The Popperian Legacy in Economics
Edited by Neil De Marchi
Cambridge University Press 1988

This volume is a collection of papers presented at a two-day symposium in Amsterdam, December 1985. It had its origin in a desire on the part of Joop Klant’s colleagues at the University of Amsterdam to mark his retirement from the Chair of History and Philosophy of Economics.

Joop Klant is, according to the editor, a man of many talents: novelist, artist, banking analyst and adviser, and economic methodologist. In his studies on “the logical structure of economic theories”, which is the subtitle to his The Rules of the Game (1984), he cast “doubts, ... about how we, economists, can prove our theories. How do we take the decisions to accept or reject theories? Have we a right to put on scientific faces?” And so on. Answers to these questions, he pointed out, have a lot to do with the falsifiability of economic theories.

Against this background, the conference took a critical and historical look at the role played by Karl Popper’s demarcation criterion in economic methodology and examined why, and in what sense, Popper’s view of empirical falsifiability as the distinguishing characteristic of science has found appeal among economists. The limitations of this tenet, both for a philosophy of science and as a guideline to economic inquiry, were explored as were several of the proposed alternatives.

The book is divided into five parts: “Popper as a philosopher of science”; “Popper among the economists”; “Falsification and trying to do without it”; “The missing chapter: empirical and its appraisal”; “The missing chapter: empirical and its appraisal”; “Non-Popperian perspectives on economics”. The discussion at the symposium is placed en bloc before the collection of papers, reversing the usual order. It is meant to be self-contained, including brief summaries of the papers and of the prepared responses by commentators.

In Part I, philosopher Daniel Hausman (Carnegie-Mellon) undertakes a detailed critique of Popper’s falsificationism as a set of norms that should govern the behavior of scientists. He argues that Popper’s methodological rules are implausible and of little or no value to economists.

J.J. Klant in his paper considers inevitable that science contains pre-conceptions of a “natural order” since hypotheses cannot be tested independently. The natural order in economics affects not only what the economist sees but also what he wants to do. Contrary to physics, furthermore, economics does without universal numerical constants. Notwithstanding attempts at scientific objectivity, the influence of subjective values is unavoidable. Popper holds that it is worthwhile to submit every theory to rational criticism, which is the kind of criticism that occurs in economics. Such discussion cannot proceed free of values. Economics, therefore, has the character of being a mixture of science, philosophy and art.

In Part II, D. Wade Hands (Puget Sound) discusses ad hocness, or the modification of an economic theory in an “ad hoc” manner so as protect or preserve it. Neil de Marchi (Duke & Amsterdam) attempts to account for the popularity of Popper among economists by tracing his influence among a “bright and articulate” group of young economists at the London School of Economics in the late 1950s and early 1960s, including Richard Lipsky and Chris Archibald.

In Part III, Terence W. Hutchinson, who had first introduced Popper to English-speaking economists, defends the case for falsificationism arguing that the Popperian demarcation criterion is still a practical necessity as rational discussion cannot proceed without some substantial standard for basing criticism on. Mark Blaug (London) presents a case study of the methodological views of the late Sir John Hicks who rejects Popperianism and falsifiability quite explicitly in a 1983 paper “Economics: A Discipline not a Science”. He finds that the methodological position of Hicks is totally incoherent, although it is obvious that there is, for Hicks, no sense in which economics progresses; hence it is not a science. There are revolutions, but each must be judged against the historical circumstances in which it took place. Hicks is an extreme historical relativist. Each theory has its own merit in its own time, but we are given no basis for resolving contemporary conflicts or for comparing different theoretical traditions.

Mary Morgan (LSE) and E. Roy Weintraub (Duke) discuss in Part IV, respectively, econometric
modelling and the empirical progressiveness of the neo-Walrasian program. Morgan traces two emerging econometric concerns in the 1920s and 1930s: finding an empirical model and the notion of what constituted a “satisfactory” model. She concludes that econometrics is mostly about getting together the right sorts of approximations to make a “good” empirical model. Econometricians do not aim to refute; they aim to make economic theories or models work. When they talk about testing or rejecting there is no Popperian overtones. Weintraub undertakes a series of three studies in microeconomics and tries to show how theory and evidence intertwine in ways that are associated in a Lakatosian research program and are associated with Lakatosian progress. He concludes that the idea that facts can falsify theories, and that the role of applied work is to produce the facts, is to simultaneously misunderstand facts, theories, and falsification. The activity of applied economic analysis can be appropriately characterized as developing evidence to appraise excess content.

