

Russell Hardin, and several other defenders of rational choice liberalism. Amadae elucidates not only the lines of commonality but also the distinctions among these scholars.

There is no doubt to this reviewer that Amadae possesses an excellent knowledge of the intellectual history of rational choice theory. The difficult texts in the canon of rational choice theory are discussed with clarity and insight. For those who want to know this intellectual history, this is the book to read. The problem with this book is that too much is claimed. Rational choice may have fortified the belief in liberal democracy for some in academia, but the question of how many is not addressed. It may be impossible to collect precise data to answer such a question, but, in light of the possibility that the answer is “not many,” it ought to be considered. Moreover, it seems that, especially for people such as James Buchanan, rational choice provides a method of fortifying inclinations and positions already held. Buchanan was not a Marxist who discovered mathematical formalism and then had a “conversion.” Buchanan developed a methodological approach to verify impressions already held. That rational choice provided a foundation for some Cold War liberals is important and worth understanding. This book provides the means for such understanding.

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Economic Methodology: An Inquiry

Sheila C. Dow

Oxford, United Kingdom: Oxford University Press, 2002 (220 pages)

Sheila Dow is currently Professor and Director of the Department of Economics at Stirling University. Her original and present field of study is economics. Before working in methodology, she had proved her worth as an academic economist, writing or editing more than ten books, forty articles, and fifty chapters in books published in the fields of macroeconomics and methodology. She works from a post-Keynesian perspective, aligned with ideas of evolutionary economics and those of Tony Lawson’s critical realism.

This book is a clear, up-to-date and in-depth introduction to the methodological issues of economics. Moreover, its presentation and evaluation of the various contemporary approaches are balanced. It is no mean task to point out the merits and limits of those approaches in such an even-handed manner.

Before briefly exposing the content of her book, let me highlight two virtues that are especially remarkable in it because they are rare species in this area of study. First, Dow stresses the idea that methodology depends on an implicit ontological position (cf. 136, 151, 154, 159, 164). Second, her constant concern is to address real-world economic problems (cf. 15, 130-1).

Economic Methodology begins with a discussion about the difficult issue of the nature and scope of the science of economics. Jokes about economists are widespread

(see, for instance, <http://netec.wustl.edu/JokEc.html>), and they make us laugh, but at the same time they should make us think about the reasons for such irony. Where is the science of economics going? Why does it keep changing? One reason is the shortcomings in existing theories. Here Dow puts forward the idea that there can be different notions of rationality. Some theories do not coincide with reality in either their assumptions or their predictions (or both).

Another reason is changes in tools—for example, informatics technology—that open the doors to new research. Yet another reason is the necessity to give an answer to questions stemming from the changing political environment. On the one hand, real economy, which is part of the institutions, also changes. On the other hand, economic theory influences these same institutions. Therefore, “the success of the institutional design depends to a large extent” on a good rationale for the economic theory. “Change in the subject matter of economics arises,” Dow says, “because economics is dealing with human beings who function within a social system” (10).

In this context, what is meant by progress in economics? Is technical change neutral? Increasing mathematization has actually changed the content of theory. Is this a positive development? What is the end in mind? In economics, effective communication is crucial. Does mathematics help to achieve it?

Economics is concerned with economic behavior of human individuals. How do we theorize about human nature? One case study for Dow is the family. Dow analyzes the scope and limits of the approaches to the family taken, respectively, by Gary Becker, by game-theoreticians, and by feminists. Her conclusion is that it is not easy to construct theory about a complex reality related to human beings. Other case studies are the theories of firms, the distinction between micro- and macroeconomics, expectations and uncertainty (not quantifiable risk), and the distribution of global pollution, all of which reveal that there are values implicit (at least, in assumptions concerning human nature) in theories.

Does empirical testing help to decide concerning theories? Econometrics tries to analyze whether theories conform to observed values of variables. Dow adds, “This poses two challenges: expressing theory in such a way that it has an empirical counterpart, and expressing different theories in such a way that the data allow us to discriminate between them” (39). This is not easy because that which is theoretically measurable, is not measured in actual circumstances. Besides, there are concepts that can never be measurable, such as interpersonal comparisons of utility and uncertainty. Given that theory is expressed in a reduced form, we can test only outcomes, not the rational decision-making as such. As is well known, correlation is not causality. In addition, there is a natural drive to endogenize as much as possible in order to explain more. However, how could we establish the direction of causality between endogenous variables? Sometimes the same empirical evidence supports quite different theories. Given this, although Christopher Sims’ suggestion of “letting the data speak for themselves” is interesting, it has a limited scope. David Hendry leaves more room for theory, but the complexity is high. Dow renders an example of the former with the case of the

difficulties in predicting financial crisis. In sum, empirical data are important, but they are only one element.

