



DEBATE OVER THE NORMATIVE POSITIVE DISTINCTION IN ECONOMICS

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ABSTRACT. This is a debate between two economists regarding the viability of the distinction between normative and positive economics. It takes place between the father of a student at Loyola University New Orleans (who is also a professional economist), and the student's instructor in introductory microeconomics. This interchange took place during the spring semester, 2012.

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1. Introduction (Walter Block)

I have been teaching introductory microeconomics for more decades than I would like to mention. In the spring 2012 semester, I had an experience I never had before that I would like to share with the readership of this Journal. I was making a point to my class of some 60 students that I thought would be pretty much non-controversial. I set out what appeared to me to be the relevant difference between normative and positive economics: the former pertains to values, the latter to facts, causal relations.

A young man in the third row of my class, Robert (Bo) Cappelli, greeted these two claims of mine if not with derision, than certainly with extreme suspicion. As is usual in such cases, I tried to convince him of the soundness of my views on these matters by use of different examples, body English, hey, anything that might work. I started talking about normative and

positive chemistry. I gave him the David Humean example that “ought” doesn’t logically follow from “is.” He was adamant that I was wrong. So far, no news. All economics instructors have faced similar challenges, as I had, many times before. Then he said something I had never heard before. He told me that his father disagreed with me. My first thought was that his dad was undoubtedly a bright guy, perhaps a doctor, or a lawyer, or a physicist or an engineer who had taken one or two courses in economics a long while ago, and was just talking through his hat. It is awkward for a professor to criticize the views of the parents of any of his students, so I thought I would step lightly around this potential land mine. I gently asked this student about the profession of his father and he said, much to my amazement, that he was a professor at the Wharton School, with a Ph.D. in economics from Oxford. Whoa, I said to myself, surely his dad would agree with me, not his son. I obtained his name and email address, and wrote him about this episode.

Whereupon ensued one of the strangest back and forth correspondences it has ever been my pleasure to engage in.¹ The present paper consists of a dialogue between the two of us, Walter E. Block and Peter Cappelli, my student’s father. In section II Professor Cappelli gives his introduction to this collaboration-debate among-between the two of us. Section III consists of our further exchanges on the normative positive distinction. We conclude in section V.

Dear Peter (if I may),

I have the honor to be your son’s instructor in a Loyola University New Orleans course, Introduction to Micro Economics. I have a nickel bet with him. I claim you’ll support me on my claim that there is a valid distinction between normative and positive economics. He denies this. I think I’ll win that one. However, looking over your c.v., I doubt you and I will agree on much more (I invite you to take a look at mine, to verify that claim). Well, I’m going to have an interesting semester with Bo. Wait, you and I agree on at least one other issue vis-à-vis Bo, I’m sure: we both think economics is important. He ranks art, and glass blowing way higher. At least for now. But, maybe between the two of us we will be able to interest him in the dismal science.

Best regards,
Walter

2. Introduction (Peter Cappelli)

Dear Walter,

Many thanks, Walter, that's very kind of you to write and to take an interest in Bo.

Yes, indeed, there is a difference in the definition between positive economics, describing what is, and normative economics, describing what should be.

Bo has a point, however (which did not come from me), that the two are not as distinct in practice as the operational definitions above suggest. Normative positions certainly get informed and altered as a result of findings from positive economics. And people who are outside economics – especially moral philosophers – would claim that much of the positive work in economics contains assumptions, often unspoken, that are effectively value statements. Utilitarianism comes to mind, for example.

So I guess if I was judging the outcome of the bet, I'd say you get three cents and Bo gets two.

Best regards,
Peter

Dear Peter,

I only claimed that there is a valid distinction to be made between normative and positive economics. Just because, as you correctly say “Normative positions certainly get informed and altered as a result of findings from positive economics” does not in the slightest violate my claim. All it shows is that people's normative positions (say on the minimum wage law) sometimes get informed by positive findings (that this law exacerbates unemployment for the unskilled). Just because A causes B does not mean we cannot distinguish between A and B. Lightning causes deaths. But, surely, lightning and deaths are still distinguishable.

