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Arne Heise

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# **'Why has economics turned out this way?'**

## **A socio-economic note on the explanation of monism in economics**

Arne Heise

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**‘Why has economics turned out this way?’  
A socio-economic note on the explanation of monism in economics**

by Arne Heise

***Abstract***

*The economic science has – lamented by some, applauded by others – turned into a monistic discipline. In this short research note, a socio-economic answer to the question of why this happened is provided by combining an economic approach to the market for economic ideas with a sociological approach of a scientific (power) field.*

*Key words: Pluralism, Monism, Standardization, Regulation*

*JEL codes: B 59, D 43, I 23, L 15, Z 13*

## 1. Introduction

As several studies have shown, pluralism in economics is a bygone fact<sup>1</sup>. For some, most notably the heterodox part of the economic scientific community and many students, this development has often been lamented and a re-pluralization has been claimed<sup>2</sup>. For others, it is the necessary and therefore applauded result of a maturing science.

Much ink has been spilled on the discussion about the necessity of pluralism and the effects (cost or benefit respectively) of its lack (see e.g. Salanti/Screpanti 1997, Garnett/Olson/Starr 2010), much less has been written about a clear conceptualization of pluralism (Garnett 2006, Heise 2016) and even less investigated is the issue of the reason or background forces of the development from 'inter-war pluralism to post-war neoclassicism' (Morgan/Rutherford 1998). For those, who believe economics ought to be monist in the sense that it eventually breeds out a 'normal science' of Kuhnian type, there simply is no question to reflect upon. For those, however, who advocate pluralism, its absence must be disturbing and an explanation is badly needed in order to propose remedies that might reverse the process of de-pluralization in the future.

John King, a staunch defender of pluralism, is among the few who provide an answer to "why economics has turned out this way", and he concedes: "and I am still not sure to have the full answer" (King 2016: 7)<sup>3</sup>. He highlights two reasons:

- \* the pretention of economics as a 'rigorous science' demands a single, generally accepted representation of the 'truth' based on formal reasoning and sophisticated empirical testing (i.e. the methodology of positivistic fallibilism)

- \* the economic discipline touches too much on vested interests as to allow for a free investigative project pursuing every possible trail of thought.

Although both explanations are intuitive to critical minds, they are not entirely convincing at closer inspection from a less inclined perspective or, rather, need further argumentative support to become more appealing. That is what this short research note is supposed to provide: In the next two sections, I will scrutinize the arguments and point to deficiencies. In a fourth and fifth section, I will unfold a socio-economic theory of the 'market for economic ideas' and provide some evidence for restraints on competition (or, sociologically speaking, an uneven battlefield) which will back King's explanations. This will serve as foundation for some proposals for re-claiming pluralism.

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<sup>1</sup> See e.g. Heise/Thieme (2016), Lee (2009). The statement assumes that economics had been characterized by pluralism in earlier times. Indeed, the period until World War II is often described as a pluralistic period (see Morgan/Rutherford 1998) and the 1960s and 1970s also experienced a rise in pluralism after what has been dubbed as the 'The Second Crisis in Economic Theory' (see Robinson 1972).

<sup>2</sup> Most recently, this has been done in a volume named 'Reclaiming Pluralism in Economics' edited by Courvisanos/Doughney/Millmow (2016)

<sup>3</sup> One other source that comes to mind is the work of Roger Backhouse (2005; 2009) who points to the post-war circumstances of the 'cold-war era' as backcloth to the development in question. Yet, while the cold-war era has certainly contributed to the way, economic theorizing and modelling has developed (i.e. priority given to pro-market theories and formalization), it does not convincingly explain why pluralism as an ontological and epistemological conception has been almost completely abandoned.

