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How to make the economics profession socially useful?

(A reaction to George Soros' lectures and INET's activities)

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The profession of economics does not fulfill its social function to provide people a correct understanding of economic phenomena. In other words, the institution of economics does not work properly. George Soros makes this conclusion in his lectures at the Central European University (Soros, 2010)². He sponsored the creation of the Institute for New Economic Thinking (INET) with the objective to change this situation in economics. However activities of the INET are not oriented to change the institution of economics and most of participants in its activities are mainstream economists. I have the impression that my writings oriented towards a *radical reform of the economic discipline* totally correspond to the spirit of thoughts in George Soros' lectures.

In my research as an economist I follow the tradition in social sciences, whose advocates study actors' perception of social reality in order to understand their behavior. It takes into consideration both functions of thinking: *cognitive* and *manipulative*, and in this way it totally corresponds to Soros' concept of reflexivity. I belong to those social scientists who believe that the source of social regularity concerning any human community is the fact that members of this community act according to certain common rules accepted in this community and supported by common beliefs shared by these members. These rules and beliefs make together the social knowledge of members of the community. In Soros lectures "Capitalism Versus Open Society" and "The Way Ahead", the most frequently used word is "rules": "As I have pointed out several times, behind the invisible hand of markets there is the *visible* hand of politics which establishes the rules and conditions in which the market mechanism operates. My conceptual framework relates to the *political* economy, not the market economy as an abstract construct that is governed by timelessly valid laws. I look at financial markets as a branch of history."; "[M]arkets are suitable only for individual choices, not for social decisions. They allow individual participants to engage in free exchange; but they are not designed to exercise social choices such as deciding the rules that should govern society, including how the market mechanism should function. That is the purview of politics. Extending the idea of a free-standing market, self-governing and self-correcting, to the political sphere is highly deceptive because it removes ethical considerations from politics which cannot properly function without them". Using the word "rules" here, he means certainly formal rules such as laws.

People's behaviour is guided not only by formal rules, such as laws, but also by informal rules closely related to what Soros calls "social values", which are important parts of beliefs. If formal rules can be changed quickly, informal rules are very inertial. Their change can be directed and accelerated because, as he underlined, "social values are highly susceptible to manipulation". In order to be valid, i.e. applied in a community, informal rules must be shared by members of this community. In this sense they are socially constructed. If formal rules are expressed in writing, informal rules are expressed orally. For both types of rules, we can say that the social-economic regularities result from the fact that people behave according to certain socially-constructed rules, and these rules are explained, justified and kept in mind by telling themselves and others some stories. Economists in their theoretical

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² Further Soros quotations are taken from this book .

constructions consider men as molecules which interact between them. The metaphor of molecules can be more fruitfully used for stories expressing rules. The interaction of stories concerning a certain rule told by different members of a community, especially by its influential members, leads to the appearance of some kind of a common story, and to a rule shared by all members of this community. Taking this into consideration we must agree with the fact that, for the identification of social-economic regularities, we must explore and analyse these stories.

The Soros’ concept of reflexivity can be easily interpreted in these terms. Stories told by actors (their discourses) express their perception of social reality, i.e. rules and results of the application of rules (cognitive function), and, at the same time, influence this reality (manipulative function), because stories are the only real holders of these rules (Bloor, 1997). Modern economics does not study the discourses of economic actors and thereby deprive itself of the ability to understand and predict economic phenomena. The study of discourse is not a deviation from the scientific standards which are built into natural sciences, but rather an approximation to them, since almost all social interactions are mediated by language. This approach is not very actively used in social sciences, and at present is not practiced on a large scale by the profession of academic economists. For those who knew the behaviour rules of various participants in the U.S. housing market, it was quite easy to recognize the swelling bubble in this market and predict that it would inevitably burst. And the only ones who could know these rules, except those who directly apply them in practice, were those who did not hesitate to be in direct contact with participants of this market, for example under the form of an interview. The radical reform of the economic discipline must be oriented in this direction.