Just because, as you correctly say “much of the positive work in economics contains assumptions, often unspoken, that are effectively value statements” again does not in the slightest violate my claim. All it shows is that this type of “positive work in economics” is no such thing. Rather, it is fallacious. Some of the positive work in the physical sciences also contains unspoken assumptions, for example, my theory is correct, no matter what the evidence. This does not mean there is no distinction to be made; just that the speaker is a poor scientist.

I want my full pound of flesh out of your son; e.g., the full five cents. Three cents is mistaken. Please reconsider. We older folk, and fellow econ-

omists, have to stick together against these young pups – non economists, like your son.

Best regards,
Walter

Dear Walter,

Let me describe the issue more completely as it is informed by the philosophy of science.

I understand the distinction that Milton Friedman was trying to make with this argument, the idea that there are studies that are free from norms (positive economics) and then arguments based on norms (normative economics).

If what you want to say is that, in principle, one could imagine such a distinction, that's certainly seems like a reasonable, commonsense statement, although if our colleagues in epistemology where to intervene, they would give us a hard time as to what constitutes the objective interpretation of facts.

I can see why it is useful as a concept for beginning students to think about the need to divorce personal beliefs from the search for valid statements about the world.

The claim that within the actual practice of economics there is a distinction between "positive" arguments, which don't have values associated with them, and "normative" statements that do, is harder to sustain. We might well agree that there are statements about the world – synthetic statements in the language of our colleagues in philosophy – that seem reasonably free of norms. Simple statistical relationships might meet that standard. But once one is doing "economics" as opposed to simple description (although even here norms get in the way), there is a package of associated laws and assumptions that are part of the field that are not free of normative statements. For example, we might want to say that a study looking at what is the effect of minimum wages on unemployment is value-free. But then we realize that how one constructs the study is shaped heavily by the economics paradigm: Do we attempt to control for human capital/education, an argument based on a set of economic laws attempting to explain what causes people to be unemployed?

If one wants to see these differences in practice, consider studies of happiness, which are now done in economics, psychology, and sociology. All are taking on the same basic question (what drives happiness), but they look quite different. The reason is that the different disciplines have different frameworks and laws, embedded in which are norms and values. In economics, the idea that people behave rationally to maximize their utility is quite different than ideas in sociology, where the assumptions are often that

the ability to act is constrained, or in psychology, where objective reality is seen as less important than perceived reality in determining happiness.

Contrary to your assertion above, it is not possible to do work that is recognized as economics and have it be divorced from the frameworks, laws, and assumptions of economics, which have value statements built into them. It is certainly possible to use economic results to make normative statements, but those statements don't become economics simply because they use economic results. Someone may use results about the factors driving increased poverty from economic studies to make the moral argument that we need to do something about poverty, but why one would think of that as a "normative economics" statement is puzzling. It is simply a moral statement that uses results from economics. (Creating a reasonable definition of "normative economics" seems pretty challenging.)

That is why, once we really get into the question, it is hard to accept the notion that there are studies in economics free of values and also studies in economics that are full of values.

Regards,
Peter

Dear Peter,

Your account, if I understand it correctly, is that there are numerous economists who violate the normative positive distinction in their professional capacity, and that therefore there is no valid difference to be made between these two very different universes of discourse. I readily concur with his major premise; mixing facts and values is an unfortunate but very usual occurrence in our profession. But this in my mind hardly means we can deduce his conclusion, that there is little or no distinction to be made between them.

