Why should economics be a modest and reasonable science

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Rational and reasonable

- Economics or political economy is how two institutions – the state and the market – coordinate economic systems.
- Economics should be a modest science, because its predictive power is limited in so far as (thank God) men and women continue to be free individuals making choices under uncertainty, and according to criteria that are not constant.
- And should be reasonable, because men are not rational but reasonable, and because economists should also be reasonable and acknowledge that they have a limited capacity to predict the future.

We knew that for long

By “we” I mean Marxian, historicist, old institutionalist, evolutionary, structuralist, and Keynesian economists.

All that use an empirical or historical-deductive method to develop economics

And not a hypothetical-deductive method, that I understand illegitimate when the science is not methodological, but substantive, and social.

Keynes knew well that economics should be modest and reasonable

- He adopted a historical-deductive method
- He thought that scientific propositions are always probabilistic.
- He pragmatically rejected Hume's famous "problem of induction", i.e., that we cannot deduce general laws from induction because this would imply "ampliative inference".
- He understood that you never can definitively reach the truth, but you can pragmatically define as true the best knowledge that you have so far been able to attain.

Keynes also knew that

- He did not share the Platonist belief that an intrinsic or immanent rationality exists.
- Instead, he knew that reality is contradictory and men, limitedly rational.
- Thus, as economic agents don't know the future, and take decisions or make choices under uncertainty, economists are also supposed to live with uncertainty.

Paul Davidson added a key argument to all this

- He emphasized that economic events are non-ergodic.
- “The ergodic axiom assumes that the outcome associated with any future data can be reliably predicted by statistical analysis of already existing data… The future is therefore never uncertain.” (Davidson)
- By accepting the “ergodic axiom”, neoclassical economists “prefer to be precisely wrong to be roughly right and accurate”.

How all this relates to institutions and to the present Great Crisis?

- Economics is the science of how two institutions – markets and money – duly regulated by a greater institution, the state, coordinate economic systems.
- (The state is the law and the organization that guarantees it).
- Markets are imperfect, full of market failures, and only work if well regulated.
- Money is essentially unstable, and also requires strict and permanent regulation.

The Great Crisis was the outcome of a reactionary class coalition formed by rentier capitalists and professional financiers,

- sharing the neoliberal and globalist ideology of, respectively, self regulated and efficient markets, and of the end of the nation-states.
- that used as “scientific” justification neoclassical economics (i.e., general equilibrium and rational expectations’ macroeconomics hypothetical-deductive, and for that reason, highly mathematical models).

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