

## **Economics and Policy: Beyond Science and Ideology**

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**Abstract:** The dominant conception of the relationship between economists and policy makers is one which sees economists as scientists, whose knowledge is, ideally, derived independently of the interests which motivate politicians, civil servants and the public. This paper challenges the effectiveness, practicality and philosophical foundations of this outlook and proposes an alternative approach to policy-oriented economics. Developments in the philosophy of science have revealed serious problems in this positivist methodology and these undermine economists' conception of their rôle. An alternative approach is proposed — based on a realistic view of how economists hold and change their beliefs and recognition that encounter and engagement with practical problems shapes the research which is undertaken. Although this case is, primarily, advocated with arguments concerning the effectiveness of economics in policy debates, philosophical support for the approach can be found in hermeneutic theory and the recent revival of a realist philosophy for the social sciences.

### I INTRODUCTION

**T**his paper suggests an approach to economics which emphasises the objective of understanding and interpreting economic reality and identifies the processes of persuasion and debate as important means of reaching these objectives. Such an approach demands that professional

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economists take seriously the role of non-economists in the overall project of economic enquiry. Stated in summary form this approach may seem innocuous, or even obvious; but, in fact, it is at variance with the outlook which dominates economics, especially in the universities. The concrete implication of the approach, and the main argument of the paper, is the need for a policy-oriented economics which is more theoretical and a theoretical economics which is more realistic than is currently the norm.

The argument does not flow *from* philosophy *to* economics. The proposed approach to economics derives mainly from reflection on economics as a subject and involvement in economics as a practice. However, there is, it is argued, strong philosophical support for the approach to economics outlined here. There are philosophical arguments available which emphasise the interpretive nature of the social sciences, which cast doubt on the possibility of prediction, which accept the limits of empirical falsification, which stress the value of inter-theoretical debate and dialogue, which reject the fact/value distinction and which dissolve the rigid division between theory and practice. This does not imply that there is a set of philosophical arguments which *dictate* the approach to economics outlined here, or show the orthodox approach to be impossible. That is not the nature of philosophical arguments in this area (Bernstein, 1976).

Section II considers the dominant conception of the relationship between economists and policy makers and identifies its philosophical foundations. A series of practical and philosophical problems are identified and an alternative approach to policy-oriented economics is described. In Section III I consider the philosophical orientations that are implicit in this alternative approach and outline some philosophical support which can be found for it. Section IV summarises the argument and outlines some of its methodological implications. Finally, the relationship between my argument and the approach of McCloskey is briefly stated.

## II POLICY-ORIENTED ECONOMICS: PRACTICAL AND PHILOSOPHICAL ISSUES

### 1. *The Conventional Approach: the Economist as Scientist*

Many economists approach questions of economic policy with a model which might be described as that of the cynical but objective expert. The idea of the economist as the objective expert has its origin in the notion of economics as a science — where science is understood in the logical positivist sense (Boland, 1987; Walsh, 1987). This dictates a particular relationship between the economist-as-expert and the policy maker as client. In this relationship the economist will tend to view him or herself as objective and

disinterested. This will be contrasted with the interestedness of the policy maker. The client is seen as having given objectives; the rôle of the economist is to advise on how these goals can or cannot be attained. The economist will tend to have a notion of, what we might call, an ideal research situation — the pursuit of research with minimum pressure from policy makers. The ideal research procedure and the results reached are considered to exist independently of, and be invariant with respect to, the involvement of the client or policy maker. Above all, the “independence” of research from political processes and interests is seen as essential.

Much of this is no different than the outlook of many groups of so-called experts and reflects the widely-held instrumental view of rationality in which clear distinctions are believed to be possible between ends and means. However, in the case of economics, the content of orthodox economic theory adds a further twist to this vision of the relationship between the expert and client. The analytical core of the orthodox economics is the idea of the individual utility maximisation subject to the constraints of given endowments. This suggests to the economist that the client is also motivated to maximise his or her individual utility. This leads many economists to view their various policy clients in the following three ways. First, *politicians* are viewed as either cynically self-motivated or ideologically driven and irrational. The former attitude arises where the model of utility maximisation is applied to political behaviour; the latter attitude arises where this model cannot plausibly be applied to politicians who are patently pursuing other ends. But within the instrumental view of rationality, and very directly within orthodox economic theory, ends other than individual utility maximisation, such as substantive social ends, as viewed as *purely ideological* — reflecting individual and essentially *irrational* or *non-rational* beliefs (Xenos, 1989, p. 79)

Second, *civil servants* are viewed as individual or collective maximisers, using their position to maximise public expenditure and control. They are considered as in need of the *results* of economic research but not of involvement with theories and arguments. Finally, *voters* are also seen as a utility maximisers — even in their political behaviour. They are commonly referred to as “punters” and, while viewed with sympathy (as the victims of taxation), are also considered as half responsible for economic problems because of their ill-conceived pressure on politicians. Needless to say, the role of other groups (such as trade unions, employers and farmers) in the policy process and economic debate, is viewed negatively, since they are considered to do so simply and irredeemably to serve their own, often monopoly, interests.

While this picture of policy-oriented economics is drawn fairly starkly it does, in my opinion, capture the main elements of a widely-held view.

Furthermore, it describes the outlook not only of many economists involved in genuine public policy-oriented work, but also of some who choose not to be — i.e., those who escape the perceived constraints and irritations of dealing with policy makers, by eschewing all policy oriented and “applied” work.

