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Normative and Positive Economics

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not, and how one can evade it.

See also:

evolutionary economics: major contemporary themes; producer and consumer sovereignty

Selected references

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normative and positive economics

Virtually every mainstream textbook in economics begins with a brief discussion of the difference between positive and normative economics, made a dogma by those who slavishly followed Lionel Robbins in his *Essay on the Nature and Significance of Economic Science* (1932). For example, Schotter's *Microeconomics* states that:

Normative or welfare economics deals with what ought to be rather than what is and involves prescriptive statements that may be based on value judgments. Positive economics deals with what is rather than what ought to be and involves descriptive statements that are objective and verifiable.

(Schotter 1994: 4)

Schotter's emphasis is not unusual. Since positive economics is thought to be objective and verifiable, normative economics by implication is subjective and not subject to rigorous validation. This view is inherited from David Hume, who argued that a gulf exists between "is" and "ought"; and, more recently, from the 1930s logical positivists, who claimed both that scientific statements alone are rational and that scientific statements are those that are empirically verifiable. Mainstream economists, accordingly, claim that their work is scientific on account of its being value-neutral.

Facts are theory-laden

Economic methodologists, however, deny that empirical evidence confirms a theory as scientific, because disconfirming evidence may always turn up in the future, and because any given set of facts may give support to conflicting theories. They also deny that theories that stand up to empirical tests designed to falsify theories must be scientific, because theorists can always add immunizing, auxiliary assumptions to protect core principles. Accordingly, it has not been shown that theories are scientific in virtue of their relation to facts and evidence. Indeed, philosophers of science since Norwood Russell Hanson (and later Thomas Kuhn) have argued that subjective factors are inevitably involved in the development of scientific ideas, and that facts are theory-laden because they are identified from the perspective of PARADIGMS. At the same time, many philosophers reject the notion that value judgments are inevitably subjective, and, indeed, often argue that widely accepted value judgments may possess as much or more "objectivity" as many scientific propositions.

Values permeate economics

The mainstream view, then, that there exists a clear dividing line between positive and normative economics, is mistaken. Some traditional economists admit this when they allow that an individual's value judgments influence the views they develop. But this view is not widely supported in the mainstream of economics. Even when it is, value judgments are often understood as "individual motivation may shape theory," rather than as "the world views of economists in general influence the very questions they ask, the significance they attribute to some issues rather than others, and the concepts they select." For example, neoclassical economics focuses only upon instrumental rationality, and then characterizes decision making as rational when it is atomistic and self-interested. But this selective characterization of behavior has never been given any real scientific defense and, rather, represents a theoretical commitment one must have to be admitted to the ranks of neoclassical economists.

Thus, while it cannot be said that a clear dividing line exists between positive and normative economics, it is still unlikely that anyone would deny that there is a difference between positive and normative statements. This suggests that the important issue for heterodox economists is to understand how positive and normative economics are related and influence one another. Wilber (1996) puts this especially well by rejecting the notion that value neutrality makes sense, and by asking how our values come to permeate economic reasoning (see VALUE JUDGMENTS AND WORLD VIEWS).

Characterizing and appraising value judgments

One proposal for how to do this, deriving from a reconsideration of the nature of values, is discussed by Blaug (1992). He draws attention to Nagel's (1961) distinction between two types of value judgments: characterizing value judgments and appraising value judgments. Characterizing value judgments concern the choice

of subject matter, the mode of investigation to be followed and the criteria for judging results. Characterizing value judgments involve the sort of methodological judgments that are indispensable to any science. Appraising value judgments concern evaluative statements about the world, and are the basis for our claims about the relative desirability of different social outcomes. Appraising value judgments are usually considered to be normative economics, but it is obvious that characterizing value judgments are also normative and that they are essential to science.

Hence, Blaug recognizes that the methodological judgments or ground rules employed by any theory, when it makes various characterizing value judgments, are not free of the normative commitments and appraising value judgments the theory's practitioners hold. For example, the neoclassical treatment of agents as rational maximizers can well be argued to depend on the view that it is desirable or morally praiseworthy that individuals pursue their own restricted well-being in market contexts, and that doing so produces the greatest social good through an "invisible hand" process. At the same time, this view of economic agents can easily be argued to rule out the idea that individuals ought morally to put justice in relations with others above individual gain, and that failure to do so furthers an alienated life dominated by impersonal market relations. Thus, value judgments of the appraising sort enter into economists' selection of concepts and methods at the most fundamental level, and we seem not to have improved our understanding of "positive" and "normative" economics using Nagel's distinction.

