

On Yeager's "Why Subjectivism?"

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Ordinarily, composing a critique of a published journal article presents no unusual difficulties: one simply takes aim and lets fly. But the case is somewhat different when the writer is also coeditor of the journal in question. By engaging in such criticism, he opens himself up to the objection "If the article is so bad that it needs a rejoinder, why did you allow it to appear in the first place?" Moreover, "Given that you accepted it for publication, don't you have an obligation to defend it from attack, rather than denigrate it yourself?" The implication is that the present writer either has changed his mind about the piece or is guilty of self-contradiction, neither a very satisfactory state of affairs.

In this case, however, there are two possible responses. First, the *Review of Austrian Economics* openly courts opinions specifically *not* in keeping with the views of its editors, provided only that they are at least relevant to Austrianism.¹ Agreement with editorial perspectives, then, is certainly not a condition for publication. Second, just like the "little girl with the curl on her forehead," when "Why Subjectivism?" is good, it is very, very good, but when it is bad, it is horrid.² However, in the (subjective) judgment of the editors, the good far outweighs the bad. For these two reasons, the present critique, which will confine itself entirely to the negative aspects of Yeager's valuable contribution, does not imply self-contradiction or fickleness on the part of its author.

What, then, are the problems with Yeager on subjectivism? There are several, beginning for the most part on page 21 (all unidentified citations shall refer to this one article) with the section entitled "I Am More Subjectivist than Thou." I shall consider them roughly in the order they appear in the original article.

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Promises

Professor Yeager claims that Murray Rothbard is “not subjectivist enough” (p. 21) with regard to promises. In Rothbard’s view, unless and until some actual property has changed hands, a so-called contract is merely a promise or a set of promises.³ In a libertarian society, which Rothbard is attempting to analyze, force can only be used in response to a prior use of force, such as theft. Since no property can be alienated with a mere promise, a broken contract where no property has changed hands cannot amount to theft. Hence, while a broken promise may be immoral, it is not actionable in a free society. The reason an actual property transfer is so important is that if it occurs, and the other party does not live up to his part of the bargain, it is as if he stole that which he received in the trade.

Yeager sees the insistence on tangible property having changed hands as an illicit deviation from proper subjectivism, which, presumably, would not distinguish between contracts on the basis of whether or not physical property has changed hands.

There are several difficulties with this view. First of all, it fails to take full cognizance of the normative-positive distinction. The appropriate level of subjectivism, presumably, is an issue in positive economics. In sharp contrast, the legal status of a broken promise in a libertarian society is a normative matter. Rothbard, in other words, was engaging in a normative inquiry; he thus must be criticized on that ground if his point is to be refuted.

Second, the theory promulgated by Yeager would not allow us to distinguish between cases where theft had and had not occurred. If no property had been transferred, and the breach was nevertheless actionable, according to subjectivist theory (even the version of it espoused by Yeager), there would be virtually no limit to what the plaintiff could claim. His costs need not be limited to out-of-pocket expenses, but could include what he had hoped to gain from the contract. And what of the broken promise to marry? Yeager’s view would appear to be at least compatible with holding the promisor to his word.⁴

Blackmail and Extortion

Yeager quite rightly sees the distinction between blackmail and extortion as the difference between threatening that which one has a right to do (engage in free speech or gossip) and that which one does not have the right to enact (initiate physical force).⁵ But he incorrectly interprets this difference as depending upon “the material element in a transaction” (page 21). The distinc-

tion is between invasion or noninvasion, not between material and immaterial. Fraud, for example, is "nonmaterial," but since it amounts to theft or invasion, its threat would be the properly proscribed extortion, not blackmail, which should be legalized, on this account. But is not the threat of "ruining my reputation and my business by spreading vicious but plausible lies" (p. 21) an invasion of the person thus threatened, asks Yeager? No, it is not, because, paradoxically, none of us can ever own the reputations that refer to ourselves. On the contrary, the reputation of each of us consists of the thoughts of other people about us. Since we cannot own the thoughts of other people, we cannot own "our" reputations.⁶

Ultrasubjectivity

In Yeager's categorization of the various schools of thought with regard to subjectivism, there are only three. First are the mainstream *nonsubjectivists* of the neoclassical or orthodox school. (These are, presumably, the people against whom he directs his magnificently insightful remarks in the bulk of the article, pp. 5–21.) Then comes Yeager, who may be self-defined as a "moderate" or "reasonable" subjectivist (a person who carries subjectivism so far and only so far—to the proper degree, that is). Third are the ultra- or extreme subjectivists, such as Rothbard, Kirzner, and Buchanan, who carry a good thing rather too far.

