Benedetto Croce as an Economist

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Abstract: This paper examines the economic contribution of Italian philosopher Benedetto Croce. Although deservedly credited as a great philosopher of the 20th century, he is seldom thought of as an economist. Yet, he is one. Croce's approach to economics most closely aligns with the "Austrian" school of economics, emphasizing the deductive method, a "praxeological" view of economics as a science of "human action", a subjective theory of value and economic facts, a radically subjectivist theory of cost, and resistance to positivism and naturalism. In many of these areas Croce formulated the principles of Austrian economics decades earlier than Mises, Hayek and other key members of this school.

Keywords: Austrian School, Croce, praxeology, subjectivism, positivism.

INTRODUCTION

Benedetto Croce is deservedly credited as one of the great European philosophers of the 20th century, especially in the areas of ethics and aesthetics. What is however, far less known and appreciated, is that Croce was a first-rate economist of a speculative, theoretical bent. He developed a very sophisticated economic conception which in many respects anticipated the basic tenets of what has come to be known as the modern "Austrian" economics.

The purpose of this essay is to explore Croce's contribution to economic theory and to show that he was responsible for the development of many of the crucial theoretical concepts of the "Austrian" school of economics most notably formulated by Ludwig von Mises, Lionel Robbins and Murray Rothbard in the 20th century, but mostly ignored by historians of economic ideas. What is particularly surprising and peculiar, is that this contribution went almost unnoticed even among the Austrian economists themselves. They could have found any number of antecedents and sometimes ready-made formulations for their own theories in Croce but for a variety of reasons, mostly having to do with the fragmentary nature of Croce's economic writings (just two letters to Pareto and some isolated comments) and professional skepticism of economists toward the economic acumen of a philosopher, have chosen not to do so. For example, Ludwig von Mises thought that no philosopher, save for perhaps Collingwood, had any serious grasp of economics. He disparagingly talked about Croce as just one more among philosophers ignorant of economics (Mises 2007, p. 308). In Hayek's works, I was unable to locate a single reference to Croce. Lionel Robbins' great methodological book *An Essay on the Nature and Method of Economic Science* also does not contain any reference whatsoever to Croce, although many claims and theorems in that book hold a striking resemblance to Croce's arguments developed decades earlier. Rothbard mentions Croce's great polemic with Pareto in a footnote to his article "Towards a Reconstruction of Utility and Welfare Economics", and correctly describes Croce as a "praxeologist", but without any further analysis or wider appreciation of Croce's contribution (Rothbard 1956, p. 9).

The only significant exception to this trend seems to be Israel Kirzner. In his book *Economic Point of View* he devotes a couple of pages to the debate Croce-Pareto, and correctly argues that Croce understood economic science in a Misesian aprioristic and deductive way, as opposed to the positivist Pareto. He even deservedly criticized Mises for not recognizing the significant similarities between his and Croce's understandings of economic science:

> Professor Mises has not recognized the close similarity to his own position which is evidenced in Croce's writing (see L. Mises, Theory and History, p. 308). What appears to be the principal point of difference between their positions has little relevance to the conception of the character of economic science. Both writers emphasize the rationality of all human action; both recognize that a chosen program may fail to be adhered to either because of a technical error (an error of knowledge) or because of the choice of a new

program of ends with respect to which action will be "rational" (Kirzner 1976, p. 214).

What I will attempt to show in this paper is that Kirzner's account was essentially correct, but incomplete, that he *underestimated* the extent of Croce's neglected contribution. not only in that there was a striking similarity between Mises and Croce, but also that Croce developed many of the crucial theorems of Austrian economics, especially as pertaining to methodology, welfare economics and price theory. In Croce's works at least four crucial arguments could be identified that came to be known to us, in some cases in very similar versions, via the works of Mises, Hayek, Robbins, Rothbard and others. In some cases, particularly when it comes to the utility theory and the doctrine of demonstrated preferences, Croce went further than the standard theory and developed an original interpretation that is in tension with the conventional Misesian praxeology.

Croce's arguments that will be explored are:

- Economics is a science of conscious human action
- Subjective character of economic data and radically subjective theory of cost.
- *Apriori* character of all economic theorems (rejection of empiricism)
- Unification of the doctrine of demonstrated preference with subjective utility.

I will explore Croce's contribution to each of these areas.

