Ethical positions in positive economics

" Positive economics is in principle independent of any particular ethical position or normative judgments." (Friedman 1953) Discuss.

Friedman was an advocate of sharp distinction between positive and normative economics, i. e. the fact-value dichotomy. Developing this point, he states that positive economics, similar to natural science, is objective and independent of ethics or evaluative judgements. In this essay, I will argue that positive economics is not entirely value-free and independent of normative judgements. The reason for it is the presence of normative context. I assume this to be relevant since the normative context shapes such variables of economics as the economists' academic interests or human behaviour in the economy. There is no clear gap between facts and values: even if they are distinct, they are not independent.

To start with, I would like to be clear with the terms I use. According to the standard view (which is characterised by above Friedman's statement), positive economics describes, " what certain things are", while normative economics deals with evaluative judgements such as " what it should be". Therefore, the standard view protectors assume that positive economics does not and should not appeal to any values: it should be separate from ethics and deal with facts only. In the following paragraphs, I will illustrate with examples that even positive economics is usually not entirely distinct from value judgements.

Imagine a young economist who studies how inflation and unemployment are related: she simply describes how they affect each other and tries to be free from any normative judgements. Therefore, she is working within the positive economics framework. However, this case is not entirely ethically neutral, compared to what it may seem at a glance. It happens due to the presence of normative context, famously mentioned by Richard McKenzie. In order to support my claim, I am going to analyse the young economist's activity breaking it down into several parts.

First of all, let me try to understand why the mentioned above economist chose the relation between inflation and unemployment for her research. Possibly, she is trying to find a way to fight negative consequences of a crisis in her country. Or it may be that she is a big fan of William Phillips and is willing to give a new life to his hydraulic model of economy. And almost certainly, she has at least unconscious judgements on whether unemployment and inflation are good or bad phenomena, even if she does not show this explicitly in her work. No matter what her motives are, they were not formed independently of her values: she found this area of economics interesting and important. Methods of investigation are also chosen based on previous experience. As Dan Hausman, Michael McPherson and Debra Satz put it in their collaborative work *How Could Ethics Matter to Economics?* , any research requires an action, and any action happens under a choice. When a person makes her choice, she evaluates possible alternatives thus the choice cannot be value-free.

Moreover, economists' motives often depend on their background, personality and position in the society – Schumpeter used a term *ideologies* for this. If we look at economic history and significant figures in economics, we will find bright examples of ideologies. Biography of Karl Marx illustrates how an economist's life can be tightly connected to the views and ideas he defends. He was under great influence of German philosophy, French socialism and English political economy – doctrines specific for countries he lived in for a long time in different periods of his life. Consequently, social and geographical context played a certain role in shaping his views. He spent his life in poverty, and it seems that being a victim of the capitalistic system became the reason of why he was so rebellion against it. Schumpeter noticed that in case of Marx, ideology prevailed over analytics thus making his theory too biased, although undoubtedly fundamental and influential for the course of 20th century history. Or think about Thomas Mun, an English writer on economics. His interest and sympathy to mercantilism is easily explained by his career as the director of the East India Company – an English joint-stock company formed to trade in the Indian Ocean region. Mun published a book based on this experience called *A Discourse of Trade from England Unto the East Indies.* Quoting Gunnar Myrdal's words: « We are influenced by personality traits and prejudices in the society » [1]. All of these are examples of the value-ladenness of economics. However, another term is also important for our discussion, namely the theory-ladennes, which I will cover in the following paragraph.

Scientific findings are called theory-laden if they are presupposed by the scientist's theoretical experience. Let me come back to the young economist I mentioned above. She definitely did not start her scientific investigations from scratch: many economists had already studied the relation between unemployment and inflation. Therefore, she is bounded to some economic truths that had been invented before, which include at least a share of judgements. Moreover, it is almost certainly that she had studied dozens of different works on relevant topics and evaluated them to find the most persuasive ones. There is a risk that the economist will unconsciously put herself into a certain “ information bubble” going further and further with works supporting her own views and interests. Another “ danger” in the process of positive economic research is concealed in linguistics. Gunnar Myrdal wrote on value- and theory-laden terminology, giving the words “ productivity” and “ equilibrium” as examples, which are evaluative, to some extent. Even if an author is using these terms in a mere technical way, it is still possible that our young economist will perceive them as evaluative concepts. Moreover, the research of this topic may change the economist’s value system. As one research has shown, students who studied economics became more selfish, compared to students studying other subjects.