I should like to suggest an alternative classification:

1. The *nonsubjectivists*
2. The *moderate subjectivists* (i.e., Yeager)
3. The *Austrian subjectivists* (i.e., Rothbard, Kirzner, Buchanan)
4. The *ultra- or extreme subjectivists* (i.e., Jack Wiseman)⁷ G.L.S. Shackle,⁸ Ludwig Lachmann,⁹ and "hermeneuticians" associated with the market process group located at George Mason University).

Although Yeager does not explicitly make the distinction between the last two categories, I cannot imagine that he would be completely unreceptive to it, as he himself is aware that "even some members of the Austrian school" have equated "nihilism" with an exaggerated form of subjectivism (p. 27). Unfortunately, however, Yeager's failure to make this distinction a more central part of his analysis renders it less incisive than it otherwise might have been, especially with regard to moncausality, the subject to which I now turn my attention.

Monocausality

Austrians do indeed at times embrace a monocausal theory of determination, rather than the more fashionable mainstream view that all economic magnitudes are subject to a system of mutual determination. If Yeager wishes to show why this is wrong, it is incumbent upon him to do more than merely claim that such a view is “too preposterous for *anyone* to believe” (p. 22). It is also singularly unhelpful to maintain that “Austrians cannot really mean what such remarks, taken literally, convey” (p. 28). He cites Rothbard in this context, who gives, in my opinion, a perfectly coherent account of monocausality.¹⁰ Certainly, no evidence is adduced to show that Rothbard did not really mean what he said. Far better than to launch these *ad hominem* attacks would have been to critically analyze the concept itself.

But this Austrian view does not mean that the “realities of nature, science, and technology have *nothing* to do with determining prices and interest rates” (p. 22, emphasis in original). On the contrary, as Yeager himself later seems to grant to the Austrians, “physical reality counts only *through* people’s subjective perceptions of it” (p. 22; emphasis in original). In contrast, it is only the ultrasubjectivists, category D, not the Austrians, category C, who speak almost as if they wish to “banish the influence of objective reality” (p. 22).

Pure Time Preference Theory of Interest

In Yeager’s view, the Austrian time preference theory of interest is a monocausal one. This is particularly unfortunate, he states, in view of the fact that the productivity of capital, or investment, also determines the interest rate. But there are several drawbacks in this perspective. Rothbard gives an example where the interest rate remains the same, even though physical productivity rises. He argues that rising productivity in the physical sense does not imply that it will rise in value terms.¹¹ Yeager replies that he is referring to “well-chosen” or “wisely selected” (p. 24) improvements, not to all changes that enhance physical productivity. This is a valid response, but it is somewhat tangential to Rothbard’s point, which is that the interest rate pertains to the price spread between the different levels in the structure of production, and that this will be invariant (only in Evenly Rotating Economy [ERE] of course) to the value of production.

Further, why the invidious distinction between the factors of production? When the marginal revenue product of land or labor changes, we do not say that this has any necessary implications for interest rate alterations; rather, it is commonly held that this only impinges on land rentals and wages. Why then, when the marginal efficiency of capital changes, do we not analyze this

in terms of the rental price of the relevant machines? Roger Garrison said in a brilliant refutation of one version of the Fisher-inspired time preference plus productivity of capital theory of interest rate determination, "all rates are not rates of interest."¹² In like manner, we can assert that not all changes in productivity, even "skillfully chosen ones" (p. 24), are changes in the interest rate. Yeager sees the interest rates as the price of something or other: "whatever it is that the interest rate is the price of . . . the thing whose price is the interest rate" (p. 20).¹³ Perhaps this explains the Fisher-inspired seizing upon of capital as the thing of which the interest rate can be the price. In sharp contrast, however, exponents of the pure time preference theory see the interest rate, not as a price of anything in particular, but rather as a praxeological concept which indicates that man acts.¹⁴

Even if we accept the importance of the value productivity of a capital good, why does the price of the capital good not rise, in equilibrium, to absorb all future returns without any money left over for interest payments? The reason, for the Austrians, is the primordial fact of time preference. The point is that, given Yeager's productivity theory, one would expect that the price of machinery would be bid up to fully equal the sum, that is, the *non-discounted* value, of the expected future income stream.

