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ORIGINAL PAPER

On the Transformation of Economic Value: From Its Austrian Roots to Contemporary Economics

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Abstract Carl Menger's theory of subjective economic value is not only one of the greatest contributions of Austrian economics, subjective value is also the received view in mainstream economics today. However, modern-day economic theory does not explicitly address the *theory* advanced by Menger but merely assumes that value is subjective on the basis that the experience of valuing something is no more than an expression of preference. Accordingly, contemporary economists do not appear to recognize the distinction between this understanding of value and any other possible understanding of value, such as objective theories of moral value advanced in older strands of inquiry. Lacking the theoretical basis laid by Menger, subjectivity indeed appears deceptively simple: choices are made on the basis of preferences, and preferences are subjective. It would thus follow that further examination of the phenomenon of choice appears unnecessary. The aim of this paper is to present the Austrian philosophical foundations of the theory of subjective economic value and examine how this received theory has been quite significantly transformed in its transition to a neoclassical economics framework that has disposed of its theoretical basis.

Keywords Value theory · Opportunity cost · Economizing behavior · Economic value · Carl Menger · Neoclassical economics · Austrian thought

At the turn of the twentieth century, value theory was the central focus of examination by the members of the Menger School in economics and the Brentano School in philosophy. As such, these two schools were also known as the first and second schools of value, respectively. Today, the contributions to value theory from Brentano and his students are relatively unknown, or at least overshadowed by their

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other contributions. In contrast, Menger's theory of subjective economic value played a central role in the development of what has become modern-day economics. All economists today accept that value is subjective.

While the contemporary acceptance of economic value as subjective could be considered a triumph for Menger and the first school of value, there is no explicit mention of the *theory* of subjective economic value when value is mentioned in textbooks. It could be the case that mainstream economists consider the theory of subjective value too obvious to merit any elaboration beyond mathematical symbolism. Value is thus presented as the measure of how much money an agent would be willing to spend for a given good. Since agents have a limited budget, then the amount of money allocated to purchasing any good that they choose will demand a sacrifice of something else that could have been purchased in its stead with that amount of money. For example, should I buy the latest iPhone or pay the rent for another month at my apartment? The good that is chosen is then the good that has value for the agent making the choice. However, this process only describes the act of valuing, which is at one end of the relation that exists between an agent, on the one hand, and the good that he or she is considering, on the other. What is missing is the examination of the good that is chosen and acquires value by virtue of its being chosen. In this sense, then, what mainstream economics refers to as 'value' is a misnomer because it only represents the process of valuing, not what has value or acquires value. In the framework of contemporary economics, then, the bearer of value would be the economic agent whose satisfaction is dependent on choosing what he or she prefers. But what about the good that the agent chooses among available alternatives? Is that good not also the bearer of value? Or, in the alternative, is it the relation between the economic agent and the good that the agent chooses—i.e., the action of choice—the bearer of value? None of these questions, much less any explicit answers, appear in the microeconomics textbooks in greatest demand today.[1] As one commentator writes,

> Professional economists today are by and large content to ignore the issue of the origins of value, and to treat it, the way eighteenth and nineteenth-century scientists treated matter, as if it were given, irreducible, indestructible, and without internal articulation. If pressed, most economists would now define value as "marginal utility," which means, roughly, usefulness relative to the cost of other objects.[2]

The neglect of the theoretical basis for the subjective nature of economic value is problematic because it has led to a bifurcation in the understanding of economic value that has taken the neoclassical view of economic value far apart from its Austrian foundations. The significance of Menger's *theory* of economic value is that it laid the foundation for a new theoretical framework for economics that was distinct from that of the Classical School of economics. Rather than viewing value

[1] See, for example, *Microeconomics*, 8th ed., Pyndick R S and Rubinfeld D L (2013), Pearson; *Intermediate Economics: A Modern Approach*, 8th ed., Varian H (2010), Norton W W; *A Course in Microeconomic Theo*ry, Kreps M E (1990), Princeton University Press; and Frank (2008).

[2] Turner (1990), 747.

as determined exclusively by the cost of production or labor, Menger saw the cost of production as only part of the examination of value. The key difference lies in the additional examination of the value of the final product as perceived by the decision maker, which then reveals the value of the production materials that will achieve that final product. This is exactly the opposite from the Classical view of value—i.e., production costs, then, do not determine economic value but, rather, the economic value of the materials of production is derived from the economic value of the final product.[3] Menger's theory of subjective value thus ushered in a new chapter in economics.

The aim of this paper is to present the Austrian philosophical foundations of the theory of subjective economic value and examine how this received theory has been quite significantly transformed in its transition to a neoclassical economics framework that has disposed of its theoretical basis.

