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## A Textbook of Economic Methodology from Amsterdam

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Recenzja książki

## **A Textbook of Economic Methodology from Amsterdam**

Marcel Boumans and John B. Davis' book  
Economic Methodology. Understanding Economics as a Science

Palgrave Macmillan has published a textbook of economic methodology by Marcel Boumans and John B. Davis entitled *Economic Methodology. Understanding Economics as a Science*<sup>1</sup>. In the "Preface," the authors say that this work, built on the experience of many colleagues, "is the product of a decade of teaching economic methodology at the University of Amsterdam". I will add that, as far as I know, this is either one of very few or maybe even the first ever comprehensive textbook concerned exclusively with this new field of economics, fully established only in the eighth decade of the 20<sup>th</sup> century and since then fast expanding, i.e., the methodology of economics<sup>2</sup>.

The book by Boumans and Davis consists of seven chapters. In the first six chapters, the authors describe the development of the philosophy of science and, in this context, the development of economic methodology, from logical positivists to the rhetoric approach à la Deirdre N. McCloskey popular at the beginning of the 21<sup>st</sup> century. The seventh and last chapter spoils the logic of this analysis, organized along both historical and conceptual lines, because it has a special status and concerns value judgments in economics<sup>3</sup>. At the end of every chapter, three short sections are located, which extend the discussion and make it more detailed. All chapters also include review questions and suggestions for further reading.

In the first chapter ("The Received View of Science") Boumans and Davis inspect the view of logical positivists on the nature of science. The authors examine the legacy of the "Vienna Circle," among others the principle of verifiability, the demarcation criterion, the distinction between syntactics and semantics, between the context of discovery and the context of justification, between the theoretical and the factual. Views of logical positivists on the nature of scientific explanation are presented (Hempel's deductive-nomological model of scientific explanation and symmetry thesis of explanation and prediction). Boumans and Davis also analyze critique faced by the authors of these concepts.

The second chapter entitled "Methodologies of Positive Economics" concerns the impact of logical positivism on economics in the 20<sup>th</sup> century. It discusses the emergence and development of econometrics and the disputes between John M. Keynes, Jan Tin-

bergen, Milton Friedman, and Paul A. Samuelson. Generally, it presents a picture of the evolution of methodological beliefs of economists in the 20<sup>th</sup> century under the impact of logical positivism: from a vision of economics as a formal science to economics as one of the natural sciences.

The third chapter is entitled “Popper’s Logic of Discovery.” The authors examine Karl Popper’s views on science, his critique of logical positivism, and falsificationism. The mechanism of knowledge evolution (knowledge growth) according to Popper is presented. The exposition of Popper’s views on social sciences includes his critique of historicism, and a supplement to the chapter analyses Popper’s method of “situational analysis.”

The fourth chapter under the title “Kuhn and Lakatos” compares ideas of Thomas Kuhn and Imre Lakatos referring (more or less critically) to Karl Popper. Boumans and David analyze in detail the views of Kuhn (e.g., paradigm, disciplinary matrix, normal science, anomaly, scientific revolution, incommensurability) and Lakatos (e.g., scientific research programs (progressive and degenerating), hard core, protective belt, negative heuristics and positive heuristics) on the nature of science and on the evolution of science.

In the fifth chapter (“The Sociology of Scientific Knowledge”) of *Economic Methodology*, the authors study the “sociological theory of scientific knowledge” and the “economic theory of scientific knowledge.” In the centre of interest stands the radical thesis that knowledge in science (i.e., in economics) is “socially constructed” (or relatively freely built by a scientist, along her social, political and material preferences) and not “discovered” as an explanation of the real state of the world. One of foci at the end of this chapter presents achievements of feminist economics (e.g., theoretical analysis of women’s “house” work and of poverty among women in developing countries).

The sixth chapter (“Rhetoric, Postmodernism, and Pluralism”) concerns mainly the so-called rhetoric approach in the methodology of economics (among others, critical views of Deirdre N. McCloskey on positivism are inspected). Here, economics is seen as conversation, with participants obeying certain rules (e.g., freedom of speech at scientific conferences) and having certain tools (e.g., article published in a scientific journal). During such conversation, economists use persuasive methods, often of literary nature. Examples include analogies, metaphors, “stories” (e.g., Adam Smith’s “story” about the “invisible hand” of the market, George Akerlof’s “story” about used cars, “plums” and “lemons”). In the same chapter, the authors examine Postmodernism in economic methodology (a heterogeneous branch of culture, referring to French Neostructuralism) and methodological pluralism (the popular postulate to accept differentiated methods of reaching the truth about the behaviour of economic agents).

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The seventh and last chapter of Boumans and Davis’ *Economic Methodology* is entitled “Value Judgments in Economics” and has, as mentioned, a special status, so it deserves special attention as well. The authors criticize here the standard view about the need of value-free, positive economics. This is surprising, because for me the function

of a textbook seems to be rather to present widely accepted views of scholars of some branch of science. And if the role of value judgments in economics is really controversial and economists' views on this matter differ considerably, the best method to deal with it would be, in my opinion, to present the most important arguments of the participants of these disputes and let students assess the quality of these arguments. However, the authors of *Economic Methodology* have chosen a different solution, supporting the view of the opponents of value-free positive economics and arguing only for this position.

