Why Subjectivism?

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Insights and Exaggerations

Economists of the Austrian school put special emphasis on subjectivism. This article reviews why subjectivist insights are important, but it also warns against exaggerations. The latter part, while briefer, particularly warrants attention in Austrian circles.

Various writers define subjectivism in ways that, though not necessarily inconsistent, do seem quite different. Empirical concepts (as opposed to mathematical concepts, like "triangle") necessarily have an "open texture" (Waismann 1965). An open-textured concept just cannot be defined so precisely and comprehensively as to rule out the possibility of an unforeseen situation or case or example that would require modifying the previously framed definition. I feel no duty, then, to start with a definition. Instead, the meaning of subjectivism will emerge from the topics covered and from contrasts with nonsubjectivist attitudes.

Materialism versus Subjectivism in Policy

Subjectivist insights contribute to positive economics—to understanding how the world works (or would work with circumstances changed in specified ways). They do not bear primarily on policy. As an expository device, however, it is convenient to begin by considering subjectivism being applied—or being ignored—*in policymaking*.

Perhaps the broadest subjectivist insight is that economics deals with human choices and actions, not with mechanistically dependable relations. The economy is no machine whose "structure" can be ascertained and manipulated with warranted confidence. Economics knows nothing comparable to Avogadro's number, atomic weights and numbers, the speed of light in a vacuum,

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and similar constants of nature (Mises 1963, p. 55). Or if such constants do exist, an economist could earn a great reputation by demonstrating a few of them. No amount of cleverness with econometrics can make the nonexistent exist after all.

One reason why no enduring "structural parameters" characterize the economic system is that the way people behave in markets, as in other aspects of life, depends on their experiences and expectations and on what doctrines they have come to believe. (Here is one area of overlap between Austrian economics and the rational-expectations school currently, or recently, in fashion.)

The circumstances mentioned are inherently changeable. One implication warns against policies whose success presupposes unrealistic kinds of degrees of knowledge. It warns against overambition in attempting detailed central control of economic life.

Subjectivist economics points out, for example, what is lost when policy makes simplistic distinctions between necessities and luxuries or when, unlike voluntary transactions, policy fails to take account of subtle differences between the circumstances and tastes of different people. (My discussion passes over personal rights, not because they are unimportant but only because my present topic is, after all, rather different.)

Examples abound, in Third World countries and elsewhere, of attempts to conserve scarce foreign-exchange earnings for "essentials" by exchange controls, multiple exchange rates, import quotas, and selective import duties designed to limit or penalize the waste of foreign exchange on "luxury" imports and other "nonessential" uses.

The arguments offered for such controls, like arguments for consumer rationing in wartime, are not always sheer nonsense. But subjectivist considerations severely qualify them. It is impossible to make and implement a clear distinction between luxuries and essentials. Suppose that a government tightly rations foreign exchange for pleasure cruises and travel abroad but classifies oil as an essential import. Some of the oil may go for heating at domestic resorts operating on a larger scale than if the cruises had not been restricted. The restrictions may in effect divert factors of production from other activities into providing recreation otherwise obtainable at lower cost through foreign travel. Because of poor climate at home, it may well be that the marginal units of foreign exchange spent on imported oil go to satisfy wants of the same general sort—while satisfying them less effectively—as wants otherwise satisfied by foreign travel. Restricting travel and supposedly nonessential imports is likely to promote imports of their substitutes and also divert domestic and imported resources or materials into home production of substitutes. The diversions may also impede exports that earn foreign exchange.

It is particularly dubious to try to distinguish between essential and frivolous imports according to whether they serve production (or "economic growth") or mere consumption. All production supposedly aims at satisfying human

wants, immediately or ultimately. Producing machinery or building factories is no more inherently worthy than producing restaurant meals or nightclub entertainment, for the machinery or factories are pointless unless they can sooner or later yield goods or services that do satisfy human wants. To favor production-oriented (or export-oriented) imports over consumption-oriented imports is to prefer a roundabout achievement of ultimate consumer satisfactions to their more direct achievement merely because of the greater roundaboutness. It is to confuse ends and means.

People obtain their satisfactions in highly diverse ways (even altruistic ways). Some policymakers evidently do not understand how the price system brings into play the dispersed knowledge that people have about their own tastes and circumstances. A journalist illustrated such misunderstanding when badgering Alan Greenspan, then Chairman of the Council of Economic Advisers, with questions about whether business firms would continue producing essential goods when frivolous goods happened to be more profitable. As Greenspan properly replied (in Mitchell 1974, pp. 74–76), people differ widely in their tastes. Some choose to buy extraordinary things and deliberately deprive themselves of other things generally counted as necessities.

One might conceivably—which is not to say conclusively—urge controls as correctives for specific market distortions. Barring such identified distortions, the idea naturally occurs to subjectivist economists of letting ultimate consumers appraise "essentiality." Sweeping philosophical comparisons are unnecessary. People can act on their own comparisons of the satisfactions they expect from additional dollar's worths of this and that. Consumers and businessmen can judge and act on the intensities of the wants that various goods can satisfy, either directly or by contributing to further processes of production.

Standard theoretical reservations about this suggestion—standard arguments for government discriminations in favor of some and against other particular goods and services—invoke the concepts of externalities, of merit wants and goods, and of income redistribution. Yet how can policymakers be confident that supposed externalities are genuine and important, that supposed merit wants really deserve cultivation, or that discriminating among goods will accomplish the desired redistribution of real income? Any one of many goods, considered by itself, might seem deserving of special favor; yet how *relatively* deserving different goods are may remain highly uncertain, particularly when no one knows just how severely the diversion of resources into particular lines of production will impair production in other lines that might even be more meritorious by the policymaker's criteria. (Tunnel vision is a failing of policymakers not thoroughly familiar with the idea of general economic interdependence.)

More fundamentally, particular goods do not possess qualities deserving special consideration globally, or by their very nature. On the contrary, usefulness or desirability is a relation between things and human wants. The

usefulness of something—specifically, its marginal utility—is the smaller the more abundant the thing is. Ideally, decisions about adjusting quantities of various things should consider their usefulness *at the margin.* It is easy to imagine circumstances in which an additional dollar's worth or an additional ounce of penicillin or polio vaccine would contribute less to human satisfaction than an additional unit of orchids.

The concept of priorities does not properly apply in the contexts considered here. For the reasons mentioned, and also in view of how the political process works and of ample experience with controls, it is unrealistic to expect the government to choose "social priorities" reasonably. Consider, for example, the botch of energy policy, including the long record of subsidizing energy consumption in travel and transport (through the underpricing of road and airport facilities) and also including tax exemptions and subsidized loans granted to rural electric cooperatives, even while government officials plead for energy conservation.

