

# THE OLD AND NEW SUBJECTIVISM

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## THE OLD AND NEW SUBJECTIVISM

### The Old Subjectivism

The old subjectivism refers to the subjective theory of value which was introduced to economics in the mid-19th century.<sup>1</sup> Prior to Mises' treatise, subjectivism referred to the assumptions that the economist makes about subjects. A simple example is the assumption about subjective *wants*. When the economist assumes that wants are subjective he implies two things. First he implies that the wants of different subjects may be different. Second, he implies that there can be no restrictions on the type of wants that are admissible so long as they represent, or help the economist interpret, some aspect of reality in which he is interested. It is improper, for example, for the economist to maintain that the wants of a sadist should not be accounted for in the same way as the wants of a priest, provided the economist is interested in interactions involving both kinds of people.

Besides wants, the old subjectivism may be applied to *expectations*. In this event, we assume that the expectations of different individuals may be different. Whatever expectations are reasonable to assume are admissible.<sup>2</sup> Hayek (1945) sought to extend subjectivism at this level to *knowledge* by proposing that different individuals in a market economy have particular knowledge

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<sup>1</sup>See chapter 4 in Mises, 1981.

<sup>2</sup>In his 1976 paper and his paper on Keynes (1983), Lachmann attributes subjectivism with respect to expectations to Keynes and to Shackle. Lachmann's own paper on expectations (1943) would also seem to qualify.

about economic conditions.<sup>3</sup> Lachmann and Kirzner, perhaps following Hayek, have applied the old subjectivism to *plans*.<sup>4</sup>

In the concepts of wants, expectations, knowledge and plans; one has more or less exhausted the characteristics that subjectivist economists have employed to distinguish one economic actor from another. But if it is reasonable to identify other characteristics, they also can be treated subjectively.

The revolutionary nature of the old subjectivism in its time can be seen by comparing it with the view that is usually attributed to the classical economists and which it was intended to replace. In classical economics, the behavior of subjects was thought to be governed by the forces of nature. The classical economists searched for laws of economic interaction – inevitable outcomes of economic interaction that were beyond the control of the actors.

The old subjectivist economists did not deny that there were outcomes of interaction that were beyond the control of any particular actor. But they did not believe that the causes of these outcomes could be determined in the same way as the causes of an outcome of the forces of nature. As they saw it economic interaction is an outcome of the choices of the separate economic actors. To understand a particular outcome, it is necessary to understand the choices of each of the individuals, or subjects, who contribute to that outcome. Hence, the economist's attempt to understand should be conducted from a subjectivist stance.

Some old subjectivists emphasize the value neutrality of subjectivism. The old subjectivism limits the freedom of the economist to use his own value judgments. In defending his assumptions about subjects' wants, expectations, knowledge, and plans; he must give plausible situational reasons.<sup>5</sup>

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<sup>3</sup>Hayek probably followed Menger (1871), who stated that for a thing to be a good, there must be knowledge of how it can be used to satisfy wants. This idea undoubtedly influenced many writers, including the Americans who refined the concept of the entrepreneur in relation to J. B. Clark's image of the static equilibrium.

<sup>4</sup>For economic writings that are based on the assumption of the subjectivity of plans, see Kirzner (1966), Lachmann (1971) and Lachmann (1978). The idea for making the plan the foundation for economic analysis may have first been suggested by Felix Kaufmann, a participant in Mises' Vienna seminars. Kaufmann says: "According to the subjective theory of value the central economic problems, i.e., those of price determination, can only be tackled with the prospect of achieving useful results if the economic activity to which they refer is traced back to an economic plan." (1933, p. 395) The term plan was also used in the socialist planning debate of the 1930s, which involved Mises and Hayek (Vaughn, 1980). Hayek frequently used the term plan in his first paper on knowledge (Hayek, 1937, p. 41).

<sup>5</sup>A situational reason is one that describes the wants, abilities, and knowledge in terms of their origin and how they currently manifest themselves.

