Are there any Signs of Postmodernism with Economics?*

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Postmodernism has attracted some attention among economists in methodological circles (see Klamer, 1987a, 1987b, Thompson, 1989 and Amariglio, 1990). But there has been little by way of concrete discussion of what precisely postmodern tendencies in economics might consist of. An attempt was made (Dow, 1991) to apply postmodernism as a means of categorising schools of thought in economics. But it was concluded that the category was not particularly helpful, and that postmodernism had limited applicability to economics. In any case, in the meantime, postmodernism appears to have been superceded in other disciplines by the 'New Historicism'.

However, out of the blue, Phelps (1990) has used postmodernism as a means of classifying developments in macroeconomics. The usage is puzzling in form, and tantalisingly brief. Yet, as the first use of the concept (of which I am aware) outside purely methodological discussions, it merits attention, and postmodernism merits renewed attention. The purpose of this brief paper is to use Phelps's reference as a starting-point for further discussion of postmodernism as a concept in economics.

Implicit in what follows is the view that theorising in economics and economic methodology progresses by means of discourse. Thus our understanding of postmodernism progresses by considering statements about postmodernism (as in Amariglio, 1989 and Phelps, 1990) and reactions to them (as in Wendt, 1989). However, as we will elaborate further below, discourse is not to be regarded as synonymous with postmodernism.

Phelps's account of macroeconomics itself adopts a discourse approach, explaining the motivations and cultural preconceptions of key figures who introduced and cemented particular developments in modern macroeconomics. Phelps (p.91) refers with some feeling to the 'clash of "two cultures"' within macroeconomics, as he defines it. Macroeconomics in his treatment is coterminous with neo-classical (broadly defined) macroeconomics i.e. it excludes Post Keynesian, Marxian, neo-Austrian and evolutionary macroeconomics. On the one hand, there is the culture of (neo-classical synthesis) Keynesian, Monetarist, New Keynesian Supply-side and Structuralist macroeconomics (the last referring to non-monetary theories of unemployment). On the other hand, there is the culture of the New Classical and Neo-neoclassical (real business cycle) schools. The former he classes as modernist and the latter as postmodern. This classification emerges from Phelps's discussion of Keynes's macroeconomics:

'In pressing on economists the uncertainty of future conditions, the difficulty of gauging the analyses of others, and the consequent impossibility of a collective mind and collective rationality, Keynes was the bearer in economics of the intellectual revolution of his time. His outlook paralleled what was turning up in much of art and philosophy -- in the cubism of Picasso and Braque, the atonalism of Schoenberg and Berg, the fragmented poetry of Eliot and Pound, and various writings from Nietzsche to Sartre. Keynes brought to economics the outlook generally called modernism: the consciousness of the distance between self and others, the multiplicity of perspectives, the end of objective truth, the vertiginous sense of disorder. This parallel has continued to a new chapter, for in economics as in some other fields there is now a post-modern inclination to retrenchment back toward classical values. Keynes himself evidently felt that some of his followers had gone too far when he complained of 'much modernist stuff, gone wrong and turned sour and silly' (Keynes 1946: 186). Macroeconomics has been the field for a see-saw struggle over the past decade between the modernists -- the asymmetric information camp and the expectational disequilibrium crowd-
on one side and on the other side the diverse post-modernists: the classicals in modern dress who march under such banners as New Classical and neo-neoclassical. This present-day Methodenstreit is a large part of what motivates this critical survey.

(Phelps, 1990, p5)

The only other explicit use of the terminology appears in the introduction to the chapter on the Structuralist school, which Phelps seems to regard as the apogee of modernism:

‘Although Keynes was arguably the first modernist in economics, with his emphasis on imperfect information and expectations of the expectations of others, modernism does not begin to pervade economics until the arrival of Kenneth Arrow. His seminal work on incentive compatibility in the context of insurance contracts became an inspiration for the application of that idea to transactions and contracts in every market of the market economy.

Out of this perspective on the firm and employment relations has come the notion that involuntary unemployment, or job rationing, is systemic to the market economy, at least when operating in labor-market equilibrium (a state in which expectations are correct in the labor market).’

(Phelps, 1990, p94)

To classify Keynes as a modernist is controversial (see Klamer, 1987b, Amariglio, 1990 and Wendt, 1990 for a difference of opinion on this matter). But classifying rational expectations theorists as postmodern directly contradicts both Klamer (1987b) and Amariglio (1990) who regard them as modernist. But such disagreements cannot be constructive unless there is some agreement on what modernism and postmodernism entail; Phelps in fact seems to be using the terms in quite different ways from that found elsewhere. In what follows, we will attempt to elicit a consensus understanding of the terms ‘modernism’ and ‘postmodernism’ and only then return to consider Phelps’s use of the terms, and consider further which, if any, elements of economics can be classified as postmodern.