1 Austrian Foundations of Subjective Economic Value

The theory of subjective economic value advanced by Menger is an elegant theory, for it presents a very complex phenomenon in succinct terms. Value, according to Menger, is the importance that individual goods or quantities of goods attain because we perceive these as the causal factors to the satisfaction of our needs in concrete choices.[4] It is important to notice that this definition applies only to the economic realm of value phenomena because, according to Menger, while we may derive utility from non-economic goods, only economic goods can attain *economic* value.[5] Since this restriction does not apply to value phenomena beyond the economic realm, this leaves open the possibility for examining other value phenomena such as moral or aesthetic values in some other way distinct from the examination of economic value. The distinction of economic phenomena from non-economic phenomena is an important distinction and it requires some explanation.

1.1 The Scope of Economics

Economics is often not clearly understood outside of economics, and one of the confusions is that the realm of economics is limited to the domain of money and monetary institutions. So the first important clarification to make is that the applications of economics are wide ranging, and indeed have a wider scope than the framework of money, price, banking, savings, and investment. Menger explains that economics examines all phenomena associated with behavior that we can call economizing.[6] We engage in economizing behavior whenever we are confronted with scarcity. But scarcity should not be confused with poverty or deprivation. Scarcity, in economics, is a condition in which there are fewer quantities of a good

[3] Böhm-Bawerk (1891, 369).

[4] Menger (1976), Principles, 115–116.

[5] Ibid, 118–119.

[6] Ibid, 96.

relative to the requirements that we have for that good. We experience scarcity as a restriction that motivates us to identify our most pressing needs, to choose those things that will best satisfy our most pressing needs, and to conserve such things. These things are what Menger calls economic goods.[7] Scarcity is thus the mark for all economic goods, whether these are consumption goods—such as coffee, computers, cars—or capital goods—such as land, construction equipment—or what I shall call *affective goods*—such as friends, spouses, professional status, security, and the like.

Menger does not mention affective goods but, to my mind, this class of goods allows us to apply Menger's notion of economic goods more completely because it addresses those goods that are neither consumption goods or capital goods. Indeed, affective goods are goods because we have more demand for these than there is available supply. Consider the case when we suddenly find that the available number of people from which we can choose a circle of friends is lesser in number and preferred qualitative features than those than we would like to have. This happens more often one would think. Consider the situations such as moving to a new city or country, or starting a new job in a different department or hierarchical level, or at a different institution, or getting divorced. In each of these cases, people will suddenly find themselves without the adequate social support structure and in need to develop it, but this need is not filled immediately. Hence, we find ourselves in a deficit for friends and, as in this sense, friends are affective goods.

Gary Becker provided one of the finest examples of the class of goods I am calling affective goods in his article titled "Theory of Marriage".[8] Persons that any individual would consider suitable for marriage indeed fall under the heading of scarce resources and it is in this way that such a pool of potential spouses acquires the status of economic goods. Becker's exposition is a brilliant application of what we can draw from Menger too: what makes a good 'economic' is not inherent in things in themselves but dependent on our needs. In one moment we may identify a thing as an economic good and, in the next, it might lose its economic status and thus become a non-economic good, or viceversa. We thus make economic choices when we identify economic goods. As we shall see, this understanding of choice that Menger presents, one that reflects economizing behavior, is fundamental to the understanding the theory of economic value that he presented.

1.2 Economizing Behavior

From the foregoing, it should be clear that our economizing behavior and economic choices are not limited to money and monetary institutions—e.g., how much money should we save or invest, or how to find the best retirement fund, and the like. We practice economic behavior in the most ordinary of situations. When we open a fresh jar of jam, for example, we are liberal with the amount that we spread on our toast. But when we are nearing the end of the jar, we become conservative and switch to stretching little tiny dollops of jam thinly on our toast in order to make the

[7] Ibid, 94–98.

[8] Becker (1974).

dwindling amount of jam last a little longer. This is an example of economizing behavior toward a non-pecuniary good. It should be clear, then, that economizing behavior is directed at any good for which one's requirement of it exceeds its available quantities.

Economizing behavior thus leads us to making choices. If there are only two cookies left in the cookie jar and we have the need to indulge, we might have to choose between eating both now, or only eating one now and saving the other one for tomorrow. Such alternatives confront us with the fact that forfeiting either imposes a cost because the choice that the acting agent makes indeed amounts to sacrificing the alternative and the satisfaction that he or she would have gained from that alternative. This is what is known as an opportunity cost.[9] And opportunity costs are subjective because they are borne subjectively by the agent making the choice, who is the only one who can feel the loss of the forfeited alternatives.