Reconstituting means and ends

A more promising approach, that also derives from a reconsideration of the nature of values, is to be found in institutionalist theory, which denies from the outset that positive and normative economics are mutually exclusive domains or categories. Dugger and Waller (1996), for example, accordingly argue that

the positive deals with our evaluating means and the normative deals with evaluating ends. More importantly, however, what counts as a means and what counts as an end is relative to the situation at hand. Indeed, something can be a means on one occasion and an end on another. Thus, an evolutionary approach, which views the economy as being concerned with historical processes and *PATH DEPENDENCY*, must be prepared to understand the continual reconstitution of means and ends.

This explains the value permeation of economic reasoning at a fundamental level, and ushers in an alternative to normative positive dualism in the form of Thorstein Veblen's split between *instrumental* and *ceremonial* knowledge. Instrumental knowledge is concerned with facts, getting things done and solving problems. Ceremonial knowledge is opposed to instrumental knowledge, and is concerned with prestige, getting credit for getting things done, and with exercising power (see *INSTRUMENTAL VALUE THEORY*). Since, throughout human history, the ceremonial has tended to prevail over the instrumental, a progressive economics aims at a critical apprehension of the use of power in the economy to gain position and prestige. Social problems – not social theories – should be the focus of economics. Since society will never be free of problems, the aims and ends of society are always evolving, thus suggesting the idea of "evotopia" (moving toward an evolving good society) rather than utopia as a guiding view of good economics (Hodgson 1995).

Ideology and analysis

Finally, Dobb's Marxist appraisal of the positive and normative deserves attention. Dobb also begins with a re-characterization of values, and reconstructs the traditional Humean dualism between "is" and "ought" in terms of a distinction between *IDEOLOGY* and *analysis*. In contrast to Hutchison's view of values and ideology as an individual's personal predilections and commitments, Dobb defines ideology as "a whole *system* of thought, or coordinated set of beliefs and ideas, which form a frame-

work, or higher-level group of related concepts, for more specific and particular notions, analyses, applications and conclusions" (1973: 1). As such, individuals are often unconscious of their ideological views, and tend to take many of their elements as having been established as "true" rather than "believed propositions." For example, Dobb takes the traditional fact-value distinction itself as being ideological in that most economists take it to be rooted in incontrovertible truths rather than an unexamined belief.

A view related to Dobb's needs to be distinguished. Schumpeter (1954) wrote of the difference between economic analysis and an economist's vision of the nature of reality and the problems at hand. The latter is ideological, and involves "a preanalytical cognitive act" which must precede "analytic effort in any field" and which may also "re-enter the history of every established science each time somebody teaches us to see things in a light of which the source is not to be found in the facts, methods, and results of the pre-existing state of the science" (Schumpeter 1954: 41). Yet, Schumpeter also claims that economic analysis can still be thought to be objective and independent of ideological views, indeed as a "box of tools" of a purely instrumental nature upon which scientific progress depends. Dobb rightly challenges this conception, arguing that this formal view of concepts as tools overlooks the way in which tools are developed for theoretical and ideological purposes.

Thus, if we are to employ a distinction between positive and normative economics, it must be with great caution and an awareness of the ways in which values inevitably permeate theories. It is true that descriptive and prescriptive language differ and that there are important differences between facts and values. However, economics is highly value-laden and, thus, understanding the role of values in economics is necessary to doing good economics.

See also:

ethics and morality; modernism and postmodernism; natural rights; rhetoric

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North-South trade models

Models of North-South trade examine the interaction of two regions: the rich North (also called the metropolis, core or center) comprising "developed" economies, and the poor South (also called the periphery) comprising "less-developed" economies. Special reference is placed on international trade, factor movements, technology transfer and related factors. They consider the links between the two regions, and usually highlight the dynamic interaction between, and the structural differences between, the two regions. They can be seen as a reaction to the dominant micro-theoretic Heckscher-Ohlin-Samuelson (HOS)