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An Investigation into the Normativity of Neo-Classical Microeconomics and a Critical Comparison with Austrian Economics

Economics is categorized as a social science, not a natural science. However, for a variety of reasons, mainstream economics' practitioners have been bent on ushering it as close to the natural sciences as possible. One very evident way through which this is being accomplished is by economists' insistence that they practice a "positive", value-free science, and this is reinforced by their assumptions about "objectivity". Mainstream economists also have it as their generally stated goal that their models and theories be able to predict well, which they often see as justifying certain theoretical failures. What is ironic, is that in the very pursuit of a respected, "scientific" discipline, which economists view prediction as giving them, they also undermine the goal of being value-free. This paper will argue that neo-classical economists use some of the fundamental concepts of logical positivism to inform their definition of "positive" economics. It will demonstrate that neoclassical economics is not value-free to the extent that its practitioners believe that it is, and it will attempt show that Austrian economics does in fact require less value-judgments to be made than does neoclassical economics. The normative aspects of neoclassical economics will be shown to have consequences for both welfare economics and the new field of behavioral economics.

I. Section 1: Overview of logical positivism and its influence on the positive/normative distinction in economic thought

Any cursory examination of economics as it is practiced currently would lead an outside observer to conclude that the methodological approach of positivism was still alive and well, and seemingly facing little opposition. Mainstream economists nearly unanimously hold the view that the only kind of research that counts in economics must depend primarily on numbers and measurement, requiring the gathering of empirical data. Research which strays from these two pillars, so to speak, are of an inferior kind and easily disregarded. One reason why the former type of research is considered as being superior is due to economists' general and implicit acceptance of a type of positivism, which appears in the dichotomy of value and 'matters of fact', and the strict dichotomy of positive and normative economics. The criterion for what qualifies as "positive economics" as economists' define it, and the extent to which neo-classical economists see themselves as practicing strictly "positive" economics, would clearly place neo-classical economics as it is defended today within this methodological camp.

The trend towards the strict normative-positive distinction in economics can be partly explained by the powerful philosophies of two men - Kant and Hume - and a later school of philosophical thought which borrowed from these intellectual giants – logical positivism. David Hume is well-known for what has been called "Hume's Law" or the "Humean guillotine", which, when combined with the "Humean Fork", declares that all values (primarily with reference to moral and aesthetic values) are in fact of an inferior kind because they have no clearly corresponding ideas and, at base, no empirical grounding; only 'matters of fact', which can be verified empirically, can be accepted as knowledge (Cohon 2004). Positivists would later take the position of values to the extreme by pronouncing them 'cognitively meaningless'.

Hume's position on values was based on his understanding of 'ideas' and 'impressions', and this produced the famous dictum 'no ought from is'.¹ Hume was so ardently opposed to allowing values to be treated as being on the same intellectual plane as 'factual' statements that he suggested that any scholarly works noticeably void of references to number, quantity, or measurement, should be "committed to the flames". The only kinds of phenomena Hume would accept as being objects of reason were those that fell into the categories of either "relations of ideas" (what was later roughly to correspond with the analytic category) or "matters of fact" (corresponding with the synthetic) (Putnam 2002, pp. 14-15). Because Hume was dealing with deductive logic, and deductive logic requires the conclusion drawn to have some relation to the arguments premises, it was clear to Hume that no "ought" statement could be derived from an "is" statement, which was of a totally different kind. And of course this would have to work the other way around as well – no "is" statement could be derived from an "ought".

Immanuel Kant took a much different view towards the rationality of ethics and values. He was not a non-cognitivist, like Hume, regarding the status of ethical statements. One of Kant's most significant contributions to the future development of positivist economics – although his tradition was of an almost antithetical spirit – was the formulation of the categories analytic and synthetic (footnote regarding the role of metaphysics for Kant). The analytic, in Kant's use, was a proposition where the subject already contained within it its internal meaning the connected predicate. These were roughly logical truths. The synthetic was closely aligned with Hume's 'matters of fact', where the predicate was not logically contained within the subject term. By the time of the logical positivists, these two categories were generally seen as being mutually exhaustive for all knowledge; either a proposition which professed to be communicating some

¹ Although Hume was not yet making a statement about the usefulness of moral philosophy, he was seriously restricting its boundaries of use.

knowledge would be relegated to the analytic category or to the synthetic – all other propositions (ethical statements being the primary target) would be stamped as “cognitively meaningless” (Rey 2003).

The aforementioned result of the analytic-synthetic dichotomy in the hands of the logical positivists would not have had such extreme consequences were it not for the collapse of Kant’s metaphysics and his position on the synthetic-a priori (add a substantial footnote – or even more in text here). The positivists took advantage of this gaping hole, making use of Hume’s empiricism and Kant’s categories to manufacture two strict dichotomies between fact and value, and between fact and “convention” (the term for the analytic) (Rey 2003). Because value judgments are substantive claims, they presumably aren’t analytic; but there doesn’t seem to be any way to test them empirically, so they must not be synthetic either. Hence, the analytic/synthetic dichotomy forces its proponents to the conclusion that value judgments have no place among truths at all (Long on Putnam 2002). What resulted is as follows: the analytic, or “convention”, category was greatly “inflated” to use the language of Putnam, the illusion was created, with the help of scientism, that anything “meaningful” would be able to be verified through demonstration and by empirical means, and that values themselves (primarily moral statements) had no legitimate standing as any statement of fact – and thus no place in scientific practice.

The Fact/Value Dichotomy within Economic Practice

What follows is an examination of the relevant history of economic thought for the discussion of ‘facts’ and ‘values’ in economics. The roots of the now famous fact/value dichotomy will be examined from within the economic tradition, as well as through the influence of the logical positivists on economic practice. Some economic historians claim to have found

some of the roots of the positive-normative distinction in the economics of Adam Smith. They have pointed to his *Theory of Moral Sentiments* and its discussion of a purely rational, opinion-free construction of economic theory, as indicating a movement towards this distinction. However, many others have dismissed this claim in light of the resounding conviction of many scholars of Smith's day that intellectual endeavors must avoid overly biased and opinionated conclusions claiming open questions to be closed. It is not necessary for the purposes of this paper to hold a discussion of this particular debate, but it is important to note that there has been a recent resurgence, in certain circles, of Smith's thought as it pertains to the incorporation of ethics into economics – and particularly in the area of welfare economics. Scholars such as Walsh, Sen, Putnam, et. al. have found Smith to be the very economist whose thought should be returned to in light of the collapse of positivism and the supposed dichotomies. These economists/philosophers hope to see greater realism in economics; their concern is especially for how the economic agent is presently represented by neoclassical economists. As Professor Roderick T Long writes in a review of Hilary Putnam's *The Collapse*, the goals of redistribution and modifying welfare economics in light of Amartya Sen's "capabilities approach" are very evident throughout the work – and they are explicitly stated by many of those who would see themselves as Sen's followers. It is important to make clear that this will not be argued for within this paper, and that Austrian economics does not view the scope of economic practice as being so wide that it would need to incorporate this kind of realism.

Before examining the relevant history, it is necessary to first highlight a few larger trends which can be seen throughout economic history related to the distinction between normative and positive. Economists tended to identify positive economics with 'aperspectival objectivity' which was equated with "right description of the world". Economists, adopting Hume's

language, similarly described positive economics as dealing with “what is” rather than “what ought to be”. This led naturally into worries about prescriptivism – where economics would qualify as positive so long as it met the “authoritative criterion”. This stipulated that the economist could not insert his own value-judgments into his economic analysis, but he could remain value free so long as he only took the value-judgments of others as given (as ends) and then examined the proper use of means to reach that end. This substitution of the authoritative criterion for the “is/ought” language is referred to by Mongin as the ‘replacement theorem’. Finally, economists tended to slip into a way of thinking which tended to speak of values as referring solely to ethical values, and thus normative economics as being differentiated from positive economics on the basis of ethical statements. Positive economics was heralded as the value-free science. The downfall of this strong dichotomy between normative and positive economics could only begin after the collapse of logical positivism and its own conception of facts and values.

Early references to the normative-positive distinction can be found in the writings of Nassau Senior, David Ricardo, and J.S. Mill. Senior first hinted at a “positive/normative” dichotomy in a warning he gave to economists about drawing policy conclusions from economic theory, he writes:

(An economist’s) conclusions, whatever be their generality and their truth, do not authorize him in adding a single syllable of advice. That privilege belongs to the writer or statesman who has considered all the causes which may promote or impede the general welfare of those whom he addresses, not to the theorist who has considered only one, though among the most important of those causes. The business of a Political Economist is neither to recommend nor to dissuade, but to state general principles, which it is fatal to neglect, but neither advisable, nor perhaps practicable, to use as the sole, or even the principal, guides in the actual conduct of affairs. (Senior, 1836/1951, p. 3)

Although this is not so much a criticism of mingling facts with values – such as the logical positivists and later economists would be more worried about – it did start to highlight some of

the boundaries, across which economists were not to step. A more substantive step was taken towards this dichotomy with JS Mill. Mill drew a sharp distinction between the “science” of economics and “art”, the latter containing ethical premises, and he clearly advocated for economics to be practiced like the positive sciences (Drakopoulos 5). As Mill writes:

[Science] deals in facts, [art] in precepts. Science is a collection of truths; art a body of rules, or directions for conduct. The language of science is, This is, or, This is not; This does, or does not, happen. The language of art is, Do this; Avoid that. Science takes cognizance of a phenomenon, and endeavours to discover its law; art proposes to itself an end, and looks out for means to effect it. (Mill, 1844/1967, p. 312)

In short, science deals with ‘what is,’ art with ‘what ought to be’. But as Colander and Su note, Mill was not yet drawing a strict connection between ethical statements and normativity.

