

Subjective Cost Revisited

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In volume 1 of *The Review of Austrian Economics*, Professor Leland Yeager exhibits a lack of understanding of the concept of (subjective) cost as explicated by Professor Buchanan.¹ Yeager presents the following example:

Suppose the best course of action open to me is, in my judgment, to open a restaurant of a quite specific type in a specific location. The next best course, then, is presumably to open a restaurant identical in all but some trivial detail, such as the particular hue of green of the lampshades. If so, the cost of the precise restaurant chosen is presumably an all but identical restaurant worth to me, in my judgment, almost fully as much. Generalizing, the cost of a chosen thing or course of action is very nearly the full value that the decisionmaker attributes to it.²

This leads him to “a serious question. How far from identical to the chosen course of action must the next best alternative be to count as a distinct alternative?”³

It is important to note that Professor Yeager’s example does not concern a decision facing some other person, but rather a decision facing himself. Therefore, when he says, “The next best course, then, is presumably . . .” and, “the cost . . . is presumably . . .” in referring to an alternative, we may, and I do, assume that he is relating this information qua decisionmaker and that it reflects the true state of mind of the decisionmaker. Of course, no one but the individual decisionmaker can know what the decisionmaker considered to be the best alternative and the utility he attached thereto, at the moment of decision, except the decisionmaker himself.

Dr. Block, in volume 2 of *The Review of Austrian Economics*, responds: “The only answer consistent with Austrian subjectivism . . . is that it is up to the individual evaluator.”⁴ This response is inadequate. Block is drawn into it by falling into the old trap of allowing the other person to frame the issue.

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The way in which Yeager formulates the question is misleading; it implies an incorrect understanding of the concept of alternatives. That is, to the extent that the decisionmaker perceives the courses of action to be identical, they are not alternatives; rather, it is only to the extent that the person perceives the courses of action to differ that they are alternatives. Thus choice and, necessarily, cost relate to the differences among possible courses of action, not to the elements that are identical.

Therefore, in Yeager's example, since the difference between the relevant courses of action extends only to the color of the lampshades, the choice extends only to the color of the lampshades. And since the choice extends only to the color of the lampshades, the only cost involved is that of the chosen color of lampshades. This cost is in terms of forgone utility. That is, so as, at the moment of choice, the benefit of the choice resides in the utility he expects to gain from having lampshades of the color of choice, so also the cost of the choice resides in the utility he expects to forgo from not having lampshades of the color he thinks he would choose if he did not choose the color he did choose. Thus the choice was misstated. It was not between opening "a restaurant of a quite specific type in a specific location" and opening "a restaurant identical in all but some trivial detail."⁵ Rather, the choice was actually with respect to the trivial detail.

Thus Yeager's question as to the magnitude of difference necessary to make alternatives distinct is seen to be based on a misunderstanding of the concept of alternatives and, necessarily therefore, of the concepts of choice and cost. The correct response to Yeager's question is that it is only the differences among possible courses of action that comprise grist for the mill of choice. Thus choice and, necessarily, cost exist only with respect to these differences. And Yeager's generalization is, of course, false.

Notes

1. James M. Buchanan. *Cost and Choice*. Chicago: Markham, 1969.
2. Leland B. Yeager. "Why Subjectivism?" *The Review of Austrian Economics*, vol. 1 (1987), p. 24.
3. *Ibid.*, p. 25.
4. Walter Block. "On Yeager's 'Why Subjectivism?'" *The Review of Austrian Economics*, vol. 2 (1987), p. 204.
5. Yeager, p. 24.