## 2. *The Philosophical Basis of Orthodox Economic Theory*

If pressed to provide a philosophical grounding for this approach most economists and economic textbooks cite the arguments of logical empiricism. This strongly embodies the positivist assumptions of the theory/observation distinction and the covering-law model of explanation. Indeed, economic theorists have taken more seriously than other social scientists the search for universal or general laws without which explanation was considered to be impossible. Furthermore, economics has made full use of the positivist approach to *ontology*, the theory of what is. The core concepts of economic theory are frequently presented as mere definitional postulates of the theory, rather than assertions about the nature of economic reality, and their arbitrary nature is defended as irrelevant given their role as assumptions. These definitional postulates or assumptions form the basis of logical-mathematical relations which, in turn, generate observation-statements.

It should be said that this is an incomplete characterisation of orthodox economic theorising. Despite the official dominance of logical positivism, there has been enormous growth of purely theoretical work, derived using mathematical logic, which makes no pretence to yielding observation statements. But as a characterisation of the philosophical approach of economics it may still have considerable relevance, for two reasons. First, the shift to mathematical formalism may be, in part, a subconscious reaction to problems of logical empiricism; in which case it could be seen as a change of emphasis *within* a positivist philosophical outlook.<sup>1</sup> Second, Boland, who has identified and studied the new view that proving logical validity is more important than careful data collection, argues that “we must be careful to recognise that the shift from pursuing indisputable empirical facts to pursuing indisputable logical facts is not fundamentally a major change in methodology” (Boland, 1987, p.457).

1. Outhwaite has pointed out that logical empiricism started from two postulates: experience as the foundation of knowledge, and a conception of theory as the interpretation of a logical or mathematical system. As he says, “the marriage of these two was an unhappy one, marked by frequent separations and reconciliations, with periodic attempts to redefine the ‘correspondence rules’, linking theoretical statements with observational reports” (Outhwaite, 1987, p. 18). While economics is remarkable for its ability to ignore relevant developments in the philosophy of science, it is arguable that this unhappy marriage within the positivist project has nevertheless created tensions within economics and that these have induced the move towards formalism in economic methodology.

### 3. *An Alternative Approach*

It is in contrast to this dominant conception of policy-oriented economics and economic theory that I advocate a policy-oriented economics which is more theoretical and a theoretical economics which is more realistic. The alternative approach starts from a different conception of economics as a subject.

#### *Value-Freedom and Interests*

If the economist is not a scientist (in the sense referred to) it follows immediately that both the economist and policy maker should be seen as having and/or representing interests and values. The approach advocated here involves outright rejection of the way in which the interests and motivations of politicians, civil servants, voters and social groups are conceived in economics. The economist's notion of how self-interest predominates in public life has been refuted, empirically, logically and philosophically (Lewin, 1991). In addition, the ends or objectives of economic policy (or of agents such as politicians, civil servants and citizens) are not given, but are contingent on economic, political and social developments (Tomlinson, 1981). Even then, they cannot be identified by simple observation. Furthermore, the objectives of economic policy and the means used to pursue them, cannot be considered as rigorously separate from one another. This suggests that it may also be necessary to question the notion that economic policy, and policy-oriented economics, conforms to the standard means/end duality.

This brings to light a further characteristic of the approach to policy-oriented economics advocated here — the need to cross existing disciplinary boundaries. The conception of society, economy, interests and policy which underlies the approach enjoins economists to learn from sociology, politics and history. In discussing the philosophical foundations of economics, Trigg makes the point that “there is something basically at fault with any methodology which invites confrontation with other social sciences”. He notes, correctly in my view, that “economics cannot be right to view society in an individualist manner, if sociology is right to look at it from a holist point of view” (Trigg, 1985, p. 130). At the level of theory, we could usefully begin by questioning the very concept of “the economic”, “the social”, and “the political”.

#### *Research not Independent of Practical Tasks*

We must now look very sceptically at what I have characterised as the ideal research situation — the idea that the correct research procedure, and what the research will reveal, exist independently of any particular policy problem and the way in which it is conceptualised. If this were true, then

minimum involvement with policy makers or other practical people would indeed be ideal. The task would then be to deliver the results of research to policy makers and draw out the policy implications of the research.<sup>2</sup> If the policy maker chooses to ignore it, then that is not the economists' concern. The notion of delivering the arguments and results of research to a wider public would be viewed as pointless, or perhaps dangerous, since the communicator — the media — are likely to misrepresent or distort the findings. Where this does arise, there is a tendency to see it as purely the responsibility of media and/or some interest group, and it is frequently considered unwise for researchers to enter the public debate.

The premise which underlies this view of research, and this pattern of policy-oriented economics, is false. The correct research procedure and the findings of research are not independent of the concrete policy problem and the way in which it is conceptualised. This follows from the nature of economics as a social science. The results of economic research include the meanings which are attached to particular magnitudes and concepts and these do not exist independently of particular contexts, one of which is the context as determined by a particular policy problem or issue (Outhwaite, 1987, p. 46).<sup>3</sup> The key implication of this argument is that it is wrong to assume that the research which one would do, and the results which one would find, are independent of involvement with policy problems or other practical tasks. Experience shows that the encounter and engagement with practical people *acts back* on the research which is undertaken, just as the engagement with economists modifies the policy makers' conception of the problem which they face. This can be seen as an example of what Giddens identifies as the "double-hermeneutic in the social sciences" (Gregory, 1984). This suggests that far from being a nuisance, as in the conventional view, the policy-oriented economists' dialogue with policy makers and others is central to the task of achieving useful knowledge.

If this is accepted then two other implications arise. First, a wide dissemination of economic ideas and theories is likely to help rather than hinder the economists' pursuit of knowledge. The distance from public debate which is suggested by academic scientism may limit the growth of knowledge. It is argued below that this wide dissemination should, and can, include not only

2. It is notable the frequency with which the "policy implications" of research are discussed in a perfunctory manner at the end of research papers — even in the case of publicly funded research bodies!

