## Does The Subjective Theory of Value Conflict with Austrian Enginomics?

The short answer is NO.

### What is the Subjective Theory of Value?

Graham Wright [(1)] (Truth and Liberty) penned the following logic derived from Murray Rothbard [(1)] and Henry Hazlitt [(1)]:

> "Deriving from the axiom of human action, we know that every human being has a scale of values; that is, a ranking of each desired end on a scale. The most desired ends are given the highest rank; that is, the most desired ends are the ones with the highest value. Value is, therefore, entirely **subjective**, depending on the individual and the circumstances.
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> The value scale is **ordinal –** it is merely a qualitative order of values. No mathematics calculations can be done on values. It cannot be measured and there are no units associated with it.
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> Note that this is in stark contrast to the mainstream theory of valuation. Mainstream economics claims that value can be measured objectively, and measured and calculated using the unit they call "utils". But when economics is built up from the axiom of human action, it is clear that the objective theory of value is a fallacy. Unfortunately, this fallacy underpins mainstream economic theory. The whole concept of Pareto efficiency, which is the basis of "welfare economics", is invalid because it requires an objective theory of value.
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> It is useful to assign a name to this value scale. We are not concerned with the specific content of men's ends, but only with the fact that they rank them in order of importance. The scale may be called *happiness* or *welfare* or *utility* or *satisfaction*. The name does not matter, but it permits us to say that by whenever an actor has achieved one of his ends, he has increased his happiness, welfare, etc. And when fewer of his ends are being attained, his happiness, satisfaction, etc, has decreased.
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> All action, then, is an attempt to increase "**psychic revenue**". With reference to any given act, if the action succeeded in raising satisfaction, there is a "psychic gain" or "**psychic profit**" where the psychic revenue exceeds the psychic cost. If there was a "**psychic loss**" then the action was in error. Only the individual performing the action will know for sure whether any given action of his resulted in psychic profit or a psychic loss.
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> Humans value means strictly in accordance with their valuation of the ends they believe the means can serve.
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> - Consumers' goods are valued according to the ends men expect them to satisfy.
> - 1st order producers' goods are valued according to the expected contribution in producing consumers' goods.
> - Higher order producers' goods are valued according to the expected contribution in producing lower order producers' goods…."

## The Austrian Enginomic Perspective:

The Enginomic logic recognizes that the human motivation and subsequent action (consumption, exchange, etc.) are driven by the Subjective Theory of Value. There is no conflict in this area. However, the Enginomic logic asserts there is a ***dependent relationship*** between the magnitude of "Real Wealth"(2) and the magnitude of human satisfaction possible. Specifically, if the quantity of Real Wealth is at a constant evenly-rotating inventory level, then there is a practical limit on the level of satisfaction (or "psychic profit") that may be derived from the use and control of the Real Wealth.