It should be clear now, then, why Menger asserts that economic value applies only to economic goods: it is precisely because non-economic goods do not impose opportunity costs. Non-economic goods are available in quantities greater than our requirements for them.[10] Every teacher knows that there is always more grading to be done than the need that we have for grading. Accordingly, grading is not an economic good. Yet, we might choose to grade instead of the more desirable alternative of taking a Saturday off. When we make this choice, grading does not acquire economic value by means of that choice. The reason is that since grading is not an economic good, then our choosing to grade anyway (despite the desire to do otherwise) is not an expression of economic value. Indeed, the decision is not necessarily motivated by potential of being unemployed and forfeiting salary and benefits. This could be the case for some, but for those whose vocation is teaching, they will choose to grade for other reasons: duty, work ethic, responsibility to students, and a genuine interest in their learning, all of which suggest that sometimes we make choices that are important to us but not in an economic sense. Accordingly, not all choices are economic choices. Economic choices involve an economic good, which means that the good is scarce relative to our demand for it, and the choice imposes a subjective cost called opportunity cost.

1.3 Intentional Action and Value

Putting all the elements together, we find that economic choice is a relation with an economic agent at one end and the considered alternatives at the other. The economic agent directs his or her attention at each alternative with the aim to experience each as a potential choice. Without this consideration, there could not be opportunity costs since there would not be any basis for the subjective cost imposed by any of the sacrificed alternatives. It is important to point out that this intentional evaluation not only targets each alternative, it also has an intentional content. More precisely, the intentional content is shaped by the particular present need for which

[9] See Wieser (1956). Although Menger first suggested this concept in his exposition of marginal utility in the Principles, Friedrich von Wieser named this concept 'opportunity cost,' which it what is used today.

[10] Menger (1976), Principles, 99.

each alternative is evaluated. Given this intentional content, the evaluation is focused on the ability of each alternative to fulfill the particular, present need. Would I like this alternative better than the others? Would this be more satisfying? Would the satisfaction be enduring or will I feel guilt afterwards? This means that the intentional content has the experience of the object as a secondary object of the intentional directedness. Once this intentional action has occurred for each alternative, then the economic agent makes a choice.

This choice, then, gives rise to value in the good chosen. In other words, the causal factor for a good to obtain economic value is its being chosen. But economic value is not understood in this way in contemporary economics.

2 The Transformation

Modern-day textbooks in microenomic theory do not include the *theory* of subjective economic value as part of the theoretical basis for economic decisions. Where one finds the term 'value' in these, the meaning is ambiguous for it may refer to a measure of a quantity or a price. Let us take a look at an example. In Robert Frank's Microeconomics and Behavior, we find the term 'value' as well as other value-laden terms (see italics), as follows:

> If doing activity x means not being able to do activity y, then the *value* to you of doing y (had you done it) is an opportunity cost of doing x. Many people make bad decisions because they tend to ignore the *value* of such forgone opportunities. This insight suggests that it will almost always be instructive to translate questions such as "Should I do x?" into ones such as "Should I do x or y?" In the latter question, y is simply the most highly *valued* alternative to doing x. The following example helps drive this important point home.
> There is a ski area near your campus. From experience you know that *a day on the slopes is worth* \$60 to you. The charge for the day is \$40 (which includes bus fare, lift ticket, and equipment). However, this is not the only cost of going skiing. You must also take into account the *value* of the most attractive alternative you will forgo by heading for the slopes. Suppose the best alternative is your new job as a professor's research assistant. The job pays \$45 per day, and *you like it just well enough to be willing to do it for free*. The question you face is, "Should I go skiing or work as a research assistant?" Here the cost of skiing) is not just the explicit cost of the ski package (\$40) but also the opportunity cost of the lost earnings (\$45). The total costs are therefore \$85, which exceeds the benefits of \$60. Since C (x) < B (x), you should stay on campus and work for your professor. Someone who ignored the opportunity cost of the forgone earnings would decide incorrectly to go skiing.[11]

Although not intended as a definition of value, Frank indicates that value *is* the opportunity cost of the sacrificed alternative. If this is a correct interpretation, then it also means that economic value can be measured by a price. In other words,

[11] Frank R H, 7; italics mine.

