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0521811171 - Fact and Fiction in Economics: Models, Realism, and Social Construction

Edited by Uskali Mäki

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Fact and Fiction in Economics

Models, Realism, and Social Construction

There is an embarrassing polarization of opinions about the status of economics as an academic discipline, as reflected in epithets such as the “Dismal Science” and the “Queen of the Social Sciences.” This collection brings together some of the leading figures in the methodology and philosophy of economics to provide a thoughtful and balanced overview of the current state of debate about the nature and limits of economic knowledge. Authors with partly rival and partly complementary perspectives examine how abstract models work and how they might connect with the real world, they look at the special nature of the facts about the economy, and they direct attention towards the academic institutions themselves and how they shape economic research. These issues are thus analyzed from the point of view of the methodology, semantics, ontology, rhetoric, sociology, and economics of science.

USKALI MÄKI is Professor of Philosophy at the Erasmus University of Rotterdam. He is Academic Director of the Erasmus Institute for Philosophy and Economics and an editor of the *Journal of Economic Methodology*. His recent publications include being an editor of and contributor to *The Handbook of Economic Methodology* (1998), *Economics and Methodology: Crossing Boundaries* (1998), and *The Economic World View: Studies in the Ontology of Economics* (2001).

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True or False? (1990), *Not Only an Economist: Recent Essays* (1997), *Who's Who in Economics* (edited) (1999).

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reconciliation of the empirical and the *a priori* in economics. His recent work in the history of economic ideas, however, has mostly focused on the role of consumption in Adam Smith, and Smith's treatment of pleasure in consumption as the necessary complement to income growth as the measure of material achievement. Publications in the area of methodology include the edited volume *The Popperian Legacy in Economics* (Cambridge University Press, 1988), (with Abraham Hirsch) *Milton Friedman: Economics in Theory and Practice* (Wheatsheaf and Michigan, 1990), and (with Mark Blaug) *Appraising Economic Theories* (Edward Elgar, 1991). A growing research interest is the interplay of economic ideas, incentives, and constraints in the shaping of early modern art markets and visual culture, in collaboration with art historian colleague Hans Van Miegroet.

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Deirdre N. McCloskey has been since 2000 UIC Distinguished Professor of Economics, History, and English at the University of Illinois at Chicago, USA, and is Tinbergen Professor (2002–2006) of Economics, Philosophy, and Art and Cultural Studies at Erasmus University of Rotterdam, The Netherlands. Trained at Harvard as an economist, she has written a dozen books and two hundred articles on economic theory, economic history, rhetoric, feminism, ethics, and law. She taught for twelve years in Economics

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at the University of Chicago, and describes herself now as a “postmodern free-market quantitative Christian feminist.” Her latest books are *How to be Human* *Though an Economist* (University of Michigan Press, 2001) and *Measurement and Meaning in Economics* (S. Ziliak, ed., Edward Elgar, 2001). Specifically philosophical books include *The Rhetoric of Economics* (University of Wisconsin Press, 1st edn., 1985, 2nd edn., 1998), *If You’re So Smart: The Narrative of Economic Expertise* (University of Chicago Press, 1990), and *Knowledge and Persuasion in Economics* (Cambridge University Press, 1994), which concern the maladies of social scientific positivism, the epistemological limits of a future social science, and the promise of a rhetorically sophisticated philosophy of science.

Uskali Mäki is currently Professor of Philosophy of Science at Erasmus University of Rotterdam and Academic Director of Erasmus Institute for Philosophy and Economics (EIKE), The Netherlands. Among his research interests are scientific realism, unrealistic assumptions, economic explanation, social ontology, the rhetoric and economics of economics, and the methodology of the new institutional economics. His recent publications include articles in economics and philosophy journals as well as *The Handbook of Economic Methodology* (edited with John Davis and D. Wade Hands, 1998), *Economics and Methodology: Crossing Boundaries* (edited with Roger E. Backhouse, Daniel Hausman, and Andrea Salanti, 1998), and *The Economic World View: Studies in the Ontology of Economics* (2001). He is an editor of the *Journal of Economic Methodology*.

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Ilkka Niiniluoto’s doctoral dissertation in 1973 extended and applied Jaakko Hintikka’s system of inductive logic to inferences involving scientific theories. In 1973–1977 Niiniluoto was Associated Professor of Mathematics (Foundations) at the University of Helsinki, and since 1977 Professor of Theoretical Philosophy. Since 1975 he has been the President of the Philosophical Society of Finland. He has written, in the spirit of scientific realism, on probability and induction, explanation, truth and verisimilitude, theory change, and scientific progress. His other interests include philosophical logic, epistemology, philosophy of technology, and philosophy of culture.

