

## **Rejoinder to *Methodology...?! Why? Some methodological aspects of the controversy between mainstream economics and institutionalism* by Peter Galbács**

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(...) mainstream economists know the standard problems with economics, and they are working to change them. Who does not want economics to be empirically grounded? Who does not want economics to be relevant? Who does not recognize that formalism sometimes runs amok? The debate is how to change economics, not whether it has problems.

(Colander 2005, p. 338)

This question, and the rejoinder itself, were inspired by the article of Péter Galbács, in which he claims that the reason mainstream and heterodox economics<sup>2</sup> cannot converge their perspectives is the methodology we employ. But do the distant methodological standpoints preclude convergence? The answer to these questions depends, for me, on a clarification of the following areas in this long – going, active, but still unresolved dispute:

1. the way we define, treat and use the methodology in our reasoning,
2. the way we justify the choice of assumptions serving as the methodological restraint,
3. the way we understand and operationalize rationality.

Let us start with the common field that both mainstream and heterodox economists explore. We jointly look for rules that guide the behaviour of agents (i.e. individuals, households, industries, regions, countries, etc.), regarding the reasons, the way and the outcome of the usage of scarce resources.

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<sup>2</sup> Mainstream is defined usually as neoclassical economics (with Keynesian and neo-Keynesian approach), while heterodox is eg. institutional, neo – Marxian, and post – Keynesian economics. The behavioural economics, stemming from the heterodox stream, slowly becomes the mainstream now. Mainstream economics (but mostly neoclassical) is also identified with orthodoxy, mathematization and a formal, deductive approach (see eg. Lawson, 2006).

We also assume that we need to understand the grounds and the way of this usage in order to predict its outcomes<sup>3</sup> and here begin the differences between mainstream and heterodox economists. While the heterodox economists put the major focus on understanding the grounds and the way economic agents value resources and then use them, (since it is still not obvious for us, why and how agents behave in certain situations), however mainstream economists concentrate on the predictions, the outcomes of this usage, as their assumption is that the reasons for the economic behaviour of agents are already known. Mainstream economics, with its emphasis on the predictive role of economics, falls into the positivist, nomoteistic methodological paradigm; with the deductive way of reasoning and a mathematical formalism as the auxiliary, but necessary tool to obtain and sustain the internal validity of models. Is this approach inappropriate from the methodological point of view? Not at all; it is formally consistent and internally validated with a certain number of assumptions, serving as the methodological binder to secure the logical consistency of the models provided. But the predictive power of formal models does not depend only on its internal consistency. Mathematical formalism in mainstream economics (even though falling into “the physics envy” bias, see eg. Mirowski, 1992; Drakopoulos, 2016) or the assumptions’ usage is necessary to simplify the reality in order to reflect it in the models and analyze the big data set. The problem (visible not only for heterodox economists, see eg. Colander, Holt, & Rosser, 2004; Davis, 2007) lies in the assumptions’ justification - they cannot significantly blur the picture of the real world.

In order to predict first we have to understand the reality we observe.<sup>4</sup> That is why both mainstream and heterodox economics need to clarify and redefine the rationality paradigm, being the foundation of economic science. This is the field, in which convergence between both economic streams is clearly visible. To support this claim I would like to cite the definition of rationality given by Robert Aumann during his Nobel Prize lecture in 2005 “*the rationality equals serving own interests, information given*” (see Aumann, 2005). Even though it highlights the subjective, time constrained and externally conditioned nature of rationality, it also states, that the rationality lies at the core of human behaviour. There are probably not many mainstream economists nowadays who do not accept the fact that reasoning is based on the information given and the way it is transformed or that rationality is a trial to optimize agents’ own interests (even though optimization process can stop on a satisfactory level, see Simon, 1979).

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<sup>3</sup> A scientific theory has three distinct properties: (1) correspondence to the facts; (2) understanding the reality; and (3) usefulness (Age, 2011).

<sup>4</sup> Long ago Robbins apologized for starting his article with the statement, that “the object of economics is to understand reality”, as it seemed obvious to him (Robbins, 1938, p. 344). Well, probably it is still not to some economists...

But is a nomoteistic, positive methodological paradigm the appropriate one to effectively look for explanations why and how economic agents behave in a certain way in diverse external settings? Social reality, being heterogeneous and ambiguous, requires an interdisciplinary body of knowledge with complex modes of interpretation. In social reality we deal with diverse epistemological credentials (Samuels, 1998; Davis, 2012). Therefore the constructivist methodological paradigm with its inductive way of reasoning, idiography, etc. seems to be more suitable to explore the way humans acquire, embed and transform the information in order to optimize their behaviour. However the constructivist approach may lead to methodological anarchy with its claims: the real world does not exist; it is only the perception that matters; rhetoric should replace method. Again, I do not think there are many heterodox economists today who question the existence of the real world or the role that methodology plays in achieving the accuracy, relevance and utility of our reasoning.

Another confusion about the difference in the methodological standpoints of heterodox and mainstream economics stems from mixing subjective (such as value) or objective (such as price) phenomena with objective or subjective methods employed to study them (see Vanberg, 2004, p. 164; Boehm, 1982, p. 44). Do subjective phenomena require a methodology fundamentally different from the one in the natural sciences? I agree with Vanberg (2004, p. 163) in this that the answer depends (among others) on the way we treat methodology. Once we perceive it as sets of meta-theoretical normative principles that aim to secure the quality and relevance of the effects of scientific inquiry, we simply follow the set of these principles, which seem more fruitful and useful for studying certain phenomena. Economists can choose between the methodological paradigms, depending on the phenomena they study, providing they are aware of the strengths and downsides of the given methodology and can support both the internal and external validity and relevance of their findings (given the constraints). At the same time a major role of the assumptions (forming a methodological constraint), is to serve as the protective tool (but not against criticism but about its lack of feasibility) and the sign of caution; the lens through which we evaluate the accuracy, relevance and applicability of our findings.

What is then the answer to the questions stated at the beginning of this rejoinder? Is it methodology that differs us, economists? In my opinion it is not methodology itself but the attitude towards its role in legitimizing the “hard or soft” status of economic science. But do we really need this “hard science status” in order to better explain and then predict economic reality? I would mention Colander et al (2007-2008); let us be economists first with the major focus on delivering the answers as to how economic rules can advance the richness of human life (see also Sen, 2012). The important but auxiliary outcome should be advancing the richness of the economy itself.

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