

HOW TO BE A GOOD ECONOMIST

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PRELIMINARY DRAFT (1.8.07): NOT TO BE QUOTED

This is of course an outrageous topic, to be attempted by someone with a high degree of presumptuousness or by an arrogant fool. So, my thoughts on the subject are presented with something of a smile on the face, a twinkle in the eye - especially since any attempt at prescription is very lead balloon-ish in these postmodernist times.

The title begs the question of what we mean by 'good' and 'economist'. Many people will equate 'good' with 'serious' or 'professional'. Economics in this vein is conventionally presented in the form of a model (usually mathematical) followed the empirical results (usually econometric) (Boland, 1991: 98). But 'good' can also be interpreted to mean 'virtuous' i.e. an economist who espouses values which are held to be 'good' in terms of a discussion relating to morals or ethics. More on this anon. Turning to what we mean by 'economist', we can distinguish between academic and business economists. Business economists are employed directly by commercial banks, large corporations or government departments. These constitute a significant number of economists. They appear to be more engaged with everyday observations of events in the national or international economy than with economic theory. There are two aspects to academic economists: one is concerned with education and training and the other - which is closely related - with science. The focus of this paper is mainly on how to be a good academic economist.

At the end of a short talk entitled 'Liberalism and Labour' to the Manchester Reform Club in 1926 Keynes contended that the political problem of mankind is to combine three things: economic efficiency, social justice and individual liberty (Keynes, 1972a: 311). Following this idea, and in terms of this problem, I argue that being a good economist means pointing out how to achieve economic efficiency with the least 'disruption' to the more political areas of social justice and individual liberty. More generally it means realizing that economics is a social science and not a natural science so that economic issues (e.g. efficiency) are intimately bound up with moral and ethical issues. Much harm has been done by the Methodological (the big M follows McCloskey - 1986) idea that serious economics (à la natural scientists) should (!) be limited to positive, factual questions and exclude questions of value. (Economists supposedly give neutral advice and normative issues enter only when it comes to questions of economic policy.) I argue, against this Methodological idea, that being a good economist means realizing that economics is a social science, and as such different from a natural science, and that it deals with values - values which enter on the very ground floor of the discipline. I draw on three quotations from Keynes for some support for this view.

In the first two quotations Keynes is concerned with distinguishing economics from natural science. Let's look at the first, an extract from a 1938 letter to Harrod:

Economics is a science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world. It is compelled to be this, because, unlike the typical natural science, the material to which it is to be applied is, in too many respects, not homogeneous through time. . . . (But) one cannot get very far except by devising new and improved models. This requires, as you say, 'a vigilant observation of the actual working of our system' . . . Good economists are scarce because the gift of using 'vigilant observation' to choose good models, although it does not require a highly specialised intellectual technique, appears to be a very rare one (Keynes, 1973: 296-7).

The second is an extract from his 1924 epitaph for Marshall. In seeking to explain why the study of economics, a subject he regarded as 'very easy' compared to philosophy and pure science, yielded so few good economists Keynes thinks it may be because the 'master-economist must possess a rare *combination* of gifts':

He must be mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought (Keynes, 1972b: 173).

In the above two quotations Keynes makes it clear that he regards economics as different from a natural science, a pure science or philosophy. While (presumably like natural scientists) economists use models, what distinguishes (good) economists is their use of 'vigilant observation' in choosing models relevant to the contemporary world.

Turning to the third quotation Keynes emphasizes (once again to Harrod) that 'economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgments of value . . . [it] . . . deals with motives, expectations, psychological uncertainties' (Keynes, 1973: 297, 300). While both the natural and social sciences deal with experience, Keynes is arguing that it is the very different type of experience with which the social sciences have to deal that sets them apart from the natural sciences (Torr, 1991: 5). Keynes's view that economics is a moral science is also reflected in his notion that the master-economist must be 'mathematician, historian, statesman, philosopher – in some degree'. The requirement of part-statesman emphasizes the idea that the economist must take into account values involved in the political sphere.

So, if we accept that being a good economist means pointing out how to achieve economic efficiency with the least 'disruption' to the more political areas of social justice and individual liberty, the question arises of how the good economist must undertake this project. In this respect, the paper suggests four main areas of focus.

The first section of the paper deals with the first main area: Keynes's contention that to devise new and improved models in economics requires the art or gift of 'vigilant

observation of the actual working of our system'. The second section deals with the second main area: reading what the best economists have said about the phenomenon that has been the result of this 'vigilant observation'. The third section deals with the third main area: deepening and widening (outside of conventionally-defined economics) understanding of this 'vigilant observation'. The fourth section deals with the fourth main area, a variation on a theme by Joan Robinson: studying sufficient Methodology and rhetoric of economics and econometrics so as not to be deceived by Methodologists and rhetoricians.

