

The Methods of Normative Analytics

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“It is the task of the economist to overcome these sentiments and justify the ways of Mammon to man. It is the business of the economists, not to tell us what to do, but to show why what we are doing anyway is in accord with proper principles.”

“All the same, even economists are human beings, and cannot divest themselves of human habits of thought. Their system is saturated with moral feeling. Those within it, who have grown used to breathing its balmy air, have lost the power to smell it. To those approaching from outside who complain that the scent is sickly, the insiders indignantly reply: ‘The smell is in your own noses. Our aim is completely odourless, scientific, logical and free from value judgments’” (Robinson, 1962: 21,59)

Introduction

Debates surrounding normativity in science are by no means unique to economic philosophy. All social studies have had a difficult time justifying their pursuits as objective analysis; still many have tried. Friedman argued for a non-normative economic science; attempting to position the embedded-ness of the observer as a 'special difficulty' not an insurmountable problem (Freidman, 1953: 211). Though positivism of this type remains common, this position is unsatisfactory.

Weber's work posits the very "concept of culture [as] a *value-concept*" (Weber, 1949: 101). Valuation, precedes the social object of inquiry. It is a process of valuing which, in fact, creates the 'object' of economic study. While Weber was primarily interested in the observer, normativity permeates from the observed as well. No matter how accurately described, the actions of economic agents are norm based. The value neutral social scientist derives conclusions from the observation of normative behaviors and has no choice but to draw normatively-embedded conclusions.

While social studies is particularly suspect, similar lines of thinking have jeopardized the objectivity of the natural sciences. Popper and others demonstrate the non-neutrality of data collection and interpretation, while some have argued that there are no untainted 'scientific' facts (Caldwell, 1982: 47-8). Humanness obstructs all attempts at objective inquiry.

We come quickly to a position in which subjectivity is an inescapable tautology. While of some philosophical interest, ubiquitous normativity is not operationalizable and we will leave it behind. As a means to moving forward, I will contend, with little defense, that: there is an objective reality, which can theoretically be observed; the presence of an observer is not sufficient to dismiss an observation as subjective; and normative logic is not inherently meaningless.

These contentions move us back into the realm of relative normativity. We can again speak of "value references" vs. "value judgements" (Machlup), "technical features" vs. "system descriptions" (Robinson). Though I am not in complete accord, I do see merit in Keynes' proposition that, "the process whereby a conclusion is reached affects its character and value... If it is purely empirical, then it will be established only with a more or less high degree of probability, and it cannot be extended far beyond the range of space or time" (J.N. Keynes, 1917: 72).

The task here is not directed towards the ethical considerations inherent in valuation. Neither will the analytic strengths of various methods be extensively weighed. The historic focus on 'good' scientific practice has served to obscure a set of significant questions, which, I instead, hope to

illuminate. As such, this discussion does not belong to methods proper, but is instead a methodological meta-analysis.

Normative Location

Let us embed normativity in the processes of comparison, prediction, and extrapolation. One can note an outcome without understanding its normative roots; this is an object floating in void. That said, function and correctness, require the theoretic, misbehaving 'other'. Action and flow, causality, necessitate laws of motion. While, the extrapolation of particle movement is based on polarity and attraction, the particle force of humans is evaluation, value, ethics.

Normativity is injected into economic analysis via three sites or 'locations': actor, system, and observer. That is; actors are the individual human subjects, systems are the institutions composing society, and the observer is the researcher herself. During the course of investigation one or more normative location is necessarily encountered: actor behaviors are modeled and extrapolated, systems are given laws of motion, and scientists themselves value and instrumentalize data. It is unreasonable to assume that behaviors emanating from one or another of these locations will impact society in comparable ways: their nature and power differ drastically. We believe that many historical debates have lacked satisfactory clash and conclusion precisely due to an absence of clear normative location; there is a 'talking past' inherited from normative ambiguity.

