The Epistemology of the Discipline of Economics

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The ontological vocation of any social science is to interpret and transform the world we live in, creating a better society. The discipline of economics is no exception. It is argued that mainstream economics reduces social life into exchange value calculus and mathematical formalism, and fails to confront vital issues like widening inequality and poverty. The recent challenges thrown up by Thomas Piketty may help the discipline to re-examine its epistemological foundations to facilitate relevant teaching and research as well as policy choices.

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People pursue any scientific study as Karl Popper puts it "to learn something about the riddle of the world in which we live and the riddle of man's knowledge of that world" (Popper 1959: 23).

As a scientific pursuit, economics which essentially is "the study of man in the ordinary business of life" (as Alfred Marshall famously said), obtains its relevance and rationale from the human problems of equitable provisioning of needs and allocation of resources, although mainstream economics has made it a science of choice. It is important to question the extant approaches to understand the epistemology of the discipline which truly has to play a crucial role in understanding economic realities and social progress. This article tries (i) to critically evaluate the epistemological foundations of the discipline of economics with anecdotal reference to the author's long engagement with the subject as a teacher, and (ii) to introduce the Piketty phenomenon to bring home the need for re-examining the epistemological basis of the discipline.

What Is Epistemology?

The concept of epistemology, derived from the Greek word *episteme* (knowledge) and *logos* (reason) refers to the theory of knowledge. An important branch of philosophy, it is the study of the nature, origin and limits of human knowledge. The nature of knowledge is as important as the origin of knowledge in generating relevant epistemology.

No scientific study can be evaluated or justified by the norms of faith or dictates of authority. For example, the discoveries of Copernicus (1473–1543) and Galileo (1564–1642) were epistemologically shocking to the College of Cardinals who had the monopoly of knowledge in the 16th century in Europe. Ultimately only scientific truth and not beliefs can promote and sustain progress. Kuhn's (1962) view of the evolution of science as characterised by long periods of gradual "puzzle-solving normal science" followed by paradigm shifts offers an explanatory hypothesis about the nature of knowledge creation. Ola Olsson (2000: 254) argues that knowledge is created through convex combinations of older ideas and through paradigm shifts. We investigate in what manner this happened in economics.

The nature of knowledge creation in the discipline of economics, has not been subjected to any in-depth analysis or interrogation. The almost unquestioned dominance (certainly during 1980–2008) of neoclassical economics in the academic profession and the rather pathological antipathy to Marxian epistemology and institutional economics has not been subjected to proper scrutiny. What I am concerned here is not Marxism as a creed but Marx's unique contributions to the knowledge of understanding the dynamics of economic progress and the nature of the process of social history.

I have provided a comprehensive analysis of economics courses in Indian universities based on an examination of curriculum of 26 Indian universities

(Oommen 1987). This lengthy piece, inter alia, refers to the overemphasis on neoclassical economics and the deliberate deemphasis of Marxian epistemology and economic history in teaching. The author was particularly struck by the dominance of Paul Samuelson's *Economics*[1] (this textbook first published in 1948, ran into several editions) which preferred "economic principles that display some of the logical beauty of Euclid's geometry" as against that of Marx who defined economics as the science which studies how historically specific systems of economic relations originate, operate and change (Marx 1973: 852–53). Samuelson ignores the larger question of fairness in the distribution of wealth and income, but upholds "market efficiency" as the central theme of economics. An alternate textbook of the day imbued with considerable realism written by Joan Robinson and John Eatwell of Cambridge in 1974 titled *An Introduction to Modern Economics* rarely appeared in the syllabuses.

My misgivings about the content of syllabuses and method of teachings, have persisted (Oommen 2004: chapter 1, 2012, 2017).[2] Recent writings by Piketty (2015, 2017) gave the author hope and encouragement to raise the issue once again. *After Piketty: The Agenda of Economics and Inequality*, in which nearly two dozen scholars, economists and non-economists, have written, can be taken as a signal for rethinking and reflection on the epistemology of the discipline. It is high time that teachers and researchers of the subject ask fundamental questions about how the economy works and for whom it ticks. We may recall that most scholars of political economy in the 19th century placed the issue of distribution at the centre of their analysis, of course motivated by the great social changes they saw around them.

