

METHODOLOGY AND PERSPECTIVES OF VALUE JUDGMENTS IN ECONOMICS ON EQUILIBRIUM

Grigore Ioan Piroșcă¹

¹⁾ The Bucharest Academy of Economic Studies, Faculty of Theoretical and Applied Economics, Romania

E-mail: grigore.pirosca@economie.ase.ro;

Abstract

The rationale of this paper research concerns an epistemological perspective over equilibrium through methodological approach, hence the interest to outline one more time the essence of economics as a science using grounds of philosophy of science, such as value judgments. A familiar account of economic equilibrium is expected to provide a thicker shape of one of the well-known pillars of macroeconomics. As with equilibrium hypothesis revealed in economic literature by far, various hypothesis can be found in the literature. Having said this, the value-laden approach can be identified for an economic concept initially projected as value-free, whereas economics is a social science with ethical and other solid value judgments. Underlying this new approach could more integrate the concept of economic equilibrium within economics.

Considering the evidence from this paper, this approach puts forward new highlights of epistemological thoughts on knowledge on economic equilibrium.

Keywords: Value judgments, economic equilibrium, methodology, Cartesian/Euclidian mode of thought, Babylonian thinking

JEL Classification: A12, A13, B13, B41, E17

Introduction

Methodology is an important vector of knowledge. Though, complete knowledge is an abstract notion, virtually unreachable nor for the past, nor for the future. Methodology is focused on the way thinkers expose their theories, the way the theories are forged and used, and, above all, the way knowledge is birth and passes on the grounds of incertitude. As social thinkers, mathematicians or philosophers, economists are interested in projecting theories on individual behaviors and aggregate consequences of these behaviors. In the field of knowledge of economics, or whatever other area of research, methodology is of paramount importance. Namely, methodology brings support in understanding the channels of thought, why and how thinkers reached some ideas instead of others, what were their initial purposes and what were their findings. In addition, methodology sets criteria for assessment and the comparison of the theories. This is nothing more but the pure

mechanism of getting and providing crude knowledge (Dow, 1998). However, a common error in the philosophy of science is the juxtaposition in meanings between methodology and method. There are two major differences between the two concepts; even both of them support the rise of knowledge.

First, on the ground that the most scientific question is “why”, one difference between methodology and method is that the former is interested on the way economists answer to “why”, whereas the method supervises the set of answers for “how”. Namely, method provides the tools and the procedures within a theory to explain to the outsiders its meanings (Boumans and Davis, 1998, pp. 9). Further, this first difference in approaching the problem of equilibrium stands as follows: the methodology of economic equilibrium is about why we need an equilibrium point, and what the meaning of equilibrium within a market is. Thereafter, new channels of reflections come into attention: optimal allocation of resources, input-output analysis, type of equilibrium according to mobility, economic policies. Likewise, the “why” question regarding standard equilibrium open new perspectives on economic equilibrium such as Pareto efficiency or Pareto optimality. Consequently, attending to answer the “why” questions on economic equilibrium, new concepts requires their “why” questions, economic efficiency and income distribution. Then, one might wonder why the Pareto optimality is a tradeoff between the wealth of different individuals in competition for the same thing, whereas the answer is related on the scarcity of resources. This is methodology about. Conversely, “how” should market participants act in order to achieve their best outcomes using very limited means and resources are economic method about. Hence the reason why economics requires mathematics, statistics, accountability, meaning other sciences and tools, to answer to its “how” questions. This is but a minor example about how methodology underpins the development of knowledge. Second, the methodology is prescriptive and positive. This could mean that science it is what it is, counting only how it is conducted and how it is implemented, but it is difficult to assess it like value-free without further analysis (Boumans and Davis, 1998). There have always been in the paramount interest of science if what it is invented is good and desirable as well for the wealth of the humankind. Comparatively, method is more prescriptive, because is chosen accordingly to exogenous variables. Economic policies are biased by government agendas; henceforth a method will provide solutions about “how it should be”, not only regarding the best solution, but the most appropriate to the whole social and political context.

To sum up, methodology is but a particular case to understand the growth of knowledge through science, whereas the growth of knowledge concerns different other paths such skepticism (Vogel, 2005; Dancy, 1985; Fumerton, 2005), a priori knowledge (BonJour, 2005). Conversely, other contested a priori knowledge (Dancy, 1985; Devitt, 2005). Other fields of major interest in epistemology for understanding methodology are complementary to justification as presented authors like Jonathan Kvanvig (2005). Of major interest was the analysis of political implication over epistemology (Lloyd, 2008; Mills, 2008; Tiles and Tiles, 200).