## 2. Methodological illiteracy and the quest for monism

Although economics is arguably the strictest social science in its methodological rigour (see e.g. Freeman 1999; Colander 2005), economists are usually not very well trained methodologically (see Caldwell 1988). That is to mean that in relying on positivistic fallibilism, economics emulate the natural sciences in its search for 'the one and only truth'. The insistence on positivistic ('scientific') 'objectivity' as opposed to normative 'advocacy' marked the beginning departure of economics from economic sociology as a result of the *'Methodenstreit'* which took place not only in Germany at the end of the 19<sup>th</sup> century (see Moore 2003). Economics turned into a science – emphasizing methodological unity with the natural sciences (see e.g. Mirowski 1989) – claiming to be „a body of systematized knowledge concerning what is“ (Keynes 1891: 34) or, as Milton Friedman stated in his famous article 'The Methodology of Positive Economics': „Positive economics is in principle independent of any particular ethical position or normative judgement. ... Its task is to provide a system of generalizations that can be used to make correct predictions about the consequences of any change in circumstances. ... Its performance is to be judged by the precision, scope, and conformity with experience of the predictions it yields. In short, positive economics is, or can be, an 'objective' science, in precisely the same sense as any of the physical sciences.“ (Friedman 1953: 4). Based on such a pretention, economics is pursued by most economists as a science that ultimately will provide a single, generally accepted, historically unspecific answer to all economic problems (see e.g. Middleton 1998: 344, Schultze 1996: 26, Williamson 1997: 365); i.e. something that can be taken as 'truth': „...a thumbnail sketch of what a genuine science of economics would amount to: it would ideally be a discipline that sought a complete, objective account of the 'laws of motion' which would causally explain the 'characteristics' and 'function(ing)' of the investigator-independent economic 'system' in its parts and as whole. Although this conception of an economic science does not deny ontological complexity and diversity and does not deny human fallibility, it does lend itself to an ultimately monistic paradigmatic vision of the future of the economics discipline“ (Mariyani-Squire/Mossa 2015: 200).

This strong scientific claim neither matches the necessary ontological and epistemological preconditions that the object of inquiry – the economic order – must fulfil if 'truth' is to be established nor a similar rigorous methodological exigence that is critically disclosed (see Heise 2016). The foundation of scientific monism, the 'one world-one truth' principle can be uphold only under very restrictive and unrealistic conditions: a) the existence of a single (economic) reality and the objectivity of its emergence which is questioned by post-modern constructivism; b) the assumption of the economic order (or system) to be a 'closed system' which would exclusively allow for (stochastic) predictions based on detectable links between system elements (constituting 'analytic judgement a priori' in a Kantian sense). Although this assumption is highly critical and can definitely not be taken as an (unquestionable) axiom, this is exactly what mainstream economics<sup>4</sup> does: „It is indeed the proclaimed virtue of general equilibrium reasoning that it takes into account all the possible interactions between all the elements that are included in the model; therefore, if uncertainty about future possibilities appears to prevent the completion of the set of connections between present decisions and their full set of consequences, then we must agree that the imaginative response of Arrow and

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<sup>4</sup> As it is commonly done, I take the 'dynamic stochastic general equilibrium model' as the core of mainstream economics; see e.g. Carlin/Soskice (2006: 574ff.) who dub it the 'neoclassical benchmark model' covering neo-Keynesian as well as new classical macroeconomics based on microeconomic foundations.

Debreu in extending the set of elements to include all future dates and all possible states of the world – which are fully connected to every other element in the model – was methodologically appropriate“ (Loasby 2003: 291). However, what is methodologically appropriate for concise model-building is not necessarily an appropriate representation of reality.

If the ontological and epistemological requirements for a monist approach are too demanding to be fulfilled, one could still hope for a clear-cut discrimination between theoretical approaches – which by itself can only establish provisional or conjectural knowledge but no ‘truth’ – by empirical testing. Yet, due to the ‘problem of induction’ and the so called ‘Duhem-Quine’ thesis, an objective demarcation between ‘truth’ and ‘non-truth’ or a similar objective discrimination between competing theories or theoretical systems (paradigms) is simply impossible (see Blaug 1980: 26). This does not necessarily imply the rejection of the existence of objective knowledge (as constructivists would claim) all together, but undoubtedly the end of certainty about the establishment and proof of objective knowledge – and the admittance of ontological and epistemological pluralism as scientific imperative of economics instead.

Monism, therefore, is not the logical result of the pretence of economics to be like the natural sciences and the indicator for its maturity but rather follows from a methodological illiteracy about the ontological and epistemological constraints of the discipline<sup>5</sup> which make paradigmatic pluralism indispensable.

### 3. Vested interests and economics

There is no doubt that economics covers topics that heavily touch upon vested interests. Moreover the ‘knowledge’ provided by economics surely help special interest groups to gain the upper hand in disputes about policy-making and the provision of public goods which simply cannot serve in a ‘neutral (or merely functional) way’ the general welfare of society as such a thing – the welfare of society – cannot coherently be conceptualized. Since Kenneth Arrow’s seminal book (Arrow 1951), we know that what contributes to the welfare of a society is, at best, determined by the majority or, more realistically, by the minority of the society which is able to frame its own interest as the common interest of the society (see e.g. Bartels 2008; Hacker/Pierson 2010). This framing process requires a lot of resources which can better be provided if one is successfully participating in the market – which, in turn, produces a pro-market bias. Taking into consideration that in many countries universities as the major organisations of knowledge-creation are private enterprises, it appears difficult to deny that economic research and education at these private universities may well also display a pro-market bias and disparage more critical approaches – not necessarily as a downright conspiracy but rather as the result of a cultural constraint imposed by the patrons of the private universities. But even if this description was right, how would that translate into a general discrimination of critical approaches if it is conceded that the vast majority of universities around the world are public organizations which are free to follow other – less pro-market oriented theories and paradigms – currents? Why should that part of the economic scientific community which is not under its patrons’ tutelage still reject scientific pluralism despite monism being clearly untenable?