Neoclassical Economics

The neoclassical paradigm is treated as an immutable ingredient of social life, and many of the arguments are presented as non-falsifiable. But as Karl Popper rightly points out, all scientific propositions must be falsifiable. Further, so long as you treat prices, supply and demand, long-run equilibrium, full employment and so on, as an integrated set, the question of private ownership, vested interests, influence, power and such other factors that affect allocation and management of resources in real life, stand automatically ruled out. That the arbitrary whims and fancies of the top 1% or even a hardcore of 0.1% can alter the social priorities, needs and options of the rest of humanity itself and manipulate several such vital issues, are conveniently forgotten. Indeed the arc of neo-liberalism is not an innocent artifact but an engineered ideology to justify and perpetuate accumulation process and market society.[3] If we accept that the ontological vocation of human beings is to transform the society in which they live, then no social science can be neutral between ends as postulated by the neoclassicals. Indeed economics is an applied social science "as medicine is an applied natural science. Biologists who do not see curing illness as their main job are not doctors even when associated with medical school" (Hobsbawm 1999: 128).

Two historical events, namely, the Bolshevik Revolution of 1917 in Russia and the Great Depression of the 1930s checkmated the continued ascendancy of the neoclassical paradigm and influenced the growth of new economic ideas in the 20th century. The Bolshevik Revolution and the subsequent growth of industrialisation in the Soviet Union exploded the laissez-faire postulates and altered the political, economic and intellectual landscape of the world. The Great Depression also severely shook the prevailing faith in the free market capitalist economy. No wonder John Maynard Keynes' *General Theory of Employment, Interest and Money* that sought to explain the Great Depression and to suggest remedies proved to be a spectacular success. The World War II, the post-world war rehabilitation, the growth of post-Keynesianism, the quest for social change in the postcolonial world, the emergence of development economics[4] as a subdiscipline of economics, and the rise of innumerable development centres throughout the world (including India) gave a strong setback to the free market paradigm and to neoclassical economics which provided its ideological basis. However, with the collapse of Soviet Union, the fall of the Berlin Wall, the increasing questioning of the state spending on welfare and military hardware, the rise of Margaret Thatcher in the United Kingdom (UK) and Ronald Reagan in the United States (US) to power led to the re-emergence of the neoclassical paradigm of market-mediated growth. During the last three decades prior to the financial crisis of 2008 that led to the downfall of Lehman Brothers and several others following the subprime lending, neoclassical economics influenced the world's policy regime. Although challenged, this body of knowledge still rules the roost and continues to enjoy the patronage of most universities, notably in the US. For those who embrace capitalism as an ideal, individuals are always rational and markets always work perfectly.

From the inception of the Nobel prize in economics by the Sveriges Riksbank of Sweden in 1969 till 2017, 49 prizes for 79 economists (39 of them are US citizens) were awarded. While the bank and the Royal Swedish Academy that give the awards have all the right to set the norms for the choice of awardees, even a cursory review of the citations and certainly the works of most of them show a pronounced bias in favour of neoclassical economics. There are exceptions like Gunnar Myrdal, Amartya Sen, Paul Krugman and Joseph Stiglitz who could not be counted as neoclassicalists. Evidently, abstruse abstractions were chosen for research when the world faces abject poverty, growing inequality in wealth and income, intolerable inequity in the availability of opportunities, and such other acute societal problems. What Robert Solow (Nobel in 1987) while probing "inside the minds of 12 Nobel laureates" in his book *Economics for the Curious* observed recently (2014a) is worth citing:

> The fundamental goal of economics as a discipline is to bring organized reason and systematic observation to bear on both large and small economic problems (and to have some intellectual fun on the way).

