

# On economics and social sciences: An agenda for dialogue

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The global economic crisis makes closer collaboration between economics and other social sciences even more urgent. One major cause of divergence has been the attitudes of the parties towards the 'market'. Yet, the market economy, in all its diversity, is one of the immutable facts of modern life. Understanding the causes of its survival will improve the dialogue. Another interesting puzzle is the lack of credible alternatives to it despite the depth of the crisis. The experience of the economists in constructing models of society based on the behaviour of individuals composing it can be valuable for other social sciences. We apply the framework developed by 'institutional economics' to gain insights into the relations between Islam, capitalism and democracy. The article finishes with some observations on Turkey and draws lessons for other Muslim societies.

**Keywords**

Capitalism, Islam, social genetics, Turkey

I am honoured by the decision of the organizers to give me the opportunity to present the opening paper of this exciting conference. I must also congratulate them for their brave decision: having an economist address an audience of distinguished social scientists poses the risk of irrelevance. I presume the choice reflects the reference in the title of the conference to the global economic and financial crisis ('troubled times'), which is already 4 years old and getting worse, despite substantial efforts to contain it.

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My first reaction was to concentrate on the current crisis by talking about its past (causes), present (consequences) and future (forecasts). It is much easier for an economist to stay within the mainstream of the profession, but I was afraid it would turn into a monologue. Therefore I changed track. I took upon myself the arrogant task of initiating an urgently needed dialogue between economists and other social scientists. Hopefully, it may lead to some progress in our understanding of the major topics being discussed at this conference.

During the last century an interesting divergence took place within the scientific disciplines studying the behaviour of humans and human societies. Economics became more and more isolated from the other social sciences.<sup>1</sup> I witnessed this divergence recently at an international conference in Berlin on the public mission of the social sciences. The interaction among the participants – from all areas in the social sciences – was impressive; except, of course, for the economists. As the meeting progressed, the conceptual divisions became even more pronounced. I believe the responsibility for this not-so-evident outcome lies with both parties. It takes two to tango. I begin with a brief diagnosis of this bizarre situation.

## **Attitudes towards the market**

What is the biggest hurdle to collaboration? The best answer is often the simplest. For me, it boils down to a fundamental incompatibility between the attitudes of the relevant parties towards the ‘market’, which is probably the most crucial social institution of modern times. In a sense, this incompatibility is not surprising. The market may deliver the rapid technological change and high productivity upon which our current welfare depends; yet it remains a very divisive and polarizing social construct both for citizens and for students of modern societies. Therefore, reaching a common understanding (a compromise) on the meaning and significance of the market, its strengths as well as weaknesses, may be an important step towards the reunification of the social sciences.

First I consider the economists (‘us’), among whom some form of respect for the market is a precondition for admission into the profession. From day one, we are instructed to have faith in the market. Many of us have serious reservations about some of its outcomes but its basic tenets are well interiorized. This process is complex. It involves building idealized models of the market, based, under the pretext of simplicity, on unrealistic assumptions (e.g. rationality). It has a blinding effect: human characteristics that undermine the beauty of the model are simply ignored by the profession. Then comes the formalization of the models through unintelligible mathematics, but only to prove theorems with no counterpart whatsoever in reality. That is how things work on our side.

What about the other social sciences (‘them’)? The moment an economist utters the word ‘market’, even in a soft voice, he or she is immediately branded as a ‘neo-liberal’. Frankly, the word lacks a workable definition.<sup>2</sup> It is an expression of ‘contempt’, a substitute for ‘politically incorrect’. Why is this so? I sense that for most social scientists, any positive reference to the market, whatever the context, implies conceding to a basic human vice, namely greed (i.e. the profit motive). However, our task is not to assume away the selfishness inherent in humans, it is to find ways of harnessing the benefits of selfish behaviour while constraining the damage this selfishness may cause on human societies.

At this point, I have some good news. Things have been improving on our end. For some time now, economists have been reinserting history and society back into economics, and with remarkable success. Armed with new tools, ‘institutional economics’ began searching for answers to the ‘big questions’ of the age, thus returning (after a long delay) to the tradition of the founders of the ‘dismal science’. Here are some titles of recent books exemplifying this trend: *Violence and Social Orders* (North *et al.*, 2009); *Why Nations Fail* (Acemoglu and Robinson, 2012); *The Long Divergence* (Kuran, 2011).

