

Indifference: The Cost of Deliberation

Person

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1 Introduction

Indifference is widely considered incompatible with the axiom of human action. For example, consider the following quote [Rothbard, 1977]:

Indifference can never be demonstrated by action. Quite the contrary. Every action necessarily signifies a choice, and every choice signifies a definite preference. Action specifically implies the contrary of indifference. If a person is really indifferent between two alternatives, then he cannot and will not choose between them. Indifference is therefore never relevant for action and cannot be demonstrated in action.

However, by treating deliberation between alternatives as an instance of action, it is possible for an actor to be indifferent as a result of a not unusual application of the axiom itself. We begin by considering that preferences are not always immediately apparent to actors – that sometimes an actor must deliberate between available options. Considering that there is a dichotomy between purposive and unconscious action [Mises, 2010, sec. 1.1.1] and that it would hardly be defensible, while rightly reflecting on internal experience, to claim that *all* deliberation is unconscious action or that deliberation never happens, it must be that *some* deliberation is purposive action. (I do not make a claim either way as to whether *all* deliberation is purposive. In this case, the mere possibility of purposive deliberation is sufficient.)

Of note is the implication that deliberation, in and of itself, implies that the subjective ordering of preferences must, in some instances, enter a state of indeterminacy. If this were not true, people would never deliberate because the order of their preferences would be immediately determinable.

Given that a deliberation before an action is itself an action, we can deduce that, like all action, it will be continued only so long as the perceived prospective gain in doing so outweighs the perceived cost – that an actor will only continue to consider alternatives as long as he expects the potential loss of choosing incorrectly to outweigh the cost of continuing to consider them. This is a surprising conclusion in that, in the case that the deliberation is to be aborted, the action performed is at once decisive and indecisive – the actor decisively chooses to end deliberation, but, by definition of the fact that the deliberation was not allowed to come to a conclusion, the ordering of the alternatives is left in an indeterminate state.

To directly emphasize the difference between this and Austrian economics orthodoxy, again consider the above quote: “If a person is really indifferent between two alternatives, then he cannot and will not choose between them. Indifference is therefore never relevant for action and cannot be demonstrated in action.” The result advanced in this paper contradicts this quote. Instead, I conclude that a person can *and must* choose one of the alternatives if:

1. either is preferred to none and
2. the maximum expected opportunity cost of choosing what may later be decided to be the incorrect option is judged to be less than the cost of continuing to deliberate.

In this situation, it is simultaneously true that the person cannot strictly order the two alternatives and they must choose one. To choose neither would violate the assumption that either is preferred to none. To continue to consider them would violate the second assumption.

To give an example: in any normal case, it would be absurd for someone to devote a significant amount of time choosing between dollars to spend; the perceived potential gain would clearly be outweighed the cost of a “significant” amount of time. (I do not mean to claim that, as a rule or value judgment, people shouldn’t choose between dollars; but instead to explain why they don’t.) It seems a more satisfying explanation to say the actor doesn’t have sufficient incentive to warrant deliberation than to say that he preferred to spend one dollar over others.

(Note to reader: I could give more examples here. There are a few common examples I’ve seen repeated in [Hoppe, 2005, Block, 2009, O’Neill, 2010]. Is that necessary/would it add to the paper?)

2 Rebuttals

The first apparent resolution to this conundrum is to claim that the subjective ordering remains strictly ordered during deliberation. But if that is the case, why would the actor need to deliberate? There must be some (implicit or not) understanding in the actor that he may choose wrong and later regret his decision. From this understanding, from this uncertainty, arises the indeterminacy of preferences.

Another counterargument is that a person can never be in such a situation. This argument is directly countered in the introduction. Rothbard argues that internal experience is sufficient to establish the axiom of action [Rothbard, 1976]. Review of internal experience would reveal the reader that he or she has themselves experienced conscious deliberation many times in their past experience.

Yet another is that the idea of potential loss relies on a difference of utilities, which is not a valid operation on Austrian ordinal utilities. Firstly, I would respond that the concept of potential loss could be more aptly described as an actor’s estimation of the potential opportunity cost of choosing an option which may later be decided to have been the less preferred option. Secondly, even if the previous reformulation is insufficient and this result does vaguely rely on a difference of utilities, that does not invalidate the fact that we, as actors, understand that the potential loss of choosing incorrectly differs between instances of deliberation – different decisions *do* have different importance and thus some decisions merit more deliberative effort; it is only a matter of stating this fact in valid praxeological terminology. This assertion is verifiable by reflection upon internal experience, which is a valid source of knowledge in praxeology [Rothbard, 1976]. To give an example that may clarify what I mean by decisions of varying weight, consider that a person is likely to invest much more effort in choosing between cars than in choosing between brands of pencils; I suggest that this is because the person believes that there is more to lose in choosing (what may later be decided to be) the incorrect car than in choosing the incorrect brand of pencil.