I. ECONOMICS AS A SCIENCE OF CONSCIOUS HUMAN ACTION

Both in the letters to Wilfredo Pareto and in his *Philosophy of the Practical*, Croce develops a detailed theory about what he calls the "economic principle" and what we may call "the subject matter of economic theory". This analysis seeks to separate economic principle from ethical, philosophical, naturalistic and psychological principles. Croce eventually ends up defining economics in the same abstract way as Mises: as a science of human action qua human action. In the same neo-Kantian fashion as Ludwig von Mises, Benedetto Croce insists that economics could analyze only conscious human choices, and not the reflective, unconscious reactions that belong to the animal realm. In a letter to Wilfredo Pareto he says:

> If we speak of conscious choice, we have before us a mental fact, if of unconscious choice, a natural fact; and the laws of the former are not those of the latter. I welcome your discovery that economic fact is the fact of choice; but I am forced to mean by choice, voluntary choice. Otherwise we should end by talking not only of the choices of a man who is asleep (when he moves from side to side), but of those to animals, and why not? of plants and why not again? of minerals… (Croce 1966, p. 181).

Mises formulates the same idea at the very beginning of *Human Action* by suggesting that the "opposite of action is not irrational behavior but a reactive response to stimuli on the part of bodily organs and instincts which cannot be controlled by volition of the person concerned" (Mises 1998, p. 20).

At the same time however, this conscious human action as *the* subject matter of economics is value free: action is analyzed as action, not as being miraculously "coordinated" with any moral, ethical, or utilitarian consequences that it might have. Just as Mises and Robbins would later do, Croce analyzes economic action as embedded in an abstract ends-means structure, not as containing any particular specification or normative evaluation of either human ends or means to achieve them. He criticizes Pareto for trying to isolate economic choices as a distinct category of human action, which is strictly morally indifferent, i.e. neither moral nor immoral. On the contrary, argues Croce, economic choices are indifferent not in terms of being a separate category, but in virtue of being philosophically emptied of any moral content: "since choices are necessarily either altruistic or egoistic, either moral or immoral, you have no way of escaping from the difficulty except the one I suggest: to regard economics as concerned with practical activity in so far as it is (abstractly) emptied of all content, moral or immoral" (Croce 1966, p. 172). In other words, the category of economic action abstracts from any moral or motivational considerations and thereby sharply delineates economics from other humanistic disciplines such as ethics, political theory or even psychology.

As an illustration of this abstract character of economic action, as opposed to moral and immoral ones, Croce offers in his second letter to Pareto a telling example:

> I will give you another example: that of a knave who thinks it *ofelimo* to himself to murder a man in order to rob him of a sum of money. At the moment of as-

> sassination, and although remaining a knave at heart, he yields to an emotion of fear or to a pathological feeling of compassion, and does not kill the man… the knave will call himself an ass and an imbecile, and will feel remorse for his contradictory and inconclusive conduct; but not indeed a moral remorse (of that he is by hypothesis incapable), but precisely a remorse that is merely economic (Croce 1966, p. 183).

Therefore, Croce comes close to what Kirzner somewhat misleadingly calls the "Robbinsian economizer", an actor involved in finding out how to achieve the given ends with the minimum of invested means, i.e. resources, irrespective of any moral or ethical considerations involved in the act of choice.

Compare this with how Mises defines praxeology: "Praxeology is indifferent to the ultimate goals of action. Its findings are valid for all kinds of action of the ends aimed at. It is a science of means, not ends" (Mises 1998, p. 15). In the most significant hard-core Misesian treatise on methodology, the first edition of Lionel Robbins' book we find the following formulation: "Economics is not concerned with any ends as such. It is concerned with ends in so far as they affect the disposition of means" (Robbins 1932, p. 29). All this is directly Crocean theory, but neither of them ever mentions Croce in the context of their definitions of economics as a science of human action which "economizes" scarce means to achieve ethically indeterminable ends.

Mises spends quite a bit of time defending both the value-free status of economics and also its independence from the errors of psychologism and empiricism. This is another typical Crocean theme. The most basic tenet of Misesian praxeology, the "fundamental action axiom", is just a different rendition of the Crocean idea of economics as a science of abstract human action: "man acts and uses means in order to achieve ends"—the famous Misesian formula he uses in order to deduce (with the help of an auxiliary assumption of the disutility of labour) the entire body of economic theory. He describes the fact of human action as an "ultimate given" of economics, as the last irreducible fact of economic theorizing (Mises 1998). However, he never gives proper credit to Croce as the first clear expositor of this fundamental idea. Consider for example Croce's most pregnant definition of economic value:

> there is nothing in the universe that is valuable, except the value of human activity. Of value as of activity you cannot demand a so called genetic definition. The simple and the original is genetically indefinable. Value is observed immediately in ourselves, in our consciousness (Croce 1966, p. 179).

It difficult to find a more convergent view of value to Mises' own than this.

Furthermore, Mises (1998) makes the case for the doctrine that could be safely described as epistemological pragmatism, coupled with methodological dualism. This means that he does not believe that the issue of the relationship between the body and the soul, between the physical and the spiritual, could be resolved scientifically, and that any kind of reductionist monism—be it a materialist or an idealist one—is necessary and proper in economic science. Nevertheless he accepts the premise that the science of human action must use different tools and methods, then the physical sciences, has to accept *methodological dualism*.