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<sup>5</sup> This has been shown only recently when a highly reputed member of the economic scientific community – Nobel laureat Jean Tirole – dismissed pluralism as relativism and obscurantism; see Tirole (2014).

#### 4. The market for economic ideas

The practise of basic economic research and education is concentrated in universities. The market for economic ideas is, therefore, determined by the way, scientific personal (as 'factors of production') – mainly professors – is recruited and the way, university researchers conduct their research in a methodological and paradigmatical manner (as 'production programme' or 'technology'). The output provided by the market for economic ideas – basic economic research – is a pure public good (see Eggertsson 1995: 206) with the particular characteristic of a credence good unveiling its value to the consumer only after consumption or not even then. Although these characteristics imply that it has no price, it does neither mean that basic research will not be privately supplied nor that there are no means to govern the market for economic ideas. What it means is that the demand side of the market is not controlled by those who pay for its provision – which, at least in most public universities, is the general tax payer or, if tuition is charged, the student – but by the scientific community itself which enjoys academic freedom.

The private provision of the public good 'basic economic research' is either motivated by being a joint-product to academic education<sup>6</sup> or because it serves an ideological purpose (see above) benefitting the financier of the private universities<sup>7</sup>. And as it is not the price which regulates the market, rewards such as attention and reputation must take its place. And again, it is the scientific community, not the tax payer or the student, who bestows such attention and reputation on the producer as the basic economic research is a credence good. This, of course, constitutes the need for standards determining what is good scientific practise and output and measuring its quality as the basis for reputation-assignment. Moreover, the 'market for economic ideas' is distinguished by further characteristics that call for the introduction of standards in order to govern it: at most times, it shows the combination of high supply (of academics qualified to take a professorship) and low demand (for tenured professors) resulting in a quasi-permanent excess-supply ('shrink market')<sup>8</sup> and rendering it very risky. This is particularly the case because the attainment of a (tenured) professorship requires the acquisition of high and very specific human capital that can hardly be utilized in any other profession (see Eggertsson 1995: 203) and is, thus, associated with high sunk cost.

From this accrues a demand for standard-setting which mitigates the risks involved by providing guidelines about ontological, epistemological and methodological constraints marking the boundaries between 'good' and 'bad/no' economics. On the other hand, due to network externalities, learning effects and high sunk cost, the market for economic ideas is prone to develop ontological, epistemological and methodological path-dependencies creating a situation of 'lock-in' which can be interpreted as process of implicit standardization (see Morgan 2015). While in former times, when the scientific community was a very small, close-knit elite group of people knowing each other, gate-keeping into the academic system of economics had been provided by networking based on sociodemographic similarities ('habitus') and direct personal control<sup>9</sup>, this no longer

<sup>6</sup> As a common resource good it enjoys excludability and can, therefore, be provided privately.

<sup>7</sup> As with lighthouses (see Coase 1974a), this may change the pay-off matrix of the public good in a way that the private provision of the public good becomes profitable.

<sup>8</sup> This characteristic of the market for economic ideas at the level of professorial appointments is not coincidental but necessary to the academic recruitment principle of 'selection of the best'.

<sup>9</sup> Eggertsson (1995: 204) reports – with reference to Keynes – on the influence which Alfred Marshall had on the professorial appointments at British and overseas universities in the Eng-

functions after academic education has become mass education and the scientific community has been inflated enormously. Now, gate-keeping is provided by ontological, epistemological and methodological standardization which is a rational regime from the perspective of the individual researcher (minimizing his risk) but may be dangerous from the perspective of the discipline if it strangulates the competition of ideas on paradigmatical grounds.<sup>10</sup> And the process of 'product differentiation' which usually evolves in order to transform a 'shrink market' into a 'niche market' (characterized by a situation of 'excess-demand'), may provide theoretical variation within the 'standard' paradigm but not the required paradigmatic pluralism.<sup>11</sup>

Yet, even if the market for economic ideas were prone to market failures which are disclosing in restricting paradigmatic competition, would not the victor – i.e. the one who manages to set the standards – be coincidental? Or, put differently, why should a market-apologetic paradigm prevail as King predicted (with reference to Karl Marx)<sup>12</sup>?

