultimate Foundation of Economic Science An Essay on Method*, second edition, (New York: FEE, 2002)

further subjectivity namely knowledge.”⁵ “The enlargement of subjectivism to expectations has got overwhelming consequences on the analysis of the market process. (...) Divergence of plans is the consequence of the extension of subjectivism to expectations and represents, within the Lachmannian view, the propeller of change.”⁶

Contrary to Rothbard’s⁷ and Hoppe’s⁸ elaboration of the Misesian legacy of subjectivism, F. A. Hayek⁹ on the one hand and Ludwig Lachmann¹⁰ - under Shackle’s¹¹ influence - on the other hand, evoke the necessity to go even further. In order to make his own position more distinguishable, Lachmann even coins the term of “radical subjectivism.” “The first, and most prominent, feature of Austrian economics is a radical subjectivism, today no longer confined to human preferences but extended to expectations.”¹² At any rate, the claim shared by Lachmann and Hayek is altogether that a sound conception of subjectivism must imply an extension of the concept from the axiological to the epistemological sphere. “The extension of subjectivism in the 1930s, from the old subjectivism of preferences to the new subjectivism of expectations, constituted the first major extension of its domain for sixty years – and Shackle took a most prominent part in it. (...) The evolution of subjectivism is characterized (...) by an ‘inner metamorphosis’, its transformation from a subjectivism of properties and ‘dispositions’ to one of the active human mind.”¹³

Obviously, the question one can raise is: “Are these two spheres of subjectivity compatible?” If the answer to this question is negative, then the label of “Austrian School of Economics” could not accurately refer to both approaches. Therefore, the endeavor to shed light on the subjectivism’s extension to knowledge has a particular importance for the

⁵ Stephen Horwitz “Subjectivism” in The Elgar Companion to Austrian Economics, ed. Peter J. Boettke (Cheltenham, UK: Edward Elgar, 1994, pp17-22) p. 18

⁶ Sandye Gloria-Palermo, “An Austrian Dilemma: Necessity and Impossibility of a Theory of Institutions”, Review of Austrian Economics, (11:1/2, 1998), pp. 31-45

⁷ Murray N. Rothbard, “In Defence of ‘Extreme Apriorism’”, Southern Economic Journal, (January, 1957), pp.314-320; Murray N. Rothbard, “Praxeology as a Method of Social Sciences” in Phenomenology and the Social Sciences, ed. Maurice Natanson (Evanston, Illinois.: Northwestern University Press, 1973), II, pp.31-61; Murray N. Rothbard, “The Present State of Austrian Economics” in The Logic of Action I (Cheltenham: Edward Elgar, 1997) pp.111-173.

⁸ Hans-Hermann Hoppe, “On Certainty and Uncertainty, or: How Rational can our Expectations be?” Review of Austrian Economics (10, no.1 1997) pp. 49-78.

⁹ F. A. Hayek, The Counter-Revolution of Science, (Indianapolis: Liberty Press, 1952); F. A. Hayek “The Use of Knowledge in Society.” in Austrian Economics III ed. Israel Kirzner (London: William Pickering, 1994) pp.259-273.

¹⁰ Ludwig Lachmann, “From Mises to Shackle: An Essay on Austrian Economics and the Kaleidic Society,” Journal of Economic Literature (14:1976) pp. 55-59; Ludwig Lachmann “An Austrian Stocktaking : Unsettled Questions and Tentative Answers,” in New Directions in Austrian Economics, ed. Louis M. Spadaro (Kansas City: Sheed, Andrews and McMeel, 1978) pp.1-18; Ludwig Lachmann, “Why Expectations Matter,” The Investment Analyst Journal, (20:1982), pp 9-15

¹¹ G.S.L. Shackle, Epistemics and Economics (Cambridge: Cambridge University Press, 1972)

¹² Ludwig Lachmann “An Austrian Stocktaking : Unsettled Questions and Tentative Answers,” p. 1.

¹³ Ludwig Lachmann, “Shackle’s Place in the Subjectivist Thought,” p.245

Austrian School of Economics. To be sure, the purpose of this article is not to establish who is more “Austrian” or who is Mises’ legitimate descendent. Our foremost intention is to show that the contemporary debate on subjectivism within the Austrian School of Economics is anchored in the confusion between two different questions regarding human action: “Is it possible to know in advance the results of human action?” and “Is it possible to know the consequences of the fact that human action is intentional?” We will conclude this article by asserting that there is no genuine debate between the two main branches of Austrian Economics. While they are not necessarily incompatible, the two issues are fundamentally distinct and finally lead us to a misconception of subjectivism itself.

This argumentation will follow five distinct steps. Firstly, following closely the Misesian formulation, we will provide a brief account of the subjective theory of value. Secondly, we will show that the “radical subjectivism,” and the “dynamic subjectivism” elaborated by Lachmann and Don Lavoie are distinguishing themselves from the subjectivism formulated by Mises and defended by Rothbard and Hoppe, exclusively through a different epistemological perspective. Thirdly, we will sustain that Rothbard’s and Hoppe’s critique is not directed against the possibility of extending subjectivism to knowledge *per se*, but instead is directed against its consequences for the economic theory. Fourthly, we will argue that the debate on the consequences for the economic theory of radical subjectivism is neutral to the subjective theory of value. Fifthly and finally we will argue that the debate on the consequences for the economic theory of extending subjectivism to knowledge is originated in two distinct but compatible questions.