Hume famously said (paraphrase), "You can't deduce an 'ought' from an 'is.'" No truer words were ever spoken or written.²

States Hume (1739, book III, part I, section I): "In every system of morality, which I have hitherto met with, I have always remarked, that the author proceeds for some time in the ordinary ways of reasoning, and establishes the being of a God, or makes observations concerning human affairs; when all of a sudden I am surprised to find, that instead of the usual copulations of propositions, *is*, and *is not*, I meet with no proposition that is not connected with an *ought*, or an *ought not*. This change is imperceptible; but is however, of the last consequence. For as this *ought*, or *ought not*, expresses some new relation or affirmation, 'tis necessary that it should be observed and explained; and at the same time that a reason should be given;

for what seems altogether inconceivable, how this new relation can be a deduction from others, which are entirely different from it.”³

As far as I am concerned, this is definitive. Let us stipulate that this sentence is correct: “Free trade, an absence of all tariff and quota barriers, best promotes human well being.” Does it follow from this that we *ought* to implement such a policy? Of course not. This is the point I try to drum into my students: that there are two entirely separate universes of discourse: the ethical and the economic. It is impossible to deduce any normative conclusions from purely positive premises. It simply does not logically follow from the fact that rent control ruins housing, or tariffs reduce world GDP that we *should* refrain from these policies.

I fear we are speaking at cross purposes, passing each other as ships in the night. You mention “the objective interpretation of facts.” I certainly agree with you that this is a tricky issue, with all sorts of complexities and traps packed into it. One economist may see inflation in terms of price rises, another on the basis of money stocks. But, I insist, these disputes over the objective interpretation of facts have nothing, nothing at all, to do with *values*, at least not necessarily so, as you imply. One economist may interpret poverty in a relative manner, another in terms of absolutes. I have no doubt that normative elements *may* enter the picture. For example, left wing economists are more likely to take the former position, right wing ones the latter. But this is not a *necessary* condition.

You state: “The claim that within the actual practice of economics there is a distinction between ‘positive’ arguments, which don’t have values associated with them, and ‘normative’ statements that do, is harder to sustain.” Yes, yes, again I totally agree with you. Values are “associated” with just about everything in economics, with the possible exception of disputes about the demand elasticity of bananas in 1970 in the U.S., and even here I am not so sure. But, “associated” is a terribly long way away from being necessarily connected to. I am claiming, merely, that there is no *necessary* connection between facts and values; that is impossible to deduce the latter from the former. Nothing you have said, at least so far, undermines that Humean claim of mine.

You very reasonably ask “Do we attempt to control for human capital/education...” This is an interesting and important question. But what, pray tell, does this have to do with the normative positive distinction? Yes, possibly, either including or deleting this from a regression model will be in effect placing one’s thumb on one side of the balance. This decision *could* stem from moral (or immoral) considerations. But *need* this be the case? Of course not, I maintain. Remember, I do not at all take the position that the normative and the positive are never comingled in what passes for

economic analysis. Indeed, I regret it. I only defend the perspective the there is a *distinction* between them, and they *need* not be conflated.

Yes, it cannot be denied that “economics, psychology, and sociology... have different frameworks and laws. I am in 100% agreement with you on this point. But *must* these differences rest on *values* as you imply? I go so far as to say, “Of course not.” Economists, psychologists and sociologists all violate the normative positive distinction, as do, I am sure, chemists, biologists and physicists. That is just the human element. But, I take the very moderate position that none of us *need* do so. Why? Because there is a valid distinction to be made between the normative and the positive, between values and facts, between ought and is. This is the point I try to make in my introductory microeconomics courses, and I cannot for the life of me understand why I am having such great difficulty making it with you.

You are perhaps more knowledgeable about psychology than me. So, I take it from you that for our colleagues in this field “objective reality is seen as less important than perceived reality.” So what, is my reply. That perceptions are more important for them than reality may possibly have something to do with values, but this *need* not be the case. Even if it is, even if it always is, for them, this still does not vitiate the normative positive distinction. I maintain that $2+2=4$. I am also a devotee of the Pythagorean Theorem. I don’t much care how many people reject these insights, whether based on values or not. These two mathematical claims are still true, and more relevant to our discussion, have nothing to do with is versus ought.