economic value is not subjective but a comparative calculation of total cost versus total benefit analysis for each alternative. In the example presented above, the total cost of the skiing alternative is $85, which includes the price that one would pay for skiing (which includes the price for bus fare, lift ticket, and equipment rental) plus the wages lost (measured as a price charged per hour, multiplied by the hours not worked). And the benefit of skiing has been presented with the price tag $60 to show the "worth" that one would gain from skiing. Subtracting this gain from the amount necessary to go skiing, the total is a $25 loss. But, what is the calculation for the alternative? The total "cost" is the "worth" that one would gain from skiing, which is $60 and there is no other "cost" since one would gladly work as a research assistant for free. The total gain is the amount that one would receive from the research assistant work, which is a total earnings of $45. Subtracting this gain from the cost of working, the total is a $15 loss. The conclusion is thus that staying behind and working in the research assistant position is the alternative that should be chosen by someone who, as Frank asserts, is aware of opportunity cost calculations. Accordingly, what we can draw from this is that economic value is the result of a cost-benefit analysis for each considered alternative, and the one with the higher gains or the lower costs is the one that we ought to choose in order to arrive at the most rational solution.

The problem is that economic value is not reducible to costs measurable in prices, for the lesser cost of an alternative does not identify it necessarily as the valued one. Building a winning basketball team, for example, is not arrived at by selecting the players who will accept the lowest pay. But let us present the framework of mainstream economic theory in more detail in order to make a deeper examination.

2.1 Value, Subjective Value, or Theory of Subjective Economic Value?

As we have seen in the passage in the previous section, if the term 'value' is explicitly mentioned in an economics textbook, economic value is not distinguished from other kinds of value, thus suggesting that all value is economic value and, as such, all value is subjective. The explanatory power of economics makes this assumption appear almost unquestionable. Modern-day economists point out that since scarcity is a fundamental feature of the human condition, all actions necessarily involve choices. If this is true, then one might take the position that there is no need to distinguish economic value from other kinds of value (e.g., moral, aesthetic, political, and so on). Accordingly, then, all value must be economic value by necessity. But is this a defensible position?

2.2 Rational Choice

In rational choice theory, which is the neoclassical framework for economic models, preferences are guided by two axioms: transitivity and completeness. These two axioms embody the notion of economic rationality. According to the transitivity axiom, preferences are such that if a is preferred to b, and b is preferred to c, then a will be preferred to c. And according to the axiom of completeness, preferences can be ranked and even indifference between alternatives is itself a choice, that is to say, the choice not to choose. Since the neoclassical machinery of choice unravels the process of valuation so clearly, it would be easy to suppose that all other values are also subordinate to the same process. Indeed, most of our ordinary actions involve choices of all kinds—we choose when to get up, what to have for breakfast, what to wear, what to do when we are not at work, and when to go to sleep. As such, we could easily accept that most of our actions have an economic character because it appears that our choices follow a preference ranking. Suppose that we get up in the morning and choose to do yoga before breakfast, and then we choose a smoothie instead of coffee, and then choose to enjoy an exhibit at a gallery instead of taking old coats to the donation drop-off at the Salvation Army. Since these are all rational choices, then these choices do not express value that is uniquely economic in nature but, rather, they represent the way in which we make all choices that express what we value. So there is not a special kind of economic value, but just value, simpliciter. And since value as such is a choice made by any economic agent, then it is subjective. Hence, all value is expressed according to rational choice theory, and there is no need for a theory of value.

But we must consider the point made above: that some choices are not responses to scarcity conditions and, as such, these choices seem to fall outside the realm of economic analysis. Suppose that a homeless man gives his last few dollars to a hungry child. It is a bitter cold winter day, he has not eaten properly, and faces starvation. Further suppose that this child is not his own child. The conclusion that modern-day economists may draw from this situation is not that the man has chosen starvation instead of satisfying his hunger (i.e., the only two choices available to him). Rather, economic analysis would suggest that the man is maximizing his expected utility. Indeed, rational choice models can accommodate uncertainty, such as that when an agent has to consider the possibility of unknown outcomes of his actions. In this case, for example, the man has considered the possibility of his dying of starvation, but he must have concluded that it is not very likely, perhaps because he knows that he is very resourceful and, moreover, we could suppose that his hunger at the time has not reached the point of desperation or causing physical debilitation. As an economist may put it, the homeless man has considered his present and future consumption and the value of his survival skills in light of his present condition.

But this is not all, for rational choice analysis aims at greater explanation and there is an interesting question still unanswered. Why did the man give his last few dollars to the hungry child? One assumption could be that he did this because he thought this action would be in fulfillment of the moral good. How would neoclassical economics explain this? In the technical terms of economics, the explanation could be as follows: the man wants to increase his moral consumption in the present, perhaps combined with a want to increase his moral credit perhaps for afterlife consumption.