Analysing the history of the discipline of economics it is very easy to discover that from Adam Smith up to now the manipulative function in economics almost always prevailed over the cognitive one. It happened for political reasons and because of the institutional origins of this discipline (Fig. 1) in the Anglo-Saxon institution of the university of the 19th century, which had many features of medieval universities with their close connection to Church and theology as a central discipline.

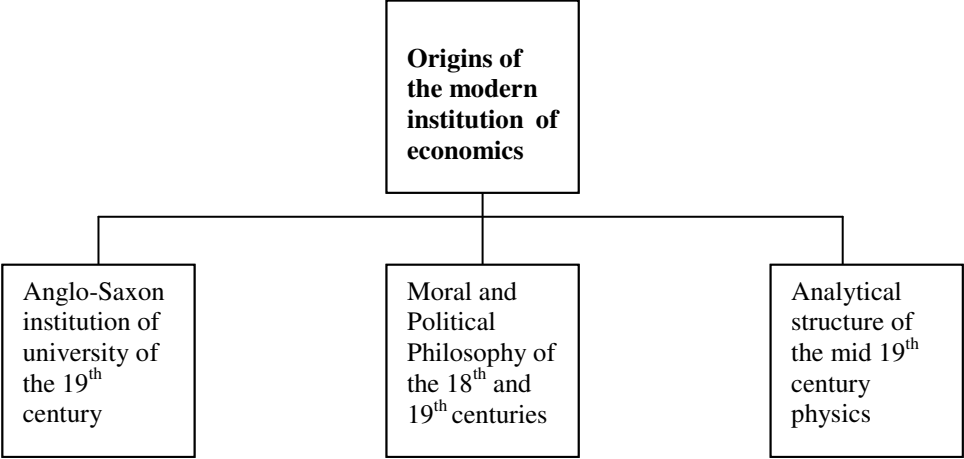


Fig. 1. *Why in modern economics manipulative function prevails over cognitive one?*

The initial form of economics, the political economy, was born as a continuation of the Moral and Political Philosophy of the 18th and 19th centuries, impregnated by theology³. The “marginal revolution” in economics, made by William Jevons and Léon Walras, has just dressed in the thermodynamics’ analytical clothes (Mirowski, 1987a, 1988, 1989) the same

³ See *Principles of Moral and Political Philosophy* by William Paley [1743 – 1805]. John M. Keynes called this book “immortal” and characterized its author as “the first of the Cambridge economists” (Keynes, 1951, p. 91).

messages as that of political economy since Adam Smith, that of *commercial society*⁴ and *laissez-faire*. Nowadays, these messages have degenerated into market fundamentalism.

Economists consider themselves as scientists, and most of the methodologists of economics appeal to the Enlightenment model of scientific research (Fig. 2).

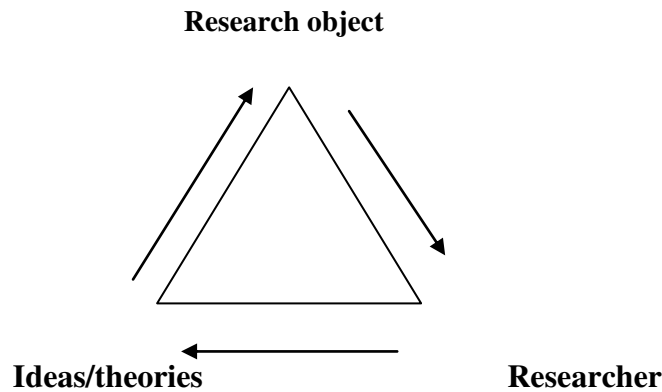


Fig. 2. *The Enlightenment model of scientific research*

As Soros has written, “according to the Enlightenment, reason and reality are separate and independent of each other”. Some researchers in social sciences, such as Michel Foucault, have noticed the Enlightenment model fallacy and touched on the issue of Reflexivity, but their findings were wrongly interpreted by some methodologists of science in the terms of the Post-modern model of scientific research (Fig. 3). As Soros said, “it denied the existence of an objective reality that could be discovered by reason; instead it saw reality as a collection of often contradictory narratives”. Philip Mirowski (1987b) opposed very strongly to attempts to consider economic research in post-modernist terms.

