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**A Praxeological Case for Homogeneity and Indifference**

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**Abstract:** The purpose of the article below is to explain the concept of homogeneity, the basis for the law of diminishing marginal utility. We will not rely on a psychological definition as Block (1980) does. Instead we offer a counterfactual, hence praxeological, approach to indifference. Recent papers by Long (2006) and Hülsmann (2003) are very helpful in this matter. The paper also clarifies and develops Hoppe (2005).

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The law of diminishing marginal utility states that every additional unit of a good is less valuable than the previous unit, because it is employed to satisfy a less important need (since it is a subsequent need) than the last but one unit (Menger 1981, pp. 125-7). This follows from the simple fact that people choose to do what in their opinion is best for them at the very moment of decision. However, the law of marginal utility can only be meaningful if we can somehow show that two units of a good are units of “the same good”. Only then, after introducing the concept of homogeneity, can we derive from the law of diminishing marginal utility. If two units of some good are not homogenous, then we can only say that they are different goods, and there is no point in saying they are part of some wider concept of “supply”.<sup>1</sup>

Homogeneity is a central theme to the law of diminishing marginal utility, central to the concept of supply or stock, and the pricing process. We have three possible ways to define it.

The first one is a physical definition. This means that homogenous units are defined just by looking at the physical structure of a good that is controlled by an acting man. Austrian tradition, however, teaches us that the merit of being a good is not derived from the physical nature of a thing, but rather from the human attitude toward scarce resources. This means that two goods may have a perfectly identical structure, but can be treated by human beings in a radically different way. Take the example of a wedding ring. The ring that is given to a girl by her fiancé has a much greater value to her than the exact same ring, when it is given to her by a total stranger on the street. Although physically these two rings might be homogenous, they definitely will be treated as heterogeneous goods. Obviously, then, physical properties of scarce resources cannot be the source of defining homogeneity, if we are to speak of human action and valuation (Rothbard 2004, p. 24).

The second method of defining homogeneity is psychological. We would say that there are baskets of goods towards which people are indifferent. It doesn't matter to them which one is used, because the map of their utility shows indifference towards them. However, this concept of indifference is an imaginary construction that is not connected to action. As many Austrians emphasized, the concept of indif-

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<sup>1</sup> The debate on the problem was started by Nozick 1977.

ference is not a proper way of describing human behavior. Every action inherently means choosing some alternative and setting something else aside. That is why indifference cannot be a part of a realistic theory of action, but is rather a part of the murky ideas of psychology, in which the scientific background is definitely less precise than in the case of praxeology (Rothbard 1997).

The last attempt to define homogeneity is the praxeological way, which, as it seems, has not yet been successfully presented. This is an uneasy task, but from the Austrian perspective a very satisfying one. But how is one to define indifference and homogeneity if a man, through action, always prefers something over something else?

Where the Austrians have gone wrong in the analysis of this problem is when they concentrated only on that *which is seen*. Bastiat (1964) (and recently Hülsmann (2003)), however, always warned us that a good economist should also be aware of the facts *which are unseen*. What we see in action is always a preference for something rather than something else. Economic laws, however, are not only about what people do, but also about what people would have done otherwise. Take taxation for example – how can one explain the effects of taxation without referring to what would have occurred if taxes were not collected by compulsory measures? How can one explain that price ceilings cause shortages? If we are to concentrate only on that which is seen, we cannot say that people prefer not to pay taxes. Under the conditions they face, they do prefer to pay the taxes (because otherwise they would go to jail). That is why we refer to other possible scenarios, which are not visible, but can be described in a scientific manner. If one is to concentrate on that which is seen exclusively, then one will not be able to solve many economic problems. The “demonstrated preference” concept has been greatly overemphasized in this field (Rothbard 1997).<sup>2</sup>

Austrians realize that unseen facts are important, but strangely they do not see this in the case of the debate on indifference.

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<sup>2</sup> Moreover, in the welfare analysis, the concept is empty without property rights theory. This has been recognized by prominent Austrians, although not always spelled out by them as a critique of Rothbard. See, for example Hoppe, with Hülsmann, and Block 1998, p. 31; Herbener 1997, p. 100; and Hülsmann 1999, pp. 14-6. Those authors point out that one needs a proper theory of property (in Professor Herbener’s approach the starting point is “self-ownership”). If so, the demonstrated preference concept is not that important, but rather it is only a derivative of ethics.

What we have to do in order to stay within the field of praxeology is to stick to the Mengerian point – economics is a science of *human needs* (Menger 1981, p. 52). Hence, it easily follows that when one wants to point to indifference and homogeneity, one should do this with reference to human needs.

How can we define homogeneity in this framework? It's very easy – two objects are homogenous *if they both can serve the same end*. If so, it follows these are two units of the same supply, because they are *capable of satisfying the particular need*. From the point of view of an *actor's* particular need they are *homogeneous* and *interchangeable* or *equally serviceable*. It does not have anything to do with psychological considerations or psychical characteristics, but rather with the possibilities of action.<sup>3</sup>

Now, this point cannot be demonstrated through action, and cannot be observed in action. But as we emphasized before, economics is not only about actions, but also about different possibilities of acting toward the satisfaction of human needs. Opportunity costs, comparative analysis, theory of taxation, interventionism and so on – all these important economic theories can be established *only* because we refer to something beyond that which is seen. We refer to different phenomena which are equally important as events actually happening.

It seems it is possible to have a cake and eat it. This solution rejects the neoclassical concept of indifference and saves the concept of homogeneity. Let us suppose while I'm cold, I have a need to wear a sweater. I have two kinds of sweaters available, blue and red. From the Mengerian perspective both sweaters can satisfy the same need. Both blue and red are capable of arriving at the same end. Hence, they indeed are the part of homogenous supply of goods – sweaters.