## How capitalism survived?

Let us turn our attention to the empirical realities. My first observation is that the market economy<sup>3</sup> is one of the immutable facts of modern life. It has humble origins in a mid-sized island off the west coast of continental Europe; it faced competitors from all sides of the political spectrum; it survived several violent attacks; and it came to dominate the world. We simply cannot hide from the fact that in the flat world of globalization, capitalism reigns supreme, reaching every corner of the globe. Exceptions to this rule are negligible.

This observation begs the critical ‘big question’ of why it happened. More accurately, what are the attributes that permitted the market economy to prevail over its competitors in the past? Reopening the channels of communication among different social disciplines, by admitting that we have much to learn from one another, will be crucial for a satisfactory answer to this question. That challenge sets the content of the ‘dialogue’.

A comprehensive answer is beyond my scope here. Our current conceptual framework focuses on the degree of ‘openness’ of social processes, i.e. the role of competition, of social mobility and of decentralization in social decision-making. In this perspective, the strength of the market economy lies in providing a better alignment between individual actions and societal goals. Three fundamentals are worth mentioning.<sup>4</sup> Wealth creation is the first. Competition in the market creates the proper environment to encourage wealth creation (production) as opposed to rent-seeking (redistribution) and society’s resources become better allocated. The second fundamental is innovation. The decentralized nature of economic activity allows experimentation in new methods and successful innovations to increase the productivity and welfare of the society. Third is the diffusion of power. At all levels of society, power is de-concentrated, preventing any group from monopolizing decision-making and stifling competition and innovation.

## The diversity of capitalism(s)

Enough with this theoretical detour! Let me continue with another empirical observation: the incredible diversity of capitalism(s) in real time and space. The market seems to transcend religion, race, culture, politics, institutions and policies. The heterogeneity of the social and political structures, institutions and values compatible with the market is, to say the least, surprising. Some country couples, say China–Japan, USA–India, Germany–Greece, Iran–Denmark, or Russia–Brazil have no other common characteristic but their reliance on markets and integration into the global market system.

Let me concentrate on ‘mature’ (not ‘emerging’) economies. The EU provides an excellent historical experiment to observe this diversity. Its members have a common

cultural heritage and decades of economic integration, yet wide disparities exist in income distribution and other politically sensitive areas (the labour market, social safety networks, fiscal policy, etc). This statement is also valid for other developed economies (e.g. the USA and Japan).

An easy way out of this impasse is tempting. We can always build a universal model, based on the historical characteristics of one country (ours), and treat all the others as temporary and undesirable diversions from it; i.e. all 'real capitalisms' will eventually converge to this ideal type. This happens often; the habit is not limited to Anglo-Saxons and economists. We see similar tendencies for other difficult concepts, such as democracy and modernity.

I need to clarify some potential misunderstandings at this point. First, nothing above presumes the linear progress of human societies, in a positivist sense. Success always coexists with failure. Recent economic history supplies ample examples. Argentina was in the top income group of countries a century ago, with an income per capita on a par with Canada; today it barely matches that of Turkey. The rapid rise of Japan and its subsequent stagnation is another example; Korea is about to overtake Japan in terms of per capita income. We should not forget the rise and fall of the British Empire either.

Second, the remarkable flexibility of capitalism in adapting to changing circumstances and surviving adverse historical trends is only proof of efficiency, not of the moral superiority or the social desirability of its outcomes. Three weaknesses of the market economy are well documented. One: it creates wide inequalities of income and wealth. Two: it impoverishes the meaning of life to the pursuit of material gain (consumerism). Three: it encourages waste and causes irreversible damage to our natural environment. I share with its critics the feeling these defects will only become worse in the future.

This real world diversity has important implications for scientific inquiry. Economics, from its very early days, strove to arrive at universal theories. Even the word itself alludes to 'physics'. Over time this search has become a major liability. The abstract models constructed for that purpose are totally lost when faced with the singularities of the societies they claim to explain. You must know the story about four blind men asked to describe an elephant. Economists have ended up 'assuming' the elephant. No wonder it is also called the 'dismal science'.

Other social sciences, fortunately, did not fall into this trap; instead of building abstract models they kept their feet firmly on the ground and concentrated on studying actual existing societies. This path also poses dangers. The temptation to generalize from concrete cases not only is hard to resist but also constitutes an integral part of scientific research activity. Still, the risk of confusing the singular (appearance) for the universal (essence) is enormous. Returning to our elephant, you get four distinct definitions and the elephant disappears in the process.