Another assumption could be that he took this action because his personal aesthetic would not permit him to enjoy food while a child went hungry. By personal aesthetic I mean the particular sensibilities that the man may have in seeing a child suffer. A modern-day economist, however, would not describe this as an aesthetic valuation since this is beyond the purview of economics. However, mainstream economics recognizes incentives for acting and, in this case, the man's actions could be interpreted as having a social pressure incentive. Whether the subsequent empirical studies of such a rational choice model confirm what philosophers call moral values or aesthetic values in such circumstances, the fact remains that these values appear to be subordinate to economizing behavior and the economic machinery of utility maximization. In other words, the man increased his economic basket of goods according to his self-interested pursuits.

2.3 The Bearer of Value

What we can draw from the above is that although we appear to have moral or aesthetic considerations in our decisions, ultimately we choose which one is the important consideration that is relevant to our needs in each particular case. These choices increase our satisfaction or utility, which is what drives our decisions and, thus, the more we increase our utility the more value that we gain from our choices. It is in this way that neoclassical economics seems to point to the economic agent as the bearer of value. For some, this utility is maximized by the morally-relevant qualities of the chosen alternative. For others, this utility is maximized by the aesthetically-relevant qualities of the chosen alternative. The point is, however, that we choose that which increases our utility, i.e., the value in our experience. Hence, the inevitable conclusion from this seems to be that for neoclassical economics *all* value boils down to economic value.

2.4 Comparison with the Austrian Theory of Subjective Economic Value

The chart below shows the contrast between the Austrian theory of subjective economic value and the neoclassical understanding of:

Austrian foundations for economic value	Modern-day foundations for economic value
It has a theory for subjective economic value	It assumes that value is subjective
Economic value applies only to economizing behavior toward economic goods	Value of all sorts is subjective
Economic value results from the intentional act of choice	Value is determined by a utility maximization calculus
Value inheres in the object chosen	Value is acquired by the economic agent through the utility gained from the choices he or she makes

3 Assessing the Differences

I believe that Menger's most valuable contribution is not marginal utility and the role that it has in revealing the nature of economic value. Rather, his most valuable contribution is his examination of the nature of economic *choice* and the role that it has in revealing the nature of economic value.[12] Menger showed that economic value has a dependency relation to choice for its existence, such that,

1. First, there is a distinction between a choice, *simpliciter*, and an economizing choice. The realm of the economic is demarcated by the latter.
2. Second, any instance of economic value is causally dependent on an economizing choice.

Let us examine the first proposition. Suppose that a woman named Lola goes to a French restaurant for dinner and after the main course the waiter asks whether she prefers profiteroles or crème brûlée for dessert. Further suppose that Lola dislikes crème brûlée, and loves profiteroles. Not surprisingly, then, her answer will be profiteroles. What kind of choice was this? Was it a choice, simpliciter? Or was this an economizing choice?

In order to answer these questions, we must first ask whether this choice involved an opportunity cost. When an agent weighs opportunity costs, she must decide among alternatives that (a) are similarly desirable *and* necessarily bring about the (b) calculation in which forfeiting any one of the alternatives would impose an opportunity cost that the agent must bear subjectively. Without (a), (b) cannot come into being, and when the relation of (a) and (b) is present, then and only then we have an economizing choice.

Let us now return to our example. We know that Lola was presented with one desirable option and one undesirable option. This means that (a) is not present in this choice. Does (b) realize anyway? It does not because, in this case, her choice is merely an expression of taste preference that does not involve an economizing choice. By forfeiting crème brûlée, Lola is not incurring in an opportunity cost. Rather, she would be worse off if she were to be served crème brûlée. Since Lola's choice does not involve any economizing behavior, then she is not making an economizing choice. In fact, in light of her taste preference for profiteroles and dislike for crème brûlée, she is actually not confronted with a choice at all. The same could occur even if she is presented with another dessert alternative more to her liking, such as a floating island. But her favorite dessert would overshadow even others that she likes. In fact, unless her favorite dessert is not available, the consideration of alternatives would not come into play.

We could challenge the status of (a) once again by supposing a situation in which Lola is presented with alternatives that are equally desirable, such as two different colors of a pair of shoes that she wants to buy: black or red. In her view, both colors are equally attractive for the style of the shoe that she is considering. Let us suppose that she chooses the red pair. Was this an economizing decision? The answer is: it depends. If she finds the black pair more versatile and thus more tempting, but she chooses the red pair because she has too many pairs of black shoes already, then she is making an economizing choice. In other words, she would prefer the black pair but, since she does not have a pair of red shoes, then the red pair is a better choice since it would increase the variety of her shoe wardrobe more than what the black

[12] Böhm-Bawerk observed that the direction of the research by Austrian economics was guided by the theory of value (1891, 363).

pair would achieve. She will thus choose the red pair, thinking it the better use of her money. In this case, Lola made an economizing decision, and the red pair attains economic value as a result of that choice.