Despite this, clarifying the nature and location of norms in research is extraordinarily rare. Still more surprisingly, the methodological literature has largely ignored the implications of normative location. With little exception it has instead focused on the ethics of normativity and the means (or impossibility) of eliminating it. A great deal of the confusion can be removed if norms are clearly expressed and located within the 'subjects' of study. For this reason, we propose to begin here the development of a normative analysis; the goal of which is an operable methodology for investigating normative impacts within economic research.

There have been other attempts at the schematic construction of the social landscape. On its face, this project has much in common with approaches taken in Sociology and in a way resembles Elias' process models and Parsons' social systems (Elias, 1998; Parsons, 1977). The crucial departure here is that we are not concerned schematizing humans and their societies, but researchers and their subjects. It is not how humans and institutions function, but how ethics enters discourse, which is of concern here.

Actor Norms

Economies are the social coagulation of discrete economic actors. These individuals are bundles of passions and beliefs. A vast majority of economic theory begins with the modeling of these norms. Considering the dominance of micro-behavioral methods it is irresponsible how little work has been done to examine and effectively model action and the norms which underpin them.

This gap is due, at least in part, to the immutability of human motivation in classical and neo-classical analysis. While there are significant differences between the complex person described in Smiths' *Theory of Moral* sentiments and the rational maximizer popular among newer economists, both share the quality of existing out of context and time (Heilbroner, 1982). If human motivations once described do not contradict nor change, then one need no longer question them.

This immutability takes its clearest form in the Muth, which grants that rational individuals know the, "true probability distribution(s) and the subjective distribution on which decisions are based" (Lucas, 1976). Taking a more pragmatic tack, Machlup argues that fundamental behavioral assumptions, "are 'rules of procedure' which 'remain accepted as long as they have heuristic value, but will be rejected in favor of other rules, which seem to serve their explanatory function more successfully'" (Caldwell, 1982: 141-42). Yet in the very next breath he contends that these assumptions are by their essential nature unverifiable, how then are they to be over-thrown?

Immutability and un-testability allow naturally for a second problem, radical simplification. Marshall writes, "we [economists] must form to ourselves certain tendencies of human action [and frame] as best we can well thought-out... provisional laws, of the tendencies of human action" (quoted in Staveley and Alvey, 2008: 73). While methodologically this seems sound, it quickly led to operational abstraction. Satisfaction is substituted for desire, equated through use to prices (while non-purchasable wants are redacted) (Robinson, 1962, 49-50). This chain of logic cannot survive re-evaluation of the initial motivational modeling.

Robinson's attack against Use-value on the grounds that prices and GDP do not measure satisfaction, but instead consumption, is fundamental. Yet, it will remain sidelined so long as the philosophy of immutability reigns. How, it is asked, Mrs. Robinson, could it be that people are rationally maximizing their interests while at the same time markets serve to distort satisfaction? Our untestable, unchanging human norms also, it seems, circularly verify their conclusions.

Not all economists consider human behavior a static parameter. Robinson, Knight and others advocate for a socio-cultural specificity. Among this school, “the actual interests or desires expressed in economic behavior are to an overwhelming extent social in genesis and in content; consequently they cannot be described apart from a system of social relations which itself cannot be treated in purely objective, factual terms” (Knight, 1935: 147). Heilbroner manages a space between Smith and Knight, allowing for socially defined behavior, while postulating ‘natural’ constraints theorized through evolutionary psycho-analysis. Following a line which recalls the habit-instinct approach of Dewey, he argues, “The viscosity that is so prominent a feature of social history must therefore be traced to the stabilizing influence of the behavior-shaping cores of its social formations (Heilbroner, 1985: 24).

This vision of human behavior as socially defined, yet bio-physically constrained seems most realistic. While some theory exists, which postulates an essential unpredictable, chaotic behavioral landscape; this flies in the face of witnessed social strength, and requires a much clearer analytic ground work if it is going to be accepted (Lowe, 1969, 4-5). Without other evidence, it is easier to follow Nagel in contending that human norms are a complex (though not chaotic) set of variables and that lack of predictive capacity is illustrative of the insufficiency of current conceptualizations (Nagel, 1969: 58).