## **Methodological issues**

Biology, not physics, should be the source of inspiration for economics and the social sciences. During its early history, biology was purely taxonomic: it described and classified nature. The method was scientific; but it would be gross exaggeration to call it a science in the proper sense of the word. Biology took a major step in that direction when

Darwin came up with a hypothesis compatible with accumulated observations. However, the mechanisms of natural selection at the level of the organism still remained a mystery. It was the discovery of DNA and genetic transmission that finally gave biology the proper scientific status.

You must have guessed where I am going. Studies of societal processes require their 'genetic' equivalents to move up one ladder in the scientific ranks. What is this 'social genetics'? Put simply, we must be able to construct models of society based on the behaviour of the individuals composing it. Empirical generalizations will always make poor substitutes for such a theory.

A short biographical footnote may help. Two sources led me to this conclusion. One is, of course, Marx, who pioneered a theory of society and history, and therefore of social evolution *à la* Darwin, that put knowledge and conflict at its core. The other was Jacques Monod, joint winner of the Nobel Prize for discovering DNA; 'Le Hasard et la Nécessité' taught me the distinction between accidental singularity and structural determination that is critical to understanding evolutionary processes.

Can economists make a meaningful contribution to the social sciences? I think so. During the last century, they have acquired valuable experience handling complex models that start with the decisions of the individuals and then work their way up to collective actions and social outcomes. They had to resort to this method in order to provide solutions to the challenges posed by the defining characteristic of the modern era, namely, the socialization of the production process due to high levels of specialization at the individual level. In fact, two critical and interrelated tasks turn this issue into a universal challenge:<sup>5</sup> coordinating the decisions of the individual participants and distributing their social product among them. This challenge is where the market, as a social institution (not a technical/allocative mechanism), makes its grand entry onto the historical and theoretical stage.

I will now offer a few words about the theory of markets. The models are successful in the special but instructive case of the horizontal division of labour between individuals who preserve their independence in decision-making (pure exchange). However, the division of labour in modern society is not simply horizontal; many human activities require a vertical division of labour, with advanced levels of cooperation and appropriate command structures. These hierarchies (firms, bureaucracies, etc.) produce power and privilege – concepts totally alien to the market models. The result is a spectacular failure to explain the large private firms (and the labour markets) that constitute the backbone of modern society.

Nonetheless, economic theory developed a critical methodological advantage over other social sciences in the process. It always bases analysis on the behaviour of individuals. This method protects against putting too much faith in the aggregates, which are usually easily observable, but reflect the outcomes of many (millions) individual decisions. Aggregates can be very misleading; it is the individual decisions behind them that need to be understood and mastered.

## **Alternatives to the market economy**

The next observation is about a relatively recent phenomenon, namely, the lack of credible alternatives to the market economy. It was not so when I was young. The world was

full of wonderful utopias and societal experiments: Soviet, Chinese, Albanian, Scandinavian, Japanese, etc. Things are so boring now; where have all the utopias gone?

Rising unemployment and harsh austerity measures since the financial crisis have fed into several protest movements throughout the world, including Tsiras in Greece, Occupy in the USA, others in Spain, Chile, etc. However, protest is protest; it is never the source of a credible alternative. This lack of alternative is a puzzle: normally such radical loss of credibility by the market economy should lead to the emergence of alternatives; however none seems to have caught the public's attention. I presume our seminar will discuss this important gap at length.

Soviet communism was the first major historical experiment after the Industrial Revolution that sought the creation of a different (and universal) social order. It abolished both the market and private property. It was based on a simple assumption: the allocation of resources through a central authority improves both efficiency (wealth creation) and equity (distribution). The result is well known: both assumptions proved to be wrong.

The second experiment set more modest goals. The welfare state, originally created in Europe, kept the first function of the market (and private property) but interfered in the second through mechanisms of bureaucratic redistribution of income. The keyword here is 'redistribution'. Do not hand out fish to the poor, teach them how to fish. So goes the old saying.

For most of the 20th century, social democrats supplied a credible alternative to the market in mature economies, by promising to tame it where it performed the worst, namely in the distribution of income and the lack of social safety networks. The welfare state is living evidence of their success. However, this success was partial and temporary. In the last three decades, income inequality (however you measure it) increased again in all mature economies. Social democrats shared power in that period (with Blair in the UK, Clinton and Obama in the USA, Mitterrand and now Hollande in France, etc.).