## The New Subjectivism

Mises discovered the new subjectivism by trying to understand the method of the old subjectivists. The old subjectivists sought to explain economic interaction in terms of their assumptions about subjects' characteristics: wants, abilities, expectations, knowledge and plans of subjects. A deeper examination shows that, by rejecting the classical notion of natural law, they were studying a class of phenomena that is fundamentally different from that of the natural sciences. We can call this class *distinctly human action*. We use this term to distinguish this class from other characteristics of human beings and non-humans. Human beings share many characteristics with other objects. They occupy space and their movements can be observed and measured. They also share characteristics with other animals. They have sensations, instincts, the want for food and comforts, and imprinted behavior, some of which is suitable for helping to satisfying wants. Distinctly human action refers to precisely those characteristics that human beings do not have in common with other physical objects and animals.

To describe a human being's actions, the subjectivist economists used the terms "wants," "abilities," "expectations," "knowledge," and "plans." But the fundamental class of phenomena that they had in mind was action. Mises saw that economists could improve their ability to deal with the new class of phenomena by deriving all definitions of terms from the fundamental proposition that human beings act. To the extent that this can be done, the terms will be useful in the study of the new class. To the extent it cannot, they should be discarded or replaced.

## Methodological Apriorism

Knowledge derived from the idea that human beings act can be called *a priori* knowledge, since every normal human being takes this idea for granted even though he may not agree with others on a means of articulating it. A priori knowledge of this type has a status similar to the primitive concepts (a priori assumptions) in mathematics. However, the knowledge is useful in a very different way. Whereas a priori assumptions in mathematics are useful in describing objective, physical phenomena; the a priori assumption that human beings act is useful in describing subjectively interpreted human action and interaction.

Recognizing the a priori nature of knowledge about action, Mises called this approach *methodological apriorism*.<sup>6</sup> Because methodological apriorism is actually the descendant of the old subjectivist approach to economic phenomena, a good term for it is "the new subjectivism." Thus the new subjectivism and Mises' methodological apriorism are identical at the most fundamental level.

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<sup>6</sup>See Mises, 1966, p. 32-36 and 64-69.

## The Definition of Economic Phenomena

Mises pointed out that the old subjectivists had revolutionized the definition of economic phenomena by limiting it to subjectively-defined rational action, or purposeful behavior.<sup>7</sup> Thus, he conceived of the theory of human action as *praxeology*. Praxeological reasoning consists of using logic (as opposed to mathematics or scientific observation) to construct images of human action and interaction.

Interaction refers to how actors anticipate, react, and adjust to each other's wants, abilities, knowledge and plans. We define interaction as *economic* when it is voluntary and when it occurs under the *economic conditions* of private property rights, specialization and the use of money. Thus, we begin economics by constructing definitions based on the concept of distinctly human action and the assumption that the economic conditions prevail. We can call such definitions the core of economic theory. In building this core, we aim to make definitions that are applicable to every imaginable physical world in which individuals interact. To accomplish this, we try to imagine the interaction that would occur in every conceivable physical world. Consider, for example, the subjectivist definition of uncertainty. In economic theory, uncertainty means *intersubjective uncertainty*. This is the uncertainty that individuals have about each others' wants, abilities and knowledge (i.e., about their distinctly human action). As subjectivists, we are only secondarily interested in "uncertainty" about the physical world, or risk. Risk becomes important only when we proceed to apply the theory.

We cannot, of course, succeed in abstracting completely from the physical world. Nevertheless, the procedure of attempting to do so is of the utmost importance. Without it, we would be less able to benefit from the new branch of knowledge that the early writers on economics discovered. We would confuse that new knowledge with knowledge of other classes of phenomena. Just as important, we would be less able to advance the new knowledge.

In constructing the core of economic theory, we also attempt to abstract from the political and other non-economic environments. There is human interaction in these environments also and the study of it is part of praxeology. However, in abstracting from them, we follow the tradition of our economics predecessors. It is not so easy to conceptually separate the phenomena of economics from the phenomena of the other branches of the theory of action.<sup>8</sup>

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<sup>7</sup>Mises, 1966, p. 2-3. He preferred the term "purposeful behavior," or merely "action," on the grounds that the term "action" implies "rational" (Mises, p. 19).

<sup>8</sup>in the absence of a specific physical world. Or, what amounts to the same thing, we try to identify interaction

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