Policies adopted or advocated during the energy crises of 1974 and 1979 betray ignorance of subjectivist insights. Examples are rationing of gasoline not so much by price as by the inconvenience and apprehension of having to hunt around for it and wait in long lines to buy it, or being allowed to buy gasoline only on odd- or even-numbered days according to one's license-plate number. A former chairman of Inland Steel Company (Joseph L. Block in Committee for Economic Development in 1974, pp. 79–80) suggested requiring each car owner to choose one day of the week when he would be forbidden to drive. That prohibition, enforced with appropriate stickers, would supposedly have eliminated some needless driving and encouraged use of public transportation. Another example was a decision by the California Public Utilities Commission banning natural-gas heating of new swimming pools (Charlottesville, *Daily Progress*, 29 February 1976, p. E11).

Such measures and proposals underrate the value of freedom and flexibility. Arbitrary measures burden some people lightly and others heavily because different people's lives afford different scopes of substituting away from the restricted consumption and make advance scheduling of activities difficult and unrestricted flexibility important in widely differing degrees. In unrestricted voluntary transactions, by contrast, people can allow for such differences.

A narrowly technological outlook is often linked with puritanical moralizing. (I am reminded of my maternal grandmother, who used to bewail the waste of using a teabag only once if it could be made to serve twice and of using and washing a large plate if the food could be crammed onto a small plate.) Recovery techniques left too much oil and gas in the ground, natural gas on the continental shelf was flared, and the prevailing practice in coal mining left half of a seam in the ground merely because it was needed there as a supporting column or because getting it all out was too expensive—so went one complaint (Freeman 1974, pp. 230–232). Energy has been wasted by "too little" insulation of buildings.

Yet so-called waste was probably sensible at the lower energy prices of the past. There can be such a thing as too much conservation; for example, producing aluminum for storm windows installed under tax incentives even consumes energy in other directions. Ample heat and air conditioning brought comfort, and fast driving saved valuable time. Not having to concentrate on ferreting out ways to conserve energy saved mental capacity for other purposes. Now, at today's higher prices, a dollar spent on energy no longer buys as much comfort or saves as much time or thought as before; and people respond accordingly. Conceivably, of course, the energy prices of the past, distorted downward by interventions, may have led people to consume more energy than they would have done at free-market prices; but if so, the specific distortions should have been identified and addressed. Moralizing about ways of consuming less was off the track.

Such moralizing almost regards waste as something perpetrated only with material resources, not with people's time or comfort or peace of mind. Ironically, this strand of materialism sometimes occurs among people who announce Galbraithian scorn for the alleged materialism of the affluent society. Another apparent strand sometimes found in the attitude of such people is self-congratulation on heroic hard-headedness in recognizing necessary austerities. (Speaking at a conference in Beverly Hills on 26 April 1975, Senator Gaylord Nelson welcomed the challenge of helping to create the new and simpler lifestyles of the future.)

Materialistic energy-conservation proposals illustrate a kind of thinking related to what F.A. Hayek (1952) has called *scientism.* It is something quite different from science or the scientific outlook. A full definition is unnecessary here, but one aspect is the feeling that results somehow do not count unless they have been deliberately arranged for. A person with the scientistic attitude does not understand how millions of persons and companies, trading freely among themselves, can express and arrange for satisfying the wants they themselves consider most intense. He does not appreciate self-adjusting processes, like someone's decision to forgo a gas-heated swimming pool, or any pool at all, in view of the prices to be paid. He assumes that a grandmotherly state must take charge, and he performs feats of routine originality in thinking of new ways for it to do so—as by requiring that cars get 30 miles to the gallon, by imposing standards for building insulation, or by banning pilot lights in gas appliances. Tax gimmicks and ideas are a dime a dozen—incentives for storm windows and solar heating and the plowback of profits into oilfield development and what not. The current, or recent, vogue for partial national economic planning under the name of "industrial policy" provides further examples.

Subjectivist insights illuminate the issue of the military draft. (For early discussions by University of Virginia Ph.D. graduates and graduate students, see Miller 1968.) Many persons have advocated the draft on the grounds that

an all-volunteer force is too costly. They understand cost in an excessively materialistic and accounting-oriented way. In truth, costs are subjective—unpleasantnesses incurred and satisfactions forgone—in keeping down monetary outlays, the draft conceals part of the costs and shifts it from the taxpayers being defended to the draftees compelled to serve at wages inadequate to obtain their voluntary service. Furthermore, the draft increases total costs through inefficiency. It imposes unnecessarily large costs on draftees who find military life particularly unpleasant or whose foreclosed civilian pursuits are particularly rewarding to themselves and others. At the same time it wastes opportunities to obtain relatively low-cost service, meaning service at costs subjectively appraised as relatively low, from men who happen to escape the draft but would have been willing to serve at wages below those necessary to obtain voluntary service from men in fact drafted. The opposite method—recruiting the desired number of service men and women by offering wages adequate to attract them as volunteers—brings to bear the knowledge that people themselves have of their own abilities, inclinations, and alternative opportunities. So doing, the market-oriented method holds down the true, subjectively assessed, costs of staffing the armed forces. (Of course, considerations in addition to these also figure in the case against the military draft.)

Subjectivist insights help one understand why compensation at actual market value for property seized under eminent domain probably will not leave the former owner as well off as he had been. His having continued to hold the property instead of having already sold it suggests that he valued it more highly than the sales proceeds or other property purchasable with those proceeds.

Neglect of subjectivism is central to the fallacy of "comparable worth." According to that doctrine, currently fashionable among feminists and interventionists, the worth of work performed in different jobs can be objectively ascertained and compared. People performing different jobs that are nevertheless judged alike, on balance, in their arduousness or pleasantness, their requirements in ability and training, the degrees of responsibility involved, and other supposedly ascertainable characteristics should receive the same pay; and government, presumably, should enforce equal pay. Formulas should replace wage-setting by voluntary agreements reached under the influences of supply and demand.

This idea ducks the questions of how to ration jobs sought especially eagerly at their formula-determined wages and how to prod people into jobs that would otherwise go unfilled at such wages. It ducks the questions of what kind of economic system and what kind of society would take the place of the free-market system, with its processes of coordinating decentralized voluntary activities. (Though writing before comparable worth became a prominent issue, Hayek, 1960, chapter 6, aptly warned against displacing market processes by nonmarket assessments of entitlements to incomes.) The comparable-worth

doctrine neglects the ineffable individual circumstances and subjective feelings that enter into workers' decisions to seek or avoid particular jobs, employers' efforts to fill them, and consumers' demands for the goods and services produced in them. Yet wages and prices set through market processes do take account of individual circumstances and personal feelings (a point I'll say more about later on).

Subjectivist economists recognize the importance of intangible assets, including knowledge, a kind of "human capital." They recognize the scope for ingenuity in getting around government controls of various kinds, whereas the layman's tacit case for controls involves a mechanistic conception of the reality to be manipulated, without due appreciation of human flexibility. Controls, and responses to them, destroy human capital by artificially hastening the obsolescence of knowledge; they impose the costs of keeping abreast of the artificially changing scene and divert material and intellectual resources, including inventiveness, from productive employments. Credit-allocation measures and other controls on financial institutions, for example—even reserve requirements and interest-rate ceilings—have bred innovations to circumvent them. Managers have to be trained and other start-up costs borne for new institutions and practices, and customers must spend time and trouble learning about them. Price and wage controls and energy-conservation rules provide further illustrations of such wastes.

