# The Naming of Economic Concepts: Positive Theory or Ideology?

**Paper Prepared for**
**The Conference on the Teaching of Economics**
**Pocatello, Idaho**
**March 21, 2001**

**by**


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**Introduction**

Every Principles text in economics has a chapter on methodology. In it, a distinction is made between positive and normative economics. In Case and Fair's *Principles* that I currently use in my introductory Micro class, positive economics is defined as "an approach to economics that seeks to understand behavior and the operation of systems without making judgments. It describes what exists and how it works." On the other hand, looking at the outcomes of economic behavior and ask[ing] if they are good or bad and whether they can be made better" defines normative economics [Karl E. Case and Ray C. Fair, *Principles of Microeconomics*, 6th ed., Prentice Hall, 2001, p.8]. In brief, positive economics is purportedly concerned with what is, while normative economics with what ought to be.

As with all positive science, positive economic theory is supposed to accept as meaningful in the development of models and hypotheses only two types of statements: *tautologies* (such as logical axioms and definitions), and *empirically falsifiable statements*. [See Mark Blaug, *The Methodology of Economics*, Cambridge University Press, 1980]. *Ideology*, in the sense of a system of assertions that constitute a particular socioeconomic program and promote a particular policy agenda, is therefore excluded from positive theory in economics. Isn't it?

A favorite topic in Principles texts is the reason economists disagree. Apart from differences of opinion on normative or policy issues, Stiglitz finds two sources for disagreement within positive economics: "First, economists differ over what is the appropriate model of the economy… Second, even when they agree about the appropriate theoretical model, economists may disagree about quantitative magnitudes, which will cause their predictions to differ."[George Stiglitz, *Principles of Microeconomics*, 2nd ed., WW. Norton & Company, 2001, p.23].

I believe Stiglitz' very short list of disagreements among economists glosses over one other major source. This source of disagreement concerns the *method* economists follow -- more specifically, whether *positive* theory is what most economists do (or even can) follow. Undoubtedly, the individual most responsible for spreading the gospel of positivism in economics to the point that no difference over method is seemingly extant among economists has been Milton Friedman. In his *Essay on Positive Economics* he also advances his famous "irrelevance of assumptions" thesis. The latter states that since the whole purpose of positive theory is to predict well, the realism of the assumptions used to arrive at hypotheses is irrelevant. All that matters is that the hypotheses advanced are supported by empirical evidence. Looked at this way, the choice of names in defining concepts would itself be irrelevant, of course. And Friedman has been one of the most active creators of neologisms in recent economic history. But are the realism of assumptions and the value-neutrality of names of economic concepts really irrelevant?

Given the universal dependence on *ceteris paribus* assumptions in advancing economic hypotheses coupled with the almost complete impossibility of conducting controlled laboratory experiments, the difficulties in gathering, interpreting, and evaluating data relevant to particular hypotheses, and the severe limitations in developing unbiased econometric testing techniques, positive economic theory has a hard time positing truly falsifiable empirical claims. As Imre Lakatos, the late philosopher of science might put it, positive economic models are riddled with massive *immunizing stratagems* that prevent particular economic hypotheses from ever being

proven untrue through empirical evidence.

The difficulty of devising empirically falsifiable statements in economics means that the practice of theorizing relies almost exclusively on the development of an appropriate filing system based on "proper" *categories of thought,* and their definitions. This, I think, is the reason why so much of our time in teaching economic principles is spent doing exactly that. Regardless of one's views of Ludvig von Mises' "science of human action," one can certainly sympathize with his statement that "in the concept of money all the theorems of monetary theory are already implied [L. von Mises, *Human Action*, William Hodge, 1949, p.38]. How much of the whole edifice of conventional economic theory, one wonders, is implied by such common concepts as "free trade," "full employment," "economic efficiency," "externalities," "perfect competition" or "economic welfare"? If all major economic hypotheses are implied by our choice of words in developing and defining a few key concepts, how extensively is the value neutrality of the discipline tied up with the value neutrality of these key economic terms?