How can anyone say that economics is "for the curious" and the creation of "intellectual fun" as its avocation? Does the continued preference given to the neoclassical paradigm and its mathematical formulations provide the signal for future agenda for teaching and research? While so-called representative democracy is at best only a defender of capitalism (Dunn 1992), can the institution of social democracy or democratic values of social inclusion remain silent on questions like, for what and for whom the GDP (gross domestic product) is produced and how the claims on it are actually settled? Why economists shy away from questions of inequality and fairness in distribution? The Nobel prizes in economics do not seem to serve as a beacon for concerned social scientists to confront these and similar questions. Richard Thaler of Chicago University, well known for his "nudge theory"[5] won the Nobel prize in economics for incorporating psychological assumptions into individual situations. While this is in refreshing contrast to the rational choice of neoclassical theories and opens up a rich area of study, the danger comes when policymakers like the World Bank use it as a theoretical legitimisation for inane policy options to fight poverty, inequality and the like. It is pertinent to read this author's critique on World Bank's "new set of development approaches" to contain poverty which to the bank is a behavioural distortion and that the poor alone have to be blamed for their plight (Oommen 2015).

In this section, I wish to raise the question of why the Western academia as well as their colonial counterparts have treated Marxian epistemology and institutional economics with apathy while rewarding neoclassical economics and behavioural economics. The huge edifice of knowledge that Karl Marx created[6] has been dismissed as poison and propaganda unsuitable for students. Can anyone consider *Das Kapital* and for that matter Marx's writings in general as irrelevant knowledge? No one can refute the fact that Marx provides an excellent framework of analysis of capitalism. Mark Blaug, a noted historian of economic thought, points out that Marx wrote "no more than a dozen pages on the concept of social class, the theory of the state and the materialist conception of history" while he wrote "literally 10,000 pages on economics pure and simple" (Blaug 1986: 156).

Unlike the courses in macroeconomics and microeconomics that engage in abstractions, Marx does not see theory and practice or abstract and concrete as belonging to two distinct spheres. For Marx, what is abstract is closely related to what is concrete. In fact, the object of his epistemology was as much to interpret the world as to transform it. Those who love economics for its elegance and beauty are in a different moral universe altogether. As Thorstein Veblen (1857–1929), Clarence Ayres and other institutional economists argue, contemporary society has been considerably influenced by the folklores and mores of neoclassical economics (Ayres 1952, 1961). As noted above (and explained further in the next section) this paradigm is not an innocent artifact, but a strong ideological underpinning of the capital of the world to have their way and use all their might to perpetuate it as well exemplified in Piketty (2014, 2015, 2017).

Like Marxists, institutional economics founded by Veblen and enriched by a large number of economists rejected the neoclassical orthodoxy, including its most popular version by Samuelson, who attempted a grand synthesis of microeconomics (neoclassical economics) and macroeconomics (the Keynesian economics). Institutional economics proceeds on the assumption that human beings are interdependent and social and are influenced by social institutions. Institutional economics tries to show that the ability of a given society to use new problem-solving knowledge is limited by the patterns of social, political and economic dominations by the rich and powerful elites of that society. Here it is pertinent to quote two scholars on economic thought to show the indifference of the academic establishments towards these sources of knowledge.

> [I]n many economics departments, the ideological domination of conservative neoclassical economists resulted in a situation in which the study of Veblen's writings became personally, politically, and ideologically "unwise" as did the study of Marx's writings. Evidence that a young economist took either Marx or Veblen seriously was often construed as evidence of intellectual incompetence. Consequently the institutionalist and Marxist schools of economic theory have remained small. (Hunt and Lautzenheiser 2011: 495)

Professional marginalisation of those who prefer socially relevant studies is a type of intellectual apartheid that must be fought for the sake of progress, alternate thinking and pursuit of relevant epistemology. It is in this setting that I wish to mention the arrival of Thomas Piketty. Several economists like Solow who got the Nobel prize in economics for their neoclassical scholarships have praised Piketty for the quality of his work and relevance of his findings (Solow 2014b). An empiricist par excellence, the historical evidence Piketty produced (covering 300 years and 20 countries) along with his reasoning and above all his accent on relevance rather than elegance should make many a Nobel pundit to sit back and reflect.