3. It is shown in Section III that this does not involve the claim that there is no social or economic reality independent of our thought. The concept-dependence and activity-dependence of economic and social reality, and the resulting element of *epistemological* relativism, does not necessarily entail *ontological* relativism.

economic results or truths, but also economic *theories* and *arguments*. Second, it suggests that dialogue with policy makers and practical people is helpful, not only because their perceptions are part of the reality which the economists seek to understand, but also for a much cruder reason: that they might be right and the economists wrong. Two striking examples can be given of this point. Having completed his “long struggle to escape from habitual modes of thought and expression”, Keynes saw that he must reassess the economists’ contempt for mercantilism and what they saw as the “puerile obsession” of statesmen with the balance of payments and the level of investment:

On these matters economists have seldom succeeded in convincing the public. Their failure to do so, and the deep-rooted suspicions as to their competence which their unsuccessful attempts have aroused, are, I think, at the bottom of the explanation of the low standing of economists regarded as practical experts and the unwillingness of statesmen and business men to accept their advice. For it now seems to me that the economists, in their devotion to a theory of self-adjusting equilibrium, have been, on the whole, wrong in their practical advice and that the instincts of practical men have been, on the whole, the sounder. (Keynes, 1932, p. 406)

In their pioneering recent re-working of trade theory Helpman and Krugman reach results which also suggest that far from economic doctrine being scientific and practical people prejudiced, the reality was the reverse: “in effect a large domestic market serves as a base for exports — a proposition that has always seemed plausible to practical people but is hard to capture in formal models” (Helpman and Krugman, 1985, p. 209).

### *Economic Theory in Policy-Oriented Economics*

Although the rejection of the notion of economics as a science implies a rejection of the standard view of the role and nature of economic theory, it is not possible in this paper to elaborate on the parallel call for economic theory which is more realistic (Lawson, 1989b). It is possible to explain the case for an approach to policy-oriented economics which is more theoretical.

A strong case can be made that economic theory itself can be helped, rather than hindered, by the engagement with practical problems. I say *can* be helped, because it requires that in that engagement economists retain a *theoretical* outlook, of a certain sort, and does not see practical economics as the abandonment of theory for description or prediction. The way in which engagement with practical people and problems can help theory, and indeed the meaning of the approach to economics which is advocated here, can best be explained by citing two economists whose work is a model for that

approach — Schumpeter and Keynes. In his *History of Economic Analysis* Schumpeter introduced Keynes's work as follows:

First, Keynes's work presents an excellent example for our thesis that, in principle, vision of facts and meanings precedes analytic work, which, setting in to implement the vision, then goes on hand in hand with it in an unending relation of give and take. Nothing can be more obvious than that in the beginning of the relevant part of Keynes's work stood his vision of England's aging capitalism and his intuitive diagnosis of it (which he followed up without the slightest consideration of other possible diagnoses): the arteriosclerotic economy whose opportunities for rejuvenating venture decline while the old habits of saving formed in times of plentiful opportunity persist (Schumpeter, 1954, p.1171).

It is surely arguable that the formation of a worthwhile "vision of facts and meanings" is unlikely without an encounter and engagement with practical issues. Schumpeter's idea of an "unending relation of give and take" between the "vision of facts and meanings" and the analytic work, is also of considerable interest since, as will be mentioned below, it is very similar to the understanding of the social sciences which has emerged under the influence of recent philosophy.<sup>4</sup>

Why should we favour a policy-oriented economics which is more theoretical? Many economists conscientiously refrain from involvement in debate on economic policy on the grounds that we do not yet have empirical validation and quantification of the relevant theories. This attitude is commonly combined with condescending disapproval of economists who habitually offer policy suggestions on the basis of theory; their position is frequently described as "ideological" as if it was *empirical validation* which marked the difference between science and ideology.

The problems with logical empiricism, well known in philosophy, suggest that this coyness is misplaced, because it is based on misapprehension about

4. The approach outlined in this paper is consistent with that of Keynes. His emphasis on "vigilant observation of the actual working system", his scepticism of prediction, his emphasis on the historical dimension, his rejection of a natural science model for economics, his view that "economics is essentially a moral science and not a natural science", his recognition of norms and rules in economic life, and his awareness that knowledge and understanding of economic phenomena is itself an economic variable, are all examples of the approach advocated above. Indeed, Zamagni argues that Keynes's methodology lay between the extremes of neoclassical positive economics and neo-Austrian apriorism (Zamagni, 1987). Recently, a more formal attempt has been made to identify Keynes's methodology, and to derive a coherent methodology and epistemology for modern economics from it. My argument here draws on a general reading of Keynes's approach rather than the more formal, recent, work on his philosophy and methodology. This line of research, can be found in Lawson (1985, 1987, 1989a), Lawson and Pesaran (1985), Carabelli (1988) and O'Donnell (1989).



what economics can and cannot do. It ignores the fact that even a sophisticated Popperian critical rationalism fails to adequately solve the set of problems which undermine crude empiricism (Doyal and Harris, 1986, p. 12). In particular, the ambiguity of empirical falsification means that there is no empirical way of deciding what's wrong when a theory fails an empirical test. This is not to imply that there is no way of making progress in this situation. But what the philosophy and history of science tells us is that decisions about how to interpret empirical error are made within given systems of belief and conceptual commitments about the basic character of reality. These are not easily open to empirical criticism since "experience cannot be employed by itself to decide between rival systems of belief which dispute its overall *meaning*" (Doyal and Harris, 1986, p.13). This, combined with the other problems of empiricism, suggests that it is hard to maintain the distinction between observational and theoretical terms and, in effect, economics and other social sciences are "theory all the way down". Economists who wait for compelling empirical validation, before exposing their ideas and theories to policy makers or the public, will wait forever. The first argument for a policy-oriented economics which is more theoretical is that theory is most of what we have in economics, and most of what we can have.