Arbitrariness and unfairness figure among the costs of controls intended to buck market forces. As controls become more comprehensive and complex, their administrators are less able to base their decisions on relatively objective criteria. Bureaucratic rules become more necessary and decisions based on incomplete information less avoidable. Multiplication of categories entitled to special treatment invites the pleading of special interests. Even morality, another intangible asset, is eroded.

The complexity of detailed monitoring and enforcement suggests appealing for voluntary compliance, compliance with the spirit and not just the letter of the regulations. (Controls over foreign trade and payments for balance-of-payments purposes, such as President Johnson attempted in the mid-1960s, provide still further examples; see Yeager 1965.) Whether compliance is avowedly voluntary, or whether ease of evasion makes compliance voluntary in effect, such an approach tends to penalize public-spirited citizens who do comply and gives the advantage to others. Exhorting people to act against their own economic interest tends to undercut the signaling and motivating functions of prices. How are people to know, then, when it is proper and when improper to pursue economic gain? To exhort people to think of compliance as in their own interest when it plainly is not, or to call for self-sacrifice as if it were the essence of morality, is to undercut the rational basis of morality and even undercut rationality itself.

A kind of perverse selection results. Public-spirited car owners who heed appeals for restraint in driving thereby leave more gasoline available, and at a

lower price than otherwise, to less public-spirited drivers. Sellers who do comply with price ceilings or guidelines must consequently turn away some customers unsatisfied, to the profit of black-marketeers and other less scrupulous sellers. Eventually such effects become evident, strengthening the idea that morality is for suckers and dupes.

Subjectivists know better than to erect efficiency, somehow conceived, into the overriding criterion either of particular processes or institutions or of entire economic systems. The principle of comparative advantage discredits the idea that each product should necessarily be produced wherever it can be produced most efficiently in the technological sense. No presumption holds, furthermore, that any particular line of production necessarily should be carried on in the technologically most advanced way; for the resources required in such production are demanded by other industries also, where they may well contribute more at the margin to consumer satisfactions, as judged by what consumers are willing to pay.

Efficiency in the sense of Pareto optimality is often taken as a criterion of policy. Pareto efficiency is indeed a useful concept in the teaching and study of microeconomic theory. It is useful in contemplating outcomes of the market process in the form of particular—but abstractly conceived—allocations of resources and goods. Economists seldom if ever face an occasion or opportunity to appraise concrete, specific allocations, in the real world. As Rutledge Vining properly emphasizes, legislators and their expert advisors necessarily are choosing among alternative sets of legal and institutional constraints rather than among alternative specific results or allocations. (See Vining 1985 and Yeager 1978.) Such constraints are rules of the game within which people strive to make the most of their opportunities amidst ceaseless change in wants, resources, and technology. The very point of having rules and institutions presupposes their having a certain stability and dependability, which would be undermined by continual efforts to make supposedly optimal changes in them.

What is useful in policy discussions, then, is not the supposed benchmark of Pareto efficiency but rather comparison of what alternative sets of rules add up to in terms of alternative economic and social systems. If we must have a standard against which to appraise reality, we might well adopt the view of a competitive market economy as a collection of institutions and practices for gathering and transmitting information and incentives concerning not-yet-exhausted opportunities for gains from trade (including "trade with nature" through production or rearrangements of production).

Knowledge and Coordination

Subjectivists recognize the many kinds of information that market prices and processes bring to bear on decisions about production and consumption. These

kinds include what F.A. Hayek (1945) called "knowledge of the particular circumstances of time and place," knowledge that could hardly be codified in textbooks or assembled for the use of central planners, knowledge that can be used, if at all, only by numerous individual "men on the spot." It includes knowledge about all sorts of details of running business firms, including knowledge of fleeting local conditions. It includes what people know about their own tastes and particular circumstances as consumers, workers, savers, and investors. Subjectivist economists recognize how such factors not only underlie the prices that consumers are prepared to pay for goods but also underlie costs of production.

Each consumer decides how much of each particular good to buy in view of the price of the good itself, the prices of other goods, his income and wealth, and his own needs and preferences. Subject to qualifications about how possible and how worthwhile precise calculation seems, he leaves no opportunity unexploited to increase his total satisfaction by diverting a dollar from one purchase to another. Under competition, the price of each good tends to express the total of the prices of the additional inputs necessary to supply an additional unit of that good. These resource prices tend, in turn, to measure the values of other marginal outputs sacrificed by diversion of resources away from their production. Prices therefore tell the consumer how much worth of other production must be foregone to supply him with each particular good. The money values of forgone alternative production tend, in turn, to reflect consumer satisfactions expectedly obtainable from that foregone production. (I say "reflect"—take account of—in order not to claim anything about actual measurement of what is inherently unmeasurable. I speak only of tendencies, furthermore, for markets never fully reach competitive general equilibrium.)

With prices bringing to their attention the terms of choice posed by the objective realities of production possibilities and the subjective realities of other persons' preferences, consumers choose the patterns of production and resource use that they prefer. Their bidding tends to keep any unit of a resource from going to meet a less intense willingness to pay for its productive contribution (and thus the denial of a more intense willingness). Ideally—in competitive equilibrium, and subject to qualifications still to be mentioned—no opportunity remains unexploited to increase the total value of things produced by transferring a unit of any resource from one use to another. Changes in technology and consumer preferences always keep creating such opportunities afresh, but the profit motive keeps prodding businessmen to ferret them out and exploit them.

To determine how resources go into producing what things in what quantities, consumers need freedom to spend their incomes as they wish, unregimented by actual rationing. But they need more: opportunities to make choices at unrigged prices tending to reflect true production alternatives.

We could speak then of "consumers' sovereignty," but the term is a bit narrow. Insofar as their abilities permit, people can bring their preferences among occupations as well as among consumer goods to bear on the pattern of production. In fact, investors' preferences, including notions about the morality and the glamor of different industries and companies, also have some influence; and we might speak of "investors' sovereignty" as well. (See Rothbard 1962, p. 452, n. 12, and pp. 560–562 on what Rothbard calls "individual sovereignty.")

Suppose that many people craved being actors strongly enough to accept wages below those paid in other jobs requiring similar levels of ability and training. This willingness would help keep down the cost of producing plays, and cheap tickets would draw audiences, maintaining jobs in the theater. Suppose, in contrast, that almost everyone hated to mine coal. The high wages needed to attract miners would enter into the production cost and price of coal, signaling power companies to build hydroelectric or nuclear or oil-burning rather than coal-burning plants and signaling consumers to live in warmer climates or smaller or better-insulated houses than they would do if fuel were cheaper. Such responses would hold down the number of distasteful mining jobs to be filled. The few workers still doing that work would be ones whose distaste for it was relatively mild and capable of being assuaged by high wages.