Although ethical judgments are normative, they do not exhaust this category – ethical judgments are, however, viewed as being inappropriate within “positive” economics (Colander and Su 2015, p. 4). When the practice of economics was called “political economy”, economics was largely a deductive science. Political economists were not as concerned with making their practice as similar to the natural sciences, and its perceived aperspectival objectivity, as possible. This normative/positive distinction, for Mill based on the ‘science/art’ and Humean ‘is/ought’ distinctions, relied implicitly for its foundation on the ‘fact/value’ dichotomy – although this would not be clarified until the rise of logical positivism (Matson 2016, pp. 6-8).

J.E. Cairnes, the last of the Classical economists, carried on the tradition, maintaining that political economy was exactly the same kind of science as chemistry, dynamics and physiology (Cairnes, 1875, p.20). This parallelism of political economy with the natural sciences leads to the understanding that political economy is a neutral science where the political economist is an objective scientist (Drakopoulos 6). During this same time, ‘aperspectival objectivity’ was becoming a way to make the distinction between the normative and the positive and served the

purpose of making economics more like the natural sciences.² But the mission to be more “scientific” had not always been at the forefront of political economists’ agendas, as Schumpeter notes in his *History of Economic Analysis* (1954),

“In the pre-classical economic thought, the idea of value-free or aperspectival objectivity was not an issue. The purpose of the scholastic analysis was not pure scientific curiosity. It was a desire to understand what they were called upon to judge from a moral standpoint” (Schumpeter, 1954, p.102).

The worry for economists now in the 19th Century was that value judgments, being subjective and more appropriately used in discussions of opinion, were hindering economists’ ability to communicate effectively with one another and to build off of one another. This desire for a value-free science of economics which functioned like the natural sciences would produce two general trends in economics extending through to the 21st Century – the first was an adoption of mathematics as the nearly exclusive language of economics; the second was – in accordance with the mechanized view of economics – a general consensus on economics functioning primarily as a predictive science. Drakopoulos demonstrates how the vague distinction between facts and values – masked in the concept of objectivity - then found its way into the writings of the marginalists, especially Walras and Jevons. Jevons and Walras were both prone towards a more mechanized and mathematical economics. Jeremy Bentham’s felicific calculus played a significant role in the psychological bent of these marginalists, primarily in their use of utility in consumer theory. The claim that utils could be a useful form of *measurement* helped to maintain the front of doing only positive economics. And in addition to Mill’s identification of ethical principles as the things to be excluded from a positive economics, Walras too supported a pre-fact/value dichotomy, where values were thought to be mostly ethical: he viewed economics “as

² Around this same time, “ontological objectivity” played less of a part in these discussions.

a pure science which was distinguished by the complete indifference to consequences, good or bad, with which it carries on the pursuit of pure truth” (quoted in Winch, 1972, p.329).³

Benthamite utility was, however, gradually seen as being inappropriate for positive economics, primarily due to the fact that cardinal rankings using utils were found to be impossible and rife with value-judgments, and it was replaced with other supposedly “value-free” methods. Upon the entry of Welfare economics with Pigou, Bentham’s utils were, in an effort to maintain the scientific rigor of economics, replaced by harnessing the assumed capabilities of diminishing marginal utility to make interpersonal comparisons. This allowed for economists to build models, according to which policy recommendations could be made regarding wealth redistribution and welfare maximization. Skepticism of the scientific merit of ‘utility’ further increased with Fisher and Pareto – Fisher rejecting the use of any psychology in economics, which included the ‘hedonistic utilitarianism’ of Bentham, and Pareto replacing ‘utility’ with his “ophelimity”, a term for economic preference satisfaction. This move of nominally distancing economics from utility, while maintaining dependence on methodological monism and its corresponding reliance on mathematical representation helped to preserve the pretense of a completely “objective” science of economics like that of the natural sciences.

Around this same time, logical positivism and its philosophy of *verificationism* made grand inroads within the sciences, and economics began to adopt the language of facts and values, and the Humean “is” and “ought”. John Neville Keynes was one of the most prolific writers at this time on the divisions within economics and he can be viewed as roughly continuing the tradition of Mill. He outlined three categories of economics – positive economics, normative economics, and art (which was the establishment of precepts – very much like that of

³ ‘Aperspectival objectivity’ would also assist the opening of the door to economic approaches like the German Historical School, which would rely on forms of polylogism to insist on purely ‘factual’ sources for economic laws.

JS Mill). Keynes' normative economics was marked for its pronouncements on "what ought to be" and his positive economics with that which was "concerned purely with what is and that which seeks to determine economic laws" (Keynes, 1904, p.36). For many, the category of "ought" included language which was considered to be "cognitively meaningless" and this was of course consistent with logical positivism. Although this terminology was not generally used among economists, it was implicitly assumed that in order for economics to be an objective science it would have to be devoid of any value-laden content, and this was generally viewed as being either ethical or political in nature. Max Weber, a highly influential sociologist, conceived of a *wertfrei* (value-free) social science, although he did make a distinction between the social sciences and the natural sciences. Following Weber, three economic giants continued the notion of a purely value-free economics using the 'is/ought' distinction, and often slipping into the habit of identifying values solely with ethical judgments. Robbins, who was largely contesting the practice in economics of making interpersonal comparisons, employed the 'fact/value' dichotomy to make the distinction between normative and positive economics. For Robbins,

Economics deals with ascertainable facts; ethics with valuations and obligations. The two fields of inquiry are not on the same plane of discourse. Between the generalisations of positive and normative studies there is a logical gulf fixed which no ingenuity can disguise and no juxtaposition in space or time bridge over (Robbins, 1935, p. 148).

Milton Friedman, similarly defined positive and normative economics – although his methodological views greatly differed from Robbins':

Positive economics is in principle independent of any particular ethical position or normative judgments. As Keynes says, it deals with "what is," not with "what ought to be" ... Its performance is to be judged by the precision, scope, and conformity with experience of the predictions it yields. In short, positive economics is, or can be, an "objective" science, in precisely the same sense as any of the physical sciences. (Friedman, 1953, p. 4)

And finally, Paul Samuelson, in his seventeenth edition of the most famous introductory economic textbook of all time explains positive economics versus normative economics in the following way:

In thinking about economic questions, we must distinguish questions of fact from questions of fairness ... Positive economics deals with questions such as: Why do doctors earn more than janitors? Does free trade raise or lower the wage of most Americans ... Normative Economics involves ethical precepts and norms of fairness. Should poor people be required to work if they are to get government assistance? ... (Samuelson and Nordhaus, 2001, pp. 7-8)

Common to all of these positions is a revealed confidence in the assumption that there is a clear line between “positive” and “normative” economics, and there exists, in Robbin’s words, “a logical gulf” between the two. The normative is mostly identified with ethical judgments, or with what “ought to be”. For economics to be a “positive” science, it had to engage with observed data, communicate in the language of mathematics, and avoid prescriptive, ethical judgments. There was also another requirement that became more and more important for economics’ recognition as a respected, “positive” science – that was prediction. As Friedman wrote in his *Methodology of Positive Economics*, “the ultimate goal of a positive science is the development of a "theory" or, "hypothesis" that yields valid and meaningful (i.e., not truistic) predictions about phenomena not yet observed” (Friedman 1953, p 34). Needless to say, the “ability to predict” was made the ultimate test for whether or not an economist had formulated a successful theory. One theory which rose to the occasion, promising to deliver accurate predictions for economists – and to maintain a value-free, “positive” science – was Rational Choice Theory. This is the dominant theory in most of microeconomics today. Whether or not it could, and can in fact, deliver on these promises will be examined later in the paper.

Failure to account for new scientific findings – the resulting “inflation”

Rudolf Carnap was a major advocate of logical positivism during the 20th century and much of his work involved modifying the principles of positivism to fit the expansions of the sciences. Carnap continued the Humean dichotomy between facts and values and he dealt even more harshly with values than Hume. His purpose in discussing ethics was not to reconstruct it, as Putnam argues Hume was attempting to do, but rather to completely destroy its ability of ever being associated with the “rationally discussable” (Putnam 2002, p. 20). The logical positivists’ confidence in this conclusion was greatly reinforced by the fact/value and analytic/synthetic dichotomies. Both included radically “inflated” classes (the analytic and the fact), where the logical positivists kept readjusting what was included in these mutually exhaustive categories for all knowledge. Using the categories provided by Kant, positivists were able to include many of the scientific developments, like Newton’s laws, into the “synthetic a priori” – ‘facts’ in this category had scientific validity but could never be proved empirically true or false. Critics accordingly “argued that allowing them to be regarded as scientific knowledge opened the door to a wide range of arbitrary claims about the world” – this was the “inflation” of the positivist definition of ‘fact’ that Putnam referred to (Davis 2015, p. 4).