**For Example:**

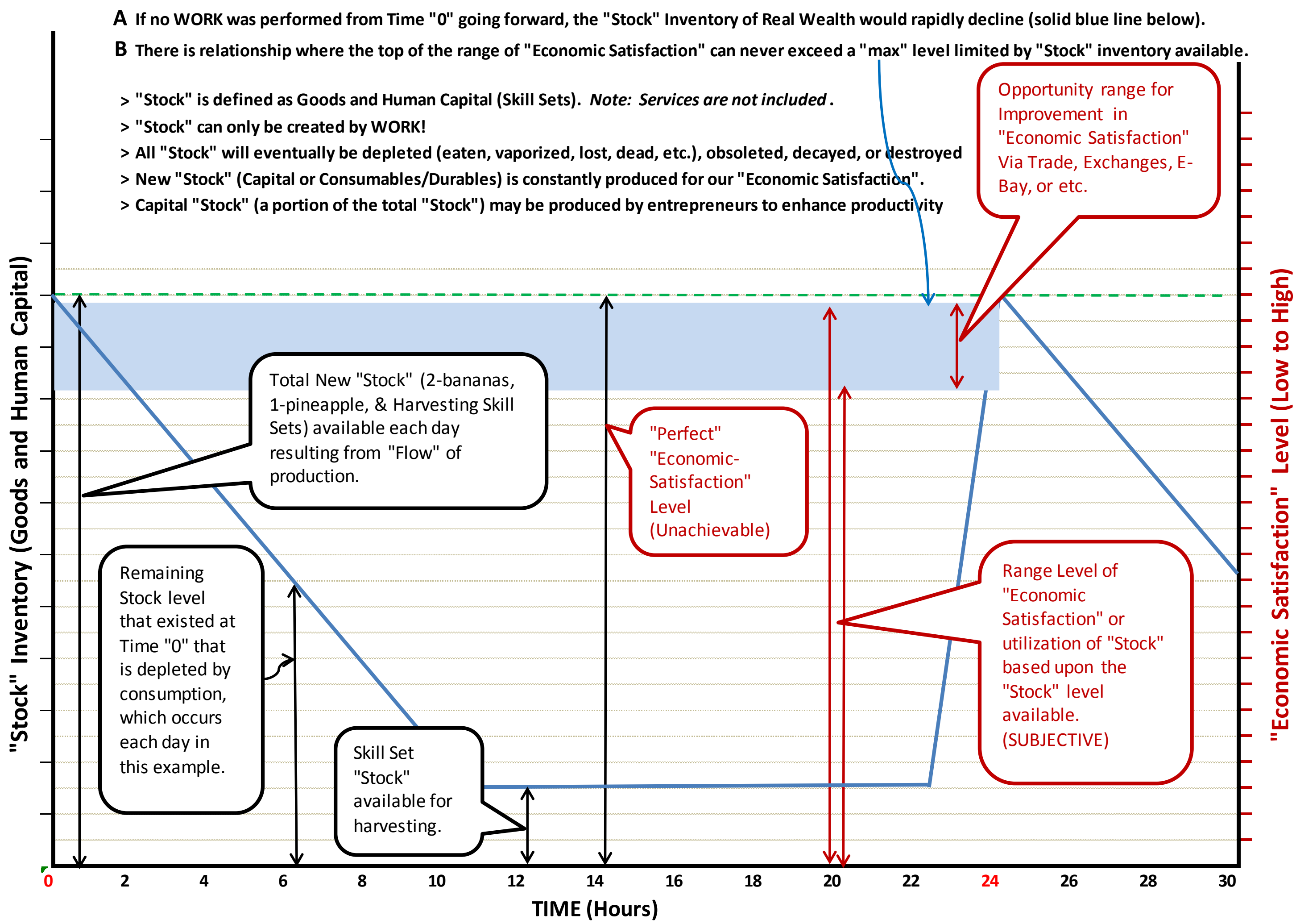
The total "Real Wealth"(2) produced daily on an island inhabited by two people, Tom and Jerry, is 2 bananas and 1 pineapple. Work was required to travel to and from the respective trees as well has harvesting and preparing the goods (i.e. human capital skill sets) for consumption or exchange. The daily harvest may be eaten by the respective producers, or traded, then eaten for their survival. The daily decision to trade or not trade is dependent entirely upon the Subject Theory of Value. The "Real Wealth" produced on a daily base does not change in this "evenly rotating economy" (3). The subjective value of the goods changes continually.

***The Austrian Enginomic assertion is that there is an absolute limit of satisfaction, utility, or subjective usefulness that can be obtained from the production and use of 2 bananas and 1 pineapple per day.*** An extreme limiting example would be where both Tom and Jerry were afflicted with deadly diseases that could only be cured by a single bite of the fruit produced by the other person. Both recognizing this plight could hold out on the other to maximize the "Economic Satisfaction" gained and minimize the "Real Wealth" conceded in exchange. Let's say Tom was nearing death more rapidly than Jerry. Jerry knows that soon he could have both of Tom's bananas in exchange for one bite of his pineapple. The "Real Wealth" on the island has not changed at all, but the ***value*** has increased dramatically in the case of Tom intent on saving his life. Carry this morbid scenario to an extreme and you can imagine both Tom and Jerry losing their health at the same rate, and holding out until the last second before the lifesaving bites of respective fruits are exchanged. In that case the maximum subjective value (alleviating the deaths of both Tom and Jerry) has been achieved with exactly the same "Real Wealth" produced each day!