Collection of narratives of researchers about research object

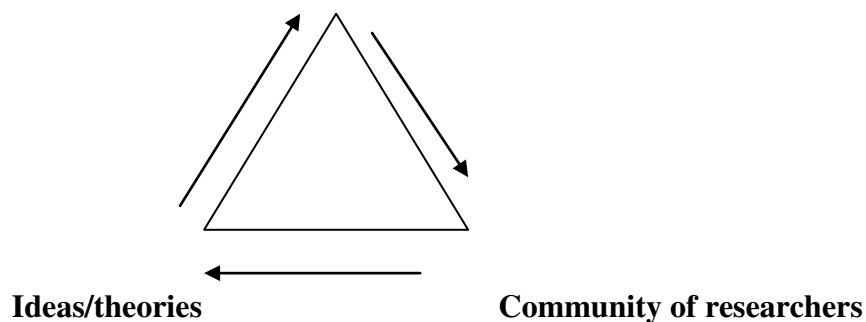


Fig. 3. *The Post-modern model of scientific research*

Specialists in *Science Studies* investigated real practices in natural sciences (Latour and Woolgar, 1986; Knorr-Cetina, 1981; Latour, 1988) and have shown that the Enlightenment (modernist) model of scientific research never corresponded to the realities of scientific research: “We have never been modern” (Latour, 1997). At the same time, they rejected the post-modern model with its relativism. They switched from the discourse around the Enlightenment model of scientific research to a new model of scientific research (Fig. 4). In this new model of scientific research, the Research object is not separated from the

⁴ «Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society»

Researcher, but makes, together with the researcher and her/his “instruments”, an *experimental situation*, and ideas and theories coming from observations/experiments are evaluated not by the individual researcher but by a *community of evaluators*, consisting not only of members of the corresponding scientific community but of a larger community, which includes administrators, politicians and concerned segments of the public. Evaluators can be divided in two categories: *witnesses* and *judges*. The difference between them consists in their respective roles in the procedure of evaluation: the former only express their opinion about evaluated ideas/theories, but the latter, taking into consideration these opinions, make decisions concerning the destiny of ideas/theories and the future of the experimental situation itself. Most of the members of scientific communities, except powerful members, belong to the category of witnesses.

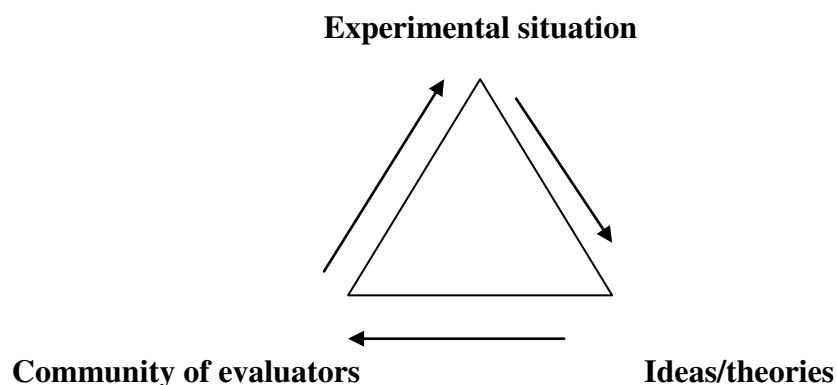


Fig. 4. *The new model of scientific research*

This model does not challenge the objectivity of scientific research and does not lead to relativism. According to Latour, the specificity of scientific research does not consist in a special “scientific method”, but in the design of experimental situation in which the object has the possibility to resist, “to object” to the ideas of the researcher concerning it, “when things strike back” (Latour, 2000).