In addressing this question, I am less concerned about the structure of the *explanans*, the premises underlying a model, as I am about the *explanandum*, the choice of words forming the statement about the thing explained. Even more narrowly in the present paper, I am less interested about the definition of a concept than I am about the choice of words that are used to **name** that concept. Why are all marketable commodities called "goods"? Is "free trade" truly "free"? What are externalities "external" to? My claim is that our choice of names for certain major categories of thought lack the value neutrality necessary to permit value-neutral theories to emanate from their use. More often than not, therefore, economic theories are **not** positive from their inception. By providing the white hats to the contestants of always the same team (the "free marketeers"?), we bias the outcome of the game.

The fact that economists seldom if ever ponder upon such questions I believe helps generate an artificial agreement among them both in their choice of models and in their view of the consequences of particular policy approaches. Both Stiglitz and Mankiw report on their economic methodology chapters (based on a 1992 *American Economic Review* survey), that 76.3% of economists agree without any qualifications that "a ceiling on rents reduces the quantity and quality of housing available." Some 71.3% of them, again without any qualifications, agree that "tariffs and import quotas usually reduce general economic welfare." [Richard M. Alston, J.R. Kearl, and Michael B. Vaughan, "Is There a Consensus Among Economists in the 1990s? *American Economic Review* (May 1992)]. Are these agreements the result of simply following positive economic theory and then applying unbiased testing techniques? How many of them implicitly assume that more marketable commodities, or "goods," is better than less? How many implicitly assume that markets are "sufficiently" perfectly competitive so as to permit using supply-and-demand analysis? How many implicitly assume that "externalities" do not generally reverse conclusions regarding the effect of "free markets" on the "general economic welfare"? Are these implicit assumptions made as a result of value-neutral observations or based on Milton Friedman's "irrelevance of assumptions" thesis? Since the former is not very likely, how confident are they that, based on the latter approach to assumptions, their unqualified agreement on the detrimental effects of price ceilings, minimum wages, tariffs or embargoes, is supported by rigorous, "objective" empirical evidence?

**The Notion of "Goods"**
The word “goods“ as a term connected with movable personal property is old enough to appear in King James’ version of the Bible. But who first decided to expand its usage so that the category of "goods" includes *all* tangible, *marketable* products? I don't know. While the term does appear in Adam Smith's *Wealth of Nations*, he favors the more value-neutral term "commodities" by far -- as do all 19th century writers from Mill to Marx. Ironically, enhanced awareness that production may generate not just "goods" but also "bads" has increased rather than decreased our dependence on the word "goods" as a synonym for all commodities. Using this term makes it easier of course to be led to the view that more "goods" is preferred to less, and hence to the position that GDP growth -- as measured by the market value of currently produced "goods"-- is itself desirable.

As is plainly admitted, a laissez-faire system provides no guarantees on the quality of marketable commodities beyond *caveat emptor.* But what happens when commodities are the result of increasingly sophisticated technological processes both in production as well as marketing? In the absence of perfect information, rationality, etc, can *caveat emptor* alone assure that all marketable commodities are truly “goods”? Does even the present nature of government regulation guarantee that marketable commodities are always "goods?"

In our very assumptions of "consumer rationality," together with the axioms of transitivity, reflexivity and completeness, the postulate of "non-satiety" makes its appearance to confine us into a world of negatively-sloped, convex indifference curves where commodities are indeed "goods." But if, say, x and y are private “goods,” whose greater availability decreases the consumption of some public good z, what happens to the assertion that "higher" indifference curves must represent higher levels of consumer welfare--that more is better than less? How often do Microeconomic texts --from intermediate to advanced--mention and comment on this possibility?