1. The gift or art of 'vigilant observation of the actual working of our system'

This appears to be the area for Keynes in which economics is to be distinguished from the natural sciences. It would appear that Keynes (1936) used his own 'vigilant observation' to develop his *General Theory*. It has been argued that one of his key observations was the importance in the economic system of the 1920s and 1930s (compared to that of the 1820s and 1830s) of large-scale industry which led to his distinction between the entrepreneur economy and the cooperative economy (Torr, 1980). Another example of this 'vigilant observation' appears to be Keynes's remark towards the end of the *General Theory* where he 'directly' or baldly claims that the two 'outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes' (1936: 372). Keynes used observations like these in devising his 'new and improved' model of the economic system, one that he regarded as superseding the classical one since it was not limited to the case of full employment (Torr, 1988; Rogers, 1989). While his focusing on the area of unemployment resulted in dramatic improvements in the sphere of economic efficiency his *General Theory*, by providing the theoretical justification for government intervention in the economy and hence support for a social democratic state, resulted in similarly dramatic improvements in the sphere of social justice.

Since the 1980s there has been a widespread reaction to Keynesian policies of demand management and other forms of Keynesian-inspired intervention by the state as these were said to have led to the widespread inflation of the 1970s. Whether this was really the case remains a matter of debate. But closely tied to the inflation criticism, was the (more political) argument that increased state intervention was restricting the sphere of individual liberty. Critics pointed to events in the Soviet Union up to 1989 where total economic intervention by the state had devastating effects for individual freedom, squashing the sphere of individual liberty to next to nothing. Since individual liberty was held to be the driving force vital for economic growth, events in the Soviet Union proved to be massive setbacks not only for individual liberty but also for economic growth. Perhaps, partly in subconscious reaction to the tragic events in the pre-1989 Soviet Union, since 1989 there has been a world-wide growth, a globalization, of an extreme and aggressive American *laissez-faire* style capitalism. I want to suggest that a result of 'vigilant observation of the actual working' of today's economy may be the recording of this rapid growth of *laissez-faire* capitalism (and a parallel demise of the post-war era of social democracy). Of course not all readers will be convinced that this change in the economy merits the status of a 'vigilant observation' requiring a possible fundamental re-

thinking of today's economic theory. May be it doesn't. But I beg the reader's indulgence in assuming it does so that I can use this as an example of a 'vigilant observation' of today for the purposes of this paper.

By the growth of American *laissez-faire* style capitalism, I am not referring to what, for want of a better term, I will call 'free market' capitalism. Such 'free market' capitalism accords with the idea, familiar from economic theory, of a large number of small and independent firms all competing amongst themselves. Such a state of affairs results, among other things, in a beneficial diffusion of economic power. By *laissez-faire* capitalism I am referring to the post-1989 era of rapid world-wide growth in the size and power of big business. Some of this growth has been brought about by governments' economic policies of *laissez-faire* as reflected in the privatization of formerly state-controlled enterprises. The information revolution has also facilitated the world-wide spread of multi-national corporations. It may be argued that effective competition still occurs in such a system but this, I would contend, is a debatable matter. Among the more obvious reflections of this growing corporate power is the apparently growing gap between the stratospheric pay packages of the executives of these large corporations and the average wage of workers. In the case of South Africa these stratospheric pay packages have recently been documented (Crotty and Bonorchis, 2006). In the case of the UK the Gini coefficient for the distribution of income increased from 44 to 54% in the period from 1980 to 1994 (Parkin, 2005: 400).

Among the less obvious concomitant results are the change in the morals and values of societies most affected by this rising corporate power. For example there has been a growing increase in materialistic values in such societies so much so that there has been a 'corporatization' of traditionally 'non-market' institutions such as our universities. The roots of this rapid change in the power of big business had been noticed long ago by some eminent economists. Galbraith (1958, 1967) drew attention to the new era of American *laissez-faire* style capitalism distinguishing between private affluence and public squalor. Asked in 1999 to comment, he said things had got worse – greed was now a legitimate motivator of behaviour (Begg, 2005: 2). (On the same page Begg cites Chomsky as claiming more controversially that 'the power of business propaganda in the US . . . has succeeded, to an unusual extent, in breaking down the relations among people and their sense of support for one another'.)

2. Read what the best economists have said about your 'vigilant observation'

A good economist, having duly exercised 'vigilant observation of the actual working of our system' - let us accept that the post-1989 resurgence of *laissez-faire* is a feature of the contemporary world that the good economist needs to take into account - we want now to argue that the good economist needs to examine carefully today's notion (as revealed in the economic policy of *laissez-faire*) that this is the best way to promote economic efficiency and welfare. One way of evaluating this notion is to study what the great classical economists of the past have had to say about it. In this respect, it is interesting to note (although a serious comparison is not in order) how this compares with the treatment of the subject in a leading textbook of today (Parkin, 2005).