Actually, Mises rejects on the metaphysical level even pluralism, and argues for a pragmatical neglect of these metaphysical issues in economics:

> Monism teaches that there is but one ultimate substance, dualism that there are two; pluralism that there are many. There is no point in quarrelling about these problems. Such metaphysical disputes are interminable. The present state of our knowledge does not provide the means to solve them with an answer which every reasonable man must consider satisfactory (Mises 1998, p. 17).

However, this does not mean that economists can avoid using use the theoretical vocabulary and postulates that stem from a specific metaphysical point of view: namely, from "idealistic" philosophy. Mises only points out that this acceptance of methodological dualism is a pragmatic, rather than epistemological choice, and that indeed the debate about the final metaphysical issues, does not belong to economics.

In his letter to Pareto, Croce develops exactly the same line of argument. He accuses Pareto of smuggling a metaphysical assumption into the purely economic theorizing, which he considers unscientific and unjustifiable:

> …the disagreement between us consists in your wish to introduce a metaphysical postulate into economics science; whereas I wish here to rule out every metaphysical postulate and to confine myself entirely to the analysis of the given facts…Your implied meta-

> physical postulate, is, however, this: that the facts of man's activity are of the same nature as physical facts; that in the one case as in the other we can observe regularities and deduce consequences therefrom, without ever penetrating into the inner nature of the facts; that these facts are all alike phenomena (meaning that they would presuppose a noumena, which evades us, and of which they are manifestations) (Croce 1966, p. 178).

However, not only does Croce reject this interjecting of metaphysical monism into economics, he justifies the acceptance of methodological dualism by using essentially the same "Misesian" pragmatist arguments. He does not offer any philosophical reasoning to support the contrary monist idea of the physical world being an "epiphenomenon" of the mental, but simply says that the 'experience' teaches us about the irreducible difference "between external and internal, between physical and mental, between mechanics and teleology, between passivity and activity" (*ibid.*). So, the unavoidable dualism is just a methodological pragmatic convention, not a conclusion based on any full-scale ontological theory of reality, or any such 'metaphysical' superstructure. It is rather a convenient tool we use to make sense of the world, a language we inherited from everyday experience, and for which we do not have any substitute in practice. It is the way how our social world works. It is a "given fact" of our reality we cannot escape in the scientific analysis of economics (Misesian "ultimate given").

II THE SUBJECTIVE CHARACTER OF THE ECONOMIC DATA

We now come to one of the critical points in Croce's economic theory—his completely Misesian idea of economic data as being subjective: "The data of economics are the practical data of human activity in so far as they are considered as such, independent of any moral or immoral determination" (Croce 1966, p. 173). This is a wholesale rejection of empiricism, not only in its cruder positivist forms, but equally of the more subtle attempts to deny the subjective character of economic science by the dissident attacks on praxeology by some Austrians. One of the most significant hallmarks of this praxeological approach is Croce's critique of the very concept of measurability as applied to economics, which is closely related to the attempts to isolate something which would be treated as "economic phenomena" as opposed to the non-economic ones, that are allegedly "purely subjective" and hence not measurable. He is highly critical of Pareto's attempt at abstracting the narrow "economic" range of phenomena from a wider praxeological whole into which they have to be logically embedded:

> Would it for instance be in conformity with the nature of the thing, to cut away, as you wish to do, only that group of economic facts which relates to objects capable of measurement? What intrinsic connection is there between this merely accidental attribute, measurability, of the object entering into an economic action, and the economic action itself? Does measurability lead to a modification in the economic fact by changing its nature, i.e. by giving rise to another factor? If so, you must prove it. I, for my part, cannot see that an economic action changes its nature whether it relates to a sack of potatoes, or consists in an exchange of protestations of affection! (Croce 1966, p. 176).

On the most obvious level, this is an anticipation of the standard argument, developed by Hayek and Mises among others, against the ideas of measurement in economics. Hayek's rejection of this idea in his Nobel Prize speech (1974) and in his *Counter-Revolution of Science* (1952), is particularly prominent and influential:

> The correlation between aggregate demand and total employment, for instance, may only be approximate, but as it is the only one on which we have quantitative data, it is accepted as the only causal connection that counts. On this standard there may thus well exist better "scientific" evidence for a false theory, which will be accepted because it is more "scientific", than for a valid explanation, which is rejected because there is no sufficient quantitative evidence for it (Hayek 1974).

The measurability is thus only one accidental feature of economic data, which oftentimes might not be relevant at all for understanding the true causal relationship that exist between the various economic facts. What really constitutes the causal relationship in economics is the teleological connection between the different objects, material or not (Crocean "potatoes" or "protestations"), created by human mind and its purposeful action. Dixit Hayek:

> Take the concept of a "tool" or an "instrument"…It is easily seen that these concepts cannot be interpreted to refer to 'objective facts', that is, to things irrespective of what people think about them. Careful logical

> analysis of these concepts will show that they all express relationship between several terms, of which one is the acting or thinking person, the second some desired or imagined effect, and the third a thing in the ordinary sense. If the reader will attempt the definition he will soon find that he cannot give one without using some term such as 'suitable for', or 'intended for' or some other expression referring to the use for which it is designed by somebody (Hayek 2010, pp. 89-90).

