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Radical constructivism and methodology of economics

Summary. The rhetorical approach to the methodology of economics is usually considered to be radical. In fact, compared with a strictly modernist orthodoxy, demand attention almost exclusively on the quality of the argumentation, would mean quite far-reaching change in the perception of economics as a science. However, if we consider the possibility of applying constructivist approach to methodological discourse in economics (and this attempt has been made to this Article), it may be that the issues previously taken for granted (such as the formation of the theory and its relationship to economic reality) will be required to profound redefinition.

Key words: methodology of economics, rhetoric of economics, constructivism

Introduction

There were a lot of comments, that last global crisis was the consequence of crisis in theory of economics. It usually leads to conclusion, that neoclassical orthodoxy should be replaced by one of heterodoxial theories. The main idea of my article is that, if it is so such replacement will not bring results which one could expect because both – orthodoxy and heterodoxy – are based on the same theory of language called designative (it does not mean, that economists use it consciously, but rather that their theories are determined by methodological assumptions which lead to such results). Moreover, probable solution and hope should not be seek in revolutionary changes, because scientific revolutions, as radical as Thomas Kuhn expected, are impossible due to the nature of a discourse.

In well known article *Rhetoric of Economics* Donald McCloskey pointed out, that language which economists use to built their theories is important in many ways¹. Although there is no doubt, that such statement is true (and that “metaphors economists live by”² are important in their models), it is also true, that the most important thing to explain is why it is so. Finally, it is necessary to consider, how language used in economic theories affects their substantial contents.

Probably the most crucial statement on which my argumentation is based, is that methodological discourse in economics is determined by two ideas: Milton Friedman’s idea of unimportance of ‘realisticness of assumptions’³, and Mark Blaug’s opinion, that economists are usually practicing ‘innocuous falsificationism’⁴. Those influential hypothesis constrain, in my opinion, orthodoxy and heterodoxy in a very specific way: even if there is a dispute between them, both sides accept several methodological statements, and treat them as unquestionable ones, i.e. if one is able to judge if assumption is ‘realistic’ or not, means that there are methods which make possible to answer whether any sentence is realistic or not; or if we agree that predictions of theories could be, without bigger problems, confronted to empirical evidence, lead us to conclusion that something called ‘objective reality’ exists and is cognizable. In other words: due to theoretical orientation, one could argue that theory based on ‘realistic’ assumptions is better one, other could say that it has no importance, but no one takes seriously impossibility of making such adjustment.

It is possible to clarify the role of those constrains by asking two questions: What does it mean, if someone is saying that assumption is ‘realistic’? What does it mean, that predictions are confronted with facts?

Probable answers given by economists could uncover their philosophical orientation, which McCloskey described as modernistic⁵. It means that most of them (or probably all of them) accept rather simple version of ontological and epistemological realism: there is one objective reality and it exists, it is objectively cognizable, theories describe it more or less ‘realistic’, empirical tests could lead to refutation of theory, if only it appears that its predictions do not fit to empirical evidence. Accordingly difference between orthodoxy and heterodoxy is much smaller, than one could expect: it is constrained by opposition ‘realistic – unrealistic’, so possible standpoints in economics could shift only from ‘abstractive’ and ‘mathematically-oriented’, to rather ‘institutional’ and ‘more humanistic’

¹ D. McCloskey, *The Rhetoric of Economics*, “Journal of Economics Literature” 1983, vol. XXI.

² D. McCloskey, *Metaphors Economists Live By*, “Social Research” 1995, vol. 62, no. 2.

³ M. Friedman, *Essays in Positive Economics*, The University of Chicago Press, Chicago – London 1953.

⁴ M. Blaug, *The Methodology of Economics: Or, How Economists Explain*, Cambridge University Press, Cambridge 1992, p. XIII.