Parkin (2005: 431) explains *laissez-faire* as the idea that ‘the economy behaved best if the government left people free to pursue their own best interests’. On the same page Parkin goes on to say that the doctrine of *laissez-faire* ruled from Adam Smith’s time until challenged by Keynes whose contribution (in the light of the Great Depression of the early 1930s) was to modify this doctrine by pointing out that *laissez-faire* ‘works most of the time but not all of the time’ and that government intervention is needed for these lapses. If we read what Keynes himself has to say about *laissez-faire*, we find a rather different story.

Keynes, in an essay entitled ‘The end of *laissez-faire*’, begins his explanation of the concept by setting it in the context of two other long-standing notions which are dispositions towards public affairs. The first, that of ‘conservative individualism’ or ‘private advantage’, was ‘the liberty of the individual in possession [of property] to do what he liked with himself and his own’ and emerged out of the writings of Locke and Hume in their attempts to challenge the power of the monarch and the church (Keynes, 1972a: 273). It was in this context that they championed the right of the individual with property to do what he or she liked with it in order to promote his or her private interest. The other idea related to the social, rather than the individual, sphere and concerned the claims of society on the individual. According to Keynes, Paley and Bentham introduced a social dimension (the greatest good of the greatest number) to the utilitarianism of Hume. Rousseau introduced the concept of the ‘general will’ to Locke’s notion of the ‘social contract’. These developments by Bentham and Rousseau led to the second long-standing idea concerning methods of promoting the public good contained in the notions of utilitarian socialism and democratic egalitarianism.

This second idea stood opposed to the first idea. However it soon lost ground because the advent of Darwinism (the survival of the fittest, natural selection etc) helped tip the scales in favour of the older idea of conservative individualism. In particular it was argued that the great increase in material wealth then being experienced was the result of the growth of individual liberty. Indeed Darwinism implied that the ideas of socialism and egalitarianism were morally wrong since the implications for the distribution, or ‘for whom’, question militated against the motivations behind the individualistic enterprise which was held to be leading to the great increase in material wealth taking place at the time (1972a: 276). This Darwinian-type idea appears to have been expressed by Parkin who argues that a more equal distribution means there is less to share. He uses the example of how to share a pie to which everyone contributes to baking (2005: 12):

Taxing the rich and making transfers to the poor brings greater economic equality. But taxing productive activities such as running a business, working hard, and saving and investing in capital discourages these activities. So taxing productive activities means producing less. A more equal distribution means there is less to share: the big trade-off.

You can think of the big trade-off as being the problem of how to share a pie that everyone contributes to baking. If each person receives a share of the pie that

reflects the size of his or her effort, everyone will work hard and the pie will be as large as possible. But if the pie is shared equally, regardless of contribution, some talented bakers will slacken off and the pie will shrink. The big trade-off is one between the size of the pie and how equally it is shared. We trade off some production for increased equality.

Not only is this less efficient (the pie is smaller): it doesn't seem fair at all that those who contribute the most are now somehow to receive less than their contribution. The comment, attributed to Galbraith, might serve towards a response: 'The modern conservative is engaged in one of man's oldest exercises in moral philosophy; that is, the search for a superior moral justification for selfishness'. Clearly we need to search beyond Parkin's 'pie story' Let us turn now to Keynes's story about *laissez-faire*.

Keynes describes the doctrine of *laissez-faire* as the proposition that 'individuals pursuing their own interests always tend to promote the general interest' (1972a: 274). While Darwinism weighed in on the side of conservative individualism, the striking aspect of the doctrine of *laissez-faire* was that it appeared to deny that there was any clash or contradiction involved between conservative individualism and the claims of utilitarian socialism and democratic egalitarianism. Contrary to Parkin's statement about the *laissez-faire* doctrine ruling from Adam Smith's time (in the eighteenth century), Keynes points out that although Adam Smith appeared ready to allow the public good to rest on 'the natural effort of every individual to better his condition', the concept of *laissez-faire* was explicitly developed only in the nineteenth century (1972a: 275).