Actor behavior modeling is a powerful tool when properly applied to economic analysis. As such, it should be done with care. Behavioral archotyping should be reflexive. As people fail to meet expectations, normative models must shift and gain in complexity, nuance, and contradiction. Predictive strength is a test, which all theorization should withstand. More recent, cross-cultural game theory research has begun to map this space. While cumbersome, the methods illustrate the theoretic possibility of empirically constructing socially specific behavioral ‘maximization’ rules (Henrich, et al; 2001).

With regard to actor norms, psychological dissonance may prove to be a fruitful point of investigation. Economic outcomes resulting from autonomous free decision of individuals can be expected to result in a certain psychological ease within the actors. Structural and institutional constraints which force action in opposition of free desire will likely produce psychic harms: stress, powerlessness, and dislocation. Thinking in these terms, the fallacy of the rational maximizing individual shines anew. What unspent desires are the foundation of the West’s ubiquitous existential crisis? According to Robinson, “any economic system requires a set of rules, an ideology to justify them, and a conscience in the individual which makes him strive to carry them out”, but as we have seen, the development of this conscience may not in fact be a pre-condition (Robinson, 1962: 13). Norms located within the economic system itself maybe a sufficient case.

System Norms

In *The Nature and Logic of Capitalism*, Heilbroner sets out to illuminate, “capitalism as that social order in which a certain kind of nature gives rise to an historically unique logic” (Heilbroner, 1985: 18). Positioned within the mainstream of economics, this investigation is senseless. Following the writings of Ayn Rand, society is postulated as solely the conglomeration of individuals, as Margret Thatcher famously quipped, “and who is society? There is no such thing” (Thatcher, 1987).

Despite its recent prominence, the erasure of social institutions by economists is indefensible. Sociology, anthropology, and psychology all demonstrate the significance of social structure in predicting human outcomes. As a further, logical, justification for systems based methods, we can look to Weber. He compellingly shows that beginning with psychological axioms one can never determine the structures of society. The process must be inverted, social institutions are ideal typed and then, “psychological analysis can contribute an extremely valuable deepening of the knowledge of the historical cultural *conditioning* and cultural *significance* of institutions” (Weber, 1949: 110).

Within the history of economic thought, it is Marx who most dramatically brings Capitalism to the fore. He writes, “all production is appropriation of nature on the part of an individual within and through a specific form of society” (Marx, 1973: 153). Forces of production combine with the social relations of production to define the economy. Distribution, production, and consumption all must abide by a system logic, which maintains the class power relations and the flow of extraction.

A Keynes or Minsky, must also apply systems norms when arguing for forces of macro-economic movement. The ‘logics’ of market economics frame and inform the behavior of individual actors. Modeling capitalism as a behavioral system explains the recurrent ‘illogical’ behavior of humans, or as Keynes demonstrated, the conflicts which exist within and between actors’ norms (Robinson, 1962, 85). Capitalism aggregated has its own logic.

Attempts by Willes and others to undermine Keynes rely essentially on a site based normativity analysis. Willes’ rational expectations denies Keynes stating that, “aggregate relationships should have no independent existence” (McKirdy, 2008: 224). He cannot allow that individuals acting together create outcomes in conflict with the norms of the discrete actors.

Again the vagueness of behavioral location allows a great deal of confusion. A contemporary example of significance to the U.S. concerns race discrimination and employment, it runs: ‘racial employment discrimination cannot exist for long in capitalism because of the rational acquisitive nature

of competitive firms. If a firm discriminated this would make it uncompetitive, be irrational, and result in business failure (Becker, 1957). Thus the appearance of racialized unemployment must be due to a culture of poverty and laziness' (Sowell, 1998). We see here businesses conceptualized as rational actors, whom also exist within an economic system, which extends its own logic onto them. Simultaneously, people of color are viewed *outside* of the economic sphere, in a space of irrationality.

This exposition should make it clear that the anthropomorphizing of economic systems is rife with normative injection. Even if the behavioral logics are accurately described, they themselves have normative value. In this way, capitalism (or socialism, etc.) become sentient beings with their own ethical codes, consequences be damned.

