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ON THE SCOPE OF
REASON IN ECONOMIC
INQUIRY

Subroto Roy

Philosophy of Economics

*On the Scope of Reason in
Economic Inquiry*

Subroto Roy



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To R. A. R.

Preface

The publication of this work marks the end of an adventure of more than a decade and a half, most of the writing being done between 17 December 1980 and 22 May 1987. It has been quite perilous at times, especially as a foreigner in the West, and over the years many teachers, colleagues, friends, and members of family have contributed to the author's learning with their thoughts and actions. A number of senior scholars in economics and philosophy, especially Professor Frank Hahn, Professor James Buchanan, Professor Milton Friedman, Professor Max Black, Professor Sidney Alexander, Professor Amartya Sen, Professor Peter Bauer, Professor T. W. Hutchison and Dr C. J. Bliss, have lent their support to the work as it developed, even when they may have not known of its final form, or disagreed with its content, or been themselves a subject of its criticism. Most especially, the work has been honoured in the last six years with the unwavering encouragement of Professor T. W. Schultz of the University of Chicago. And Professor Ted Honderich of University College London has shown it the kindest consideration, without which publication would have been much delayed. Finally, a large debt will be seen to be owed to the philosophical work of Mr Renford Bambrough of St. John's College, Cambridge; however, he should not be considered responsible for the use that has been made here of his writings.

HONOLULU
15 AUGUST 1988

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1

Introduction

In this book, some of the central philosophical questions facing the modern economist will be raised. Most attention will be given to the question of the appropriate relationship between the positive and the normative, as well as to its parent question of the appropriate scope of objective reasoning in the making of evaluative judgements. Closely related is the question of the appropriate role of the economic expert in society, while slightly more distant questions have to do with the significance of interpersonal comparisons of utility, with the philosophical status of the concepts and theorems of mathematical economics, and with how judgements of probability should be understood. It is this family of questions which will be the concern of the present work.

Economics is a science with potentially important practical bearing upon the lives of men and nations. The state of the modern world may have been affected more profoundly and subtly by the use or misuse of economic knowledge than by many another science¹. Yet anyone familiar with the intellectual history of the field will know it to have seen more conflicts, and often conflicts of a more destructive kind, than may be reasonably expected or tolerated in the development of a scholarly discipline. The reader will be familiar with the many explicit and implicit divisions of opinion that have occurred upon theories and methods and evidence and policies, which have sometimes torn apart individual university departments and even threatened the integrity of the science itself. Indeed the modern economist in a

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despondent mood might be inclined to say of the state of his discipline as David Hume once said of philosophy: 'There is nothing which is not the subject of debate, and in which men of learning are not of contrary opinions. The most trivial question escapes not our controversy, and in the most momentous we are not able to give any certain decision. Disputes are multiplied, as if everything was uncertain, and they are settled with the utmost warmth, as if everything was certain.'²

At the same time as there have been deep and persistent divisions on substantive questions of economic theory and method and evidence and policy, there has been a deliberate or inadvertent consensus about the answer to an important question in the theory of knowledge. Modern economists happen to have been practically unanimous in their opinion on the possible scope of objective reasoning in the making of judgements, and thus in their opinion on the appropriate relationship between the positive and the normative. A broad consensus has developed to the effect that while common reasoning can have some scope in evaluative discussion, it is quite possible in practice and in principle for this scope to become exhausted. At such a point of the exhaustion of reason, only sheer and unadulterated subjective differences will be found to remain between people. Put another way, it has been believed possible for judgements ultimately to become immune to rational question and criticism.

Many of the pioneers of twentieth century economic thought, Kenneth J. Arrow, Milton Friedman, F. A. Hayek, Sir John Hicks, Oskar Lange, Gunnar Myrdal, Lionel Robbins, Joan Robinson, Paul Samuelson, Joseph Schumpeter, Jan Tinbergen, to name but a few, who between themselves would represent all of the main schools of contemporary economics, may be found to have shared such a thesis in the theory of knowledge, differing amongst themselves only upon the relatively minor question of the precise amount of room reasoning should be considered to have: some saying a great amount, others saying almost none, but all agreeing that whatever the exact amount it is a *finite* amount, both actually and potentially. The theory of demand, the theory of macroeconomic policy, the theory of welfare economics, the theory of social choice – each has in whole or in part rested upon an epistemological premise of this kind. If such a consensus can be shown to have existed, the reader may agree

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it to be something of a remarkable fact, since it would be difficult indeed to find a single substantive proposition of theory or method or evidence or policy to which a similar measure of consensus among modern economists might obtain.

