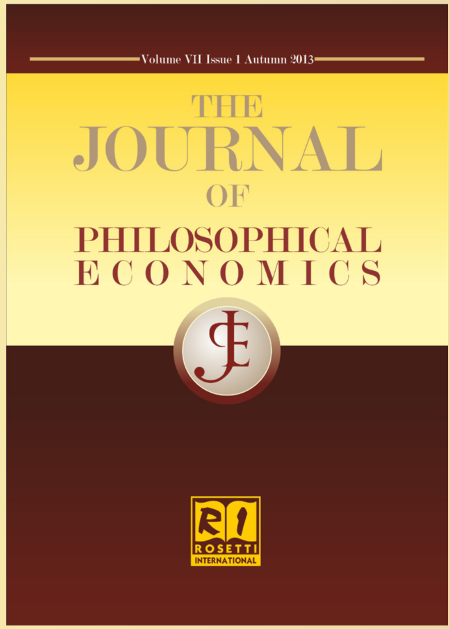
THE JOURNAL OF
PHILOSOPHICAL ECONOMICS

Volume VII Issue 1 Autumn 2013

ISSN 1843-2298



Review of The Elgar Companion to Recent Economic Methodology, *edited by John B. Davis and D. Wade Hands, Cheltenham, UK; Northampton, MA, USA, Edward Elgar, 2011, hb, 542 pp., ISBN 9781848447547*

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ROSETTI INTERNATIONAL

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In its rather short history, the economic methodology has been customarily associated with different philosophical views, coming from 'outside' economics, such as logical positivism, Karl Popper's falsificationism, *research program* concept of Imre Lakatos or Thomas Kuhn's *paradigm shift*. Nevertheless, at the end of the last century, economic methodologists began to leave behind the 'philosophical imports' and look 'inside economics' for what was considered 'implicit in economists' thinking.' According to the editors of the volume, this 'has arguably made research in economic methodology more immediate to the concerns of economists themselves.' (p. 1). Moreover, the rise of new, interdisciplinary research programs – such as experimental, behavioural, evolutionary, computational, ecological economics, neuroeconomics etc. – led to a thought-provoking challenge to traditional economic methodology. The *Companion* aims at exposing and analysing these developments in economic methodological thinking in the last two decades. Structured on six parts and 21 chapters, the volume is rather informative than analytical, mainly centred on describing the methodological practices of specific fields or subfields of economics.

Part I – *Economics of Behaviour and Choice* – is mainly focused on the advances in behavioural and experimental economics, as well as in neuroeconomics and high-fidelity economics, critically presenting the relevant literature on individual choice. Methodologically based on its specific normative – descriptive distinction (*what*

Received : 29 September 2013

ought to be versus what really is in terms of real economic agents' behaviour), the behavioural economics theory is conflicting with the mainstream economics theory. For behavioural economics, 'the difference between normative and descriptive is the difference between the universal rules of rational decision making provided by mankind's best rational reasoning in mathematics, economics, philosophy and other branches of science, and the empirically grounded theories of how human beings actually go about their decision making.'(29) In spite of their rapid expansion and abundance of papers and debates resulted from researches in these subfields of economics, these theories remain highly speculative, their shortcomings are evident and their scientific potential is still to be capitalized in the future.

Part II – *Welfare and Microeconomic Policy* – includes four chapters dealing with various aspects of the wellbeing economics and geographical economics, such as current developments in welfare measurement, happiness and experienced utility or 'economics as usual.' Although the expositions are not aimed at predicting or even describing the individual behaviour, a brief conclusion is that these approaches are also substantially speculative. For instance, the two competing approaches to welfare – the traditional deductive approach (focused on individual preference satisfaction) and the newer subjective and inductive approach (focused on mental states) – have important fidelity and practicality problems. Similarly, the geographical economics is 'pretty much economics as usual, largely theory-driven and constrained by the characteristic disciplinary conventions of conventional economics' (203) and the geographical economics models are not either 'true or approximately true of their targets.' (204)

Part III – *Complexity and Computation in Economics* – explores the developments in two other recent fields of research in economics, driven by the tremendous advance and importance of the digital computer. Seen as either complementary or alternative to the traditional tools of economic investigation, the computer provides new techniques for both modelling and rephrasing the well-known questions of economics. It not only presents a brief history on the methodology of computational economics, but also thoroughly discusses two subfields within computational economics, namely the agent-based computational economics (ACE) and the agent-based modelling (ABM), including various examples and applications of both ACE and ABM. Nevertheless, the chapters included in this part are primarily descriptive, depicting these specific methods yet without a substantial reference to the economic methodology at large.