In their discourse, the economists followed the Enlightenment model of scientific research, but what they do in practice can be very well characterized by the Post-modern model. They used not real but an imaginary research object. For more than 100 years the functioning of the institution of economics on the basis of the imaginary research object has resulted, for the majority of economists, in the absence of any preoccupation concerning the cognitive value and social usefulness of their work. It has been profoundly enrooted in the value system of members of the economics community. For more than 100 years the most important judges of economic research and teaching have been the owners and managers of capital. Soros wrote about it in the following way: “By far the most powerful force working in favour of market fundamentalism is that it serves the self-interests of the owners and managers of capital. The distribution of wealth is taken as given and the pursuit of self-interest is found to serve the common interest. What more could those who are in control of capital ask for? They constitute a wealthy and powerful group, well-positioned to promote market fundamentalism not only by cognitive arguments but also by the active manipulation of public opinion”. It is a shame on the community of economists that they became an important part of the machine of this manipulation of public opinion. Joseph Stiglitz recently wrote about it: “Economics has moved – more than economists would like to think – from being a scientific discipline into becoming free market capitalism’s biggest cheerleader” (Stiglitz, 2010, p. 238). The community of judges should be radically changed. The dominance in this community of owners and managers of capital should be stopped.

A radical reform of the institution of the economics profession should have as a primary element a profound switch in the value system of economists determining the way

they evaluate their colleagues: from a “market value” evaluation they have to move to a social value judgement. In the USA, to be an economist means to be hired to teach economics in one of the universities. The labor market of economic academics attributes a “market value” to each economist according to his use of accepted imaginary objects and modes of manipulation with them. The “market value” of an economist is measured by the number of publications of this economist in referential journals and the number of quotations of these publications in publications of other economists in these journals. David Colander has noticed that US graduate economic education makes “the far too strong focus on training students to write journal articles as opposed to solving real-world problems, and [has] the lack of training and respect on hands-on applied policy work” (Colander, 2009, p. 4). Using Soros’ words we can say that the conflict often exists between the “market value” of an economist and her/his social value. The community of economists has to change radically its understanding of the research product. It should be not a kind of manipulation with an imaginary research object, but a contribution to the solution of some real-world problems. The highest form of this research contribution is an understanding of a particular phenomenon. At the same time, any step to this understanding can also be considered as a research product. Economists usually use statistical monitoring of the economy. They should supplement statistical monitoring by *institutional monitoring*, i.e. regular descriptions of changes in existing institutions and descriptions of new ones. These descriptions should be publicly available for analysis by researchers.

If economists want to become socially useful as natural scientists are, they should stress their attention on creation and working within experimental situations. It will inevitably lead economics to the interpretive paradigm (discursive economics) resulting in a switch from a primarily theoretical (a priori) type of research to an experimental type of research and from primarily quantitative techniques to qualitative methods. Analysis of historical data (laws, political discourses, etc.), interviews and action research should become the core of economics research. This mode of research can bring valuable results only if the research is organized in such a way that the research object can resist to the ideas issued by the researcher about it. The philosopher and social scientist, Rom Harré, former director of the *Centre for Philosophy of Natural and Social Science (CPNSS)* at London School of Economics, tells us what kind of experimental situations social scientists should use. According to him “a person’s ability to act and to account for what has been done depend upon his/her stock of social knowledge” (Van Langenhove, 2010, p. 11). The communally shared social knowledge in a certain community is the source of social regularity that can be observed in this community. As Rom Harré wrote: “If one wants to explain some social phenomena one might say that it was the rule or the convention that made one do it, so that was where the source of causal efficacy in the social world is to be located” (Ibid., p. 264). George, reject the concept of the invisible hand; he wrote: “the rules governing financial markets are decided by the visible hand of politicians”. These are formal rules but the actors’ behaviour is governed also by informal rules and beliefs. Formal and informal rules, and beliefs that justify them, make together the actors’ social knowledge. Economist should get access to this knowledge in order to understand actors’ behaviour. The situation where the researcher gets access to this knowledge is an experimental situation.