The phrase “what may later be decided to be the incorrect” hints at another possible attack against this result. It may, *prima facie*, seem to presume that a choice is *not* a statement of preference, because of the word “incorrect.” It would obviously be a problem if this result depends on the assumption that preference is not demonstrated by action – that would make this nothing more than begging the question. But that is a misinterpretation of the meaning of that statement. Austrians admit that all action is uncertain. In fact, it is a fundamental fact of action [Rothbard, 1976]. All I am relying on in this statement is that any decision has an amount of uncertainty and that the actor is (at least sometimes) aware of this uncertainty. Deliberation is conceived as a method by which uncertainty about one’s subjective ordering can be decreased. By “what

may later be decided to be the incorrect,” I mean to point to the actor’s awareness that he may regret the decision. Deliberation continues until the expected bound on regret is lower than the cost of continuing to deliberate.

3 The Nozick Problem

This result gives a praxeological explanation for the possibility of weak preference. It has already been shown that allowing for weak preference and embracing indifference is a possible solution to the Nozick problem [O’Neill, 2010]. But O’Neill depends on the possibility that alternatives can actually be judged equal (“homogeneous and interchangeable or equally serviceable”). The novelty of the explanation proposed herein is that it needs no such assumption. We get indifference without any mention of homogeneity or equality. We can define an equivalence class to answer Nozick as any set of goods between which an actor does not care enough to actively deliberate.

Alternatively, this result seems compatible with – and a possible extension to – a response due to Hoppe. In response to the Nozick problem, Hoppe argues that the nature of an action is largely a function of the actor’s intent [Hoppe, 2005] – that there may be many behavioral interpretations of an action, but the actual content of the action is determined by what the actor intended. He goes on to conclude that, in the case of indifference, it is actually the case that the options are one and the same. We could extend this argument by saying that, once the cost of continuing deliberation exceeds the potential benefit, the choice is really between continuing and “the other,” where the alternatives between which the actor is deciding collapse into a single alternative to continuing deliberation. At this point, the intent is to end the deliberation. This is attractive in that a definitive choice (that of ending deliberation) is being made.

Unfortunately, both previously described responses to Nozick still fall flat to Block’s criticism that it is necessary to explain how one of the many alternatives is selected from “the other” [Block, 2009]. As long as we hold that it is necessary to describe a deterministic mechanism behind “indifferent” choices, neither will suffice.

4 Further Implications

The broadest implication of this result is that action may not always truly indicate preference as specifically as Austrian economics has always claimed. It may be that, when I buy gum, for example, I do not specifically choose Wintergreen over Spearmint; it may simply be that I want one of the two and do not care enough to actively weight the two against each other. Looking back, I don’t think I do often think when picking up a pack of gum in the checkout line.

If this is actually what I do, and what others do in relative frequency, the informational content of economic action is quite reduced from what we Austrians generally claim. I am not communicating a specific preference for one of the flavors, as would normally be deduced from my action; I’m simply demonstrating a preference for gum or for either of the two. Yet the distinction between a preference expressed for one and an “indifferent preference” for either is not encoded in the information communicated to the market by the transaction. This could have rather large ramifications on important results in Austrian economics, like Hayek’s in “The Use of Knowledge in Society.”

Fortunately, it is possible to put a vague bound on the influence of this false (or incomplete) information communicated to the market. The system is self correcting in such a way as to make formerly unconscious “decisions” conscious when (or once) it matters. Since deliberation only aborts when the cost of continuing is higher than the cost of choosing incorrectly, we can say that actors will only abort deliberation in decisions that are “insignificant” to them. Should many actors act indifferently to the same decision, it may result in

changes in the price structure, but these changes would be counter to the trend, thus limiting and correcting the trend in the unusual circumstance that they a significant number “randomly” choose the same way. A random drop in demand for Spearmint over Wintergreen will cause a drop in the price for Spearmint thus increasing the cost of choosing incorrectly, increasing the incentive to actively deliberate, and encouraging actors to express definite preference.

References

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