This observation begs other critical questions on the relationship between capitalism and democracy. Does one require the other? Or is it only a historical accident that they have emerged together in Europe and its offspring? The empirical evidence is not conclusive. Correlation is not causality. As Chou en Lai is rumoured to have answered when asked about the success of the French Revolution, 'it is too early to tell'.

## **Capitalism and democracy**

An old debate on this issue involves the early stages of the transformation of an agrarian society into a modern one: 'catch-up', development, industrialization, etc. Does tyranny accelerate industrialization? China's stellar economic performance under a very authoritarian market economy obviously encourages those who believe it does.

I find a new debate more interesting. Especially in the post-war period, high growth rates (and low unemployment) in mature economies certainly eased the tension between universal suffrage and income inequality. Things have changed since the recent crisis: growth perspectives are dim and living standards are falling in many areas (e.g. southern Europe). Can democracy survive under such adverse conditions? The struggle between democracy and the nascent technocratic or reviving populist authoritarianisms is also to be discussed at this 'Promises of Democracy' conference.

We must be careful about defining populism correctly. Redistribution usually means taking from some to give to others. ‘Tax-and-spend’ welfare states established by the social democrats in mature economies may have several shortcomings, but populism is not one of them. For an economist, populism originates from the other temptations of the modern economy that governments at times find hard to resist: namely, to spend on some (even all) without seeming to take from anybody, at least in the short run. One option is to borrow abroad instead of taxing residents. Greece is the ultimate example of how this story unfolds, with precious lessons for all. There is a private sector version (in the USA and Spain) that uses the mortgage channel and the end is not much different. Another option is to finance redistribution with freshly minted domestic currency, at the risk of future hyperinflation and economic collapse. This method has been a favourite of developing nations (especially in Latin America) – mature economies have avoided it thus far. Both forms of populism might have lost their appeal to governments since the global crisis.

Let us return to democracy by recalling again institutional economics. North’s ‘open access order’ requires rule-based competition among the ruling elites. For the economist, the causality is unidirectional: it goes from the *Rights of Man* (Thomas Paine) to the Industrial Revolution and not the other way. Using a similar analysis, Acemoglu (2012) compares the futures of China and India and bets on the latter. India could well be where the future of democracy will be decided.

## Islam and capitalism

It is time to apply this framework to another flash topic: Islam. I look into two interrelated cases. The first is general: the compatibility of Islam and capitalism (democracy, modernity, etc). The second case is a subset: the meaning and limits of the Turkish experience with modernization (democratization, industrialization, etc.).

The analysis above eases the task of defending the compatibility of Islam with capitalism. I have already claimed that capitalism transcends religion, race, culture, etc. First, all lasting ideologies are flexible enough to adapt to changes in circumstances; otherwise they would be long extinct. Second, Islam is not different from other religions regarding tolerance of private property and the profit motive. On the contrary, it might even be inherently more accommodating to them. Current realities clearly show that any animosity towards either is marginal within Muslim societies. The evidence from history is not much different.

In turn, the compatibility of Islam with democracy (modernity) is much disputed. However, I must point to an asymmetrical situation for Islam. Christianity and Judaism are absolved of this sin by virtue of their contribution to the invention of democracy. Yet, similar doubts are not raised about the teachings of innumerable Hindu gods, Buddha, Confucius, or Tao. Of course, you may object by pointing to the fact that other religions have not exhibited the equivalent of Islamist terrorism, Al Qaeda, the Taliban, 9/11, the rise of the Salafism in the Arab world, etc. Point granted.

We have a billion-dollar question here. Two possible interpretations of history take us back to Monod: is what we observe a historical necessity, or is it a historical accident? Let me put it in plainer language. The first hypothesis implies that Islam is incompatible

with democracy because of its fundamentals (economist-speak for determining structural characteristics). The arguments are well known. The other interpretation attributes the same syndromes to historical/geographical chance factors and not to the faith itself. It is a difficult case to defend. I am therefore looking forward to Timur Kuran's presentation at this conference.

I wish to underline some factors that have slowed (and still do) the evolution of Muslim societies towards more conventional forms of capitalism (democracy, modernity). In the spirit of the conference, my analysis focuses on the Arab world. It may be worth remembering Gramsci's observation that when the old can no longer reproduce itself and the new cannot rise, many morbid symptoms appear.