As Soros wrote: “The Enlightenment fallacy is deeply rooted in our view of the world. It led Karl Popper to proclaim that the same standards and criteria applied in both the natural and the social sciences, and it led economic theory to model itself on Newtonian physics. Neither Popper’s elegant model of scientific method nor economic theory recognized reflexivity”. The discursive approach developed by Rom Harré is based on ontology totally different from that inherited from the Newtonian mechanics.

<i>Ontologies</i>	<i>Locative systems</i>	<i>Entities</i>	<i>Relations</i>
<i>Newtonian</i>	Space and time	Things and events	Causality
<i>Discursive</i>	Arrays of people	Speech acts	Rules and story lines

Table 1 Two ontologies (Harré and Gillett, 1994)

What we have to investigate in social sciences - and economics is (or has to be) a social science - are not things and events but discourses consisting of speech acts. Instead of looking for causal relations, social scientists (including economists) have to try to reveal rules and supporting story lines. One of the leaders of the discursive approach, David Bloor, expressed it in the following way: “The rule ‘exists’ in and through the practice of citing it and invoking it in the course of training, in the course of enjoining others to follow it, and in the course of telling them they have not followed it, or not followed it correctly <...> the phenomenon of following a rule is not distinct from the descriptions given of it [the rule]” (Bloor, 1997, pp. 33 -34). According to Harré, in order to do it, “the experimenter or the observer has to enter into a discourse with the people being studied and to try to appreciate the shape of the subject’s cognitive world” (Harré and Gillett, 1994, p. 21). The researcher has “to know what a situation means to a person and not just what the situation is (<...> as [it is] seen by an observer) if we are to understand what that person is doing” (Ibid.).. For this kind of research, it does not matter where and even when something was said, but what really matters is who said it. Social knowledge is not universal; it is local. The people to be contacted have to have the social knowledge linked with the phenomena under study. In this sense “array of people” means people from a certain appropriate community. For example, in order to study financial markets, it is necessary to contact financial professionals, like traders, and not graduate students of economics as happens in so-called “experimental economics”. At the same time, “array of people” means a sample from a target community. The choice of the people in the sample and its size, made in the framework of the discursive approach, are done in a totally different way to that used in the mechanistic approach. The researcher contacts people who are willing to share their social knowledge. The size of the sample (number of people contacted) is determined by so-called “theoretical saturation”, when the researcher learns nothing new by additional people contacted from the target community.

Soros distinguish “objective and subjective aspects of reality”, “the objective aspect denotes what takes place in external reality”, “there is only one external reality but many different subjective views”. Because in a community during the interactions, mediated by communications, shared rules and beliefs emerge, different subjective views of the social environment by members of this community converge. A very important part of this environment is ethical informal rules and moral values. The institutionalized economic discipline is cognitively sterile being incapable of understanding this social reality of informal rules and beliefs, but it is also socially harmful because it contributes to the emergence and spreading of market fundamentalism. As Soros wrote: “The agency problem has been extensively analyzed by economists, but they look at it exclusively in terms of contracts and incentives and they largely disregard questions of ethics and values. Yet if you leave out ethical considerations the problem becomes pretty well intractable. Values like honesty and integrity lose their grip on people’s behaviour and people become increasingly motivated by

economic incentives. By claiming to be value free, market fundamentalism has actually undermined moral values.”

