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- Abstract: Although the philosophy of economics has thrived during periods of crisis, it is by no means clear that it will continue to do so. Have philosophers of economics wasted important opportunities during the past decade? If so, why? Is there anything to learn from this experience? What should we do now that another crisis is in the making?
  
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## On Letting Serious Crises Go to Waste

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**Abstract:** Although the philosophy of economics has thrived during periods of crisis, it is by no means clear that it will continue to do so. Have philosophers of economics wasted important opportunities during the past decade? If so, why? Is there anything to learn from this experience? What should we do now that another crisis is in the making?

“You never want a serious crisis to go to waste.”

Rahm Emanuel<sup>1</sup>

### 1 Economic crises and crises in economics

Emanuel’s quote has been liberally used and misused, often with sinister implications. I will take it rather literally here, and apply it to our academic turf. Because there is an obvious correlation between economic crises, crises in the discipline of economics, and debates that concern its philosophical foundations.

When I entered the field, economic methodology was dominated by a cohort of scholars who had come to age during the crisis of the 1970s. That crisis began with stagflation and the collapse of Keynesian macroeconomic models, which in turn created room for the rebirth of laissez-faire, in the guise of “new classical” or “monetarist” economics. That strange U-turn led many economists and philosophers to question a number of premises upon which the Keynesian synthesis had been built: the idea that economics had become scientific, thanks to the adoption of rigorous theoretical and empirical methods; that economists had finally tamed business cycles; that economic science was set on a progressive path

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<sup>1</sup> Interview to the *Wall Street Journal*, November 19, 2008.

towards more (and better) knowledge; that scientific disagreements would gradually disappear over time.

The 1970s turned those beliefs upside down: the path of economics suddenly looked like a sequence of re-discoveries prompted by political fashion rather than by scientific reasoning. In that climate the philosophy of science seemed to offer interesting tools to understand what was going on. Some economists sought in prescriptive methodologies, such as falsificationism, arguments to rebuke their colleagues. Others opted for historically more nuanced approaches, such as Kuhn's theory of paradigms, Lakatos' methodology of scientific research programs, or the sociology of scientific knowledge. In general, most of them hoped that debates in the philosophy of science would shed light on economists' predicament.<sup>2</sup>

In retrospect we must admit that philosophers let them down. Not only they did not provide clear answers to economists' questions, but they dodged and moved on to other, more tractable issues. By the 1980s philosophers of science were disparaging about the identification of criteria to demarcate good from bad science. They were also becoming increasingly aware of the methodological peculiarities of the so-called "special sciences". Economics offered an interesting case study - an "inexact and separate science" that had developed methodological principles that differ significantly from those of the natural sciences (Hausman 1992a). But such principles cannot be deduced from overarching philosophical doctrines, they must be justified by standards internal to the discipline.

As a student in one of the leading graduate programs in the 1990s, I was encouraged to engage with the methodological and conceptual puzzles that scientists face in their everyday work, rather than with big questions of progress or scientificity. Such a retreat from grand theorizing was not merely tactical. It was backed by a sober philosophical doctrine called *naturalism*. Naturalism invited to tackle epistemological problems "within" scientific practice, rather than from

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<sup>2</sup> Hands (2001) reviews and discusses these approaches in detail.

“above”.<sup>3</sup> It called for humbleness, rather than boldness; for cooperation, rather than preaching. It reminded philosophers that they have no title to scold economists for alleged philosophical deficiencies.

An obvious worry is that this new attitude has made the philosophy of economics irrelevant. Did naturalism limit our ambitions and dulled our critical edge? It is a fair question to ask, but my answer with hindsight is negative: philosophical reflection on science can be at the same time humble and useful. Changing scientists’ mind, even on small methodological issues, can be productive for science and for society as a whole.<sup>4</sup> Naturalism may also play a useful bridging role between humanists and scientists. Too many philosophers proudly dismiss science, and even more refuse to take economics seriously. To offer a scientifically informed, sophisticated counter-narrative is important for science, philosophy, and society alike.

### 3 The empirical turn

In the 1990s and then in the 2000s economics was changing significantly. After decades of infatuation with ‘high theory’, it was becoming more empirical (Angrist & Pischke 2010). The prestige of general equilibrium was declining; applied microeconomics was rising quantitatively and in status. Macroeconomists endorsed an eclectic version of monetarism based on practical wisdom as well as abstract theory (Woodford 2009). Interdisciplinary research programs such as experimental and behavioral economics, driven by methods and ideas that were once considered heterodox, entered the mainstream (Thaler 2016). The very distinction between the mainstream and heterodoxy became increasingly fuzzy and decreasingly relevant (Davis 2006).

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<sup>3</sup> For an explicit defense of this approach, see e.g. Kincaid (1996). An example of how naturalist philosophy of economics could be practiced can be found in Guala (2009).