In short, without time preference, there is no reason why, say, a machine with expected future rents, or marginal productivities, of \$10,000 per year and a life of ten years should not be priced at \$100,000! Without time preference, marginal productivity will be fully reflected in rents, and rents would be the sum of expected future returns (or rents) without discount. Hence, there would be no return on the capitalist's investment.

And what of a pure consumer society, one without any production at all? It would still have a loan market, with a time-preference-created interest rate, which, by stipulation, could not possibly have anything to do with productivity of capital. Therefore, it must be conceded that time preference is sufficient to establish the interest rate.¹⁵

I cannot conclude the discussion of this topic without commenting on Yeager's statement "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" (pp. 22–23). Apart from being needlessly pejorative, this statement is exceedingly strange in view of the fact that he immediately goes on to cite literally several dozen instances where such views do indeed appear in print (p. 23)!

Different Goods

Next, Yeager criticizes Austrians for insisting "that goods that people consider different from each other are indeed different goods, no matter how

closely they resemble each other physically" (p. 23). He urges Austrians to give up their contention "that when a manufacturer sells essentially the same good under different labels at different prices, he is nevertheless not practicing price discrimination" (p. 23). But this will not do at all. The key word, here, is *essentially*. In whose mind is the determination of sameness to be made? The Austrians answer "In the mind of the economic actor," and this would appear to make good sense. Consider the case of the "pet rock." Here was a case of an identical good (identical to the garden variety of rock which can be found underfoot) if ever there was one. Yet, because of insightful entrepreneurial and marketing skill, the purveyors of this item were actually able to sell it to the public for a price. From the Austrian vantage point, such an occurrence is easily explicable: the purchasers of the item saw a relevant difference between the "domesticated" and "wild" versions of rock. How, then, can Yeager explain this phenomenon?

Of relevance to the preceding interest rate discussion is the classical case of ice in summer versus ice in winter. Surely, no more physically identical goods can be imagined. Yet it is of the utmost importance that account be taken of the different evaluations placed on them by actual market participants. At stake is no less than the claim of a negative rate of interest.¹⁶ Is this "excessive . . . or question begging?" (p. 23). Hardly. And yet it must readily be admitted that such a tack is indeed "likely to repel mainstream economists" (p. 23). However, despite Yeager's concern, this is not a subject that deserves serious consideration in a scholarly publication. The avowed purpose of Austrian economics, and of all other schools of thought as well, is to discern the truth, let the chips fall where they may. Austrians, as scientists, must "follow their star," wherever it leads them, even if this is likely to repel economists mired in orthodoxy.

Alternative Costs

Yeager next takes up the cudgels against Coase and Buchanan, who define alternative costs in terms of the next best course of action forgone by the decisionmaker. He posits a "counter example," in which the next best course of action differs from the first best in only a trivial manner, the color of the lampshades in a restaurant (p. 24). Driving the point home, Yeager challenges, "How far from identical to the chosen course of action must the next best alternative be to count as a distinct alternative?" (p. 25).

What kind of answer does Yeager expect? Surely, he would be unsatisfied with the rejoinder that the chosen and alternative courses of action must differ by 2.347 units if they are to be counted as distinct. "Units of what?" is the logical response to that. The only answer consistent with Austrian subjectivism (the third category) is that it is up to the individual evaluator. For

most people, on most occasions, a restaurant identical in every other respect except the color of the lampshades would not be considered an alternative cost. But for some people, under special circumstances, it might be. So this is no counterexample at all.

One does not like to harp on this point, but Yeager's treatment of this topic is marred by his attempt to discredit Buchanan's motivation for taking the stance he does (pp. 17–18). It is of course conceivable that Buchanan was led to his views of alternative costs out of political considerations (an attempt to undermine the case for central planning). But Yeager offers not a single shred of evidence for this "conjecture," and until he does, it is improper to make this accusation. Further, even if it were true that Buchanan's views were politically motivated, this is still irrelevant to their truth. That is the basic fallacy of the *argumentum ad hominem*.