Putnam demonstrates that by continually adjusting their definition of ‘fact’ in order to account for new scientific advancements, the positivists completely collapsed the very foundation of their fact/value dichotomy. Because of findings in physics and chemistry and biology, the notion of a fact as simply an ‘impression’, a report of ‘sensory experience’, was no longer viable. The requirement for a meaningful factual predicate, that it be either an observable predicate or “reducible” to one, had to be rejected in order to account for the things like the gravitational field and features of atoms (Carnap 1938 – not source). What was subsequently

adopted sounded eerily similar to the language that would be used by Milton Friedman two decades or so later. Carnap concluded that insofar as the terms used were taken to be primitive and could be used to predict experiences more successfully than if they were absent, such abstract terms would be empirically meaningful – these terms would be called “theoretical terms” (Putnam 2002, pp. 22-24).

In order for these “theoretical terms” to be considered meaningful, it had to be possible for “observation sentences” to be deduced. But for deduction to occur, logical axioms would need to be used and these are analytical – void of any fact. Within the class of “scientific significance” obtained both facts (synthetic propositions) and analytic statements – and there was a need to find some way of differentiating between the two. But this, according to Putnam and many philosophers, was a project clearly demolished by Quine in his critique of the analytic category. Because many “conventions” were seen as being black with fact, the distinction between the two being increasingly muddied, the positivist definition of ‘fact’ had to go – and it wasn’t a far step to demonstrate that facts as they are used in common language, are red with values as well (Walsh 1987, pp. 866).

The fall of Positivism

With regards to the treatment of ‘facts’ and values within the positivist framework, there were two glaring problems which began to surface. First was a recognition of the unfounded confidence of the positivists in their definitions and accepted methods – mostly because of their mission to exclude values from “scientific study” and to include new, poorly fitting research. Facts, it was said by positivists, were testable, values were not. However, it is never the case that we are in a position to test any empirical statement singly, since such testing always takes place against background assumptions which are themselves open to revision. No empirical test can by

itself determine whether what needs to be revised is the statement being tested or one of the background assumptions; such decisions can only be made by weighing all of our beliefs against one another and making comparative judgments concerning their plausibility, centrality, etc. But obviously this sort of evaluation can be done as easily for value judgments as for factual judgments; hence, value judgments are no less testable than factual judgments (Long 126). The second problem, closely connected with the first, dealt directly with positivism's pronouncement on value that it was "cognitively *meaningless*" and its position that "theoretical terms" and 'facts' are "cognitively *meaningful*". Terms like "cognitively meaningful" and "nonsense" are not terms which are theoretical, nor are they observational – and these are the only two kinds of statements that their scientifically significant category could contain.

The Critique from Quine

At the height of the logical positivists' ascendancy, the scientific community, in addition to the philosophical logical positivists, believed themselves to possess a substantial understanding of the concept of a 'fact'. The three categories exhaustively accounting for all propositions - the analytic, the synthetic, and the "cognitively meaningless" – promised to solve all major philosophical problems, and set a clear path for scientific inquiry. However, in 1950, with the presentation of Quine's "Two Dogmas of Empiricism", the foundation of logical positivism began to crumble. Willard Quine demonstrated the futility in the effort to clearly separate "conventional" truths (analytic truths) from 'facts' (synthetic truths). He did this primarily by showing the circularity in the argument for analyticity – the concept of the *analytic* needing to be prior to the concepts of *synonym* and *necessity*. The concept of "convention" was full of 'fact' – "conventions" could not be clearly separated (Rocknack). The argument at bottom

is that there are no purely "analytic" truths, but all truths involve an empirical aspect. Quine takes the distinction to be the following:

It is obvious that truth in general depends on both language and extralinguistic fact. ... Thus one is tempted to suppose in general that the truth of a statement is somehow analyzable into a linguistic component and a factual component. Given this supposition, it next seems reasonable that in some statements the factual component should be null; and these are the analytic statements. But, for all its *a priori* reasonableness, a boundary between analytic and synthetic statements simply has not been drawn. That there is such a distinction to be drawn at all is an unempirical dogma of empiricists, a metaphysical article of faith (Quine 1951, p. 64).

But as White, Putnam, and others have pointed out, and Quine eventually accepted, analytic statements were being "thrown out with the bathwater" (Putnam 2002, p. 64). There were, undoubtedly, analytic statements which were much more distinct from synthetic facts than others. However, there were also statements which were not able to be classified as clearly synthetic or analytic – this seemed to be the case with mathematics for example. Being that the lines for the concept of 'fact' were revealed as being rather grey, the fact/value dichotomy of the logical positivists was then taken to task. This was something that Quine had not completely recognized. Because the selection of a theory itself depends upon conventions, the fact/convention dichotomy does not hold, and this also implies that the fact/value dichotomy cannot hold as well, since the selection of a theory depends not only upon previous conventions, but also upon values (Putnam 2012, ch. 11). What followed, in the next half century, was a slow but growing production of literature on the 'entangled' nature of fact and value.

The Critique from Epistemic Values

The concept of 'value', which logical positivists recognized, was mostly filled-out with what most would consider to be moral values. However, philosophers soon pointed out that there were values implicit in things like the choice of research direction, criterion for acceptable theories, model desirability, and communication of research results. "Judgments of 'coherence',

‘plausibility’, ‘reasonableness’, ‘simplicity’... are all normative judgments... of what ought to be in the case of reasoning” (Putnam 2002, p. 31). These criterion or methods for uncovering a “right description of the world” were/are many times assumed to be justified externally – in other words, there is assumed to be pure ‘objectivity’ when it comes to choosing the *best* method or set of criteria – however, without resorting to any variation of skepticism, Putnam notes that the justification needed comes from the *seeing through the lenses* of these very epistemic values. Additionally, the very concept of a “right description of the world” is not the same thing as ‘objectivity’; there are arguably no corresponding objects for statements about mathematics and ethics – but these are still crucial to a correct understanding of the world (Putnam 2002, p. 33). Many attempts at responding to the objection that theory selection always presupposes value had been made within the logical positivist camp, but all fell to the ground with no success. Another point Putnam makes against the fact/value dichotomy is that the case for rejecting the factual status of ethical or aesthetic values would, if it worked, have to apply with equal force against epistemic values. This would then diminish the “objectivity” of all scientific findings, both in the natural and social sciences.⁴

The Critique from Thick Ethical Values

In addition to the failure of positivism to successfully respond to the existence of epistemic values, it also suffered from the constantly strengthening accusation that it could not account for value terms which essentially had a factual component; many facts and values were said to be thoroughly ‘entangled’. Terms like ‘cruel’, ‘courageous’, or ‘brave’ were referred to as “thick ethical concepts” and they provided sufficient counterexamples to the logical positivists’ doctrine that values were prevented from overlapping with facts. Here, Carnap’s distinction

⁴ Putnam’s critique of value-freedom in science is of course not a critique of objectivity in science, since he does not regard value judgments as nonobjective.

between theoretical and observational statements is challenged – thick ethical concepts like ‘cruel’ or ‘courageous’ could not be easily categorized in either one of the two groups. ‘Cruelty’, for example, is not an observation, one cannot just see cruelty in the normal sense of observing, but it is also not a ‘theoretical’ statement; a statement describing the subject as being ‘cruel’ is not a ‘theory’ about the subject’s ‘brain state’, i.e. it is not to say that all cruel individuals share the same brain state (Putnam 2002, pp. 26-27). Something like being “courageous” as compared with rashness or foolishness, requires a specific ‘evaluative’ point of view – meaning the description which might be called the purely ‘fact’ component would be given a very different account by one who has a different evaluation of the situation. This is to demonstrate that fact and value is inescapably entangled – especially in the case of these thick ethical concepts.

Here I will simply recapitulate the points made so far against the logical positivists and reaffirm the conclusion that positivism could not remain standing under the weight of this criticism. The use of those three failed dichotomies – fact/value, analytic/synthetic, and fact/convention – forced positivists to deflate their concept of ‘facts’, which had arbitrarily excluded certain concepts from being “cognitively meaningful”. First the positivists would not be able to maintain that many new scientific theories could be defended as being “cognitively meaningful”. They also were not able to defend the very criterion they used to evaluate values and facts because they themselves did not pass the positivists’ own test for “scientific significance”. The additional arguments presented by pragmatists that there were values that were not simply ethical – called epistemic values – and values which were fully entangled with fact, such that they could not be disentangled without destroying the concept itself, provided forceful refutations of any further attempt to maintain a *dichotomy* between facts and values. This was, however, not an attempt to reject the distinction between facts and values. As it turned

out, facts had to be treated much the same way as values – both factual judgments and value judgments were placed on even footing when it came to testability.

Section II: Analysis of Neoclassical Economics: a “positive” or “normative” science?

Although this collapse of logical positivism was definitive, the practice of economics has not seen much disassociation from its basic tenants. The language of positivism can still be seen used in modern economic discourse over the distinction between positive and normative economics, in textbooks –as in the example of Samuelson’s microeconomics text – as well as in the generally accepted methods of microeconomic theory. Many of the arguments made against positivism can be repeated against modern neo-classical economic theory in its conceptual division of “positive” and “normative” economics.

