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ECONOMICS: A SCIENCE IN CRISIS?

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According to some it is over already, according to others we are only now beginning to feel it: the latest economic crisis. As to its present and future, we are still very much lingering in uncertainty. But at least by now we all know what it began with: it was subprime mortgages that ‘polluted’ the United States housing market. Eventually this put the entire global financial system into a crisis, for which of course it did not take long to spill over into what economists are used to calling the *real economy*.

Of course this thumbnail sketch of the current economic crisis only reveals the tip of the iceberg, and it is not our intention to develop a thorough analysis of the crisis here (Mackenzie 2010). Yet, following distinguished economist Paul Krugman, we do want to indicate that the crisis in the economy has led us to *another* crisis: the crisis in the academic discipline that studies this slippery thing called ‘the economy’ (Krugman 2009). According to Krugman, the economic crisis proves previously accepted wisdom in economics to be wrong. The financial system and the housing market were studied, explained and predicted by an economic science of fully rational and forward looking agents with a keen eye on their own interests. But man is not fully rational, far-sighted or self-interested – or so the critics say. Furthermore, the majority of economists

believed that the market is the best instrument to deal with any inconveniences that it might itself bring forth, that the market constitutes a perfect self-cleaning mechanism. As memories of the great depression of the 1930s faded, the very possibility of catastrophic failure became covered up by models positing the eternal recurrence of equilibrium. What should economists learn from the crisis? They should not mistake the beauty of mathematical equations for truth – says Krugman. It is almost certain that ‘economists will have to learn to live with messiness’.

As in ‘the economy’, so also in science the phenomenon of a crisis is nothing new. If we follow the philosopher and historian of science Thomas Kuhn, we are led to believe that the development of science is properly described as the succession of periods of normal science, crisis, paradigm shift and normal science again (Kuhn 1996). Were this somewhat ideal-typical scheme to apply to economics, we would have ample reason to believe that we are about to witness a paradigm shift in economics. Ever since economics came into existence as an independent academic discipline some hundred and fifty years ago, separate schools have existed alongside each other, sometimes not sharing many basic commitments as to the relevant ontology and/or methodology for the field (Yonay 1998). But from the 1950s or 1960s onwards, economics has certainly become more and more dominated by the so-called neoclassical paradigm, making its activities look more and more like relatively straightforward puzzle-solving (Morgan & Rutherford 1999). Hence, in spite of the relative heterogeneity within economic science, neoclassical economics has clearly dominated the scene during the last forty years or so. And as commentaries by distinguished economists such as Krugman attest to, that dominance is fading today.

So even if the field’s current situation was not preceded by a period of absolute homogeneity, we can say that there is a crisis in economics now, if ever there was one. Economists nowadays do not agree amongst each other what their objects of research are or ought to be, nor do they agree as to the right methodological approach that should be taken to investigate these objects. What seems most distinctive of economics today is that economists openly argue amongst themselves about these issues.

The pieces that are collected together for this thematic dossier each in their own way substantiate the observation that what economics is about is debatable and in fact seriously contested at present. Moreover, the pieces also make clear that we can discern different sites at which this debate takes place, that is, that there are different *sites of contestation* of the dominant neoclassicism.

## Economics in the political arena

As Harro Maas' contribution to the present volume elegantly and eloquently shows, one of these sites of contestation is that of the political arena. In his article 'Rekenmeesters, Heelmeesters, Vogelaars' (in Dutch) or 'Masters of Calculus, Healers, Bird Watchers', Maas investigates two styles of doing policy-oriented economics. Taking the highly influential Netherlands Bureau of Economic Policy Analysis (CPB) as a case study, Maas shows us different ways of 'taking the economy's pulse'. First he discusses the dominant macroeconomic models of the economy. By pouring a great many different economic variables into a mathematical mould, these models seek to grasp the present and (near) future state of the economy. The tradition of economic modelling has a long and respectable history in Dutch policy advice. With help thereof, economists working at the CPB have long been able to speak 'truth to power'. However, the recent economic crisis gave their scientific authority a severe blow, as none of the CPB's models saw the economic crisis coming. And furthermore they still failed to produce reliable results once the crisis was well underway.

Over and against these macroeconomic models, Maas places the far more marginal 'monitors' of the economy developed at the very same institute. These monitors are made by staff members collecting a large amount of data from around the world – comprising even a quantitative estimation of 'worldwide economic news'. These monitors have not received much praise during the last couple of decades. Relying heavily on the skills and (tacit) knowledge of a few experienced staff members, they were being mocked both in- and outside the CPB as 'unscientific' for relying too

much on 'personal judgment'. Yet unlike the more conventional models that over the last fifty or sixty years have become economics' Gold Standard, these monitors in fact produced a far more accurate representation of the crisis. They more accurately took the economy's pulse.

The stir within academia ...