⁵ D. McCloskey, *The Rhetoric...*, op. cit.

theories; it also means that the only question in economic theory is: which theory – based on ‘realistic’ or ‘unrealistic’ assumptions – gives better and more precise predictions? It is rather obvious, that in such scheme there is no matter of doubt that one is able to confront theory to reality, and to separate them; more precisely: rather unquestionable, direct access to ‘objective reality’ makes possible to compare theoretical description of this reality (on two different ‘levels’: in reference to assumptions and predictions) with ‘non-theoretical’ description of it, and this comparison is possible because both descriptions are available.

In this perspective some issues need to be emphasized. Firstly, as McCloskey pointed out, such beliefs are strongly obsolete on the field of philosophy of science. Not only Vienna Circle’s version of empiricism, but also Popperian falsificationism are treated rather as a part of history of philosophy of science. Secondly, those beliefs inevitably lead to designative theory of meaning: language has only one function, it describes (or represents) reality, therefore sentences have meaning only because they could be judged as true or false, due to their relation to facts.

That orientation has philosophical roots, rather simple to identify; McCloskey called it modernism, but it is better to narrow it down. Such beliefs are explicitly close to logical empiricism, and theory of language presented in Ludwig Wittgenstein’s *Tractatus logico-philosophicus*. Of course, economists present rather watered down or simplified version of that standpoint, but without doubts similarities are rather obvious. Even if they declare being falsificationists, and no matter if they are formalists or empiricists (inductivists or deductivists in Pheby’s terminology⁶, the problem lays in their conception of relation between language and reality, and implicitly accepted theory of meaning.

1. Positive economics, falsificationism and rhetoric

Of course things do not look so simple, and difficulties appear at the very beginning. Firstly, let me clarify and repeat, what it means that methodological discourse in economics is constrain by Milton Friedman’s and Mark Blaug’s ideas. It should be obvious that not all economists accept them, but it is obvious too that if one would like to take part in methodological discussion, is simply obliged to declare whether accepts them or not; in other words: the most important thing is that necessity of making such declaration reduce possible standpoints and some alternatives ‘naturally’ disappear.

Secondly, it is well-known fact that there have been lot of doubts what Friedman really had on his mind, so it is true that, what Mäki shortly named F53,

⁶ J. Pheby, *Methodology and Economics: A Critical Introduction*, Macmillan Academic and Professional, 1988.

is full of ‘ambiguities and [...] lack of coherence’⁷; but apart from it common economic knowledge contains simplified version of it reduced to just one statement: “economic theories should not be judged by their assumptions but by their predictive implications – and in particular, the unrealisticness of assumptions of a theory is no reason for complaint or worry about the theory”. Therefore, even if it is true that F53 “provides ingredients for number of doctrines, such as fictionalism, instrumentalism, positivism, falsificationism, pragmatism, conventionalism, social constructivism, and realism”⁸, and even if Friedman in fact was “more post-modernist than one might suppose”⁹, this simplified and watered down version plays incomparably bigger and more influential role in nowadays theoretical discourse in economics than ‘true’ F53.

Thirdly, Blaug was mindful of problems of falsificationism, especially “that empirical testing is so difficult and ambiguous that one cannot hope to find many examples of economic theories being decisively knocked down by repeated refutations”¹⁰, and that “it is vain to seek empirical counterpart to every theoretical concept employed”¹¹; but finally, in his opinion, falsificationism seems to be the only way to stay on the ground of science, and “the only way we can know that a theory is true or rather not false”¹².

Therefore, apart from any ambiguities one statement seems to be undoubtedly true: ‘official’ methodology and in consequence theory of economics are modernistic to the core; methodology because – thanks to Blaug – it accepts simple Popperian demarcation criterion, and guarantee rational, based on falsificationism idea of progress, theory because – at the ‘level’ of assumptions and at the ‘level’ of predictions – it stays in ‘true-false’ relation with ‘objective reality’. In other words, according to Klamer we could say that “modernism [...] stands for the metanarrative of progress; in the context of science it stands for a belief of being able to capture the structure of reality by means of formal and reductionist reasoning”¹³.

As I pointed out modernism is a sin of heterodoxy too. It is so, because if we consider, for example, bounded rationality or opportunistic behaviors (we could treat them as heterodoxial in contrast to instrumental rationality and optimization behaviors), it clearly appears that one of the main problems is to find ‘more realistic’ description of the ‘real world’. In *Opportunism and its critics* Oliver E.