The focus for the remainder of this paper will be on standard neo-classical microeconomics and its own failure to recognize the importance of the application of many of these arguments against its current view of the dichotomy between normative and positive economics. First, a condensed summary of the neoclassical position on the division between positive and normative economics will be provided. Second, it will be demonstrated, using Mongin’s strategy for dividing up value-neutrality theses, that modern economics is not “positive” in the way in which neo-classical economists generally understand that term. The Myrdalian thesis of a completely value-laden economics will also be rejected as an acceptable classification of neo-classical economics. An examination of some methodological differences between Neo-Classical economics and Austrian economics will be provided. In the final section of the paper, Neo-Classical economics will be found to involve itself in value judgments that Austrians do not, and it will be argued that these value-judgments place neo-classical economics in Mongin’s weak

non-neutrality thesis. It will be demonstrated that this comes with some possible problems for both the neo-classical project and some of the newly rising branches in economics, like behavior economics. At this stage of my analysis, I will suggest that Austrian economics should fit under Mongin's weak value-neutrality thesis, whereas neo-classical economics might be classified under the weak non-neutrality thesis. In my opinion, this will be due to a difference between the two schools on the criterion of "containment".

Neo-classical economists' view of positive and normative economics

Wade Hands, a professor from the University of Puget Sound, provides a clear picture of modern economists' opinion of their own science's relationship with value statements:

The importation of logical positivist ideas and other changes within the economics profession during the first few decades of the twentieth century led to the adoption of an even stronger version of the dichotomy than the one defended by Neville Keynes. The dichotomy – the strict separation of the positive and the normative – was replaced by an epistemic condemnation and prohibition of the normative; not only was it necessary to recognize that positive and normative statements were fundamentally different, in addition it was argued that the normative was scientifically illegitimate and should be prohibited from proper economic science. (Hands 5)

This sentiment was displayed by Robbins, Friedman, Samuelson, and many others. It has been common practice for economists to assume, although they do not state this explicitly, that when one talks of values in relation to the sciences one is referring to ethical values, and then ethical values are viewed as being problematic for any kind of 'aperspectival objectivity'. "Positive" economics is the embodiment of this aperspectival objectivity.

Outside of strictly positive economics, there is one area where economists can go to engage in more controversially normative work – this is the realm of welfare economics. It has been long argued within neo-classical economics that welfare economics can be separated from mainstream micro-economics as being a normative – although still scientifically useful – economic science. The common reason cited for identifying welfare economics as normative is

due to its close relationship with policy making and its arguably more subjective features – especially with regards to any interpersonal comparisons and its use of Pareto optimality. One of the often cited critiques of welfare economics is its implicit endorsement of the ethic of preference satisfaction and a sort of utilitarianism, as displayed in the principle of minimal benevolence – where it is said to be a good thing if the overall utility of individuals is maximized. This is, by most, considered to be an ethical value judgment, and thus it qualifies as a “normative” theory. As Hilary Putnam writes, “in what sense could an endorsement of anything being “optimized” be value-free?” It seems that this endorsement is in itself arbitrary, in the sense that it simply takes the side of a utilitarian ethic. The area of welfare economics has been referred to explicitly by some, and quietly viewed by others, as the place to go when the work that wants to be done by economists is not clearly “positive” in nature. Although its work is normative, defenders of welfare economics claim that the basic underlying theory (Rational Choice Theory) has a track-record of making good predictions. It will be helpful, for the purposes of this paper to keep in mind the justification for welfare economics.

“Positive” economics has been defended for its value-freeness on the basis of some of the earlier arguments referenced in the previous section. Hume’s “no ought from is” deduction principle combined with the implicit identification of values completely with ethical values, has led economists to believe that it is impossible for them to make evaluative judgments apart from explicitly endorsing an ethical position through explicit prescription using ethical predicates, or through ethically-laden assumptions (for instance, the ethically value-laden and prescriptive nature of welfare economics has mostly been regarded as a normative theory). Phillippe Mongin has shown in his 2006 paper how the *authoritative criterion* was used in conjunction with Weber’s suggested means/ends analysis for social scientists to remain free from value-judgments

– this was referred to by Mongin as the *replacement theorem*. Economists would maintain that as long as they would take as given a policy inquirer’s ends, or simply take as given their value-judgments, restating them without endorsing them in some manner, then the economist himself would be able to progress in a value-free, scientifically acceptable way.

Rejection of a Positivist conception of economics, as well as the extreme thesis of Myrdal

What follows is a rejection of one possible way of understanding neoclassical microeconomics as a “positive” economics (the strong neutrality thesis), as well as a rejection of Gunnar Myrdal’s view of economics as an inescapably normative science (the weak neutrality thesis). If neoclassical economics is to be characterized by the strong neutrality thesis, then it will be considered positive in the sense that it excludes statements involving value-judgments made explicitly by the economist. Simply taking as given the value-judgment of another and refraining from any endorsement would still count as staying within the bounds of “positive” science. The assumption is that the value-judgments would be ethical in nature. According to Mongin, “this is still today's received view, and it provides an apparently definitive and clear-cut division of economics” – this has also been referred to as the *authoritative* criterion (Mongin 2006, p. 259).

Maybe the most devastating arguments to this thesis will come in the form of statements which cannot clearly be classified as “normative” or “positive” under this thesis because of a particular type of “thickness” which does not include any ethical component at all – however this criticism will be reserved for a later critique of the weak neutrality thesis, and it will center around Rational Choice Theory. The current critique takes advantage of some of the arguments wielded against logical positivism. Both epistemic values and thick ethical values are found in

supposedly “positive” economics all the time, and these contain value-judgements which cannot be viewed as neatly falling under the stated goals of “aperspectival” objectivity and the avoidance of the ethical “ought”. In mainstream economics the method of empiricism has been fully accepted, along with the general goal of prediction, which has also brought on increased use of mathematics as the language of economics. This of course extends to fields outside the strict microeconomic realm. The mathematical language of economics holds a significant portion of the blame for the production of the illusion that there are no evaluative judgments used in economic theorizing. The goal of prediction only adds to the amount of evaluative judgments needed to be made for neoclassical economists.

The comments made by Putnam about epistemic values also apply to economic practice – epistemic values like ‘plausibility’, ‘reasonableness’, ‘simplicity’... are all normative judgments...of what *ought* to be in the case of reasoning” (Putnam 2002, 31). These are of course values which can be reasoned about and argued for, but they are not to be thought of as completely closed questions. These kinds of judgments are used all the time by economists to evaluate each other’s economic theories and models. Putnam uses an example of Kenneth Arrow where he critiques a fellow economist’s theory using all of the above stated predicates. This way of passing judgment on any theory is arguably unavoidable because of the perpetually open question of which criterion or standard of judgment to use. At base, all theories assume certain conventions and epistemic values both in their construction and their justification.

“Thick” ethical concepts are also counter-examples to the strict “positivist” conception of value-free economics. There are myriad statements in economics which include language like “poverty”, “just”, etc. which have, as has been previously demonstrated, an entanglement of ‘fact’ and ‘value’. These terms are partly descriptive, but they are also evaluative, the two

aspects cannot be separated and if such a separation were attempted, the concept itself would be not be the same. The straightforward argument is that any rejection of these thick ethical terms would deprive economics of much descriptive material for how the world actually is, and most likely this would rob economics of including the moral nature of man. However, the question then becomes – *what exactly is the scope of economics?* Is realism in economics really essential to the practice? Although epistemic values would necessarily play a role in any methodological approach to economics, thick ethical values may not be essential to economic theory if the mission of economics is not to *realistically* model individual agents/institutions/etc. in the pursuit of accurate prediction. Thick ethical values may be invoked in arguments of policy prescription, however they could be jettisoned from the economic theorizing itself. However, for a study like behavioral economics, it seems that such thick ethical predicates would in fact be necessary. Focusing strictly on neoclassical economics leads to the conclusion that there are in fact many value-judgments that are made within economic practice, which would seem to refute the conception of “positive” economics as excluding all value judgments.

The second strong thesis is based on Gunnar Myrdal’s view of the relationship between economics and values. Myrdal was famous for holding that there could be no “positive” economic science and that this was because all theories and areas of study were chosen under value-laden conditions, most specifically, chosen because of scientists’ political and philosophical biases. These biases could not be separated from choice of subject matter. What economists did as economists was considered to be no different from what they did as citizens, the closest they could get to any kind of objectivity with their social science was to clearly state their value judgments. According to Mongin, “it is implausible that evaluations of the I-find-my-field-interesting style seriously interfere with meanings and inferences, and nothing would be

gained from publicizing them” (Mongin 2006 p.18). The most obvious way of disposing of this thesis is to proceed with a predicate analysis which would differentiate between factual and evaluative predicates. There are many different kinds of evaluative predicates, only a small part of which are counted as ethical, but there are also clearly factual predicates. Putnam would be in obvious support of this conclusion. Although he was a strong opponent of the fact/value dichotomy of the positivists, he still recognized that there were facts which were not subject to the perspective of the individual, although their epistemic origins could be debated. The problem was that there were too many facts which were entangled with value and Putnam thought that these were necessary for both any serious academic pursuit, as well as simple proper functioning in ordinary life. If it is the case that there are, in economic theorizing, factual predicates in statements, without accompanying evaluative predicates, then Myrdal’s thesis is clearly refuted. And this certainly seems to be the case.

With both the strong neutral and non-neutral theses having been rejected, I will proceed in a critique of the weak neutrality thesis. However, first it will be critical for this paper to provide some insight into the grounds on which neoclassical and the school of Austrian economics have substantial disagreement. The position taken by Austrians will be shown to shield them from certain accusations of “normativity” in their economics that will be levelled against neoclassical economics.