You maintain that “assumptions of economics ... have value statements built into them.” Please elaborate. Which economic assumptions? Downward sloping demand? Upward sloping supply? Transitivity? Profit seeking? A tendency to approach equilibrium? Those are the assumptions of economics that immediately spring to mind. Yet, it is difficult for me to see how values are “built” into any of them.

Let me try one last riposte at your position. You are puzzled by why one would think of our need to do something about poverty as a “normative economics” statement. Perhaps they speak different languages in our respective alma maters, but at Columbia, at least when I studied there (they have gone pinko more recently, so all bets are now off), this would not at all be “puzzling.” The statement, “we need to do something about poverty,” would have been the very paradigm case of normative economics. In sharp contrast, here are some positive statements on this issue: the best way to cure poverty is to impose socialism (I regard this as a false positive statement); the best way to cure poverty is to embrace free enterprise and private property rights (I regard this as a true positive statement). Was this not the way such matters were dealt with at Cornell when you were a student there?

I again ask you to award that entire nickel to me, not just three cents of it. I want my pound of flesh out of your son.

Best regards,
Walter

Dear Walter,

No, I'm afraid you missed the point completely. The issue is not about confusing "ought" with "is." It is not about confusing moral statements with empirical statements. It is about fundamental questions in epistemology and perhaps more specifically ontology as applied to the philosophy of science. These questions apply to all fields of science and are not unique to economics.

To repeat my earlier points, when one looks at any scientific field or one that tries to be scientific, they all have distinct ways of addressing questions. In my description above, psychology, sociology, and economics look at similar questions in quite different ways. They have, for example, different standards of proof: Sociology has traditionally been more sympathetic to approaches like ethnography, psychology more reliant on laboratory experiments, and economics more inclined to analyze existing data.

The theories that they rely on for structuring tests, especially if they use deductive-normative frameworks, have many assumptions built into them. For example, economics looks at wage differences largely through the framework of human capital theory. Despite the fact that standard human capital equations only explain about one third of the variance in wages, economists typically assume that human capital explains wage differences and other factors are exceptions to that model. It has been common in finance to assume that financial markets are efficient – indeed business students the world over are still taught this – yet research in finance continues every year to show new ways in which those markets are not efficient (i.e., price movements can be predicted).

More generally, a standard assumption in economics is that people behave rationally and that departures from rationality are exceptions. Yet behavioral research in other fields, now finally gaining a foothold in economics, shows clearly that people behave "irrationally" in ways that predictable and not exceptional.

These differences occur in all branches of science. They are what makes an argument in physics different from an argument in chemistry. They are also what philosophers of science study. They are not necessarily based on values in any kind of moral sense, but there are certainly contexts where moral values come through strongly. For example, your reliance on individual decisions and the resulting market outcomes as the basis of your arguments is no doubt informed by the view that individuals truly are free to act, and

not highly constrained as sociologists show in many of their studies, that people are rational, and not predictably irrational as cognitive psychologists show, and that markets require a great deal of government infrastructure to make them effective, as political scientists show. What determines your willingness to either ignore or assume away this empirical evidence from other fields? It could be an approach to scientific questions or it could be personal values interfering with the scientific process.

Regards,
Peter

NOTES AND REFERENCES

1. For a debate between the two of us on another subject which emanated in similar manner, see Cappelli, Peter, and Walter E. Block (2012), “Debate over the Minimum Wage Law,” *Economics, Management, and Financial Markets* 7(4): 11–33.

2. I abstract from a possible violation of this structure emanating from Hoppe’s brilliant analysis of performative contradictions and argumentation ethics. See on this: Hoppe, Hans-Hermann. 1993. *The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy*, Boston: Kluwer; Hoppe, Hans-Hermann. 1989. *A Theory of Socialism and Capitalism. Economics, Politics, and Ethics*, Boston: Kluwer Academic Publishers.

3. Hume, David (1739), *A Treatise of Human Nature*. London: John Noon, 335. <http://books.google.com/books?id=-Sp8B0ZdyAYC&pg=PA335#v=snippet&q=%20every%20system%20of%20morality%22&f=false>

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