Intuitive Economics: On the Role of Power and Knowledge in Post-Crisis Economics

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Abstract

The recent financial crisis has re-launched a debate over the epistemological nature of economics that displays many of the hallmarks of a much older, prominent quarrel: The Methodenstreit der Nationalökonomie, originating in methodological differences between the Austrian School of Economics and the German Historical School in the 1880s. This paper adds to the ongoing discussion on the epistemological direction of post-crisis economics by putting it into context with the Methodenstreit and the marginalised treatment of power and knowledge in the formalistic, deductivist modes of analysis that characterise modern-day economics. I reexamine Edgar Salin’s concept of Anschauliche Theorie (intuitive theory) as a power- and knowledge-augmented counterbalance to the abstract technique of orthodox economics and argue that a recasting of these ideas as a central pillar for methodological reform plays a pivotal role in developing a new vision in contemporary economic theory.

Keywords: Reform of economics, Methodenstreit, epistemology, power, knowledge, critical theory

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1. Introduction

For most of the post-war half century, the dialogue between qualitative and quantitative discourses in the social sciences has been marred by an increasingly embittered dispute over methodology. Despite the
mutual quest for a unifying science, this row has both deepened cross-disciplinary divides and created
gaping rifts within disciplines. It has also profoundly shaped the intellectual trajectories of emerging new
sub-disciplines, such as international relations (Finnegan, 1972) or economic geography (Scott, 2000). For
many fields in social science, including economics, the immediate post-World War II period marked a time
of metamorphosis and departure from disciplinary orthodoxy – a trend that was particularly backed by
emerging quantitative methods. Across the board, proponents of quantitative social science methodology
increasingly likened themselves to their natural science counterparts, whereas qualitative methods came to
be the last bastion of “true” social scientists. By the turn of the millennium, C.P. Snow’s “Two Cultures”
had become entrenched in outright “science wars” that rendered “qualitative analysis” and “quantitative
methods” almost mutually exclusive concepts. With no truce in sight, the stakes for both sides are high as
defeat amounts to nothing short of the respective method of inquiry losing its disciplinary relevance.¹

The recent financial crisis has drawn renewed attention to the epistemological fault lines of this dis-
pute: The momentous dislocations in the global financial system were not only deemed prime evidence
for the failure of modern varieties of capitalism, but they also represented a damning indictment for the
science behind it. Among the most perplexing puzzles of the crisis is the fact that neither policy makers,
market participants nor experts anticipated its historic scope. Given the plethora of safeguards, a collapse
of the global financial system seemed unthinkable. Yet still, “how could this happen?” lamented the Bank
for International Settlements (BIS) – the world’s oldest international financial institution and global think
tank for monetary policy makers – in its 2009 annual report (BIS, 2009). In a recent reply to HRH Queen
Elizabeth’s question as to why so few of their guild had foreseen the credit crunch, ten prominent British
economists publicly disagreed with the official response from the British Academy (Besley and Hennessy,
2009); rather than a simple combination of wishful thinking and hubris by experts and market participants
alike, their dissent puts the blame squarely on the (epistemological) training of economists which had pro-
duced “a generation with too many idiots savants skilled in technique but innocent of real economic issues”
(Hodgson, Dow, Earl, Foster, Harcourt, Metcalfe, Ormerod, Rosewell, Sawyer, and Tylecote, 2009, p.2, ital-
ics in the original). Indeed, “the preference for mathematical technique over real-world substance diverted
many economists from looking at the vital whole, [failing] to reflect upon the drive to specialise in narrow
areas of enquiry, to the detriment of any synthetic vision” (Ibid., p.2). In a similarly public disagreement,
German economists at home and abroad have been polarised over the methodological school of thought that

¹See for example Flyvbjerg’s (2001) Making Social Science Matter for a more general exposition of the “science wars”.
should prevail in the economics curricula at German universities.²

This paper adds to an ongoing discussion on the methodological direction of economics in this Journal. Forestalling the uncertainty that has taken hold in post-crisis economic thought and practice, Dow (1997) identifies a “denial of the value of methodological discussion” – and the subsequent gulf between professed methodology and practised methodology – as the most imminent risk to the future of mainstream economics. Recent contributions by Hodgson (2009) and Lawson (2009) articulate the need for methodological reform and outline transformative antidotes to the formalistic, deductivist modes of analysis that have come to dominate modern academic economics. Post-crisis epistemological reform ought to be even more ambitious than the influential critique of Colander, Goldberg, Haas, Kirman, Juselius, Sloth, and Lux (2010) whose proposed alternatives advocate “more realistic specifications” of standard models. Here, I evaluate the current crisis of (academic) economics through the prisms of historical and interdisciplinary, heterodox perspectives. Specifically, I argue that these latest disputes over the epistemological nature of economics – with their parallels in contemporary social science inquiry – display many of the hallmarks of a much older, prominent quarrel: The Methodenstreit der Nationalökonomie. Pitting the Austrian School of Economics against the German Historical School in the 1880s, this strife over methods has largely remained unresolved despite several attempts to overcome it. Yet, curiously, these efforts seem overlooked and outside of the current battlefield of the science wars, where much of the debate is shaped by contemporary political theory. While critical theory, poststructuralism, and postmodernism have left distinct marks elsewhere in the social sciences, mainstream economic theory proved largely impervious to similar developments.³

In this context, the marginalised treatment of the concepts of power and knowledge is particularly surprising if one considers that Bertrand Russell extensively argued that “power to social science is like energy to physics as far as fundamental concepts go” (Russell, 1938, p.ix). Such awareness for an integrated methodological treatment – even among the staunchest supporters of the Comtian project of social physics – faded promptly in the postwar years as the neoclassical synthesis banished broader notions of power and knowledge from the orthodox mainstream of economic analysis. Despite being compared to Einstein for his “far-reaching generalization under which Newton’s results can be subsumed as a special case” (Pigou, 1936,

²The origins of this debate lie in the proposed radical re-orientation of the economics department at the University of Cologne in 2009, moving the ideological stance from its ordoliberal heritage to quantitative macroeconomics of a more Anglo-American flavour. Rüdiger Bachmann at the University of Michigan keeps a comprehensive archive of recent contributions to this dispute in Germany and to the broader debate on economic methodology on his website.

³The “postmodern turn” in economics during the 1980s is a notable exception which I address in more detail in section 3 below. More recently, Kaul’s (2002) proposal for contextualised theories and methodological pluralism in economics initiates a dialogue in this direction.
p.3), John Maynard Keynes insisted that economics is essentially a moral science. Indeed, he famously took issue with Lionel Robbins’ call for a complete separation of ethics and economics (Atkinson, 2009).

Today, such considerations have largely disappeared from the mainstream; economics is deemed to have become as predictive of human action as physics is of nature. Prominent economists deliberate whether their discipline is closer to the practical problem solving in engineering or to the development of analytic tools and establishment of theoretical principles in the (natural) sciences (e.g. Mankiw, 2006; Bernanke, 2010).

Undeniably, the social engineering aspirations of economics – shaping reality in its own neoclassical image and then reconstructing economic reality so as to fit these assumptions – have never been higher (Santos and Rodrigues, 2009). To a large extent, then, contemporary economics is characterised by a dominance of technique over substance, a development that has given rise to a number of prominent warnings over the last 20 years or so (Hodgson, 2009).