In most positive microeconomic models, "consumer sovereignty" is presumed to reign -- i.e., the nature and intensity of individual desire is embedded in each consumer like so much DNA. That a consumer’s “preference function” may be an *endogenous* variable, highly dependent on profit functions, billion-dollar advertising campaigns, or upon a consumerist culture conditioned by “free enterprise” activity, is a possibility never much considered in Principles texts. If it were, “goods” could turn out to be less of what satisfies consumer needs and more of what generates oligopolistic profit. Such *macro* effects of how producing more "goods" may lead to the loss of economic welfare are over and above the *micro* effects of how more goods may jointly create “bads,” dealt with in discussions of "market failure" and "externalities." So then, is calling all marketable commodities “goods,” a term appropriate to value-neutral positive theory?

**The Notion of Economic Growth"**
In every Principles text, "economic growth" is defined as an increase in real GDP per capita. Perhaps in Adam Smith's time or in some poor countries today, associating an increase in the production of marketable commodities with "economic growth" may be excusable. But we are all

aware of GDP's limitations as a measure of economic welfare-- the same Principles texts warn students about how GDP fails to register much that defines our quality of life. We all know that a rise in GDP may be associated with detrimental effects on the environment, on social stability and culture, or more generally on long-term sustainability. Since all of these concerns have a strong economic side to them, how can GDP growth be synonymous with *economic* growth?

As long as our thoughts are not directed toward tumors, "growth" is a term infused with pleasant, almost nostalgic attributes. It is a term associated with vigorous processes of youth before the onset of decline, death and decay. But forever seeking growth of material commodities is tantamount to seeing the economy in a state of permanent immaturity, exclusively preoccupied with society's most fundamental needs for security and safety—the lowest in Abraham Maslow's hierarchy of needs. Such a view of economic growth is accepting us as perennial infants, unable to divert our attention to more complex social needs arising at more mature stages of human development—to concerns for justice, or for the social equivalents of "self-esteem" and "self-realization."

Overproduction of the growth hormone leads to *acromegaly* -- an anomalous enlargement of the extremities that purportedly Abraham Lincoln suffered from. Would it be too much of a play in words if GDP growth in developed nations was henceforth referred to as *macromegaly*? Would that lead to any less "value-neutral" theorizing than identifying "economic growth" with GDP growth?

**The Notion of "Externalities" and "Market Failure"**
"Externalities" is a term used to identify a prominent case of "market failure." It is the admission that, under certain circumstances, economic agent A's transactions with agent B affect the welfare of some third bystander, C. The result is a divergence between private and social opportunity costs or benefits, and a loss in "economic efficiency." But why are they called "externalities"? What are they "external" to? Under certain special circumstances, it is claimed, people fail to fully experience the suffering or pleasure their actions confer to "third parties" they are not directly involved in striking some lucrative deal or another. But how "special" could these circumstances be, in a theoretical framework that not only assumes but also *requires* that economic activity be based only on self-interest? One need not rely on the famous "butterfly effect" of Chaos Theory to recognize that, in the complex network of relations that constitutes human society, the claim that something does **NOT** affect everything else is not the rule but the exception.

The point then is not whether any human activity does or does not lead to "externalities," but to what extent and with what consequences. "Externalities" are certainly not "external" to the operations of the market-- they are external only to the calculations of profit and utility maximization of market players. Self-interested as they are assumed to be, their perennial motive is to internalize external benefits and externalize internal (or private) costs. To call "externalities"--especially "negative externalities"-- a case of "market failure" is tantamount to identifying normal processes of ingestion, digestion, and excretion as a case of "biological failure." Is the choice of terms such as "externalities" and "market failure" a positive example of value neutrality, or an ideology-laden expression of what should be viewed as the norm in "free

enterprise" activity?

Substituting the term "spillover effects" for “externalities” does not seem to offer any greater value-neutrality. A "spillover" implies a flow of something in excess, in overabundance -- an event that occurs only when certain natural limits have been surpassed. As with "externalities", the term "spillover effects" gives the impression that the event described is not part of the natural functioning of the market. So what other name should we apply to “externalities”? I’m open to suggestions. How about "market-non-market interdependencies?" Such an appellation –and there must be many others, some even better—is more value neutral, more honest. It directly conveys the view that, since all economic activity involves complex, fluid interrelationships with the whole of society, what we call “externalities “ describes the norm, not the exception. A better name may lead to a clearer understanding of the pervasiveness of "externalities," which in turn may help us move to more realistic means of tackling the problem.