No profound distinction holds between workers' sovereignty and consumers' sovereignty or between getting satisfactions or avoiding dissatisfactions in choosing what work to do and in choosing what goods to consume. Consumer goods are not ultimate ends in themselves but just particular means of obtaining satisfactions or avoiding dissatisfactions. People make their personal tastes and circumstances count by how they act on the markets for labor and goods alike.

Our broadened concept of consumers' and workers' sovereignty by no means upsets the idea of opportunity cost. We need only recognize that people choose not simply among commodities but rather among *packages* of satisfactions and dissatisfactions. The choice between additional amounts of *A* and *B* is really a choice between satisfactions gained and dissatisfactions avoided by people as consumers and producers of *A* and satisfactions gained and dissatisfactions avoided by people as consumers and producers of *B*. Choosing package *A* costs forgoing package *B*. Ideally, the prices of products *A* and *B* indicate the terms of exchange, so to speak, between the entire combinations of satisfactions gained and dissatisfactions avoided at the relevant margins in connection with the two products. Prices reflect intimately personal circumstances and feelings as well as physical or technological conditions of production and consumption.

None of this amounts to claiming that different persons' feelings about goods and jobs (and investment opportunities) can be accurately measured and compared in terms of price or in any other definite way. However, people's feelings do count in the ways that their choices are expressed and their activities coordinated through the price system, and changes in their feelings do affect the pattern of production in directions that make intuitively good sense.

Clearly, then, economic theory need not assume that people act exclusively or even primarily from materialistic motives. Pecuniary considerations come into play, but along with others. As the laws of supply and demand describe, an increase in the pecuniary rewards or charges—or other rewards or costs—attached to some activity will increase or decrease its chosen level, other incentives and disincentives remaining unchanged. Money prices and changes in them can thus influence behavior and promote coordination of the chosen behaviors of different people, even though pecuniary considerations do not carry decisive weight and perhaps not even preponderant weight.

Value Theory

The role of subjectivism in solving the diamond-and-water paradox, replacing the labor theory or other real-cost theories of value, and accomplishing the marginalist revolution of the 1870s, is too well known to require more than a bare reminder here. Subjectivism must be distinguished from importing psychology into economics (Mises 1963, pp. 122–127, 486–488). Diminishing marginal utility is a principle of sensible management rather than of psychology: a person will apply a limited amount of some good (grain, say, as in Menger 1950, pp. 129–130) to what he considers its most important uses, and a larger and larger amount will permit its application to successively less important uses also.

Subjectivists do not commit the error of John Ruskin, who thought that "Whenever material gain follows exchange, for every plus there is a precisely equal minus" (quoted in Shand 1984, p. 120). They recognize that wealth is produced not only by physically shaping things or growing them but also by exchanging them. In the words of Henry George (1898/1941,pp. 331–332), who independently achieved several Austrian insights, "Each of the two parties to an exchange . . . [gets] something that is more valuable to him than what he gives. . . . Thus there is in the transaction an actual increase in the sum of wealth, an actual production of wealth."

Subjectivists recognize nonmaterial elements in costs as well as demands. Every price is determined by many circumstances classifiable under the headings of "subjective factors" and "objective factors" (or "wants" and "resources and technology"). An alternative classification distinguishes between demand factors and supply factors. This alternative is not equivalent to the first classification because there is no reason to suppose that subjective factors operate only on the demand side of a market while objective factors dominate the supply side.

On the contrary, subjective factors operate on both sides. The supply schedule of a good does not reflect merely the quantities of inputs technologically required for various amounts of output, together with given prices of the inputs. The input prices are themselves variables determined by bidding among various firms and lines of production in the light of the inputs' capabilities

to contribute to producing goods valued by consumers. Consumers' subjective feelings about other goods thus enter into determining the money costs of supplying quantities of any particular product.

Subjective factors operate in both blades of Marshall's scissors. (Misleadingly, Marshall 1920, pp. 348, 813ff., had referred to a utility blade and a cost blade, as if utility and cost were quite distinct.)

By the logic of a price system, then, money cost brings to the attention of persons deciding on production processes and output volumes in any particular line—and ultimately to the attention of its consumers—what conditions prevail in all other sectors of the economy, including persons' attitudes toward goods and employments. Money prices and costs convey information about subjective conditions outside the direct ken of particular decisionmakers.

At this point the subjectivism of Austrian economists reinforces their awareness of general economic interdependence and their concern with coordination among the plans and actions of different people. They are wary (as many textbook writers seem not to be) of focusing so narrowly on the choices of the individual household and individual firm as to detract attention from the big picture.

Recognizing the subjective aspects of cost, we gain insights into the dubiousness of expecting prices to correspond to costs in any precise way. Costs represent values of forgone alternatives: costs are intimately linked with acts of choice.

Cost curves are no more objectively given to business firms than are demand curves for their products. A large part of the task of entrepreneurs and managers is to learn what the cost (and demand) curves are and to press the cost curves down, so to speak, through inspired innovations in technology, organization, purchasing, and marketing. Outsiders are in a poor position to second-guess their decisions.

Subjectivists appreciate the role of expectations. Well before the recent vogue of "rational expectations" in macroeconomics, Ludwig von Mises (1953/1981, pp. 459–460) recognized that an inflationary policy could not go on indefinitely giving real "stimulus" to an economy; people would catch on to what was happening, and the supposed stimulus would dissipate itself in price increases. Von Mises also argued (1963, p. 586) that disorders such as the corn–hog cycle would be self-corrective. Unless the government protected farmers from the consequences of unperceptive or unintelligent behavior, farmers would learn about the cycle, if it did in fact occur; and by anticipating it would forestall it. (Those who did not learn would incur losses and be eliminated from the market.)

Much expressed nowadays are notions such as "the market's" expectation of some future magnitude—the dollar–mark exchange rate in three months, or whatever. Subjectivists are skeptical. They understand that "the market" does not form expectations or change light bulbs ("How many right-wing economists does it take to change a light bulb?") or do anything else. *People* do,

people acting and interacting on markets. Since expectations are formed by people, they are understandably loose, diverse, and changeable.

All this intertwines with the inherent unpredictability of future human affairs. It is not even possible to make an exhaustive list of all possible outcomes of some decision, let alone attach probability scores to outcomes (Shackle 1972, especially p. 22). Policymakers should take this point to heart and restrain their optimism about being able to control events.

This is not to deny that some predictions can be made with warranted confidence, notably the if-this-then-that predictions of economic theory and of science in general. Foretelling the future is quite another matter. Economists, like other people, have only limited time and energy. It is reasonable for each one to stick to work exploiting his own comparative advantages and hunches about fruitfulness and not let himself be badgered into foretelling the unforetellable.

Further Policy Implications

The ultrasubjectivist view of cost put forward by James Buchanan (1969) and writers in the London School tradition (some of whose articles are reprinted in Buchanan and Thirlby 1981) has been largely adopted by Austrian economists (Vaughn 1980 and 1981, Seldon 1981).

