Essay on positive and normative economics

Economics

Positive economics deals with what is with how the economy works, plain and simple. If we lower income tax rates in the United States next year, will the economy grow faster? If so, by how much? And what effect will this have on total employment? These are all positive economic questions. We may disagree about the answers, but we can all agree that the correct answers to these questions do exist— we just have to find them. Normative economics concerns itself with what should be. It is used to make judgments about the economy, identify problems, and prescribe solutions.

While positive economics is concerned with just the facts, normative economics requires us to make value judgments. When an economist advises that we cut government spending—an action that will benefit some citizens and harm others—the economist is engaging in normative analysis. Positive and normative economics are intimately related in practice. For one thing, we cannot properly argue about what we should or should not do unless we know certain facts about the world. Every normative analysis is therefore based on an underlying positive analysis.

But while a positive analysis can, at least in principle, be conducted without value judgments, a normative analysis is always based, at least in part, on the values of the person conducting it. The distinction between positive and normative economics can help us understand why economists sometimes disagree. Suppose you are watching a televisioninterviewin which two economists are asked whether the United States should eliminate all government-imposed barriers to trading with the rest of the world. The first economist says, “ Yes, absolutely,” but the other says, “ No, definitely not. ” Why the sharp disagreement?

The difference of opinion may be positive in nature: The two economists may have different views about what would actually happen if trade barriers were eliminated. Differences like this sometimes arise because our knowledge of the economy is imperfect, or because certain facts are in dispute. More likely, however, the disagreement will be normative. Economists, like everyone else, have different values. In this case, both economists might agree that opening up international trade would benefit most Americans, but harm some of them. Yet they may still disagree about the policy move because they have different alues.

The first economist might put more emphasis on benefits to the overall economy, while the second might put more emphasis on preventing harm to a particular group. Here, the two economists have come to the same positive conclusion, but their different values lead them to different normative conclusions. In the media, economists are rarely given enough time to express the basis for their opinions, so the public hears only the disagreement. People may then conclude—wrongly—that economists cannot agree about how the economy works when the real disagreement is over whichgoalsare most important for our society.