⁷ U. Mäki, ‘The Methodology of Positive Economics’ (1953) does not give us the methodology of positive economics, “Journal of Economic Methodology” 2003, vol. 10, no. 4, p. 495.

⁸ Ibidem, p. 504.

⁹ D. McCloskey, *The Rhetoric...*, op. cit., p. 485.

¹⁰ M. Blaug, *The Methodology of Economics...*, op. cit., p. XII.

¹¹ Ibidem, p. XII-XIII.

¹² Ibidem, p. XIII.

¹³ A. Klamer, *Making sense of economists: from falsification to rhetoric and beyond*, “Journal of Economic Methodology” 2001, vol. 8, no. 1, p. 72.

Williamson concerns himself with disagreement “on how the self-interestedness of economic actors should be described”¹⁴, and points out that “there is growing agreement that bounded rationality is the appropriate cognitive assumption for describing economic organization”¹⁵.

There is no need to multiply examples of such way of thinking, and – in this perspective – there is no need to precisely differentiate between orthodoxy and heterodoxy. The question is: what is wrong with this ‘realistic-unrealistic’ opposition, and why seeking “the most precise theoretical description of the real world” is an ill-applied industry? On the ground of methodology of economics McCloskey seems to propose attractive answers to those questions because “[she], joined with growing number of others, has attempted to persuade economists that economics is rhetorical persuasion”¹⁶. As it is said above, emphasizing significance of rhetoric and language is a step in good direction, but paradoxically, not radical enough; using Solow’s metaphor that McCloskey is “in grave danger of Going Too Far”¹⁷, we could paraphrase it and say that there is a need to “slightly change direction and Go Far Beyond”.

2. Constructivism and economics. Why not make it radical?

If we consider modernistic paradigm, specific constrains clearly appear; one is forced to operate in the scheme: objective observer – theoretical description – objective reality. No matter on what ‘level’ (assumptions or predictions) observer is on the transcendental position; there is a possibility to arbitrate if description is realistic/appropriate or not, and theoretical statements could be compared with ‘pure’ empirical evidence (simply, with ‘pure’ facts). Such orientation is based on epistemological presuppositions which are strictly modernistic: in accordance with received view of theories, observer is able to compare ‘the observation language’ and ‘the theoretical language’.

On the ground of methodology, rhetoric of economics suggests that we have to pay bigger attention on how we persuade or generally how we use language in discourse, especially understanding metaphors and rhetoric concepts we use should improve our scientific work. That is only partly true, because the main problem is why language plays so important role. Before we focus on that subject, it is necessary to explain some ontological and epistemological issues. Firstly, ironically existence of objective reality is not as obvious as positivists used to think;

¹⁴ O.E. Williamson, *Opportunism and its critics*, “Managerial and Decision Economics” 1993, vol. 14, p. 97.

¹⁵ *Ibidem*, p. 97.

¹⁶ U. Mäki, *op. cit.*, p. 1300.

¹⁷ *Ibidem*.

what “Heinz von Foerster has said [...] with consummate elegance and precision: ‘Objectivity is the delusion that observations could be made without an observer’¹⁸; in consequence, mainstream economics due to modernistic epistemology, is based on the idea that “the theory of knowledge that is to describe how it works is by and large still conditioned by the age-old belief that what we come to know is there before we know it. It is seen as a process of discovery”¹⁹. This idea is rather questionable, because “perceptions and observations do not drift like snowflakes into a passive receiver but are results of actions carried out by an active subject, one cannot but wonder what precisely these actions are and how they work”²⁰; in other words: “as long as we imagine it in this [old] fashion, we inevitably slip into some form of realism that hinges on the belief that we could ‘recognize’ things as they are, as though experiencing and cognizing had no significant influence on what we come to know”²¹.