I am convinced that the move to useful economics could be successful only if *this discipline ceases to have the features of a social, political or moral philosophy but becomes a science bringing to people an understanding of the real world*. Michel Callon and Bruno Latour have expressed it in the following way : "To parody words of Marx, one could say that ‘the philosophers (or economists) have so far only changed the world, it is now to understand it’" (Callon and Latour, 1997, p. 45). Courses of economic history, as Barry Eichengreen does at Berkeley, totally satisfy this aspiration. The situation is not so obvious with courses on the history of economic thought. Many specialists in this domain follow the tradition established by Joseph Schumpeter: “Henceforth we shall put ourselves on this standpoint of empirical science, at least so far as its principles are recognized in economics. But in doing so we must bear this in mind: although we are going to interpret doctrines from this standpoint we do not claim any 'absolute' validity for it; and although, reasoning from this standpoint, we may describe any given propositions or methods as invalid—always of course with reference to the historical conditions in which they were formulated—we do not therefore exclude them from the realm of scientific thought in our original (broadest) sense of the word or, to put it somewhat differently, deny to them scientific character—which must be appraised, if at all, according to the 'professional' standards of every time and place” (Schumpeter, 1954). According to this point of view, market fundamentalism should also be considered as scientific.

As it is well known, Friedrich Hayek contributed enormously to the ascent of market fundamentalism by the foundation in 1947 of the Mont Pèlerin Society. He invited scholars, mostly economists, with some historians and philosophers, to meet at Mont Pèlerin, Switzerland, and discuss the state, and possible fate of classical liberalism and to combat the “state ascendancy and Marxist or Keynesian planning [that was] sweeping the globe”. Universities played a very important role in the accomplishment of this objective: “The international academy Hayek sought was actually designed to create a space where like-minded people who shared philosophical ideas and political ideals could mingle and engage in a process of further education and collective learning dedicated to advancing a common neoliberal cause” (Mirowski and Plehwe, 2009). Hayek remained the president of this society until 1961, and in 1974 he was awarded The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, founder of the Nobel Prize. Usually it is called “Nobel Prize in Economics”, but in reality it has nothing in common with the testament of Alfred Nobel according to which “prizes [should be awarded] to those who, during the preceding year, shall have conferred the greatest benefit on mankind”. We can even suppose that the most eminent promoters of market fundamentalism were awarded with this prize for their activities as presidents of the Mont Pèlerin Society (Friedrich Hayek: president 1947-61, Nobel Prize 1974; Milton Friedman: president 1970-72, Nobel Prize 1976; George Stigler: president 1976-78, Nobel Prize 1982; James M. Buchanan: president 1984-86, Nobel Prize 1986; Gary Becker: president 1990-92, Nobel Prize 1992). I do not think that courses on the history of economic thought should present teachings of these persons as just some directions of economic thought as Bruce Caldwell does with an evident admiration for Hayek. It should be done in different way: “[T]he key to understanding the turns and reversals in his thought lay in his politics, and not as Caldwell has it, in some abstract philosophical doctrines” (Mirowski, 2007). Certainly Hayek can be considered as an eminent social, political and moral philosopher, as Marx equally was, and he should be present in historical courses as such with his influence on social beliefs and accepted rules, but not as an economic researcher, an example to be followed by a young generation of economists. The same can be said about Keynes and Robert Skidelsky’s admiration of him.

A radical reform of the discipline of economics should concern the substitution of the imaginary research object by a real one, i.e. the switch from a Newtonian ontology to a discursive one. It should be accompanied by a shift in value system of economists: the prevalence of social value over the market value in the community of economists as participants and witnesses of research and training processes. The central element of economists' value system must be the social usefulness of their work. As an important precondition of these changes, the removal of the dominance of owners and managers of capital among judges of this process must take place. I certainly understand that it is absolutely unrealistic to realize this kind of change on a large scale in the near future. What INET can do is to support existing islands of change or to create new ones in different universities. INET was created to change radically the profession of economics, but the Enlightenment fallacy is deeply rooted in the profession of academic economists, including most of those who collaborate with INET. The latter are not willing to switch from the Enlightenment and Post-modern models to a new one. I think that economics is too important to mankind to entrust its reform exclusively to members of the present-day community of academic economists.

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