

**PHD THESIS SUMMARY:
The usefulness of truth: an enquiry concerning economic
modelling.**

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This thesis attempts to justify a normative role for methodology by sketching a pragmatic way out of the dichotomy between two major strands in economic methodology: empiricism and postmodernism. It is important to understand that my thesis is *about* methodology and this means that I do not add another recipe with prescriptions as to how economics needs to change in order to become a “better” or “proper” science. Instead, I discuss several methodological approaches and assess their aptness for theory appraisal in economics.

I begin with the most common views on methodology (i.e., empiricism and postmodernism) and argue why they are each ill-suited for giving methodological prescriptions to economics. Then, I consider positions that avoid the errors of empiricism and postmodernism. I specifically examine why the two major strands of methodological criticism fail to give helpful methodological advice to economists and sketch out a pragmatic approach that *can* do this.

Basically, there are two different demands from empiricists: the first requires that economic models become more falsifiable and their *results* must be more severely tested. The second demand claims that the behavioural basis of economics (i.e., the rationality assumption) must be enriched or replaced by more empirically founded theories of human behaviour. These two attacks are the most common and best known forms of criticism against mainstream economics. I counter these attacks by showing that the theoretical core of mainstream economics can be defended as fruitful and largely unempirical heuristic device. This does not mean that more empirical approaches are ruled out, but it *does* mean that the state of economics is not as hopeless as the empiricist critic suggest.

After rejecting the empiricist position I turn to postmodern relativism. I first present the general idea and then turn to some of the

best-known relativistic positions in economic methodology: Bruce Caldwell's pluralism and Deirdre McCloskey's rhetorical approach to economics (Caldwell 1982; McCloskey 1985). I discuss critically Paul Boghossian's recent work "against relativism" (among others) which is a systematic approach to refute basic postmodern convictions. In my discussion I show why his arguments fail to hit the target. The main reason is that constructivism is an irrefutable position. In total, it turns out that the postmodern rejection of 'Global Truth' cannot be refuted, but this does not necessarily lead to giving up prescriptions at the *local level*. In economics however, the two most prominent postmodern authors fail to give useful and accepted advice even at the local level; they fail to achieve their self-set goal of improving the critical discussion of economic models.

The last main section tries to overcome the dichotomy of empiricist and postmodernist methodological positions by offering a pragmatic way out. Where postmodern methodologies are often *based* on their rejection of empiricist positions, there is no principal reason why empiricist arguments should play no role on a local level. The most promising way towards a useful concept of theory evaluation seems to look first for a characterisation of economics that economists can accept and then search for quality criteria that are in line with that description. This rules out fundamental criticism, of course, but if the aim of theory appraisal is improving a critical discussion about models, fundamentalism does not lead very far but is rather a rejection of the basic premises. A pragmatic point of view that focuses on evaluating the quality of solutions for given *problems* is much more likely to settle a discussion about models than general methodological arguments derived from philosophical positions such as empiricism.¹

My pragmatic approach to theory appraisal draws inspiration from a reinterpretation of Milton Friedman's (1953) classic. I extend his views to an economic approach for theory evaluation. This leads to two separate developments that can contribute to a new pragmatic way of normative reasoning in theory evaluation. The first idea is to apply the concept of cost-benefit analysis to theory choice. Economic theories of science have rendered Friedman's claim to "explain much by little" more precise by offering a radically problem dependent way of assessing theories. Economic philosophy of science theory accepts that there is no

¹ Note that I take 'problems' in their broadest sense, so that even philosophical problems are *valid* problems.

single right criterion for judging science and so the only evaluative question that makes sense is whether a theory is the best and most efficient way to solve the problem it attempts to solve. The second idea taken from economics and applied to the evaluation of science is not directly related to economic *theories* but argues that the *institutional structure* of science is the best starting point for improving the quality of a science. From this point of view, science is seen as a collective process of individuals that maximise their reputation and do not necessarily care much about good theories. This twist allows for accepting that various “irrational” social factors are interfering with science and still argue for an epistemic privilege of scientific knowledge. In such a way, normativity has shifted from single theories to a meta-level of analysing and improving the organisational structure of science.

In concluding, I try to answer the crucial question at hand: what is left for theory evaluation? To be sure, rule based single-criterion methodologies are rejected because methodologists are *not* in a privileged position to tell economists what to do. However, if they have any knowledge about economic methods, they can assess (as well as good economists can) whether a model is a genuine contribution for solving the problem it was set out to deal with. The criteria to judge this are often implicitly given by the description of the problem itself: for example, theory-ladenness is less of an obstacle, when science is not supposed to deliver objective description, but answers to problems. This is because trying to solve a given problem already presupposes and accepts much theoretical background. If one deals with explaining GDP growth, the theory needed for measuring the GDP is already presupposed and out of question. In a nutshell, problem-orientation accepts that science does not start in empty space but is always embedded in a context that defines problems, background knowledge, and the actual aims of science. This does not lead to relativism, but brings about a discussion concerning the particular means for arriving at a given end in the first place.

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Simon Deichsel studied philosophy and economics in Bayreuth and Bologna since 2001. In 2006, he obtained the degree of a Master of Arts (graded with distinction) with a thesis about model-platonism in economics. His specialisation in philosophy of science and institutional economics set the stage for his PhD project in philosophy of economics at the University of Bremen where he got a position as research assistant of Professor Dr. Dagmar Borchers in 2006. Simon was co-supervised by Professor Dr. Andreas Pyka and completed his PhD in October 2009.

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