This observation is consistent with a realistic view of how economists and social scientists hold and change their beliefs and theories. Even before the "holistic turn" in the philosophy of science (explained in Section III) "the more reflective social scientists knew that they held their theories for reasons which were difficult to justify and were probably ideological" (Outhwaite, 1987, p. 15). For those who didn't know this already, it has recently been demonstrated admirably in the case of economics (Klamer, 1984; McCloskey, 1986). What the developments in philosophy add to this horse sense is that they suggest, as Outhwaite says, that "perhaps this was, after all, not a function of the immaturity of the social sciences but simply *la condition humaine*" (*ibid*).

These ideas suggest that what is wrong with the public pronouncements and policy suggestions of those economists who habitually enter policy debates, tends to be *bad theory*, and theory with which one cannot agree, rather than theory not validated by empirical test. It follows that the more conscientious economists would do better to enter the fray, to expose bad theory and offer superior arguments and interpretations. Lawrence Summers has recently stated a very similar view in graphic terms: "No small part of our current economic difficulties can be traced to ignorant zealots who gained influence by providing answers to questions that others labelled as meaningless or difficult" (Summers, 1991). Indeed, the entry of these more conscientious economists into policy debates would, among other things, have the

effect of raising the level of theoretical argument.<sup>5</sup> This would be a significant improvement, since it is wilful ignorance of theory, more than any lack of empirical validation, which makes the policy proposals of certain economists ideological.

### *The Nature of the Social Sciences*

The approach to policy-oriented economics and economic theory which is advanced here is also, I would argue, in tune with the true nature of economics as a social science. Recent developments in the philosophy of the social sciences suggest that economics cannot “reproduce, in the study of human social life, the same kind of sensational illumination and explanatory power already yielded up by the sciences of nature” (Giddens, 1976). What economics and other social sciences do is produce concepts which pick out the essential features of the economic and social world. Progress in economic understanding does not generally consist in, or result from, findings which go radically against our expectations, but in the qualitative discovery of new ways of conceiving economic reality (Outhwaite, 1987, p. 55).

The formation of basic concepts in economics can begin with common-sense perceptions and intuitions about the basic elements of economic life. Indeed, it can be argued that it must begin in this way. Furthermore, although it may then introduce complex abstractions in order to penetrate below the surface of things, the final scientific product consists of explanations which relate to common-sense perceptions, even if this consists of a critique of them. This suggests that what policy makers and the public need from economics are analyses and arguments which help them to *conceptualise* their situation. This view is at variance with the conventional one outlined above, for it implies that both policy makers and others should encounter economic *theories* and *arguments* rather than be presented with *results* by an expert. Experience certainly suggests that policy makers and the representatives of the social partners (and, indeed, individual members of the public) are, in certain circumstances, capable of handling far more complex economic theory and analysis than is assumed by economists. That it is conceptualisation and interpretation of their position that the social partners in Ireland want is

5. One of the paradoxical effects of the conventional dualities between economic theory and applied economics, and between research and policy, is a fairly widespread *refusal to take theory seriously* — especially among those economists who do make public pronouncements on policy matters. Because of these dualities, or for some other reason, the true state of theoretical knowledge — on, for example the fundamental propositions that a system of unregulated markets will have or tend towards a full employment equilibrium which is stable and which maximises welfare — is seen as of concern to a small minority of theorists; other economists, and especially those vocal on policy, seem content to proceed on the assumption that there is, or soon will be, theoretical support for these propositions.

suggested by the fact that they have explicitly chosen to use their tripartite economic agency, the National Economic and Social Council, as an instrument for identification of the *principles* which should guide economic and social policy (NESC, 1986). Contrary to the conventional vision of the relationship between the economist and interest groups, and the instrumental notion of rationality which underlies it, it can be argued that the debate in such a forum, and the publication of the arguments, (if they are conceptual rather than purely factual or, worse still, predictive) is an end in itself. Indeed, it may be that the provision of interpretation and argument, which provides groups in the society with means of conceptualising their position, and thereby facilitates debate and the formulation of policy, is about as much as economics can hope to achieve.

### III THE WIDER PHILOSOPHICAL CONTEXT

Although the case outlined above derives primarily from involvement in economics, and is advocated with arguments concerning the effectiveness of economics in policy debates, there is philosophical support for an approach of this sort. In this section I cite the elements of recent philosophy which I consider to support this orientation.

#### 1. *The Movement from Positivism*

Although two main philosophical outlooks can be identified in twentieth century economics — the radical apriorism of the neo-Austrians and the logical empiricism or positivism of Samuelson and Friedman (Zamagni, 1987) — one of these has had far more influence on the economics profession than the other. Neither the developments in the philosophy of science nor the trend, within economics, towards a purely theoretical approach, have undermined economists' belief in positivism. As Walsh says "even today economists whose philosophical ancestry is logical empiricist still write as if the old positivist fact/value distinction were beyond challenge" (Walsh, 1987). One reason is that within the economics profession "any overt expression of interest in methodology is considered a clear sign of weak-mindedness or premature senility" (Boland, 1987; Colander and McCloskey, 1987). Given this intolerance of philosophical or methodological discussion, it is not surprising that the news of the decline of positivism has, as McCloskey puts it, "not reached all ears" (McCloskey, 1986, p. 12). Consequently, although it may be old-hat in philosophy, the critique of positivism still has considerable relevance, and a long way to go, in economics.