One of the objects of the present work will be to argue that the fact that there have been tremendous disharmonies on substantive economic questions, may not be independent of the fact there has been this kind of harmony in the theory of knowledge among many of the pioneers of twentieth century economics as well as the many more who have followed them. If the epistemological point hitherto accepted as true happens in fact to be false, it becomes possible that the scope of objective reasoning on substantive questions has been artificially prevented from being extended as far as it could have and should have been. Evaluative judgements are clearly of indefinite variety: attitudes towards goods or people, expectations of the future, recommendations to buy or sell, advice to a friend or a student or a government, etc. – roughly, all judgements taken by an individual or social agent about a right or optimal course of action in given circumstances. We shall find the consensus has been that it is possible for reasoning to come to a necessary halt in the process of coming to such judgements, whether the maker of the judgement is a public body or a private individual acting in the capacity of consumer or voter. A large amount (and possibly the whole amount) of what may deserve to be within the domain of common and objective reasoning comes to be placed instead under the rule of subjective will and caprice. Not only must we live with the fact that discussions between citizens or economists or politicians or spouses or siblings or nation-states *do* frequently come to end without resolution, because there happens to be a lack of patience or tolerance or perseverance or good humour or whatever, but also that such outcomes may be written into the script from the start. In any normative discussion, we are to be permitted to call a unilateral halt merely by declaring ‘Well that is a value judgement of mine’ or ‘That is a personal opinion of mine’, with the implication that any further questioning is out of bounds and unacceptable. Given a theory which allows us in this way to declare as we please what to call objective science and what to call subjective opinion, and given that it may be but human nature to be sceptical of the other fellow’s dogma while

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being oblivious to one's own, we may have some explanation of how the consensus among economists in the theory of knowledge may have caused and preserved a state of affairs in which rival substantive dogmas can thrive – because the processes of common reasoning and even communication itself may have been allowed too often to come to a virtual standstill (or move at a snail's pace). 'Disputes are multiplied, as if everything was uncertain, and they are settled with the utmost warmth, as if everything was certain.'

The gist of the present work will be that the present consensus in the theory of economic knowledge is logically inconsistent. It is therefore untenable and deserves to be abandoned. *Men can aspire to, and in fact do attain and possess, certain and objective knowledge in an indefinite number of contexts. At the same time, there is no proposition of any kind held by anyone which must be thought of as necessarily closed to further question on grounds of reason or evidence.* This simple maxim is something that may be found to hold in any field of human inquiry or endeavour one cares to mention – mathematics or medicine, ethics or physics, history or probability, logic or theology – and it will be our purpose in this work to examine its consequences in the context of economics in particular.

2. Our study is one in what may be called theory of economic knowledge, and it may be worth a moment to consider what may be meant by this.

Bertrand Russell said of pure mathematics that it was a subject 'in which we do not know what we are talking about'³ – meaning that the pure mathematician does not normally intend to refer in theorems to substantive factual truths about the world. The epistemology or theory of knowledge of a discipline may be thought of similarly as being not concerned with either affirming or denying, corroborating or refuting the substantive propositions that happen to be made within the discipline. The study of the theory of economic knowledge may be thought of as not making any commitment one way or another to the substantive propositions which are to be found within the department of economics itself. Instead it is a more abstract undertaking, which seeks to examine certain kinds of questions from *outside* the department in the practical hope of dissolving or at least

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clarifying the character of substantive questions and controversies that may be occurring within. For example, to ask whether a criterion of truth and falsity *can* be applied to economic propositions, or whether objective knowledge is *possible* in the field, or how the kinds of propositions made in economics are to be *justified*, or how they compare and contrast with propositions made in other departments of inquiry – these would be the kinds of question we might see asked in the theory of economic knowledge; from which too the importance can be seen of generally abstaining from making substantive commitments in the process.

