

REVIEW ESSAY

## A BRIEF NOTE ON INDIFFERENCE

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JEL CLASSIFICATION: B53, D01

Authors including Robert Nozick (1977) and Bryan Caplan (1999) have levied criticism against the treatment of indifference within the Austrian tradition of economic theory. Their attempts to dismiss the Austrian position on this matter as unrealistic and contradictory are unsatisfactory as they fail to properly portray the core differences between the Austrian and neoclassical concepts of goods, utility, and preference, thus rendering their analysis inaccurate.

Subjectivity is the starting point of all concepts in Austrian theory. Unlike neoclassical concepts, concepts in Austrian theory bear no reference to a material or physical objectivity. Since the primary focus of economics is action, which is first and foremost a metaphysical phenomenon, it makes sense that the primary lens through which the concepts are defined is universally applicable to every acting individual, rather than through an artificial omniscient perspective. The underestimation of this distinction is at the core of the inaccuracy.

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A good is thus not a definite physical substance but rather derives its essence from its subjectively perceived services of ends.<sup>1</sup> In a strict sense, certainty of the existence of definite physical substances is not possible nor relevant at this level. For the sake of practical elucidation, given that definite physical substances exist, the same physical substance may be a good for one individual and not for another. This may be either because they do not share the same end or, if they do share the same end, because they do not both perceive the thing as capable of serving the end.

Utility is thus not a substance (measurable or otherwise) but rather the subjectively perceived capacity of goods to serve ends.<sup>2</sup> Preference is thus not a relation between definite physical quantities but rather the necessary result of scarcity and multiple simultaneous ends prompting the action of a given individual. The intent of all human action is to serve subjective ends through subjective means.<sup>3</sup>

Given scarce means and abundant ends, the simultaneous service of and provision for all ends is not possible. Thus, as more or less means come into the disposal of an individual, a hierarchy must exist to determine which end is served and which is foregone. At any present moment, the individual has preferences for which ends the available means shall be employed toward. If the end is in the present, the individual can serve the end; if the end is in the future, the individual can provide for the end. From a more essential perspective, providing for future ends is itself a present end.

Decreasing marginal utility is a reference to this phenomenon, known as economization. Utility decreases at the margin between one served end and the next, not between arbitrary units of definite physical substances.<sup>4</sup> From this perspective, utility functions make no sense. A mathematical relation between the quantity of an

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<sup>1</sup> This characterization is consistent with Menger (2007, 119), Mises (1998, 92–93), and Rothbard (2009, 12). Kirzner (1963, 45–62) is not clear on the matter. Hayek (1978, 275) appears to focus on definite physical substances.

<sup>2</sup> This characterization is consistent with Menger (2007, 119) and Mises (1998, 120–21). Rothbard (2009, 17–21) uses the term *utility* as synonymous with value.

<sup>3</sup> This characterization is consistent with Mises (1998, 97) and Rothbard (2009, 17–21). Menger (2007) does not use the term *preference*.

<sup>4</sup> This characterization is consistent with Menger (2007, 122–28), Mises (1998, 124–25), and Rothbard (2009, 23–25).

artificial substance that is supposed to be objective yet intangible and the objective quantities of arbitrarily measured things is incompatible with the Austrian version of economization, which is subjective and discrete, in the sense that an end cannot be partially served, but either is fully served or not at all.

If the individual cannot fully serve the given end with the available means, the individual moves on to serve the next preferred end that can be fully served. An individual does not derive less utility from a second egg than from the first if the relevant end is the execution of a recipe that calls for two eggs. In that case, the individual may be willing to pay a significantly higher average price per egg when it is possible to buy two eggs than when only one is available for purchase.

Indifference is thus not a relation between definite physical substances but rather a supposed case in which two ends sit at the same place in a preference ranking. The denial of indifference in Austrian theory is a denial of the possibility of being indifferent between ends.<sup>5</sup> This denial does not imply that it is not possible to be introspectively undecided between two definite physical substances, as the Austrian theory has been mistakenly portrayed as claiming.<sup>6</sup>

If an individual is confronted with choosing between a blue and a yellow shirt when the relevant end to be served is getting dressed, it is true but un insightful to note that this individual might not be able to make a decision between the shirts based on color, as it is not a relevant margin of choice in this case. To this individual in this case, the shirts are the same good. To point out that this individual does not care whether the blue or yellow shirt serves the end is as profound as pointing out that going into a pool from one end will make you just as wet as going in from the other. In every decision, there is an abundance of margins of choice. Not all margins of choice are praxeologically relevant. Preference does not necessarily exist in all the cases in which it could possibly exist. The only preference that is relevant to the understanding of purposeful human action is the preference of ends.

The only remaining question is whether it is true that indifference between ends is not possible. Even if there is an attempt to force

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<sup>5</sup> This characterization is consistent with Mises (1998, 274) and Rothbard (2009, 307–10).

<sup>6</sup> This point seems to escape Block (1980, 1999, 2009a, 2009b).

indifference, there must exist an amount of means with which only one of the ends between which the individual is hypothetically indifferent can be served. In this scenario, either one of the ends must necessarily be served because anything else would contradict the endowment outlined in the premise. Stopping to think about the choice between ends is in itself an action that serves an end. Inaction is action as well. As one or the other end is served, it becomes evident that such end is the preferred one, regardless of how that was determined. An action is not necessarily evidence of a specific preference, but all action is indeed evidence that a preference necessarily exists. As a matter of logic, there can be no indifference between ends.

For preference to be manifested, preference must exist. If logic requires preference to be manifested with respect to all ends, then logic requires preference to exist with respect to all ends. The only case that does not require preference to be manifested is that of a singular end. Indifference cannot exist in the case of a singular end. Since preference and indifference are mutually exclusive, and preference of ends must exist in all cases but one, and indifference cannot exist in that case, then indifference of ends cannot exist in any case.

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