Elements of the case against logical empiricism have been cited above. In this section the critique of positivism is viewed in the context of the wider

development of philosophical ideas on science and the social sciences (Hacking, 1989). The philosophical points mentioned here are chosen to illustrate two general propositions. First, that there is a considerable convergence of ideas from the diverse traditions of analytical philosophy, continental hermeneutic theory and critical theory (for an introduction see Skinner, 1985). Second, we can identify a distinct and very interesting evolution in understanding of the relation between the natural and the social sciences. In the early part of the century, logical empiricism suggested the "unity of the sciences" and this outlook led social scientists, including economists, to view their subject as young or immature sciences. Then, the linguistic turn in analytic philosophy led various writers to argue that social inquiry could never be scientific, because its subject matter was human action — the explanation of which lay in intentions, rules and meanings, rather than causes as understood in the natural sciences. However, subsequent developments in the philosophy and history of science questioned the model of the natural sciences which formed the basis of this sharp distinction between natural and social sciences. Finally, in recent years there is evidence of an attempt to formulate a conception of science which can incorporate both the natural and social sciences within a common logic. Consequently, we have, to an extent, returned full circle to a unity of natural and social sciences.

#### *Beyond Impossibility Arguments and Linguistic Structures*

Developments in the analytical philosophy of language led Winch, in *The Idea of Social Science*, to argue that it is logically or conceptually impossible to have a science of human beings or of society. In reviewing this argument, and Nagel's defence of social scientific inquiry, Bernstein came to two significant conclusions. First, that Winch's case fails to demonstrate the *impossibility* of social science and that "when the issue is put in this way, Nagel wins" (Bernstein, 1976, p. 41). The impossibility of a science of human beings cannot be "proven in one fell swoop by a priori conceptual arguments" (Bernstein, 1976, p. 26). MacIntyre has recently taken a similar view and based it on a more general point: "In *philosophy* there are in fact very few and perhaps no valid logical impossibility or *reductio ad absurdum* proofs" (MacIntyre, 1985, p. 101). Second, "the preoccupation — one is inclined to say the obsession — with advancing and knocking down 'impossibility' arguments has obscured the real contribution of linguistic analyses" and introduced "a specious dichotomy: we must think of social relations on the model of either language or the interaction of physical forces" (Bernstein, 1976, p. 76). This serves to rule out investigation of non-linguistic factors which influence social relations and to isolate social life, and the concepts pertaining to it, from the rest of nature and empirical inquiry (*ibid.*). This is important for economics,

where there are structures and tendencies which cannot be seen as primarily linguistic.

However, while rejecting arguments for the *impossibility* of social science, Bernstein cites evidence which suggests that it is highly *improbable*. Social sciences consistently fail to conform to their own standards — as specified in logical empiricism. There is little or no conjecture and refutation of a Popperian sort (Blaug, 1980). The social sciences have produced few powerful explanatory theories. Theories in the social science, including economics, are patently value-laden (McCloskey, 1986). The traditional response to these facts has been rationalisation — such as that the social sciences are young or immature. The alternative is to take these features of social science seriously and derive a conceptualisation which can accommodate them. One route to the latter, as well as to a critique of logical empiricism, was provided by another development in analytical philosophy and the philosophy of science, which I now consider.

### *The Holistic Turn*

That development was what has been called the “holistic turn”. Two distinct elements have been identified. The first was a more holistic analysis of the internal structure of scientific theories. This revealed that scientific statements could not be tested in isolation, in a direct confrontation with experience. Many elements of most scientific theories referred to non-observable entities, and only a small portion of the observable content is ever observed. What is observed is seldom a part of the theory under test. The predictions of theory are the consequence of the theory plus a mass of auxiliary assumptions, such that the theory is “underdetermined” by the data. In this context it became clear that scientific statements acquire their meaning from the complex networks of metaphors, models and theories in which they are located (Outhwaite, 1987 p. 15). The relevance of these issues to economics is clear. It has recently been observed that “economics is full of illustrations of the Quine-Duhem hypothesis...Indeed, it looks rather as if, despite the common gestures of respect for Popper, economics is full of those circular theories which are always confirmed by experience in the eyes of their holders. The Quine-Duhem hypothesis is descriptively plausible” (Hargreaves-Heap and Hollis, 1987; see also Lawson, 1987).

The second element of the holistic turn was the development of a more holistic analysis of scientific change. Kuhn’s work addressed the ambiguity of empirical falsification by comparing the Popperian model of scientific practice with the way scientists actually proceed and the way scientific theories actually change. This introduced the now familiar idea of a paradigm — a shared conceptual commitment about the basic character of reality which

dictates what is defined as a worthwhile research problem, how scientists should try to solve it and what they will accept as effective criticism (Doyal and Harris, 1986, p. 14).<sup>6</sup>

This convergence of historically-based holism with the holistic approach to the internal structure of scientific theories undermined the distinction between observational and theoretical terms which was central to logical empiricism. It also led to what has been identified as a "long overdue *rapprochement* between the philosophy of science and the history and sociology of science" (Outhwaite, 1987). Some argue that there is an emerging post-empiricist philosophy and history of science linked to a new model of rationality. This would reflect the shift in the conception of the significant epistemological unit (from individual statements to research traditions and communities) and the recognition that criteria of evaluation are always open to conflicting interpretations (Bernstein, 1983). Regardless of whether a unified outlook emerges, the widespread movement from positivism provides strong philosophical support for a rejection of the conventional view that economics is a science.

## 2. *From the Negative to the Positive: Hermeneutics*

While the philosophical case against empiricism is a rigorously strong one which, almost unavoidably, demands a rejection of positivism in economics, the relationship between the philosophy and other aspects of the approach to economics advocated here is not quite the same. Below I argue that the approach to economics outlined in Section II can be supported by the hermeneutic theory of the social sciences, the recovery of the hermeneutic dimension of science generally and the recent development of a realist philosophy of the social sciences.

Although the term hermeneutics was originally used to refer to the interpretation of texts it was gradually extended to linguistic understanding in general. A distinction can be drawn between a special and a general hermeneutic thesis (Outhwaite, 1987, p. 62). The special hermeneutic thesis suggests that the hermeneutic dimension is particularly important in certain sciences — such as the human and social fields of inquiry. The general or universal thesis argues that there is an important hermeneutic dimension in all scientific inquiry.