## 5. Power, hierarchy and the economic battle field

If one wants to predict the outcome of a process of standardization, one needs to know the direct benefits of different candidates (i.e. competing paradigms) to its (potential) users and the benefit that results from network externalities (i.e. the use that stems from the fact that the paradigm is used by others) which are related to the number of users (see e.g. Elsner 2012: 166ff.). In this very setting, the process of standardization may become random, once the initial conditions satisfy a high degree of equality among the distribution of users across different paradigms. But even if that were the case – which, of course, is not very realistic –, other factors may contribute: the endowment of different paradigms (or, rather, their academic representatives) with economic (e.g. professorial positions and third party funding), social (e.g. networks within and without the scientific community), cultural (e.g. editorial board memberships on important journals) and symbolic capital (e.g. awards or highly visible positions beyond the university) will impact on the choice of and adherence to a paradigm as much as the weight that must be assigned to network externalities assuming that some users are more powerful than others in the economic field.

Recent work on the socio-economics of economics has been very revealing in this respect: Taking 'economic ideas' as being an international public good (see Eggertsson 1995: 207) and the economic system as being strictly hierarchically structured (see Fourcade/Ollion/Algan 2015: 96ff.), a handful of private US elite universities became the key-players in the standardization game. They control the journals which frame topics and bestow excellence on research(ers), they set the curriculum of Ph.D. programmes world-wide where the ontological, epistemological and methodological toolkit is being passed on to the next generation of researchers. These universities are not only extremely well equipped with economic capital (each US elite university command a hundredfold of financial resources as compared to public universities world-wide), they rose to excellence under the cultural pretence that universities need to be beneficial

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lish-speaking world.

<sup>10</sup> According to Imre Lakatos, paradigms (or, rather, scientific research programs as he used to call paradigms) are made up of ontological, epistemological and methodological dimensions.

<sup>11</sup> For the distinction between 'variation' and 'pluralism' see Heise (2014: 74ff.), Heise (2016).

<sup>12</sup> See King (2016: 8) who cites Marx (1867: 10): „In the domain of Political Economy, free scientific inquiry meets not merely the same enemies as in all other domains. The peculiar nature of the material it deals with, summons as foes into the field of battle the most violent, mean and malignant passions of the human breast, the Furies of private interest“.

to the society in order to get legitimacy and acceptance. In a society – the USA – in which the market as core constituent plays a crucial role in determining not only output and prices, but in legitimizing income aspirations and wealth distribution in a purely meritocratic way<sup>13</sup>, it is hard to see how the economic discipline could not have developed a pro-market bias (see Fourcade 2009: 33ff.). And even after their strong grip on the system had been loosened slightly (and, only temporarily, as it turned out) during the 1960s, when the combination of political movements and the vast extension of the higher education system opened a 'window of opportunity' for economic pluralism, this was no sustainable situation as long as the endowment with the different kinds of capital remained as unequal as before.<sup>14</sup> Moreover, standardization as gate-keeping measure became ever more important after personal control ceased to work in a world in which half of each age cohort takes up a university study. In some countries (such as the UK), this standardization has become rather formal (see e.g. Lee 2007, Lee/Pham/Gu 2013). In others (such as Germany), it remained mainly informal, yet not less effective (see e.g. Heise/Sander/Thieme 2016)<sup>15</sup>.

## 6. Re-claiming pluralism in economics

John King is brave enough to concede that he is not sure of the answer to the question of why economics turned into a monist discipline featuring a pro-market paradigm. And he is even less sure of what can be done to change this situation, yet proposes the following strategies: "...closer co-operation with each other (among the heterodox economists, A.H.), more interdisciplinary collaboration with the other social sciences, and pressure for political economy to be taught as a discipline in its own right, separate from departments of (mainstream) economics" (King 2016: 9). Although the quest for strengthening the ties among those members of the economic scientific community which are being discriminated and extending the ties beyond the disciplinary borders towards the more open-minded political and social sciences appears a sensible and

<sup>13</sup> This is part of the 'American dream' and a founding principle of the United States of America being based on settlers escaping from feudal Europe with its social stratification based on descent (see e.g. Hochschild 1995 and Hacker 2008).

<sup>14</sup> For the development of heterodox economics see Lee (2009), King (2002) and Heise/Thieme (2016), Heise/Sander/Thieme (2016) with particular reference to Germany.