Revisiting Edgar Salin’s concept of *Anschauliche Theorie* (intuitive theory) and putting it into context with power and knowledge serves as my central point of departure in the current debate. Indeed, I hope that a recasting of these ideas in the form of “intuitive economics” might constitute a central element within the larger project of rethinking methods in economics, aimed at overcoming the lack of vision in contemporary economic theory. To dispel possible ambiguities due to parallels in their genealogical origins upfront: “Intuitive economics” is not economic sociology – or socio-economics in the sense of Etzioni (1986) or Swedberg (1990) – simply by another name. Instead, it is the proposal for a consistent conceptual framework that combines Salin’s legacy of a historical and institutional understanding of the political economy with the analytical rigour of modern economics. The much coveted prize for this challenging venture has many dimensions; most pressingly, it would provide the grounds for a truce in the science wars. Beyond this, it would free economics from its current obsession with method and re-focus policy debates around more pressing questions which define the current post-crisis environment. The challenge for “intuitive economists” is to rediscover some of the utopian vision shared by the great economic thinkers. As Golda Meir is famously quoted, “an economist who is no utopist is no good economist” (Salin, 1965, p.227).

The remainder of this paper is organised as follows. Section 2 looks at the *Methodenstreit der Nationalökonomie* as the original science war and outlines attempts to resolve the debate, revealing the first tendencies in economics to abstract from the contextual forces of power and knowledge. Section 3 looks at how a wedge between orthodox theory and reality has lead to repeated crises in economic inquiry. Sec-

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*I share Hodgson’s (2008) scepticism regarding the viability of socio-economics as a (post-crisis) alternative with sufficiently clearly delineated intellectual boundaries and a well-defined theoretical agenda.*
tions 4 and 5 examine the limited treatment of power and knowledge in modern-day economic theory. A discussion of the contemporary relevance of Salin’s intuitive theory provides the starting point for section 6 which also outlines the possible elements of a synthesis for a new vision in economic theory. Section 7 concludes with some tentative reflections on new directions for carrying economic thought beyond the science wars.

2. Methodenstreit der Nationalökonomie

A Methodenstreit, the dispute over methods between different schools of thought, is not unique to modern science and can at least be traced back to epistemological differences between Plato and Aristotle. In the context of the post-Enlightenment project of social science inquiry, however, the Methodenstreit between the German Historical School and the Austrian School of Economics seems important for at least two reasons. First, the Methodenstreit was instrumental in delineating the intellectual division of labour between economics and sociology, an intellectual legacy that still shapes important aspects of the boundaries between the two disciplines today. Recent important changes in the relationship between contemporary economics and sociology, such as the emergence of “new economic sociology”, are rooted in the Methodenstreit (Ingham, 1996). Second, the Methodenstreit represents a unique epoch of pluralist thinking in the history of economic thought. Its explicitly epistemic character is perhaps what most distinctively puts it in contrast to other generally accepted periods of pluralism in economics.5 As this dispute lasted over three generations from the late nineteenth to the early twentieth century, it was profoundly shaped by global political developments over the course of the last century, eventually abruptly halted by the Great Depression and forgotten or no longer deemed relevant during the golden years that followed World War II. As the interwar period of intellectual pluralism gave way to the dominant postwar canon, the Cambridge Capital Controversy – in many ways a direct descendent of the Methodenstreit – first adumbrated the epistemological problems at the core of the current debate: it identified “sloppy habits of thought that are handed on from one generation to the next.” (Robinson, 1953, p.81), arguably culminating in the failings of current academic research practices in economics. As many of the old, methodological fault lines are featuring prominently in the current

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5In addition to the Methodenstreit, Davis (2008) identifies the following periods of pluralism in the history of economic thought: the transition from classical to neoclassical economics in nineteenth-century Britain; the heterodoxy of labour and monetary economics in post-Marshall Cambridge; the interwar competition in the USA between institutional and neoclassical economics; and the 1970s debate between proponents of monetary and fiscal policy in the IS-LM framework. I would argue the case for adding the Cambridge Capital Controversy that raged from the mid-1950s to the mid-1970s as a separate episode to that list.
crisis, it seems appropriate to return to a brief description of the original Methodenstreit and to contemplate its present-day relevance for similar developments in social science.6

2.A. The Original Science War

In 1871, not even five years after the first volume of Karl Marx’s grand œuvre was published, Carl Menger presented his own interpretation of the political economy, Principles of Economics, which would become the intellectual foundations of the Austrian School of Economics. However, it was not until 1883, when the publication of his Investigations into the Method of the Social Sciences with Special Reference to Economics (Menger, 1883 [1985]), prompted a response from the German Historical School in Gustav von Schmoller’s (1883) Methodology, thus marking the beginning of an intense academic debate that should last for several decades. The Historical School contended that – in a similar vein to Marx’s historical materialism – there was a distinct difference between the fundamental character of natural phenomena and that of cultural phenomena, the latter of which could only be understood through the interaction of historical processes. Accordingly, economics could contribute to the understanding of human action only through the study of regularities derived from a historical context – an epistemological stance that lives on across disciplines, from institutional economics to the Foucaultian method of genealogy (Foucault, 1995). The Austrian School by contrast believed that economics would derive from a basic logical principle and – as socio-economic and political interaction were far too complex to be understood by simple inductive means – a key role of economics would be to develop universally valid theories of human action via deductive methods.

While both schools shared the vision for a universal theory of all social phenomena, the Austrian School – like many of its Anglo-Saxon contemporaries – saw a distinct separation between an economic and a non-economic sphere of human action. The Historical School, on the other hand, strongly emphasised the interdependencies between economic and political developments, deeming it impossible to deduce the complexities of social activities from a single unifying axiom. On a different level, these positions also represented opposite ends on the spectrum of varieties of capitalism, with the classical liberalist conviction of the Austrian School at one end, and the vision of interventionist or welfare-state capitalism by the Historical School at the other end. In due course, the Methodenstreit would engage thinkers such as

6For a comprehensive historiographical account of the Methodenstreit, see Bostaph (1978); for a non-traditional interpretation of the origins of the dispute, see Anderson, Ekelund, and Tollison (1992). After the Civil War, returning German-trained American economists clashed with traditionalists in what became an American version of the Methodenstreit (Mongiovi, 1988).
Eugen von Böhm-Bawerk and Ludwig von Mises for the Austrian School and Max Weber and Werner Sombart for the Historical School. Joseph Schumpeter’s affinities with the Historical School have been inadequately acknowledged (Michaelides and Milios, 2009), but they remain – in the form of evolutionary or neo-Schumpeterian economics – perhaps the most significant trace of an intellectual legacy of the Historical School in contemporary economic thought. One of the most well-documented attempts to overcome the Methodenstreit is Max Weber’s (1927 [1949]) synthesis of the neoclassical and the historical approach, a project that he termed “Sozialökonomik” (socioeconomics). He rejected both the descriptive approach of the Historical School and the highly abstract representation of universal phenomena by suggesting hypothetical “ideal types”, intended only serve as heuristic aids for the purpose of understanding a specific case at hand.7

By the late 1930s however – with the original dispute far from being resolved – the uncomfortable association of key thinkers of the Historical School with the Nazi regime and Anglo-Saxon intellectual developments that culminated in Keynes’ General Theory (1936) brought the original Methodenstreit to a premature end.8 As a consequence – in no small part influenced by Schumpeter’s (1954 [1996]) widely-shared assessment of the Methodenstreit as an “episode of wasted energies” – later attempts would no longer enjoy the prominence of earlier ventures to settle the dispute. This includes proposals by Walter Eucken (1950) and Edgar Salin (1944). Eucken’s proposal was grounded in a structural understanding of the economy as a system that combines the notion of a natural order of things with that of human action. In contrast to both Weber and Eucken, Salin’s proposal identified the increasing mathematical abstraction and the search for universal principles as the underlying causes of epistemological problems in economics, perhaps anticipating concerns that are central to the current debate. Their ideological differences notwithstanding, both the Historical School and the Austrian School were united in their mutual criticism of increasing “scientism” – the inappropriate transfer of methods from the natural to the social sciences, or to use Hayek’s (1942) phrase, the “slavish imitation of the language of science” – in economics. In this sense, I argue that a new synthesis of the positions in the original Methodenstreit present viable alternatives to the objectivist mathematical formalism of the neoclassical paradigm that has dominated the postwar era.9

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7 Weber’s construct of ideal types is frequently interpreted as the positivistic postulate to establish such types, particularly in an institutional context. This might indeed be a misinterpretation of Weber’s Idealtypen which were simply intended as temporary assumptions for analysing specific phenomena. See Swedberg (1999) for a concise overview of this debate.