In an aside, Yeager mentions some "compatible though not identical doubts" (p. 25) about Austrian subjectivist theories of alternative cost, expressed by Robert Nozick.¹⁷ Since he does not go into details, we shall content ourselves by merely mentioning that this critique has already been answered in the literature.¹⁸

Implications of Cost

Yeager next takes Buchanan to task for three of his six choice-bound implications of alternative cost. They are as follows:

1. Most important, 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 decisionmaker because there is no way that subjective experience can be directly observed.¹⁹

With regard to numbers 1 and 2, Yeager forcefully asserts that costs can indeed "be imposed on others in quite ordinary senses of those words" (p. 25). But that is the exact difficulty. Yes, in ordinary language, costs can be imposed on other people, but alternative costs are precisely *not* the typical usage of the words. The point is that there is an equivocation here. Buchanan is correct in maintaining that costs in the sense of alternative costs (the next best opportunity forgone by the economic actor) *cannot* be imposed on other people. How on earth could they be? They consist merely of contrary-to-fact conditionals. Says the economic actor, in effect, to himself: "If I hadn't spent

my money on *A*, I could have had *B*." How could *B* possibly impose anything on anyone else, when *B* does not even exist, apart from being a figment of the economic actor's imagination? Yeager, too, is correct in asserting that costs in the ordinary sense of the word can indeed be imposed on other people (such as the examples he gives on p. 25). But just because there is truth in this claim, it by no means follows that Buchanan is mistaken. Both statements are consistent with the facts and, thus, Yeager's version of the truth completely fails to overturn Buchanan's.

In like manner, Yeager offers some important and valid insights in his criticism of Buchanan's statement 5. But again, his critique fails utterly. No one, least of all Buchanan, denies that money costs are important and useful, nor that they can be estimated. Buchanan has never to my knowledge urged that we throw out cost accounting, nor denied "the vital role it plays in conveying information" (p. 26). The point is that statement 5 refers, not to money costs, but to alternative or opportunity costs, as any even halfway sympathetic reading of Buchanan would make clear. So it is not so much that Yeager's insights are incorrect as they are beside the point. And again I must object to Yeager's gratuitous attribution to Buchanan, in this case, that he is being subversive to the truth "in a good cause" (p. 26).

Quantifying Benefits and Costs in Good Faith

Like the first two points considered, this final one refers to a normative, not a positive, issue. Here, Yeager offers the view that "when some decision or other *has* to be made" (p. 26, emphasis added) about a dam, airport, or subway, that we should not "ramble on about how imponderable everything is," but rather "try in good faith to quantify benefits and costs" (p. 26). First of all, it is by no means true that such decisions *have* to be made. It is indisputable that they have indeed been made in the past, and the likelihood is that this pattern shall long continue, but there is no necessity for this. Decision making is a product of choice, and choice is the result of thinking. Possibly, one day people's thinking will change, and goods of this sort will be created voluntarily, in the complete absence of eminent domain legislation.²⁰ Certainly, Yeager's assumption of the inexorability of this sort of decision making is unlikely to change matters. Second, even assuming that eminent domain will always exist, it does not at all follow that "we" should cooperate. As moral agents, it behooves us *not* to cooperate with the evil of forcing people to give up their property against their will. By providing a scientific patina to the claim that benefits and costs can be nonarbitrarily measured, or even estimated, economists only strengthen the moral and intellectual case for denigrating private property rights.

Notes

1. See Murray N. Rothbard and Walter Block, "Introductory Editorial," *Review of Austrian Economics*, Vol. 1, pp. xi–xiii.
2. Leland Yeager, "Why Subjectivism," *Review of Austrian Economics*, Vol. I, pp. 5–31.
3. Murray N. Rothbard, *Man, Economy and State* (Princeton, N.J.: Van Nostrand, 1962, pp. 153–54).
4. States Murray N. Rothbard in *The Ethics of Liberty* (Atlantic Highlands, N.J. Humanities Press, 1982, p. 134):

Suppose that A promises to marry B; B proceeds to make wedding plans, incurring costs of preparing for the wedding. At the last minute, A changes his or her mind, thereby violating this alleged "contract." What should be the role of a legal enforcing agency in the libertarian society? Logically, the strict believer in the "promise" theory of contracts would have to reason as follows: A voluntarily promised B that he or she would marry the other; this set up the expectation of marriage in the other's mind; *therefore* this contract must be enforced. A must be *forced* to marry B. As far as we know, no one has pushed the promise theory this far.

Perhaps Rothbard is incorrect in the last sentence of this quote.