In examining this view, we must avoid false presuppositions about how words relate to things. It is not true that each word has a single definite and unequivocal meaning and that it labels a specific thing or action or relation objectively existing in the real world. On the contrary, many words have wide ranges of meaning. One way to learn what writers mean by a word is to see what implications they draw from propositions containing it.

This is true of "cost" as interpreted by Buchanan and the London economists. Those writers associate particular policy positions with the fuzziness that they attribute to cost. They heap scorn on cost-oriented rules for managing enterprises.

Advocates of such rules typically attribute important welfare properties to them. Probably the most prominent such rule is the one requiring the output of an enterprise to be set at such a level that price equals marginal costs. (In the same general cost-oriented family, however, would be rules like the one that total revenue should just cover total cost.) One strand of argument for socialism, in fact, is that socialized enterprises could be made to follow such rules, unlike unregulated private enterprises. Even under capitalism, such rules supposedly might be useful in the framing of antimonopoly policy and the regulation of public utilities. They might also figure in other government economic interventions and in the simulation of market results in nonmarket settings, as in tort settlements.

The case for socialism and milder government economic interventions can be weakened, then, by discrediting the measurability and even the conceptual

definiteness of "cost." This, I conjecture, is a clue to the ultrasubjectivist view of the concept. "Cost," says Buchanan (1969, pp. 42–43), "is that which the decisionmaker sacrifices or gives up when he makes a choice. It consists in his own evaluation of the enjoyment or utility that he anticipates having to forego as a result of selection among alternative courses of action." If cost can thus be portrayed as a thoroughly subjective concept or magnitude, if no one but the individual decisionmaker (entrepreneur or manager) can know what cost is or was, and if such knowledge is ineffable and practically incommunicable, then no outside authority can reasonably impose cost-oriented rules on him. The case for displacing or overriding the market dissolves.

This line of argument has merit. In particular, as already observed, cost curves do not objectively exist. Instead, business decisionmakers have the task of discovering or inventing them and modifying them by happy innovations. Unfortunately, as a later section of this article shows, Buchanan and the London economists carry their subjectivist line too far and so tend to discredit it.

Subjectivist insights about expectations have other notable policy implications. The history of energy policy, and of politicians' demagogy, provides reason for expecting future repetition of past infringements on property rights. Firms and investors must recognize that if they make decisions that turn out in some future energy crisis to have been wise—for example, stockpiling oil, cultivating nonconventional energy sources, adopting conservation measures, or building flexibility into their facilities and operations so as to be able to cope relatively well with energy squeezes—then they will not be allowed to reap exceptional profits from their risk bearing, their correct hunches, and their good luck. They will be victimized by seizure of oil stocks, by adverse treatment under rationing schemes, by price controls, or in other ways. Government reassurances, even if made, would nowadays not be credible. The benefits of diverse private responses to diverse expectations about energy supplies are thus partly forestalled.

This example reminds subjectivists of a broader point about remote repercussions of particular policies, repercussions remote in time or in economic sector affected. A violation of property rights may seem the economical and expedient policy in the individual case. Yet in contributing to an atmosphere of uncertainty, it can have grave repercussions in the long run.

Because expectations influence behavior, a policy's credibility conditions its effectiveness, as the rational-expectations theorists, and William Fellner (1976) before them, have emphasized. The question of the withdrawal pangs of ending an entrenched price inflation provides an example. When money-supply growth is slowed or stopped, the reduced growth of nominal income is split between price deceleration and slowed real production and employment. Expectations affect how favorable or unfavorable this split is. If the anti-inflation program is not credible—if wage negotiators and price-setters think that the policymakers will lose their nerve and switch gears at the first sign of recessionary side-

effects—then those private parties will expect the inflation to continue and will make their wage and price decisions accordingly; and the monetary slowdown will bite mainly on real activity. If, on the contrary, people are convinced that the authorities will persist in monetary restriction indefinitely no matter how bad the side-effects, so that inflation is bound to abate, then the perceptive price-setter or wage-negotiator will realize that if he nevertheless persists in making increases at the same old pace, he will find himself out ahead of the installed inflationary procession and will lose customers or jobs. People will moderate their price and wage demands, making the split relatively favorable to continued real activity.

It is only superficially paradoxical, then, that in two alternative situations with the same degree of monetary restraint, the situation in which the authorities are believed ready to tolerate severe recessionary side-effects will actually exhibit milder ones than the situation in which the authorities are suspected of irresolution. Subjectivists understand how intangible factors like these can affect outcomes under objectively similar conditions.

Capital and Interest Theory

Capital and interest theory is a particular case or application of general value theory, but its subjectivist aspects can conveniently occupy a section of their own.

Subjectivist insights help dispel some paradoxes cultivated by neo-Ricardians and neo-Marxists at Cambridge University. These paradoxes seem to impugn standard economic theory (particularly the marginal-productivity theory of factor remuneration), and by implication they call the entire logic of a market economy into question.

Reviewing the paradoxes in detail is unnecessary here (see Yeager 1976 and Garrison 1979). One much-employed arithmetical example describes two alternative techniques for producing a definite amount of some product. They involve different time-patterns of labor inputs. In each technique, compound interest accrues, so to speak, on the value of invested labor. Technique *A* is the cheaper at interest rates above 100 percent, *B* is cheaper at rates between 50 and 100 percent, and *A* is cheaper again at rates below 50 percent.

If a decline of the interest rate through one of these two critical levels brings a switch from the less to the more capital-intensive of the two techniques, which seems normal enough, then the switch to the other technique as the interest rate declines through the other switch point is paradoxical. If we view the latter switch in the opposite direction, an increased interest rate prompts a more intensive use of capital. Capital intensity can respond perversely to the interest rate.

Examples of such perversity seem not to depend on trickery in measuring the stock of capital. The physical specifications of a technique, including the timing of its inputs and its output, stay the same regardless of the interest rate

and regardless of whether the technique is actually in use. If one technique employs physically more capital than the other in relation to labor or to output at one switch point, then it still employs more at any other interest rate. This comparison remains valid with any convention for physically measuring the amount of capital, provided only that one does not change measurement conventions in mid-example. If the capital intensities of the two techniques are such that the switch between them at one critical interest rate is nonparadoxical, then the switch at the other must be paradoxical—a change in capital intensity in the *same* direction as the interest rate. We cannot deny perversity at both switch points—unless we abandon a purely physical conception of capital.

The paradox-mongers commit several faults. They slide from comparing alternative static states into speaking of *changes* in the interest rate and of *reponses* to those changes. They avoid specifying what supposedly determines the interest rate and what makes it change.

The key to dispelling the paradoxes, however, is the insight that capital—or whatever it is that the interest rate is the price of—cannot be measured in purely physical terms. One must appreciate the value aspect—the subjective aspect—of the thing whose price is the interest rate. It is convenient to conceive of that thing as a factor of production. Following Cassel (1903, pp. 41ff. and passim), we might name it "waiting." It is the tying up of value over time, which is necessary in all production processes. (This conceptualization is "convenient" not only because it conforms to reality and because it dispels the paradoxes but also because it displays parallels between how the interest rate and other factor prices are determined and what their functions are: it brings capital and interest theory comfortably into line with general microeconomic theory.)