Neo-classical micro and the contrast with Austrian economics

Austrian economists have long identified one of their key methodological differences with neoclassicals as being their position on “idealizing assumptions”, and have explicitly criticized Neoclassicals on this very basis. Ludwig von Mises, in both his *Human Action* and his *Epistemological Problems*, included whole sections specifically reserved for this very issue.

Addressing this issue of “ideal types” by criticizing Max Weber’s methodological suggestions for social scientists, Mises writes:

The basis of Weber’s misconceptions can be exposed only by consideration of the question whether the concepts of economic theory do in fact have the logical character of the “ideal type.” This question is plainly to be answered in the negative. . . . [Sociological concepts are not derived] “through one-sided intensification of one or several aspects and through integration into an immanently consistent conceptual representation of a multiplicity of scattered and discrete individual phenomena, present here in greater number, there in less, and occasionally not at all, which are in congruity with these one-sidedly intensified aspects.” . . . They are rather a generalization of the features to be found in the same way in every single instance to which they refer. The causal propositions of sociology are not expressions of what happens as a rule, but by no means must always happen. They express that which necessarily must always happen as far as the conditions they assume are given (Mises “Epistemological Problems in Economics” 2002, pp. 84 and 98).

In this passage, Mises’ reference to a “one-sided intensification of one or several aspects” can be understood in terms of an abstraction and the elements that are included in that abstraction.

Mises may be interpreted as rejecting the validity of a certain kind of abstraction, “the ideal type”, used in the social sciences. Mises and Austrians in general, held that the “ideal type” could be useful in certain instances but not for economic theorizing specifically – there is however a different type of abstraction that is necessary for economic theory.

Roderick Long, a professor of philosophy at Auburn University, produced a paper which addressed the fundamental difference between the Austrian and Neoclassical conceptions of abstraction. He found that the disagreement itself had its roots in a philosophical dispute dating back over two millennia to Plato and Aristotle. The great philosophers had conflicting views on the concept of “abstraction”. Thomas Aquinas, an Aristotelian in thought, provided a clear exposition of the two positions many years later in his *Summa Theologiae*:

Abstraction may occur in two ways. First . . . we may understand that one thing does not exist in some other, or that it is separate from it. Secondly . . . we understand one thing without considering another. Thus, for the intellect to abstract one from another things which are not really abstract from one another, does, in the first mode of abstraction,

imply falsehood. But, in the second mode of abstraction, for the intellect to abstract things which are not really abstract from one another, does not involve falsehood. . . . If, therefore, the intellect is said to be false when it understands a thing otherwise than as it is, that is so, if the word otherwise refers to the thing understood. . . . Hence, the intellect would be false if it abstracted the species of a stone from its matter in such a way as to think that the species did not exist in matter, as Plato held. But it is not so, if otherwise be taken as referring to the one who understands. (Summa Theologiæ I. 85. 1 ad 1; Aquinas 1999, p. 157)

The kind of abstraction which would be supported by Aristotelians would be the kind that would not specify which characteristics are being left out of the abstraction by considering the object not as having certain characteristics – it would simply be attending to certain features of the object under study, while ignoring others. This is to be contrasted with the Platonic version which does in fact specify which features are not in existence in the abstraction – where we consider the object *as* not having certain characteristics. These two ways of defining abstraction can be described as precise and non-precise abstraction. “In short, a precise abstraction is one in which certain actual characteristics are specified as absent, while a nonprecise abstraction is one in which certain actual characteristics are absent from specification” (Long 2006, 8).

The non-precise abstractions used by Austrian economists very clearly do not fit with the neoclassical goal of prediction, which would require economic laws to reveal a strict relationship between earlier and later events. Idealized assumptions or precise abstractions allow for a more mechanical treatment of economics, and are more amenable to prediction – albeit not a reliable one based on an understanding of the phenomena. For example, the wants, desires, and preferences are not explained in terms of how or why they arose within the economic agent, and many times the content of the human phenomena themselves is unknown, but the neoclassical economist adheres to certain institutionally accepted assumptions about actors’ stable, consistent, and transitive preferences/wants, which allow him to treat the agent *as*

if his actions were predictable. This is the point where Mises would criticize the neo-classical economist for his inappropriate psychologizing. The goal of the economist, engaging in a study of praxeology, is not to describe the psychological process of the agent – that is, which factors contributed to the agent’s choice. Thus, Mises speaking of praxeology writes,

Its subject is not the content of these acts of choosing but what results from them: action. It does not care about what a man chooses but about the fact that he chooses and acts in compliance with a choice made. It is neutral with regard to the factors that determine the choice and does not arrogate to itself the competence to examine, to revise, or to correct judgments of value. It is wertfrei [value-free]. Why one man chooses water and another man wine is a thymological (or, in the traditional terminology, psychological) problem. But it is of no concern to praxeology and economics (Theory and History III 12. 2.).

For the Austrian economist, the concern is not for the psychological content of actors, nor is it for an accurate or a perfectly “realistic” representation of how agents’ go about choosing ends or how their judgments generally function – all of these investigations, undertaken by the neoclassical economist and the new behavioral economists, have the objective of prediction, which is of course not an ideal for the Austrian. The Austrian economist is concerned with understanding all of the implications that can be derived from the axiom “human beings act”. One of the most central premises for Austrians is that all acting human beings seek to remove (or, by anticipation, defend against) some kind of uneasiness through the means of their action. The economic laws that result from the inquiry into human nature are understood as relations between actual and counterfactual events, rather than between earlier and later events; Austrians find non-precise abstractions to be necessary for stating these economic laws. The actual events that are of interest to Austrian economists are those resulting from purposeful human action. All human action can only be understood by the individual performing the action – that is, the value that the individual places on such and such an action, and the corresponding end of that action, is entirely subjective and given to constant change. Because of this, prediction could

never be the role of the economist, nor would it be possible given his subject matter, because there are in fact no overriding stable relationships in social life which would provide the needed regularity. “In life everything is constantly in flux,” says Mises, this is why

Austrian economics is based on the insight that human behavior and human thoughts are only a part of human action, namely, the part that is realized (that is “there”). Other parts of human action are not—or not yet—realized. These are, in particular, (a) the purposes in pursuit of which humans act and (b) the foregone alternatives that could have been chosen. Purposes and foregone alternatives are obviously not part of the world in the sense that they are realized. However, it cannot be denied that they have some sort of existence, and this undeniable fact puts Austrian economists in a position to explain the realized manifestation of human action (behavior and thoughts) as a corollary of the non-realized part. . . . By contrast, neoclassical economists seek to explain observable phenomena . . . in terms of other observable phenomena. (Hülsmann 1999, pp. 4–6)

What Austrians are trying to do is “understand human action and the pursuit of plans”; the economic truths deduced by Austrians are purported to be epistemologically a priori, however, they rely for their *content* on synthetic truths. What is most pertinent for present purposes is to realize that the very natural way in which people claim to “understand” another’s intentions, actions, etc. in colloquial speech, is the same kind of “understanding” that Austrians find to be so useful for *applying* economic theorizing – this is referred to as “thymology”. The kinds of truths garnered by the economist simply by reflecting on the fact that humans act – that man applies means, according to ideas, to achieve ends - allows for the economist to deduce a priori truths about the acting nature of man and the consequences for various social interactions of man. This whole study of human action, which also utilizes the tools of thymology to determine where these truths can actually be applied, is what Mises has termed “praxeology”. In praxeology the purpose of *precisive* abstractions is to assist the economist in gaining a better grasp of *non-precisive* abstractions – however, they are not treated as if they were accurate or even useful representations, by themselves, for understanding the actions of human beings. As Rothbard writes, “false assumptions are useful in economic theory, but only when they are used as

auxiliary constructs, not as premises from which empirical theories can be deduced” (Rothbard 1997, p. 102).

Roderick T Long has written on Mises’ understanding of the logic of human action and its similarity to the eminent Austrian (indicating nationality) philosopher Ludwig Wittgenstein’s own thought. Mises is wary of the psychologizing that had been rampant throughout the mainstream economics profession (more recently this approach can be seen in a more exaggerated form through the ascent of behavioral economics). Long understands Mises, with the exception of his brief comment on evolution and the possibility of other forms of logic existing in human-like beings, as wholly supporting the notion that all human action is “logical”. Long uses Wittgenstein to explicate some of the more nuanced details of this position. For the Mises/Wittgenstein position, all thought that is, and can be, undertaken by human beings is logical (Long 2004, p. 22). In other words, nothing counts as thought unless it is logical. Austrians reject the various constraints neoclassical economists place on consumer choice, for example, because of their understanding of the complexity of the human actor’s process of making decisions. The actor’s preferences are not available to the economist in such a way that any kind of pronouncement could be made with regards to the actor’s future actions. This is important, because, for the Mises/Wittgenstein position, although many times actors’ actions do seem illogical, the subjective understanding of the individual of his own actions must be logical – and his actions themselves must adhere to the principles deduced by praxeology, precisely because the event itself is an action. Here we come to the most important point: the praxeological doctrine that there is no such thing as irrational action proves in turn to be simply an application of the Wittgensteinian insight that there is no such thing as illogical thought (Long 2004 p. 52).

