

Book Review

**Simon Deichsel: The Usefulness of Truth.
An Enquiry Concerning Economic Modeling**

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by Thomas Domjahn

Is truth a meaningful criterion for the evaluation of economic theories? Simon Deichsel comes to the conclusion that it is not. He states that “[...] ‘truth’ is almost always replaceable by other terms that are ontologically more parsimonious (such as empirical adequacy or fit with the totality of current knowledge) [...]” (Deichsel 2012, 177–178). Deichsel argues for a so-called pragmatic approach to economic methodology which is radically problem-orientated. Good economic models should explain “much by little”. Realism is not a necessary requirement. “[M]ore realistic assumptions are not always the better ones; we should look for adequate idealizations for the problem at hand instead of mechanically heading towards more realisticness.” (Deichsel 2012, 188).

The author comes to his conclusion by juxtaposing two central schools of thought: empiricism and postmodernism. To some extent, Deichsel’s approach is Hegelian in that his pragmatism is the result of a synthesis of this theoretical dichotomy. According to Deichsel, empiricist methodologies are “ill-suited”, while postmodernism is “irrelevant”, when it comes to the evaluation of theory. His pragmatic approach, by contrast, is able to overcome the difficulties of empiricism and postmodernism.

In order to show that empiricism is unhelpful for economic methodology, the author critically discusses the theories of the three classic philosophers of science Karl Popper, Imre Lakatos and Thomas Kuhn.¹ Deichsel rejects the popular claim found in their philosophies that economics should become more empirical and hence more falsifiable. For Deichsel, the optimal degree of empirical and theoretical work in economics cannot be defined philosophically. Purely formal economic models based on unrealistic assumptions such as the rationality principle, constant preferences or the *ceteris paribus* condition are perfectly alright and can even generate epistemic progress. The author illustrates this thesis in two case studies. The first looks at macroeconomic growth theory and the second is concerned with the microeconomic modeling of social problems. The analysis

¹ Even if Kuhn is usually regarded as a postmodernist philosopher, Deichsel treats his theory in the chapter about empiricism because he interprets Kuhn’s methodology as a “rather descriptive criticism of empiricism and less a sketch of new epistemological ideas” (Deichsel 2012, 78).

of the development of growth theories shows that the empirically empty growth model of Solow (1956) provided a useful structure for more empirical research (“new growth theory”) and it would not have been helpful to have rejected the Solow model due to its lack of empirical content. The case study on microeconomics reveals that rational choice approaches, such as the one proposed by Becker (1978), can have great explanatory power even if the underlying rationality principle is not realistic. “Taken literally it is false, but it is a very useful paradigm—and there seems to be no alternative of similar scope in the social science.” (Deichsel 2012, 70)

After dismissing empiricism as a useful methodology for economics, Deichsel treats postmodern methodologies by critically evaluating the theories of among others Willard Quine,² Paul Feyerabend³ and Daniel Dennett. Postmodernism is a very broad category containing many different authors. However, all of them share the view that there is no reliable foundation for our beliefs. Hence, in science there can only be externally given standards thereby being relativist and in some way arbitrary. Deichsel admits that this view is hard to reject. But at the end of the day postmodernism is not relevant for the evaluation of economic theory. The conclusion of the chapter about postmodernism is therefore negative. “It seems that the debate about Truth [explicitly written with a capital T in order to signify truth in an absolute, global and universal sense, T. D.] and relativism led away from the discussion of economic theories and was rather detached from the questions economists had.” (Deichsel 2012, 105)

The following chapter tries to build up a pragmatic methodological approach to economics out of the dichotomy of empiricism and postmodernism presented in the preceding two chapters. The centerpiece of this chapter—and indeed the book—is Deichsel’s pragmatic reinterpretation of Milton Friedman’s famous essay “The Methodology of Positive Economics” (Friedman 1953). While many scholars have criticized Friedman for claiming that the assumptions of a theory do not matter because only good predictions count, Deichsel shows that this interpretation of Friedman is due to a misunderstanding. According to Deichsel, Friedman stresses that the assumptions of a theory are not irrelevant but that they should be determined by the particular problem of the theory being studied. This means that the assumptions may be unrealistic if they help to solve a given particular problem. Empirical adequacy is necessary in the outcome (i.e. the prediction) but not at the foundation (i.e. the assumptions) of a theory. Deichsel concludes that this pragmatic approach of Friedman and his contemporary followers such as Uskali Mäki is “the most promising candidate for theory appraisal in economics” (Deichsel 2012, 189). Economic models should be tested against their ability to find solutions to the problem areas they model.

The final section of the book consists of four case studies on bad economic modeling. The essence of these case studies is that the error lies not in the mod-

² Quine is treated as the first author in the chapter about postmodernism because according to Deichsel Quine’s philosophy influenced later postmodernist and relativist thinking.

³ Deichsel classifies Feyerabend as postmodernist because for Feyerabend “there are no sacrosanct standards at all, and science is not a privileged way to gain knowledge” (Deichsel 2012, 83).

els as such but in their (over-)interpretation. “The problem is that economists are often far too confident that their models *actually* describe the real driving forces of phenomena under scrutiny, even if all they can show is the mere *possibility* that their model describes forces that can be found in the social world.” (Deichsel 2012, 202)

All things considered, the book presents a very convincing argument. While the argumentation strategy may be Hegelian, the style is not. Deichsel writes clearly, concisely and is always aware of the limits of philosophy. The literature review undertaken by the author is comprehensive and the discussion is well-balanced considering the pros and cons of the treated theories. Of course, one does not have to agree with all of Deichsel’s conclusions and can continue to advocate empiricist or postmodern methodologies or other versions of pragmatism as many intelligent people do. In any case, Deichsel’s presentation is vigorous and robust without being dogmatic (the final sentence of the book consists of a self-effacing ironic quip, which will not be revealed in this review!).

This book is not written for a general readership but rather the economic modeling specialist. Philosophers who are interested in deeper epistemological topics related to the Philosophy of Science will be disappointed because Deichsel does not digress into other topic areas in as far as they are not relevant to the particular subject of the book. He even states that “philosophically problematic methodological advice can be helpful for practitioners” (Deichsel 2012, 18). In the opinion of this reviewer the disciplined approach of the author is a virtue of the book.

One critical aspect of the book is that at the end the reader has the feeling to come back empty-handed. The author gives no prescription as to how this book helps an economist to do actual research. In particular it is hard to see how a junior scientist could use this book to progress future research. In defense of this criticism it must be said that this book is philosophical and not a book discussing the practice of research methodology. Indeed, philosophy may not be able to develop values, be they moral, political or scientific. This would mean that philosophy is tasked with structuring these discourses and evaluating the arguments on the market of opinions. Seen from this perspective, Deichsel accomplishes this regarding the debate about economic methodology in a very professional and persuasive way. Certainly, it is preferable to solve a well-defined methodological problem (or at least to offer a possible solution) than to overstate the case and to make value judgments that cannot be defended rationally.

References

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