In a physically specified production process, a reduced interest rate not only is a cheapening of the waiting (the tying up of value over time) that must be done but also reduces its required value-amount. It reduces the interest element in the notional prices of semifinished and capital goods for whose ripening into final consumer goods and services still further waiting must be done. Increased thrift is productive not only because it supplies more of the waiting required for production but also because, by lowering the interest rate, it reduces the amount of waiting required by any physically specified technique.

The amounts of waiting required by alternative physically specified techniques will in general decline in different degrees, which presents the possibility of reswitching between techniques, as in the example mentioned. When a decline in the interest rate brings an apparently perverse switch to a technique that is less capital-intensive by some physical criterion, the explanation is that the decline, although reducing the waiting-intensities of both techniques, reduces them differentially in such a way as to bring a larger reduction in the overall expense of producing by the adopted technique.

Preconceived insistence on measuring all factor quantities and factor-intensities in purely physical terms clashes with the fact of reality—or

arithmetic—that the amount of tying up of value over time required in achieving a physically specified result does indeed depend on that factor's own price. Not only the waiting-intensity of a physically specified processes but also the relative waiting-intensities of alternative processes really are affected by the interest rate. When a switch of technique occurs, the technique adopted really is the more economical on the whole, the inputs, waiting included, being valued at their prices. When a rise in the interest rate triggers a switch of techniques, the displace done has become *relatively* too waiting-intensive to remain economically viable. It is irrelevant as a criticism of economic theory that *by some other, inapplicable, criterion* the displaced technique counts as less capital-intensive.

Further discussion of the supposed paradoxes would display parallels between reswitching and the conceivable phenomenon of multiple internal rates of return in an investment option, which is hardly mysterious at all (Hirshleifer 1970, pp. 77–81). Already, though, I've said enough to show how a subjectivist conceptualization of the factor whose price is the interest rate can avoid fallacies flowing from a materialist or objective conceptualization.

"I Am More Subjectivist than Thou"

On a few points, some Austrian economists may not have been subjectivist enough. Murray Rothbard (1962, pp. 153–154) seems to think that a contract under which no property has yet changed hands—for example, an exchange of promises between a movie actor and a studio—is somehow less properly enforceable than a contract under which some payment has already been made. Blackmail is a less actionable offense than extortion through application or threat of physical force (1962, p. 443, n. 49). If a villain compels me to sell him my property at a mere token price under threat of ruining my reputation and my business by spreading vicious but plausible lies, his action is somehow less of a crime or tort than if he had instead threatened to kick me in the shins or trample one of my tomato plants (Rothbard 1982, especially pp. 121–127, 133–148, and personal correspondence). The material element in a transaction or a threat supposedly makes a great difference.

I may be at fault in not grasping the distinctions made in these examples, but it would be helpful to have further explanation of what superficially seems like an untypical lapse from subjectivism into materialism.

Far more common is the lapse into overstating the subjectivist position so badly as to risk discrediting it. F.A. Hayek is not himself to blame, of course, but a remark of his (1952, p. 31) has been quoted *ad nauseam* (for example by Ludwig Lachmann in Spadaro 1978, p. 1; Walter Grinder in his introduction to Lachman 1977, p. 23; and Littlechild 1979, p. 13). It has had a significance attributed to it that it simply cannot bear. "It is probably no exaggeration to say

that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism."

This proposition of doctrinal history could be strictly correct without its implying that every subjectivist step was an important advance. Moreover, past success with extending subjectivism in certain degrees and directions does not imply that any and all further extensions constitute valid contributions to economics.

A theorist is not necessarily entitled to take pride in being able to boast, "I am more subjectivist than thou." More important than subjectivism for its own sake is getting one's analysis straight.

The most sweeping extensions of subjectivism occur in remarks about a purely subjective theory of value, including a pure time-preference theory of the interest rate. Closely related remarks scorn the theory of mutual determination of economic magnitudes, the theory expounded by means of systems of simultaneous equations of general equilibrium. The ultrasubjectivists insist on monocausality instead. Causation supposedly runs in one direction only, *from* consumers' assessments of marginal utility and value and the relative utilities or values of future and present consumption *to* prices and the interest rate and sectoral and temporal patterns of resource allocation and production (Rothbard 1962, pp. 302–303).

Taken with uncharitable literalness, the ultrasubjectivist slogans imply that people's feelings and assessments have *everything* to do and the realities of nature, science, and technology have *nothing* to do with determining prices and interest rates and all interrelated economic magnitudes. Actually, these objective realities do interact with people's tastes. They condition how abundant various resources and goods are, or could be made to be, and so help determine *marginal* utilities.

For two reasons I know that the ultrasubjectivists do not really believe all they say. First, the propositions in question, taken literally, are too preposterous for *anyone* to believe. Second, subjectivist writings sometimes discuss production functions, the principle of diminishing marginal physical product, and other physical relations, conceding some importance to such matters.

What I am objecting to, then, is not so much substantive beliefs as, rather, the willful use of misleading language, language that sometimes misleads even its users, language adopted on the presupposition that subjectivism is good and more of it is better.

Subjectivists may contend that physical reality counts only *through* people's subjective perceptions of it and the valuations they make in accord with it. But that contention does not banish the influence of objective reality. Businessmen (and consumers) who perceive reality correctly will thrive better on the market than those who misperceive it. A kind of natural selection sees to it that objective reality does get taken into account.

Full-dress argument for purely subjective value and interest theory and for unidirectional causality appears rarely in print, probably because such notions

are not defensible. They do keep being asserted in seminars, conversation, and correspondence, however, as I for one can testify and as candid Austrians will presumably acknowledge. Furthermore, such assertions do appear in authoritative Austrian publications. (For example, see Rothbard 1962, pp. 117, 122, 293, 307, 332, 363–364, 452, n. 16, 455, n. 12, 457, n. 27, 508, 528, 557, 893, n. 14; Rothbard, introduction to Fetter 1977; Taylor 1980, pp. 26, 32, 36, 47, 50; and Shand 1984, pp. 23, 44, 45, 54, 56. Garrison 1979, pp. 220–221, avoids the word "pure" in recommending a time-preference theory of interest and a subjectivist theory of value in general, but he does contrast them favorably with what he calls "eclectic" theories, such as the "standard Fisherian" theory of interest. For outright avowal of a pure-time-preference interest theory, see Kirzner's manuscript.)

The point repeatedly turns up in Austrian discussions that goods that people consider different from each other are indeed different goods, no matter how closely they resemble each other physically. This point is not downright fallacious, but the significance attributed to it is excessive, and its use in question-begging ways is likely to repel mainstream economists. An example is the contention that when a manufacturer sells essentially the same good under different labels at different prices, he is nevertheless not practicing price discrimination; for the goods bearing the different labels are considered by the consumers to be different goods, which *makes* them different goods in all economically relevant senses. The manufacturer is supposedly just charging different prices for different things.