In some sense, we can even say that *from the point of view of satisfying his particular need* acting man will be *indifferent* toward the two sweaters. This "indifference" will not be psychological, as in the neoclassical analysis, but will be strictly praxeological: both sweaters are equally serviceable in the light of the particular need. In the means-and-ends framework those two become a part of the same supply of goods.

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<sup>3</sup> Menger wrote that a *thing* to become a *good* must be capable of satisfying a particular human need. Hence, if we have *two units of a thing* capable of satisfying a particular human need, then it logically follows that we have *two units of a good*. Also, as Philipp Bagus pointed out to me, we must remember that the key element is what an individual actor *regards* as a particular means to attainment of an end.

They are homogenous before action and after action.<sup>4</sup> One person acting and actually choosing one of the sweaters demonstrates his preference for it. But this does not change the fact that *if* the end is to keep one warm, *then* both sweaters are homogenous and man is indifferent which one will satisfy *this* particular need.

One should not think, however, that this concept of indifference can explain action or that it is similar to the neoclassical concept. All this solution offers is the concept of homogeneity in the Mengerian tradition without falling into the murky waters of psychology. Somebody might ask, if a man is indifferent to the two homogenous sweaters, because they both can serve the same end, how does it happen that in action one is preferred over the other? The answer is also simple: because other factors come into play. The immediate response can be why ignore these factors? Well, the common sense answer is because we want to explain why the prices of these things we call “apples” are different from these things we call “cars” even though by acting, one can make all of them heterogeneous. We, as living human beings, have a rational tendency to group things under different labels. It is as simple as that!

Science is based on abstraction. Take the case of biology. If you analyze the biological function of cows and the fact that they give milk, you abstract from certain characteristics of cows. You ignore their particular color, their place in time and the identity of their owners. Why? Because you want to explain the particular fact which is common to all cows: their capacity to give milk. It does not mean that you want to say that the cow does not have a color, or that it does not exist in time, or that the cow is not owned by somebody. You just *abstract* from those things, which are not essential to the particular case analyzed. As Roderick Long well showed in his recent paper, this is a case of a non-precise abstraction: you ignore particular factors in

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<sup>4</sup> This was the problem with Block’s analysis (Block 1980, pp. 424-25). He suggested that goods are homogeneous before action (people are psychologically indifferent, because there is no action taking place), but during action goods become heterogeneous. There are two problems with this approach. First of all, there is no suggestion how to group things into classes (different kinds of supply) and not treat all the billions of billions of goods as homogenous. Since before action all goods are not part of action, then cars can be homogenous with peanuts. The second problem is that in Block’s framework homogeneity is psychological and cannot be praxeological. If that is the case, then the law of decreasing marginal utility cannot be praxeological and also must be psychological. But this law should stay within the realm of economics, not of psychology. Otherwise, we’ll reach an absurd conclusion that the law of marginal utility applies to the state of non-action and when action is started this law is overthrown.

order to grasp the nature of several things that do have something in common (Long 2006). Every single cow is *unique, heterogeneous* – it has its own specific features (time, place etc.). But there are some common things to all cows.

We can see the similar case in economics. We recognize some things as “supplies”, because we realized they could *serve the same end*. From the point of view of particular actions all goods will always be heterogeneous just like cows in our example. But between all these things we can find similarities, which will make them homogenous from our perspective. And since economics deals with human needs and actions taken to satisfy them, then this perspective should be satisfying. Some things are homogenous since they can serve the same end, and we can consistently imagine a counterfactual scenario under which some other unit was employed rather than one we saw employed for the particular need to be satisfied. Of course, this cannot explain actions, but *this tool is not supposed to explain a particular action*. It is supposed to explain the concept of “supply” *with reference to the idea of action*. In the case of a sweater, other factors determined that red was chosen over the blue one. But for the sake of analysis of supply we abstracted from those factors and defined the concept of homogeneity which helps us to economically distinguish apples from cars and holy water from soda. This, as in the case of cows, is a non-precise abstraction. We do not negate the fact that other factors are also important for choice just as we didn’t negate the fact that cows are unique in their existence and have their own unique characteristics. For the sake of analysis of the milk industry, we abstracted from those factors. And for the sake of grouping goods into homogenous parts, we have chosen a Mengerian perspective of abstracting from particular choices, but at the same time with keeping an eye on human needs. We did not negate these choices. We abstracted from them without suggesting that this can explain *concrete* actions. It can’t. But it can praxeologically explain the concept of homogeneity in the light of *possible* actions.<sup>5</sup>

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<sup>5</sup> Hoppe (2005) offered an interesting solution to the stated problem: we can either *say* that we used a “particular unit” or we can *say* more generally that we just used a “unit of supply”. This “description” solution, mostly correct, has to be completed, for Hoppe did not precisely spell out what the limit of this generalization process is, and he also did not show how to define the concept of supply. On the highest level we could say that everything is homogenous, because “we did something with something” (we acted). Our paper offers the proper limit of generalization: satisfaction of the particular need – so Hoppe’s “preferred description” is here “preferred end”. And the definition of supply is

Nozick is right – we cannot explain what supply means if we only concentrate on actions which are taken. But we can explain the concept of supply by seeing that which is not seen immediately and without falling into psychological investigations.

The last question that remains is: how does this differ from the neoclassical perspective? In neoclassicism, people are indifferent to *all the goods*, which basically leads us to a striking conclusion, which cannot be accepted, that people are indifferent to different needs. This, however, seems nonsensical.

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groups of units suitable for the realization of the particular end. This also integrates with Mises' point that ranks of homogenous goods are interchangeable, but not goods themselves (see Mises 1966, p.119; Hülsmann 1999, p.7).

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