

A comment on Prof. Hoppe's note on preference and indifference

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September 2007

Professor Hoppe (2005) responds to various authors' debate over whether indifference can be demonstrated through action. The starting point for the discussion is a quotation of Rothbard (quoted by Caplan 1999) indicating that action precludes indifference. Hoppe corrects errors made by others in responding to Rothbard's claim.

Nozick (1977, quoted by Hoppe) writes that Austrians need the concept of indifference, for example, in discussing the law of decreasing marginal utility, because one must distinguish among different units of a homogeneous good. Block (1999) responds to Nozick, using an example of 100 units of butter. Block explains that if a person decides to sell one of the units of butter, say the 72nd, the person demonstrates that he prefers the remaining 99 units to the one sold.

Hoppe corrects this, noting that the person prefers the money to *a* unit of butter; which unit is sold is not a relevant aspect of the choice. Clarity on this issue requires, in Hoppe's words, "a correct description of his choice." The choice is not which particular unit of butter to give up; rather, it is whether to give up a unit of butter or not. So the choice to sell one particular unit is not demonstrating preference among the different units.

Caplan explains, "I can be indifferent between green and blue sweaters, but strictly prefer one sweater to none" (2001, p. 78). On this, Hoppe agrees (2005, p. 90). If one is indifferent between green and blue sweaters, then it indicates that *a* sweater is preferred to some other article of clothing. This description of choices among homogeneous alternatives (e.g., units of butter, flavors of ice cream, colors of sweaters) seems reasonable.

However, Caplan (1999, p. 826) explains, "One can only observe that I chose a green sweater, but this does not rule out the possibility that I was actually indifferent

between the green and the blue sweater." Hoppe does not effectively refute this argument; we are still left with the possibility that the actor could be indifferent between *heterogeneous* goods and still choose one of them.

Caplan (1999, p. 826) provides an obvious example when he says he would be willing to flip a coin to decide which color sweater to wear. The action *may* demonstrate that he prefers the dark sweaters to a t-shirt or other articles of clothing, as Hoppe suggests. Alternatively, it could be that to him the sweaters are heterogeneous goods and he likes some aspects of the green sweater and other aspects of the blue one. Ultimately, their merits are equal, but he just chooses one, perhaps with a coin toss. He can be indifferent between the two, and prefer either of the sweaters to any other options available to him.

Consider another example. Suppose there is a vending machine which has two buttons: one for Coke and one for Pepsi. If we observe a person choose Coke, we can infer either (i) the person prefers Coke to Pepsi, or (ii) the person prefers *a soft drink* to water from the fountain or a beer at the nearby tavern. The first case requires no explanation. The second case illustrates Hoppe's point, where the "correct description" is provided; the products are homogeneous to the person, and he is indifferent between the two. But there is a third possibility. Suppose the person likes some aspects of each soft drink (they are heterogeneous goods), but the person is indifferent between them and chooses one randomly.

Alternatively, suppose the vending machine has a third button: "Either Coke or Pepsi." If a person chose this over the other options (Coke, Pepsi), wouldn't indifference between Coke and Pepsi be a reasonable inference for us to make?¹ Of course, a person who is indifferent between Coke and Pepsi would be equally happy with any of the three buttons being pressed. And pressing the third button could also indicate Hoppe's situation in which the

¹ At the 1992 Mises University at Stanford, I attended a lecture of Professor Block's, in which he discussed indifference. After the talk I asked him about this case, of the third vending machine button. His response was that this

would simply illustrate a "preference for uncertainty." This response is not entirely convincing.

person simply prefers a soft drink (no particular one) to something else. The point is that a choice between alternatives does not necessarily rule-out indifference. This appears to contradict the Rothbardian argument that indifference cannot be demonstrated in action.

If a person is indifferent between two options, then allowing the choice to be made randomly could be a manifestation of indifference. Flipping a coin to choose a soft drink, or choosing a sweater with the lights off in the room, or asking someone else to order my entrée at a restaurant, could be examples of choices being made even when the actor is indifferent between the options.

Alternatively, we may view these examples as cases in which uncertainty or risk has been introduced and the person enjoys some amount of uncertainty. But if the actor is risk-neutral, then the decisions described in the examples above could indicate indifference on the part of the actor. However, this indifference is simply not *observable*, since the person chose one option over the other(s).

Professor Hoppe's note is certainly helpful. However, it appears that Caplan's point is also correct. Why exactly must a choice reflect a strict preference for one good over another? If Professor Hoppe would address that specific issue, it would further clarify the indifference debate.

References

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