8 Sombart’s attempt to advise the National Socialists in 1934 had particularly detrimental effects for the credibility of the Historical School. Although the party officials rejected his suggestions with deprecating remarks, this tarnished much of his intellectual legacy (Schefold, 2002).

9 With the collapse of the Historical School, Austrian economists – led by von Mises and Hayek – redefined their method-
2.B. Modern Science Wars

The significant political crises of the previous century had profound impacts on the conduct of social science, yet their discipline-specific manifestations varied significantly across research agendas in sociology, political science and economics. While the spectre of fascism and state capitalism inspired a generation of critical social theorists associated with the Institut für Sozialforschung in Frankfurt (the “Frankfurt School”), economic theorising during the interwar years grew comparatively void of political questions. By the middle of the twentieth century, mainstream economic theory had become largely apolitical and ahistorical in terms of the questions it addressed and resembled more closely the natural sciences, displaying a large degree of mathematisation. During the stability of the 1950s both economics and the philosophy of science moved from having a variety of competing approaches and research strategies to having a single, almost unanimously accepted mainstream or standard view (Hands, 2007). After a period of relative pluralism, postwar economics entered a stage of orthodoxy that transformed neoclassicism into a single dominant approach. With capital instantly and costlessly malleable, history was no longer deemed a relevant factor. Instead, the focus on modelling methods and technique became the defining characteristic of the formalistic mainstream in economics (Niehans, 1990). Yet, historically neither pluralism nor dominance appear to be a permanent state of affairs and each is ultimately replaced by the opposite paradigm (Davis, 2008). While prospects for the emergence of a new orthodoxy capable of replacing the deductivist-modelling approach of modern economics appeared unlikely prior to the financial crisis, the recent failings of academic economics might provide sufficient momentum for epistemological change that re-aligns the academic mainstream with its potential audience. If notions of power and non-technological knowledge remain absent from theoretical discourses of contemporary orthodoxy, economics risks that it will remain a discipline that “forgets most of what it once knew and allows itself to be continually distracted, confused, and in denial” (DeLong, 2011, p.2), pushing it perilously close to the brink of irrelevance.

Austrian position on capital eventually gave rise to the Cambridge Controversy. I do not argue in favour of the modern Austrian paradigm in the narrow sense of a Methodenstreit that is still ongoing today (Huerta de Soto, 1998). Rather, I see merit in analysing the current crisis through the prism of earlier efforts to resolve the dispute over epistemological methods in economics during the original Methodenstreit.

Blaug (1998) suggests that this post-war transformation of neoclassical economics calls for a new label. However, I am not convinced that Colander’s (2000) suggestion of “New Millennium Economics” is quite appropriate in the context of this article. At least in keeping with Aspromourgos (1986), I henceforth try to minimise the common usage of the term neoclassical to juxtapose modern mainstream economics with heterodox economic thought.
3. The Third Crisis of Economic Theory?

Prevailing economic orthodoxy, it seems, is characterized by a “clearly discernible historical ebb and flow that coincides with the so-called long waves of economic history” wherein eras of prosperity and rapid growth alternate with periods of slow growth and instability (Crotty, 1980). The beginning of post-Keynesian area four decades ago was labelled by Joan Robinson as the “second crisis of economic theory” on the grounds that it shared one central feature with the first crisis which was triggered by the Great Depression some forty years earlier: It had nothing to say on “the subject which above all others occupies the minds of the people whom economics is supposed to enlighten” (Robinson, 1972, p.9). During both crises of economic thought, the orthodox mainstream had forgotten what the questions relevant to the period were. Instead of consistent and accepted answers to contemporary questions, both episodes saw a proliferation of academic economic theorising that was very little illuminated by the ideas that had emerged at the time (Robinson, 1977). By that measure – another forty years since the second crisis – the ideological dislocations of the Great Recession are carrying all the Robinsonian hallmarks to be considered a third crisis of economic theory: Neither the linkages between globalised financial markets, regulatory arbitrage and Minskyan financial instability (e.g. Bieri, 2009, 2010), nor the macroeconomic consequences of financialisation (e.g. Krippner, 2005; Skott and Ryoo, 2008) can be considered part of orthodox opinion.

3.A. Epistemological Problems of Economics

The neoclassical synthesis had yielded what Joan Robinson called “bastard Keynesianism” and saw a return to the natural-law tradition of scarcity-based neoclassical models, firmly anchored in methodological individualism. This radical departure from an institutionally-grounded understanding of the economy introduced a grand narrative that eventually generated its own antithesis in the “postmodern turn” in economics (Milberg, 1993). By the 1980s, a polyphonic group of postmodern economists began to question the objectivity of economics on the basis of its rhetoric and the discourse of economics analysis, but also on the basis of the history of that discourse itself. Both verbally and mathematically, the disciplined conversations of mainstream economic rhetoric grounded the ideas of the dismal science in natural law (McCloskey, 1983). Over the past three decades, the performativity of economics has been promoting a particular version of disciplinary imperialism that goes beyond the mere export of its concepts to territories traditionally occupied by disciplines other than economics (Hirschleifer, 1985; Santos, 2011); it injects economic calculus into human deliberation and introduces market-like forms of social interaction beyond the (contested) physics analogies of the early Marginalists (Hollander, 1989).
Early aspects of the problem of scientism in economics – in particular with regard to the appropriate relationship between qualitative and quantitative analysis – are of course central to the Methodenstreit. Above all, this is exemplified by von Mises’ (1976) argument that, in distinct contrast to the natural sciences, social sciences are characterised by a rather unique logical and epistemological nature. The Austrian view of economics as a theoretical social science thus implies that it can impart no knowledge other than qualitative, because it is neither based on (historical) observation nor on any other information that can be gathered through the methods predominant in the natural sciences. The Misean epistemology is perhaps best contextualised as a response to Mitchell’s (1925) AEA Presidential address that calls for establishing economics as a quantitative science. Its ahistoric position, however, runs counter to the main argument of this paper as I will expand further in the following sections. Nonetheless, contemporary economists might do well to recall that

“[t]hose theorists who are usually designated as the great masters of mathematical economics accomplished what they did without mathematics. Only afterwards did they seek to present their ideas in mathematical form. Thus far, the use of mathematical formulations in economics has done more harm than good” (von Mises, 1976, chap.8).