The benefits of this normative injection for economic research cannot be overstated. Any attempt at instrumental analysis is impossible without it. Understanding the adaptability or intractability of the economy is a logical antecedent to policy development. If Joan Robinson is correct in that nationalism is the root ideology of economics, then this work must extend yet further (Robinson, 1962: 126).

Clarity on the criteria for analyzing the behavior of economies would greatly aid systems comparison. These criteria should be molded and modified if they do not prove predictive of outcomes. While holding this, I also want to recognize its incredible difficulty. Systems norms tend to extend on a long logical timeline making prediction testing impossible: how is one to disprove the postulate that capitalism cannot survive zero growth, or that state led communism can avoid totalitarian governments? We must abstract and fall back on our Weberian ideal types, more on this later.

Observer Norms

While some theorists wax poetical on the grave dangers of researchers applying their own normative judgments, the behavior is so common as to be almost catholic. "I would venture the statement that every social scientist approaches his (sic) task with a wish, conscious or un-conscious, to demonstrate the workability or unworkability of the social order he (sic) is investigating" (Heilbroner, 1973: 139). Following Schumpeter I would argue, "that *in itself* scientific performance does not require us to divest ourselves of our value judgments or to renounce the calling of an advocate of some particular interest. To investigate facts or to develop tools for doing so is one thing; to evaluate them

from some moral or cultural standpoint is, *in logic*, another thing and the two *need* not conflict” (Schumpeter, 1949: 261).

It seems ridiculous to contend that ethical humans should void themselves of normativity when researching social systems. Problems arise when there is a lack of clarity as to the applied ethic and its origin. The entanglement only leads to confusion, “many people, who are really objecting to Capitalism as a way of life, argue as though they were objecting to it on the ground of its inefficiency in attaining its own objects” (J. M. Keynes, 1931: 321). Though it must be at this juncture redundant, at stake is not the justification of observer norms, but the effect and power of such norms in economic work.

While many economists predict the physical or ethical decline of capitalism, e.g. Smith, Ricardo, Marx, Mill, Marshall; they reach widely divergent conclusions depending on their prioritization of growth and stability. While sympathetic to socialism, Marshall wrote, “no socialistic scheme, yet advanced, seems to make adequate provision for the maintenance of high enterprise, and individual strength of character” (quoted in Robinson, 1962: 57). This is a stark contrast to Marx (or even Smith for that matter) who both viewed capitalism as damaging to ‘strength of character’.¹

Following a line similar to Weber, Robinson grants a great scientific significance to researcher normativity. “Metaphysical propositions provide a quarry from which hypotheses can be drawn. They do not belong to the realm of science and yet they are necessary to it...Take our example—the slogan “All men are equal” provides a programme for research. Let us find out whether class or colour is correlated with the statistical distribution of innate ability. It is not an easy task, for ideology has soaked right into the material we are to deal with” (Robinson, 1962: 3).

From a very different tact, Lowe suggests macro-provisioning as the goal of economic analysis. “Adequate functioning”, “orderliness”, “aggregate provision” are the theoretic measures of the success of this task (Lowe, 1969: 6). This is a weighty philosophical proposition, with which I feel most economists would tacitly agree. If we accept that the field of economics should not investigate production and distribution, but ‘adequate’ or ‘orderly’ production and distribution, then the scope is greatly narrowed. The assumption that the good functioning of a system of surplus extraction need be orderly or provide provision is bold. A slave state may be quite effective under its own logic, devastating

¹ It is interesting to evaluate Marx’s labor theory of value as an observer value: Marx writes, “when looked at as crystals of this social substance, common to them all, they are—Values” (Marx, 1967: 46). There is made no defense of the valuation of value. It could be assumed that it is the actors themselves who value something inherent in human labor, but this is not demonstrated or defended. Marx later ties prices to that which is valued, but there is no clear reason to assume that prices reflect abstract ethics. While usefulness and scarcity are dear on the market, companionship (though greatly valued) brings a scant price. The valuation of human labor is inserted as a common ethic held between the reader and author. This ethic may explain Marx’s focus on the isolation of the individual from their labor during the commodity process, the fetishism which confronts them. As noted by Knight, “economics and ethics naturally come into rather intimate relations with each other since both recognizedly deal with the problem of value” (Knight, 1922).

when viewed from mine, and inadequate according to Lowe. How do we speak of economies if we allow that the desires of the system are not our desires?