**The Notion of "Pure or Perfect Competition"**

As any Principles text will tell you, pure or perfect competition is a type of market structure that, in the absence of "market failure," maximizes "economic efficiency." (“Economic efficiency“ is of course another value-laden term that, through its connection with the naively individualistic criterion of "Pareto Optimality," often leads to the erroneous identification of “economic efficiency” with “economic welfare." But that could be another long section in the story of the value neutrality of naming concepts). Positive economics is not supposed to pass judgment on whether perfect competition is "good," of course. Coincidentally however, the choice of words in naming that particular market structure hardly conjures any images that are negative.

In Western culture, the term "competition" has a pleasant connotation associated with fair play and a noble striving that leads to the betterment of all. Webster's dictionary states that "competition denotes a striving for the same object, position, prize, etc., usually in accordance with certain fixed rules." Contrast this with the word "rivalry" which, Webster's states, "often suggests unfriendliness or even hostility." ("Rivalry” is, of course, a term “positive” theory coincidentally reserves to identify relations among oligopolists – people who, in positive models, do not always promote efficiency and welfare).

A word like "struggle" instead of “competition” could appeal to some unreconstructed Social Darwinists, but few remain that would want to view the ideal market operations as involving a “struggle for existence”--an image a little too reminiscent of Hobbes’ Nature, "red in tooth and claw." Let alone the fact that, ever since Marx, "struggle" reminds us of hostile relations between economic classes--"class" being a category of thought that positive economists would rather neither think about nor ever admit to as being still extant.

In Greek, the word for “competition” (as in “perfect competition”) is “antagonismos”–from whence originated the word “antagonism” in English. But “antagonism," even more than the word "rivalry," implies hostility. Referring to the most pure and perfect of market structures as “unadulterated antagonism” may explain why the Greeks have had a socialist government for the past 17 years. But neither socialism nor antagonism will do in the English-speaking world of value-neutral positive economics when describing the “free market’s” ideal structure. After all,

under perfect competition, its participants are not unfriendly toward each other. Why should they be? Being "price takers" means they are running not against each other but against the clock -- a particular time that is set by the overall pace of the race.

Adding a word such as "pure" or "perfect" to qualify "competition" makes the combination unbeatable for its value-neutral implications. In the old days, textbooks used to occasionally differentiate between pure and perfect competition --with "perfect" being purer than "pure" by adding the extra assumption of "perfect knowledge of the market" for its participants, so that pure competition ended up being more like Ivory soap -- only 99.44% pure, really. But then such distinctions began to evaporate with Milton Friedman's "Essay on Positive Economics," when he persuaded a majority of conventional economists about the 100% correctness of his "irrelevance of assumptions thesis." As part of that thesis, Friedman supports the use of "as if" assumptions. Market players don't really have to know anything about marginal costs or other esoterica of competitive market behavior. But they act "as if" they do, to the extent that they avoid going bankrupt. That's not unlike top billiard players who don't know a bit of physics but play "as if" they do to the extent that they stay in the money.

From this view it was a small step for positive economists to assume that markets as a whole, typically or most of the time, behave "as if" they are purely or perfectly competitive -- or at least nearly so. Lipsey and Lancaster's conclusive proof in their "Theory of Second Best" that meeting more of the whole slew of conditions necessary for perfect competition does not mean a monotonic rise in efficiency or economic welfare was soon forgotten. Hardly ever is it mentioned in Principles texts nowadays. So, generally, is the fact ever mentioned that one cannot draw a demand curve unless there is perfect competition among suppliers, and that a supply curve exists only if there is perfect competition among demanders. Since markets are assumed to behave "as if" they are perfectly competitive, it appears unnecessary to state this "if and only if" link between the assumption of perfect competition and the use of supply and demand analysis.