All of these episodes of disciplinary upheaval – past and present – have at their origins the positivist tradition of science, “its proselytic obsession with method” (Heilbroner and Milberg, 2002), and the search for absolute truth. Perhaps as an inevitable consequence, economic theory is, as is most theory in social science, laden with ideology. Milberg (1988) shows how the language used in contemporary economic theory has been producing and reproducing this ideology. During the quantitative revolution of the postwar era, social science methodology had become ontology through a process of basing itself on scientific concepts that are assumed to “exist outside the text” and that are used to portray cause-and-effect of human interaction in a scientific fashion. Method has by and large erased all authorial presence in economic writing. It has itself become the main text. Faced with disciplines that have a penchant for largely being devoid of deliberate authorial choices, and that have been trapped in the “positivistic language games” of academic career building, contemporary scientific social science writing is incapable of solving any intellectual problems using the brute force of technique (Agger, 1989). But until the onset of the recent financial crisis, little epistemic discourse in economics has taken place in the public sphere. Instead it manifested itself as “secret writing” in the iterative and disciplinary culture of peer-reviewed journals. The “private language” of contemporary economists is replete with highly charged rhetoric which – by creating the illusions of
front-line involvement – serves as a “permanent substitute for experience” (Brittan, 1983). The increasing disconnect between economic theory and socio-economic reality of the “public sphere” constitutes the real crisis of vision in post-crisis economics. Indeed,

“[t]he mark of modern-day economics is its extraordinary indifference to this problem. At its peak, the high theorizing of the present period attains a degree of unreality that can be matched only by medieval scholasticism.” (Heilbroner and Milberg, 1995, p.4)

The challenge is thus to rekindle economic debates that are not confined to the ivory towers of academia, but debates that are derived from “lifeworld grounded critical theory” (Agger, 2006). While the first crisis gave birth to Keynesiansim, the post-Keynesian crisis reconstituted the relationship between micro- and macroeconomic theory and definitions of rationality and optimisation (Bell and Kristol, 1981). The current fashion of economic analysis suffers from the scientific illusion which stands opposed to much needed pragmatic, empirical work (Summers, 1991).

At the heart of the third crisis in economics, then, is the scientism of representative agent models that are incapable of addressing the complexities of macroeconomic aggregates. The mathematical involvedness of ubiquitous DSGE models – not to their analytical sophistication – epitomises the nature of this version of scientism in modern macroeconomic best practice; it is reminiscent the deterministic paradigm of classical physics, rather than the multiverse interpretation of quantum mechanics. The failure of modern macroeconomics to recognise that fundamentally complex systems cannot (and should not) be formally modelled has led to an inappropriate combination of fundamental science and policy making (Colander, Howitt, Kirman, Leijonhufvud, and Mehrling, 2008). I agree with Colander’s (2011) recent assessment that policy should not directly follow from models, but that “it follows from reasoned analysis […] which combines models with institutional knowledge, intuition, and common sense”. Because of the intrinsically endogenous relationship between policy and the modelling process itself – so elegantly side-stepped by the assumption of rational expectations – economic analysis must re-embrace the disciplinary treatment of power and knowledge beyond traditional disciplinary boundaries.\textsuperscript{11}

\textsuperscript{11}While the original \textit{Methodenstreit} has certainly contributed to the fact that the treatment of power and knowledge marks a fundamental dividing line between the two disciplines, prominent sociologists such a Talcott Parsons have also cemented this segregation by insisting that institutions, being the embodiments of values, were the proper subject of sociology rather than economics. Velthuis (1999) documents Parsons’ objection that institutional economics had a misconceived view on the scope of economics. According to Parsons, institutions as the embodiments of values were the proper subject of sociology rather than economics. This division of labour between economics and sociology – legitimised by Parsons – has shaped much of the interaction between the two disciplines.
3.B. Power and Knowledge

The relationship between epistemology and power is one of the most significant problems in contemporary social sciences theory. For much of the previous century, the commonly accepted modes of social science inquiry – separating “power” and “knowledge” (epistêmê or technê)\(^{12}\) – have been the central subject of attack by the highly abstract writings of critical theorists of the Frankfurt School. In the context of the previous discussion, the relationship between epistêmê and technê in Greek philosophy offers an interesting insight with regard to the appropriate interaction between theory (pure knowledge, i.e. the fundamental science of macroeconomics) and experience-based practice (i.e. policy).

Like in critical social theory, a reintegration of power and knowledge into the framework of economic analysis could help to close that very gap between theory and reality – a gap that is largely attributable to de-politicising and de-historicising of economic thought. The artificial separation between power and knowledge, between politics and history and – in Lyotard’s (1984) sense – between justice and truth is widely recognised elsewhere in contemporary political and social science. At least since Foucault’s (1980) famous contention that “power produces knowledge” and vice versa, the two concepts have become inextricably linked. With this disclaimer and for ease of analysis, however, I will proceed by engaging in a separate treatment of their respective roles in an economic setting. Indeed, O’Neill (1986) argues that Foucault’s work may be read as a continuation of Weber’s analysis of the bureaucratic organisation and discipline of the state and the economy, since both share an interest in depoliticising the perception of their power by subordinating them to the neutral image of disciplined knowledge and technology.

4. Economics and Power

As mainstream economics has turned its back on political discourses, power relations have become the blind-spot of economic theory.\(^{13}\) Contemporary economic theory makes narrow assumptions about the relationship between power and economic activity, suggesting direct a trade-off between economic freedom and political freedom. Indeed, Milton Friedman famously argued that

“[..] the kind of economic organization that provides economic freedom directly, namely, competitive capitalism, also promotes political freedom because it separates economic power

\(^{12}\)Epistêmê (ἐπιστήμη) is the Greek word most often translated as knowledge, while technê (τέχνη) is translated as either craft or art.

\(^{13}\)Galbraith’s (1983) Anatomy of Power represents the exception that confirms the rule. Bartlett’s (1989) Economics and Power offers a more comprehensive, holistic treatment of the topic, ambitiously aiming to devise a broadly applicable economic theory of power.
from political power and in this way enables the one to offset the other. [...] By removing the organization of economic activity from the control of political authority, the market eliminates this source of coercive power. It enables economic strength to be a check to political power rather than a reinforcement.” (Friedman, 1962, pp.15–17).

In the deductivist-utilitarian models of modern economics, power thus provides the rationale for justifying far reaching politically motivated intervention by government. Whether government interferes with the market or firms’ excess power distorts the market, neoclassical ontologies of power are ultimately incompatible with perfect competition. The Marxian interpretation of capitalism as a system that mediates power relationships, on the other hand, stands in sharp contrast to the narrow treatment of power in the standard literature. In the Marxian political economy, all capitalist relations necessarily imply power structures (Palermo, 2007).

4.A. Power and Institutions

Perhaps surprisingly, social science concepts as diverse as Marxist theories of the state and some institutional aspects of modern economics share very similar notions of power, either explicit ones in the case of the former or more implicit ones in the latter case. In both instances, power invariably manifests itself in an institutional form and differences only arise with regard to the question of the social group or class within which power is localised. Political theories of pluralism, however, mark a notable exception as power is dispersed equally among a wide variety of diverse interests. In economics, public choice theory deals to a limited extent with the dispersion of power outside the institutions of the state.14 Be it the state, corporations or civil society, institutional power is best approached from two separate angles. Consequently, the production of the political community at a national level (sovereignty) needs to be distinguished from the formal separation of political from economic power within society, i.e. social agency (Aronowitz and Brat- sis, 2002). Analytically at least, this seems not very different from the distinction made by contemporary writers in the economic mainstream.