Economics and value judgments

The main purpose of this chapter is twofold: to reveal the historical roots of economic epistemology and to shape the concept of value judgments. Between 1920s’ and 1930s’ Vienna Circle (Wiener Kreiss in German) was the main vector of philosophy of science, at least in its modern formula where almost all the main epistemological principles are

developed from. The menace of the war outbreak made a surge brain along the Atlantic, therefore the philosophical movement from United States from the 1950s' had its roots from the ancient philosophical ideas from prewar Vienna and Berlin.

Between the two world wars, intellectual life in Europe has made its golden era, and social sciences were no exception. Philosophy, psychoanalytic, sociology and economics awake after the World War I keeping up with fundamental sciences, from which physics and chemistry seemed to be uncontested leaders. And like these fundamental sciences, the enlightened minds of Vienna Circle wanted a pure philosophy of science, value free and Meta psychological free, hence their research program based mainly on either analytical or synthetic knowledge.

During the time Vienna Circle called on its scientific perspective over the world, the counter perspective on metaphysical endeavors was particular to England, with a tradition on empiricism. One of the main philosophers was at that time Bertrand Russell and he maintained a solid ground of British philosophical mainstream (Russell, 2013). Nevertheless, Vienna was at that moment one of the most important intellectual cluster from the world, with ideas derived from art and enlightenment, empiricism and complementary methodologies, and free social and economic movements from England. The Vienna Circle basic orientation was a science free of metaphysics and free of value judgments. The general distinguishing scientific beliefs within Vienna Circle were published in *Monographs on the Scientific World-Conception (Schriften zur wissenschaftlichen Weltauffassung)* and can be listed as follows:

- The world has not theses by its own, but attitudes, points of view and direction of research. The goal of philosophical work was a unified science. There are not hidden places, but only surfaces and experience should provide all the knowledge.
- Everything was accessible for man, and the scientific perspective over the world was that there cannot be riddle out of the reach of solving (Hahn, Neurath and Carnap, 1929, pp.6).
- “Every branch of science is led to recognize that, sooner or later in its development, it must conduct an epistemological examination of its foundations, a logical analysis of its concepts” (Hahn, Neurath and Carnap, 1929, pp.12). The purification of social sciences of meta-physics is not as reachable as in physics. But is not mandatory, nor urgent, because metaphysics has never been strong in economics, and particularly in history of economics (Hahn, Neurath and Carnap, 1929, pp.12). An explication of these was pointed by Hahn as the fact that at least in Classical economics, the first works were mainly empiricist, meaning with anti-metaphysical attitude, on the grounds that “the object of history and economics are people, things and their arrangement”.
- “There is no way to genuine knowledge other than the way of experience; there is no realm of ideas that stands over on beyond experience” (Hahn, Neurath and Carnap, 1929, pp.13)

Philosophy of economic science, as we know it, has its methodological roots within Logical Positivism from Vienna and Berlin, beginning in 1920s' under the philosophical wing of Vienna Circle and moving across the Ocean because of the World War II in an American movement until the 1950s'. The main scientific grid of Logical Positivism derived from two basic principles:

- Logic, everything is an extension of logic;
- Positivism, everything people see and feel is a result of their experience, and is empiric, hence the notion of Logical Positivism.

Just as Vienna Circle has claimed, on the grounds of eradication of metaphysics within scientific knowledge, Logical Positivism was into the demarcation between science and pseudo-science. This demarcation on the ground of positivism perspective has finally lead to a method demarcation between scientific propositions: analytic and synthetic.

Analytic propositions are tautological, with truth value by it selves, whereas synthetic propositions are consequences of experiences and observations. Having the foundations on the philosophical stand points of David Hume and Ernst Mach, the core idea of positivism is that experiences through senses are the only true way to acquire knowledge. In the meantime, a synthetic proposition has meaning if one can assess through observation. It could be said that the sentence is empirically evaluated (Boumans, 2010, pp. 11). Accordingly, sentences from ethics and religion have no scientific meaning. But the real quest of admitting economics as a science was on the value judgments.