Thus, Boumans and Davis criticize the standard view that value-free positive economics is advisable and possible. Their position is very clear. They state: "This [standard – B. Cz.] view ... does not stand up to any reasonable examination. Indeed, it can be shown that value judgments enter into economics in a number of distinct ways: in the way in which the economy is investigated, in the often value-laden character of the concepts employed by economics, in the ethical views implied by the fundamental propositions of standard economics, and in how explanations in economics incorporate ethical values and moral norms" (p. 170).

Further, the authors present four detailed arguments to support the thesis that economics is a mixture of factual statements and value judgments, and that value judgments have a much more important function in economics than it is generally believed. First, Boumans and Davis show that economists inevitably accept methodological value judgments (e.g., the choice of a subject to be analyzed, the choice of a research method, and the choice of criteria by which the results are assessed).

Second, they extensively cite Gunnar Myrdal to emphasize "value-ladenness" of individual terms and entire explanations in economics.

Third, they argue that value judgments which are widespread in economics often (as in case of rational choice theory) support specific ethical views.

Fourth, they insist that explanations of economic phenomena offered by economists incorporate (accommodate), and have to incorporate, ethical values and moral norms, which are accepted by economic agents.

In my view, the main problem with these opinions of Boumans and Davis is that they all contradict the thesis about the nonexistence of *any* connection of economics with value judgments. Yet, in my opinion, such thesis *is not* the standard view of those economists who argue that value-free, positive economics is advisable and possible<sup>4</sup>.

First, it is true that economists (like, e.g., physicists) accept methodological value judgments. But proponents of value-free, positive economics neither contradict nor criticize this practice, which is easy to show, e.g., in Max Weber's<sup>5</sup> and Terence Hutchison's<sup>6</sup> writings (see also Blaug 1992, p. 117). All they want is to make the content of economists' statements value-free. It is true that Milton Friedman wanted to free economics from value judgments to make it an "objective science", but it does not matter that, in his opinion, economics can and should have no connection with value judgments at all. Namely, Friedman's view was that economics should be objective "in precisely the same sense

as any of the physical sciences” (Friedman 1953, p. 4). It means, then, that Friedman did not want economists to stop accepting methodological value judgments (like, e.g., chemists accept them as well), but that he wanted to free the content of economic knowledge from (ethical, aesthetical, political, etc.) value judgments.

Second, terms used by economists are sometimes ambiguous and really can have shades of meaning which suggest valuation. Yet, in such situations any possible misunderstanding can be, in my opinion, relatively easily avoided. The condition is that the author clearly shows his or her intentions. This way, for instance, one can eliminate the risk that the term “Pareto optimum” will be regarded by a student reading an economic textbook as the name of an advisable ethical ideal and not as the name of a certain state of the economy whose desirability is an open question. In my opinion, a very similar view on the issue, if not the same view, was held, e.g., by Pieter Hennipman<sup>7</sup>.

The authors disregard also the question why particularly in economics “value-loaded” terms have to cause dangerous “contamination” of scientific knowledge with value judgments. In the same way, a similar problem concerns, e.g., statements made by biologists on “healthy organism” (the term “healthy organism” is, in my opinion, equally strongly “value-loaded” as, e.g., the term “developing countries”). In this context, I will stress once again that supporters of the ideal of value-free economics for many decades argued only that economics can be and should be value-free “in precisely the same sense as any of the physical sciences” (Friedman 1953, p. 4).

Third, Boumans and Davis argue that value judgments widespread in economics can sometimes support specific ethical views. Their example is a misunderstanding which can be caused by “value-loadedness” of the term “rational”. Namely, explanations proposed in rational choice theory see as rational (or as ethically good) behaviour consistent with preferences of an acting agent, and not some different behaviour (e.g., altruistic behaviour). Yet, in my opinion, such risk of identifying “rational” with “good” is very small. Once again, in my view, it can be minimized, e.g., by a clear expression of his or her own views by the author of the statement in question.

Fourth, Boumans and Davis show that explanations of economic phenomena incorporate ethical values and moral norms accepted by economic agents. This is often a precondition of the adequateness of these explanations. However, supporters of value-free economics do not negate this opinion; once again, e.g., Weber’s and Hutchison’s statements are the proof<sup>8</sup>.

Interestingly, some scholars maintain that in such situations a necessary condition of the proper usage of certain value judgments as parts of explanations of human behaviour is their (these value judgements) acceptance (Boumans and David do not argue this way, however). E.g., Hilary Putnam claims that the describing and the evaluating functions of many terms are impossible to be separated from each other. (Putnam calls such terms “thick” ethical concepts.) In his view, in order to use such a term as, e.g., “cruel” properly, one should reproach the behaviour described with the term “cruel” (Putnam 2002,

pp. 35-43, 62). (Recently, Daniel M. Hausman and Michael S. McPherson have argued similarly (1996, pp. 211–214)<sup>9</sup>). In my opinion, however, valuation is not a necessary condition of adequate describing. As Abraham Kaplan (after Ernst Nagel) expresses it, “we can say that someone is a ‘good Nazi’ without necessarily meaning thereby that being a Nazi is in any way good; we are saying only that certain characteristics are present in that instance without committing ourselves as to whether they are worthy of approval ... Although appraisals may entail certain characteristics, we can characterize without appraising” (Kaplan 1964, p. 378). In short, it is one thing to understand the content of value judgments, and another thing to evaluate them.