In Part V two non-Popperian approaches are respectively outlined by Bruce Caldwell (North Carolina) who advocates pluralism, and Donald McCloskey (Iowa) and Arjo Klamer (Iowa) who characterize economics as rhetorics or “conversations”. Both perspectives are gaining popularity, especially the latter, at least in the English-speaking world.

In conclusion, the essays collected in this volume identify weaknesses in Popperian falsificationism, explore the feasibility of reformulating his ideas to account for peculiar theoretical and data problems in economics, inquire into the nature of testing in econometrics, and suggest alternative perspectives for rational criticism and understanding of economic discourses.

(Editor’s Note: Alan Wong has also submitted an interesting note on Popper’s views on economic methodology as per the following addendum.)

Addendum

**Karl Popper on Economic Method**

It is commonly accepted in the profession that the root of the methodological doctrines espoused by the empirical positivists from Terence Hutchison to Milton Friedman could be traced in the works of Sir Karl Popper, whose philosophy of science — falsifiability of hypotheses as demarcation criterion separating science from non-science — has earned him both international acclaim and criticism. His influence, though not always explicitly acknowledged, has left according to some economic methodologists a rich “legacy” in economics. A conference entirely devoted to this theme was organized in 1985 at Amsterdam, the Netherlands (see Book Notes).

While Popper has undoubtedly provided a philosophical foundation for (or actually inspired) a whole generation of economists for whom the making of empirically refutable hypotheses is just a matter of natural course, his comments on economic method are rarely obvious in his works. In *The Open Society and Its Enemies* (1962) there are elaborate arguments on capital accumulation, theory of value, trade cycles, etc but these relate to the subject matter rather than the method of economics. His masterpiece *The Logic of Scientific Discovery* (1959) is a treatise on the method of natural science without any reference to the social sciences. In *Conjectures and Refutations* (1963) a short essay on the method of social sciences is included. The only exception is *The Poverty of Historicism* (1957), in which he makes here and there some comments or observations on economic analysis. Some of these are very interesting such as “It must be admitted, however, that the success of mathematical economics shows that one social science at least has gone through its Newtonian revolution”!

To Popper, the most important difference in the methods of natural science and social science is that in most social situations there is an element of rationality which makes it possible to construct comparatively simple models of the actions and inter-actions of human beings, and to use these models as approximations. The other differences, i.e. specific difficulties in conducting experiments and in applying quantitative methods, are differences of degree rather than of kind. He refers to the possibility of adopting what may be called the method of logical or rational construction, or the “zero method”. By this he means the method of constructing a model on the assumption of complete rationality (and perhaps the assumption of the possession of complete information) on the part of all the individuals concerned, and of estimating the deviation of the actual behavior of people from the model behavior, using the latter as a kind of zero coordinate. The equations of economics describe the comparison between actual behavior and model behavior to be expected on the basis of the ‘pure logic of choice’.

On the application of quantitative methods, and especially methods of measurement, Popper believes that some of the difficulties in this regard can be, and have been, overcome by the application of statistical methods, for example in demand analysis, but has not said how. He emphasizes the importance of overcoming such difficulties if the equations of mathematical economics are to provide a basis even of merely qualitative applications. Without such measurement one would never know whether or not some counteracting influences exceeded an effect calculated in merely qualitative terms, and merely qualitative considerations may well be deceptive at times. Notwithstanding, Popper admits that there are some fundamental difficulties. Unlike physics, where the parameters of equations can, in principle, be reduced to a small number of natural constants, this is not so in economics, where the parameters are themselves quickly changing variables. This reduces the significance, interpretability, and testability of measurements in economics.

The sociology of scientific research is another aspect that interests Popper. He stresses the significance of
practical problems as stimulus to the initiation of systematic inquiries into the world and especially into the methods of the generalizing or theoretical social sciences. He endorses Hayek's view that "economic analysis has never been the produce of detached intellectual curiosity about the why of social phenomena, but of an intense urge to reconstruct a world which gives rise to profound dissatisfaction".

Karl Popper has in *The Poverty of Historicism* make many other interesting points which, though not directly on economics, are highly relevant especially in respect of the explanation and prediction of social phenomena and their limitations.