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Book review

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The Puzzle of Modern Economics, Science or Ideology?

by **Roger E. Backhouse**

Cambridge University Press, 2010.

Roger Backhouse, an author of significant scientific reputation in the methodology of economics, writes this book at a time when the position of economics is shaken, at least in relation to previous periods. The long lasting crisis dragged economics into a swirl, even though the promise to maintain economics without critical disturbances was not kept. We are not going to make a dispute now on how the belief in crisis-free economics arises in general, because it would take us too far. Simply put, economics is involved in crisis self-understanding for a reason. Therefore, it is not a coincidence that Backhouse starts his book with the scene that brings us to the rhetorical question set by Queen Elizabeth II: “Why didn’t you see it coming? Still, at the same time Backhouse warns: let us not think that the objections against economics can be related only to the crisis (that is still in progress), they existed long before it: truly, we can remember the “post-autistic movement” that began long before the crisis. This movement even took the shape of a magazine that can be read regularly. We can then agree that the current crisis is just one, but relevant, moment in a critical view of economics.

The author of this book thinks that economics contains much more misunderstandings than natural sciences, despite its disciplinary identity which is more robust than other social sciences. According to that, economics is closer to natural sciences, but it is still estimated that the disciplinary identity does not imply consensus when it comes to the most relevant questions. Here, inevitably, comes the question of orthodoxy and heterodoxy (that is usually treated as a problem of incommensurability). Is there at all (which is, to emphasize, our remedial question) a *unified* discipline of economics which can be analyzed from an aspect that there are “orthodoxy” and “heterodoxy”? Aren’t those indicators the result of some previous decisions, and is it not already decided that the heterodoxy must be marginalized, constrained to intellectual ghetto? As long as we assume that the gravitational center distributes meanings and senses in economics, there is an inclusion and exclusion regime in the sense of orthodoxy and heterodoxy that becomes dissident and disputed by the mainstream. From the perspective of unified economics, something that Paul Samuelson used to emphasize is the fact that heterodoxy directions are just “minor disturbances” blown by the first strong wind of scientific economics. So, the question is related to the *perspective* norms which, at least implicitly come from the perspective of orthodoxy that unifies economics. In any case, Backhouse's opinion is that the "post-autistic movement" has not succeeded in destroying the belief in basic structures of economics. This heterodox orientation is something that most economists have probably not even heard. It seems that Backhouse thinks that these attempts have low value, because they do not reach the mainstream's core. He does not believe that such critical orientations, which Toni Lawson started in his ontology of "critical realism" - by holding the opinion that the project of economics could only be successful in the world of stable regularities, which could be considered the "mainstream." The author of this book claims that it is such a radical procedure that it cannot be part of the dialogue with orthodoxy. Backhouse, later in the book (see the part: *Heterodoxy and Dissent*) comes to a problem of heterodoxy and after a limited comparison with medical science, he remarks that there are not any central authorities that could be accepted as professionally valid and which could rule in economics.

How, then, is it possible that economists see the same things in different ways? How is it possible for conflicting discourses to occur? Is it because of methodology or some ideological attitudes? Finally, the heterodox orientations have different suggestions for economic politics relating to orthodoxy, so it is evident that the relatedness to political principles plays a significant role. Backhouse comes to the issue which is present in the whole book and which is the main "puzzle" that is a matter of discussion here: can economics ascend the throne of the most rigorous social science or is it just an expression of specific ideological matrices, to be more specific, an ideological expression of free-market ideology? It is undoubtedly the question to be asked, but also we should not forget that a lot of economists spend energy to eliminate the ideological aspects in their analyses. Let us not talk about numerous economic orientations which view a barrier as big as the Chinese wall between the scientific discourse and ideological projections. In this way, Backhouse's "puzzle" does not miss the rhetorical power.

As the response to the question raised in this book, many examples are given, reflecting the situation when economists use their theoretical ideas in order to affect the flow of economic politics. As we know, the economic theory is by far determined by modelling, that is, by the construction of a model as well as by the application of rational choice in different situations. The final result is suggested at the beginning: "The conclusion that emerges from these chapters is that, where problems are narrowly and precisely defined, and where they involve agents whose motivations are well understood and who operate under well-understood constraints, economic analysis is remarkably powerful." (p. 16). Therefore, the epistemological optimism is not missing here: still, the problem does occur if the "broader picture" is considered, i.e. situatedness of economics in the context of "transformation of society."