Generally, value judgments have normative frame, and the mainstream of the philosophy of science put economics in a value-free spot. In 1932 in *An Essay on the Nature and Significance of Economic Science*, on the topic of value judgments and economics as a science, Lionel Robins stated that “Economics is neutral as between ends. Economics cannot pronounce on the validity of ultimate judgments of value” (Robins, 1932, pp. 131). But Lionel Robins wrote this almost at the end of the Great Depression, in a moment when in Europe extremal political regimes have taken already the lead, like fascism in Italy and Nazism in Germany, whereas communism in USSR had also gained control and begun to export its perilous ideas across the world. Indeed, there is something connecting economic policies and its ends, and economic science is under no circumstances out of this. Moreover, human action ends imply ethics and value judgments and about ethics and economics, Lionel Robbins stated that “unfortunately it does not seem logically possible to associate the two studies in any form but mere juxtaposition. Economics deals with ascertainable facts; ethics with valuations and obligations. The two fields of enquiry are not on the same plane of discourse. Between the generalizations of positive and normative studies there is a there is a logical gulf fixed which no ingenuity can disguise and no juxtaposition in space or time can bridge over” (Robins, 1932, pp. 132). In 1930s’ the Vienna Circle was still dominating the intellectual mainstream of philosophy of science, therefore is not surprisingly the strong beliefs of a great thinker like Lionel Robins at that time. However, on this topic Lionel Robins also stated that “it is not to say that economists should not deliver themselves on ethical questions, (...). On the contrary, it is greatly to be desired that economists should have speculated long and widely on these matters, since only in this way will they be in a position to appreciate the implications as regards given ends of problems which are put to them for solutions” (Robins, 1932, pp. 134). To sum up, this means that, after all, methodological axioms do not avoid connections with outer interests.

Types of thought and economic equilibrium

The concept of equilibrium is a master pillar of the mainstream in Economics. Equilibrium means a frame of relations within a decentralized system. Its roots are to be traced back in the Classical School where the “invisible hand” of Adam Smith (1992) was the most related concept, along with the positive consequences when people voluntarily tend to follow their personal interests. Economic equilibrium was configured in a systemic approach first by Leon Walras, who put the logic before belief. Therefore, he projected an axiomatic abstract model able to be fixed with data gathered from reality. A simultaneous clearing was to be

set for all the markets. The most important thing to Walras equilibrium is that its goal is the social welfare. Indeed, economic equilibrium should bring balance between supply and demand, and its social goals as economist developed equilibrium after Keynes, is not very specific in this matter. Therefore, the problem of economic equilibrium become more complex if a mathematical background is dedicated to social welfare. Social welfare and mathematical equilibrium point in economics have different background as types of thought. Nonetheless, Leon Walras research aim stood for a pure economics, in other words a value-free economics, a positive one, just as Vienna Circle stated on the topic half a century afterwards: "I say that things are useful whenever they can be put to any use at all; whenever they are seen to be capable of satisfying a want. In this connection, there is no need to consider the subtle shades of meaning classified in ordinary language under terms ranging from the necessary to the useful, from the useful to the agreeable, from the agreeable to the superfluous. For present purposes, necessary, useful, agreeable and superfluous simply mean more or less useful. Furthermore, we need no concern ourselves with the morality or immorality of any desire which a useful thing answers or serves to satisfy. From other points of view the question of whether a drug is wanted by a doctor to cure a patient, or by a murderer to kill his family is a very serious matter, but from our point of view, it is totally irrelevant. So far as we are concerned, the drug is useful in both cases, and may even be more so in the latter case than in the former" (Walras, 1938, pp. 65).

But there was a quite opposite view, on the grounds that value-laden economic concepts generates an economic point of view, not a neutral, value-free one. On this topic Gunar Myrdal (1953) on the topic of social and economic decision without interest stated that: "The student of economics is taught to think in economic terms. This means chiefly – or so we are repeatedly told – that he should cultivate the ability to see and understand economic phenomena, rapidly and exactly, in a specific light, i.e. observe them from a particular point of view and classify them according to certain theoretical categories. The actual choice of viewpoint and categories will, of course, depend, in the last resort, on the underlying epistemological approach. Once one has grown accustomed to thinking within the frame of the inherited normative system, which offers the assurance of a "beaten track", it becomes difficult to step aside and inspect the system from outside" (Myrdal, 1953, pp. 22).

The equilibrium model has mechanical time instead logical time, but the goal of attending an equilibrium point is to be reached. General equilibrium models are not real. Their mainframe is built on theoretical *a priori* principles, and does not provide solutions but indications and condition sets, able to lead to a harmonious behavior on the market. Nevertheless, the general theory of equilibrium does not mirror the reality. Instead, it begins with the study of unmeasurable data in order to provide measurements for real measurable data. The system is finally tested through falsificationism having the scientific criteria of Cartesian/Euclidian model (Dow, 2000, pp. 119).