In their article 'The economics of the crisis and the crisis of economics: Lessons from behavioral economics' Floris Heukelom and Esther-Miriam Sent show with great clarity how economics' most dominant viewpoint has come under serious attack. The dominant neoclassical economics centered around the fictitious agent that goes by the name of *homo economicus*, an agent characterized by greed and full rationality and responsible for market equilibrium. Heukelom and Sent sketch many of the developments that took place in economics in the last couple of decades, paying particular attention to the rise of the new and empirically oriented behavioral economics. Behavioral economics aims at replacing the imaginary *homo economicus* with human beings of flesh and blood – beings that are at best only 'boundedly rational.' With this replacement, behavioral economics simultaneously reshapes economics' field of objects and brings new observational practices into being. The change of topic is accompanied by a methodological transformation: in addition to formal modelling behavioral economists also engage actively in experimental laboratory work on human decision-making. Indubitably, behavioral economics constitutes the most prominent manifestation of a more general trend within economics to form alliances with all kinds of other disciplines, from psychology to (evolutionary) biology and neuroscience.

... does not remain confined to academic matters only

In the opinion of Heukelom & Sent, the consequences of a behavioral perspective on economic decision-making does not only imply a transgression of disciplinary walls within academia, but also a transgression of

academia as such. As we know, the credit crunch was in part due to bad choices being made by a large group of people with limited financial resources, bad choices being made by banks and investors and bad choices by policy makers. Hence, not only economists but also politicians and policy-makers might have something to learn from insights from behavioral economics regarding how decisions factually come about.

A preliminary sketch of what this might imply is given by Heukelom and Sent in the form of a proposal for redrawing the (Dutch) policy regarding mortgages. Following in the steps of Sunstein and Thaler's *Nudge* (2008) they suggest that a relatively risk-free 'Default mortgage' should be instated, with several rules attached to ensure that at least the next economic crisis is not caused by a bursting of the housing market.

## The plight goes public

As in Heukelom and Sent's article, transgression is also at the heart of Tiago Mata's highly imaginative essay – albeit in a completely different way. Mata creatively imitates the (in)famous 'Sokal affair'. The American physicist Alain Sokal published an article with postmodern interpretations of quantum gravity in *Social Text* in May 1996. After publication Sokal himself revealed that his article was meant to be a 'hoax', showing the argumentative sloppiness and lack of rigor of postmodern commentary on the sciences. In his essay, Mata blends Sokal's text with key quotes from behavioral economics, in order to present us with one of economics' possible futures. Starting from the growing public interest for this particular branch of economics, Mata seeks to understand its attraction for the lay consumers of economic science. Against the background of the financial crisis, the neoclassical model of human agency with its strong assumptions of rationality, self-centeredness and complete information has lost much of its public appeal. It appears that behavioral economics steps in at this point. With its stress on human uncertainties, biases and miscalculations, behavioral economics gives us a far more wordly perspective on our actions than rationalist neoclassical economics ever provided. However, despite its public appeal, the boundaries within economics remain

closely guarded. For this possible future to become real, economic science must loosen its guard and cross the boundaries once installed to defend its disciplinary autonomy.

## Wrapping up

The pieces grouped together in this dossier raise various questions. First of all, epistemological questions are raised as to the way in which objects of knowledge are constituted in scientific practice – questions that have a long history in the philosophy of science (Fleck 1979, Foucault 1972). In Foucault's words, every scientific discipline has to find a way of 'limiting its domain, of defining what it is talking about, of giving it the status of an object – and therefore of making it manifest, nameable, and describable.' (Foucault 1972: 41). As these contributions show, making such objects as 'the economy' or 'a choice' manifest requires laborious demarcations. What does or does not belong to these objects is certainly not self-evident.

Secondly, questions arise as to the relationship between power and knowledge (Foucault 2000). These relationships exist both within economics as well as between economic knowledge and political power. To start with the first, Mata shows that the enthusiastic public endorsement of behavioral economics is not matched in academia. Professional economists consider it a complement to traditional economic analysis, not a veritable substitute. The actual academic advancement of behavioral economics thus depends on the willingness of current professional authorities to (considerably) broaden their field of vision. Regarding the relation between economics and political power, Maas shows that the ability of economists at the CPB to speak 'truth to power' was mediated by their scientific models. As soon as these models falter, they look for 'outdated' monitors to keep their reputation intact.

How these philosophical issues will work out on the sites of contestations discerned is hard to predict. But bear in mind the commonplace that every crisis is an opportunity. Or as our famous Dutch soccer-philosopher Johan Crujff wisely states: every disadvantage has its advantage. Both in

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public as in academic debate, economists were regarded (or regarded themselves ...) as queens of the social sciences and keepers of truth in matters political. Some contestation is a healthy feature of both science and democracy.

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Guus Dix studied philosophy and sociology at the University of Amsterdam. As a lecturer and PhD candidate he is currently teaching courses in the philosophy of (social) science. He started a PhD-project on the intricate relationship between economic science and market-oriented policy in the Netherlands. First results of his research can be found in an article on the market for job placement services, 'Interveniërende voorwaarden' in *Beleid en Maatschappij*.

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