Much of the present work, especially Parts I and II, may be understood to be an attempt to provide a theory of economic knowledge of this kind. Thus the reader will not find in it commitments made to any substantive economic propositions. There is no theorem reported of the existence or efficiency of some new kind of economic equilibrium, no new model or evidence offered of the influence of the supply of money on prices, no new theory of how the expectations of economic agents may be formed or fulfilled or disappointed, no new evidence or explanation of why some country may be experiencing rapid growth or high inflation or increasing unemployment. No new result *within* economic science; one might almost say, nothing substantive! The present work will offer no more than ‘a machine to think with’ on certain philosophical aspects of economics; it intends to leave economics as it is – and yet in so doing to have shown the way out of some of the philosophical difficulties that are encountered in its study. ‘For the clarity that we are aiming at is indeed *complete* clarity. But this simply means that the philosophical problems should *completely* disappear.’⁴

Yet the practical purpose to making an investigation of this kind may be stated quite readily. For suppose, for the sake of argument, we granted the truth of our simple maxim and assumed that the epistemological concepts ‘knowledge’ and ‘doubt’, and their allied concepts ‘objectivity’ and ‘freedom’, should not be seen as incompatible in the project of inquiry. What consequences would follow from accepting such a viewpoint? Clearly first of all, we would be placed in a happy position of being able to say that no matter how deep or persistent the actual disagreements between economists or between citizens on

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economic questions happened to be, there *is* knowledge to be had in the study of economics. Not just high sophistry or rhetoric or political posturing or the opinions and prejudices of different people – but certain and objective *knowledge* about those actions, events, and phenomena that are part of the economic context. We would be able to say, in other words, there are at least some propositions in economics which are *true*, and which moreover can be *known* to be true.

An important ambiguity is possible here in asking whether there is knowledge about a given matter, insofar as such a question can be taken either as asking whether it is possible for there to be any knowledge about the matter, or as asking whether it is known that someone actually possesses such knowledge and how that has been determined. Defining as an expert someone who has the most reasonable and justifiable answer to give to a question, we need to distinguish, in other words, the relatively cool logical question of *whether* there can be any such thing as expert knowledge from the more heated political question of *who* is supposed to be such an expert and how we are supposed to know that. For instance, a question like ‘Is there a proof to Fermat’s last theorem?’ can be understood either in the manner of the pure mathematician, as asking whether there *can* be a proof to the proposition it is impossible $x^n + y^n = z^n$ for positive integers x, y, z, n , and $n > 2$; or in the manner of the historian of mathematics, as asking whether any human being has come up with such a proof, as Fermat said he had done but of which no record exists. Among the great thinkers, Plato is the most influential to have crossed these wires in suggesting it possible not only for there to be objective knowledge about mathematics and ethics and statesmanship, but also for a special and closed set of experts to come to be identified to whom such knowledge should be thought of as being exclusively given. Plato’s theory can be and has been interpreted as giving license to elitism and dictatorship, yet the natural protest which the ideas of these would evoke in most of us may lead to an equal and opposite error of denying the very possibility of knowledge because we feared or wished to reject the idea of being ruled by a closed set of self-described experts. Once these wires are uncrossed, we may see it to be quite possible to maintain that there *can* be objective knowledge and expertise in

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economics, without making any commitments toward specifying who should be considered an expert on some economic issue, or how we are supposed to determine that, or for that matter claiming any such knowledge or expertise for ourselves.