This is one of the weaknesses of Fagg Foster's approach. He writes, "attempted adjustments must make instrumentally better use of the technological factors, else they simply increase the human incidences that initially motivated the adjustments" and later that adjustments must not, "do violence to the factors not considered problematic" (Fagg Foster, 1981). In this conception of society, action occurs at the level of the institution, these institutions have their own internally consistent logic, which enables them to adjust along a path. It is not clear from the analysis that, in fact, this 'singular' path is in fact a multitude of individual desires and conflicting 'problems'.

As a research technique the application of observer norms has great strength. It is only by this process that one can hope to instrumentally utilize economic knowledge, projecting into the future a more ideal world and building institutions to create it. Keynes makes the stakes clear, "Capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable. Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life" (Keynes, 1931).

Normative analytic analysis

Normative analysis has great theoretic power and weakness. The clear structuring of norms and their injection locations is an essential prerequisite to the effective clash and evolution of economic thought. The history of economic methods and philosophy has largely neglected any attempt at categorizing and evaluating normative models. There are, of course, some notable exceptions, Joan Robinson first among them. Myrdal also points to the "incommensurable" nature of individual values and the value inherent in "the whole process of price-formation" (Myrdal, 1954 :256). Keynes writes, "the world is not so governed from above that private and social interest always coincide...Experience does not show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately" (J. M. Keynes, 1931: 312).

Still these attacks lack the evaluative coherency I desire. While they are accurate in their analysis of normative conflict, they are not sufficiently clear as to the specificities of those conflicts. It is this specification (of the norm, its location, and contradictions), which is necessary if we are to build a more ethically coherent social science out of economics. Towards this end, it is worth spending a moment outlining some best practice methods of normative analytics.

Though these steps need not be ordered we follow the earlier presentation: first, the individuals in the community are behaviorally evaluated. Predictions made from this evaluation will necessarily reflect not the normativity of the researcher, but the normative nature of the behaviors themselves. Second, the logic and nature of the economic system must also be modeled. Thus, we establish a set of individual behavioral constraints and social contradictions inherent in the interplay between the two spheres. Lastly, the observer must clarify for themselves what is valuable, how it can be seen and manipulated, and importantly what is invisibilized by this value position.

Throughout, there is an expectation of reflexivity: the constant application, shifting, and reapplication of the models in an attempt to witness and overcome their weaknesses. While testing theories which employ various norm sites or various norms themselves is clearly an attempt at falsifiability, this is not to be confused with Popper's positioning. Or with Hutchison's which requires, "that a scientific proposition may not itself be empirically testable directly, but may be reducible by direct deduction to an empirically testable proposition" (Hutchison, 1956, 189). It need not be the case that normative applications be falsifiable in order for the method to contain value. Comparison brings us into the realm of *relative* not *absolute* descriptive strength.

Clearly a great deal of work could be done in this area. It is not reasonable to expect researchers to discuss, in detail, their normative analytic tools at every turn. Instead, it is hoped that a coherent focus on describing, testing, and refining norm analytics would yield coherent recognizable tool kits. While one could contend that this is already present in mainstream economics, it should be clear that the vague, unreflexive, and entangled normative structure of neo-classical economics does not meet the bar.

Behavioral Empiricism

It is at this point that I believe I can begin to engage directly with methods proper. Following Heilbroner, I will contend that the application of scientific methods to economic analysis is essential. Our point of departure is that I see no grounds to declare normative analysis 'unscientific'. Social science is

the investigation of individuals and institutions in society. Norms are an objective aspect of this investigation and should be positioned as such.