No wonder, then, that an overwhelming majority of economists believe *without qualifications* that "rent controls reduce the quantity and quality of housing available." Such unqualified condemnation of rent ceilings ignores at least the theoretical possibility that rental housing in a town may be under the control of a small real estate fraternity. In that case --read, in the absence of a supply curve for housing—rent control analysis may yield quite different conclusions. For in the presence of an oligopoly, a ceiling price on rents equal to what would have been the competitive price, could very well *increase* both the quantity and quality of such housing, while simultaneously lowering rents. (How many Principles texts present this alternative theoretical formulation in their "value-neutral" positive analysis? How many do the same regarding the effects of a minimum wage on employment when perfect competition does not prevail among employers and therefore a demand-for labor curve does not exist)?

**The Notion of "Free Trade," "Free Enterprise" and "Free Markets"**

"Free trade," "free markets," "free enterprise," are practically synonymous concepts. But how exactly does the word "free" qualify what follows? The meaning of "free trade," perhaps the most widely used concept of the three, is often taken as being self-evident. Few Economics texts bother to define it even though they love to talk about it (For example, it is absent from my own

grad school international economics teacher Peter Kennen's text. And it is absent from the glossary of definitions in Case and Fair or in Mankiw). In the few instances where the concept is explicitly defined, "free trade" is understood from what constitute governmental "barriers" to it -- governmental "protectionist" policies in the form of tariffs, quotas, export subsidies, multiple exchange rates, and the like. Thus, McConnell and Brue state that "free trade" is "the absence of artificial (government imposed) barriers to trade among individuals and firms in different nations" [Campbell R. McConnell and Stanley L. Brue, *Economics*, 11th ed., McGraw-Hill, 1990, Glossary, G-12]. Stiglitz states almost tautologically that "free trade [is] trade among countries which occurs freely, without barriers such as tariffs or quotas."[George Stiglitz, *Economics*, 2nd edition, New York: W.W. Norton & Co., 1997, p. A9]. And similarly, Samuelson and Nordhaus define it in the glossary of their Principles text as "a policy whereby the government does not intervene in trading between nations -- by tariffs, quotas, or **other means**" [Emphasis added. Paul Samuelson and William Nordhaus, *Economics*, 13th ed., McGraw Hill, 1989, p.973].

The above definition of "free trade" provided by Samuelson and Nordhaus which to them implies non-governmental intervention *by any means*, shows the depth of the naivete regarding the notion of freedom which characterizes much of the ideological debate on the issue. It has been over a century-and-a-half ago that John Stuart Mill developed the "harm principle" in his essay *On Liberty*, identifying a crucial limit to individual freedom:

> As soon as any part of a person's conduct affects prejudicially the interests of others, society has jurisdiction over it, and the question whether the general welfare will or will not be promoted by interfering with it becomes open to discussion. But there is no room for entertaining any such question when a person's conduct affects the interests of no persons besides himself...[John Stuart Mill, *On Liberty*, Bobbs-Merrill Educational Publishing: Indianapolis, 1956 originally, 1859, p.92].

Even Milton Freedman recognizes the need to impose limits to an individual's freedom -- as when it is necessary to preserve another's. In his *Capitalism and Freedom*, he quotes approvingly a Supreme Court Justice's famous dictum that "My freedom to move my fist must be limited by the proximity of your chin." And as the most ardent libertarian recognizes, the very existence of capitalism -- and thus of "free trade" -- requires, as a minimum, government intervention to define through specific laws the rights to property upon which any trade is based, and then enforce these rights. Those laws must aim to strike a balance among competing rights to life, liberty and property when these rights are in conflict. But identifying the breadth, depth, and content of laws that would assure freedom within the confines of the "harm principle" is never an easy issue. They cannot always or even usually be specified *a priori* on the basis of some "self-evident truths," or by universally accepted deontological principles. Typically, they require an evaluation of the particular circumstances, including (when the grounds for evaluation concern the general welfare rather than the Constitution) the economist's familiar cost-benefit analysis.