Part IV – *Evolution and Evolutionary Economics* – focuses on economic themes viewed from an evolutionary biology perspective. Although not new, evolutionary economy has gained momentum in the last years through a variety of different approaches, and this part meticulously presents the development of the literature in this field and debates among evolutionary economists. As stated in the volume, 'the essential difference of evolutionary economics from the neoclassical mainstream is that it gives priority to dynamic rather than static analysis and, more specifically, puts behavioural, institutional, technological and other explanatory variables centre stage (rather than exogenous ones) when coping with dynamics.' (319) Exciting as it might be, this new field of research is quite severely exposed to the major ontological disagreements among evolutionary economists. The thesis of "Generalized Darwinism", according to which the core Darwinian principles of random variation, replication and selection could and, perhaps, should be applied not only to biology but also to social and cultural sciences, remain highly abstract and general, leading to considerable limitations in explaining economic phenomena and reaching its goal.

Whether the previous four parts of the *Companion* deal with various issues pertaining to microeconomics (the economic behaviour of individual agents), Part V – *Macroeconomics* – is focused on macroeconomic theory and policy, in an attempt to revive the debate within this 'very contested field' (11) from either theoretical, empirical or methodological points of view, with a fresh look at older topics of interest in the context of the recent global financial crisis. For instance, the dynamic stochastic general equilibrium (DSGE) model has been and still is harshly criticized, with neither part of the debate succeeding in definitely imposing upon the other and quite far from a settlement in the near future. A comprehensive analysis of the literature on empirical macroeconomics is also provided, with a quite clear preference for 'active statistics' (the data-based approach of co-integrated vector autoregressive (CVAR) models) over 'passive statistics' (the theory-first approach) in solving economic questions of interest and, more important, in offering a potentially alternative solution to the DSGE-based models that failed to predict or explain the financial crisis. Similarly, the financial crisis led to a revitalization of the Keynesian macroeconomic theory, especially in the light of behavioural economics, which, in spite of its limitations, seems able to offer 'a new set of tools which may, in due course, resolve some of the problems that other methods have not.' (448-449) According to the opinion of its supporters, this revival is even more necessary given the difficulty 'to see that anything taught as macroeconomics in the best-selling textbooks in 2007 will survive. It is as relevant to our economy as flat earth theory is to natural science – warranting a small footnote in the history of economic thought.' (452)

Part VI – *The Economics profession, the Media and the Public* – includes a critical discussion on the economics profession's reactions to the recent economic crisis and an examination of current developments in the economics profession in relation to the 'invasion' of economic blogs. In the case of the first topic, the economics profession was not only unable to predict the crisis, but it also failed to identify or understand its causes and elaborate recommendations for policy solutions. The three main disciplinary responses of the economics profession were: the rejection of the perfectly rational agent thesis by behavioural economists; the abandonment of the efficient-markets hypothesis; and the repudiation of the DSGE model. Such 'responses of famous economists to the crisis have been disappointing both from a theoretical vantage point, and from the perspective of methodological sophistication' (508), and these reactions are mainly explained through the theory of cognitive dissonance.

In the case of the second topic, the virtual existence of the economists as bloggers is examined through a sociological framework of analysis, using concepts like contagion, conformity, paranoia and alienation. Although experiencing a tremendous increase in the last few years, it could not be said yet whether the economic blogging as a means of communication among economists and with the general public will generate any fundamental shift in the theory, practice or methodology of economics.

As a conclusion, one could argumentatively assert that the *Compendium* is highly helpful and informative for researchers, students of economic methodology and even specialists of novel economic thinking as it offers valuable information not necessarily on economics methodology, but rather on new trends in economics.

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