The first factor, oil, is a geographical accident unless you believe in divine design, which distorts incentives towards an open social order. When the 'oil reserve per capita' is sufficiently high, the first function of the market, namely, the production of wealth by human ingenuity and toil, is no longer binding. Because wealth is put under the ground by God and others are ready to take it out for you, you simply distribute the spoils. A geo-strategic dimension usually adds other constraints to the evolution towards a modern society (e.g. Libya, Saudi Arabia and the Gulf states).

The second factor is historical with roots in geography. In mature agricultural societies, feudal and Asiatic, the emergence of strong central authorities eventually dominated kinship and tribal hierarchies, paving the way for more homogenous identities. This transition was not without a price, of course, but it happened. Due to harsh natural conditions (mountains and deserts) some societies could not take this crucial leap. They are now faced with a 'double transformation', where one is already very challenging (e.g. Afghanistan, Iraq and Syria).

The third factor is also historical. The Industrial Revolution triggered western colonialism, and the reaction to it engendered the special case of nationalism serving as an instrument of modernity. Almost everywhere, military-bureaucratic elites established revolutionary (Jacobin-Baathist) nation-states, to break away from 'the market' as well as the dark ages imposed by colonialism and a conservative populace. This phenomenon has also proven to be very resilient to change (e.g. in Turkey and Egypt).

One can add to this list other factors amplifying Gramsci's 'morbid symptoms'. The cold war, the Israeli-Palestine conflict for the Arabs and the trauma of partition for Pakistan are some examples among many. The question is whether these examples constitute adequate evidence for the compatibility of Islam and democracy. In theory, I feel sympathetic; empirically, however, the jury is still out.

## **Lessons from Turkey**

Within this background, Turkey stands out as an interesting case. It is Muslim and devoid of oil and tribal inheritances (except for Kurds), but it also has a strong tradition of nationalist-authoritarian state. The republic was founded upon several tragedies (Armenians, Greeks), while remaining scores were repressed (Kurds, Alawis). It had its ups and downs: military juntas, despicable human rights record, political and economic instability on a grand scale, the Kurdish civil war (30,000 dead), etc. Keep in mind that other countries fared worse on their way to democracy (Germany, Italy, Spain, Japan, Greece,

etc.). Therefore, the republic can still be called a success story (when the period before is excluded).

Today, many wonder if Turkey has achieved the honourable distinction of being the first Muslim society with a working market economy and relatively developed democratic institutions. This interpretation leads to the discourse of ‘Turkey as a model’, which I will now discuss briefly.

First, external dynamics had only an indirect impact on Turkey’s transformation. NATO, the EU, the OECD and the IMF–WB have certainly been instrumental in supplying road maps (not all of them useful), but it was the existence of a domestic constituency supporting reform that made it all possible.

Second, the push for the transformation primarily came from political currents that empathized with the conservative (religious) electorate. In that sense it is no surprise that the ‘finale’ was enacted by a government that embraced political Islam. The Justice and Development Party’s (AKP) struggle to remove the heavy hand of the military from politics was easy for friend and foe alike to understand. However, for those not fluent on Turkey (its intelligentsia included) AKP’s pro-business, pro-market, pro-globalization, pro-EU policies as well as its fiscal conservatism and social justice (solidarity) orientation remain real puzzles.

Let me conclude with some lessons I draw from Turkey’s experience for other Muslim societies. As someone who personally witnessed the long-lasting labour pains of modernity in Turkey, I am not very optimistic for the short run. There is a good side and a bad side to Turkey’s experience: good because it raises a glimmer of hope for the compatibility of Islam and modernity; bad because the process is liable to reversals and will require the patient work of several generations. To break the mould of the authoritarian nation-state is much more difficult than many believe. It might be just another morbid symptom of the great transformation, but once in place, it has a remarkable capacity to survive. The ‘Arab Spring’ is only the beginning of this painful process. We must wish them good luck.

## Notes

1. Or is it the other way around? Remember the headline from a London newspaper: ‘Fog on the Channel, Continent Isolated’.
2. Economists prefer to define policy as ‘brands’: Keynesian, monetarist, market-fundamentalist, etc.
3. Capitalism is a better word; but it was monopolized by the left and forgotten by the rest during the cold war. The crisis promotes it back to book titles: *The Failure of Capitalism* (Posner, 2009), *The Cost of Capitalism* (Barbera, 2009), etc.
4. I summarize from an excellent (and concise) analysis on capitalism by Kay (2009).
5. The challenge will disappear in two cases: technical progress may render specialization redundant; or social progress may render higher productivity redundant. No sign of either in the foreseeable future.

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