Hence, not only that the objects of economic theory are not measurable, they are not objects in the first place, but the synthetic teleological creations of human mind out of material that can, but do not have to be, physical and measurable in nature. In this way, Croce explains the interplay between the teleological and physical constituents of economic data:

> Certainly, physical objects form part of the data of economics; and these, just because they are physical, are measurable. But economics does not consider physical things and objects, but actions. The physical object is just a brute matter of an economic act; in measuring it we remain in the physical world, we do not pass over to that of economics, or else, when measured, the economic fact becomes volatile (Croce 1966, p. 165).

So, the measurable, physical aspects of an economic fact are equally insufficient to establish economic causation as is the raw sensory or introspective data underlying the non-physical forms of economizing (such as Crocean "exchange of protestations"). This "abstract" (in the Hegelian sense) material has to be organized into a concrete means-ends causal nexus by a human mind and its purposeful decision-making, in order to qualify as "economic". Therefore, in a sense, only the irrelevant aspects of economic facts could be quantified and measured.

Closely related to this is the radically subjectivist theory of cost. Since value is not objectifiable, neither is the cost; it is always embedded into an act of choosing. The Austrian theory contains maybe the clearest exposition of the subjective theory of cost; it unifies subjectivism, methodological individualism and praxeological insistence on action instead on psychological conditions of action. Austrians argue that the only real costs are the opportunity costs of an action, the value of utility foregone by doing A instead of B, and that this value is always subjective, individual and known only to an actor in the moment of choosing. It is impossible to measure the cost by an outside observer, just as it is impossible to measure value or utility.

Perhaps the clearest exposition of the Austrian theory of cost is given in James Buchanan's great book *Cost and Choice* in which he writes:

1. Most importantly, cost must be borne exclusively by the decision-maker; 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 decision-maker and nowhere else.
3. Cost is based on anticipations; it is necessarily a forward-looking or ex ante concept.
4. Cost can never be realized because of the fact of choice itself: that which is given up cannot be enjoyed.
5. Cost cannot be measured by someone other than the decision-maker because there is no way that subjective experience can be directly observed.
6. Finally, cost can be dated at the moment of decision or choice" (Buchanan 1969, p. 41).

Croce offers a very close formulation of the radical subjectivity of cost in the Philosophy of Practical:

> If A spent seven soldi to buy a loaf of bread yesterday, and today he spend the same amount in making the same purchase, the seven soldi of today are not for this reason those of yesterday, nor is the bread the same as that of yesterday, nor the want that A satisfies today the same as that of yesterday, nor is the effort that his action costs him identical with that of yesterday. If the individual B also spends seven soldi for a loaf of bread, the action of B is different from that of A, as that of the A of today was different from that of yesterday" (Croce 1967, pp. 365-66).

According to Croce, not only that the costs of two different actions are different, but also the costs of the same action at different times and in different circumstances are different. Cost is very tightly bound with individual choice made in a unique decision-making environment.

III. *APRIORI* CHARACTER OF ECONOMIC THEOREMS

This is maybe the area in which Croce's development of praxeology went furthest and came closest to the formulations of Mises. Taking the lead from Menger and Bohm Bawerk, Croce defines economics as "mathematical" and "pure" science. This does not mean that economics has to use mathematical formulae in its analysis but only that the method of reasoning has to be axiomatic-deductive, the method by which complex theoretical statements are derived by using deductive logic from unquestionable first principles. Squarely in the Mengerian tradition, Croce equally rejects empiricism and historicism as the appropriate methods in economic analysis because of their acceptance of the doctrine that economic laws are contingent upon some particular circumstances of time and place, different historical conditions and so on. For Croce, economic laws are just like the theorems of Euclidean geometry, apodictically true, independent of all experience and all different circumstances:

> The propositions of the Science of Economics are rigorous and necessary. Granted that soils of different degrees of fertility are cultivated, their possessors will all obtain besides the absolute rent, a differential rent, with the exception of the possessor of the least fertile soil" (Ricardo's law). "Bad money drives out good" (Gresham's law). Now, it is not conceivable in any case that soils of different fertility, all of them cultivated, should not give a differential rent. It will be said that the State can confiscate the differential rent, or that the possessor, owing to his bad cultivation or to his bad administration, may lose it; but the proposition does not remain less sound on this account (Croce 1967, pp. 369-70).