The question as to how this difference between Austrians and Neoclassicals, on the basis of types of abstraction, is relevant to the analysis of both schools on the grounds of normativity still lingers. The primary connection to be examined is that between these types of abstraction and the theories of rationality used by the two economic schools. For Neo-Classical economists, the precise abstractions they generate to provide a description of homo economicus, are used also to construct their theory of rationality. Rationality as a concept can be used as a standard to determine whether or not a real human actor is indeed acting “rationally” or “irrationally”. What results is a theory that is central to all of neoclassical economics, known as Rational Choice Theory, and this is essential for their goal of prediction making. For the Austrian, precise abstractions do not play any necessary role in economic theorizing; it is the non-precise, “non-idealizing”, abstractions which are used. Rationality, understood by the Austrian, does not so much function as a *standard* for analyzing the actual actions being undertaken by the actor, so much as it indicates a certain criteria (to use the language of Wittgenstein) that is inseparable from human action itself. Human action cannot be anything but rational, this is implicit in the understanding that all human action requires the application of means, according to ideas, to achieve ends, with the ends themselves aiming at, in Mises words, the removal of some ‘uneasiness’. As McKenzie writes,

Although important in his [Mises’] system of thought, rationality was not the ‘ultimate given’ in economics or any other discipline that sought to be a science. The ultimate given is the ‘non-rational fact’ of reason, or the human tendency at the individual level to understand the world systematically because of some dissatisfaction ‘with the state of affairs as it prevails’ and then to organize an improvement in the state of affairs using any means available (McKenzie 2010, p.101).

“Man acts because he lacks the power to render conditions fully satisfactory and must resort to appropriate means in order to render them less unsatisfactory” (Mises 1962, pp. 2-3). The only times the concept of “irrationality” might be applied by the Austrian, is when the ends of actors

are being considered – because it is generally believed that these are unanalyzable – in the sense that no objective judgment could be made regarding another’s ends or goals. In other words, all human actions that qualify as purposeful human action, are referred to as “rational”. Austrians do not attempt to provide a standard of rationality, like that which may be heard being invoked in a courtroom or in a psychology class.

To sum up, Neo-Classical economists make use of precise abstractions in their theorizing – their use of Rational Choice Theory being a significant example of this “idealizing”. A significant reason for doing so consists in their interest in making economics a predictive science. Austrians do not use precise abstractions in their theory, rather they use non-precise abstraction, reserving the use of the former only for helpful illustration of deduced economic principles. Austrians also are unconcerned with making predictions, and thus do not require for their theory of economics to involve any kind of constraints placed on actors. Finally, Austrian economists view all action as being “rational”.

Rejecting the Weak-Neutrality Thesis

Having uncovered a few of the most essential theoretical aspects of neoclassical economics, noting the significant differences with Austrians – most importantly their differing uses of *abstraction* and *rationality*– I will proceed by giving an account of Phillippe Mongin’s definition of the weak neutrality and weak non-neutrality theses. The “containment” theorem, which is an essential part of the weak neutrality thesis, it will be suggested, does not fit as a description of neoclassical microeconomics, primarily because of neoclassical economists’ acceptance of “precise abstractions” and its role in economic theorizing. The method of proceeding in economic theorizing via precise abstraction requires certain evaluative

judgments which non-precise abstractions do not require. The “containment” theorem would not be violated in the case of Austrians because they use “non-precise abstractions” in their theorizing and only use precise abstractions as supplementary, explanatory tools. The evaluative judgments used in the neoclassical account suggest that neoclassical microeconomics should be placed in a more value-laden category (the weak non-neutrality thesis) than Austrian economics (suggested under the weak neutrality thesis), but they will also prove to produce some problematic practical consequences. The efficient cause of these consequences has a great deal to do with the relationship between “ought” and “is”.

The weak neutrality thesis “acquires its focus from the *containment claim*: those value judgments which economists have a right (and a fortiori an obligation) to make are few in number, easy to discover, and logically as well as practically separable from the other judgments that economists make (Mongin 4). The weak non-neutrality thesis is in agreement with the weak neutrality thesis up to a point, but diverges by rejecting its containment claim. Value judgments in economics are, it will be argued, “neither easy to spot, nor few in number, nor always separable - practically and even logically - from judgments of fact” (Mongin 2006, p. 264). Earlier in this paper, some of the arguments presented against logical positivism were also used to reject the strong neutrality thesis. Additional points were made by Mongin to reject the strong non-neutrality thesis. Some of these same points can be made against a categorizing of neoclassical economics under the weak neutrality thesis, however there is a much more intricate analysis which is provided by Mongin of evaluative statements which allows him to fully reject the weak neutrality thesis (for neoclassicals), and the analysis of course also gives additional support for rejecting the strong neutrality thesis. The previously noted value-judgments like epistemic values, are unavoidable for economists and already provide argument against the

“separability” of values in the containment claim; the use of “thick” ethical values in various situations may also prove to refute the “separability” criterion. The most significant support for the non-separability of value-judgments from neoclassical economics will be provided in an examination of Rational Choice Theory.

Rational Choice Theory and Neo-Classical Economics

Rational Choice Theory has undergone much criticism in the past half century by many heterodox schools of economics, and even occasionally from within mainstream economics itself.⁵ Austrians, as has already been demonstrated, criticized neoclassicals for their “idealizing assumptions” and for utilizing a form of abstraction which was not appropriate for economic theorizing. On less methodological grounds, behavioral economists, with the entry onto the scene of Khaneman and Tversky in the late 1970’s, criticized neoclassical economics for not being descriptively accurate, emphasizing the need for better empirical data and testing. They argued that there were “systematic errors” that neoclassical models produced in predicting human behavior because of “irrationalities” and “biases” in normal behavior. One aspect of neoclassical economics which has more recently attracted increasing criticism is Rational Choice Theory. Criticism on the grounds formerly noted, “idealizing assumptions” and poor predictive ability, are still leveled against Rational Choice Theory, but more recently economic methodologists and philosophers have drawn attention towards the normative quality of Rational Choice Theory because of how it uses and defines “rationality”. Rational choice theory generally assumes that an individual has preferences among the available choice alternatives that allow them to state

⁵ Savage, who had in articles written with Friedman (1948, 1952) put the theory to descriptive use, focused in later papers on its normative properties. In ... Foundations of Statistics (1954), subjective EU axioms are presented and defended as describing the behaviour of an ideal rational agent facing risk ... Savage (1952) presented his subjective EU theory explicitly as a normative theory of behaviour from the start. He acknowledged that sometimes people's behaviour should agree with the theory, ... but his emphasis was very different from that of the Friedman and Savage articles. (Guala 2000, p. 68)

which option they prefer. These preferences are assumed to be complete (the person can always say which of two alternatives they consider preferable or that neither is preferred to the other, i.e. they are *indifferent*) and transitive (if option A is preferred over option B and option B is preferred over option C, then A is preferred over C – this also implying that preferences are stable/unchanging and consistent). The rational agent is assumed to take account of available information, probabilities of events, and potential costs and benefits in determining preferences, and to act consistently in choosing the self-determined best choice of action.

Wade Hands uses rational choice theory to refer to a multitude of specific theories - decision theory, utility theory, expected utility theory, consumer choice theory, etc. –

that start with agents having well-ordered preferences (or more abstractly, a choice function) defined over a choice space, and explain behavior as the result of acting in an instrumentally rational way (making the best, or optimal, choice) given those preferences. In the standard neoclassical theory of consumer choice, the economic agent has well-ordered preferences defined over the relevant commodity space, a standard linear budget constraint that restricts the agent to an affordable set, and the agent's behavior are explained as the result of maximizing the utility function over this budget set. In the more general case involving decision making under risk, the basic model is modified to include the probabilities of various outcomes, but the resulting expected utility theory is still an instantiation of generic theory of rational choice (Hands 2015, p. 10).

Although the standard neoclassical models do require that the ideal agents start with “well-ordered preferences”, there have been, according to Arnsperger and Varoufakis, many recent developments where agents are no longer required to be “rational”; in many instances their preferences are in fact “irrational” and they do not participate in the common “maximizing” behavior that most earlier neoclassical models had required of *homo economicus*. According to these methodologists, it is no longer beneficial for criticism to be laid against economic “rationality” because it is no longer an essential part of neoclassical economics. In a footnote Arnsperger and Varoufakis write -

Once upon a time, we could have instead talked of methodological rationalism as the dominant narrative centered on agents acting rationally. But since ordinal utilitarianism took over, there is no sense in narrating behavior in terms of agents acting rationally. Instead, rationality is reduced to the consistency of one's preference ordering which, by definition, determines that which agents will do (Arnsperger and Varoufakis p. 9).