The Challenge Posed by Piketty

Social thinkers, economists, policymakers and ordinary people the world over have been shaken by Piketty's book *Capital in the 21st Century*. That millions of copies have been sold in over 30 languages is something that the economics profession has to take note of. He has pushed forward our understanding of the working of the economy. His impact overflows into all social sciences. Economics has no special claim in explaining social reality and Piketty correctly treats economics as a subdiscipline of social sciences, alongside history, sociology, anthropology and political science (Piketty 2014: 573). Given the well-entrenched epistemological foundations of mainstream economics, it is very difficult to dislodge it. Boushey et al (2017) provides convincing evidence that show that the agenda for reforms of teaching, research and policy choices is formidable. Can the so-called "scientific" world of economists, close their eyes to the Gilded Age unfolding before them, ignore the reality of patrimonial capitalism, relentless "opportunity hoarding" and so on well underway in the world? I may mention a few lessons the discipline may do well to draw from the book: (i) history is the main source of knowledge of the economists and is the laboratory of the discipline; (ii) price system knows no morality; (iii) there is need for the democratisation of economic knowledge for continuously reinventing democracy. It is very important to note that economic rationality tolerates the perpetuation of inequality and in no way leads to democratic rationality (Piketty 2014: 551); (iv) the destabilising growth of income and wealth is a writing on the wall and demands radical policy choices; and (v) in the context of "the past threatening to devour the future," the call to the economics profession to bring back the political economy tradition of distribution into the centre of its discourse is very important.

Piketty has stressed the point that the profession needs a relook:

> To put it bluntly, the discipline of economics has yet to get over its childish passion for mathematics and for purely theoretical and often highly ideological speculation, at the expense of historical research and collaboration with the other social sciences. Economists are all too often preoccupied with petty mathematical problems of interest only to themselves. This obsession with mathematics is an easy way of acquiring the appearance of scientificity without having to answer the far more complex questions posed by the world we live in. Hence they must set aside their contempt for other disciplines and their absurd claim to greater scientific legitimacy, despite the fact that they know almost nothing about anything. (Piketty 2014: 32)

To conclude, I must say that Piketty's work has upset the apple cart of mainstream economics. To be sure, the mighty defenders of the faith will fight back. Even so, he proved that the balancing forces of growth, competition and technological progress in the past have not succeeded in reducing inequalities and promoting social harmony. The world has before it incontrovertible evidence of widening inequality and its dangerous consequences (Oxfam 2014; World Inequality Lab 2018; Stiglitz 2012; Wilkinson and Pickett 2010; among others). Democratic societies and democratic values face serious threats. A global conversation and debate has to be initiated at the academic as well as the United Nations level sooner than later. Will the economics profession creatively respond? It is high time that we realise that pedagogy in graduate courses is sterile. The research agenda of universities also must radically change. If university departments are going to be funded by corporates, this can only be counterproductive. When the very large majority in the world has little access to quality education, good healthcare, good housing, quick transportation and no entitlements to participate in the market, why do the tribe of economists continue to chew the cud of neoclassical economics and call themselves "social" scientists? Certainly Piketty has not said enough about slavery, power, wealth dynamics, exploitation, and social justice, which should occupy the agenda of economics research and teaching to make it a relevant social science.

NOTES

1 Samuelson's textbook hailed as "the best selling economics text book of all times" (see Nobel citation) was also instrumental in securing the Nobel prize in economics for him in 1970.

2 In this context it is instructive to read Nayak (2017) and Patel (2017).

3 Market society is a term used by Karl Polanyi (1944).

4 It is important to underscore the fact that this branch is not an alternate paradigm to fight poverty, inequality and other social evils, but largely formulations of some development concepts and models designed to contain communism. The sub-title of Rostow's (1960), *Stages of Economic Growth* was "A Non-communist Manifesto." For a useful documentation on this point (Rosen 1985, Oommen (2004, chapter 1, 2012), Galbraith (1979, 1991) among others.

5 Thaler and Sunstein (2008) posit this in their book *Nudge: Improving Decisions about Health, Wealth and Happiness.*

6 While, in this section, I have projected Marx as an economist, it is important to know that he presented an integrated intellectual system which includes elaborate conceptions of ontology, epistemology and nature of society. Marx effectively questioned the proposition that all economic activity could be reduced to a series of exchanges and their valuations.

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