



Departmental Workshop, Erasmus School of Philosophy, 17 January 2019

# The Perennial *Methodenstreit*: Observation, First Principles, and Economics

Julian Reiss, Durham  
University



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*The economic reasoning against price controls is old, and no economically literate person now advocates price controls... Price controls are not merely imprudent, wasteful, and inefficient, as an economist might say... they are also immoral and violate citizens' rights.*



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*So, going back to economics, there is a wide range of controversy in economics (e.g., should we use monetary or fiscal policy to fix a recession?), but there is also a wide range of agreed-on views, such as that we should have free trade and avoid price controls.*



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- ❖ Recently, I have come across contributions to a debate in which philosophers and social studies of science researchers have advocated a **strengthening of scientific experts in a democracy**
- ❖ These proposals tend to rely on the existence of good knowledge of at least some **uncontroversial facts**, including some **economic facts**
- ❖ My question today: **Is there such a thing as good knowledge of uncontroversial economics facts?**

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  - ❖ Does free trade spur growth?
  - ❖ Do people often behave irrationally?
- ❖ What I hope to show is that answers to questions such as these are **oftentimes a lot less clear cut** than optimists like Brennan suggest



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# How do we know in economics?

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- ❖ How do we come to know a statement such as ‘increases in minimum wages cause unemployment’?

