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REJOINDER TO HUDIK ON TRANSITIVITY

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Abstract

Block and Barnett (2012) was an attempt to defend Austrian economics against a neoclassical criticism of it based on the money pump, an attempted reductio ad absurdum of the praxeological school's rejection of transitivity and stable preferences. Hudik (2012) is a critical response to Block and Barnett (2012). We regard Hudik (2012) as a defense of mainstream economics in this regard and thus a renewed attack on Austrianism. The present paper is an attempt to refute Hudik (2012).

Keywords: Transitivity, indifference, preference, choice, time, rationality, stability, consistency

1 INTRODUCTION

We are very grateful to Hudik (2012) for his attempt to promote neoclassical economics and undermine an Austrian contribution to this discipline. An oft-made critique of the praxeological school of thought is that its adherents do not communicate with the mainstream of the profession (Laband, and Tollison, 2000).[1] The present interchange is evidence to the contrary.[2]

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In Block and Barnett (2012) we attempted to counter the "money pump" argument,[3] a reductio ad absurdum of the Austrian critique of transitivity. Briefly, it states that a person who gets into this trap will lose all of his money. Therefore preferences must be transitive, contrary to the praxeological view that they are not, indeed, cannot be.

What problems does Hudik (2012, p.456) have with this thesis? There are many. One such is that we confuse stable preferences with transitivity; that we really aim at the former, not the latter, and do not realize this. The two, of course, are not unrelated in this analysis. But our target is the latter, not the former. However, it cannot be denied that a key element in our rejection of transitivity of

[1] For a refutation, see Sutter, 2012; Block, Westley and Padilla, 2008.

[2] Who says Austrian economists do not sometimes base their claims on "evidence"?

[3] For background on this concept, see Cubitt, and Sugden. 2001; Echenique, Lee, and Shum, 2011; Fishburn, 1991, 1988; Rabin, and Thaler, 2001.

preferences is that it relies, intimately, on the stability function. It is only when preferences are assumed stable that intransitivity makes no sense. For example, if A>B, and B>C, then of course A>C, assuming no other changes. If someone wants to maintain C>A, he has some explaining to do.

In section II we discuss a minor disagreement Hudik has with us. Section III is concerned with the distinction between preference versus size relationships. The emphasis of section IV is on temporality. Section V focuses on singularism, VI on rationality, VII on time, VIII on stability and IX on indifference curves. We conclude in section X.

2 MINOR ISSUE

A minor difficulty Hudik (2012, p. 457) points out is that "Transitivity (is) far from *being* an 'equation' as Block and Barnett (2012, p. 238) claim" (emphasis added by present authors). But we made no such claim. Instead, we said that transitivity may be "denoted" by an equation. "Denoted" means "illustrated," or "exemplified" or some such. Surely our use of "denoted" did not constitute so grave an error as to even merit mention?

3 PREFERENCE AND SIZE RELATIONSHIPS

Hudik (2012, 457) next taxes us that we cannot properly distinguish between "to be greater than" and "to be preferred to." His proof? We are guilty "us(ing) the same symbol ">" for both. But surely it takes no great intelligence to make a distinction of this sort? Is it really such a great leap of faith in the reader on our part that we would expect him to discern this issue from the context? In our defense, if such really be needed, that we really can distinguish preferences from greater or lesser, we do say (Block and Barnett, 238): "… difficulties arise when the constituent elements of the argument are not objective dimensions[4] but rather preferences.[5]"

4 TEMPORALITY

Hudik's (2012, p. 457) next sally is more substantive: "… (contrary to what Block and Barnett suggest) the relation 'to be preferred to' as used in mainstream economics is atemporal…" *Contrary* to what we said? This is precisely our critique of orthodox economics. Nor did we "suggest" any such thing. Rather, we came out and explicitly charged neo-classical economists with this very fallacy. That is precisely why there is no logical contradiction, no irrationality, if a man prefers A to B, B to C, and then C to A.[6] It is because in the real world of Austrian economics,[7] decisions can only occur at a given point in time, and each one takes place at a different place in the time dimension.