Yet, this notion of power seems far too narrow. It does not help to explain the different discursive formations at play that take place outside the discrete limits of institutions.15 The comprehensive understanding

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14See Cebula (1978) for a discussion of this point in the context of the Tiebout-Tullock hypothesis.
15This decline of institutions as loci of power is increasingly prevalent in post-industrial, Western societies. Central to this process are the dynamics of sub-politics politics which – centred around the selves – are absorbing the emancipatory role traditionally played by institutions (Beck, Giddens, and Lash, 1994).
of the precise nature and locus of power thus becomes critical – a central point made by Foucault. Indeed, he vehemently argues against such a narrow interpretation of power in a socio-economic context, objecting to the notion that power is limited to a sovereign context and institutional boundaries.\textsuperscript{16} Furthermore, power is not an abstract concept that is owned or shared, but it is a pervasive societal process that produces knowledge and truth:

"[O]ne of the first things that has to be understood is that power isn’t localised in the State apparatus and that nothing in society will be changed if the mechanisms of power that function outside, below and alongside the State apparatuses, on a more minute and everyday level, are not also changed." (Foucault, 1980, p.60)

This stands in sharp contrast to the treatment of institutional aspects of power in mainstream economic thought, where the issue is almost exclusively addressed in a distributional context; rather than analysing \textit{how} power works, economists seem more interested in the dichotomy between its equal distribution in perfect competition and its monopolistic distortions of state intervention. Nonetheless, the study of relations between individuals and groups is slowly being absorbed into current orthodoxy under the heading of “social interactions” (e.g. Becker and Murphy, 2000; Durlauf and Young, 2001; Granovetter, 2005). For now, however, the analytical atomisation of the methodological individualism still characterises mainstream thinking and largely obscures the relation of the individual to the social context (Hodgson, 1986).

4.B. Power and Markets

The abstract category of the market allows for its almost universal applicability in the social sciences. It is in the very study of its relationship to power – i.e. its role as a coordination mechanism in complex exchange economies – where economists diverge most significantly from other social scientists (Lie, 1997). In a similar sense to the institutional interpretation of power, Austrians like von Mises (1962, 1963 [1996]) and Rothbard (2004) are positioning “power” and “market” as unequivocal antinomies. Accordingly, the market consists of voluntary transactions between willing parties – firms or individuals – and only the state, or “power”, introduces compulsion into human relations, bringing about coerced outcomes that people would not voluntarily have chosen. In complete contrast, \textit{Pouvoir et économie} by French economist Perroux (1973) develops a notion of power which \textit{is} the market. Like his mentor Léon Walras, Perroux was a

\textsuperscript{16}See also for example Foucault’s (1991) “Governmentality” or his critique of political reason in “Omnes et Singulatim” (Foucault, 1979).
Cartesian in method, a socialist in sentiment and an evolutionist in vision. According to this notion, general equilibrium thus becomes the interaction of multiple forces which – in accordance to their relative strength – reach a steady state by mutual domination. As power relations are prone to change, equilibrium is inherently unstable and unlikely to persist over protracted periods.\footnote{This school of thought, referred to as “theory of dominance”, has received wide criticism. See Hülsmann (1993) for an overview.}

It is not difficult to see the similarities between Perroux’s conceptualisation of power and that of his contemporary and countryman Foucault. In both instances, power is interpreted as a disciplinary force that transcends the boundaries of institutions and shapes social conditions. Despite these similarities, Foucault cautions against the “economism” that he sees present in the conventional analysis of a theory of power. In the case of contemporary economic theory, for example, power such as sovereignty or market access is taken to be a right that can be possessed like a commodity; in the Marxist conception, power is conceived of as the role it plays in the relations of production and of class domination. In contrast to these “contract-oppression schema” of power, Foucault’s self-imposed challenge is to master the art of a non-economic analysis of power.

4.C. Power, Ideology and the Labour Theory of Value

Both the institutional and the market-based contemplation make it very clear that power cannot be analysed outside of an ideological context. While ideology is tantamount to “false consciousness” in its strongest Marxist form, I will rely on a weak definition of the term ideology in the current context. Here, ideology is meant as a set of beliefs, or a specific school of thought, that are concerned with the lasting reproduction of the a specific system of social control and a particular mode of production. Thus, the distribution of power and even the very nature of power itself must be understood through the prism of ideology. In the Marxist tradition, in particular, capitalism is the ideology whose power structures allocate the means of production in the hands of the few by alienating the masses. The analysis of power in the labour theory of value – while being dismissed by Joan Robinson as being “metaphysical” – plays an important role in that it reveals how human transformative power becomes power as domination and exploitation (Özel, 2008). As a descriptive tool in economic analysis, I share Sen’s (1978) interpretation of the labour theory of value as an important instrument that reveals the structure of power relations in the process of exchange – not primarily in terms of relative prices, but in terms of relationships between individuals and institutions.
In this sense, critical social theory interprets key elements of the capitalist system as authored, ideological text through which power is exercised. Agger (1989), for instance, refers to money as such a modal text which reproduces and stabilises the order of capitalism. While such a radical treatment of power may be absent from mainstream economics, critical economists like Kindleberger (1970) and Kirshner (1997) have addressed similar issues from a more traditional perspective. Economic models are not interesting unless the underlying theory is ascertainably true or false, whereby casual empiricism and intuition are an important part of the process of the formulation of theory – a point that I will explore further in section 6. But if theory has little systematic concern with evidence and reality is only to be understood by a more sophisticated elaboration of existing theory, then economic science quickly degenerates into economic ideology (Mohun, 2003).

5. Economics and Knowledge

In economic theory, the notion of knowledge encompasses many different aspects, ranging from a broad conception as the amount of information available about a specific state variable to a more narrow definition of commodified knowledge (i.e. science and technology) as a factor of production. In both instances, knowledge is instrumental in the determination of human action and a fundamental organisational principle of economic activity. In terms of knowledge most broadly conceived, the orthodox interpretation of knowledge and its relationship to uncertainty owe much to the pioneering uncertainty-risk duality of Frank Knight, distinguishing between immeasurable uncertainty and quantifiable risk. In this setting, “knowledge is more a matter of learning than of the exercise of absolute judgment. Learning requires time, and in time the situation dealt with, as well as the learner, undergoes change” Knight (1921, chap.8). This interpretation of knowledge lays the foundations for the rational expectations paradigm that emerges from Theil’s (1957) certainty equivalence proposition – that is the equivalence of expected utility maximisation under uncertainty and optimisation which neglects the uncertainty problem by maximizing utility under the condition that all uncertain elements are equal to their mean values.

However, this sharp delineation of optimizing for a given set of expectations and forming expectations optimally runs counter to the so-called “knowledge problem” of proponents of the Austrian School,

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18McCloskey (1994) discusses the role of the discursive body of knowledge and the epistemological consequences of their rhetoric which might constitute a third aspect of knowledge in economics. In fact, the actual practice of many mainstream economists frequently relies on knowledge outside the strict bounds of the formal theoretical system.
a proposition that deserves renewed attention in economic epistemology. Hayek’s (1937) pioneering paper “Economics and Knowledge” defines the necessarily incomplete and dispersed knowledge of economic agents as the departing point of economic research. In his view, it was never the primary problem of economic theory to determine the mathematical conditions of general equilibrium, but rather how the voluntary coordination of individual plans was achieved. The superstition that only measurable magnitudes can be important in economics remains a serious problem today; many of the policy mistakes in the run-up to the financial crisis are directly rooted in a refutation of the Hayekian position to “prefer true but imperfect knowledge, even if it leaves much indetermined and unpredictable, to a pretence of exact knowledge that is likely to be false” (Hayek, 1989, p.5).19