As with the methodology and the types of thought supporting it, various explanations types of thought can be found in the literature. Having said this, two main approaches of types of thought can be identified. Methodology provides a general frame within theories are shaped on the steps of discoveries, theories are improved, accepted and used, adding added value for knowledge, whereas the way we thought is about justification and arguments in the process of assessment of validity of a theory. One type of thought is the Cartesian/Euclidian system of axioms, self-evident, used in the deductive reasoning processes for non-evident theorems. Pure theorems resides only in mathematics, because

mathematics is the only science suitable to be observed free of observation of reality. Thus, the problem of the rationality of the consumer implies deduction and theorems, but they are not self-evident. Only mathematics is. Equilibrium within economics is close to mathematics and Cartesian/Euclidian type of thought. The other way of thought is the “Babylonian thought”. This way of thought implies arguments from different sources and which, in a good theory, back up to each other and grow together. This is a way knowledge is generated through practical vectors using different methods (Dow, 2000, pp. 12). This is a type of logic argument used in expressing ideology and law, wide spread in paper of Babylonians, Romans, Talmud, hence the expression of “Babylonian thinking”. The argument will be laden only by the issue to be researched (Dow, 2000, pp. 13).

Equilibrium is bound to the absence of global increasing returns to scale. These returns come with the tendency to rise, eroding the base of competition on the market up to the point of absolute monopoly where all the scale economies are exploited (Kaldor, 1972). The weak methodological stand of the equilibrium is the atomicity of the market, according to which, numberless individuals are to be convergent through optimal agreements with optimal resources, technology, independently of a particular historical context. To sum up, the equilibrium is limited by exogenous variables. Another path to develop the equilibrium is to rise the number of endogenous variables, but doing this, the explanatory capacity of the system will be altered in explaining the realities of the market.

The economic equilibrium could be analyzed within the perspective of a puzzle: Thomas Kuhn pointed out that scientist as puzzle-solvers know that the solution is somehow guarantee. At least on the paper, the equilibrium point is reachable. Every piece of the puzzle is a new solution of an equation of the equilibrium model, and the general solution should be attained when all the puzzles are matched to its places. No matter how the puzzle-solvers match the pieces, as long as they match them, the solution as the equilibrium point is to be achieved. From this perspective, the economic equilibrium is nothing but an economic paradigm as others (Kuhn, 2008, pp. 98).

To sum up, economic equilibrium is a concept within a Cartesian/Euclidian type of thought. It is virtually impossible to conceive a matrix of equations to gather atomicity of market. Using falsificationism backgrounds, it is almost impossible to avoid a particular case when a specific combination of relation between market participants would alter the equilibrium point (Popper, 2001). Nevertheless, economics is a science of Babylonian thought, accordingly to this, the economic equilibrium seems to be thrown away from economic science. The solution to this methodological dead end is the switch from falsificationism to the paradigm shift of Thomas Kuhn. From a paradigm perspective, the economic equilibrium concept not only stands in economics, but stands resolute as one of the most important concepts to bring balance to market.

Conclusions

In all, the methodology of economic equilibrium reveals the positive backgrounds of a major concept of the mainstream of a normative science. Economics was seen as a value-free science for almost a half a century, whereas today it is generally agreed that value judgments are inherent to economics. The problem of economic equilibrium does not pass the full spectrum of underpinning arguments for value-laden. Gunnar Myrdal (1958) expressly has pointed out that there is no such a thing like a social science without an interest (Boumans and Davis, 2010, pp. 174). Likewise, the problem of drug disputed between doctor and killer is value-free, otherwise unable to be put into an equation within

the equilibrium model. Mathematics and physics do not have interests, but economics does. It is not the case for the equilibrium. We are taught to think in economic and social matter, whereas the equilibrium point fails to match both. However, the equilibrium has only methodological value judgments, namely the fact that from the very beginning Leon Walras underpinned the value-free pattern of the equilibrium. The third value judgments test for the equilibrium, the ethical implication of rational choices, has been clearly overshadowed by the presentation of the equilibrium backgrounds.