### *The Special Hermeneutic Thesis: The Social Sciences*

One important and influential use of the idea was in drawing a distinction between the natural sciences, in which *explanation* was sought and was

6. There has, quite appropriately, been debate about the exact relevance of Kuhn's concept of paradigm, and Lakatos's idea of degenerating and progressive research programmes, to economics (Latsis, 1976; Walsh, 1987; Caldwell, 1987).

achievable, and the human sciences, in which *understanding* was relevant. This would suggest that a broadly hermeneutic approach is relevant in economics because, as a study of human beings and societies, part of its subject matter is actions (as opposed to behaviour), reasons, intentions and meanings. On this view economics can be, in part, interpretative and narrative and is unlikely to produce many causal law-like explanations (Doyal and Harris, 1986). Earlier hermeneutic approaches in the social sciences confined themselves to the "subjective meanings" actually or supposedly in the actors' heads "at the expense of the more general underlying structures of meaning which the hermeneutic tradition considers equally important" (Outhwaite, 1987, p. 69). Later versions, developed by Gadamer, Habermas and Giddens, reject the dichotomy between the understanding subject and the understood or interpreted object. Gadamer has used the metaphor that the hermeneutic process is not the replacement of the interpreter's "horizon" by that of the object of study, but a dialogical process in which the two horizons are fused together. Giddens identifies a double-hermeneutic process in the social sciences. First "the mediation of paradigms or widely discrepant theoretical schemes in science is a hermeneutic matter like that involved in the contacts between other types of meaning frames". But, in addition, the social sciences deal with "a pre-interpreted world ... the observing social scientist has to be able first to grasp those lay concepts, i.e., penetrate hermeneutically the forms of life whose features he wishes to analyse or explain" (quoted in Outhwaite, 1987, p. 70).

This outlook, and other elements of recent hermeneutic theory, confirms that interaction and dialogue are not just luxuries, or unfortunate political necessities, but a part of the process of discovering economic knowledge. This emphasis on encounter and engagement suggests that the abandonment of the idea of value-free economics, and its disinterested practitioner (forced on us anyway by the collapse of positivism) may not be a fall from scientific grace, but a recognition of the very condition for coming-to-understand the economy or society. It also adds a philosophical rationale to the practical argument that economics can, perhaps must, begin with common-sense perceptions and intuitions about economic entities and processes and relate its insights to these ideas, even where it is critical of them.

The modern hermeneutic tradition bears a certain similarity to Kuhn's approach, in that it is not initially a *prescriptive* methodology, but an attempt to understand what the social sciences and other subjects *really are*. It suggests a view of the social sciences which is similar to that outlined above. The rejection of an objectivist conception of interpretative method indicates that historical and social research will almost always be *oriented to the needs of the present*. This means that the questions driving social science will

concern, not deeper and deeper penetration into social reality, but interpretation and re-interpretation of the key economic and social issues.

*The General Thesis: Hermeneutics and Science*

The general hermeneutic thesis of Gadamer argues that hermeneutics, or understanding, underlies all scientific inquiry, as well as many other activities. The significance of this for my argument arises from the claim, stated at the start of Section III, that while the effect of the linguistic turn in analytic philosophy was to separate the social sciences from natural science, subsequent developments have altered the conception of the natural sciences, revealing them to have a significant hermeneutic dimension and, up to a point, reuniting the natural and social sciences.

Mary Hesse argues that the distinctions which have typically been drawn between the natural sciences and the human sciences, especially by writers in the hermeneutic tradition, are no longer valid. She notes that in the natural sciences, too, data are not detachable from theory, for what counts as data are determined by theoretical interpretation. Theories are not models compared to nature in a hypothetical-deductive schema, they are the way the facts themselves are seen. In the natural sciences, too, the lawlike relations asserted are "internal", because what count as facts are constituted by what the theory says about their inter-relations with one another. "The language of the natural sciences is irreducibly metaphorical and inexact, and formalizable only at the cost of distortion of the historical dynamics of scientific development and of the imaginative constructions in terms of which nature is interpreted by science." Finally, as in the social sciences, meanings in natural science are determined by theory; they are understood by theoretical coherence rather than by correspondence with facts (Hesse, 1980, pp. 171-73; and see also Bhaskar, 1989).

Without claiming that a definite synthesis has emerged, or that there was any direct influence on the philosophy of science from hermeneutics, Bernstein argues that the hermeneutical dimension of science, and not just that of the human sciences, has been re-established:

In the critique of naive and even sophisticated forms of logical positivism and empiricisms; in the questioning of the claims of the primacy of the hypothetical-deductive model of explanation; in the questioning of the sharp dichotomy that has been made between observation and theory (or observational and theoretical language); in the insistence on the under-determination of theory by fact; and in the exploration of the ways in which all description and observation are theory-impregnated, *we find claims and arguments that are consonant with those that have been at*



*the very heart of hermeneutics*, especially as the discipline has been discussed from the nineteenth century to the present (Bernstein, 1983, p.31, emphasis added).

This, when combined with the development of the realist philosophy of science, allows social scientists to think about their subjects as sciences, and thereby draw on general defences of scientific practice, while at the same time being realistic about the way in which knowledge about society is acquired and what kind of knowledge it is likely to be.

The recent revival of Aristotle's idea of "practical reasoning", the general challenge to the dichotomy between theory and practice (and Gadamer's specific argument that every act of understanding involves interpretation, and all interpretation involves application), assist the case for a policy-oriented economics which is more theoretical and theory which is more realistic. The argument has been made that hermeneutic ideas can complement Kuhn's groping awareness that theory-choice and deliberation in science are indeed rational — but not the sort of rational activity which consists of either deductive proof or empirical falsification (Bernstein, 1983, p. 47). This makes it possible to accept that actual theory-choice in economics has little or nothing in common with the positivist formula, while still retaining an idea of rationality and resisting the notions of relativism or strong incommensurability.