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Robert Sugden is Leverhulme Research Professor at the University of East Anglia, Norwich, UK. His research uses a combination of theoretical, experimental, and philosophical methods to investigate issues in welfare economics, social choice, choice under uncertainty, the foundations of decision and game theory, and the evolution of social conventions. Recently he has also worked on issues of methodology. He is the author of several books, including *The Economics of Rights, Co-operation and Welfare* (one of the first applications of evolutionary game theory in social science), and of many articles in the scholarly journals of economics, philosophy, law, and political science.

Raimo Tuomela is Professor of Philosophy at the University of Helsinki, Finland. His main field of research is the philosophy of social action. He is a member of the editorial board of several journals and book series and a recipient of several grants and awards, including the von Humboldt Foundation Research Award. He has published extensively in philosophy journals. His recent books include *The Importance of Us: A Philosophical Study of Basic Social Notions* (Stanford University Press, 1995) and *Cooperation: A Philosophical Study* (Kluwer, 2000).

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Preface

Fact or fiction? Is economics a respectable and useful reality-oriented discipline or just an intellectual game that economists play in their sandbox filled with imaginary toy models? Opinions diverge radically on this issue, which is quite embarrassing from both the scientific and the political point of view. The chapters in this volume, taken together, approach the issue in a manner that is more balanced and sophisticated than what one ordinarily encounters in popular – sometimes populist – statements about economics. Conceptual and argumentative sophistication in meta-analysis is needed to get to the facts of this matter, but few economists – regardless of how skillful they are in analyzing the economy – are trained to provide such analyses, and few philosophers are interested in looking at economics sufficiently closely. As soon as one looks more closely, what one starts seeing is fact *and* fiction, in a variety of combinatorial incarnations. One also begins to appreciate both of them as necessary elements in a scientific study of the social world.

The chapters of the volume deal with the issue from three interrelated perspectives: those of economic models, the nature of the economy, and the social structure of the discipline itself. The three key questions are, respectively: How do economic models work in relation to reality? How does the world work in regard to its economically relevant aspects? How do the institutions of the discipline of economics work concerning its orientation toward facts and fictions? Many further questions can be raised about these issues and their interrelations. Given that both economic models and economic reality are socially constructed, is there a conceivable possibility that a model is true of the world? Under what conditions could such a possibility actualize?

Except for two (chapters 3 and 18, by Partha Dasgupta and Jesús Zamora Bonilla), the chapters in this volume are revisions (some of them revisions of revisions) of papers that were presented at the conference on ‘Fact or Fiction? Perspectives on Realism and Economics’ that took place at the Erasmus University of Rotterdam, November 14–15, 1997 at the time of my (somewhat delayed) inauguration. The invitation was sent to a selection of scholars who

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have contributed to shaping my thinking about economics and philosophy in the course of my intellectual career. Many more could have been invited, but constraints were imposed by the dismal fact of limited resources: time, space, and funding. Chapter 5 by Robert Sugden has since been published in the *Journal of Economic Methodology*. Earlier versions of Chapters 2, 6, 8, 11 and 17, by Mark Blaug, Nancy Cartwright, Mary Morgan, Philip Pettit, and D. Wade Hands, have been published in *Policy Options*, *Perspectives on Science*, *Journal of Economic Methodology*, and *Krisis*, respectively.

It was a great pleasure to host this intellectually alert group of first-rate scholars at the conference, and to work with them when preparing the volume for publication. Special thanks go to the Erasmus Institute for Philosophy and Economics, Loes van Dijk in particular, for excellent support in organizing the conference; to Eric van Damme, John Groenewegen, Arjo Klammer, Theo Kuipers, Maarten Janssen, Albert Jolink, and Jack Vromen for serving as discussants on the conference papers; and to Frank Hindriks, Jan Ravensbergen, and Judith de Putter for assistance in preparing the volume. Chris Harrison's support from Cambridge University Press has been indispensable. Financial support by the Trustfond Erasmus University of Rotterdam is acknowledged. Final touches were put to the project when I was a Fellow at the Netherlands Institute for Advanced Study, which I gratefully acknowledge.

Uskali Mäki, Wassenaar