

BEWITCHED BY ECONOMICS

CONOR MCGLYNN

Senior Freshman

Is economics scientific? As economic reasoning is applied to all areas of modern life, Conor McGlynn tackles the question of how we form economic reasoning, and asks if it is as reliable as the natural sciences. The paper unveils the significant biases in the formation and acceptance of economic theory and poses questions which strike hard at the core of the subjects fundamentals.

Introduction

‘When we view the world without the economic lens, we see questions but not answers. The lens provides answers by enabling us to focus on the unseen structures that shape our world’ (Parkin et al., 2008: xxxv). This is the version of economics endorsed by an introductory undergraduate economics textbook. The economics lens is, presumably, a metaphor for economic theories and laws. By applying these theories and laws to the world, previously undetected aspects of it become apparent to us. Economics is a science, the ‘science of choice’, and by using its scientific methods, we gain privileged access to the world as it really operates. The question I wish to ask in this essay is: Is this version of economics justified? Economics and economic reasoning increasingly encroach on all aspects of life. This is assumed to be a good thing; it is assumed that by using the “economic lens” we can improve the welfare of society. The story of economics is that of progress. It is this picture that I shall investigate.

I

It is supposed that economics gives a true account of real features of the world. Whether it is the mechanics of supply and demand or the mathematics of the Keynesian multiplier, there is a correspondence of these terms with actual occurrences. Economic facts are true pieces of information about the world, while economic theories give a coherent account of these facts. Theories can be applied to many different situations, and can tell us something about each situation. Indeed, this is one of the hallmarks of a good theory. The IS-LM model doesn’t tell us how short-run equilibrium between goods and financial markets is reached in just one economy; it tells us how this equilibrium is reached in all economies. If we encounter a situation where our theory doesn’t hold, then evidently the theory is defective in some way. In this case, we can either modify our theory or we can discard the theory and replace it with a better one. The development of general equilibrium models is an example of how a theory can be modified over time to accommodate a wider range

of facts and scenarios. Under this view of economics, facts are static while theories undergo change. This alteration of theories represents improvement; as they adapt, theories approach more closely the true state of affairs, and give a more and more accurate description of reality.

This view of economics can easily be seen to be too naive. Practical results are never as neat as the theory that is supposed to describe them. The simple view, of theory following in a straightforward manner from the facts, also does not stand up to scrutiny; which facts are seen as relevant and important is dependent on the underlying theory. Nevertheless, most economists would subscribe to something like the above description. While they are not perfect mirrors of reality, economic theories give good approximations of the facts. Progress in economics consists of replacing old theories with better ones that give more accurate approximations.

When we say that a theory gives an approximation of reality, we mean that the theory is in some sense objectively valid, or at least approximates thereto. Economic theories are not concerned with subjective opinions and prejudices. However, this assumption is not unproblematic. Often the subject-matter of economics is itself subjective; preferences and utility levels are highly particular to each individual. This is often bypassed by saying that people's preferences may be revealed through their behaviour and habits. Even allowing for this sort of subjectivity, however, the formation of theories is also not as objective as is commonly assumed. The creation of a theory is, of necessity, a subjective event; an intuition or insight on the part of the researcher, which is only later turned into something that may be called objective. The manner in which a theory is formulated will be influenced by a range of subjective factors, such as the past experience, cultural background and personal beliefs of the theorist. Even once a theory has been formulated it must then pass the scrutiny of other economists before it is accepted as economics. This often means a reviewer or editor of an academic economics journal. Vincent Tarascio describes some of the subjective factors involved in the selection process for economics journals:

'The reviewer compares the author's 'subjective' state of knowledge with his own. If the author has included all relevant material pertaining to the subject-matter, then he is judged to have demonstrated an adequate grasp of the literature, from the reviewer's subjective point of view... Then there is the matter of novelty: Are the results or methods used new or interesting? Finally, another important and often overlooked factor is the tone and style of the paper. All these considerations involve judgements on the part of the reviewer, reflecting his own subjective state of knowledge, and tastes.'

(1997: 6)

Clearly, the creation and introduction of new theories in economics is a process with many subjective elements.