It seems, however, that this change from talk of rationality to talk of “consistency of one's preferences”, while maintaining structural mandates on agent's ends and means to achieve those ends, amounts to little more than a shift in language, rather than a substantive methodological change (there is still the classification of ideal agents). There has been much disagreement on how exactly to define neoclassical economics, and which newly developing branches of economics should count within the neoclassical project – this may partly explain why Arnsperger and Varoufakis felt the need to mention this drifting away from “rationality” in economics. But there may even be a less obvious reason, and one which is vital to their methodology; even if “rationality” is not explicitly invoked, the foundations of the neoclassical project that may be referred to as “atomistic individualism” and “methodological instrumentalism”, commit to a project of abstracting away the real acting individual in his environmental context. “Rationality” is considered by them to be just one manifestation of a deeper problem. However, the majority of neoclassical microeconomic theorizing still relies on Rational Choice Theory and its assumptions, and despite various attempts to get away from neoclassical rationality, many offshoots from neoclassical economics cannot escape it. There have been many new fields like experimental economics, behavioral economics, and neuropsychological economics, some of which may be seen as carrying on the neoclassical tradition, but which have tried to fix the notion of “rationality” because of its descriptive failures.⁶

⁶ Even if the predicate “rational” is not used explicitly, the relationship between the predicates “consistent” and “rational”, where consistency is referring to the agents preferences, decisions, and means/ends structure (basically mental phenomenon), seem to be functioning the same way. There is still implicit recognition of what would make a “rational agent” and, as will be shown later in the paper, Rational Choice Theory will be at the bottom of many of the attempts which profess to be leaving it behind. To the extent that someone's preferences are described as

What will be maintained in this paper is that it has been generally agreed upon by economic methodologists that Rational Choice Theory, referred to here as RCT from here on out, is in fact central to the project of neoclassical microeconomics. RCT is the theoretical extension of the methodological individualism/methodological instrumentalism of neoclassical economists. The specification of the individual agent is a necessary part of the story and is always given by some version of rational choice theory. “Rational choice is thus at the heart of microeconomics and, [it is important to note], microeconomics has been at the center of most debates about the positive-normative dichotomy in economics” (Hands 2009, 11). The concept of rationality enters into RCT explanations in two separate (or at least separable) ways. First, the goals must be rational in the sense that they must satisfy certain minimal structural conditions (such as transitivity). Secondly, the agent must act in an instrumentally rational way to achieve these (rational) goals. Rational choice involves both having rational goals/preferences and choosing rationally given those goals/preferences.

Besides the host of criticisms of RCT on the grounds of being a poor descriptive theory, some philosophers and economic methodologists have recognized the normativity of RCT as well. Philosophers have long classified “rationality” as a normative subject area, economic methodologists have more recently begun to characterize RCT as a normative theory, and many experimental and behavior economists now refer to neoclassical RCT as normative. As Robert Nozick wrote in 1993 speaking of RCT, aptly characterizing its status in economic thought:

Rational decision has been put to widespread use in theoretical and policy studies. This is a powerful, mathematically precise, and tractable theory. Although its adequacy as a description of actual behavior has been widely questioned, it stands as the dominant view of the conditions that a rational decision should satisfy: *it is the dominant normative theory* (my italics) (Robert Nozick, 1993, p. 41).

being inconsistent, it would seem rather easy, just in colloquial speech, to draw the conclusion that the agent was behaving irrationally. It is also of course not the fact that term “rationality” itself has completely left the theoretical jargon of economists.

RCT is normative in the sense that it sets up an “ideal” of rationality. RCT describes what an agent *ought to do in order to be rational*. As Daniel Hausman and Michael McPherson explain in their *Economic Analysis, Moral Philosophy and Public Policy*: “Utility theory [included in RCT] lays down formal conditions that choices and preferences ought to satisfy ... To define what rational preference and choice are is ipso facto to say how one ought rationally to prefer and choose” (Hausman and McPherson 2006, p. 49). RCT is not a “positive theory” because it says nothing about the extent to which people actually are rational, and it is not merely a model or a definition, because rationality is a normative notion (Hausman and McPherson 1996, p. 29).

This normativity can be attributed to the “thickness” of the concept of rationality. The term “rational” can be both descriptive, communicating information about the subject, but it is also evaluative – it communicates a specific “ideal”. A characteristic feature of concepts like “rationality” is that they have an evaluative and a descriptive side at the same time. These two sides are as inseparable as those of a coin; and as in the case of the thick ethical predicates, any attempt to extract the descriptive from the evaluative is bound to distort meanings unacceptably. Besides the declaration of an “ideal”, a concept like “rationality” is also normative to the extent that evidence against its criterion does not have the same effect on the economists’ actions as it would if only “positive” economics were being done. As Mongin recognizes, “Empirical evidence is not relevant to elementary statements like ‘X is P’ where P is an evaluative predicate (e.g. rational) in the same way if P were a descriptive predicate. For instance, P as an evaluative predicate would not be refutable in many of the cases in which P would be if it were a descriptive predicate” (Mongin 272). For example, evidence found where agents’ preferences were violating conditions of transitivity or completeness might simply be evidence of

“irrationality” in the actor himself – there is nothing necessarily wrong with the hypothesis, nor the testing itself.

The thick predicates themselves are also a much less noticeable type of evaluative predicate; part of the reason for this is the general association of value judgments strictly with ethical statements. Guidelines, so to speak, for proper functioning, as in the case of rationality, are not typically thought of as being a value-judgment. If economists are simply looking for ethical language, or the endorsement on the part of an economist of an ethically charged position, they will tend to miss this very common form of making evaluative judgments.

Rational Choice Theory and its corresponding definition of rationality as it is predicated of the economic actor, does not violate the component of the *containment* criterion which states that evaluative judgments are easily identifiable. Because Rational Choice Theory has generally well-known, clearly stated assumptions, which make up the definition of rationality, the use of rationality in economic theory does not function as an “ambiguous” predicate that poses problems for the “easily identifiable” requirement. However, by the very fact of its explicitly stated standard of rationality, the use of it as a standard increases its normative value. Phillip Mongin recognizes this when he writes, “*rationality* is considered to be thick to the point of allowing predictive use in relevant situations” (Mongin 271). There are other predicates that are used at the theoretical level, which are ambiguous to the extent that they do not clearly state an “ideal” and are not very predictable. Thick predicates like “*relevant, acceptable, satisfactory, defensible, reasonable, and compelling*” function this way.⁷ Keeping in mind that one of the

⁷ Thick predicates like “*relevant, acceptable, satisfactory, defensible, reasonable, and compelling*” Mongin finds to be ambiguous and elusive, especially when they are reserved for second-order evaluative use (Mongin 271). Arrow’s Impossibility Theorem is a perfect illustration of how the assumptions can be made technically – in such a way that would be seemingly very in-keeping with an aperspectival, scientific objectivity – but then endorsed or commented on using the previously mentioned thick predicates. ((It is important to note that even one occurrence of these types of evaluative predicates – if they can be found to be sincerely asserted so as to make them a value-judgment – would require

tasks of this paper is to identify which neutrality thesis characterizes neoclassical microeconomics, it is important to point out that use of these kinds of ambiguous predicates would reject the “easy to identify” requirement found in the *containment* criterion. The requirement that value-judgments be easily separated from “positive” economics is also further rejected on the basis of the normativity and centrality of RCT in neoclassical theory.

While Rational Choice Theory promotes certain structural ideals for individuals’ preferences and choices, which in turn define what it means for an actor to be “rational” – it also brings into economics a kind of moral theorizing which abstracts from the moral nature of man, implicitly endorsing certain “reasons” for action and excluding others. Most specifically, the neoclassical models which depend on atomistic individualism, result in an abstraction away from the deliberative, self-determining role of reason in action. First, the common assumption is that the human faculty of reason operates in a very Humean way, that is, reason is simply the tool by which the agent configures certain means to achieve the ends which have already been set by the “passions”. If it is in fact true that reason functions in this way - as instrumental rationality – then the “passions”, which will be determining ends, interpreted as “desires” and “preferences”, are simply ordered according to strength of preference by reason, and the means to be used to achieve the ends are chosen by reason. The actual motivations and intentions, and in turn the subject himself, are abstracted away from the process. Of course this works well with the general Neo-classical project of mathematically translating human preference orderings and choices through utility functions. And by reducing not only the agents’ preferences, but also his psychological process, to physical laws, the economist is able to have a substantial basis from

rejection of the strong neutrality thesis. This is also important for demonstrating the increased opportunities for value-judgments to enter into neoclassical theorizing incognito, more so than Austrians.))

which to make predictions. An agent who had motivations and psychological states which could not be accurately interpreted by another, or which did not function according to physical laws as in the natural sciences, would not be nearly as congenial to the goals of prediction of mainstream economists.

What RCT accomplishes is the introduction of what has been referred to as a “Trojan Horse” into neo-classical economics. The citadel of “positive” economics is supposedly free of (ethical) values, but RCT manages to sneak in a kind of normativity which goes unnoticed. As Hausman and McPherson note, “If one takes seriously the reasons for regarding moral concerns as competing with preferences rather than as determining preferences, then there is reason to regard some of morality as irrational in terms of the notion of rationality defined by utility theory” (Hausman and McPherson 1996, p. 64). What is argued by these economic methodologists is that Neo-Classical models based on RCT preclude the deliberative role of reason in setting the moral ends of the actor. Since RCT does require a rational structure to agents preferences, not only is the deliberative role of reason for actors limited (if not extinguished), but the consistency of those ethical judgments made by the actor is ultimately judged by the economists himself. In this case there are implicit ethical evaluations (made by the economist) which enter via determinations of relevance, completeness, and coherence when casting ideal-types of agents’ value-statements/judgments.⁸

⁸ Mongin sets up a scenario where there has been a few value-judgments (V_1, \dots, V_n) made by an individual. Each of these judgments corresponds to a statement made by the representative individual, and a set of statements may or may not be logically consistent. If it is not, the question arises: which of the statements corresponding to V_1, \dots, V_n , should be taken out in order to restore consistency? Supposing that consistency has been restored (or was there from the start), another question arises: how is the set to be expanded in order to provide a sufficiently complete picture? Mongin claims that these kinds of “ideal types” would invalidate the “authoritative criterion” upheld by neoclassical economists because evaluative judgments made by economists must enter in at this stage.