<sup>4</sup> To draw a list of excellent philosophy of economics produced by this approach would take too long (and would be inevitably biased), but see Kincaid & Ross (eds. 2009) and Mäki (ed. 2012) for overviews. It is flattering that the best methodological book written by an economist in the last decade - Dani Rodrik’s *Economics Rules* (2015) - recognizes the importance of philosophers’ work. For once, the arguments and concepts produced in our sub-field have been put to use.

In this period I left my old department of philosophy and sociology to join a department of economics. It was an instructive experience, which confirmed some preconceptions and challenged others. I learned how diverse economics had become, how specialized, and how rarely philosophers' favourite puzzles surface in economists' daily work. I also learned how intensive the training of young economists had become, leaving little room for the study of philosophy and history of science. Through collaboration, I realized how valuable some philosophical skills could be for economists (who have no time to cultivate them), but also that their scope of application is surprisingly narrow. I realized that, instead of overarching epistemological theories, philosophers could provide specialistic advice in some corners of scientific methodology. But also that, if we wanted to be listened, we had to demonstrate technical competence in economists' area of expertise.

#### **4 The latest crisis**

And then everything changed. The financial and economic crisis that began in 2008 triggered a new confidence crisis in economics. It also undermined the public's confidence in economics as a science. General issues of scientificity were brought again to the fore of public debates.

Some prominent economists and policy-makers played an important part in these debates. Alan Greenspan, former head of the Federal Reserve, had an obvious selfish motive when he told the members of a House Committee that "the whole intellectual edifice [of economic regulation] collapsed in the summer of last year" (Edmunds 2008). Blaming the whole discipline was a convenient way of moving the spotlight (and the blame) away from individual contentious decisions.

Other prominent economists were happy to follow suit. Young guns and old Nobel laureates attacked the discipline, calling for radical change. Unfortunately, some arguments had an air of *deja-vue*: stale complaints about the excessive mathematization of economics - a trend that has been reversed some time ago;

calls for more interdisciplinarity and empirical work - which is being done, and recognized, at the highest levels in the discipline.<sup>5</sup>

It is tempting to read these attacks as reflections of a deeper political struggle. The key question perhaps, in the end, is who runs the economy. Perhaps the neo-liberal gang of regulators (or anti-regulators) recruited by Greenspan and his peers had become unrepresentative of the scientific mainstream. The burst of the financial bubble gave left-wing and moderate economists a chance to settle some old issues and bring policy-makers in line with the center of gravity of the discipline. Paul Krugman's *Arguing with Zombies* (2020) delivers this message in its crudest form. Public debate for Krugman is a moral crusade. The economic ideology of the Republican party is a fraud with little or no basis in science. Intellectually honest economists must take off their gloves, for science and for society. The way to fight zombies is to cut their heads off.

Philosophers have had a hard time participating in this kind of debate. At the political level they had little to add to what the Krugmans and Stiglitzs were saying, louder and better. (What's the point of punching above your weight, anyway?) At the intellectual level, the debate was less sophisticated than the one we had gotten used to in our sub-field. (And what's the point of criticizing Piketty for minor philosophical naiveties that hardly affect his project?) Some hard critics of the previous generation - the "economics is not a science" camp - briefly found a receptive audience again.<sup>6</sup> But their message sounded out of date for those who had abandoned the top-down view of methodology a long time ago.

Like many philosophers of economics, I was invited to conferences and asked the Queen Elizabeth question: What went wrong? Why had nobody seen it coming? And my answer sounded rather lame: nothing in particular had gone wrong, *in the science of economics*. Events like the sub-prime mortgage bubble cannot be

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<sup>5</sup> The first chapter of Thomas Piketty's best-seller, *Capital in the Twenty-first Century* (2014), is a good example of such complaints.

<sup>6</sup> See e.g. Rosenberg and Curtain (2013).

forecasted if the relevant information is unavailable. The deregulation of financial markets unfortunately had made the information unavailable.<sup>7</sup>

Is this economists' fault? Is deregulation a logical consequence of "mainstream economics" (whatever that means)? Only the most ideologically biased critic would say so. Most economists are liberal social democrats, politically speaking and policy-wise (Klein & Stern 2006). They stand for intelligent market regulation, not deregulation. This is true also in the sub-field of finance: the problem is that the prominent economists who were vocally opposed to the deregulation of financial markets, before 2008, were not listened to by policy-makers.

So a mixture of groupthink and vested interests explains the crash rather well: a clique of ideologically homogenous men (not women) had been put in charge of the economy, and had fallen prey of the market actors they were meant to regulate. It's the old story of the controlled controlling the controller - not very exciting, philosophically speaking, but theoretically and empirically plausible (Zingales 2013). The bottom line is that it wasn't a scientific failure, but a failure in the application of science.