Keynes traces the origins of the doctrine of *laissez-faire* to the maxim *laissez-nous faire* (traditionally attributed to the merchant Legendre addressing Colbert and traced in written form to the Marquis d'Argenson about 1751 – see also Castelot, 1987). However he points out that the doctrine was 'slow to establish itself in the literature' and that although the physiocrats proclaimed the 'essential harmony of social and individual interests', the tradition that associates them with the doctrine of *laissez-faire* 'finds little support in the writings of this school' (1972a: 278). Keynes goes on to argue that the popularity of doctrine of *laissez-faire* arose, not from the economists, but from political philosophers who were trying to resolve the contradiction between individualism and socialism (1972a: 277-8). Despite this, as a result of three factors - the political campaign for free trade, the writings of certain 'secondary' economists and Bentham's use of *laissez-faire* to help explain his utilitarian philosophy - *laissez-faire* wrongly came to be popularly thought of as the 'practical conclusion of orthodox political economy' (1972a: 279-80).

Keynes points out that the *laissez-faire* doctrine is only to be found in the writings of 'secondary economic authorities' and 'popularisers and vulgarisers' (1972a: 279, 277). Contrary to the implication of Parkin's (2005: 431) discussion, he points out that the term '*laissez-faire*' is not to be found in the writings 'of the greatest authorities' such as Smith, Ricardo, or Malthus. 'Even the idea is not present in a dogmatic form in any of these authors' (Keynes, 1972a: 279). Smith's famous passage about the invisible hand reflects

Paley's non-egoistic utilitarianism 'rather than the economic dogma of *laissez-faire*' (1972a: 279).

Indeed from John Stuart Mill onwards, economists have responded critically to the idea of *laissez-faire*. Contrary to Parkin's claim, Keynes (1973a: 282) himself credits Cairnes in 1870 with being perhaps the first to challenge the doctrine and cites Cairnes as saying: 'The maxim of *laissez-faire* has no scientific basis whatever, but is at best a mere handy rule of practice'. Keynes goes on to say that since then this has been the view of 'all leading economists' up to his day and points out that 'some of the most important work of Marshall' was concerned with describing those cases 'in which private interest and social interest are *not* harmonious' (1972a: 282). Nevertheless, he points out, despite this sceptical attitude of the 'best economists' the general opinion is that economists uphold and teach the doctrine of *laissez-faire*. Parkin, in his popular textbook, unfortunately does much to promote this 'general opinion'.

Keynes now goes on to a more detailed critical examination of the doctrine of *laissez-faire* and to an explanation of its success at being influential today. He proceeds to outline two 'provisional' assumptions used presumably by 'secondary economic authorities' to uphold *laissez-faire* doctrine. The first is that free unhindered competition amongst producers (natural selection: 'the giraffes with the longest necks' must be allowed 'to starve out those whose necks are shorter') and consumers will result in the greatest possible production 'of what is most strongly desired as measured by exchange value' (1972a: 283-4). The second is that free unhindered opportunity to make unlimited profit is needed as an incentive to produce the maximum effort required for this production to take place. But Keynes warns:

The beauty and the simplicity of such a theory [cf. Parkin's pie!] are so great that it is easy to forget that it follows not from the actual facts, but from an incomplete hypothesis introduced for the sake of simplicity (1972a: 284).

Moreover, Keynes continues, the *laissez-faire* doctrine depends upon assumptions 'that the processes of production and consumption are in no way organic' and that no problems arise from inadequate knowledge, both of which are assumptions that do not correspond to the facts. Unfortunately even before (certain) economists have taken the complications arising from the actual facts into their analysis, and excluding the problems raised by the suffering of those who fall by the way in the competitive struggle, they nevertheless contend that the admittedly simplified hypothesis represents what is 'natural' and therefore ideal (1972a: 285). But, Keynes continues, if the doctrine of *laissez-faire* has very weak foundations, its rivals (protectionism and Marxian socialism) are in an even more pitiful state. This, together with the fact that both individualism and *laissez-faire* have suited the interests of business, has resulted in the doctrine prevailing more 'by hereditary right than personal merit' (1972a: 287). (Contrary to Parkin's contention, Keynes did not simply point out that *laissez-faire* had occasional glitches: he demonstrated that it couldn't be made to work at all, that is, that the doctrine wasn't founded on any valid principles whatsoever (1972a: 287-8)).

In concluding his essay on *laissez-faire*, Keynes distinguished between two kinds of objections to capitalism: firstly, whether or not it is efficient (compared to other economic systems) as a means or technique for attaining economic goals and secondly, whether it is in itself a desirable economic system. Turning to the first objection, Keynes made clear his rejection of the *laissez-faire* doctrine, that is, his rejection of the view that ‘unfettered private enterprise would promote the greatest good of the whole’ (1972a: 275). Yet, he explained, this rejection did not mean that he regarded capitalism as an inefficient technique. Indeed he contended that if capitalism could be ‘wisely managed’ it could probably be made more efficient than any other existing alternative economic system (1972a: 294). Although many interpret Keynes as arguing that this management implies a bigger role for government intervention, this may be the result of popular characterisations in textbooks of Keynesian economics. ‘Wise management’ need not necessarily imply management by a government authority. Indeed in his *laissez-faire* essay, as one of the areas in which such an economy could be ‘wisely managed’ Keynes entertained the notion that the sphere of non-profit, non-governmental organizations directed to the public good should be enlarged (1972a: 288). Another area that Keynes held as important was indeed the ‘Agenda’ of the State but this was related to the technically social, rather than the technically individual i.e. the government is not to intervene in things individuals are already doing, but should do ‘those things which at present are not done at all’ (1972a: 291).