The lengths to which the U.S. government has gone to protect "intellectual property rights" (i.e., patents and copyrights) from Asian factories producing bootleg copies of compact disks and computer software, shows how trade in practice, just as in theory, can never be "free" from all

government intervention. The issue of protecting intellectual property rights was the number one issue in the agenda of the WTO's failed Seattle Round. Opposed to such protection of intellectual rights to property are many underdeveloped nations who view its consequences as amounting to economic imperialism. For example, the term "plant imperialism" is used to describe pharmaceutical companies who develop drugs from tropical plants (usually identified for their medicinal properties by indigenous people). The companies gain international patents over their production, and subsequently charge exorbitant prices for "their" drugs to the very same indigenous people who helped in their development.

Unquestionably, “globalization" (often referred to as "Americanization" in Europe) and the concomitant increase in economic and cultural interdependency (read: the rising likelihood of serious "negative externalities" activating Mill's "harm principle"), emphasize the importance of defining national and international limits to fully unfettered and unregulated trade in order to *enhance* freedom. In other words, it appears that truly *free trade* requires that it be framed by the parameters of a harm principle that extends from the local to the global level. When it comes to the spread of mad-cow or foot-and-mouth disease, even a laissez-faire advocate like *The Economist* concedes that "Governments can and should step in when a malaise threatens to damage the whole economic system, but not otherwise." [*The Economist*, March 17, 2001, p.14].

But with "globalization," *The Economist*'s restriction to the use of governmental intervention only when a malaise threatens the “whole economic system” does not amount to much. The increasing interconnectedness of this "whole economic system" involves a quantum leap in the range of activities that threaten global economic and social viability. We are talking about issues as diverse as the loss of cultural diversity, mad cow disease, mad Dow disease, or global warming. The problem is often not government intervention per se, but it’s absence or delay in its use. How difficult it is for the “board of directors of the state” to act against “free market” interests was recently shown by the shameful delays by the British government to prevent the spread of BSE. Or by President Select G.W. Bush's retraction of a campaign promise to require electric power plants to reduce $CO_2$ emissions, capitulating to the interests of "free enterprise" that funded his campaign) [See Newsweek, "Where There's Smoke…" March 26, 2001, p.34].

**Negative and Positive Freedom**

The textbook view of "free trade" in economics rests on a very limited view of freedom, corresponding fully to what philosophers call "negative freedom." [See Joel Feinberg, *Social Philosophy*, Prentice Hall: Englewood Cliffs, N.J., 1973, especially Chapter 1. The conception of negative and positive freedoms discussed below originated with Isaiah Berlin (*Two Concepts of Liberty*, London: Oxford University Press, 1958].

"Freedom" however, is a triad. It involves not just two but three elements: "A" is free from "X" to do or be "Y." Emphasis on the freedom of "A" *to* do or be "Y" is "negative freedom" in the sense that its existence requires the *absence* of interference to it (e.g., by the government). As any "liberation" movement would attest, however, freedom also -- and often -- requires an extra ingredient, provided by "positive freedom": "A" being *free from* "X," a condition which generally demands the intervention of some agent (e.g., perhaps again by government). The "X"

which an individual, a family, a culture, or all of humanity may seek to be "free from" may be the ecological degradation of the physical environment as in air and water pollution and the extinction of species; the depletion of key natural resources; the international trafficking in nuclear weapons or human organs for transplants; the uglification of space; poverty in the form of hunger, homelessness, illiteracy, and lack of sanitation; cultural degradation in the form of loss of a sense of community, loss of self-esteem, dysfunctional families, and rising crime rates; exploitation in the form of forced labor and child labor (including child pornography and prostitution for the tourist trade), economic dependency and discrimination. Among other things, lack of positive freedom affects adversely the *worth* of exercising negative freedoms. What is the worth of the freedom to speak when one's stomach is growling? What is the worth of the freedom to enjoy beauty when ugliness is everywhere? What is the worth of the freedom to move anywhere one pleases when one has lost the sense of place?