The first example relates to a situation when two markets are created by using the institutional design. This question is especially relevant considering the euphoria which economists have been feeling about the market over the last decades. It is hardly necessary to say that the economists, indeed, participated in the creation of different markets. That is how Backhouse treats the U.S. acid rain program. In the background of this issue, there is an influence of economists to create the market for the environmental problems: we know that dynamics of environment is perceived as problematic. Backhouse analyzes the situation rationally and thoroughly and shows the difficulties in view of creating such a market in a complex environment with multidimensional contexts.

The next situation refers to British 3 G Telecom Action where government was confronted with the problem of creating licenses and allocating them to private companies due to creation of an auction metaframe. It is again a particular analysis that has different aspects and shows precisely where the difficulty of creating markets can be discovered, i.e. which difficulties the constructivism is confronted with in relation to different markets. Thus, it also treats the results of a created situation on the market, with respect to the fact that generating revenues existed to a success extent, but the winners were faced with debt problems and it remained unclear whether the created competition could be considered as the successful one. This analysis (as well as the previous one) was extremely important to him because it could show the strengths and weaknesses of the economic theory: in this case the theory about auction was tested. Accordingly, Backhouse argues: if the objectives were precisely defined then the economic theory would appear as "extremely successful", however, he mentions market "short termism" as well as the situation in which managers are forced to prefer "current share price." It seems that his esteems are weaken by the fact that economists have a lesser efficiency regarding the whole complex; they are successful when it is the case of the articulation of certain segments, but if wider implications appear due to economy embeddedness into society, they fail.

A special problem occurs when it comes to creating a market economy; of course, here we discuss the fate of "transition" as we call the post socialistic constellation (Backhouse occasionally talks about "communism," but, I must say that "communism" existed nowhere, especially not in the sense of *self-understanding* of central and eastern Europe countries; "communism" was just a projection in the frame of an uncertain future, although I must admit this way of using the term "communism" is very common). The author of this book is interested in economists' involvement in transition and at the same time, with respect to his approach, he carefully balances, intending to dispel any doubts in relation to economics. The capacity of economics cannot be questioned even if shock therapy, showing many deficiencies, can be discussed, or if it can be said that economists sometimes underestimated market failures. It is more likely that economists did not pay much attention to institutions of capitalism (institutionalism barely affirmed in last decades, in relation to individual market segments but not in relation to the whole economy) or to the adverse effects of unequal income distribution.

The next issue refers to globalization which is, in a special way, related to ideology and affects our opinion of gains and losses. Questions that appear in relation to globalization definitely involve ideological matrices: inequality, development, poverty, relationships between incentives and equality etc. Backhouse, once again, shows which problems occur and that they can never be completely annulled by the measuring practices (e.g. cross-country comparisons) and tries to rationalize these constellations based on the mathematical operations that homogenize situations. Statistics are affected by the burden of uncertainty; hence they create many conceptual problems. Thereafter, articulations of globalization are left to *a priori* beliefs of economists. Furthermore, Backhouse emphasizes that value-beliefs do not need "politically motivated" ideological conclusions — we remember that Schumpeter, at the time, equalized the ideology with the value-beliefs: "Of equal, if not greater, importance are beliefs about how science should operate and about what constitutes a persuasive argument. Faced with statistical evidence that is, on its own, not strong enough to provide compelling evidence for one theory of globalization, economists have to use other criteria to choose between competing explanations. They have formal theories of complete economies that are highly abstract and hence logically rigorous" (p. 72.)