5. See Walter Block, *Defending the Undefendable* (New York: Fleet Press, 1976); Walter Block, "Trading Money for Silence," *University of Hawaii Law Review*, Vol. 8, No. 1, spring 1986, pp. 57–73; Walter Block and David Gordon, "Blackmail, Extortion and Free Speech: A Reply to Posner, Epstein, Nozick and Lindgren," *Loyola of Los Angeles Law Review*, Vol. 19, No. 1, November 1985; Rothbard, *Ethics of Liberty*, pp. 121–27.

6. See Walter Block, *Defending the Undefendable*, pp. 59–62. States Rothbard, *Ethics of Liberty*, p. 127: "A writes a book; B reviews the book and states that the book is a bad one; the result is an 'injury' to A's reputation and a decline in the sales of the book as well as A's income. Should all unfavorable book reviews therefore be illegal? Yet such are some of the logical implications of the 'property in reputation' argument."

7. Jack Wiseman, "Uncertainty, Costs, and Collectivist Economic Planning," *Economica*, XX, May 1953; Jack Wiseman, "The Theory of Public Utility Price—An Empty Box," *Oxford Economic Papers*, 9, February 1957.

8. G.L.S. Shackle, *Time in Economics* (Amsterdam: North Holland, 1958); G.L.S. Shackle, *Epistemics and Economics* (Cambridge, England: Cambridge University Press, 1972).

9. Ludwig Lachmann, "From Mises to Shackle: An Essay on Austrian Economics and the Kaleidic Society," *Journal of Economic Literature*, XIV, March 1975, p. 55; Ludwig Lachmann, "Reflections on Hayekian Capital Theory," paper delivered at the Allied Social Science Association Meetings in Dallas, Texas (New York: Photocopy, 1975, p. 13), cited in Gerald P. O'Driscoll, Jr., "Spontaneous Order and the Coordination of Economic Activities," in Louis M. Spadaro, ed., *New Directions in Austrian Economics* (Kansas City, Kans.: Sheed Andrews and McMeel, 1978).

10. Rothbard, *Man, Economy and State*, pp. 302–3.

11. See Rothbard, *Man, Economy and State*, pp. 360–64.

12. Roger W. Garrison, "In Defense of the Misesian Theory of Interest," *Journal of Libertarian Studies*, Vol. III, No. 2, Summer 1979, p. 146.

13. For the Austrians, the interest rate is not the price of anything, but rather a *ratio* of two different prices. For example, the interest rate would be equal to the present price of \$100 due in three years, divided by the present price of \$100 due in four years, minus one.

14. Says Ludwig von Mises:

Time preference is a categorical requisite of human action. No mode of action can be thought of in which satisfaction within a nearer period of the future is not—other things being equal—preferred to that in a later period. The very act of gratifying a desire implies that gratification at the present instant is preferred to that at a later instant. He who consumes a nonperishable good instead of postponing consumption for an indefinite later moment thereby reveals a higher valuation of present satisfaction as compared with later satisfaction. If he were not to prefer satisfaction in a nearer period of the future than that in a remote period, he would never consume and enjoy. He would not consume today, but he would not consume tomorrow either, as the morrow would confront him with the same alternative. (*Human Action*. Chicago: Regnery, 1966, p. 542)

See also Carl Menger, *Principles of Economics*, trans. Dingwall and Hoselitz (New York: New York University Press, 1981, pp. 152–56).

15. See Rothbard, *Man, Economy and State*, pp. 360–64.

16. Rothbard, *Man, Economy and State*, p. 61; also Walter Block, "The Negative Rate of Interest: Toward a Taxonomic Critique," *Journal of Libertarian Studies*, Vol. 2, No. 2, Summer 1978, pp. 121–24.

17. Robert Nozick, "On Austrian Methodology," *Synthese*, 36, November 1977, pp. 353–92.

18. See Walter Block, "On Robert Nozick's 'On Austrian Methodology,'" *Inquiry*, Vol. 23, No. 4, Fall 1980, pp. 427–28.

19. James M. Buchanan, *Cost and Choice: An Inquiry in Economic Theory* (Chicago: Markham, 1969, p. 43).

20. See in this regard Murray N. Rothbard, *Power and Market: Government and the Economy* (Menlo Park, Calif.: Institute for Humane Studies, 1970, pp. 56–57); also, Walter Block, "Free Market Transportation: Denationalizing the Roads," *Journal of Libertarian Studies*, Vol. III, No. 2, Summer 1979, pp. 209–38.