5.A. Knowledge, Uncertainty and Praxeology

Central to this interpretation of knowledge are von Mises’ (1962) beliefs that the nature of economic activity is just a special sub-set of all human action, which itself is fundamentally governed by values. In distinct contrast to the natural sciences, knowledge is not based on observations which can be refuted on the basis of empirical investigations. Instead, it is a set of a priori laws that can only be unearthed through deductive reasoning. This process of discovery is the role of general social science, which – in order to distinguish it from Comtian sociology – von Mises (1963 [1996]) refers to as praxeology. Praxeological foundations are laid out in the Misean axiom of human action or purposeful behavior as the “ultimate foundation of economic theory”. Society is a product of the human urge to remove uneasiness and dissatisfaction as far as possible; it is not a product of social classes, political hierarchies, and various other synthetic structures. In this decidedly Kantian view of social activity, economics is merely a subdiscipline of praxeology dealing with the laws of human action in a system of private property of the means of production. According to thinkers of the Austrian School, praxeology is epistemology. As such, it is diametrically opposed to Marx’s historical materialism which explains how and why historical events occur through the bourgeois-versus-proletariat class struggle. Accordingly, Marxian analysis sharply separates scientific knowledge from ideology which gives rise to epistemological issues concerning the characterisation of “knowledge” as the vantage-point from which the “ideological” is identified.

While praxeology is critical towards positivist sociology on epistemological grounds, the critical theory of Horkheimer and Adorno (1947 [2002]) would declare both projects are flawed, but on different grounds.

19Hayek’s epistemic objection against the rationalist illusion of socialism about the scope of human knowledge is also relevant in the contemporary context of environmental economics (O’Neill, 2004).
Enlightenment has created *homo oeconomicus* as a logical subject that forms the reference point for reason, preoccupied only with his own self-preservation, yet ultimately incapable of any agency. Despite the unprecedented social engineering ambitions of economics, recent evidence indeed questions that the engineering efforts of economists can make *homo oeconomicus* true by construction (Santos and Rodrigues, 2009). Placing imperfect knowledge on the part of market participants and economists at the center of its analysis, the *Imperfect Knowledge Economics* of Frydman and Goldberg (2007) represents an important component of a post-crisis canon that departs from the perfect knowledge paradigm of contemporary orthodoxy. Similarly, Manski (2008) proposes planning under ambiguity which recognises that knowledge of social interactions can be partial at best. In this sense, Crocco’s (2003) concept of social probable knowledge – derived from Keynesian probability theory – perhaps best links knowledge as part of human action and social structure with the diffusion process of innovation in the context of commodified technological knowledge.

5.B. The Production of Knowledge

One of the defining characteristics of the current era of globalisation is the increasing emphasis on the narrow definition of commodified knowledge and its spatial manifestations in the “knowledge economy”. While the first wave of globalisation at the end of the nineteenth and early twentieth century was largely driven by the process of industrialisation, knowledge is at the center of several processes that operate within contemporary globalisation. To some extent, the different nature of these two waves of globalisation is mirrored by the respective theoretical paradigms that accompany them; classical capital theory largely neglects the accumulation of knowledge as a motor for economic development, whereas modern growth theory stresses the accumulation of knowledge (Prendergast, 2010). The neoclassical knowledge production function embodies this restricted concept of (re-producible) knowledge wherein knowledge enters the production process in two separate ways: either as a specialised factor of production in the form of human capital, or as the technology required to achieve the specific combination of factor inputs. In the compelling shorthand of economic analysis, knowledge can thus be reduced to a mere set of parameters, such as the factor shares or total factor productivity in popular neoclassical production functions.

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20See Malecki (2010) for a comprehensive survey of the recent literature on geographies of commodified knowledge.

21In many instances, knowledge is both the human capital and the technology required in the production process. Yet, while technological change is widely considered the most important source of dynamism in capitalist economies, it is still by and large treated as a black box in the mainstream literature. See Freeman (1994) for a critical survey on the economics of technological change.
Postmodern theorists like Lyotard (1984) argue that knowledge has become the performativity principle of the modern age, which has led to a crisis of scientific knowledge. It is this performative production of knowledge that has eroded its legitimation and that has caused a “scientific crisis” in late capitalist society. Universities as the production facilities of capitalist knowledge are at the centre of this crisis, a phenomenon that receiving increasing attention from critical theorists. Luke (2005), for example, examines and characterizes the precise condition of contemporary science discourse and research at American Universities. Unsurprisingly, perhaps, his verdict is grim – merely a reflection of the contextual vacuum the academic disciplines are currently finding themselves in. Academics are trading in pedagogy for performativity as the modern research university encourages the commoditisation and monetization of knowledge. Instead of seeking “truth, progress or freedom”, universities are putting knowledge to work and corporations take control over intellectual property and “journal science” becomes the main transmission mechanism of knowledge. This seems consistent with Neumark’s (1975) speculation that the short historical memories of postwar economists are perhaps attributable to the competitive “publish or perish” premise in academia, whereby younger scholars are discouraged to dwell on older bodies of knowledge. In a broader sense, thus, the reflexivity of Harvey’s (1999) knowledge relation – how the object of knowledge constrains the knowledge of the object through the dynamics of the interaction between investigator and object investigated – constitutes a central process in the epistemology of economics.

The accumulation of knowledge as a means of progress and growth has given way to a subordination of knowledge to the technological means of production in order to “reinforce reality” – thus reversing the relationship between knowledge and technology. Lyotard describes this as the legitimation crisis of the “speculative narrative” of knowledge:

“The State and/or company must abandon the idealist and humanist narratives of legitimisation in order to justify the new goal: in the discourse of today’s financial backers of research, the only credible goal is power. Scientists, technicians, and instruments are purchased not to find truth, but to augment power.” (Lyotard, 1984, p.46)

There are, of course, distinct parallels to the Foucaultian case where power is producing knowledge. Interestingly, this new mode of knowledge production is not only discussed by continental philosophers, but also constitutes a widely recognised phenomenon in the business management literature. There, however, it is simply described as Mode 2 knowledge production. In contrast to the instrumental rationality of kno

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22This expression was first coined by Nowotny, Limoges, Trow, Schwartzman, Scott, and Gibbons (1994) who use define Mode
edge in economic thought and its much debated crisis of legitimation in postmodern theory, critical theorists like Marcuse (1964 [1991]) deem the critique of science and technical rationality as the first step towards overcoming domination. In this context, it is not the accumulation of knowledge that is the emancipatory force, but overcoming technical rationality that holds the key for social change. (see also Feenberg, 2010, for a more detailed critique of technological rationality in economics).

6. Intuitive Economics

The previous sections have attempted to highlight the extent to which the mainstream tradition of economic thought abstracts its analysis from a political and historical context and from the force field of power and knowledge. The purpose of this section is to plead the case for a re-discovery of the political economy as the centre of post-crisis social science inquiry. In what follows, I wish to explore the case for a rediscovery of the epistemological ideals of Edgar Salin (1944, 1965) – in the sense of a “rational reconstruction” rather than a “doxography” (Blaug, 1990) – within the larger context of a comprehensive understanding of the origins the current crisis of economics. Conceptually, my main argument relies on Sombart’s “Verstehenslehre” (Weippert, 1962) and on what later evolved into Salin’s “Anschauliche Theorie”. Most importantly, perhaps, “intuitive theory” does not only aim at an intellectual retracing of the causal relationships that govern economic activity, but it constitutes an economic theory of social and cultural change that encompasses broad notions of power and knowledge as discussed above.