The meaning of ‘modernism’ seems to be reasonably well-established, involving the search for universal theories by means of formalist, specialised disciplines whose concepts are fictional rather than real (see Klamer, 1987a). Modernism thus has much in common with logical positivism. As with the alternatives to logical positivism, however, the alternatives to modernism are more difficult to classify. Postmodernism is only one of these alternatives.

It is difficult to distill a clear view of postmodernism from the general literature. Indeed when it emerges that postmodernism involves fragmentation, paradox and avoidance of general laws, hope fades of identifying any general principles of postmodernism. Russell pointed out that ‘only testable statements are meaningful’ is not a meaningful statement. In the same vein, it could be pointed out that any general principle of postmodernism cannot be postmodern. However, this issue will in what follows be prejudged by assuming that some generality is required for discourse to proceed.

Postmodernism first emerged in the field of architecture (see Jencks, 1986). In that context it seems to involve reference to historical styles and motifs and responsiveness to environment and the needs of the building’s users, while taking advantage of the technological breakthroughs achieved through modernism. In sociology and economic geography, postmodernism involves the particularisation of theory (see for example Lash and Urry, 1987); this entails a specific rejection of ‘universal’ theories, notably Marxism, and humanist theories whose generalisation of individual behavior justifies reformist policies. In philosophy of science, postmodernism supports hermeneutics, or discourse analysis. Inherent in the hermeneutic approach is the presumption that knowledge systems are diverse and incommensurate. But not all those who employ hermeneutics are postmodern: as Wendt (1990) points out, discourse analysis can employ modernist techniques. Further hermeneutics frequently accompanies a pluralist approach; but it is not clear that postmodernists would accept pluralism. (It is at least clear that some pluralists are not postmodern, and may even employ many of the techniques and concepts of modernism.) In literary theory, the deconstructive technique can be regarded as postmodern; perhaps then we can classify as postmodern hermeneutics which employs deconstructionism. (An example of this technique applied to economics is found in Rosetti, 1990).
In economics, there is a large literature critical of modernism (without necessarily identifying it in those terms). What could perhaps be classified as the political economy approach (see Dow, 1990) replaces modernism's search for universal laws by a more evolutionary, context-specific approach to theorising, which recognises the contribution that other disciplines can make to the understanding of particular contexts. The notion of economic man as a universally applicable fiction is a particular focus for the critique of modernism; political economy approaches replace this concept with a less deterministic view of behavior, conditioned by history, socio-political forces, etc. But in most cases some general principles are employed, and theory is frequently policy-oriented.

Postmodernism seems to take an extreme position in its rejection of modernism. Amariglio's (1990) paper and Wendt's (1990) detailed comment on it provide the clearest account of postmodernism in economics. Amariglio's argument that knowledge is discourse-specific is presented in such a way that Wendt interprets him as rejecting the whole notion of theorising. All of the multiple, diverse discourses are incomensurable. Even the 'I' who experiences a particular context is fragmented. The neo-Austrian argument that the economist has less information than the individual economic agent is here being expressed in extreme form. Amariglio repeats too the neo-Austrian argument that knowledge of the past, present and future are on a par epistemologically, but goes further by rejecting even the subjective-objective dual. The outcome, as Wendt concludes, is nihilistic; it is unlikely that economists could have any role to play; even Hayek's (1975, p42) analogy of the economist as gardener would appear to be unwarranted among postmodernists. (Davis, 1990, similarly argues that deconstructionism as a postmodern technique for methodology and history of thought must ultimately be nihilistic).

It would seem therefore, if we accept Amariglio's account and Wendt's interpretation, that no current economic theory could be classified as postmodern; indeed no theory could by its very nature be classified as postmodern. Nevertheless, it may be possible to identify postmodern tendencies in economics. There are certainly strong indications of anti-modernism and non-modernism in economics, among which can be observed interdisciplinary, evolutionary, hermeneutic features held in common with postmodernism. (This was the line of enquiry pursued in Dow, 1991.) Opening economics up to disciplines such as psychology and anthropology to escape from the shackles of the rationality of economic man certainly represents a form of fragmentation. But it falls far short of the degree of fragmentation apparently entailed in postmodernism. A more fruitful avenue of enquiry may well be to look for tendencies towards postmodernism within modernism itself. Indeed to do so would be to follow up the clue from the postmodern architecture literature that postmodernism is 'the continuation of Modernism and its transcendence' (Jencks, p7).