The chart below graphically represents a specific order of magnitude for an aggregate stock inventory (Goods and Human Capital) on the left-hand scale for this banana/pineapple example. You can follow the blue line to track the consumption and production of the fruit in a single day. The right-hand scale is illustrating an "Economic Satisfaction" level, which is subjective. The question is**: "Is there a relationship between the level of stock and the maximum possible level of "Economic Satisfaction"?"** The green dotted line represents the maximum level of stock in this simple economy, which is reached once daily (2 bananas, 1 pineapple, and the associated human capital). The blue band represents a range of the level of "Economic Satisfaction" that may be obtained from Tom or Jerry by simply having a greater desire for consuming either his own fruit or the fruit received in exchange. This level of desire and motivation to exchange is necessarily subjective; hence the designated range (blue band).

(Note the "Perfect" "Economic Satisfaction" level on the graph, which is unachievable.)

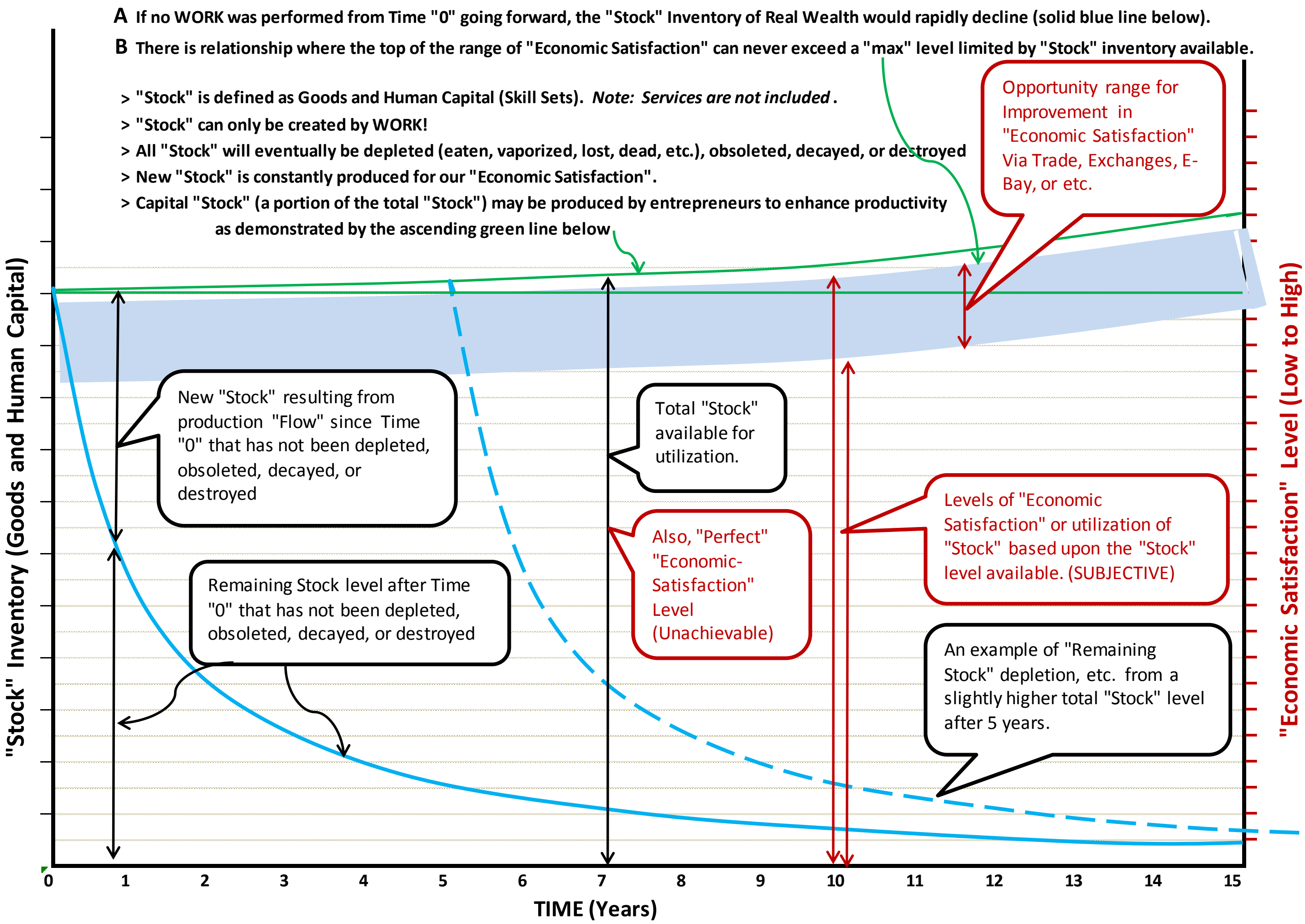
 




**Now, Let's Expand the Concept…**

Expanding on the first example, could an increase in the stock level (via more hours of work or productivity improvement efforts) possibly provide greater Economic Satisfaction? If there was a decrease in stock levels (e.g. due to scarcity) on an ongoing basis, would that reduce the possible Economic Satisfaction level achievable? The Enginomic assertion is "YES" to all three questions asked in the last two paragraphs, which is not in conflict with the Subjective Theory of Value.

The next chart illustrates a more practical real life condition with an increase in stock level. Assuming the principles of property rights, rule of law, and free trade exist, humans will be motivated to improve their "Economic Satisfaction" level. The top green solid line curving upwards represents the gradual accumulation of capital stock and improvement in productivity over the years (bottom scale). Next we ask: "Could a higher level of satisfaction (or utility or subjective usefulness) be achieved if Tom and Jerry embarked upon a productivity improvement effort such that with the same labor expended (assuming use of their new and improved skill sets) they doubled their fruit production? In other words, is there a valid relationship between the “Real Wealth” produced and the Economic Satisfaction level possible to achieve? The answer is YES as demonstrated by the ascending blue band in the chart.




