

VALUE FREEDOM IN ECONOMICS

by Walter Block*

It shall be the contention of this paper that the study of economics is shot through with implicit value judgments, and that if economics is to ever attain the status of being "scientific," the profession will have to purge itself of this value-laden burden.

It is not difficult to see how easy it is for a discipline like economics to become enmeshed in ethical disputes. Economists deal every day with questions whose answers are intimately bound up in the hopes, and aspirations, and economic well-being of the different sectors of our society. The effects of a tariff, price control, minimum wage legislation, subsidy, policies of governmental agencies, are all strong determinants of the economic power we will each be able to exercise.

This is not to say that there are not other and perhaps even more powerful reasons why the physical sciences have more readily attained the status of "science" than has economics. One can point to the advantages of the physical sciences over social sciences such as economics concerning such things as the inability of economists to "experiment" with human beings, compared to the ability of physicists to manipulate inanimate matter; the lesser precision possible in describing the behavior of human beings as compared to inanimate matter the differential possibility of controlled experiments, etc. But these things must not be permitted to foreshadow the very great natural advantages enjoyed by the physical sciences over economics concerning the possibilities of ethical confusions. What human advantages or disadvantages, after all, depend on questions concerning ideal gases or the force of gravity, or chemical reactions? It is true that some people will suffer and some will prosper with the advent of nuclear energy, for instance. But there is not even the *hint* that this will somehow divert the physical scientists involved from the single-minded pursuit of the truths of nuclear energy. Compare this to a problem in economics: the study of the effects of a tariff. Tariffs will also benefit some and cause harm to others. Unfortunately, however, there is quite a bit more than a mere hint that this is more than sufficient to divert professional economists from the single-minded devotion to the truth involved. How else can we explain the existence of "company" economists, "union" economists, "free trade" economists, "government" economists, each defending the favored economic policies of his employer? There are also "schools of thought" in the physical sciences, but these are unrelated to political, ethical, moral, personal, and

valuational judgments. They are, in a word, value free.

It would not be so bad if ethical considerations only impinged on economics in obvious cases where there were two clear sides to a dispute. In questions about rent control, for instance, there are, or at least there are thought to be, two opposing camps; the landlord vs. the tenant. In cases such as these, the pronouncements of the "landlord" economists and of the "tenant" economists are discounted to some degree. But the problem of value in economics is very much more serious since some of our most basic postulates, theorems, and methodologies are rife with implicit value judgments.¹

It is thought by many that the problem of value-laden economics is not that serious; that the profession, after all, is aware of the distinction between normative and positive economics, and that this distinction is even faithfully mentioned in all introductory economic textbooks. That this degree of sanguinity simply will not do is what I hope to show in the course of this paper.

One popular program, beloved of most economists, is the redistribution of income from rich to poor. This program is based on the postulate of the diminishing marginal utility of money; i.e., that the last dollar of income means much less to a rich man who has so many of them, than to a poor man who has so few.

Unfortunately there is nothing in the *science* of economics that can justify such a redistribution since this comparison between rich and poor is implicitly based on interpersonal comparisons of utility. In order to justify such a procedure, ethical assumptions or commitments must also be made use of. One such ethical assumption, compulsory egalitarianism, for instance, would certainly serve as a premise from which redistribution could be deduced. But economists (and other redistributionists) have been unwilling to unfurl the explicitly ethical banner of egalitarianism, preferring to depend upon the scientific sounding doctrine of the diminishing marginal utility of money. Thus their policies can be put forth without fear of attack on the ethical underpinnings that a more explicit ethical argument would call forth.

Milton Friedman has his own brand of argument to support the redistribution of income from rich to poor. According to the Friedman version, there is, as it were, an external diseconomy at work here, for Friedman is "distressed by the sight of