5 SINGULARISM

Hudik (2012, 458) asserts that "… transitivity is widely used in Austrian economics … whenever the concept of a 'preference scale' is mentioned." True, all too true. But this is a widespread error, within the praxeological community. According to Mises' insight about singularism, all action is binary. It consists, solely, of choosing one thing and setting aside another, the next best option. Strictly speaking, and how else are we to consider Misesian methodology, there are no preference scales out there, or inside us either, that consist of several, or dozens, or hundreds, of options. There is only choosing and setting aside. As we say (Barnett and Block, 2009) in that context: "Given the above considerations, it is clear that there is a contradiction between Mises' theory of singularism, and the scales of values employed by both Rothbard and Menger. If the former is taken seriously, then only one human action can be undertaken at a time. If the latter are correct, *more than* only one human action can be undertaken at the same time …There is at the very least a tension between two basic building blocs of Austrian economics. The doctrine of singularism maintains that choice is inevitably and necessarily between two and only two things: that which is

[4] Read "to be greater than" here.
[5] Read "preferences" here.
[6] Note, we do not use this symbol ">" any more, lest it confuse the reader. Well, at least not in this paragraph.
[7] Joseph P. Salerno and Peter Klein have emphasized that Austrian economics embodies the causal realist approach to which we the present authors subscribe. See on this http://wiki.mises.org/wiki/Causal-realist_economics

chosen, and the next best alternative, which is set aside. However, implicit in the concept the scale of values is the claim that choice can take place over many, many alternatives. If one of these has to be jettisoned, and we argue that one must be, then we vote for the latter."[8]

So Hudik is correct in his assertion that preference scales and transitivity are "widely used in Austrian economics." But, we claim this is a weakness, not a strength. Many practitioners of the praxeological school have lost sight of this crucially important contribution of Mises.

6 RATIONALITY

Hudik (2012, p. 458) misunderstands our (Austrian) use of the concept of "rationality." He construes it as "completeness," whatever that is, and offers to us, in his helpful manner, "reasonability." But we were very clear in Block and Barnett (2012) as to how we were using this word. Here is our footnote 5, in its entirety: "States Mises (1998, p. 103): 'The attempt has been made to attain the notion of a nonrational action by this reasoning: If *a* is preferred to *b* and *b* to *c*, logically *a* should be preferred to *c*. But if actually *c* is preferred to *a*, we are faced with a mode of acting to which we cannot ascribe consistency and rationality. This reasoning disregards the fact that two acts of an individual can never be synchronous.' We owe this citation to Gordon (2003)."

According to Hudik (2012, p. 458), "… the so called 'money pump' argument is not intended to be a 'knockout blow against the Austrian contention that there is nothing irrational about non-transitivity.'" But even this author (2012, p. 459) admits that "people with intransitive preferences might have a hard time surviving in market competition." If that is not at least an attempt at a "knockout blow" it is hard to know what would be. For if the trades under these conditions continue indefinitely, the person with intransitivity would lose all of his wealth.

7 TIME

In his discussion of transitivity and time Hudik (2012, p. 459) avers: "As acknowledged by both the Austrians and mainstream economists, an observer does not have direct access to the preferences of an agent; all he can see are the agent's choices." Not so, not so, at least for the neo-classicals, although we acknowledge that this is an accurate interpretation of the praxeological vision. However, orthodox economists do indeed think they have "direct access to the preferences of an agent." Do they not write utility functions? Do they not avail themselves of indifference curves? These, surely give them all the "direct access to the preferences of an agent" that anyone could want.

We are again accused of failing to understand a distinction; this time one between "transitivity of preferences" and "consistency of choice" (Hudik, 2012, p. 460). This might well even be true, for all we know. We are completely aware of the meaning of transitivity of preferences; well, at least we think we are. But, frankly, we are stumped by "consistency of choice." Does this mean one always picks vanilla ice cream over chocolate, when both are available? Can choices be consistent,[9] when ceteris paribus conditions never hold?