An important part of the argument is the claim that, despite the ambiguity of falsification, and the need for interpretative accounts of economic events, there are nevertheless methods of making comparative judgements between competing interpretations in concrete cases. Although this cannot be outlined in programmatic form, it involves a rejection of the assumption that if we cannot come up with universal, fixed, criteria to evaluate the plausibility of competing interpretations, this means that we have *no rational basis* for distinguishing the better from the worse, the more plausible from the less plausible interpretations whether these be the interpretations of texts, actions or historical epochs (Bernstein, 1983, p. 196). The fact is, in science, social science and ordinary life, such judgements are made every day on the basis of some procedure which weighs the overall plausibility of a given interpretation. To the positivist mind this may seem like irrationality. The alternative is to accept the conditions under which we acquire knowledge and examine how people, that up to this we were happy to think of as rational, actually make these judgements. The argument of some modern philosophers is that when we do so we find that the process turns out to be very like an ancient idea of "practical reason", and that we can, if we want, revise our definition of "rationality" to accommodate this.

### 3. *The Reassertion of Realism*

The problems in the *epistemological* theory upon which economists rely have been outlined in some detail and the roles of interpretation, narrative, dialogue and persuasion in the growth of economic understanding have been emphasised. A question which naturally arises is whether this implies the claim that there is no economic reality independent of various, contested, interpretations and beliefs. As Outhwaite says "the abandonment of the simple certainties of empiricism leaves the philosophy of science on a slippery slope towards a position where all claims to truth have apparently been abandoned and where the choice between alternative theories appears to be a matter of taste or an arbitrary leap of faith" (Outhwaite, 1987, p. 20). While many philosophers and some social scientists have now adopted this *relativist* outlook, the philosophical position known as realism offers one of the few escape routes from this slippery slope.

While much of the philosophy cited so far has concerned *epistemology*, the theory of knowledge, realism is concerned with *ontology*, the theory of what is. Realism is the philosophical position which asserts that objects, structures and mechanisms exist independent of our conceptions or descriptions of them. Like all philosophical positions realism can only be understood in relation to other, conflicting, philosophical theories. The recent revival and development of realism is unambiguously a response to the growth of relativism. It has been argued that a realist ontology is an indispensable foundation to all knowledge, and indeed of rationality (Trigg, 1989). While I do not intend to discuss realism in any detail, there is an important sense in which the revival of realism, and its application to the social sciences, may provide a foundation for the orientation to economics advanced here.

For a start realism clearly closes off the road to the kind of relativism which asserts that there is no economic and social reality independent of our descriptions. The second aspect of realism on which I wish to draw is its rejection of the positivist tendency to see the basic entities postulated by theory as mere heuristic assumptions or arbitrary definitional postulates. By contrast, realism sees these basic entities as "truth-functional assertions" like any other (Bhaskar, 1989). The more important function of realism in the current argument is that it allows a resolution of some of the problems posed by the equal attractions, for social science, of first, empirical regularities and correlations, second, interpretation and understanding of meanings, and, finally, theory. Each of these approaches have attractions but each, on its own, is assailed with serious problems.

The study of regularities and correlations is clearly indispensable to economics and social studies. But, on its own, in either its crude inductivist or logical empiricist form, it cannot provide a foundation for knowledge, for all

the reasons discussed above. Approaches informed by hermeneutic theory are attractive because economics is concerned with agents' intentional actions in the context of pre-interpreted social and economic structures, and also because the emphasis on interpretation and understanding relates to the way economists really choose and hold theories and the way they persuade themselves and others. However, on its own, the hermeneutic approach tends to over-emphasise *linguistic* structures and norms, and other patterns of belief, and to ignore other forces and structures which govern economic life (Norris, 1992). In addition, when it strongly counterposes *meaning to truth*, and openly sees the social sciences as about meaning *rather than* truth, the hermeneutic approach leads to relativism — with its attendant idea of “incommensurability”. Finally, theory is absolutely indispensable; indeed, a serious examination of either the empirical or hermeneutic approaches shows that we could not dispense with it — even if we tried. But theory on its own, to the extent that it is possible, has two related drawbacks. First, it tends to produce rigid, and often empty and reductionist, accounts of the economy, in which everything is derived as the logical outcome of a few axioms — the status of which is defended as either pure assumptions or necessary truths based on introspection. Second, considerable progress can be made in purely theoretical work, *within a given school or research programme*, but this approach does not facilitate debate between different theoretical approaches. This has clearly happened in economics. Purely theoretical refinement within one research programme tends to become distanced from practical issues and to exclude the theoretical pluralism which, it can be argued, is a necessary feature of social science (Devine, 1989).

What realism seems to do is allow us to cut-across, or transcend, the competing attractions of these three approaches, by taking the emphasis off *epistemology* and putting it on to *ontology*. The proposition that there is an economic and social reality clearly enjoins us to take account of empirical regularities and correlations. But it does so in a way which can fully accept the epistemological problems which have come to light (Lawson, 1987). The transcendental thesis that “things exist independently of our descriptions” in no way excludes the idea that “we must always speak of them and know them under particular descriptions, descriptions which will always be to a greater or lesser extent theoretically determined” (Bhaskar, quoted in Outhwaite, 1987). Realism, as Outhwaite says, is “ontologically bold and epistemically cautious” (Outhwaite, 1987, p. 34). This epistemic relativism opens the door to hermeneutics to the degree that hermeneutic theory has a purchase on the actual open-ended, social practice of science. Furthermore, when applied to society, the ontological thesis of intransitivity — that things exist independently of our descriptions — needs to be modified *in a way which introduces*

*hermeneutic issues* (Bhaskar, 1989). Finally, realism allows us to accept that theory is ubiquitous, necessary and powerful, without thereby being drawn into pure theory. Although realism implies the necessity of theory — including theoretical abstractions which are unobservable — it does suggest that these be seen as assertions about the true nature of economic structures and mechanisms, rather than arbitrary definitional postulates or heuristic assumptions (Lawson, 1989b). It is this pragmatic use of realism — as a way of resolving methodological dilemmas by dissolving the dichotomies and dualities upon which they are based — that I draw upon to support the orientation to economics outlined above.<sup>7</sup>

#### IV CONCLUSION

This paper has developed the case for a policy-oriented economics which is more theoretical and a theoretical economics which is more realistic than is currently the norm. The argument has been advanced by identifying a set of severe practical and philosophical problems which confront the conventional conception of the economist as scientific expert and the policy maker as client. An alternative conception of economics has been articulated and this suggests a different view of the relationship between the economist and the policy maker.