Quite probably his practice is not one that perceptive economists and social philosophers would want to supress by force of law; but we should not let our policy judgments, any more than our subjectivist methodological preconceptions, dictate our economic analysis or remove certain questions from its scope. It may be more fruitful to recognize that price discrimination is indeed going on, with the different labels being used to separate customers according to their demand elasticities.

Crypticism sometimes accompanies insistence on pure subjectivism. An example is a line of attack taken against mainstream interest theory, which enlists considerations of intertemporal transformability (that is, the *productivity* of investment) as well as the subjective time-preference element. This theory is epitomized by Irving Fisher's diagram (1930, pp. 234ff., Hirshleifer 1970, passim) showing a transformation curve between present and future goods (or consumption), as well as a map of indifference curves between present and future goods. A familiar Austrian objection is to insist that the diagram, specifically the transformation curve, fails to make the required distinction between physical productivity and value productivity.

If not deliberate obscurantism, this objection does indicate misunderstanding of Fisher's theory (or impatience with or prejudice against it). Of course, some technological change that increases the physical productivity of investment

in some specific line of production, say widgets, may not increase the value productivity of such investment. The increased physical amount of future widgets obtainable for a given present sacrifice may indeed have a reduced total value in terms of other goods and services in general (the future demand for widgets may be price-inelastic). Some of the new opportunities created by technological change will indeed be unattractive to investors. In invoking the greater productivity of more roundabout methods of production, Böhm-Bawerk (1959, II, 82–84, III, 45–56) was referring to "well-chosen" or "skillfully chosen" or "wisely selected" methods; and a similar stipulation applies to the present case. Technological changes that increase the physical productivity of particular roundabout methods broaden the range of opportunities among which investors can exercise wise choice, and implementing some of those choices does add to the demand for waiting, tending to bid up the interest rate.

The ultrasubjectivist objection is open to another strand of reply. It is illegtimate to invoke a contrast between physical productivity and value productivity by restricting the discussion to examples of sacrificing *specific* present goods to get more future goods of the same kind. What is conveyed by borrowing and lending (and other transactions in waiting) is not command over investible resources that would otherwise have gone into producing specific present goods but command over resources in general. It *is* legitimate to do what Fisher's diagram helps us to do: to conceive of present goods in general being sacrificed for larger amounts of future goods in general.

With their admirable general emphasis on process and on the decisions and actions of individual persons, Austrian economists should not rest content with attacks on mainstream capital and interest theory that rely on cryptic allusions to a distinction between physical productivity and value productivity (or, similarly, to assertions that factor prices will adjust). They should defend their pure subjectivism on this topic, if they can, with a detailed process analysis of how persons act.

Next I turn to exaggerations in the subjectivist cost doctrines of Buchanan and the London school. These theorists interpret the cost of a particular course of action as the next-best course perceived and forgone by the decisionmaker. Ronald Coase (quoted with approval in Buchanan 1969, p. 28) says that "The cost of doing anything consists of the receipts which would have been obtained if that particular decision had not been taken. . . . To cover costs and to maximize profits are essentially two ways of expressing the same phenomenon."

Well, suppose the best course of action open to me is, in my judgment, to open a restaurant of a quite specific type in a specific location. The next-best course, then, is presumably to open a restaurant identical in all but some trivial detail, such as the particular hue of green of the lampshades. If so, the cost of the precise restaurant chosen is presumably an all but identical restaurant worth to me, in my judgment, almost fully as much. Generalizing, the cost of a chosen thing or course of action is very nearly the full value that the decisionmaker attributes to it.

My counterexample to the Coase-Buchanan cost concept may seem frivolous, but it raises a serious question. How far from identical to the chosen course of action must the next best alternative be to count as a distinct alternative? The point conveyed by questions like this is that either radical error or sterile word-jugging is afoot. (Nozick, 1977, especially pp. 372–373, expresses some compatible though not identical doubts about subjectivist concepts of cost and preference.)

More ordinary concepts of cost, however, are meaningful, including the interpretation of money cost in a particular line of production as a way of conveying information to decisionmakers in it about conditions (including personal tastes) in other sectors of the economy.

Buchanan (1969, p. 43) draws six implications from his choice-bound conception of cost, and Littlechild (in Spadaro 1978, pp. 82–83) quotes them all with apparent approval. I'll quote and comment only on the first, second, and fifth.

1. Most importantly, cost must be borne exclusively by the decisionmaker; it is not possible for cost to be shifted to or imposed on others.
2. Cost is subjective; it exists in the mind of the decisionmaker and nowhere else.
5. Cost cannot be measured by someone other than the decsionmaker because there is no way that subjective experience can be directly observed.

As for the first word and second implications, of course cost can be imposed on others in quite ordinary senses of those words; it is not always kept inside the mind of the decisionmaker. What about adverse externalities—smoke damage and the like? What about losses imposed on stockholders by an incompetent business management? What about the costs that a government imposes on a population by taxation or inflation (or its command of resources, however financed)? Isn't it notoriously true that a government official need not personally bear all the costs of his decisions? What about involuntarily drafted soldiers? Even an ordinary business decision has objective aspects in the sense that the resources devoted to the chosen activity are withdrawn or withheld from other activities.

Of course the costs incurred in these examples have subjective aspects also—in the minds or the perceptions of the draftees and of persons who would have been consumers of the goods from whose production the resources in question are competed away. What is odd is the contention that no cost occurs except subjectively and in the mind of the decisonmaker alone.

As for the fifth implication, it is true that cost cannot be measured—not measured precisely, that is, whether by the decisionmaker or someone else. But measureability itself is evidently what is at issue, not the admitted imprecision of measurement of cost, as of other economic magnitudes. The money costs of producing a definite amount of some product, or the marginal money cost of its production, can indeed be estimated. Estimates of money cost take into

account, in particular, the prices multiplied by their quantities of the inputs requried to produce specified amounts of marginal amounts of the good in question. True, cost accounting has no objective and infallible rules and must employ conventions. For this and other reasons, estimates of money cost are just that—estimates. But they are not totally arbitrary; they are not meaningless.

Money costs of production, as well as the input prices that enter into estimating them, play a vital role in conveying information to particular business decisionmakers about conditions in other sectors of the economy. Money costs and prices reflect—do not measure precisely, but reflect—the values and perhaps even the utilities attributed by consumers to the goods and services whose production is foregone to make the required inputs available to the particular line of production whose money costs are in question. (Money costs and factor prices also reflect, as noted above, the preferences and attitudes of workers and investors.)

It is therefore subversive to the understanding of the logic of a price system to maintain that cost is entirely subjective, falls entirely on the decisionmaker, and cannot be felt by anyone else.