It is important to note two things in this connection. First, economic laws are necessarily true, but nevertheless they are not mere tautologies; they tell us something about the real, outside world. The concept of a differential rent or the concept of Gresham's law, or that of marginal utility, are not mere logical statements, mere analytical reformulations of some logical truths. They convey new information about the real world in a way the tautological statements do not.

The second important implication is that the reason why economic laws are *apriori* is not that they are metaphysical truths, but rather that they contain the introspective facts of our experience that would be very difficult to abandon. Economic laws express a "rational necessity" of life, for example that people would prefer more to less of a same economic good, *ceteris paribus*. Economic laws allow us to understand reality, and not only to analyze the mental content of our representations. In this regard they are similar to the theorems of geometry; although abstract and general in nature, they nevertheless have a practical purpose:

> [w]ithout geometry we should not have been able to build the house in which we dwell, nor to measure this star upon which we live, nor the others that revolve around it or around which we revolve. Thus it would be impossible to find one's way in empirical reality without these economic formulae, and that would happen which happened when economic science was in its infancy, namely that by its means measures of government were adopted, which were admirably suited to produce in the highest degree those evils which it was thought could be avoided by its help (Croce 1967, pp. 372-73).

A good analogy and illustration for this argument could be Quine's reformulation of traditional epistemology developed in his paper "Epistemology Naturalized" (Quine 1969). In this famous essay, Quine accepts the Kantian distinction between the conceptual form and empirical content of our consciousness, but relativizes them: the dichotomy between the conceptual scheme and sensory content in Quine's reformulation ceases to be a standard Kantian metaphysical dichotomy between apperception and perception and is taken to mean just biologically and historically conditioned dynamics of conceptual scheme and empirical content.

In other words, the Kantian forms remain, but understood as biological and practical capabilities of human beings rather than as transcendental characteristics of human mind. In a similar way, the Crocean and Misesian concept of *apriori* knowledge refers to the same Kantian synthetic *apriori* forms, just liberated from their metaphysical content, and reduced to practical "necessity of life" as Croce has nicely put it, or to the hallmarks of biological and historical existence of man.

This should not be taken as a claim that the validity of economic laws depends upon their practical application. On the contrary, the laws are *apriori*, and the beneficial effects of their application represent just an illustration, rath-

er than a proof, or demonstration of their truth. The difference between Croce and Mises on the one hand and say Friedman on the other, is that empirical content in Mises and Croce comes into the theory just on the level of defining the elementary terms, not on the level of testing their complex logical consequences. Once this axiomatic content is adopted by a pragmatic convention, the entire work of the theory is solely a deductive one. The only way of empirically challenging the praxeological derivations would be to insist on different definitions of elementary terms; for example, by saying that man does not act, and hence all further consequences of the theory are false. On the contrary, in Friedman's view, empirical considerations come into play both in this first stage and in the stage of creating the final "product"—the complex theorems or "hypotheses" (Friedman 1953). No theory is safe from empirical falsification, both on the level of axioms and theorems, which theorems are just the temporary and tentative hypotheses to be further "tested".

Economic laws are hence *apriori* for Croce, and the beneficial effects of their application represent just an illustration, rather than a proof, or demonstration of their truth. The *apriori* theoretical knowledge of economic laws allows us to avoid harmful public policies by abstaining from actions that on the purely aprioristic grounds are clearly irrational:

> Such for instance would be the proposal for fresh expenditure on public works that are useless or of little use during a period of economic depression in a country, and instead of relieving, increase the general depression; or the increase of protective tariffs, when industrial progress is slow, which ought to encourage industry, but on the contrary produce an industry that is unstable and artificial, in place of one that is spontaneous and durable (Croce 1967, pp. 373-74).

So it is impossible to *empirically test* whether the Keynesian fiscal 'stimulus' as a means of countercyclical policy is justified or not; for Croce, this concept is simply nonsense, because it goes against the deductive logic of economics based on empirically and pragmatically self-evident axioms, *more geometrico demonstrata*.

Note that the strong analogy between geometry and praxeology that Croce exploits is the same analogy Mises is using time and again to demonstrate that scientific notions could be aprioristic, and yet to convey the real positive knowledge of the real world capable of practical application. Hence, Croce's understanding of the *apriori* character of economic theory is letter philosophically indistinguishable from Mises'. Economics starts from the axioms, which are unquestionable, not as logical tautologies, but rather as the apodictic and pragmatic statements pertaining to the real world. The entire edifice of economic theory is built via the process of deduction of theorems from the set of those *apriori* 'geometrical' axioms. To test economic theories is impossible since they are "necessary" (Croce) and apply irrespective of any experience.

Unlike some of the other Croce's contributions detailed in the next section, this one is important not as original and distinct from the mainstream of the Austrian school, but as a brilliant anticipation of the common fund of ideas that had been missed and underappreciated by the later economists of the same orientation, on account of Croce's status as a philosopher, and not as a professional economist.