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poverty.”² Now the way external diseconomies are usually defined and analyzed by economists is as follows: A harms B and B is unable to stop A from so doing, or to charge him for it. Therefore the proper role for government (notice the implicit moralizing?) is to tax A to quell the “overindulgence” in his activity. But what Friedman does is to turn this argument on its head. Instead of arguing that the poor person who causes him such distress by the presence of his very poverty should be *taxed* for this caused harm, Friedman turns around and calls for a negative income tax or a *subsidy* for this poor person. The reasoning behind this sudden and dramatic reversal is that Friedman is benefited by the alleviation (of poverty); but (he) is benefited equally whether (he) or someone else pays for its alleviation; the benefits of other people’s charity therefore partly accrue to (him).³ In order to see just what a complete reversal of the usual neighborhood effect or externalities analysis this is, let us consider another external diseconomy, pollution, and apply Friedman’s analysis to that. According to the logic of Friedman’s defense of the negative income tax subsidy to the poor, the polluter, who now distresses us with his pollution, should not be taxed, but should be subsidized, because although we all gain from the alleviation of pollution, we gain *equally* whether we or someone else pays for its alleviation; the benefits of other people’s fights against pollution therefore partly accrue to us. To put it differently, we might all of us be willing to contribute to the (fight against pollution), *provided* everyone else did. We might not be willing to contribute the same amount without such assurance. In small communities, public pressure can suffice to (make everyone fight against pollution without coercion). In the large communities that are increasingly coming to dominate our society, it is much more difficult for it to do so.⁴ According to this line of reasoning, then, Milton Friedman would have to advocate a subsidy, maybe in the form of a negative pollution tax, to the polluter.

Although a judgment like this can only be speculative, it seems clear that such an eminent economist like Milton Friedman would not engage in such a clear reversal in application of the usual implications of the neighborhood effect argument unless there was a special axe to grind. And it also seems, insofar as it is possible to tell in cases of this sort, that the special axe to grind is a moral one. That is to say, Milton Friedman shares the egalitarian morality, but rather than defend it on moral grounds, he chooses to make the case based on the supposedly scientific grounds of neighborhood effects.

Another example of economics running interference for ethics is in the attack on “imperfect competition.” The argument, shorn of all technicalities, goes something like this: (1) the free

market is imperfect; it misallocates resources, (2) on the assumption that the proper allocation of resources is the goal, (3) government involvement in the economy and an end to laissez-faire is called for. This argument is so prevalent, and even so much a part of our introductory economic textbooks,⁵ that to presume to quarrel with it will strike many as folly indeed. Yet the ease with which it can be attacked on logical grounds gives evidence, it seems to me, that what is really lurking behind this supposed economic argument, is, you guessed it, an ethical predisposition. The fallacy behind this attack on laissez-faire can be shown by an equally valid (or rather invalid) argument that “proves” just the opposite: (1) the government is imperfect; it misallocates resources (I presume there is no one who is such a partisan of government that he or she would be prepared to argue for the *perfection* of government), (2) on the assumption that the proper allocation of resources is the goal, (3) laissez-faire and an end to government involvement in the economy is called for. The point is, of course, that on purely economic grounds neither is true. We cannot even argue for or against laissez-faire or government involvement in the economy. All we can say, *as economists*, is that laissez-faire will have thus and such effects, and that government involvement in the economy will have other effects. Once we take sides, without making explicit our ethical views, we perforce leave the realm of the science of economics, and enter into the level of an intellectual bar room brawl where anything goes. Yet the number of economists who have taken part in these debates on either side, supposedly *as economists*, can serve as silent but eloquent testimony to the well-being of the bar room brawl industry.

Closely related to the model of imperfect competition is another supposed purely scientific economic preference, which is really nothing of the sort; this is the preference for and concern with states of equilibrium.⁶ The economist focuses the main brunt of his attention on states of equilibrium and models of comparative statics, almost completely ignoring the *market process* which moves the economy toward equilibrium. Now one might think that concern with states of equilibrium to the exclusion of market process would be misplaced, because in the real world no sooner does the market begin to move toward an equilibrium state, but that it gets diverted by a change in tastes, weather conditions, the price of another good, etc. Clearly, if economists were concerned with explaining the real world, they would almost exclusively concern themselves with understanding this process, rather than with understanding in minute, boring detail the characteristics of an equilibrium that will never arrive in any case.

One reason economists concern themselves with equilibrium states, however, is because it is

only with respect to equilibrium states that the well known "proofs" of the virtues of perfect competition and the evils of imperfect competition follow. And it is only with the unrealistic picture of reality that the perfectly competitive model provides that all the modern mathematic techniques can be brought to bear to show the evils of laissez-faire. As if laissez-faire ever had anything remotely in common with the model of perfect competition.