6.A. Economics as a Social Science

Sombart’s historiographical writings on the nature of capitalism present the most obvious point of departure for a reconstitution of contemporary economics in terms of intuitive theory. Indeed, Sombart was not only a prolific writer – probably best remembered for his monumental, three volume tome entitled “Der Moderne Kapitalismus” (1927), which traces the rise of capitalism over some 2,350 pages –, but he was also one of the most vociferous opponents of the exclusive reliance on natural science methods in economics (Rogin, 1933). In his efforts to redress the balance against the rise of scientism, he distinguishes “verstehende” (understanding) economics from two other types, “ordnende” (ordering) economics and “richtende” (judging or normative) economics, both of which are present in classical economic thought. In

1 Knowledge production as the traditional, academic and investigator-initiated and discipline-based production, while Mode 2 is problem-focused and interdisciplinary and involves multidisciplinary teams which work on specific problems in the “real world”, i.e. creating reality.
contrast to the methods of the natural sciences, Sombart contends that there is a method appropriate for social science inquiry that deals with culture – the method of the Kultur- oder Geisteswissenschaften. However, he is well aware of the complications that such an undertaking entails:

“It is the certainly unenviable fate of our entre discipline that it is incapable of gaining anything other than intuition in the realm of cultural knowledge (or science).” (Sombart cited in Schefold, 1992, p.317, my translation from German)

While social science inquiry may engage in some of the same quantitative exercises as the natural sciences, their ultimate task is to enable a deeper understanding of the processes of economic activities. In many ways, Keynesian economics shares important methodological aspects of intuitive theory in so far as Keynesians utilised their own introspection and judgement regarding how the various actors in the economy would behave, including the norms of how actors think that they should behave. The methodological individualism of post-Keynesian macroeconomics, however, has largely removed such norms from the consumption, saving and investment motivations of representative agents (Akerlof, 2007). A systematic understanding of the economic consequences of these culturally embedded norms is precisely what characterises Salin’s political economy.

6.B. Edgar Salin’s “Anschauliche Theorie”

Like Sombart and the brothers Weber, Salin was an economist with sociological erudition. While a student of Alfred Weber’s, he reportedly admired Max Weber’s personality, but remained highly critical of Weber’s reliance on abstract concepts to explain social phenomena. Bertram Schefold, a student of Salin’s, reports an illustrative exchange between Max Weber and Salin over Theodor Mommsen’s Nobel prizewinning work on the history of the Roman Empire. Asked what he thought of it, “Weber, upon this, very loud: ‘That is no science!’ Salin replicated: ‘Then I don’t know how your science could serve what is alive and why it should be of interest for us’.” (Schefold, 2004, p.3). Salin argued that the question to what extent economics was to be viewed a social science, or even part of the humanities, principally depended on the scientific questions that the field addressed – not the methods it deployed. In the context of the modern science wars, however, the disciplinary identity of mainstream economics almost exclusively rests on method. As discussed above, the epistemological origins of scientism in economics are rooted in the philosophy of the great Classical economists. There, the dependence of economics on natural science ideals is motivated by the desire to interpret the capitalist mode of production as a process which was
to be liberated from political interference. Indeed, this interpretation reached an early paradigmatic peak with the marginalist or neoclassical revolution (Mirowski, 1984). The economic modelling paradigm of postwar orthodoxy has since become a new standard of economic thought—a standard which has completely done away with any hermeneutics in order to understand cultural embedding of economic activity. The deductivist-formalistic models of the reigning paradigm—down to the preferences of representative agents—are largely deterministic. Reflective interpretation on historical conditions and circumstances is no longer viewed as key element of economic analysis.

Intuitive theory begs to differ. Salin’s work was guided by the desire to establish intuitive theory as a viable alternative to the doctrine of the Chicago School which depends exclusively on neoclassical rationality. While still relying on rational theory, intuitive theory also “incorporates sociological and psychological moments to deepen the understanding of capitalism” (Schefold, 1992, p.304), particularly with regard to interdependencies in the investment process or the economic cycle, again with straight-forward analogies in the Keynesian system. Indeed, it is not difficult to see the parallels to concepts developed by some of Salin’s contemporaries—intuitive concepts such as Wagemann’s (1930) pioneering “economic rhythms” upon which Schumpeter (1939) founded his business cycles theory or Keynes’ “animal spirits”, both of which have survived the neoclassical synthesis. Overcoming the implicit antagonism of intuitive concepts and formal models represent perhaps one of the most formidable challenges for intuitive economics. Although admiring Keynes for his writing skills and Schumpeter for his sociology of the entrepreneur, Salin showed contempt for formalistic model building. He vehemently criticised abstract models as “partial knowledge” – not devoid of truth, but erroneous because of the generalisations usually based on it (Schefold, 2004):

On the one hand, a general weakening of the feeling for language (“Sprachgefühl”) is bolstering the ranks of mathematically-inclined macroeconomists among the younger generation […] on the other hand, the triumph of fashionable catchphrases is further facilitated not only by the fact that a sense of history is mysteriously dissipating, but also by the fact that scientific tradition is gradually losing its importance. (Salin cited in Röpke, 1963, my translation from German)

Above all, Salin objected to the “dehumanisation of pure theory” in the economic canon that emerged from the neoclassical synthesis. He characterised *homo oeconomicus* as an “anaemic creature” that was incapable of yielding fundamental insights, given the complexity of economic realities (Kapp, 1967). Recognising the increasing importance of nonmarket interactions (“ausserwirtschaftlichen Faktoren”), Salin ap-
preciated the limiting, even distorting nature of the prism of pure-rational market behaviour. As such, he
anticipated an active contemporary research agenda on hitherto disregarded critical segments of the econ-
omy in the form of nonmarket social interactions or nonmarket externality spillovers (e.g. Glaeser, 2000).

6.C. Elements of a Synthesis

Intuitive theory is inspiration, not romantic irrationality as Salin’s many critics – including Max Weber
– were quick to condemn. Far from clinging to a nostalgic backward gaze, Salin hoped to resuscitate those
forces in scientific inquiry that were being suffocated by the preponderance of pure rationalism. Indeed,
Salin speaks of Weber’s attempts to establish objective, value-free science as

“[…] the tragic courage of a lost generation [which] draws the conclusion from the palsy of
the old values, ideals and religions that there are no Gods, no set ranks and no all-binding
measures, thus becoming the propagators of the last level of de-selfed and de-spirited work.”
(Salin, 1932, cited in Schefold, 1992, p.317, my translation from German).

In fact, the preoccupation of orthodox mainstream economists with a defense of the principle of Wert-
freiheit and their resistance to “value-impregnation” have blinkered the scope of economics in the sense that
important questions which might have been asked were not considered (e.g. Klappholz, 1964). Intuitive the-
ory presents a methodological alternative to this; it provides an inductive counterbalance to the rationalism
of deductive abstraction of contemporary economics. In this sense, intuitive economics shares important
intellectual common grounds with McCloskey’s (1994) “interpretive economics” where the social construc-
tion of the individual is viewed as a process that is institutionally anchored and constantly reconstituted by
the forces of power and knowledge.