IV. DEMONSTRATED PREFERENCE AND SUBJECTIVE UTILITY

Croce always argued that the application of deductive reasoning in economics was a form of "applied mathematics". However, this did not mean the application of mathematical methods in detail, but just the logical, or *apriori* mode of reasoning. His theory is at odds with the application of mathematics as it is being done in the contemporary treatments of general equilibrium, as well as in the neoclassical utility theory. The basic assumption that underlies those contemporary applications of mathematics is that in human action there is constancy, consistency as well as transitivity of preferences. Only if those assumptions are satisfied, the use of differential equations in the general equilibrium models, or of the infinitesimal calculus in utility theory, make any sense. It is not necessary to emphasize that rejection of these assumption is the cornerstone of Misesian theory. As we shall see shortly, Croce rejects all of these assumptions as well.

The whole basis of functional analysis in neoclassical economics is the assumption of there being some constant relationships between the measurable magnitudes and on the preference rankings being transitive. Mises attacked these assumptions in his numerous works. For example in Mises 2000, he argues that impossibility to apply the equations of mechanics to economics stems from the fact that human action does not possess the behavioral constants analogous to the physical constants one uses in the equations of physics.

For example, the gravitational constant. In praxeology, as Mises says, "everything is a variable", so mathematical analysis cannot render any new knowledge which is not already contained in the verbal formulations of it (Mises 2000, p. 99). Mathematics can model past data if they are given, and express the state of static past equilibrium through the systems of differential equations: the problem in economics is that what has to be understood is how one state of equilibrium gives way to another through the actions of real individuals. This process always creates the new data that do not belong to the modeled past state of equilibrium and hence render the entire mathematical treatment of equilibrium useless. Every moment is a new moment, with new data bringing about the new momentary equilibrium ("the plain state of rest" in Misesian terminology).

Croce developed this same idea in 1900! In developing his counter-argument to Pareto's idea of the scales of value, Croce asserts that the reason why the concept of a value scale is nonsensical has to do with the fact that economic action is always happening in a given moment. All valuations are momentary: when a person performs action A, instead of B, C or D, this does not mean that she prefers A to B, and B to C, and C to D, which would require her to choose B in the moment after A was done. No, argues Croce, the fact that the person had chosen A over all other alternatives means only that she preferred A to all other choices, which are actually non-choices in this context. In the next moment, she could easily decide to choose C over B, or B over D; the fact of a person choosing A does not imply any further choice among other alternative in some later moment:

> The absurdity involved in the notion of greater or smaller values is, in short, the assumption that an individual may be *at the same moment* under different conditions. The *homo economicus* is not at the same moment in a, b, c, d, e, f,….but when he is in b, he is no longer in a; when he is in a she is no longer in b. he has before him only one action, approved by him; the action rules out all the others which are infinite, and which for him are only *actions not preferred* (non-values) (Croce 1966, p. 165).

The implications of this are enormous. One of the most obvious would be that cardinal utility is untenable. The idea of interpersonal comparisons of utility is closely associated with the Lausanne school to which Pareto belonged and it was throughout the 1920s and early 1930s used as a rationale to welfare economics (Herbener 1997). However, Robbins (1932) is widely acclaimed as having refuted cardinal utility. Mises, Hayek and other Austrians in the 1930s, 1940s were assuming the Robbinsian refutation to be the last word on cardinal utility. And yet, Croce predated Robbins by more than 25 years. Robbins essentially derives the untenability of cardinal comparisons of utility by widening the scope of economic principles to include psychic income alongside the monetary and tangible income. And in this regard, the subjective utilities of two different persons could not be compared because nobody could penetrate the consciousness of another person and then compare the level and intensity of some feeling with his own. Hence, any public policy based on such interpersonal comparisons embedded into marginal analysis is unjustified.

However, we can say that Croce's analysis is more consistent in terms of rooting every concept in the subjective utility and individual choice, and tying tightly value and utility in the act of choice in time, rather than in some theoretical generalizations about the way preferences are formed. When a person decides to take an action *a*, all other possible choices are simply non-actions. In an act of exchange for example, what is being exchanged is not the greater for smaller value (as the conventional Austrian theory would have it) but a value for a non-value:

> A is worth B, the value of a is b, does not mean (the economists of the new school knew it well) that a=b; nor even as is said a>b; but that a has values for us, and b has not. And value—as you know—exists only at the moment of exchange, i.e. the choice (Croce 1966, p. 174).

So, he goes a step further in elaborating the subjective character of marginal analysis than either of the great lights of Austrian economics. Croce rejects the idea of ordinal utility as intra-personal comparability of different actions or choices in time, as it has been developed by the Austrian school; the notion that in every moment we can have a clear picture that we prefer A to B, and B to C, and the only restriction is that we cannot extrapolate from this to the next moment. Croce, however, does not accept even this: he consistently insists that if the value is demonstrated only in action, than everything that we can say about relative valuations of different things or different choices is that an action A at time *t* was preferred to all other actions. Not that at this given moment we preferred this action to something else, even in an unquantifiable fashion. Not only that we cannot

quantify our preferences for different actions and choices at a given moment, we do not have, as far as economic science is concerned, any other preferences apart from that which is demonstrated in action!