Signs of postmodernism are perhaps most evident in macroeconomics, the field which also lends itself best to modernism: global economic solutions are put forward in the form of demand management, or money supply control. Recent developments have represented a retreat from such global solutions. The axiomatic method of general equilibrium theory requires that macrotheory be grounded in the axioms associated with the concept of economic man; there has been a consistent drive, therefore, to express macroeconomic theory in terms of individual behavior. This theory has been fragmented further by attempts to incorporate information imperfections, incomplete markets, etc, ie to address the problems arising from diverse contexts. Much of this may indeed have arisen in response to criticisms from non-modernists about the limitations of the modernist approach. But the end-result has been a retreat from macroeconomics:

'how one is to give [macroeconomics] a theoretical foundation I do not know'.

(Hahn, 1977, p39).

A notable trend in Hahn's thinking has been a growing unwillingness to proffer any general statements, and in particular to offer any general policy recommendations (see Loasby, 1989, chapter 8).

The retreat from general macroeconomic statements has been most notable within rational expectations theory. This theory is based on a much more detailed account of the epistemological behavior of economic man than was present in general equilibrium theory. Indeed its origins were found in neo-Austrian theory (see Kantor, 1979) which, it has been suggested, is the approach to economics closest to postmodernism. The strength of the appeal of
rational expectations theory must be explained partly by the general cultural trend towards some form of postmodernism: an emphasis on the particularity of the individual and a rejection of humanism.

Postmodernism is said to involve paradox. It is certainly paradoxical that the rational expectations hypothesis must also have been so successful in attracting adherents because of its modernism: the universal application of the economic man concept, the sophistication of technique, the divorce from real experience in its insistence that all unemployment is involuntary. This paradox may ultimately be destructive, since the rejection of a deterministic universal theory of human behavior seems to be a key feature of postmodernism. Mainstream macroeconomics is attempting to be both individualistic and universal, context-specific and general. Without the interdisciplinary, hermeneutic approach of non-modernism, the tensions are likely to be unsustainable.

What of Phelps's account of modernism and postmodernism in macroeconomics? The argument laid out above does support the notion of a Methodenstreit in mainstream macroeconomics between what we could identify as modernist and post-modernist tendencies. But within mainstream macroeconomics, the struggle pervades all sub-approaches in different ways, rather than individual sub-approaches being modernist and others post-modernist. The asymmetric information and structuralist approaches, for example, are post-modern in the sense of attempting to deal with real and diverse contexts. The reductionist drive is post-modern in getting away from general, macroeconomic statements; this is particularly true of the rational expectations approach. But all approaches are ultimately tied to modernist (logical positive) principles in terms of the centrality of economic man, the formalism of expression, and indeed the whole scientism of the attitude to knowledge.

Phelps's suggestion that Keynes's notion of uncertainty, his acceptance of a multiplicity of perspectives, his application of uncertainty within his epistemology to alter radically the notion of objective truth, his theory of economic instability, make him out as a modernist is hard to comprehend. The normal definitions of modernism would make Keynes out clearly as a non-modernist (but not a postmodernist). Those who choose to classify Keynes as a modernist (incorrectly, in my view) focus on his systemic approach, which provided the foundations for modern macroeconomics (the notion of macroeconomics itself being anathema to postmodernism). But it is a mistake to regard modernism and post-modernism as mutually exclusive, all-encompassing categories ie duals. Much of modern economics falls into quite different categories.

In conclusion, the notion of postmodernism may be useful as a way of understanding tendencies in particular branches of economics, and also in methodological discussion. But it seems to have scarcely any applicability as an active approach within economics in its own right. In the spirit of hermeneutics, it would help our understanding of an appreciation for postmodernism if those who perceive its relevance to economics were to put forward examples of postmodernism within economics. Along these lines, Thompson (1989) has provided a useful investigation of econometrics for evidence of postmodernism.

Phelps's examples unfortunately seem to stem from a misunderstanding of what is entailed in modernism and postmodernism. But he too has contributed to the discourse by taking the bold step of actually putting the concepts to practical use.

Note
* This paper has benefited from the comments and suggestions of Arjo Klamer, Brian Loasby and Adrian Winnett.

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