I will add that, e.g., physiology also studies behaviour of people who accept various value judgments, but (I suppose) it would not be rational to claim that because of it some statements of physiologists are inevitably permeated with any value judgments.

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Apart from doubts expressed in the second part of this review of Boumans and Davis’ textbook, I am of the opinion that the work is an excellent Introductory survey text for all interested in the methodology of economics. In particular, it can be a good starting point for self-study of economic methodology. This is due not only to *Economic Methodology* being a textbook, but also to the work’s simplicity and clarity.

Bogusław Czarny

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## Notes

<sup>1</sup> See: M. Baumans and J. B. Davis, *Economic Methodology. Understanding Economics as a Science* (with contributions from Mark Blaug, Harro Maas and Andrej Svorencik), Palgrave Macmillan, Basingstoke, Hampshire et al. 2010, 214 pages.

<sup>2</sup> Boumans and Davis’ *Economic Methodology* is complementary to works like, e.g., Mark Blaug’s fundamental *The Methodology of Economics* (1992); *The Handbook of Economic Methodology* (ed. by J. B. Davis, D. W. Hands and U. Mäki) (1998), Edward Elgar, Cheltenham et al., or anthologies of most important texts from the field of philosophy and methodology of economics published respectively in 1994 and in 2006: *The Philosophy of Economics: An Anthology* (ed. by D. Hausman), Cambridge University Press, Cambridge, and *Recent Developments in Economic Methodology* (vol. I–III), (ed. by J. B. Davis) Edward Elgar, Cheltenham et al.

<sup>3</sup> Defending such construction of the book, the authors say: “It is our view that the role of value judgments in economics is a crucial issue for economic methodology, and one which connects to many other central issues in the field. Accordingly, we have placed this discussion at the end of the book as a kind of capstone discussion in lieu of a conclusion” (p. 2).

<sup>4</sup> For instance, Arthur Woll states (in a popular textbook): “espousing of science which is free of value judgments in any case does not mean that there exist or that there could exist a science *in any respect* [italics mine – B.Cz.] value-free”. In Woll’s opinion, it is so because, e.g., “valuation acts as such can be the subject of scientific study ... In particular, emergence and consistency of value judgments ... can be explained in course of scientific inquiry” (Woll 2007, pp. 11–12; my translation from German into English – B. Cz.).

<sup>5</sup> Weber stated for example: “In spite of all that I have said ... the following ‘objections’ have been raised in all seriousness: science strives to attain ‘valuable’ results, meaning thereby logically and factually correct results which are scientifically significant; and that further, the selection of the subject-matter already involves an ‘evaluation’ [see Weber 1917, p. 499; cited after English translation from 1949, pp. 10-11 (see references)].

<sup>6</sup> At the end of a comprehensive analysis of the same problems, Hutchison stated: “the main point we are concerned with here is simply that because value-judgments proposing or upholding scientific criteria, or a code of scientific ethics, are logically inevitable in any ‘scientific’ activity, the fact that this particular kind of value-judgment is, and has to be, made, does not nullify all claims to objectivity, value-neutrality, or *Wertfreiheit*, in the statements or theories arrived at by scientific enquiry” (Hutchison 1964, p. 55).

<sup>7</sup> Hennisman argued: “It is true that expressions like ‘optimal’ or ‘efficient allocation’ ... may at first sight suggest an approval or disapproval in some general or absolute sense, but this impression cannot be binding for economics. In the context of the theory the terms are part of a technical professional vocabulary and have a special economic and thus relative meaning. To hold that they are indelibly value-loaded and that owing to this welfare economics is ineluctably normative is semantic mysticism” (Hennisman 1984, p. 89).

<sup>8</sup> For example, Weber mentioned that an “almost inconceivable misunderstanding which constantly recurs is that the propositions which I propose imply that empirical science cannot treat ‘subjective’ evaluations as the subject matter of its analysis — (although sociology and the whole theory of marginal utility in economics depend on the contrary assumption)” [see Weber 1917, pp. 499–500; cited after English translation from 1949, p. 11 (see bibliography)]. And Hutchison argued half a century later: “The economist is ... involved with valuations ... in that the social or human sciences (unlike, of course, the natural sciences) study people who are holding, expressing, projecting, fighting for, or living by, values of one kind or another. But claims for the ‘objectivity’ or ‘neutrality’ of statements or theories *about* human activities are not invalidated by the fact that the activities themselves are expressive of, or impregnated with, values” (Hutchison 1964, pp. 57–58).

<sup>9</sup> Yet, in the second edition of their work, Hausman and McPherson abandoned this view (see Hausman, McPherson 2006 p. 305).

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