8 STABILITY

The heart of Hudik's (2012, p. 460) disappointment with our paper concerns stability of preferences, it would appear. And here he turns from Austrianism to orthodox economics, relying upon, defending, such stalwarts of that viewpoint as Gary Becker, no Austrian he (Block, 2013). We are presented with a demand function where the demand for quantity of a good depends upon its price, one's income and his tastes. When the former changes, our task is to determine which of the independent variables is responsible, and we are to strive mightily not to focus on the latter, that is, tastes.[10]

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[8] See also Barnett and Block, 2010.
[9] Whatever that means
[10] Hudik, 2013 relies heavily in this section on Stigler and Becker, 1977. For other Austrian rejections of the "physics envy" of mainstream economists, see Barnett, 2008, p. 140, fn. 20; Callahan, 2001; Clark and Primo, 2012; Mises, 1978, 1998; Prowse, 1996; Rothbard, 1960, 1992, 1997; Taleb, 2010, p. 184; Terrell, 2010.

Becker and Stigler (1977), with support from Hudik (2012) venture out onto this path in an attempt to put economics on a "scientific" basis. And, as the physical sciences are to a great degree dependent upon observable phenomenon, then so, too, must be economics, in this view. But Callahan (2001) quite properly gives this thinking the back of his hand:

"Imagine someone suggesting that the best way to gain understanding of literature is by focusing only on observable phenomena. We could watch lots of people reading, follow them around in bookstores, study the chemical composition of the books themselves, and so on. But we would never explore what these books meant to anyone—including ourselves—because this is an 'unobservable.'

"The fact that a focus on observable, physical events has been a successful strategy for understanding the observable, physical world is really not too surprising when you think about it. But the phenomena of economics, literature, religion, and so on are mental phenomena, and we have no reason to believe that this same technique should work for increasing our understanding in these areas. The techniques employed are chosen because they mimic those of the physical sciences, not because they deepen our comprehension of the phenomena in question. If we only think of people as acting in an entirely different way than our own, human experience tells us they act, then our mathematical models will 'work' better."

States Hudik (2012, p. 460): "Where Block and Barnett seem to be satisfied with the explanation 'Green changes his mind about his trip to Canada' (Block and Barnett, 2012, p. 241), a mainstream economist who follows Becker's research program, far from denying that unexplainable changes in mind can occur, would look for a hidden parameter that might have played a role in the change of Green's behavior."

We agree with Hudik on this point, and enthusiastically so. But why, pray tell, should Austrian economists such as the present authors wish to follow Becker's misbegotten research program? If all Hudik's (2012) critique of our paper amounts to is that it is insufficiently mainstream, we fully accept this verdict of his, again, quite enthusiastically.

9 INDIFFERENCE CURVES

But our author is not quite yet finished. He has one more arrow in his quiver: a criticism of our treatment of indifference curves. It is a staple of mainstream economics that indifference curves cannot cross. This implies irrationality; e.g., denial of the premises of this tool of orthodox economic analysis a veritable contradiction of them. And, too, overlapping indifference curves denies transitivity, another bed-rock of their philosophical armament. In figure 1 of Block and Barnett (2012, p. 245) we depict just such an occurrence. A and B are equally preferred, since they are both found on indifference curve U2. A and C are also equally preferred, since they are each located on indifference curve U1, which crosses U2 at point A. We claim it is transitivity that undergirds the claim that indifference curves cannot intersect. Of course, with unchanging preferences, B must be preferred to A if we confine the chooser's tastes to that depicted in the indifference curve mapping.

Hudik (2012, p. 461), however, is having none of this. He asserts: "The crossing of indifference curves is nothing but a graphical representation of intransitivity: the two are just different means of representing one idea. Therefore, it is simply not true that "indifference curves are compatible only with transitivity" (Block and Barnett, 2012, p. 239) and that "[i]f transitivity fails, according to this logic, then so must indifference curves" (Block and Barnett, 2012, p. 246). Whether preferences are transitive or not has no bearing whatsoever on the *existence* of indifference curves; it translates only into their *properties*."

But this seems to be a distinction without a difference. Indifference curves cannot *exist* if their *properties* do not include the proviso that they cannot have any points in common.

10 CONCLUSION

Our thesis in Block (2012) was that the money pump reduction ad absurdum fails to overturn the Austrian critique of transitivity. As long as preferences are stable, Becker and Stigler et al to the contrary notwithstanding, transitivity cannot be a viable bedrock of economics. Hudik's contribution, as we see it, is to emphasize stability. It is indeed very important, and this author does yeoman work in pointing that out. Perhaps we should have entitled our own paper "Transitivity, stability and the money pump" instead of "Transitivity and the money pump." Where was Hudik when we needed him?

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