Croce is actually applying the Rothbardian doctrine of the demonstrated preference to the concept of ordinal utility. If economics deals only with human action and the preferences represent the economic phenomena only as long as they are demonstrated through action, then the ordinal ranking of different choices or goods in our mind is a mere psychological chimera! I can believe at a given moment that I prefer Coca-Cola to Pepsi, and Pepsi to Canada Dry. But, this is a mere introspective and psychological fact, not in the least more relevant for economic analysis then the numerical values I might have fancied myself to attach to those choices.

Actually, from the point of view of the demonstration of my preferences, the ordinal rankings of Coke, Pepsi and Canada Dry is equally irrelevant, psychological and non-economic as my claim that I like Coke 2 times as much as I like Pepsi. The only fact that I am demonstrating through an act of buying a can of Coke is that I prefer Coke and do not prefer either Pepsi or Canada Dry, and nothing more. That is what Croce has in mind when he says that the value scales (be they ordinal or cardinal) are absurd.

How is this reconciled with the theory of diminishing marginal utility which seems to require at least some form of intra-personal comparison of utility? Croce provides a brilliant answer, quite consistent with his extreme action-oriented subjectivism, in the *Philosophy of Practical*:

> If the individual A eats the bread that he has bought for seven soldi, when swallowing the second or the tenth or the last mouthful, he has a pleasure, not inferior to that which he had when swallowing the first, but different: the last was not less necessary for him, in its way, than the first; otherwise he would have remained unsatisfied in his normal want, in his habit, or in his caprice. The economic man seeks the maximum of satisfaction with the least effort (Croce 1967, p. 367).

Croce here poses a very difficult problem that later literature both in Austrian and non-Austrian versions did not address satisfactorily: how to reconcile the concept of marginal utility with the concept of economizing choices? Marginal utility as a demonstrated fact of human action would mean un-economic behavior, the failure to maximize utility, and hence would seem to contradict the basic assumptions of economics.

The most important corollary of this is that there is no a homogeneous class of "goods" (bottles of water, mouthfuls of bread and so on) that have a diminishing marginal utility. It is not that the satisfaction from consuming an additional unit of a homogeneous good does not decrease over time, but the problem is that it is impossible to demonstrate consumption of a homogeneous good in action! A mouthful of bread, a can of Pepsi are never the identical or 'equally serviceable' units of consumption the preference for which is demonstrated through action; they are just one element in an entire complex of different components of choice consumed in the same moment: the atmosphere, the feeling of the moment, the delicate balance of different tastes and so on. This finely grained architecture of choice is full of trade-offs that prevent any confident assignment of value to any one individual component of choice in isolation from the others. The only thing we can say for certain is that in so far as a man is economizing at all, the sum of all those subjective factors has to be maximized at any given point of time. But we cannot model in economics the particular mathematical behavior of any individual component of this composite called "overall utility gained by consuming an additional unit of bread": the reason being that an additional unit of bread is never consumed in isolation from dozens of other factors that influence its increasing or decreasing utility. The second and third mouthfuls of bread are not the same goods with diminishing marginal utility, but different goods with incommensurable utilities! In economics we cannot speculate about the psychological dispositions of people vis a vis different classes or different quantities of arbitrarily defined "goods" (i.e. arbitrarily abstracted features of the decision-making environment). We can only observe their demonstrated preference in subsequent moments of time. We can see that a person demonstrated her preference for a can of Coke over a can of Pepsi by choosing one over the other. But, we cannot say that an additional can of Coke would have for that person a lower marginal utility, because this is impossible to demonstrate in action in time.

Hence, Marginal analysis is a necessary abstraction in economics, but Croce's analysis demonstrates how narrow and almost non-existent its value is for predictive purposes; how essentially complex and irreducible human action is. Croce does this in a much more consistent fashion than any other Austrian economist. We can say that Croce's theory of utility and choice poses a difficult question for (any type of) economics: if an act of choice is the only material of eco-

nomic theory and if marginal valuations could not be demonstrated in an act of choice, is there any practical value of marginal analysis? What is the difference between marginal valuation and cardinal utility in this regard?

A good practical application of this type of reasoning is Walter Block's critique of the prevailing (Mises-Kirzner) theory of monopoly in Austrian economics. Block argues against the Kirzner's view that although the conditions of a true market monopoly tend to be very rare on the free market they could occur if a single supplier monopolizes the entire supply of a good. Kirzner argues that if a single producer monopolizes all the oranges in the world (very unlikely but possible event) then that monopolist of oranges would become a monopoly supplier of the orange juice. This situation would require government action.