It is not possible to state a priori whether some part's negative freedom which requires an "outside" agent like government to *abstain from action,* is more or less important than any other part's positive freedom which *requires some such action.* Certainly, however, negative and positive freedoms are often in conflict, requiring a "balancing" or, as philosopher John Rawls might suggest, a "lexicographical ordering" of rights and interests -- another hierarchy of some sort.

The exercise of certain negative freedoms could lead to pervasive “negative externalities” -- such as a transnational behemoth's right to harvest vast acreage of old-growth forests or that same company's right to lay off its workers whenever it chooses. But the notion of “externalities” and economic "solutions" to them only partially addresses the issue of the effects of one's exercise of negative freedom on the positive freedoms of others. For example, in the U.S. the negative *freedom to* sell or lease real estate to whomever one wishes conflicts and needs to be balanced by the positive *freedom from* racial discrimination in the purchase or renting of such real estate. The exercise of this negative freedom to sell does not generate a harmful and uncompensated "side effect," or a "negative externality" upon "third parties." Its exercise adversely and directly affects the negative freedom to buy or the positive freedom from discrimination -- the rights of a party to the transaction itself.

The freedoms of any individual or group must be limited by the requirements for stability or long-term sustainability of the social system within which they operate. Individual corporations' negative *freedom to* trade any way they wish must always be subordinate to the whole society's positive *freedom from* conditions leading to its disintegration -- otherwise, the worth of exercising these negative freedoms would itself be jeopardized.

The question that needs to be addressed concerns what sort of trade practices could threaten a social system's *freedom to* maintain its identity overtime, or *freedom from* instability that threatens that system's long-term sustainability. Three major trade-induced effects generating systemic instability readily come to mind: (1) ecological effects, (2) equity effects, and (3) cultural effects. Erroneously, in each of these cases the mainstream economics profession ends up viewing the nature of the problem as involving *a trade-off between competing interests or*

*objectives.* Thus, the discussion becomes one of "free trade versus the environment," "free trade -- standing for greater economic efficiency and growth -- versus equity," and "free trade -- standing for economic progress -- versus cultural integrity." It is seldom admitted that the freedoms associated with environmental, social, and cultural sustainability are *prerequisites* to the worth of freedoms associated with trade. And it is never considered that, while a sound environment, an equitable distribution of income and wealth, and viable, diverse cultures are important social objectives and ends in themselves, "free trade" is neither. Trade is not an end in itself but only a means to promoting these ends. In our times, no "growth-promoting" effects of trade are meaningful or sustainable if they come at the expense of ecological, social, and cultural sustainability.

Viewed as a type of game that underlies the functioning of markets, "free trade" or "free enterprise" can never exist without the existence of rules imposed *outside* the market: that delineate the limits of the individual players' freedom to act within these markets. Free trade can never be *unregulated* trade. At best, what we refer to as "free trade" involves market transactions that do not violate the official rules of the game. Why then not just call it "market-based trade"? This more honest qualifier would direct attention to the need to be always alert at the nature of the constraints imposed upon trade, and their legitimacy in light of promoting various social objectives.

**The Notion of Natural Unemployment**

I believe it was Milton Friedman, that ardent advocate of laissez-faire economic policies but value-free, positive economics, who invented the idea of a "natural unemployment rate" sometime in the late 1970s. The word "natural" as a qualifier to unemployment presumably imparted the concept a patina reminiscent of quaint notions such as the "natural price" of labor in Adam Smith's time. Both the term and the concept it specifies were unknown to those of us who were first exposed to economic principles before the 1970s. But these were the days when the Employment Act of 1946 declaring that "it is the continuing policy and responsibility of the federal government to use all practicable means …to promote maximum employment, production and purchasing power" (with maximum employment listed first in the order of specified objectives) meant something. The invention of a "natural unemployment rate" seems to have coincided with the loss of prominence of fiscal as compared to monetary policy, and the de-emphasis of unemployment as a problem that needs to be specifically addressed -- especially relative to its purported short-term tradeoff, the rate of inflation. By the 1980s, Lipsey, Steiner and Purvis could confidently state the following in their Principles text,

> An interesting argument presented by some economists [Lipsey, Steiner and Purvis no doubt among them], is that the best way to ensure that the two objectives [of full employment and price stability] can be obtained most of the time is for governments to make clear that a stable price level, rather than full employment, is their overriding commitment and that, whenever the two come into short run conflict, price stability will be given priority over full employment. [Richard Lipsey, Peter Steiner and Douglas Purvis, *Economics*, Harper and Row, 1984, p.702].