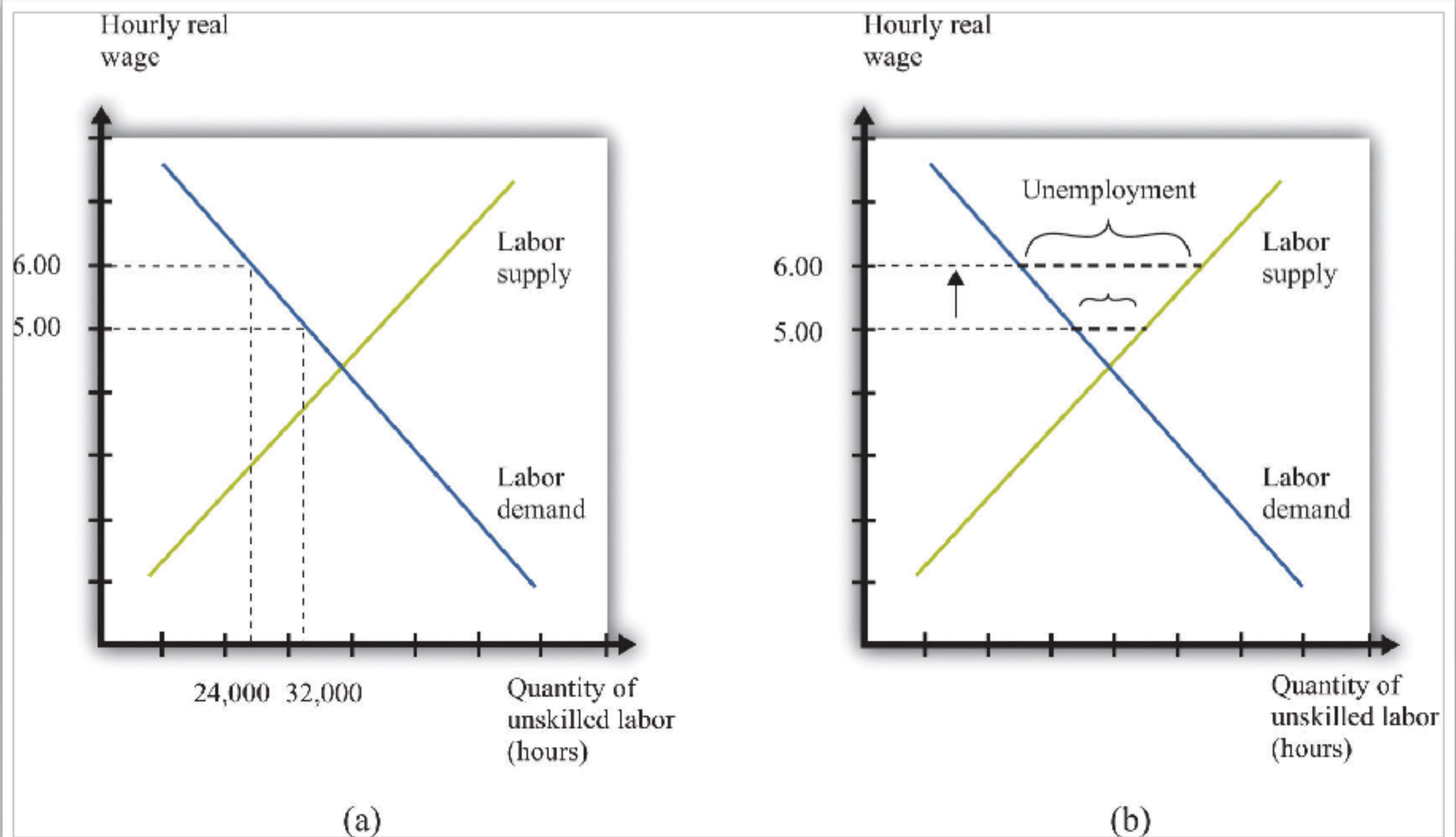
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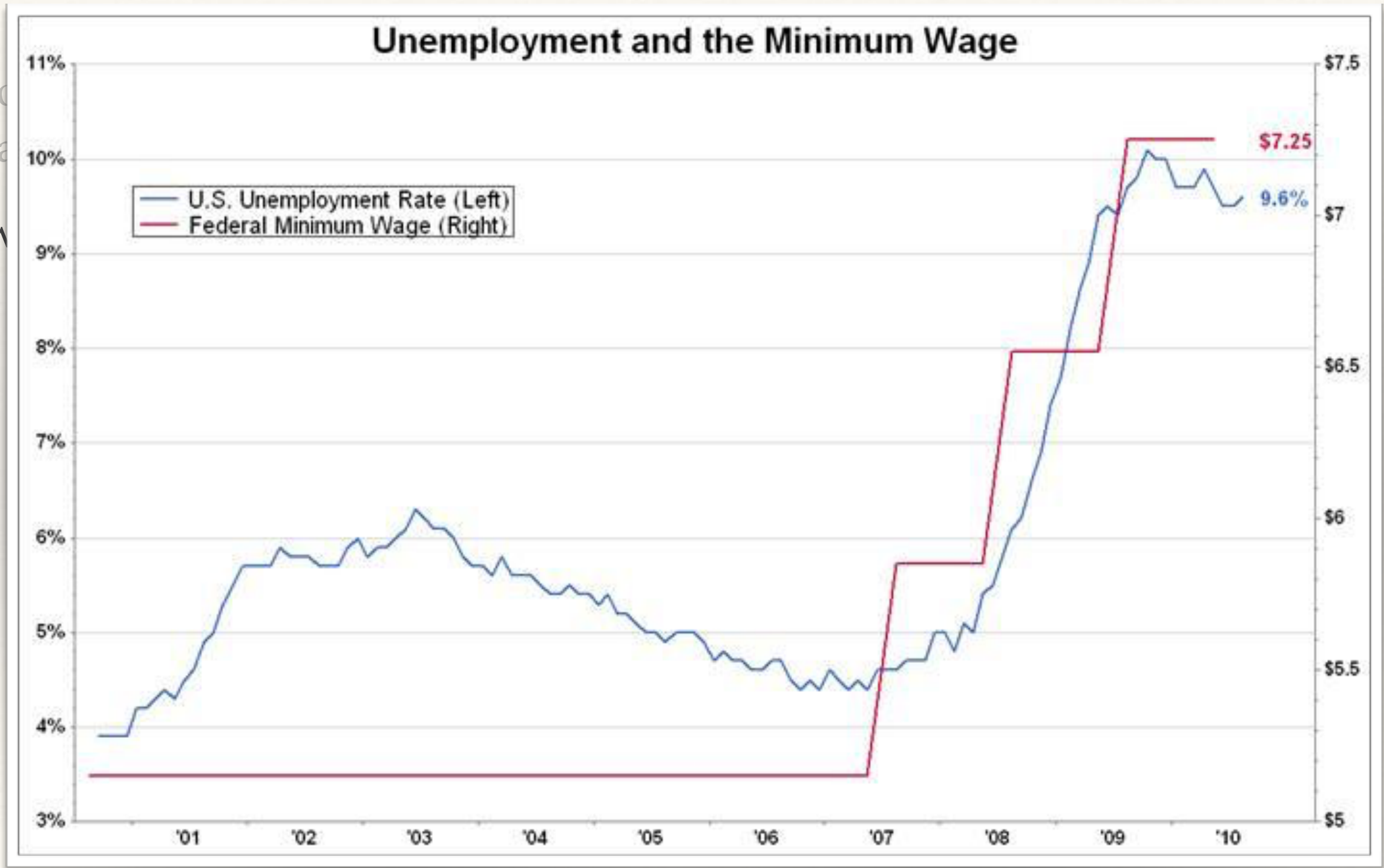
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- ❖ If there was a **unique answer** given by each method, and the two methods **agreed**, there would be no problem
- ❖ But what if not?
- ❖ A long tradition in economics maintains: economics uses an ‘abstract method *a priori*’ (John Stuart Mill)