Block's objection is an interesting one: he says basically that the oranges are not some isolated homogenous goods that satisfy some homogenous market need called "demand for orange juice". No, orange juice is just one of the possible products that can satisfy demand for a certain type of drinks; for example for the soft drinks. If a monopoly supplier increases price of the orange juice, the orange juice consumers would turn to the substitutes, such as the apple juice, or peach juice, or even the carbonated drinks or beer. The main point is that the demand for orange juice is not infinitely inelastic, or to put it differently, the relevant market in which the orange juice producers are selling is not the market for orange juice, but rather the market for soft drinks, or in some cases maybe even the market for all drinks. Dixit Block:

> Professor Kirzner, in attempting to show that market monopoly implies exclusive control over a resource, states, "Without access to oranges, entry into the production of orange juice is blocked". But, in the real world, consumers distinguish between biologically and chemically identical things: Chiquita bananas and Perdue chickens being the most famous cases in point. Now, the Chiquita banana company by no means controls all bananas, but it is the complete and full monopolist of the resource known as "Chiquita bananas". Is the company a monopolist in the Mises-Kirzner view (assuming the demand elasticities necessary for monopoly price)? If yes, then there is an awful lot of monopoly running loose on the free market. Consumers' sovereign desires are being balked at almost every turn, and perhaps we will soon be faced with the specter of an Austrian supported government anti-trust policy. If not, it can only be because the non-Chiquita bananas are substitutes for Chiquita's bananas. But if this is so, then how can mere ownership of all the oranges confer a monopoly? For, are not grapefruits, watermelons, tangerines and other fruits substitutes for oranges? (Block 1977, p. 275).

So monopolization of the supply of oranges does not mean monopolization of market in any relevant economic sense, since the unit of satisfaction or utility is not the unit of homogenous good called a can of orange juice, but rather a can of some drink capable of satisfying in a similar manner the needs the orange juice is satisfying.

However, the Crocean argument here would have been: why stop at grapefruits, watermelons or tangerines? What about the other non-tangible components of every single choice? How about the satisfaction of consuming oranges, instead of watermelons? Or of consuming any kind of juice as long as it is provided by an unhampered market, irrespective of how this affects the narrower physiological reaction of our body to the different kinds of juice? Or drinking juice provided by domestic manufacturers? Or foreign ones, if a consumer is a free-trade zealot who enjoys rewarding foreign suppliers and fostering free-trade, irrespective of price? Are we supposed to attach a higher utility to the bodily reactions over the emotional or intellectual satisfactions accompanying the enjoyment of differently produced and marketed kinds of juice? If a monopolist of orange juice "withholds" the supply or charge higher price, and the quantity sold drops, the only praxeological conclusion we are allowed to draw from this is that one component of the typical pattern of satisfying the need for drinking increased in price and decreased in quantity sold. Nothing more. People changed their preferences for buying a given quantity of orange juice. That does not imply anything about the juice's contribution to their subjective utility today, in two, four days or in a month.

CONCLUSION

Benedetto Croce developed many essential features of the high theory of Austrian economics, especially theory of value, cost and method of economic science. He anticipated and in some respects maybe offered a superior formulation than Mises, Robbins, Rothbard, Kirzner and other authors who were written, to various degrees, in the Mengerian causal-realistic tradition of economics. This is particularly the case with Croce's theory of utility and demonstrat-

ed preference, with their radical and perhaps even nihilistically subjectivist undertones, whereas in the domains of *apriori* character of economics, the theory of cost and praxeology his contribution was primarily in anticipating the works of classical "Austrians" of the 20th century. In both cases Croce's contribution was ignored for two separate reasons: first, because of highly unsystematic anf fragmentary character of his economic writings, consisting mostly in a couple of letters to Pareto and in some offhand comments in *Philosophy of the Practical*, and second in the professional prejudice of academic economists against a philosopher who wants to say anything of value in economics. However, the significance, astuteness and even originality of Croce's economic writing, forces a historian of ideas to rectify this injustice and recognize his contribution to economic theory.

NOTES

1 See for example Croce 1917 and 1922.
2 Croce's principal thoughts in economic theory are contained in two letters to Wilfredo Pareto (Croce 1966; 1967).
3 For a defense of Robbinsian method against the Kirzner's critique see Salerno 2009.
4 This pragmatist stance is shared by Mises' pupil Rothbard, especially 1976.
5 For an excellent defense of the hard-core Misesian praxeology and criticism of Hayek, Shackle and Lachmann's "nihilist" attacks on it, see Selgin 1987.
6 For a classic philosophical exposition of this idea of irreducibility of an individual experience of consciousness see Nagel 1974.
7 The difference between ice in the winter and ice in the summer invoked by Rothbard 2009, 15f-16f.

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