Backhouse's analysis must have concerned money and finances: anyway, this is the expanding field that cannot be neglected. Backhouse analyzes dynamics of financial theory, as well as the influence of competent theoreticians to the specific events that, from this perspective, deserves attention (e.g. 19 October 1987, or the events related to the Long Term Capital Management). On the one hand, this constellation shows an unambiguous success of financial economics: ideas of arbitrage markets opened the financial markets and Long Term Capital Management created big profits. On the other hand, if we try to see the portfolio insurance strategies then another consequence arises: when these strategies are used to conceptualize work of the entire system, then some of the assumptions (e.g. traders are rational subjects, price takers in efficient markets) become problematic. Then, the recommendations of behavioral economics related to both social and psychological aspects, must be considered. Still, Backhouse believes that not even skeptics can question the facts that modern finances have succeeded to create new markets. Finally, what does it mean if we say that economics is in the predefined situation of failed predictions? If the economic situations could be predicted then people would do it which, by the logic of a self-fulfilling prophecy, would lead to the actual realization of such situations. This cannot be absolute because despite the fact that crisis cannot be precisely predicted, we can remember that there were signs of warning, especially when it comes to hypertonic belief in efficient financial markets. According to that, implications of introduction of financial markets in the socio-economic society dynamics were neglected. So, Backhouse argues the option to "dismiss altogether" or to "sweep such concerns aside" (p. 97).

After the mentioned analysis, Backhouse returns to XX century, the moment when economics announced its ambition to become a science. As can be seen, the perception of reality has changed in the discipline, and, now, the logical rigorousness supported by the simplicity of operation that brings us to model consistency, becomes determining. This is not a side question, it relates to the change of definition of economics itself. I would say that the determination field has changed, and that the definition of Lionel Robbins who puts the analysis in the centre of choice in the context of scarcity, has made epochal change, the official definition. Economics has suddenly become the science that deals with the rationalization of choice, and the rational subjects of economics are always turned towards maximization. Nevertheless, economics find itself on such different tracks in relation to possible anticipations of Robbins definition. Based on that we can find ourselves is a situation where general competitive equilibrium reigns and theory is based on specific, mathematical and articulate axioms. In the book, we are presented with the precious narrations about the Cowles-commission, Kenneth Arrow's work, Gerarda Debreu Tjalinga Koopmans, Paul Samuelson, and about the ways that brought economics to affirmations of scientific rigorousness in full extent that could be promoted even if "unrealistic models" were created. It is not the coincidence that Friedman, Arrow and Samuelson considered the economic theory response to reality as inessential, even though they said it in a different way.

In the 1960s, the mathematization of economics was already a dominant paradigm which developed econometrics with the latest techniques. At the same time, economics began its expansion, i.e. extension to unexplored fields. That is how they discovered the program which economics favored as an imperial discipline that demonstrated the universal category structure for all scientific disciplines and researched non-market decision making. The highly abstract nature of economic theories which followed the abstraction program in the thirties remained, and it was constantly adjusted to different theories, either to game theory or to the experimental economics practiced in laboratories. It can even be said that the rigorous models can be verified by references based on reality, but more rigorous procedures are privileged with respect to non-rigorous procedures. This construction puts economics at the disposition of mathematically derived reliable methods. The section about the conflicts between NBER and the Cowles commission is interesting: the first developed science based on severe empirical funding and the other one was faced with the logical rigorousness as a leading pattern of economic comprehension. Koopmans led the attack on NBER, discussing their outbreak as the "Kepler stage of economics," and as "measurement without theory;" it is interesting that Milton Friedman actually followed NBER logic.

Backhouse dedicates a section to the genesis of rigorous macroeconomics that treats the "whole." Naturally, the start point is the rise of Keynes, but the context of his truly revolutionary theory in altered conditions of rigorousness and economic perception, cannot be avoided. Namely, his primary verbal thinking that was strongly embedded into reality on the basis of "direct observations of the world" (Backhouse), and the integration of his thoughts in the economic science, already produced significant transformations that he had not anticipated at all. Actually, we can say that his science was chamfered into the rigorous logic of modeling and this brought the danger of pacifying Keynes' basic attempt. Ironically, Keynes praised heretics, but his theory that found its way in the academic circles, prepared economics for some other paths, the paths of new orthodoxy. Backhouse here follows dynamics of macroeconomics and introduces us with the relevant narrations from this domain. There remains the question: what is the price of logical rigorousness? What does economics sacrifice on the altar of elegant mathematical procedure? If equilibrium is projected in different models, can the time required for economic subjects to reach equilibrium, be ignored? It is always about the level of abstraction which is the matter of conflict within economic discourses.