The "wasteful duplication" and "product differentiation" in the uncontrolled marketplace that is continually attacked by the profession is yet another example of the ubiquitousness of the use of equilibrium states rather than market process (the path the economy takes in its never-ending quest to *reach* equilibrium). It is only from the vantage point of an equilibrium *that has already been reached* that it makes any sense whatsoever to attack either wasteful duplication or product differentiation as a deviation from the "perfection" of perfect competition. Given an economy, however, that has *not* attained perfection, "wasteful" duplication can be interpreted as a groping toward the correct, non-wasteful situation, but a necessary groping, not a wasteful one, given the lack of perfect knowledge endemic to non-equilibrium states.

It is the same with product differentiation (of the sort that is not consistent with consumer demands). Just as there will be different prices prevailing in the *same* market for the *same* commodity in disequilibrium, so will there be different types or qualities of the same product in the same market in disequilibrium. Both prices as well as quality differentiation can be interpreted as being due to disequilibrium, and not at all necessarily due to conspiratorial, monopolistic, and *evil* businessmen.

This brings us to a consideration of the value judgments implicit in the peculiar world view of the professional economist which measures well-being in terms of how far removed a given situation is from the ideal of perfect competition. Collusion in the market is denigrated. Why? Because it does not fit in with the atomistic assumption of the "perfect" competitor. Advertising is attacked. Why else than because in the world of perfect competition, with full and perfect knowledge given to all participants, advertising would be unnecessary? It is easy to see the implicit moralizing here. For it is not enough that a particular market form fails to exhibit characteristics in conformity with perfect competition for it to be disparaged; it is also necessary to make the *moral* judgment that that which is not in conformity with the perfectly competitive model must be banned, or at least disparaged.

If this is easy to see, what can we say about an anti-trust policy which holds that if an en-

trepreneur has lower prices than his competitors, he is engaging in dog-eat-dog cutthroat competition; that if he sells at the same prices as his competitors, he is engaging in collusion, and that if he sells at a higher price than his competitors, he is reaping evil monopoly profits? This is surely taking the goal of a perfectly competitive market and applying it to the real world in an idealistic, moralistic way with a vengeance!

Let us analyze two debates which are perennial favorites in the professional economic journals for their implicit moral content: the monetary vs. fiscal policy debate, and the fixed vs. flexible exchange rate debate. Are there any strictly *economic* empirical findings or theoretical postulates that would establish that we *should*, for example, engage in fiscal policy? I submit that there are not, and that there *cannot* be.

Now fiscal policy, for the uninitiated, concerns the pattern of governmental taxing and expenditure. Consider the position of an economist who advocates fiscal policy (any type of fiscal policy at all). He must, perforce, advocate that the government should, among other things, tax its citizens. Without involving ourselves in the merits of the claim, it behooves us to realize that there are some people including anarchists, who contend that all taxation being an involuntary, forced transfer of funds from one party to another is altogether illegitimate and *should not* be undertaken. The advocate of fiscal policy is therefore willy-nilly brought into this ethical fray. In advocating fiscal policy, the economist is *necessarily* taking a position on the legitimacy, or lack of it, of the taxation process itself. That this is an *implicit* moral position is more than shown by the shock value of the above claim. Moreover, this conclusion in no way follows from our consideration of fiscal policy. Monetary policy is also subject to the same objection. The implicit moral view upholding the monetarist position is that the government has the *right* to control the money supply. But for this ethical view, no economist could consistently advocate (favor, support, hold to be good) monetary policy.

The same is true of either position in the exchange rate debate. Both the fixed and flexible exchange rate position, like the monetary and fiscal policy position have deep within them the view that it is *legitimate* for the government to be involved in the monetary system in the first place. Let me reiterate. I am by no means taking a position on the merits of this ethical claim. As far as this paper is concerned, I take neither the laissez-faire view according to which it is illegitimate for the government to be so involved, nor the view which is taken by both sides of the exchange rate controversy, namely that it is legitimate (moral, ethical, proper). I am content to point out that both sides of this debate are guilt-

ty of bringing implicit moralizing into a supposedly value-free discussion.

