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

Julian Reiss, Durham University
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Motivation

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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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- 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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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.
How do we know in economics?

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- Two kinds of answer:
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![Diagram of labor market](image)
How do we come to know in economics?

Two kinds of answer:

- How
- Why
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- But what if not?
- A long tradition in economics maintains: economics uses an ‘abstract method a priori’ (John Stuart Mill)
The resistance

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❖ 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
The Causal Wars

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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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- Indeed, depending on the view on evidence the economist takes, his or her reading of the ‘facts’ will be affected dramatically: minimum wages.
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.
No exception

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  - Distributive issues are ignored or downplayed; however, to justify a policy decision, these matter a great deal.
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- *Distributive issues are ignored* or downplayed; however, to justify a policy decision, these matter a great deal.
- Most importantly, however, the *historical record indicates that free trade isn’t always advantageous*.
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- Most importantly, however, the historical record indicates that free trade isn't always advantageous. No exception.

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.
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.
Some conclusions

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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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- 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
2. Take a broad view of evidence!

- What inductivists and deductivists both get wrong is that they tend to be ‘atomists’ about evidence.
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- Even a study presenting an ideal RCT will not be sufficient evidence because we need evidence that substantiate the study authors’ claims to ideality, the group’s integrity and conscientiousness, errors in data transmission etc.
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- Even a study presenting an ideal RCT will not be sufficient evidence because we need evidence that substantiate the study authors’ claims to ideality, the group’s integrity and conscientiousness, errors in data transmission etc.
- Therefore: look at all the evidence that is relevant to addressing a policy question and weigh it up.
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Using different methods to address the same question therefore:

- Provides one with a fuller picture
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Using different methods to address the same question therefore:

- Provides one with a fuller picture
- Helps to eliminate potential errors
While every method has its limitations and potential sources of error, these limitations and potential errors are not the same across studies:

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- An experiment is always subject to experimental artefacts (e.g. Hawthorne effect)
- A model always simplifies and can therefore omit important factors

Using different methods to address the same question therefore:

- Provides one with a fuller picture
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The goal should be to weave all the evidence together into an overall narrative which is convincing in its entirety

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

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- This also makes clear that **value judgements** play an important role in evidential reasoning.
4. Make your case for a specific historical situation!

- While not generally taking the side of the historical inductivists such as Jones, I do take from them that **historical and regional specificity are a life possibility** that needs to be considered.
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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.