Nowadays, of course, there is no Principles text that fails to mention the "natural unemployment rate" and does not also devote considerable space in discussing it --with no criticism of the term that I am aware of. McConnell And Brue consider the "natural rate of unemployment" a synonym for the "full-employment rate of unemployment"—this latter a wonderful instance of value-free econospeak, to be sure. In Case and Fair, the "natural rate of unemployment" is defined as "the unemployment that occurs as a normal part of the functioning of the economy. Sometimes taken as the sum of frictional unemployment and structural unemployment" [Case and Fair, sixth edition, Glossary, G-4].

Trying to define what is "natural" in terms of what is "normal" does not get us very deep, of course, except to impress upon us the idea that some unemployment is both acceptable and desirable – to anyone other than those who are out of a job, of course. How desirable unemployment can be is made clear to me every time in the "natural" or "normal" functioning of the stock market, an announcement of an increase in the official rate of unemployment leads to a surge in stock market prices.

For quite some time in the post-WWII period, our purported resolve to maintain full employment was harmonized with our rising concern for inflation and profit rates by readjusting how much "frictional unemployment" exists that must be taken into account when estimating the rate of "full employment." Reading through successive *Economic Reports of the President*, one finds the "full employment" rate of unemployment rising from 4% under Kennedy, to 4.5% for Johnson, 5% for Ford, and 6% for Carter. Having reached a limit on how much to engage in further fudgeaboutit, in comes the natural rate of unemployment" to add the "structural rate of unemployment" to what is normal and thus acceptable. Not so coincidentally perhaps, these "value-neutral" refinements in concepts and definitions of positive macroeconomic theory conveniently paralleled the long-term rise in the official unemployment rate up until the 1990s: from a 4.5% average during the 1950s to 4.7% in the 1960s, 6.2% in the 1970s, and to over 7.5% in the 1980s [Bruce Kaufman, *The Economics of Labor Markets and Labor Relations*, Dryden Press, 2nd ed., p.629]. The jury is still out on whether the "new economy" appearing in the 1990s has broken this long-term trend of rising unemployment rates since WWII or whether it has been merely a short-term bubble that waited to be pricked.

To consider "structural unemployment"--a term that basically covers all who lack adequate skills by current labor market standards to justify a living wage--as part of what must be accepted as "natural" and of the "normal" functioning of the economy, is not merely less than "value-neutral." It is criminal.

**Concluding Remarks**

The economics profession--or at least those among us who want the word "positive" as in *positive* theory to stand for something other than a cruel euphemism--must consider the choices we make in naming concepts as seriously as the content and context of the concepts themselves. One does not have to be a deconstructionist like Jacques Derrida or Stanley Fish to agree that the meaning of terms -- and the very choice for their names--reflects the hierarchy of power. I believe that some variant of positive methodology, correctly framed, may still be better than Feyerabend's "anything goes" [Paul Feyerabend, *Against Method*, Verso, 1975]. But not the way positive

economics is currently being presented in Principles texts. As a past executive director of the Montana State Council of Economic Education, I am perfectly aware than when it comes to naming terms, choosing models, or more specifically, evaluating the "positive" theory of "free enterprise," the playing field is not even. There is no democracy in the marketplace of ideas when it comes to analyzing and evaluating the marketplace itself. The dissemination of “value-neutral” economic truth is not itself a value-neutral process. It is a process based on one dollar, one vote. Surely, therefore, this paper is not going to change anything of substance. But I feel a lot better having shared with you my thoughts on this issue.