A few years ago several economists, largely of the "Chicago School" political persuasion, launched an attack on the draft system, and made a spirited case for the volunteer military. This was supposedly "value-free" because no mention was made of the evils and enslavement inherent in the draft, and of the freedom involved in the volunteer military. Or rather, these explicitly ethical statements were clearly differentiated from the *economic* case, which was based only on efficiency. Unfortunately, however, for the sanctity and freedom from implicit moralizing of the economics profession, even this so-called economic case, based on efficiency and supposedly unencumbered by ethical considerations, was by no means value-free.

Summarized briefly, the case for the voluntary military was that it would be far cheaper than the draft, mainly due to 1) the severe retraining costs necessitated by the high quit rates of the draft and 2) the failure of the draft to take into account its *total* costs (especially the alternative costs foregone by placing highly productive civilians in low productivity military jobs). So far, so "good." But the moralistic clinker was that because of the greater efficiency, the voluntary military *ought* to be substituted for the draft. And this *conclusion* simply does not follow from the premises, unless we add on an ethical premise in addition.

In order to illustrate this we can consider the moral arguments of some opponents of the volunteer military, who agreed that the volunteer military would be more efficient than the draft, and who therefore *opposed* it for this very reason. They argued that since the United States army was then involved in what they considered an immoral undertaking (the Viet Nam war), and would continue in this war regardless of whether or not the volunteer army was substituted for the drafted army, it would be moral to oppose *more efficient immorality*. Now let us not venture out into the waters of this argument. They are deep, treacherous, and entirely irrelevant to the argument at hand. The only point I want to draw from this argument is that in arguing as they did, the so-called value-free economists, in arguing for the volunteer army, were *implicitly* taking an ethical stand—the rejection of the moral argument of these opponents of the volunteer military, i.e. that it was immoral to devise an efficient means to an immoral end.

It would be needless to prolong the list of examples of moral theorizing on the part of professional economists, *qua* professional economists, although the list could be prolonged almost indefinitely. Instead, I would like to consider the difference between implicit and explicit moralizing on the part of economists. We have

already indicated that implicit value judgments, snuck in, so to speak, amongst the otherwise value-free positive economic judgments of our discipline, are extremely dangerous in that they are one of the roadblocks to economics becoming a "science."

The case is altogether different with regard to *explicit* value judgments made by economists. In this case, it will be clear that the economist is speaking only in his capacity as a private citizen, on an equal footing with all others. No longer will his reputation as a professional economist be tied to essentially ethical views. No longer will people with money be able to hire economists to lay their professional reputations on the line for evaluative proposals. No longer will the old saw be true about how "You can get an economist to argue on any and every side of any issue."

The adoption of explicit instead of implicit moralizing on the part of economists is not without its costs, however. No longer will the not inconsiderable prestige of economists be able to be placed at the behest of those economists who could profit from such use. But it seems clear to me (value judgment) that the profession would gain as a whole from this.

Let us conclude with another distinction: that between value-free *statements* and value-free *actions*. We have so far considered only the supposedly value-free statements of economists. But what are we to say of the economists who truly limit their statements to pronouncements about means and ends, "if, then statements," the consistency of plans, etc., but are engaged in the most heinous of actions. In other words, it is possible to restrict oneself to purely value-free statements, which are strictly within the bounds of science, but to give advice on the most economical way to build a concentration camp. Here we would have to say, it seems clear, that although the economist in question is limiting himself to value-free statements, he is by no means free of all taint. He cannot be described as a value-free scientist.

FOOTNOTES

1. Prof. Murray N. Rothbard, "Value Implications of Economic Theory," *American Economist*, Spring, 1973, p. 35-39, lists several. They are: the Pareto Optimum, the defense of the free market on grounds of "efficiency," the unanimity principle, the compensation principle, internalizing externalities, the optimal quantity of money theory, rational pricing for government services, and the treatment of government in the national income accounts.

2. Milton Friedman, *Capitalism and Freedom* (Chicago: The University of Chicago Press, Phoenix Books, 1962), p. 191.

3. *Ibid.*, p. 191.

4. *Ibid.*, p. 191.

5. See for example, Paul Samuelson, *Economics*, Sixth Edition (New York: McGraw-Hill, 1964), chapter 24.

6. See Israel M. Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973).

7. *Ibid.*, pp. 137-140.