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# The resistance

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- ❖ Instead of deducing general economic laws from highly abstract principles (and, at best, testing them against some narrow contemporary data), **he insisted that conclusions should be founded on a wide observation of contemporary facts and aided by the study of history**
- ❖ Specifically, **he found that ‘laws’ could be context dependent:** dependent on the different forms that the ownership and cultivation of land, and the conditions of production and distribution, assume at different times and places

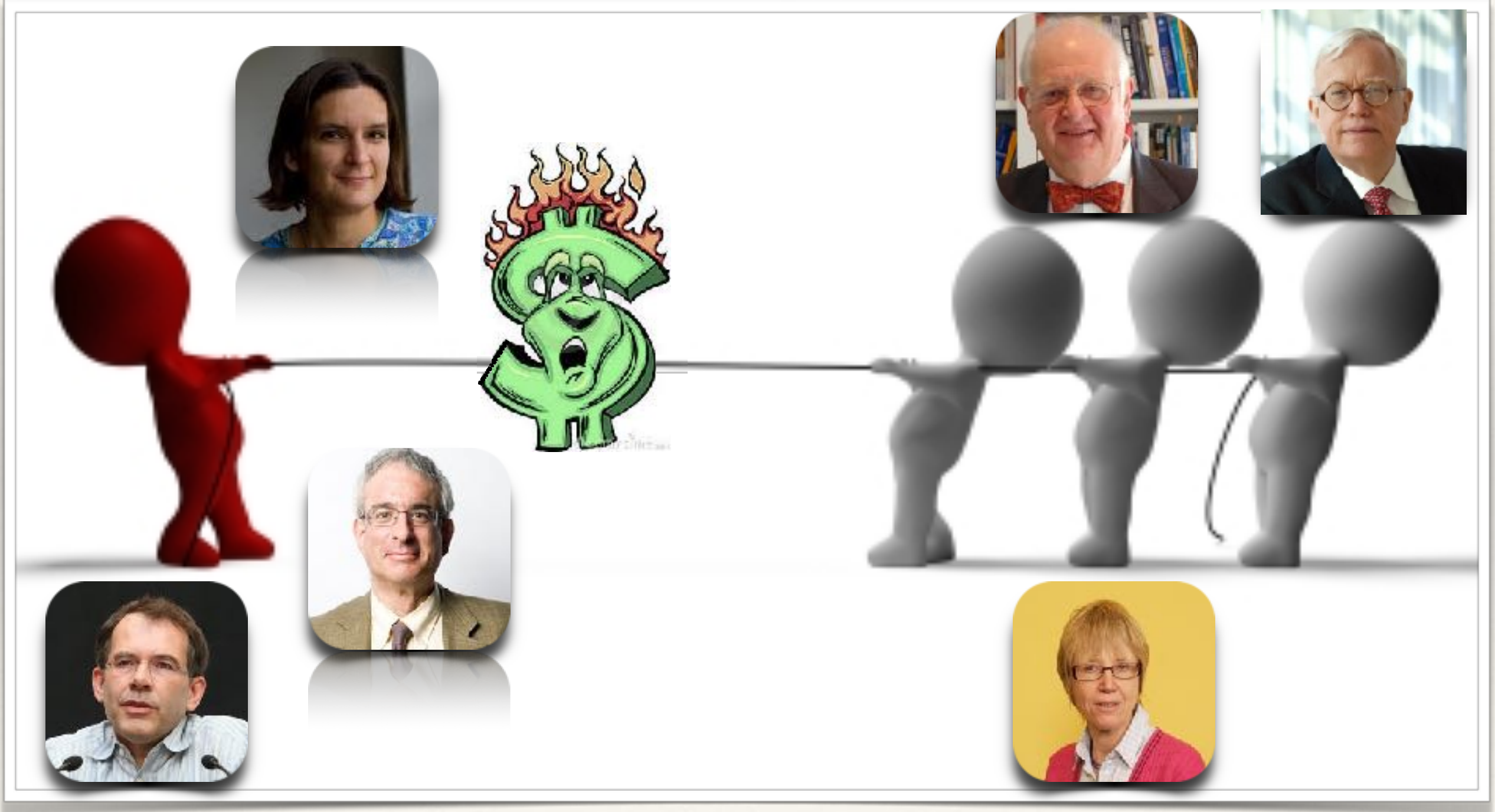
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- ❖ What if you can't randomise? Use a '**second best**': instrumental variables, difference-in-differences, regression discontinuity...