By embedding normative analytics within research, I hope to bridge a number of methodological debates and re-invigorate the economist's tools. The process of behavioral evaluation above can best be described in the terms of Critical Realism's retrodution: an attempt to analyze phenomena at, "a different 'deeper' level in order to explain the phenomenon, to identify a causal mechanism responsible" (Lawson, 1999: 10). Normative structures are positioned as the root social mechanism.

From here I hope to save deduction, induction, and a certain quantity of empiricism. The proper application of deduction and induction require a certain degree of system simplicity and stability. While certainly not applicable in all cases, a nuanced normative analytic framework could supply these traits. Again our analogy is to physics, wherein complex systems are found (to a degree) predictable once the forces of movement are understood. Our myopic view of objective reality is resultant from normative filters and incomplete information. Little can be done concerning the information gathering and sorting capacity of the human brain. While norms still obscure, once illuminated, like a distortion through water, they can be accounted. Myrdal writes, "We must try to lay bare the specific logical errors resulting from the insertion of valuations. These insertions are due to the logical impossibility of deriving positive political conclusions from mere premises of facts" (Myrdal, 1954: 254). While he seeks a censure of these 'errors', I contend for the very opposite; it is only through the careful insertion of valuations that we can surmise positive conclusions be they political or otherwise.

From here we can save Lowe's instrumental analysis from itself. Lowe argues that the nature of behavior in advanced capitalism is too chaotic to allow for effective prediction. Instead, he suggests that we must apply an overt observer norm and project a preferred outcome onto the future. From this point we can begin tracing backwards the necessary behavior shaping institutions, which may bring us there (Lowe, 1965). This process powerfully re-embeds the economist within their personhood and normativity.

Unfortunately, instrumental analysis requires the very prediction, which Lowe contends is impossible within modern society. Nagel's rhetorical questions well illustrate the difficulty, "can we ascertain what are the likely economic consequences of the goal's realization without employing hypothetico-deductive reasoning to trace out the implications? And can we trace out these implications without using...some of the laws of "positive" economics about the interrelations of economic variables?" (Nagel, 1969: 64).

It is fortunate for instrumental analysis that it does not require us to believe in the chaos of modernity. Accepting that normative analytics will rationalize (for lack of a better word) the behaviors applied within economies; we can have our cake and eat it too. One can apply theory both to contemporary phenomenon and future possibilities without relying on Polanyi's blind "leap" (Lowe, 1969: 184).

Conclusion

I have attempted to show that the detachment of economic analysis from valuations is not only improbable, but undesirable. Explicit valuation greatly aids the understanding of where society is, how it got here, and where it could be going. With these benefits in mind normative structures should be named, tested, refined: in short we need a developed normative analytics as a supplement to our cannon of non-normative methods. In arguing this line, I skirt the debates concerning the advantages and limitations of various methods. Instead, the attempt is to illustrate that a pluralist methodological approach can be coherent when accompanied by normative analysis.

Further, it is hoped that this systematized approach to normative injection will unravel some of the most intractable debates of economics- or if not unravel at least lay them bare. The conflicts regarding: discrimination, Ricardian Equivalence, 'false' consciousness, and the nature of the firm (to name a random few) can all be understood in greater clarity once the normative modeling inherent in each is specified and revealed.

I have, as yet, avoided discussion of the ethical implications of normativity in social sciences. This was achieved by shifting the scope of inquiry; and while effective at rendering a great deal of past debate trivial, this does not in fact address the root problem. The economist is embedded in society and is also granted distance and power with regard to it. The conclusions we reach are given weight by our authority. They shape the very landscape we investigate. This all comes with a certain responsibility. If we dismiss that this responsibility requires the erasure of norms (and of our norms particularly) where are we? Is it righteous for an economist to lie or mislead in their work for the purpose of achieving a greater more 'adequate' future? Is it better to act the martyr to science and aid the 'orderly' function of essentially disorderly systems? I would contend that for these answers we must not look to science. Truthfulness and honesty of purpose cannot be justified at the altar of the scientific method. The

economist is a social scientist and granule of society. All ethical considerations must be derived from society itself and from ones place within it.

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