With the previous as introduction, chapter 5 deals with a central point: the scope and purpose of economics. This is the root of its problems. Dow is clear: “Economics deal with a complex subject matter. Like any other social science, economics deals with creative individuals (endowed with emotion as well as reason), and social systems (which are complex, and which change over time)” (55). She insists that economics should deal with real problems. Dow analyzes the shortcomings of the definitions of economics offered by Alfred Marshall, Lionel Robbins, and Kenneth Boulding. John Stuart Mill created *homo economicus* for methodological reasons. The definition of economic behavior is bound up with the methodology of economics. In referring to economics’ purpose—explanation or prediction—she highlights the importance of discovering causal mechanisms. She also raises doubts about the validity of the distinction between normative and positive in economics and, thus, of the concept of value-neutrality. Finally, she considers that economics is different from physical sciences, which economics has tried to emulate. The fact that facts are theory-laden impedes any objectivity.

How to identify good theories and progress in economics is the issue posed in the next chapter. Criteria such as logical consistency, verification, and predictive success have been generally used. Induction without theory does not say anything. Deductivists start from given assumptions; however, how do we guarantee them? The combination of both currents in the hypothetico-deductive method seems to be the most correct; however, it carries the limitations of both. Then, Dow considers the problems of the application of Karl Popper’s and Imre Lakatos’s methodologies and turn back to econometrics. Finally in this chapter, she appraises the different concepts about the meaning of economic models. The conclusion is balanced skepticism. Methodology with a capital *M*—prescriptive—has its problems. However, methodology with a small *m*—purely descriptive—does not add.

This is the problem tackled in the next chapter. It begins with Thomas Kuhn and describes the rhetorical and postmodern programs. In these approaches, tolerance becomes intolerant, and “the tyranny of ‘political correctness’” appears (125). Certainly, these approaches open the mind. However, as Dow concludes, “if, as economists, we are motivated to develop theory in order to address real-world problems, we have to take things a bit further” (130–31).

Then what should we do? First, we have to take into account the limitations of the subject matter, as Adam Smith and John Maynard Keynes did. This Dow does in the most interesting sections of the book. She presents the realist currents, exemplified by Uskali Mäki and Tony Lawson. From a realist point of view, the economic subject matter is fluid and reflexive, and it argues for an ontology of open systems. Rationality is a key notion. Perhaps Popper’s notion of situated rationality, or a practical rationality, would be more adequate than traditional economic rationality. Relevance of conventions, fallibility of our knowledge, the complexity of the subject, the value of Keynes’

“ordinary logic” and of vagueness reappear. (“It is better to be vaguely right than precisely wrong.”) Rigor does not always mean mathematical formal precision. There are fields, such as economics, which should rely on the identification of tendencies—in the logic of ordinary discourse and in the acceptance of a moderate methodological pluralism. The best strategy is synthesis. We must foster the relationships among philosophy, history, and the other social sciences. This is especially important for political economy and for economics education.

In sum, an economic methodology based on an economic ontology has a lot to teach the academic economist, the practical economist, and the student of economics. We might begin by studying Dow’s book. It is a pleasure to see it as one of the books for students of economics in the Oxford University Press catalog. It deserves to be widely adopted.

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Austrian Economics and the Political Economy of Freedom **Richard M. Ebeling**

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Since the nadir of Keynesianism in the late 1970s and early 1980s, there has been a great revival of interest in the economics of the free market and especially in that school that, prior to Keynes and the almost mystical hold he had on the minds of so many people, was very widely accepted, the Austrian School of Economics. Since the 1930s, in addition to the statist Keynesian approach to economics, which insisted on government manipulation of the economy through fiscal and monetary policy, not to mention the various justifications for socialism, the Austrian School has had to contend with what is called the neoclassical paradigm. This approach, in an attempt to mirror the methods and prestige of the natural sciences, relegated economics to virtually nothing more than various mathematical models of the different aspects of economic life.

The neoclassical approach has resulted in a number of stunting effects on economics as a science and has led to stinging criticisms of economics by many observers working within the Judeo-Christian tradition. Neoclassical analysis has made man into what some religious believers see as an automaton, who almost robotically makes choices based on predetermined preferences. The neoclassical paradigm also deals almost exclusively with questions of efficiency, which are important but are in no way central to economics as a science.

One of the main reasons that neoclassical economists have given economics such a bad name is that they do not investigate or discuss the philosophical premises behind their thought. They deal with how the world works in an abstract and mechanical way, but to consider why the world might work this way is out of the question.