We now come to the second objection to capitalism outlined by Keynes: whether it is, as an economic system, a desirable goal. For Keynes, the essential characteristic of capitalism was its ‘dependence upon an intense appeal to the money-making and money-loving instincts of individuals as the main motive force of the economic machine’ (1972a: 293). He went on to say that he thought that in Europe (but not in America) there was a ‘latent reaction’ against ‘basing society to the extent that we do upon fostering, encouraging, and protecting the money-motives of individuals’ and that we can draw on experience and history for examples where ‘appeal to the money-motive’ played only a small part in the lives of individuals and in societies (1972a: 293). In the light of these remarks, it is not surprising that Keynes found capitalism an undesirable economic system: ‘in itself it is in many ways extremely objectionable’ (1972a: 294).

As noted earlier, it is not really fair to compare Keynes’s treatment of *laissez-faire* to an exposition on the subject contained in an introductory textbook. And it should be noted that Parkin (2005: 7-10) presents much of the issue as one for the reader to decide – although himself concluding that pursuit of self interest generally advances the public good: ‘But there are areas . . . [of] conflict’ (2005: 10). Nevertheless this does not mean that no comparisons at all can be made. And the point here is that by reading what one of the best economists has said results in a perspective on *laissez-faire* very different to that obtained from reading Parkin’s text.

3. Deepen and widen understanding of your ‘vigilant observation’

Supposing, for the argument of this paper, that your ‘vigilant observation’ yielded the insight that there had been a marked upsurge in *laissez-faire* capitalism since 1989, the

good economist should try to deepen and widen her understanding of this phenomenon by reading outside of a narrow-defined economics, e.g. perhaps investigating the extent to which it may form part of a broader 'fundamentalist' trend in the world today.

For Fukuyama (1992) the fall of the Berlin Wall in 1989 represented the 'end of history' i.e. the triumph of liberal Western democracy over its communist rival (Begg, 2006: 5). But this has been questioned by Sim (2005) who argues that, contrary to the predictions of postmodernists such as Lyotard (1984), 'grand narratives' such as Marxism have not gone into an 'irreversible decline'. More generally, in contrast to the spread of a society on the lines of the Western liberal democratic ideal (ending the death penalty, liberalizing divorce, women's liberation, increasing legislation against discrimination based on colour, ethnic group, creed, gender, sexual preference etc), the world is becoming an increasingly illiberal, fundamentalist place. While the fall of the Berlin Wall appeared to point to the triumph of a free-market Western liberal society, Sim argues that fundamentalism was soon to 'replace communism as the spectre haunting the Western consciousness' (2005: 4). And today, he argues, fundamentalism is growing.

According to Sim, among the old fundamentalisms were Marxism and the Roman Catholic Church. 'The fundamentalist mind does not like difference, it does not like dissent. What it really likes is submission to the system, and uncritical adherence to the creed (interpreted in an absolutist and literalist manner) . . . under pressure to conform to a totalitarian mind-set which brooks no opposition . . . regarding opposition as dangerously close to treason' (Sim, 2005: 12, 79, 146). Fundamentalists share 'a burning conviction of the rightness of their beliefs *and the necessity to impose them on the rest of us*' (2005: 29, italics added).

The democratic liberal societies of Western Europe witnessed especially during the second half of the 20th century a continuing breakdown of authority (2005: 20). One of the contributing factors may have been modernism which 'encouraged experimentation with form and content, and was obsessed with originality and breaking free from tradition [e.g.] Picasso in his cubist phase . . . challenged the audiences preconceptions' (2005: 56-7). Unfortunately modernism became authoritarian over the course of the 20th century ('to be a *serious* creative artist was to be a modernist') and 'turned into a fundamentalism . . . in which rivals are denied any credibility' and it was this fundamentalism that was challenged by postmodernists (2005: 57-8). I mention this now because in the next section I will be talking about the challenge to modernist Methodology by postmodernists such as McCloskey (1986).