Perhaps this risk of subversiveness is being run in a good cause. A healthy skepticism is in order about socialism, nationalization, and the imposition of cost rules on nationalized and private enterprises. However, we should beware of trying to obtain substantive conclusions from methodological preconceptions. Sound conclusions and policy judgments incur discredit from association with questionable verbal maneuvers.

Valid subjectivist insights join with the fact that general equilibrium never actually prevails in recommending skepticism about policies that would unnecessarily impose imitation markets or the mere feigning of market processes. The fact of disequilibrium prices does not, of course, recommend junking the market system in favor of something else. Market prices, although not precise indicators of the trade-offs posed by reality, are at least under the pressures of supply and demand and entrepreneurial alertness to become more nearly accurate measures.

The recommended skepticism does have some application, however, with regard to compensation for seizures under eminent domain, damage awards in tort cases, and the development of case law. It also has some application with regard to benefit–cost studies. Personal rights, not such exercises, should of course dominate many policy decisions.

Again, though, I want to warn against overstatement. Admittedly, costs and benefits are largely subjective, market prices are at disequilibrium levels, and other bases of making estimates are innaccurate also. But what is to be done when some decision or other has to be made—about a new airport, a subway system, a dam, or a proposed environmental regulation? Does one simply ramble on about how imponderable everything is, or does one try in good faith to quantify benefits and costs? Of course the estimates will be crude, even

very crude, but perhaps the preponderance of benefits or costs will turn out great enough to be unmistakable anyway. In any case, expecting the advocates of each of the possible decisions to quantify their assertions and lay them out for scrutiny will impose a healthy discipline on the arguments made. It will weaken the relative influence of sheer poetry, oratory, demagogy, and political maneuvering.

My last example of subjectivism exaggerated and abused is what even some members of the Austrian school have identified as a "nihilism" about economic theory. Nihilistic writings stress the unknowability of the future, the dependence of market behavior on divergent and vague and ever-changing subjective expectations, the "kaleidic" nature of the economic world, and the poor basis for any belief that market forces are tending to work toward rather than away from equilibrium (if, indeed, equilibrium has any meaning). Some of these assertions are relevant enough in particular contexts, but ultrasubjectivists bandy them sweepingly about as if willing to cast discredit not merely on attempts to foretell the future but even on scientific predictions of the if-this-then-that type. It is hard to imagine why an economist who thus wallows in unknowability continues to represent himself as an economist at all. (One hunch: he may think he has an all-purpose methodological weapon for striking down whatever strand of analysis or policy argument he happens not to like. But then his own analysis and arguments—if he has any—would be equally vulnerable.)

There is no point trying to conceal from knowledgable Austrian readers what economist I particularly have in mind, so I'll refer to the writings of Ludwig Lachmann listed in the references (including his articles in Dolan 1976 and Spadaro 1978), as well as Lachmann's admiration of Shackle's writings on the imponderability of the future. Also see O'Driscoll's refreshing criticism (in Spadaro 1978, especially pp. 128–134) of Lachmann for practically repudiating the concepts of the market's coordinating processes and of spontaneous order.

Most recently, Lachmann has shown evident delight in the phrase "dynamic subjectivism." "[A]t least in the history of Austrian doctrine, subjectivism has become progressively more dynamic" (1985, p. 2). "To Austrians, of all people, committed to radical subjectivism, the news of the move from static to dynamic subjectivism should be welcome news" (1985, pp. 1–2).

The word "committed" is revealing. Instead of the scientific attitude, Lachmann evidently values commitment—commitment to a doctrine or to a methodology. Recalling Fritz Machlup's essay on "Statics and Dynamics: Kaleidoscopic Words" (1959/1975), I wish Machlup were alive today to heap onto "dynamic subjectivism" the ridicule it deserves.

Concluding Exhortations

As Gustav Cassel wrote in a book first published over sixty years ago, it was an absurd waste of intellectual energy for economists still to be disputing

whether prices were determined by objective factors or subjective factors (1967, p. 146). Referring to interest theory in particular, Irving Fisher (1930, p. 312) called it "a scandal in economic science" that two schools were still crossing swords on the supposed issue. Prices, including interest rates, are determined by factors of both kinds. As noted earlier, saying so does not mean identifying objective factors with the supply side and subjective factors with the demand side of markets, nor vice versa. Both sorts of factors operate on both sides.

For a grasp of how subjective and objective factors thoroughly intertwine in a system of economic interdependence, a study of the simplified general-equilibrium equation system presented in Cassel's (1967) chapter 4 is well worthwhile. The reader should pay attention, among other things, to the role of the technical coefficients, that is, coefficients indicating the amounts of each input used in producing a unit of each product. Cassel does not need to suppose, of course, that these coefficients are rigidly determined solely by nature and technology. On the contrary, an elaboration of his system can take account of how many of these coefficients are themselves variable and subject to choice in response to prices, which are themselves determined in the system of mutual interdependence.

Study of Cassel's chapter (or similar expositions) should also disabuse the open-minded reader of any lingering belief in unidirectional causality. Mutual determination of economic variables is a fact of reality; and no blanket prejudice against general-equilibrium theory, which does afford important insights, should blind one to that fact.

Of course, when one investigates the consequences of a specified change—say in tastes, technology, taxes, or a fixed exchange rate—it is not enough (nor, realistically, is it possible) to solve a general-equilibrium equation system with one or more parameters changed and then compare the new and old solutions. An adequate analysis traces out, perhaps even sequentially, the reactions of the persons invloved and shows the reasonableness of their theorized reactions from their own points of view. But insisting on such a causal analysis does not presuppose belief in monocausality. The specified disturbance does indeed impinge on a system of mutual determination. Both the new and old constellations of economic activities result from multidirectional interactions of a great many subjective and objective factors.

Austrian economists have important messages to convey about subjective elements that, on all sides, pervade market behavior, signals, and outcomes. Their insights have important implications for policy. It is a shame to impede communication by remarks about purely subjective value theory, pure-time-preference interest theory, and the alleged fallacy of multidirectional causality.

Austrians cannot really mean what such remarks, taken literally, convey. They mislead and repel people outside the inner circle. The main goal of the Austrians is presumably not to recite slogans that reinforce cozy feelings of camaraderie among members of an elite. Instead, their goal, shared with other

economists who wish well for mankind, is presumably to gain and communicate understanding of economic (and political) processes in the world as it is, has been, and potentially could be. They want to extend and communicate such knowledge so as to increase whatever chance there may be that man's deepest values will ultimately prevail. Respect for the straightforward meanings of words will aid in that endeavor.

Besides shunning deceptive slogans, Austrian economists should beware of surrounding their doctrines with a fog of methodological preachments, preachments suggestive, moreover, of pervasive sniping and sour grapes (as, for example, about the elegant formal theory that some other economists rightly or wrongly delight in). Above all, Austrians should avoid discrediting the sound core of their doctrine by contaminating it with bits of downright and readily exposable error (or what comes across as error on any straightforward reading of the words used). Austrians have positive contributions to make and should make them.

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