This leads us to the chapter which implies a new title of the book, "science *and* ideology". Backhouse talks about big changes that reflect the period after the

Second World War and he actually connects the validity of planning with emphasized suspicion towards state interventionism. The skepticism towards "government failures" grew in the last quarter century and it intensively promoted market solutions, such as the "reinvention of bazaars," for the economic problems. This is the epoch where libertarian economics boom. Austrian economics expanded as a form of legitimatizing new economic philosophy. I think that work on strengthening the free-market thinking hegemony has also multiplied. No other social factors that influenced the positioning of economics after the Second World War should be forgotten: needs of military section, intention to rule the society by science, i.e. social engineering of society, US cold war needs. It is not hard to conclude that economics was put into the ideological generation of reality. Backhouse constantly refers to ideological aspects in such a way that the promotion of a rational choice model carries some ideological meanings. It is not a coincidence that George Stiegler claimed that studying the functioning of the market economy is the safest way to become politically conservative. That means that even those dissenters who stand against it, will be ideologically determined (Backhouse sees Galbraith as a prototype of dissent). The book also gives a short history of dissidence in economics, considering the response of the American Economic Association to the Chicago police department treatment of demonstrators in 1968, as well as the wide reception of heterodox economists, which can be found in the book that Kuhn writes on scientific revolutions and which deconstructs science as cumulative dynamics and makes space for smug economists to accept incommensurable intelligibilities in economics. The attention is also given to post-Keynesians who are dissatisfied because of ignoring the subversive and intriguing elements of Keynes' theory. So, the heterodox theories hold that a) mainstream disregards phenomena which are necessary for understanding the economic phenomenon b) used methodology should be multiple. Backhouse, however, does not agree to such requests: he thinks that orthodoxy is more plural than heterodoxy. In other words, supporters of the orthodoxy very often express their doubt by questioning the validity of new methodology procedures, so, the uniformity should not be projected to orthodoxy, something that economists commonly do.

Finally, at the end of the book, the author asks a question: how do we acquire economic knowledge? How is economic knowledge that differs from common sense created? Backhouse considers possibilities of using statistics, econometrical techniques and tests of economic theories, and he demonstrates the difficulties that warn us to be careful about the applicability: the complexity of real world sets the boundaries to any enthusiasm regarding its adequacy in the world. With respect to econometrics, the exact relations are relevant regarding the short term causalities, but in long term, the qualitative assessments are determining. Economic knowledge is acquired in different ways, but due to limitation of patterns, economics is constrained to judgments that cannot be formalized.

Backhouse does not contradict that ideological beliefs play key role in economic dynamics, but he suggests calling them *myths*. He believes that: "The term 'myth' is not used here to denote something false; instead it denotes a deeply held belief, or an intuitive idea, (which may or may not be true) about the world. If we adopt this perspective, it is hardly controversial to suggest that if the evidence is ambiguous, and judgments have to be made, economists, like anyone else, will be influenced by myths" (p. 182). Backhouse is certain that economists allude to some myths because Economic theory and serious empirical work – economic science – are needed to analyze and at times to challenge the myths that underlie our common sense notions of the world" (p. 186).

This book is fascinating since it gives an overall image of economics dynamics. Therefore I strongly recommend it to everyone who practices economics. It demonstrates the relevant parts of the question posed by the title of the book. I personally think that a more complex specification of ideology is missing since it is not a coincidence that the ideology is quite often mentioned in different fields. The author uses one implicit specification, but sooner or later, such procedure requires additional explanation. For example, when it comes to the difference between "ideology" and "myths," we are a bit puzzled. So, I think that one universal definition of ideology can illuminate the path from "science *or* ideology" to "science *and* ideology." In the same way, by conceptualizing ideological matrices, we can explain why the central planning and state ownership was not always at the mercy of western economists, which is also the case with modalities of "economic adviserism" in transition flows, paradox authoritarianism that hides in the implementation of neoliberal programs all over the world, and concrete *forms of incommensurability* between orthodox and heterodox economists. Ultimately, based on that, i.e. based on the ideological standard theorizing, we can explain the tendency of economists to experiment with people who are candidates for maximization of reality, such as Chicago Boys did in some parts of Latin America, which necessarily concerns the relations between economic theory and market creation. Economics is too important for the reproduction of human life which must include struggle, conflict discourses of abstractions and determinations, and it cannot really be conceptualized without ideology.