There are more consequences of those statements. Firstly, if one is determined to defend – especially epistemological – realism, he has to face specific paradox “that even if a human mind succeeded in visualizing the world as it really is, the mind would have no way of knowing that it had done so”²². Secondly, probably more important thing is that observer never plays passive role in the act of observation; since Kant it is rather obvious that “the ‘thing itself’ [...] is a construct (Kant calls it a heuristic fiction) which we can project into ‘reality’ [...] only after we have conceptually composed it”²³; in consequence, that what we call ‘reality’ is “a product of our own capability to present things to ourselves”²⁴. Thirdly, and undoubtedly the most important, epistemological consequence is a necessity of acceptance of such statement: “if you consider that [...] knowledge can hardly be imported ready-made from an external world, it becomes clear that it must in some way be constructed”²⁵. In this perspective it is rather obvious that modernistic paradigm, based on the scheme: objective (and passive) observer – theoretical description – objective reality, is no longer possible to uphold²⁶. Consequently, if ‘objective reality’ and ‘pure facts’ are heuristic fictions and are constructed, we

¹⁸ E. von Glasersfeld, *Farewell to Objectivity*, “Systems Research” 1996, vol. 13, no. 3, p. 280.

¹⁹ Ibidem.

²⁰ Ibidem.

²¹ Ibidem.

²² Ibidem, p. 281.

²³ Ibidem, p. 282.

²⁴ Ibidem.

²⁵ Ibidem, p. 281.

²⁶ It is necessary to emphasize that this scheme is, of course, based on a simple version of realism (and economists work on that scheme despite their declarations), but due to some reasons, rather clearly understandable in proposed perspective, not only simple version of realism is inadequate. Because of that I do not discuss T. Lawson’s, U. Mäki’s and D. Hausman’s discussion on realism (which is otherwise very interesting and significant).

have to consider the process of construction; and if we do so, it immediately and clearly appear that language is the key concept in this process.

What should be said here, there could be some doubts about if those issues have anything in common with contemporary economics. I have to stress that both, formalists and empiricists operate in this modernistic epistemological scheme and, accordingly, despite large differences between, for example rational expectation hypothesis (RHE) and behavioral economics, their theories are constrained in the same way: any theoretical construction is treated as if it has direct or indirect relation with the external world; RHE is based on the idea that abstractive models, with ‘unrealistic’ assumptions lead to precise and successful predictions; behaviorists starts with belief that we have to observe ‘real’ behaviors to predict successfully. In this perspective, if predictions are wrong there are only two possibilities: to change parameters of the model (REH) or ‘observe better’ (behaviorists). In this case our critique is partly focusing on the same problem which Frydman and Goldberg emphasized in their significant book²⁷: contemporary economists are convinced that “fully predetermined models” are available; REH and behaviorists only differ with each other on question who have access to that knowledge: only economists or economists and market participants. In IKE models imperfect knowledge means that “no one has access to a fully predetermined model that adequately represents, as judged by whatever criteria one chooses, the causal mechanism that underpins outcomes in all time periods”²⁸. Our critique goes further: no one has access to that knowledge because it (knowledge) does not ‘touch’ reality on any ‘level’, so imperfection comes from totally different side.

What is exactly wrong with that modernistic paradigm appears, if we consider logical empiricists’ problem with protocol statements and Popper’s problem with basic statements. In both cases, it was necessary to assume that such ‘elementary’ sentences are not referring directly to facts or ‘observable events’, but are conventional: “are accepted as the result of agreement; and to that extent they are conventions”. It means that our knowledge stays in relation only with ‘other’ knowledge, our statements are understandable in context of other statements, and finally, any sentence is meaningful only if we understand language. It could be better explained by difference between ‘the early’ and ‘the late’ Wittgenstein: we should leave a conception that “the meaning of a sentence is a method of its verification”, and accept that “the sense of a sentence is its use or its role in the language”²⁹. In consequence, the significance of any sentence is not based on its ‘true-false’ relation with ‘reality’, but on its contextual relation with other sentences; and for that

²⁷ R. Frydman, M.D. Goldberg, *Imperfect Knowledge Economics: Exchange Rates and Risk*, Princeton University Press, Princeton 2007.

²⁸ *Ibidem*, p. 8.