Sim (2005) distinguishes various types of fundamentalism, or dogmatism: religious, market, political and nationalist fundamentalisms. Religious fundamentalism is the best known type and in the form of Islamic fundamentalism is reflected by the Taliban of Afghanistan and in the 9/11 attacks. This appears to be in part a response to 'the impact of Westernization upon these societies' (2005: 68). It is also found in the form of Christian 'born again' fundamentalism in the Christian Right within George Bush's Republican Party of the USA. This appears to be in part a response to 'liberalising trends in modern life' (2005: 79). In this paper we focus on market fundamentalism.

Market fundamentalism or monetarism, as Sim terms it, (in its pure form meaning support for a totally unregulated market or the Protestant work ethic writ large) ‘can be considered the current economic paradigm’ . . . [and is] ‘the ideal against which most Western governments construct their economic policy and it’s certainly the model employed by the International Monetary Fund (IMF) and the World Bank in their dealings with the world’s nation states’ (2005: 102). He cites George Soros’s contention that market fundamentalism has ‘rendered the global capitalist system unsound and unsustainable’. Sim refers to it as taking the form of a new secular religion, the purity of its principles taking precedence over its social impact (2005: 103).

Sim argues that globalisation (‘the unchecked spread of free market capitalism’) can be considered another form of fundamentalism (2005: 117). ‘In the monetary theory Gresham’s Law tells us that bad money drives out good. In a global free market there is a variation on Gresham’s Law: bad capitalism tends to drive out good’ (Gray: 1999: 78). ‘It’s the increasingly aggressive American model of capitalism that’s the culprit, making it impossible for any of the social democratic models favoured in Europe since the post-war period to compete’ (Sim, 2005: 119). According to Begg (2006: 3), a major factor that led towards this change was ‘the radical relaxation of anti-trust enforcement by the Reagan administration in the 1980s [since this] allowed big companies to expand horizontally . . . [thereby] increasing the power of a few trade orientated companies over entire production and supply systems’. Begg continues on the same page:

In reality it is not really the Chinese who are destroying Western jobs, or even globalisation as such, but rather the radical change in the structure of industry resulting in the power of the world’s largest traders and retailers to pit producer against producer and to capture most or all of the gain from the arbitrage.

In Europe Britain led the way from 1979 with the privatization of nationalized industries. ‘Britain has learned painfully of late what the market economy can do to the public transport system, with the rail network having been brought to the brink of collapse in just a few years of private operation’ (Sim, 2005: 104). Outsourcing of cleaning staff has left these workers on a contract basis ‘doing the same job for lower wages’. ‘Similar things have happened in the prison service, and the education systems’ (2005: 120). Hutton (1997: 2) has referred to this new world of ‘permanently renegotiable contract relationships no matter who you are, be you a firm and its suppliers, or a GP and a hospital’. One might soon add a lecturer at a university.

As is well known Stiglitz (2002) has expressed grave concern about the institutions of the IMF and the World Bank whose free market economics, Sim argues, ‘imposed on countries lacking the requisite social and political structures to make these work’ have resulted in financial collapse in South-East Asia and ruin in Argentina ‘helping to tip the country into bankruptcy, with both its banking system and its currency collapsing’ (Sim, 2005: 6, 103). ‘As Stiglitz has pointed out, the IMF/World Bank prescription for post-collapse Argentina is, incredibly enough, more of the same . . . Yet again, the fault is assumed to lie in humanity, not the ideas’ (Sim, 2005: 104).

Rather than aiming particularly to support Sim's contentions, as outlined in the foregoing paragraphs, I merely want to argue that it is perspectives such as this that need to be taken into account in deepening and widening understanding of one's 'vigilant observation'. Of course, the relationship works both ways: reading outside of narrowly-defined economics may be part of the process that leads to the 'vigilant observation'.

4. Study some Methodology and rhetoric of economics and econometrics

By 'some' I mean sufficient Methodology and rhetoric of economics and econometrics so as not to be deceived by modernist Methodologists and postmodernist rhetoricians. These folk (including myself!) are attempting to persuade you as to how you should undertake a 'serious' study of economics. To this end, what follows is an extremely brief introductory account of some of the main aspects of these large fields.

Economic methodology is concerned not with describing the method or technique a researcher may use in tackling a particular problem, but is instead a general inquiry into the scope or nature of the discipline of economics and the limits of what can be justifiably claimed as a result of studies in this field. Economic methodology has been hugely influenced by the philosophy of science and econometrics by classical statistical inference, i.e. by areas quite outside of economics.

Drawing on the philosophy of science, economic methodology has been influenced by two long-standing but opposing views about how to acquire knowledge (for science basically means knowledge). On the one hand empiricism stresses that we come to know about the world as a result of observation (Locke's *tabula rasa*). On the other hand rationalism stresses that we come to know about the world as a result of the workings of our minds (Descartes: 'I think therefore I am', a triangle has 180°).