Having discussed the theory- and value-ladenness of the economist, we are ready move on to the next elements – the subject of her research. She studies the interconnection of inflation and unemployment, and these concepts seem to be positive. However, are they really value-free? Let’s puzzle out. I would like to begin with unemployment. It is true that the economist can use purely descriptive terms talking about the unemployment. However, unemployment itself arises as a result of interactions between people in the context of economic reality. And all human beings are inclined to evaluations and judgements. If a person is employed, he is constantly making a decision that this job is important and suitable for him. If he is unemployed, he also has made a choice not to work due to a certain reason. That is why even positive economics cannot be accurately compared with mathematics or natural science: people are not numbers or elements from Mendeleev’s periodic table. It is not satisfactory to find one value-free law for a certain situation ignoring the nature of human beings – even in definitely the same situation with definitely the same variables and conditions, the outcome can be very different as people have feelings and employ critical thinking. A human being is the subject of economic research, that is why the room for experiment is limited thus making formulas of human beings behaviour impossible or far from reality. And physical models of economics such as the hydraulic machine can give very superficial understanding of what is happening in the economy, since they are aimed to treat positive economics as value-free and mechanical phenomenon, which is not true. “ People’s moral dispositions affect economic outcomes», – as Hausman, McPherson and Satz wrote[2]. Or let’s draw our attention to the notion of inflation. The methods of measuring inflation are closer to “ thick” concepts rather than to value-free ones. One of the most common methods is Consumer Price Index. To calculate CPI, the researchers should answer certain questions, for instance: which products should we choose for the CPI basket? Which agents should we take the information from? Which ways of processing the data should we use? The answers are to great extent based on the researchers’ views and evaluations. Finally, if we look at the interconnection of inflation and unemployment, interpretation of the research results also requires some evaluations. For example, to conclude that a certain correlation between two variables exist, the researcher needs to define which data is relevant and how many successful cases are enough to prove the identified correlation right.

We have seen that normative judgements are almost inseparable from positive economics, i. e. it would be incorrect to say that positive economics is independent from any ethical position. However, one question remains – should positive economics be separate from any normative judgements? On the one hand, for some economic areas value judgements can indeed be harmful. Myrdal strongly criticised the fact that personality traits, force of tradition and interests affect scientific activity, which make economists biased. Biases often make scientists blind to critisism and opposite opinions; also they affect the next generations of scientists who may study important economic concepts leaning on the biased theories, which has a risk to slow down the scientific progress. As it is almost impossible to get rid of valuations in economics, it is useful to make them explicit and stop trying to camouflage them under strictly positive statements. Value judgements should be easily distinguished from purely descriptive and factive sentences.

On the other hand, for certain areas of economics ethical judgements are not only inseparable from positive economics, but also are very important for them. In my opinion, without ethics, economics would become a cruel and insensible machine, which sweeps away all the weak individuals on its way. There would be no room for material support of disabled people, children would be forced to work and taxes would be unfair and equal for all independently of income. Some markets should be under regulations based on ethical and moral judgements. I am now talking about, using Debra Satz's term, " noxious" markets, like human organ trade, sex industry or legal and illegal drug trade. All of these markets should be heavily regulated or banned, as they are likely to be harmful for human lives and freedom. And the decisions on the fate of such markets cannot be made without appealing to ethics and judging what is best for the society.

In both cases – whether we think that positive economics should be free of values or, oppositely, assume that economics requires normative judgements – the solution is studying ethics and moral philosophy more deeply in the context of economics. Economists need to admit that philosophy of economics is not less important for economics than statistics, for instance. Hausman, McPherson and Satz noticed that moral philosophy contributes to economics, and economics contributes to moral philosophy. There are situations in which it is difficult to understand economic behaviour of agents, if we abstract away from ethics. A famous example was described by Richard Titmuss in *The Gift Relationship: From Human Blood to Social Policy* . A common opinion among economists is that existence of markets improves efficiency of activity in different areas of life. However, markets do not always work well: for some goods the existence of a market may lead to lower efficiency. Titmuss describes an example of human blood for transfusion. He investigated which systems exist for blood collection – e. g. donated blood or blood market – and which systems are the most efficient. Titmuss noticed that unlike standard good, the existence of blood market decreases the willingness of people to supply blood, and the provided blood becomes worse in quality. To understand this paradox, we need to appeal to ethics: people need the feeling that they do something good as volunteers; that they donate something priceless – called a human life or health – rather than something which costs a certain amount of dollars.

To sum it up, positive economics is tightly connected to ethics and normative judgements. This is manifested in value-ladennes, linguistic features and thick concepts. To make economics more objective where it is needed, economists should appeal to ethics and moral philosophy.

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[1]Myrdal “ Against the stream: Critical essays on economics.”, 1973 (p. 53)

[2]Hausman, McPherson, Satz, 2016 (p. 343)