The main contributions of this paper is to provide a different perspective of analysis of equilibrium, with value judgments and within the quest for the scientific pattern of economics as a science. However, the equilibrium issue is open and the ethical requirements of modelling the equilibrium is more and more under the jurisdiction of economic policies. The most appropriate way to understand and accept economic equilibrium as an important pillar of mainstream is to juxtaposition it on the paradigm mode of thought, accept the existing best, and permanently hope for a new better one.

References

- BonJour, Laurence, 2005. *In defense of the A priori*. In: Steup, Matthias and Sosa, Ernest eds., 2011. *Contemporary debates in epistemology*. 9th ed. New Jersey: Wiley-Blackwell Publishing, Ch. 4
- Boumans, Marcel and Davis, John B., 2010. *Economic methodology: understanding economics as a science*. New York: Palgrave Macmillan
- Dancy, Jonathan, 1985. *Introduction to contemporary epistemology*. New Jersey: Wiley-Blackwell Publishing
- Devitt, Michael, 2005. *There is no A priori*. In: Steup, Matthias and Sosa, Ernest eds., 2011. *Contemporary debates in epistemology*. 9th ed. New Jersey: Wiley-Blackwell Publishing, Ch. 4
- Dow, Sheila C., 1998. *The methodology of macroeconomic thought*. 2nd ed. Cheltenham, Northampton: Edward Elgar
- Fumerton, Richard, 2005. *The challenge of refuting skepticism*. In: Steup, Matthias and Sosa, Ernest eds., 2011. *Contemporary debates in epistemology*. 9th ed. New Jersey: Wiley-Blackwell Publishing, Ch. 3
- Hahn, Hans, Neurath, Otto, Carnap, Rudolf, 1929. *Monographs on the Scientific World-Conception (Schriften zur wissenschaftlichen Weltauffassung)*. (online) April 2017 available at <<http://evidencebasedcryonics.org/pdfs/viennacircle.pdf>>, (accessed March 2017)
- Kaldor, N., 1972. *The irrelevance of equilibrium economics*. Economic Journal 82 in Dow, Sheila C., 1998. *The methodology of macroeconomic thought*. 2nd ed. Cheltenham, Northampton: Edward Elgar, Ch. 6
- Kuhn, Thomas, 2008. *Structura revoluțiilor științifice*. București: Humanitas
- Kvanvig, Jonathan, 2005. *Truth is not the primary epistemic goal*. In: Steup, Matthias and Sosa, Ernest eds., 2011. *Contemporary debates in epistemology*. 9th ed. New Jersey: Wiley-Blackwell Publishing, Ch. 10

- Lloyd, Genevieve, 2008. *The “maleness” of reason*. In: Alcoff, Linda Martin ed., 2008. *Epistemology: the big questions*. 8th ed. New Jersey: Wiley-Blackwell Publishing, Ch. 7
- Mills, Charles W., 2008. *Alternative epistemologies*. In: Alcoff, Linda Martin ed., 2008. *Epistemology: the big questions*. 8th ed. New Jersey: Wiley-Blackwell Publishing, Ch. 7
- Myrdal, Gunar, 1953. *The political element in the development of economic theory*. London: Routledge. In: Boumans, Marcel and Davis, John B., 2010. *Economic methodology: understanding economics as a science*. New York: Palgrave Macmillan, Ch. 7
- Myrdal, Gunar, 1958. *Value in social theory*. London: Routledge. In: Boumans, Marcel and Davis, John B., 2010. *Economic methodology: understanding economics as a science*. New York: Palgrave Macmillan, Ch. 7
- Popper, Karl, R., 2001. *Conjecturi și infirmări*. București: Trei
- Robins, Lionel, 1932. *An essay on the nature and significance of economic science*. London: Macmillan and Co
- Rusell, Bertrand, 2013. *Cunoașterea lumii exterioare*. București: Humanitas
- Smith, Adam, 1992. *Avuția națiunilor*. Chișinău: Universitas
- Tiles, Mary and Tiles, Jim, 2008. *Idols of the cave*. In: Alcoff, Linda Martin ed., 2008. *Epistemology: the big questions*. 8th ed. New Jersey: Wiley-Blackwell Publishing, Ch. 7
- Vogel, Jonathan, 2005. *The refutation of skepticism*. In: Steup, Matthias and Sosa, Ernest eds., 2011. *Contemporary debates in epistemology*. 9th ed. New Jersey: Wiley-Blackwell Publishing, Ch. 3
- Walras, Léon, 1938. *Elements of pure economics or the theory of social wealth*. 4th ed. London, New York: Routledge