However, if Lola's choice does not involve step (b), which means that she would not incur in an opportunity cost regardless of whether she chooses the black or the red pair, then her choice is not an economizing choice. Having only (a) alone, without (b), reflects only a choice *simpliciter*. And there could be many reasons for this choice: she chose on the basis of the habit of buying black shoes, she was in a rush and so she took the pair nearest to her, or she allowed the salesperson to decide which one to buy. These could be interpreted as many ways of choosing not to choose. In the neoclassical framework, such choices would reflect economic value. In the Austrian framework, richer in a foundation that includes the examination of needs and opportunity cost considerations, this choice does not impose an opportunity cost for Lola. As such, this is not an economic choice, but a choice simpliciter.

The above comparison shows that economic value depends entirely on economizing choices for its existence. This is not, as we have also pointed out, the contemporary interpretation of value. The central concept of economizing choice that is fundamental for the emergence of economic value in the Austrian framework is not a consideration in the neoclassical understanding of economic value. Instead, the central concept for the emergence of economic value is preference or, in the case of competing values, their order of importance. We shall recall that in the mainstream economic view, economic value is reflected by any choice that we make in which we select from available alternatives and thus incur in the opportunity cost of the foregone alternatives. Accordingly, choosing the most important consideration for us in any given situation—including the choice to be led by our moral or aesthetic values—indeed amounts to an expression of economic value. It is in this way that the mainstream view can arrive at the inevitable conclusion that *all* value boils down to economic value.

Let's address preferences first. In contemporary economics, preference refers to the ordering of alternatives based on their relative utility in order to arrive at the optimal choice. Presumably, the optimal choice also identifies the optimal value. But the emphasis is on the utility function, which is a numerical representation of the presumed value that the agent has subjectively assigned to the given alternatives. So, for example, the more Lola likes profiteroles, the higher the number that profiteroles will be assigned in the utility function. The number assigned represents the value that Lola subjectively assigns to this alternative. Since Lola derives no utility from crème brûlée, then this alternative will be given a value of zero. In the case of the shoes, since Lola likes both alternatives, then the number assigned to the value of these alternatives for Lola will be the same.

Let us also note that the numbers in the utility function also reflect the additional utility that Lola derives from one alternative over another. In the case of the dessert alternatives, since crème brûlée has a value of zero, then profiteroles could be assigned a value of 1 in order to reflect the extra marginal utility that she gains from profiteroles over crème brûlée. However, the number could also be 2 or 3 or 4, and so on. It is unclear how one could obtain the correct number that represents the value of the optimal choice given that value is subjective. And the matter would be more complicated if—as it is the case in some deliberations among alternatives (from buying groceries, a car, or a house to buying a company)—the alternatives are greater than two.

Typically, utility functions have only two alternatives for the sake of simplicity. As a mathematical model, the role of the utility function is to represent preferences that allow the economist to obtain the marginal rate of substitution for the considered alternatives from a calculus of derivatives or partial derivatives. But there is another important reason for representing only two alternatives in a utility function. This reason is that it is assumed that the agent making the choice has already a top choice in mind, so the second alternative merely represents all other possible alternatives. The utility function can thus represent the quantity of the optimal choice on the vertical axis and the quantity of all other possible alternatives on the horizontal axis. This allows for the analysis to accommodate marginal rates of substitution. Accordingly, although Lola prefers profiteroles but perhaps she would be willing to substitute two crème brûlées for one order of profiteroles since one of the rational assumption is that more is preferred to less.

I believe that it is this latter feature of utility function analysis that has facilitated the transformation of the theory of subjective economic value into just the epistemic sense of the term ‘value’ that is assumed to be subjective because it is dependent on the attitudes or feelings of the economic agent. Accordingly, it requires no explanation because no facts could settle the truth or falsity of any value judgment. Since we make value judgments for all sorts of things, then it is easy to take the jump to the assumption that there are no different kinds of values. In this interpretation, ‘value’ is meaningful only epistemically and, as such, it is subjective, and applicable to all value judgments, without any special framework for economic value judgments.

Let us recall the homeless man example presented earlier. We asked why would a homeless man give away his only (and quite possibly his last) morsel of food on a snowy and bitterly cold winter night to a hungry child. The neoclassical economics answer is efficiently obtained from a utility function such as we presented above. One alternative is, of course, to consume the food himself and, thus, extend his possibilities of survival or, at least, minimize the pain and discomfort of hunger. But this was not merely the non-preferred alternative. Rather, it was an unbearable alternative because, for him, the preferred alternative and his optimal choice was to increase his moral consumption in the present by doing good. What does this mean? Maybe doing good means, for him, doing something that others would approve. Or it could mean doing something that does not leave him with shame or regret. Or perhaps he has a well-formed understanding of what constitutes the moral good. Another version of this second alternative is that, if the man is a believer in the afterlife, then he prefers the choice of handing over the food to the child, because by doing this he believes that he is increasing his reward credits in the afterlife.