Rationalists soon point out to empiricists how easily our senses can deceive us as explained in the story of Plato's cave where people, chained to face only inwards i.e into the cave, believe they are seeing people passing by when they are seeing only the shadows of these people or, again, at the story of how a stick seems to bend at the point where it enters water due to optical illusion.

Empiricists respond and accuse rationalists of a tendency towards scholasticism, about being concerned with mental puzzles that have no possible empirical counterparts e.g. with how many angels can dance on the head of a pin. Hutchison (2000) calls the modern day version of this tendency 'formalism'. He traces this approach from Ricardo down to Robbins (1932, 1935). Robbins famously defined economics as the study of human behaviour as a relationship between ends and scarce means which have alternative uses. In terms of this definition, both a beggar and David Beckham (to use Parkin's 2005: 4 example) are confronted with the same economic scarcity. It is in the rationalist tradition that general equilibrium, and other mathematically-leaning, theories have flourished.

Hutchison (1997) associates the empirical tradition in economics with Smith - friend of empiricist David Hume - and traces this approach down to Marshall. Unlike rationalism, it is arguably empiricism that is more in tune with the commonly held view of science. According to this approach, the scientist starts off with specific facts and then uses the inductive method to arrive at general statements which are then verified. The trouble here is with the method of induction, as pointed out long ago by Hume. Induction is a method of arguing from specific statements to more general ones. To derive general statements, the Principle of Regularity is needed: 'what has happened in the past will continue to happen in the future'. But this is an article of faith, not a logical impossibility and so, strictly speaking, it is always possible that the future might be different with the result that inductive reasoning can never be conclusively true.

This, among other things, led to the development of another view of science, one which used the so-called hypothetico-deductive method (covering law model of explanation) of arguing from general statements, using deductive reasoning to arrive at conclusions or implications which could be tested against empirical evidence. This had the advantage that, unlike the inductive method, one could include unobservable terms (such as electrons) in the general statements which formed the starting-off point. It also had another advantage. At first it was thought that, as in the inductive method, theories could be tested by attempting to find enough data to confirm or verify them (or specifically their implications). But it was pointed out by Popper (1934) that, since verification was subject to the problem of induction, a theory could never be conclusively verified. (In addition, he pointed out, it was all too easy to find data to support a theory.) However, testing a theory by attempting its refutation or falsification, was not subject to this logical problem for just one contrary piece of evidence could conclusively prove a theory to be false. Notwithstanding these problems, Friedman (1953) and Lipsey (1963, 1966) applied and popularised these Popperian ideas amongst economists.

Lipsey (1960), in particular, set about reformulating economic theory, casting it into forms which had empirically testable implications. In this matter use was made of econometrics. Here hypotheses are always tested jointly (null + alternative), never in isolation. This highlighted the problem Duhem (1954) had earlier pointed out with naïve falsificationism in which just one contrary example could supposedly scuttle a theory. Because only composite hypotheses were tested in econometrics, it meant that an individual hypothesis *could never be conclusively rejected*. (This meant that falsificationism was now subject to the same limitation as was verification.) Instead, it could only be *compared* with an alternative (null) hypothesis. In the 1960s and 1970s faith in significance tests, which were supposed to decide the issue, was paramount.

In his criticism of the methodology of econometrics, McCloskey (1986) argued that a hypothesis can be judged acceptable only in relation to a standard - and that standard must be argued. In other words, say with regard to the purchasing power parity hypothesis, it is not known if the range picked out by the level of significance affirms or denies the hypothesis. This is because the 'loss function' is not known i.e. it is not known 'how much it will cost in policy wrecked . . . if purchasing power parity is said to be true

when, by the measure of the slope of the coefficient it is only, say, 85% true' (McCloskey, 1986: 158).

According to McCloskey (1986: 162) 'few economists appreciate the narrowness of what tests of significance can do'. He refers to Leamer's (1983) paper *Let's take the con out of econometrics*. Here, he says, Leamer points out that, if the specification error from omitting an important variable is serious, there is no point in a great deal of talk about the relatively small issue of sampling error. To do so as is done today on a massive scale, 'is to imitate the drunk who looks for his wallet under the lamp post because the light is better there' (1986: 162).

McCloskey's main point is to explain why the substantive truth or otherwise of an hypothesis cannot be decided on statistical grounds alone: it is because statistical inference throws light on only one area of empirical evidence leaving other, equally possibly relevant areas quite in the dark. 'Statistical significance deserves a place in the economist's box of tools, but a minor one. It cannot take over the job of defining economic significance . . . This is to say that [economists] should stop looking under the lamp post' (McCloskey, 1986: 163-4).