It should be emphasised that this alternative is not presented as a “correct” methodology which contrasts with what everyone does at present. It is not so much an attack on the existing practice, as an argument about *which elements* of existing practice tend to produce useful economic knowledge. This point is important, because what the recent philosophy and history of science shows is not so much that logical empiricism is an incorrect methodology which mainstream economists unfortunately obey, but that it is an *impossible* methodology which is not, and could not be, implemented (Blaug, 1980;

7. This is a pragmatic or basic use of realism because it does not explore whether acceptance of a realist ontology has very definite, general, or easily identifiable, implications for economic theory and the practice of economics. In part, this reflects the fact that the role of theory in the approach to economics advocated here has not been addressed. Others see the new versions of realism as having such implications (see Bhaskar, 1989, Lawson, 1987, 1989a, 1989b and 1993). Some proponents of “scientific realism” would be uncomfortable with the role accorded to the hermeneutic dimension in my account and would see it as a distraction from the essential and sole aim of economics — the identification of relatively enduring underlying structures. Equally, I am inclined to doubt the possibility of implementing the research procedure devised by scientific realists, because it does not address the epistemological problem of how we would know when we had identified the “real structures” and “generative mechanisms” which scientific realists see as the object of science (Bhaskar, 1989). I am more inclined to share Burawoy’s view that where the scientific realist “sees the growth of knowledge as a process of adjudication through which we achieve ever closer representations of reality I view it as solving puzzles and in the process creating futher puzzles” (Burawoy, 1987).

McCloskey, 1986). Plain observation confirms that this is true. Economists use a range of approaches, including, in some cases and to some extent, the approach which is advocated here (Summers, 1991). My case is for development of these strands within current practice: that the engagement with practical problems should be maximised, that the relatively theoretical approach to policy problems should be encouraged and extended, that policy makers and the social partners should encounter economic argument and conceptualisation and that relatively realistic theories are effective in this kind of policy-oriented economics.

Although this argument has not been presented in programmatic form, the practical and philosophical arguments assembled here do have some methodological implications. They suggest a strong case for what Boland has called "methodological pluralism". This, in turn, raises questions about the validity and usefulness of the *operationalism* which dominates economics. Although logical empiricism is an impossible methodology, its key idea (the use of arbitrary definitional postulates to create formalised theories from which "operationally meaningful statements" are derived (Samuelson, 1947)) strongly influences the way economists respond to criticism of orthodox theory. The critics are told that, if they dislike the assumptions, they should formulate their own and generate alternative "operational" propositions. Although this position is, on the face of it, open with respect to the postulates or assumptions of theory — and, therefore, with respect to the basic ontology of the economy — it is closed to the limitations of empiricism. Some non-orthodox theories could be "operationalised" in this way, but, on its own, this would do little to decide between theories (Outhwaite, 1987). Indeed, the conventional methodology of economics may be particularly unsuited to inter-theoretical debate, since the tendency to see definitional questions as arbitrary, and merely heuristic, *assumptions* tends to prevent debate about the fundamental elements of economic life. Finally, the post-empiricist philosophy and history of science, discussed above, supports this resistance to operationalism. Pressed to "operationalise" ideas, or to confine oneself to theories which can be "operationalised", it is tempting to reflect that "to think is to operationalise" and that, certainly, to *communicate* theories and interpretations, especially in a policy-oriented debate, is to *apply* and, therefore, operationalise them — reflections which find a clear echo in some recent philosophy.

It will be apparent that my argument implies considerable sympathy with, and a debt to, McCloskey's *The Rhetoric of Economics* (1986). Despite its affinity to my argument, I have not discussed McCloskey's contribution in detail for two reasons. First, in *The Rhetoric of Economics* McCloskey focused primarily on the rhetoric used in presenting *research* results in academic

journals. By contrast, my argument was concerned primarily with economic *policy* and the role of the economist in policy debates. Second, there is a danger that McCloskey's work will assume a position within economics which will, paradoxically, obscure the full implications of recent philosophical developments and allow current orthodoxy off the hook — i.e., a position in which the idea of rhetoric is seen as the idiosyncratic, if brilliant, viewpoint of one man and where the message concerning positivism, rhetoric, narrative and interpretation, is seen as contained in one book — which economists feel they should read in their spare time. In this situation, the post-positivist philosophy and history of science, to the extent that it is having any effect, is filtering into economics *via McCloskey*. But in that case one has the sense that this new philosophical outlook is filtering into economics, first, in its *American pragmatist form* and, second, in a form which embodies the post-modern tendency to apply the methods of *literary theory* to all fields of inquiry (McCloskey, 1989; Norris, 1992). For various reasons it is interesting to ask whether a post-positivist philosophy of science which is less pragmatic, more realist, perhaps more European and, most significantly, rooted in the tradition of *social and economic* inquiry, has interesting implications for policy-oriented economics. By drawing on experience in economics, hermeneutic theory and the realist philosophy of science I have attempted to begin this investigation.

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