A second consequence of our simple maxim may seem more troubling. For by its second part, we should also have to say that even while there is objective knowledge in economics, there is nevertheless no proposition in the field which must be thought of as being necessarily closed to further question. Not the proposition that every human act is a rational act, nor the proposition that economic agents continually maximize utility, or are well modelled as doing so, nor the proposition that the market economy cannot be expected to reach full employment and needs to be and can be actively supplemented by macro-economic policy, nor the proposition that the growth of money is necessary and sufficient for inflation, nor the proposition that free trade will maximize world output given factor immobility, nor the proposition that externalities imply a possible scope for taxes and subsidies, nor the proposition that the histories of nations is a history of class struggle. By the second part of the maxim, there is *no* axiom or theorem of economic theory, *no* finding of economic history, *no* estimate of the value of an economic coefficient, *no* prediction of the course of an economic variable, *no* proposal of economic policy, which must be thought of as being closed to further question. None whatsoever. 'No statement is immune to revision' (Quine).⁵

Taken together, then, the net consequence of supposing objectivity and freedom, knowledge and doubt, to be compatible concepts deserving of equal respect, is that we shall be able to chart a course which steers us clear of two perennial and opposing hazards besetting all projects of human inquiry, *viz.*, Scepticism and Dogmatism – the modern origins of which were traced by the American philosopher Charles Sanders Peirce to the cartesian proposal that philosophy 'must begin with universal doubt, whereas scholasticism had never questioned fundamentals.'⁶ In the pages to follow, we *will* be denying universal doubt *and* we shall be free to question fundamentals. In an indefinite number of contexts, there is certain and objective knowledge to be had. Scepticism, understood technically as a logical thesis denying that we can possibly have or know that we have certain

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knowledge, is therefore a false thesis. At the same time, there is no proposition which is necessarily closed to question. Dogmatism, understood technically as a logical thesis implying there can be or must be some propositions which are absolutely and incorrigibly true, is therefore an equally false thesis. In place of a theory of knowledge restricting the scope of common reasoning to the finite or even the potentially finite, it is possible to have a theory of knowledge extending this scope to the potentially infinite. In particular, while normative proposals in economics or elsewhere may be supposed to be objectively better or worse depending on the soundness of the positive grounds given in their support, *there are no unquestionable normative proposals – because there are no unquestionable positive grounds*. The simple practical result of making the present investigation is that it will permit a sure and safe course to be found between Scepticism and Dogmatism for any project of economic inquiry.

3. Would such a simple and straightforward thesis be new to economics in any way? To what extent has the argument which has been summarized above and which will be developed in the chapters to follow not been expressed before? The reader may wish an answer to such a question, and the author presently takes this to be as follows.

With respect to the general debate which has occurred about knowledge and scepticism especially in moral philosophy, there will be little if anything in the present work which is a direct or novel contribution to it. While the philosophers have not been concerned with political economy at all, we shall be passive participants to their discussions, listening in to see what can be learned for our purposes and not intending to add to them directly. It may be remembered of course that it has not been long since economics formally broke away from philosophy to become a specialized discipline in its own right, in the belief that the concerns of economics are of a more concrete and practical kind than those of philosophy.⁷ Since then we have made many highly abstract and theoretical claims, while also becoming scornful of philosophical thinking and believing ourselves to be exempt from its influences. Yet serious philosophical thought constitutes a mature and magnificent conversation which it would be foolish for any serious science to be deaf to. Moreover, it has been quite

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widely believed that there have been significant advances in philosophical understanding in the present century, and we are responsible to take such a claim seriously. It will be one of the aims of the present work to apply what may be learned from these discussions towards resolving, or at least clarifying, some of the main substantive disputations in modern economic science.

There are two broad traditions of moral philosophy relevant to our subject-matter, one deriving from Aristotle, the other from Hume (and a line of sceptics before him). Even though it would be unwise to expect agreement within either tradition, we may for convenience speak of an aristotelian and a humean tradition respectively.⁸ With respect to the discussions among economists on the relationship of the positive to the normative, we shall find an eminent consensus to have appeared on the humean side. This work will declare for the other side, and in so doing will have to dissent from the humean consensus upon which all of the theory of social choice and much of the theory of welfare economics and theory of economic policy have appeared to rest. As far as is known by the author, there seem to have been but two published dissents on similar lines among economists in recent decades: those of Sidney Alexander and Amartya Sen. Of these, Professor Sen's dissent has been very short and hesitant, and he would seem to have withdrawn it in other writings. Professor Alexander's dissent has been clear and vigorous, but unlike his work on the balance of payments, his philosophical work has not received attention, and the present work was mostly developed in complete ignorance of its existence.⁹