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  - ❖ **Structuralists: by affecting a smoker's spending decision, taxation may affect other causes of lung cancer after all, e.g., exercise and nutrition**

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# The Canceled Wars

Until the Card-Krueger study, most economists, myself included, assumed that raising the minimum wage would have a clear negative effect on employment. But they found, if anything, a positive effect. Their result has since been confirmed using data from many episodes. There's just no evidence that raising the minimum wage costs jobs, at least when the starting point is as low as it is in modern America.





Three conclusions, in particular, stand out. First, as indicated in chapter 3, the literature that has emerged since the early 1990s on the employment effects of minimum wages points quite clearly—despite a few prominent outliers—to a reduction in employment opportunities for low-skilled and directly affected workers.

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- ❖ So we're back to square one

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  - ❖ Most importantly, however, the **historical record indicates that free trade isn't *always* advantageous**

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*The imposition of free trade on Portugal killed off a promising textile industry and left her with a slow-growing export market for wine, while for England, exports of cotton cloth led to accumulation, mechanisation and the whole spiralling growth of the industrial revolution*

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  - ❖ It depends on **idealising assumptions** that are known not necessarily follow when assumptions are relaxed
  - ❖ **Distributive issues** are ignored or downplayed; however, in any decision, these matter a great deal
  - ❖ Most importantly, however, the **historical record indicates** *always* advantageous





*Moreover, it is also not true that almost all rich countries have become rich through free-market policies. The truth is more or less the opposite.*

*With only a few exceptions, all of today's rich countries, including Britain and the US – the supposed homes of free trade and free market – have become rich through the combinations of protectionism, subsidies and other policies that today they advise the developing countries not to adopt. Free-market policies have made few countries rich so far and will make few rich in the future.*



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  3. **Take a broad view of the question to be addressed!**

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- ❖ So what is the upshot of all this?
- ❖ There are four important lessons to be learned:
  1. Be epistemically humble!
  2. Take a broad view of evidence!
  3. Take a broad view of the question to be addressed!
  4. **Make your case for a specific historical situation!**



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# 1. Be epistemically humble!

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- ❖ **There are few if any uncontroversial ‘facts’ in economics, for three reasons:**

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- ❖ There are few if any uncontroversial ‘facts’ in economics, for three reasons:
  - ❖ Most economic ‘facts’ are highly **value-laden** (as is the statement ‘free trade is advantageous for a nation’), and there is little general agreement on values

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- ❖ So don’t assume someone is poorly educated or mischievous just because they disagree about some factual issue
- ❖ Ignorance and mischief are only two among many possible explanations of disagreement

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## 2. Take a broad view of evidence!

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- ❖ Therefore: look at **all the evidence** that is relevant to addressing a policy question and weigh it up

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- ❖ The goal should be to **weave all the evidence together into an overall narrative** which is convincing in its entirety

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- ❖ This also makes clear that **value judgements** play an important role in evidential reasoning



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- ❖ Judgements about the adequacy of a policy will therefore **depend on the concrete details of the case**
- ❖ What’s good for a country will depend, among other things, on its level of development, size, existing institutions, laws, and customs, cultural factors and so on