## Are We Comparing “Apples” and “Oranges”?

Are we trying to compare unlike entities? The attempt to graphically illustrate a one-dimensional aggregate scale of “Stock” Inventory of “Real Wealth” is a stretch. It might be easier to measure it in dollars or ounces of gold terms by converting the exchange price of each stock item, then summing the total. Unfortunately, that would violate the Subjective Theory of Value because none of the valuations are exactly equal to the money valuations. Hence, one must simply think of it as an aggregate list or “pile” of Real Wealth items that exist. It is NOT a value scale such as the “Economic Satisfaction” scale, or even a cost scale.

Critical points are that Real Wealth can ONLY be created from work and natural resources; one cannot “will” Real Wealth into existence. Also, ALL Real Wealth was created by humans motivated to work.

**Conclusion:**
Could a cave man whose life expectancy is 20 years suffering in extreme cold and heat conditions surrounded by danger and disease be more satisfied than a wealthy modern-day citizen living in a developed country? The answer is, of course, yes! The cave man knows nothing else, so could be largely satisfied with his life where the modern citizen could be plagued with stress and depression. However, is the opportunity for greater economic satisfaction higher with the modern man than the cave man? The answer is YES. A greater level of "Real Wealth" was created because of the motivation of humans to seek greater values and higher levels of satisfaction.

Absent logic that is derived from building upon the Subjective Theory of Value an economist is prevented from even measuring and comparing one standard of living to another (e.g. the GDP per capita in Germany Vs. Mexico). Albeit an abundance of flaws exist in the numerical calculations to generate a credible GDP number, there is some usefulness to guide macroeconomic policy.

The Austrian Enginomic Theory does not conflict with the Subjective Theory of Value (STV). The STV stands on its own and clearly establishes motivation for exchanges. The Enginomic theory confirms the relationship that exists between the satisfaction level that is possible to achieve and the stock level of "Real Wealth".

References:


1) by Graham Wright (Truth and Liberty) assembled from works of Murray Rothbard's Man, Economy, & State, and Henry Hazlitt's Economics in One Lesson.
2) "Real Wealth" is goods, services, and human capital detailed with the following article by Russ Randall. http://austrianenginomics.com/DebtRelativetoGDPTheAustrianEnginomicDebtAxioms.pdf See Page #2
3) "Evenly Rotating Economy" was a term introduced by Ludwig Von Mises. Equilibrium in Human Action refers to a hypothetical point in time when a human being stops deliberating and proceeds to perform the behavior that is specified by an assumed plan of action. From Mises on the Evenly Rotating Economy by J. Patrick Gunning, here: https://mises.org/journals/rae/pdf/RAE3_1_8.PDF