For Austrians, however, this is not an issue. Roderick T Long demonstrated in a paper he presented at an Austrian Scholars Conference that many of the things that economists regard as ends are actually just, what he calls, *constitutive* means. Professor Long made the distinction between *constitutive* and *instrumental* means. Instrumental means as they relate to ends, are characterized by their logic of cause and effect. Constitutive means function somewhat differently; they often look very similar to ends, but really they are simply means that are *intrinsic* to the ends themselves. Professor Long finds this distinction to be a very important one because of the fact that constitutive means do not seem to possess the same cause/effect logic of instrumental means. Professor Long says the following about constitutive means:

There are cases where a means can be a constitutive part of the end rather than being an external means to it. And a lot of things that Mises considers ultimate ends you might think are really means, but they're constitutive means rather than instrumental means. So then the question is: well, *can we deliberate about constitutive means?* How do we determine whether something is a constitutive means to an end? It seems it's not a matter of cause and effect anymore; *it's more a matter of logical or conceptual analysis* (Long 2006).

Reason, as it is conceptualized within the “idealizing” assumptions of RCT, simply adapts the means available to the ends prescribed by the Humean “passions”. This kind of reasoning is completely about instrumental means and their application to ends. The kind of deliberative reasoning that Hausman says is “abstracted” from the neoclassical homo economicus, is found in *constitutive* means and the role they play in the moral life of the human being – but these are not commensurable with Rational Choice Theory. Austrians, however, would be able to account for *constitutive* means in their economic theory without disregarding them because they do not make any constraining demands on the rationality of actors. All human action is rational. This means that the Austrian can account for the deliberative role that reason plays in the moral life of human actors.

To restate the separation between Austrians and Neoclassicals once again: Austrians conceptualize “rationality” in a much different way than the neoclassical economist. An agent's actions are rational insofar as they count as being action. The Austrian does not attempt to constrain the structure of agents' preferences, or predict what the agents' preference structure will be in the future. The Austrian economist, in this same strain, does not include “idealizing” assumptions in their theorizing. The Neo-Classical economist, however, does use “idealizing” assumptions, some of the most detrimental ones residing in RCT. “Rationality”, as conceptualized and used by neo-classical economists, has a particular kind of “thickness” that is normative to the extent to which it prescribes what agents *ought to do in order to be rational*. Rational Choice Theory, which is essential to neoclassical economics, necessarily depends on a conception of rationality that is normative. It has been demonstrated that RCT adds to the evidence against the “separability” requirement in the “containment” criterion. RCT, because of its prevalence throughout neoclassical theory, greatly increases the number of value judgments being made within mainstream economics; the evaluative judgments which are made within neoclassical theory, often go unnoticed and can be difficult to identify.

What has been concluded is that neoclassical microeconomics falls under the weak non-neutrality thesis. Neoclassical economics does, in fact, make many value judgments (although not all are ethical), they are not always easy to identify, and they are not separable from its theorizing. Austrian economics escapes many of these critiques of normativity for reasons already given. It has not been the goal of this paper to state which thesis would apply to Austrian economics, but I will make a few observations which may suggest that Austrian economics should be categorized under the weak neutrality thesis. Firstly, it does not have “idealizing” assumptions, like rationality in the RCT, which make up a large part of the entangled value-

judgments in neoclassical economics. Secondly, the methodology of Austrians is purely deductive – they preserve the realism in their generalizations about human action through their non-precise abstractions and their purely deductive method. Most internal criticism is based on identifying false deductive steps in the logic. This would seem to automatically reduce the number of ambiguous thick ethical judgments that would need to be made. Criticism is made on clearly understood grounds since the standard for success of an argument relies on the rules of logic – not based on vaguely understood predicates which involve value-judgments. It is also the case that most of the criticisms made by Austrians of different economic theories are based on disagreements over method. Austrian economics cannot be classified as a purely “positive” science in the typical way in which it has been understood simply because it still requires epistemic value-judgments. There are also most likely thick ethical predicates used, which contain necessary descriptive information, in the *application* of economic theory to particular situations, although this has not been an area of investigation for this paper.⁹ However, it can be concluded that Austrians make fewer value-judgments than neo-classical economists, that they are, overall, more clearly identifiable (or at least have fewer that are less clearly identifiable), and have less value-judgments which are inseparable from their theory.

Consequences of the Normativity of Neoclassical Microeconomics

As has already been mentioned, despite the changing tides in experimental, behavioral, and neuropsychological economics, in addition to the past criticisms provided by methodologists

⁹ “economics is often *presented* in ways that are perhaps not completely value-free. For example, words like “welfare” and “property” and so forth tend to have value connotations. Now you can try to interpret them value-neutrally, but ordinarily when we say that such-and-such promotes social welfare, it sounds like we're in favor of it — since we are part of society, and we do care about our own welfare. And when we say that something is someone's property, that often implies that it's their *legitimate* property, and so calling something someone's property might imply that they *ought* to have it, not just that they happen to possess it” (Roderick T Long from *Economics and Its Ethical Assumptions*)

on the normativity of RCT, mainstream neoclassical economists still regard RCT as a “positive” theory. As Don Ross notes,

Generalizing very broadly, for philosophers rational choice theory is a branch of normative inquiry, part of the answer to the questions about what an ideally rational agent ought to do. For economists, by comparison, rational choice theory is often viewed as contributing to descriptive science, offering analysis of what economic agents in fact do. (Ross, 2005, p. 91)

Because the majority of mainstream economists still regard RCT as a part of “positive” economics, there is very little reason to question its continued use, even in light of various empirical evidence provided by the aforementioned branches of economics, which would be expected to undermine the confidence economists would have in RCT’s ability to predict. However, if RCT is persuasively shown to be normative, then it would not only be a theory which is not empirically sound, but also one which tells agents that they *ought* to be rational in a specific way which is no longer even empirically defensible. The first problem that arises for neo-classical economists is that they seem to now have lost their long-held defense of welfare economics, which was premised on its close ties with an empirically sound, “positive” rational choice theory (Hands 2015, pp. 19-20).

A second problem can be found within the newly rising field of behavioral economics, which has, in the past decade, suggested libertarian paternalism as an alternative to welfare economics. Using the concepts of “framing” and “nudging” behavioral economists like Kahneman, Tversky, Sunstein and Thaler have suggested that agents’ biases, “irrational” behavior, and individual failures to recognize correct preferences can be “fixed” in a non-intruding way. A “nudge” is any aspect of what behavioral economists call the “choice architecture” that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives. A “nudge” requires that the intervention itself

is easy and cheap to avoid. One of nudges' most frequently cited examples is the etching of the image of a housefly into the men's room urinals at Amsterdam's Schiphol Airport, which is intended to "improve the aim" (Hands 2015, p. 22). Although nudges themselves are not mandates, they do involve obvious intrusions into the lives of individuals – the most obvious being the required increase in taxation for such measures to be carried out. Also, the reorientation of the presentation of goods to consumers, as prescribed by behavioral theory, the Austrian would argue, amounts to an altering of the goods themselves; this is because goods can only be goods insofar as they are subjectively valued by the consumer. But more relevantly, in behavioral economists' use of nudges, framing, and choice architects, there is still a reliance on the stipulated rational choice theory of neoclassical economics, which has now also been found to be normative. *The problem is that what people are being nudged into is rationality as defined by rational choice theory* (Hands 2015, p.23). "In Sunstein and Thaler's language of Econs and Humans, nudges involve changes that "would be ignored by Econs," but after the nudge what Humans will be doing is exactly what Econs would do" (Davis, 2010, p. 62). The objective for libertarian paternalism is to nudge people into acting in the way that people would act if RCT were descriptively accurate: but according to the behavioral economists themselves, it isn't.

In addition to the reliance of behavioral economics on the normative RCT, other evaluative judgments are made which are unique to the methodology of behavioral economics. "Rationality" is defined for the behavioral economist, yes, by using the conventional rational choice theory standard – but they also generate significantly more specific ways in which humans are "irrational" or, on the flip side, "should have behaved in order to be considered rational". This is done through various studies which try to demonstrate how "framing" impacts participants (market actors), and using the results, the behavioral economist recommends some

plan of action – usually policy action – which can serve to adjust these “irrationalities”. The value judgments not only enter via the second-hand adoption of neoclassical “rationality” as a concept, but also in the interpretations of particular “irrationalities” which are *generalized* from the particular ways in which the experiments were framed. It is probably not a very far-fetched claim to make that framing has an influence on people’s decisions, however, it is, maybe, nearly impossible to draw significant generalizations from one particular way of framing a certain scenario. As McKenzie notes: “Generalizing about decision biases from the experiments framed in particular ways is fraught with inherent risks that are rarely acknowledged because there is essentially no limit to the details of the “frames” for experiments” (McKenzie 231). Thick evaluative judgments like “relevance” or “significance” are the implicit value judgments being made behind the scenes in the interpretations of these kinds of experiments, because they are claiming to have discovered some more particular description of “rationality”, as it relates to economic agents actions. The question arises thus once again whether a normative theory which has very little descriptive accuracy can be the basis for policy prescriptions – for “ought” as it has already been shown implies can, but the evidence provided by Austrians for years, and behavioral economists in the past couple of decades suggests that it is at best a very poor ideal met by very few actors, and at worst an impossible one, met by no actor in reality.

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