

## I. Positive and Normative Economics

- A. In areas dealing with public policy, it is often important to distinguish between the scientific problems of explanation and prediction and the ethical problems of evaluation and recommendation. While controversy may be associated with many of these problems, the scope for disagreement is larger for the latter than for the former.
- B. Many philosophers of science distinguish between normative and positive statements. (See for example Karl Popper.)
- i. A **Positive Statement** is a statement about what is, has been or will be.
    - It is a statement that tries to describe the world in ethically neutral language.
  - ii. A **Normative Statement** attempts to evaluate the desirability of alternative states of the world or alternative public policies.
    - A normative statement often relies on a normative or ethical theory, and may include consideration of some facts.
  - iii. Generally, normative statements conclude that a particular policy is good or bad, is Pareto optimal or not, should be undertaken or not, etc. Confusion often occurs because reasoned normative statements often include a positive clause to support their conclusions.
    - An example is the following statement: "Policy X is undesirable, because X increases unemployment."
    - By itself, "X increases unemployment" is a positive statement, which may be true or false.
    - The conclusions that X is a bad policy is normative.
    - Whether X is a bad policy or not depends on the effect that X has and also on whether minimizing unemployment is used as a norm or normative theory.
    - If one believed that leisure was a good thing, policies that increase unemployment would be good (desirable) rather than bad (undesirable).
  - iv. Most positive statements are "operational." *Operational statements* are statements that can at be tested to determine whether they are true or false.
    - However, not all positive statements are completely testable.
    - Moreover, some normative statements are testable, given a normative theory.
    - For example, when economists use cost-benefit analysis to evaluate the relative merits of public policies, there are many testable propositions. Does consumer surplus rise or not? Do profits rise or not? Do social net benefits rise or not.
    - However, the conclusion that policy Z is better than policy X because social net benefits increase is based on a particular normative theory, rather than properties of the world per se.
  - v. It also bears noting that positive statements can be false.

- Indeed, scientific progress often occurs when a past theory is disproven or shown to have weaknesses.
- Such negative results help us avoid mistakes and also help stimulate more research to better understand the world.
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### C. Examples of Positive and Normative statements:

- The moon is made of green cheese. (p, but false)
- Minimum wage laws always increase unemployment. (p, probably true)
- Tariffs are a bad policy because they reduce consumer welfare. (n, probably true)
- Mass transit reduces air pollution. (p, probably true)
- Mass transit should be subsidized because it reduces air pollution. (n, possibly true)
- Global warming can only be reduced with a high carbon tax. (p. probably false)

### D. Examples of Normative Theories

- i. The Pareto Criteria
- ii. Utilitarian Social Welfare Criteria
- iii. Cost Benefit Analysis / the Compensation Principle
- iv. Green Idealism
- v. Contractarianism
- vi. Any other theory or ideology that allows one to determine "the best or worst" policy
- vii. In contrast, a positive theory is concerned with whether a claim is "true" or "false."

### E. In this class, the difference between normative and positive issues is often important, policy issues include both positive and normative ones.

- How does policy Z affect the real economy? (positive)
- How does policy Z affect consumers and firms? (positive)
- Many disagreements about public policy follow from different understanding of the effects of particular policies.
- However, many others follow from differences in the normative theories (ideologies) applied to evaluate the merits of alternative policies.
- One should understand that positive issues often exist and need to be explored before a normative analysis can be undertaken.
- For example, one can dispute positive claims about global warming, without being a lobbyist for an oil or coal company--simply because the climate is

complex, and careful scientists may disagree about how the climate operates and what the consequences are for man and other animals on the planet.

- Given agreement about the properties of global warming or taxation, serious people may still disagree about the merits of reforms to address global warming (subsidized air conditioners or carbon taxes) or tax policies (more or less progressive and broad taxation).
- In public economics, it is often useful know what the source of disagreement is.
- Often it is differences in normative theories rather than economic theories.