For the purposes of neoclassical economic analysis, however, the motivation does not matter. Whatever choice he makes, it will represent economic value all the same. This is best summed up in the well-known locution that Mill attributed to

Benthan, “The quantity of pleasure being equal, pushpin is as good as poetry”.[13] So whether this choice represents his dislike for the reproaching looks from others, or his genuine concern for a hungry child in the same circumstances as his, the resulting choice is deemed to be economic in nature and represented in a utility calculation.

Economics has indeed come a long way in scientific sophistication as a discipline occupied with examinations of choice. But it would be unfair to ask economics to offer an explanation for the motivations behind our choices and valuations, for it is not equipped to offer such an explanation. Nonetheless, does this mean that, for the sake of simplicity, we should merely assume all value to be economic value? Is it sufficient to say with regard to a morally-relevant choice that, whatever ‘morality’ means to an agent, it’s reducible to a matter of preference? In the case of the homeless man, then, should we be satisfied with the description of his choice as, whatever it means for him to be moral, he just wants more of it now rather than the alternative?

Let us assume, for the moment, that value is dependent entirely on preferences. This would mean that economic value is commensurable with all sorts of value present in our experience, such as moral value or aesthetic value. To report all choices as dependent on subjective preferences, then this would mean that choices, such as what to have for dessert or what color shoes to buy would be no different from the choice to forgive someone who has been unkind (instead of “all other alternatives”) or the choice to take the time to watch a sunset as an object of beauty (instead of “all other alternatives”).

The first problem with this simplification of the economic machinery of choice is that by making the description so broad, the nature of subjective economic value becomes indistinguishable. By denying the dependence of value on choice, and the opportunity cost considerations that make such a choice an economizing choice, the unique nature of economizing choices is lost.

Another important consideration against accepting this approach of reducing all value to a matter of preference is the distinct qualitative differences among different kinds of values. We often value someone’s sincerity even if it comes with a sting rather than a more pleasant but restrained feedback. There is no question that we would prefer the latter, for a sting regardless of how well intended is still unpleasant. Yet, we may choose the former since we may find it more character building. Does this negative relation between what is preferred and what is chosen present a problem for the machinery of rational choice theory? We shall recall that according to rational choice theory, preferences are guided by two axioms: transitivity and completeness. The negative relation between what is preferred and what is chosen definitely challenges both transitivity and completeness.

Moreover, the assumption that all value is, ultimately, economic value must also confront two other challenges:

- *The phenomenon of value complexity* This is not an uncommon phenomenon since values do not always come neatly compartmentalized in separate bearers

[13] What Bentham wrote was this: “Prejudice apart, the game of push-pin is of equal value with the arts and sciences of music and poetry.” (*The Rationale of Reward*, 1830).

but, instead, often intertwined in any given bearer. Picasso's *Guernica*, for example, is a painting depicting the suffering of people and animals, as well as destruction as a symbolic representation of the effects of the bombing of Guernica during the Spanish Civil War. It is considered one of the most important works of art of the twentieth century and, as such, it has aesthetic value. In addition, since this painting is a tourist attraction at the Reina Sofia museum in Madrid, this painting also has economic value to many who choose to see it. Moreover, owing to its significance with regard to the tragedies of war, this painting also has moral relevance. As such, Picasso's *Guernica* is an object that has value complexity. But this phenomenon of value complexity occurs in humbler objects too, such as pens, pieces of paper, and chairs. A pen can harness both aesthetic and economic value when someone buys it, if the buyer was motivated to buy it not only for its instrumental use but also for its beauty. A letter handwritten on a piece of paper can obtain both moral and aesthetic significance if the writer is someone dear and the writing is clever. And a simple chair purchased at a flea market is not only an object of economic value since it was chosen among other uses of the money given in exchange, but it can also acquire a moral significance if we suppose it becomes a favorite of a beloved family member. The challenge of value complexity, then, should lead us at the very least to consider the nature of other kinds of value that may be simultaneously rolled into an economizing choice.