²⁹ G.P. Baker, P.M.S. Hacker, *Essays on the Philosophical Investigations. Wittgenstein: Meaning and understanding*, Blackwell Publishing, Oxford 1983, p. 69.

reason significance is never stable and ‘closed’, it is changing infinitely along with changes in the whole system of language. Then imperfection of knowledge comes from permanent ‘openness of significance’. Finally, it is necessary to emphasize that modernistic scheme is based on the idea of language as an instrument of denotation. Due to ‘the early’ Wittgenstein it means that “4.01 A sentence is the picture of reality”³⁰, and for that reason the only role of language is to picture that reality precisely and adequately, but – what is the most important – completely passive; in this scheme reality is stable and ‘is waiting’ to be discovered, and language plays secondary role.

In constructivist conception that relation is turned upside down. If ‘reality’ is a product of a discourse, and that discourse is linguistically organized, than what we call ‘reality’ is a consequence of linguistically elaborated agreement. Especially, even those elements which are called ‘facts’ or ‘scientific facts’ are constructed discursively. Accordingly “scientific fact [could be] tentatively defined [...] as a structure of ideas”³¹; in this perspective it is not being discovered, but is ‘growing’. From that point of view, economists just construct some ‘facts’ and are continuously developing it. It is possible because meanings are open for reinterpretation. Of course, that openness is not unlimited, but limits are set by discourse, not by ‘reality’; if it is so, than language is no longer passive instrument which is used only to denote ‘facts’, is not only representing ‘reality’ (is not a picture of it), but plays active role in the process of construction. For that reason the only ‘reality’ to which we have direct access is the discourse. Finally, we should abandon hopes ‘to find the way to reality’, though it will appear but only as a product of that discourse.

Conclusions

Constructivist proposal, especially a radical version of it, could provoke objections. Nevertheless, even opponents could learn something from it and reconsider their own positions. It is so, because constructivist view at the theory and methodology of economics raises some questions, which cannot be ignored. If it would only be possible, that we are not able to arbitrate, whether any sentence is ‘realistic’ or not, maybe we should find new criteria of judging theories. Moreover, in this perspective opposite theories could be treated as parts of the same ‘facts-constructing’ process, so those ‘facts’ in consequence should be conceived as products of collective actions; for example: ‘equilibrium’ could be adequately understood, only if one would know perspective of all those theories, so ‘equilibrium’ is not something in external world, which is worse or better rep-

³⁰ L. Wittgenstein, *Tractatus Logico-Philosophicus*, Cosimo Books, New York 2010, p. 45.

³¹ L. Fleck, *Psychosocjologia poznania naukowego*, UMCS, Lublin 2006, p. 31.

resented by theories, but is a discursively constructed ‘fact’. Accordingly, what we call ‘equilibrium’ contains elements of all those theories, and meaning of that ‘fact’ is changing along with ‘every move in a theoretical game’.

What should be emphasized, constructivist perspective differ from rhetoric in a very significant way: theories are not (or not only) instruments of persuasion, but are elements of the discourse; only using them (or rather only ‘through’ them) we are able to understand ‘facts’, and generally ‘to see’ and ‘to know’ anything. If von Glasersfeld is right that “knowledge means to understand”³², than constructivist proposal gives us possibility to reconstruct and understand the process of growing of knowledge as a infinite, discursive ‘facts-constructing’ process.

Finally, from that point of view it is rather obvious that no scientific revolution is possible, so we should not wait for it after crisis. Theoretical change viewed as a ‘growing’ of ‘scientific facts’ is permanent, but evolutionary; no one could manage the hole discourse, so every new theoretical proposition has to be understandable for all participants of that discourse; it means that new theory always stays in relation with the old ones, i.e. is understandable only in their perspective. Paraphrasing Wittgenstein we could claim that ‘the sense of a theory is its use or its role in the discourse’; it could ‘take part’ in it, but cannot change it completely. So if such new theory is appear, ‘facts’ which we know will grow, and will never be the same, but cannot be totally different.

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³² E. von Glasersfeld, op. cit., p. 284.

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