Intuitive theory does not reject rationality outright – it keeps a rational core that explains the functioning
of a particular system while relying on descriptive components to explain the totality of economic activities.
With a historical focus similar to that of the work of Marx, Weber and Schumpeter, intuitive theory depends
on context and aims to marry economic analysis with political, sociological or cultural insights. Salin thus
proposes intuitive theory as encompassing rational theory in the sense of either classical or neoclassical
theory of value, while capable of describing the consequences of other forms of motivation. In other words,
intuitive theory integrates both power and knowledge in a way that most of mainstream economics has come
to abstract from them. Beyond the “partial cognition” of the latter, the former aims high to visualise the
Gestalt of capitalism. In intuitive theory, capitalism is a totality that neither resulted from a concentration
of experience nor from hypothetical abstractions of some logical principle alone – neither empirical phenomena nor constructed ideal types are capable of exhausting the term “capitalism”. They just constitute a limited understanding, whereas intuitive theory relies on a synthesis of these elements to achieve “total cognition” (Gesammterkenntnis). Synthesising context with value-rationality allows intuitive theory to be strong where natural science is weak. Salin’s approach is equally grounded in the original traditions of Marx and Ricardo with the political economy as the focal point of social science inquiry:

“All economic science is – in its intrinsic nature and by its objectives – a political science [...] and will thus remain, from the very beginnings into the future, a study of the political economy.” (Salin, 1965, p.16, my translation from German).

Focusing on values steeped in situational ethics and contextualism and placing power at the core of the analysis, Salin proposes a de-centred method of social inquiry. Rather than fretting over parametric versus non-parametric methods or loosing sight when adding the n-th equation to unwieldy DSGE models, economists should start asking again “where are we going?”, “is it desirable?” and “what should be done?”. In the wake of the financial crisis, Salin’s (1963) inquiry into the increasing tensions between inevitable economic concentration and the potentially harmful impact of laws against cartelisation in “Kartellverbot und Konzentration” seems almost prophetic; the origins of the global financial crisis cannot be understood without considering the nature of concentration in the financial services industry and its interaction with the regulatory environment. In this context, few economists would question the importance of the repeal of the Glass-Steagall Act of 1933 by the Gramm-Leach-Bliley Act – effectively removing the separation between investment and commercial banking – and the procyclical nature of international capital adequacy requirements. At the same time, while most governments have come to accept that post-Glass-Steagall financial intermediaries are indeed too big to fail, government-mandated takeovers have further accelerated the spiral of concentration in the financial sector following the Lehman Bros bankruptcy in September 2008.

In light of an economic reality of asymmetric institutional power relations and imperfect knowledge that produce diverging regulatory incentives and financial fragility, the standard assumptions embedded in the micro-foundations of mainstream models – where infinitely-lived optimising agents operate in simplistic

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23 In this sense, Salin’s intuitive theory is precisely what – almost over half a century later – Flyvbjerg (2001) re-invents and re-labels as “phronetic social science”. His plea for induction and the importance of case studies as a scientific method is intuitive theory. More “strategic sampling” and more “good narrative” which resists the temptations of generalization is intuitive theory.
market structures – appear curiously detached at best. As a result, the contemporary relevance of orthodox
economic analysis has become marginalised in the Robinsonian sense that “arguments are largely devoted,
as in theology, to supporting doctrines rather than testing hypotheses [and] current teaching is conducted
in terms of models that are evidently not intended to be taken seriously as hypotheses about reality, but
are used rather to inculcate an orthodox ideology” (Robinson, 1977, p.1320). While the idea of an en-
dogenously generated crisis and functional depression has always been at the core of Marxian theory, the
post-Keynesian paradigm of the neoclassical synthesis has either assumed that accumulation is balanced or
theorised about standards pattern of expansion and contraction that ignored the potential for instability.24
Instead, incorporating power and knowledge to form intuitive economics reverses the standard logical re-
lation between microeconomics and macroeconomics, posing Marx’s question once again: What are the
macro-foundations of microeconomics?

7. Outlook

The absence of various notions of power and knowledge in contemporary economic analysis has gone
hand in hand with the increasing mathematical formalisation of and reliance on method in the dismal sci-
ence. Beyond the destructive forces of the science wars, this paper argues the case for a viable alternative to
overcome the current crisis of vision of contemporary economic thought that is mired in method: Intuitive
economics suggests an analytical framework that integrates power and knowledge, while not completely
jettisoning the cultural heritage of rational economic theory. While their Marxist legacies have inspired
a notable array of critical methodologies in sociology or political science, such projects are rare in eco-
nomics.25 Whereas heterodox economists often view the dialectical method as the only “true science”,
intuitive method outlined in this paper is less radical and insists on the complementarity of both rational-
ism and empiricism. Intuitive theory recognizes that science is necessary precisely because “essence and
appearance” never directly coincide; and it ascribes to science the task of the discovery of the essence of
economic relations which are obscured by their superficial appearances.

Macroeconomic theory after the crisis is at risk of being reduced to the partial cognition of abstract
models which miss the totality of empirical reality. For any theory to claim relevance, its intellectual repro-
duction of reality must remain in constant contact with the actual movement of history. Only embedding

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24 The recent rediscovery of Minsky’s (1991) work on the relationship of uncertainty and finance to the business cycle is an
obvious exception.
25 Mandel’s (1978) Late Capitalism marks an important exception which with parallels to the work of Sombart and Salin, in
more than just the name (cf. Sombart’s Der Moderne Kapitalismus and Salin’s essay entitled Hochkapitalismus).
the rational analysis of economic activities within the total cognition of intuitive theory will reveal the true

*Gestalt* of capitalism – Salin’s most ambitious goal. Adequate social science needs to reflect that the inter-
play between culture and economy is not static and thus cannot be analysed using static methods. Therein
lay the true origins of the crisis of vision in contemporary economics. In many ways, it seems plausible
that one of the main intellectual failures of economics in the context of the recent financial crisis arose di-
rectly from the longstanding disconnect between theory and (factual) knowledge, or to use Robbins’ (1998)
terminology, between “economic generalisation and reality”. This shortcoming continues be particularly
persistent in monetary theory where “a steadfast refusal to face the facts” (Goodhart, 2009) undoubtedly
exacerbated the inadequacy of disciplinary responses to the financial meltdown. Intuitive economics does
not have shy away from a rigorous use of mathematical techniques. But instead of using abstract models
that make claims about real-world predictions, it would combine the quantitative methods of visualisation
and imaging of computational science with intuitive models that embody the interactions of complex fea-
tures such as power and institutional and behavioural knowledge (e.g. Dutt, 2011, for an approach in this
direction).

Beyond the methodological context of a broader treatment of power and knowledge under the umbrella
of intuitive theory, another facet of Salin’s work highlights his contemporary relevance: His astute observa-
tions on the political economy of (precursors to) the Eurozone predict many aspects of the current European
debt crisis with astounding accuracy and contain insights for policy that rival the relevance of most con-
temporary large-scale theoretical models (Salin, 1960, 1964, 1973). While the rise of English as the lingua
franca of science is likely to be a significant barrier to Salin’s influence and relevance for future generations
of English-only economists, the hope of this article is to re-engage some of Salin’s intellectual legacy in
the current debate on the epistemological direction of economics.26 In fact, the recent revival of intuitive
concepts by prominent economists, such as Akerlof and Shiller (2009), signals a silver lining for a more
prominent role of intuitive theorising in post-crisis economic thought. As in any epoch that faces transi-
tion, a purposeful utopian vision rather than a melancholic backward gaze holds the key to manage change
successfully (Kloten and Salin, 1967). Indeed, I would add to DeLong’s (2011) call that the discipline
needs “fewer model-builders and more old-fashioned Keynesians” that we also need a greater pluralism of
heterodox political economists – Salinians as it were – capable of engaging the orthodox mainstream.

26It would certainly be overly optimistic to expect a revival of intuitive theory of similar proportions to the recent renaissance
of von Schmoller’s work who – despite not being translated widely – has had a long-standing large influence on English-speaking
thinkers, particularly among institutional economists (Senn, 1989; Peukert, 2001).
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