- *Different kinds of entities may serve as the bearers of value* A single value-relevant subject or particular value-relevant problem can be a conglomerate of persons, things, and situations. Consider that some of the most controversial moral dilemmas are difficult not only because they are each constituted by a tapestry of different kinds of interwoven values but also because they involve a wide number of entities: persons, things, acts, utterances, artefacts, and social objects. Our failure to acknowledge that a single moral problem is not only axiologically complex but that it populates more than one kind of entity risks an incomplete examination. This second challenge cannot be addressed by economic analysis since it would exceed the scope of the discipline.

Let us consider the matter of euthanasia, a problem that has been typically examined as a moral problem but, since it involves choice, it could be dismissed in principle as a matter of economic valuation. But as we unravel the value phenomena in euthanasia, we discover not only the presence of a pluralism of values but also different sorts of entities that serve as their bearers. Let us examine value complexity first. A person considering this end-of-life decision is indeed attempting to maximize utility and, thereby, economic value is clearly present. In addition, the matter of quality of life falls squarely in the domain of aesthetic value. Accordingly, the matter of euthanasia is not merely a problem of moral value and belonging only to the area of ethics. Rather, it reveals also the interweaving of economic and aesthetic values. If we now turn to consider the value entities that belong to the problem of euthanasia, then we would discover that it includes not only the person making a choice but also the persons being affected by this choice in different ways, such as family, physicians, nurses, and even society as a whole. In addition to persons, euthanasia also involves technological objects, as well as acts of kindness or indolence, the physical space in which all of this takes place, and also the resulting legal entities (laws, states, jurisdictions) that demarcate this physical space. It may be that the direction of this finer grained analysis will prove the examination of certain moral problems more difficult still. However, this only means that we would be remiss if we neglect the examination value phenomena beyond preferences and utility. As powerful as the machinery of rational choice is without a doubt, this illustration serves to cast light on its own limitations in the broader realm of social phenomena.

Thus, the framework constituted by rational choice and utility functions does not produce the same depiction of economic value as that in the Austrian framework of economic value. The Austrian theory of subjective value is deeply grounded in the Brentanian Scholastic–Aristotelian tradition. As such, it contains the phenomenological machinery of intentionality. Accordingly, the concept of economic value emerges in a particular situational setting, since the actor will have to make choices relevant to that setting and not in some generic fashion. Suppose that there is a soccer game taking place in a park and the teams have both men and women players. There are no professional soccer players at this game, and most of the male players are regular weekend players. Among these is Pepe, the best soccer player in the group, with skills groomed over years of playing soccer several times a week and staying in good shape. For this game, he is confronted with the choice of either playing his best as usual, or toning down his game and just play for fun instead of the drive to win. The way in which he will apply his specialized soccer skills is thus a choice that sacrifices either the opportunity cost of winning the game if Pepe chooses to play his usual game, or the opportunity cost of being liked by the less skilled in this casual game. This examination reveals an instance of intentional action. In other words, the choice that he makes will be specific to the social context in which he finds himself.

Moreover, in light of the intentional relation in which economic value emerges, the Austrian theory of subjective economic value accounts for instances of error. In our encounters with other persons and situations in social reality, we face the problem of error, of inexperience, of changing beliefs and social orders, and of linguistic ambiguity. Our choices, despite being grounded on a calculus of opportunity cost, are sometimes wrong. But the neoclassical sense of economic value cannot account for erroneous choices since preferences cannot be mistaken. As Gary Becker and George Stigler famously asserted, "Tastes are the unchallengeable axioms of human behavior."[14] But can expressions of taste or preference offer a good foundation for value examinations? What happens, then, if we are wrong?

Suppose that I am baking a cake for friends and choose to put salt instead of sugar. For whatever reason (explanations do not matter in the examination of a utility function), this is my preference instead of the sugar called for in the recipe. And we can never be wrong in our preferences because these are subjective and we always know what we prefer, regardless of the reason. We know when, for example,

[14] Stigler and Becker (1977), *De Gustibus Non Est Disputandum*, 76.

we prefer a cookie and not an apple for a snack. We know whether we prefer a van Gogh over a Cézanne. So, how could I be wrong in preferring to bake the cake with salt instead of sugar? If preferences were all that mattered in identifying value, then my salty cake is thus an object of value. What should we make, then, of our intuition that, regardless of my preference for salt, it is unkind—and, thus, morally wrong—to offer friends salty cake?

In contrast, Menger writes that "men can be in error about the value of goods just as they can be in error with respect to all other aspects of human knowledge."[15] Might it not be the case, too, that the neoclassical understanding of economic value has erred by departing so far and wide from the theory that it initially embraced? Ultimately, the test of a good theory is whether it tells us something about reality. I propose that economists put the Austrian *theory* of economic value to the test.

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[15] Menger (1976), *Principles*, 120.