<sup>15</sup> Although this research note is only concerned with the market for economic ideas, one might argue that the gist of the argument put forward here would presumably apply equally to other disciplines of the social sciences such as sociology or political science which, nevertheless, have remained pluralistic. I believe closer inspection would prove the crucial differences between the market for economic ideas and the markets for ideas of other social sciences: The other social sciences are in general more 'applied' (real world) sciences than economics requiring the accumulation of less specific but more general human capital with lower sunk cost. Moreover, the scientific pretensions of economics as compared to the other social sciences are different: None of the other social sciences would claim to provide 'the one and only truth' ('*erklären*'), requiring a monist vision of the world) but rather a historically and institutionally backed understanding ('*verstehen*') of the social order including the advocacy of normative positions (requiring a pluralism of approaches). Additionally, none of the other social sciences have developed axiomatic epistemologies that could claim to become a 'normal science' of Kuhnian type and, finally, none of the other social sciences is as hierarchically structured as economics (see e.g. Fourcade/Ollion/Algan 2015: 96ff.). Therefore, even if there was a demand for standardization within the other social sciences, this demand could not be met by a paradigmatical standardization along the lines of epistemological, ontological and methodological monism.

comprehensible strategy, in combination with the proposal to claim heterodox economics as a distinct scientific discipline ('Political Economy'), it can only be rated as surrender and retreat, i.e. a Dunkirk strategy.<sup>16</sup>

Having unfolded a socio-economic approach to economics, it must be approved that a market such as the market for economic ideas which is prone to market failure and is showing an extremely uneven battlefield in terms of the distribution of economic, social, cultural and symbolic capital, self-regulation in the sense of 'good economic theories will eventually assert themselves' is not to be expected.<sup>17</sup> However, rather than deserting the market entirely, it might be better to first try to regulate the market in order to overcome its failures. As it would be naive to hope for a re-distribution of economic, social, cultural and symbolic capital in the economic field in the nearer future, regulation must create and secure a place for all economic theories and paradigms including heterodox economics which bows to the methodological requirements of positivistic fallibilism<sup>18</sup> at economic departments. This could, for instance, be achieved by introducing a 'pluralism codex' requiring the appointment of scientific staff from different paradigmatic backgrounds. This, again, could be controlled by 'equal opportunity commissions' and reinforced by providing financial incentives through public research funding bodies.

Of course, to hope for such a regulation may be judged as being equally naive taking the economics profession to be as it is. Still, there appears to be one gateway for the introduction of formal regulations: at the basis of 'self-regulation' of the scientific community lies 'academic freedom'. However, academic freedom not only passively safeguards the actors in the market for economic ideas against inappropriate interventions from the state, but the concept of academic freedom also involves the obligation of the members of the scientific community (and the state) to create conditions under which the procurement of knowledge can be provided free of discrimination or harassment (see Mason/McCallum/Haiven 2015: 9ff.)<sup>19</sup>. Based on the meta-theoretical foundations laid out in part 2, an appropriate organisation of the economic discipline must guarantee ontological, epistemological and methodological pluralism in research and education not only as ethical principle but as scientific imperative – non-compliance must be judged as violation of academic freedom.

Until now, the violation of academic freedom with respect to a lack of pluralism has been ascertained only, if at all, at the level of a specific department (as, for instance, in

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<sup>16</sup> It should be conceded that a Dunkirk strategy – as in the name-giving event – can be a successful retreat to a more defensible position. However, it would still involve surrendering the economic discipline to the mainstream.

<sup>17</sup> Goldman/Cox (1996: 30f.) distinguish between 'competition of ideas in an unregulated (free) market' and an 'adversarial system of discourse' which are often confused. The former does not provide – due to the market failures put forward in part 2 – an optimal acquisition of knowledge, while the latter needs a regulatory framework in order to do so. It is this 'adversarial system of discourse' which only scientific pluralism can guarantee.

<sup>18</sup> This concession is necessary not to allow for a methodological 'anything goes' (which, at least, would clash with the scientific pretences of the economic discipline) and to avoid the ordinary accusation that pluralism means obscurantism (see Tirole 2014).

<sup>19</sup> Coase (1974b) draws our attention to the fact that regulating commodity markets is far less critically seen than regulating markets for ideas. The reason is that regulating markets for ideas is often feared to undermine the freedom to express such ideas. As we have argued, in case of the economic discipline, it is the special features of the market for economic ideas which are exactly undermining academic freedom if the market is left to self-regulation. We would still need to find an appropriate form of regulation, though, in order not to substitute one form of market failure by another.

the case of the University of Manitoba; see Mason/McCallum/Haiven 2015). It ought to become a general device including the principle of 'negative discrimination' until a certain degree of pluralism has become established at every economic department and scientific pluralism has become a part of the 'cultural capital' of the discipline.

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