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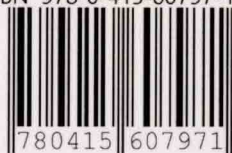
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'POSITIVE' ECONOMICS AND POLICY OBJECTIVES

T W HUTCHISON

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To My Wife



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T.W.H.

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INTRODUCTION

'Paradoxically, the soft sciences that are still akin to an art benefit more from an explicit awareness of the canons of scientific method . . . than do the hard sciences, where doing what comes naturally will protect even a fool from gross methodological error.'

P. A. SAMUELSON

(*Problems of the American Economy*,
Stamp Memorial Lecture 1961, 1962, p. 21)

'More than other scientists, social scientists need to be self-conscious about their methodology.'

M. FRIEDMAN

(*Essays in Positive Economics*,
1953, p. 40)

'When the foundations of the theory are discussed in print, one gets the impression that the author is impatient—impatient to get on with the job of reaching ambiguous conclusions. A serious economist hardly likes to be caught at the trivial occupation of discussing foundations.'

I. M. D. LITTLE

(*A Critique of Welfare Economics*,
Second Edition, 1957, p. 4)

The growth of economic knowledge in the last two or three decades has not led to any greater agreement regarding its applications to public policy, or, at any rate, regarding certain crucial questions thereof. The question, or complex of questions, as to how far 'objective' knowledge, free of 'subjective' ethical or political presuppositions, ideological bias, or 'value-judgments', is possible of the social and economic world, may seem to be one of those perennial philosophical chestnuts which never seem to reach, or likely to reach, anything like a settled or agreed solution. However, even perennial philosophical chestnuts should perhaps be turned over from time to time. And in the last decade, as we shall see, what had developed over about a hundred years into more or less the orthodox, or near-orthodox, view on this question, has been challenged by a wave of sceptical criticism. A distinguished authority has recently stated that 'the spirited defence of the principle of *Wertfreiheit* is unfortunately

nowadays more needed than ever despite Cairnes, Max Weber, Pigou, etc. . . .¹ It is not a spirited defence that I am trying to supply, simply a reasonably thorough discussion of the question. Anyhow, disagreement on this question, far from declining, seems recently rather to have been increasing in scope and intensity. At any rate, flatly contradictory views are authoritatively expressed. For example, Friedman has stated that 'economics can be, and in part is, a positive science. . . . Positive economics is in principle independent of any particular ethical position or normative judgments.'² Myrdal, on the other hand, insists that 'a "disinterested social science" never has existed, and for logical reasons cannot exist . . . our very concepts are value-loaded . . . they cannot be defined except in terms of political valuations.'³ Smithies holds that 'hardly any economic theory can be considered ideologically neutral',⁴ while Stigler remarks that 'it does not seem necessary to retread familiar ground to show that economics as a positive science is ethically—and therefore politically—neutral'.⁵

Possibly, if a thorough elucidation of these statements was carried out, the apparent gulf between them *might* turn out to be simply a minor difference of assumption or terminology. But it is difficult to tell how far this might be so, because these sweeping categorical pronouncements are usually thrown off as *obiter dicta*, in a preliminary paragraph or so, with no recognition of any need to argue them out, or that diametrically contradictory views are authoritatively held.

Schumpeter said as regards this subject that 'the epistemological problem in itself is neither very difficult nor very interesting and can be disposed of in a few words'.⁶ This may be so, if 'the epistemological problem' is defined sufficiently narrowly, and certainly it is usually dismissed in a *very* few words by contemporary economists. Unfortunately, as we have seen, their few words are apt to be flatly contradictory.⁷

¹ G. Haberler, *American Economic Review*, March 1963, p. 145.

² *Essays in Positive Economics*, 1953, pp. 3-4.

³ *Value in Social Theory*, edited by P. Streeten, 1958, p. 1.

⁴ *Economics and Public Policy*, Brookings Lectures, 1954, 1955, p. 2.

⁵ *Quarterly Journal of Economics*, November 1959, p. 522.

⁶ *History of Economic Analysis*, 1954, p. 805. I must admit that about a quarter of a century ago I wrote on this subject that 'for scientists at any rate the controversy must be very nearly played out'. *The Significance and Basic Postulates of Economic Theory*, 1938, p. 154.

⁷ Another fundamental question of the application of economics to policies on which flatly contradictory views are current, which are never (or hardly ever) argued out, and which we touch upon later (see below, Part I, Chapter 2, Section 8), is that of prediction. Jewkes, for example, rejects 'prediction as an activity proper to economic science', holding that 'the economist's claim to predictive authority must be false', while Friedman maintains that prediction

Does this matter very much? It certainly does to the methodologist or philosopher interested in 'light' as much as, or more than, 'fruit'. Perhaps it also matters a great deal to those mainly interested in 'fruit'. For although the question of political and ethical value-judgments and biased subjectivity in economics is something of a perennial philosophical conundrum, it is one that bears very closely on the 'fruit-bearing' potential of economics, or on its practical applications to policies. If the applications to public policy of economic theorizing are not to consist to a large extent of arraying rival political points of view in impressively persuasive pseudo-technical jargon, or if the discussion of policies by economists is to amount to something other than a clash of rival brands of political propaganda dressed up in esoteric patter, then an area of consensus, in some sense, or to some extent, 'objective', must be reached. Surely it is likely to be much more difficult to attain to such a reasonable area or degree of consensus about policies if there is no agreement, or even clarity, not merely as to just what value-premisses and political and ethical presuppositions, if any, are being made, and if so, at just what points, but as to whether or how far they are necessary or in fact being inserted; or as to whether they are being brought in unnecessarily or even 'illegitimately'; or as to how far the economic theories being applied are politically neutral or free of subjective bias.

The practical application of economic knowledge to some extent hinges on these questions, to which, as we have seen, apparently completely contradictory answers are being authoritatively given. But again this might not matter practically—though it seems rather disconcerting intellectually—if a reasonable degree of consensus, and hence of objective status or 'authority', on policy issues, was generally being attained, or if the nature of such disagreements as persisted was sufficiently clear and delimited. But it hardly seems that this is the case.

Economists' differences over problems of theory, and still more of policies, have been perennial and proverbial: 'The differences of opinion among political economists have of late been a frequent subject of complaint,' wrote Malthus in 1827.¹ The vastly increased flow of empirical and statistical material in recent decades, might perhaps have been expected, by reducing the purely speculative element, to mitigate disagreements or to reduce their area. But this

is 'the ultimate goal' of economics as 'a positive science', and that 'theory is to be judged by its predictive power'. Again, it is not easy to say whether this clash of views is as fundamental as it appears to be on the surface. See Jewkes's lecture in *Economics and Public Policy*, Brookings lectures 1954, 1955, pp. 82–3, and Friedman's *Essays in Positive Economics*, 1953, pp. 7–8.

¹ T. R. Malthus, *Definitions in Political Economy*, 1827, p. VII.