McCloskey (1986) dismisses much of the philosophy-of-science-derived methodology – which he denotes by using a capital 'M' for methodology – since he argues that 'nothing can provide the "knowledge" defined by epistemology' (McCloskey, 1989: 5). Instead all we have to go on is humanly-inspired rhetoric. Good rhetoric is rhetoric that effectively persuades. Philosophy (of science) can't really get us anywhere since 'philosophy is embedded in rhetoric' (1989: 6). This is not to say he dismisses Methodology. Rather he is arguing that it has overemphasized the benefits that can be gained from qualitative, mathematical work and from quantitative, econometric work. Qualitative, mathematical work has been limited to 'why/whether?' questions without, at the same time and unlike physics, asking the magnitude question 'how much?' (McCloskey, 2002: 45-6). This, he argues, crucially means the theorems are not potentially quantifiable. Criticism along these lines is not new: already Hutchison (1938), calling for a more empirical approach, had drawn attention to the limitations of 'pure theory' and the extent to which economics was practiced more like a philosophy than a science. In theory the limitations of the qualitative, mathematical side of economics would appear to be able to be corrected by the empirical testing of these theorems facilitated by econometrics. However, McCloskey (2002: 47-8) argues that because these theorems are not potentially quantifiable, they are unable to be empirically tested using econometric techniques. These points, if true, obviously have dramatic implications for economics and econometrics.

The general point we want to make in this whiz tour of a big area is that if economists are not to be deceived by methodologist and rhetoricians they should be wary of applying, perhaps unconsciously, the received wisdom in these areas to their work in economics and econometrics.

Conclusion

To be an economist, let alone a good economist, is not easy. In 1848, when a moral sciences tripos was introduced at Cambridge, it was criticized as encouraging a ‘shabby superficiality of knowledge’. It included a course in ‘political economy’ which in 1862 provoked disgust from the art critic John Ruskin:

The Science of Political Economy *is* a Lie, - wholly and to the very root (as hitherto taught). It is also the damnedest, that is to say, the most Utterly and to the Lowest Pit condemned of God and His Angels, that the Devil, or Betrayer of Men, has yet invented, except his (the Devil’s) theory of Sanctification. To this ‘science’ and to this alone (the Professed and organized pursuit of Money) is owing *All* the Evil of modern days. I say All. The Monastic theory is at an end. It is now the Money theory which corrupts the church, corrupts the household life, destroys honour, beauty, and life throughout the universe. It is *the* Death incarnate of Modernism, and the so-called science of its pursuit is the most cretinous, speechless, paralysing plague that has yet touched the brains of mankind (cited in Muir, 1978: 102).

Something along these lines is to be found, although in a more prosaic form, in a speech by Robert Kennedy in 1968 at the University of Kansas:

Even if we act to erase material poverty, there is another great task. It is to confront the poverty of satisfaction - a lack of purpose and dignity - that inflicts us all. Too much and for too long, we seem to have surrendered community excellence and community values in the mere accumulation of material things The gross national product does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages; the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage; neither our wisdom nor our learning; neither our compassion nor our devotion to our country; it measures everything, in short, except that which makes life worthwhile (cited in Begg, 2006: 4).

In this paper I have argued that to be a good economist means paying close attention to four main areas. The first area, attempting to make ‘vigilant observations’, may be something along the lines of what Hutchison (1938) was suggesting in calling for a more empirical approach. For Hutchison economics as a science has to escape from philosophy and directly connect with ‘the actual working of our system’. Keynes’s point appears to be that the means of arriving at such ‘vigilant observation’ might involve reading and thinking outside a narrowly-defined economics or outside of the prevailing orthodox economics or involve the wider ‘hands-on’ experience of the statesman. The second area is a bit of a disguised call not to neglect the history of economic thought – although the point concerns the best economists, of whom a fair number may be alive today. The third area is simply common sense except that it takes up the point that economics is a social science so that the economist, unlike the physicist, must read up far more intensively on all matters to do with the social world. The fourth area really constitutes an attempt to get economists to make themselves more conscious – to use an unbeautiful term – to

‘conscientise’ themselves about the all too often unconscious influence that the Methodology and rhetoric of economics and econometrics may exert on their research efforts. In this regard Knight (1935, 1960) drew attention to the limitations of economics as a science and emphasized the extent to which it had to do with the realm of values, specifically promoting free and open discussion of the (ever-changing) economic and social objectives that should be valued. More discussion along these lines (and those of Ruskin and Kennedy) may have allayed, if not prevented, the crassly materialistic values of the present age by which, although materially better off, we have been made so much poorer.

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