Friedman Reaction: Modeling

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In describing the difference between positive (what is) versus normative (what should be) economics, Friedman is essentially talking about the science (or as he believes, art) of economic modeling. Modeling depends on assumptions. Factors must be entered into models. Assumptions must be made about which factors matter. As Friedman points out, having the right assumptions does not automatically lead to the right model output. In addition, it is hard to test the outputs of a model. It is impossible to control all of the factors in an experiment. Models are best when they are simple – contain the least number of assumptions. Models should also be fruitful – produce results.

All of these things point to that positive economics is not totally free of biases. Biases can enter in so many parts to the process. A model is just like an argument. Facts and assumptions are carefully constructed one on top of each other in order to build an argument. Friedman is trying to pull positive economics out from the assumptions of normative economics. However, I believe that this can’t be done. No model can be built without assumptions. How we choose and enter these assumptions can be subject to bias.

We also can differ in how we interpret a model. We need to answer value questions such as: how important is the individual? How important is the rest of society? Should the rich alleviate the suffering of the poor? These are value questions that each person and each economist must answer. Based on your answer to these your view of economic policies will be very different.

## Comparing to Kuhn

*Since I didn’t submit a reaction for Kuhn or Rand, I am attempting to address them here by comparing them to Friedman*

Kuhn talked about the paradigm shifts of science. Every so often a new theory comes along that is better able to explain visible phenomena. However the new theory cannot be directly compared with the old theory. This compares to Friedman’s models because a model could be one theory. The model can appear to explain the phenomenon. However, once and a while a totally new model can come along which describes the phenomenon much better.

We can’t directly observe the economy. We can only observe the economy through economic data. There is noise obscuring this data. As a result we can only build imperfect models. And the result of the model is subject to interpretation. As described above, these models can’t be free of biases. No theory can be purely positive – it must to some extend be normative, because our biases will be visible in the theory. The paradigm we look through things matters.

## Comparing to Rand

Roark wanted to start a new paradigm of architecture. As shown in the scene with the bank executives, Greek columns and decorations had traditionally signified money and power in 1946. However, Roark was trying to install a new paradigm of modern architecture – where power was signified by the size and scale of the building – vast expanses of glass and marble. In the real world this paradigm took a while to take hold throughout the 1970s and 1980s. During that time, people had different ideas about what made a successful urban planning project than before the paradigm shift. At the end of period, another group of people implemented a new paradigm which reemphasized “livable streets” and rejected the scale of modern architecture (as I learned about in my 4.211 class.)

Throughout each of these cases there has been no overarching theory about the purposes of architecture. In each paradigm, a different set of values emerged. This is similar to how I think there can be no positive economics – since nothing is free of assumptions and value judgments. Roark’s buildings can be interpreted in a different way – based on the person and their viewpoints. Throughout time there were specific viewpoints which were popular with society – and these shaped how Roark’s buildings were viewed.