II

In spite of the very many subjective aspects of the formation and selection of economic theories, economists may still want to maintain that their laws and theories are properly rational and objective. They might do this by distinguishing between a 'context of discovery' and a 'context of justification'. While the discovery of economic theories is highly subjective, they can, it is supposed, still be justified objectively. There are principles and standards against which all economic theories can be measured, and through which we can determine the relative merits of competing theories. However, the question then arises of how we choose and justify these standards for judging theories. Such standards do exist since we are able to meaningfully talk about good theories and bad theories. These standards are also widely accepted. Economics textbooks and journals are quite consistent in what they include and exclude. There is also wide agreement amongst economists on how we should judge theories, even if there are occasional disagreements over specific theories. But on what basis are such standards adopted? Are the standards themselves, and not just the theories they measure, open to revision? There is no hard and fast answer to the first question. The adoption of a set of standards and values, or paradigm (Kuhn, 1996), by a community of researchers happens for a number of disparate sociological and psychological reasons. It depends, for example, on which factors individual researchers give more weight to, as well as on dominant trends within major institutions, especially universities. To a certain extent, the adoption of a paradigm to guide research is non-rational. Thomas Kuhn, who introduced the concept into the philosophy of science, describes the taking on of a paradigm, or the move from one paradigm to another, as similar to a gestalt switch or a religious conversion. The standards and values must be sufficiently useful, and in at least some instances more effective than the alternatives – otherwise they wouldn't be adopted in the first place – but there are no purely logical reasons to prefer them over another set of standards and values. Therefore, instead of being a strictly objective measure of the justification for theories and laws, the standards and principles of economics are themselves, to some degree at least, both arbitrary and subjective.

What about the question of whether the standards and principles of economics are open to revision? An answer to this question has been suggested by the above discussion. There is not one historical set of criteria for judging the merit of economic theories. Those operating in different paradigms will have different criteria for what counts as justification of a theory. Since there are no common grounds of comparison for two paradigms, a theory formed in one paradigm is 'incommensurable' with one formed in another (Kuhn, 1996: 149). Economists can only judge theories from the point of view of their own paradigm, with their own particular assumptions and prejudices. There is no criterion

of justification that can judge from outside history, no matter how abstract; it will always be historical in practice. When we study, for example, classical economics, it is necessary that we view it with a whole array of hidden assumptions about economics; assumptions which may never have been in the minds of the classical economists. Michel Foucault realised the problem of applying the theoretical assumptions intrinsic to one system of thought as if they also applied to a completely different system. Even the words we use will have connotations for us that were never present to those who originally formulated the theory:

‘The ground and object of ‘economy’ in the Classical age, is that of wealth. It is useless to apply to it questions deriving from a different type of economics – one organised around production or work, for example; useless also to analyse its various concepts (even, and above all, if their names have been perpetuated in succeeding ages with somewhat analogous meanings), without taking into account the system from which they draw their positivity.’

(1970: 180)

In any given period, in any community of practitioners, there is always a set of values and practices that underpins all work in the discipline: ‘only one episteme [system of thought] that defines the conditions of possibility of all knowledge, whether expressed in theory or silently invested in practice’ (Foucault, 1970: 183). These values and practices – the standards the community judges by – change over time. These changes come about for a variety of often irrational reasons. The context of justification, like the context of discovery, is, therefore, a highly subjective process; the standards of justification used, rather than being universal and timeless, are relative and open to change.

III

A final way in which economists might defend the objectivity of their discipline is through an appeal to the quantitative, as opposed to qualitative, nature of their research. Economists deal with numbers, hard facts which are not open to change or revision, that are not paradigm-dependent, and which can be applied just as well to the study of economics in the Classical era as to contemporary economics. The objectivity of this approach can be seen by the increasingly mathematized methods of economics as, for example, in the rise of econometrics. Quantitative methods are, it is supposed, absolute and not relative. This is a view that the philosopher Paul Feyerabend takes issue with. He claims that the purported objectivity of the quantitative approach comes from a confusion of abstract numbers with the numerical values we apply to objects:

nomics too seriously or too literally. As Hansel and Gretel tells us, it's a good idea not to go walking in the woods alone. It's also a good idea not to talk to strangers. This does not, however, mean we should believe there's a witch in the forest.

References

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