By the end of this work however, a clear choice should have been set out for the reader on the question of the relationship of the positive to the normative – between the consequences of accepting the humean consensus among economists and the consequences of the position of Professor Alexander and the author and possibly Professor Sen. The simple maxim 'Objective knowledge is possible and yet there is no proposition which is closed to question' should not undermine its own content by being closed to question itself – instead it is supposed to refer and apply to itself as well. It may be true and deserving of our belief but it is not self-evidently so, and will have to earn its credentials at the common bar of reason. Ultimately it will have to be the reader's individual judgement to decide whether it has been

successfully shown that, contrary to what has been supposed by many of the pioneers of twentieth-century economics, no conflict must arise between knowledge and doubt, objectivity and freedom. The history of the discussion may accord to our side the advantage J. S. Mill had seen to be enjoyed by all minority opinions: if the opinion of one or a few is false then not much will be lost by believing in it, while if it proves better able to stand the tests of time then much may be gained by allowing it to replace error. Put differently, it may seem quite risky that the pioneers of modern economic science have placed all their philosophical eggs in the humean basket – just in case it is Hume himself who happens to be mistaken.

4. In Part I of the work will be found described the received theory of economic knowledge and its possible justification, as well as an account of the logical difficulties that arise with it. Chapter 2 has the task of documenting as fully as possible the existence of a humean consensus among economists in recent decades. Chapter 3 then examines the kinds of reasons that may incline us to be persuaded to such a view, and which may go toward explaining how it has seemed to be an attractive theory to so many economists. These reasons appear to have been of two different but related sorts.

First the concept of value as used in ordinary life and ethics may have become confounded with the concept of economic value or scarcity or *rareté* in Walras's term. Where economists have referred to a theory of value, they may have meant to refer more accurately to a theory of relative prices as determined by conditions of scarcity. The advance of the original neoclassicals in the late nineteenth century was to establish the importance of subjective estimations of economic agents to the determination of the relative prices of goods – as opposed to, say, how much labour went into different production processes as the classical economists might have said, or how much intrinsic value God had placed in the goods as the scholastics might have said. While it is clear by now that such an observation is broadly correct, it would be a mistake to go from a premise that market prices are determined in part by subjective estimations to a conclusion that the relative prices thus determined in any sense establish an order of how goods deserve to be valued or not. Goods are indeed

valued the way they are because people happen to value them. Yet equally, in most cases, people seem to value goods in the way they do because the goods deserve to be thus valued – for example, because, like food or clothing or shelter, the goods are conducive to some valuable human purpose.

Secondly, it is possible the consensus has been motivated by a desire to find an effective shield against dogmatism and tyranny. For example, the context of an open parliamentary democracy presupposed by the modern theory of economic policy may have derived out of the experience of the great tyrannies of twentieth century history. There may have been a natural and understandable desire that the choices and decisions of citizens in the capacity of voters or consumers should be treated with the fullest due respect, and a humane scepticism may have been adopted because it has been believed to be something which is necessary and sufficient for this kind of respect to be shown. This would be an outstanding reason for adopting a humane point of view, and one which any critic must be required to account for. Yet it also places in relief the contradiction that is present within the humane theory. For example, a theory of economic policy which has to rely upon an assumption of the polity being open and democratic would have to be silent about the conduct of economic policy in societies which were demonstrably not open or democratic, making it a theory very special and contingent in its range of application. Moreover, to give the defence of political or economic or religious freedom as a reason for holding a subjectivist epistemology would be to have left freedom entirely defenceless and toothless from those who would attack it *from within precisely the same subjectivist framework*. For example, if we confounded a general right to express an opinion freely with an idea that what such an opinion expresses is itself a matter of subjective opinion, then clearly, by the same token, an opinion that opinions should be freely expressed might also be considered merely subjective, and therefore no better or worse than its contrary. Within a subjectivist theory of knowledge, there ultimately can be nothing to choose between freedom and tyranny.

Chapter 4 is a survey of these kinds of logical difficulties with the humane position stated in Chapters 2 and 3. Its main result will be that the anti-dogmatic campaign of the humane cannot