I still stand by this story, no matter how philosophically unexciting it may sound.<sup>8</sup> One way to make the philosophy of economics more relevant, of course, would be to pay more attention to applied science. But understanding the application of economic knowledge means understanding the role played by economics in a complex modern society. This is something that sociologists have been working on for decades, and philosophers suffer from a considerable competitive disadvantage. If it's a typical science-society problem, it is not clear what our distinctive *philosophical* contribution might be.<sup>9</sup>

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<sup>7</sup> It was stunning, in the aftermath of 2008, to hear prominent economists admitting that they had never heard of collateralized debt obligations and other fancy financial instruments, for example.

<sup>8</sup> This is also Rodrik's (2015) and Krugman's (2020) story, essentially.

<sup>9</sup> The obvious and most promising route towards relevance may be via social epistemology: see e.g. Dos Santos (2009), Martini (2014, 2015).

I can only offer scattered thoughts for a young scholar who might dare taking the challenge. Economics has a peculiar sociological structure, that tends to blur the distinction between pure and applied science. At a superficial level, it is evident from the way in which the label “economist” is used. People with very different roles share the same title: former ECB President Mario Draghi, Nobel Prize winner Robert Aumann, Financial Times columnist Tim Harford, and Goldman Sachs chief researcher Jan Hatzius are all “economists” in the public’s eye. Although they hold very different jobs, they are all spokespersons for the profession. Their successes and failures, by implication, are failures and successes for the discipline as a whole.

There is no reason why it must be so. When the Fukushima nuclear plant exploded in 2011, nobody blamed physics. The responsibility was apportioned among the politicians who had decided to build the nuclear plant in a dangerous seismic location; the engineers who had designed and built it; the managers and technicians who ran it. But the physics of nuclear fusion reactions was not considered part of the problem.

The analogy may seem far-fetched - economic knowledge is not as firm as nuclear physics, and economists rarely have the privilege of building highly shielded, controlled facilities such as nuclear plants. And yet, other sciences who work in analogous conditions have found effective ways to prevent the “blame the science” reaction to technological failures. The bio-medical sciences are perhaps most interesting in this respect. Medical scientists have devised ethical codes of conduct to preserve citizens’ trust, and economists may have something to learn from them (Colander et al 2009). Making some philosophical training compulsory to professionals - especially in finance - may pay dividends in the long run, both for economists and philosophers. But nothing of the sort has happened after the crisis, and we may have missed the train for good now.

## **5 The next crisis**



As I am writing this article, the Coronavirus is wreaking havoc around the world. It is also putting our relationship with science under stress. The spectacle of epidemiologists and bio-medical researchers offering loud, unsolicited, and contradictory advice to governments and citizens should strike a familiar cord. It seems to confirm views that some of us have held for a long time: that economics' weak spots are typical of those sciences that deal with complex, rapidly changing phenomena occurring in uncontrolled circumstances; that economists' failures are better explained by uncertainty and lack of information, than by alleged flaws in scientific methodology; that disagreements and controversies are inevitable when the stakes are high and policy intervention is urgent; finally, that moral and political views necessarily inform scientists' advice when the gaps between theory and policy cannot be bridged by scientific reasoning.<sup>10</sup>

It will be interesting to compare the performance of bio-medical and economic science systematically at the time of COVID-19. Although "doctors" are holding the line right now, economists will soon be in the crossfire. Perhaps they will not do too badly, in comparison. But doctors enjoy a unique advantage: they are not only the scientists who provide shaky predictions and precarious advice; they are also the personnel in white coats who look after patients in ventilators at the risk of their own lives. Economists can hardly emulate that picture of heroism and sanctity.

In the blame-game, moreover, it is easy to point the finger toward those who have "savagely cut the health services" for dismal economic calculation. Even when the story is false - as in my own country - it tends to stick. Now more than ever, economists and philosophers have the duty to explain that de-growth is a cause of death and misery, not of happiness. That richer countries with a robust welfare state are better equipped to deal with epidemics. We must explain these simple truths in collaboration, not in competition with medical scientists. A collaboration of this kind may help overcome doctors' knee-jerk reaction against cost-benefit calculation. Philosophers may play a useful role here, providing the conceptual

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<sup>10</sup> This old view has been stated over and over. I am particularly fond of Machlup (1961), but excellent contemporary formulations can be found in Hausman (1992b) and Rodrik (2015).

tools that are needed to clarify the debate, and facilitating communication between the two sides.

The lesson of the next crisis will be that complex problems call for cross-disciplinary competences. Although anti-science movements are temporarily on the back foot, we are painfully realizing that important collective decisions cannot be delegated to scientists. We need democratic political processes that are up to the task. Perhaps philosophers of economics can make important contributions exploiting their unique inter-disciplinary skills.<sup>11</sup> It is difficult to say exactly how. But I have the dreadful feeling that we are living in interesting times, and we will have to re-invent ourselves to be relevant in a new social environment, once again.

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<sup>11</sup> The work done at research centers such as TINT over the last decade may be a good point to start (<https://tint.helsinki.fi/>). See for example Mäki et al (eds. 2018).

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