

Revised final draft

ON THE STATE OF ECONOMIC METHODOLOGY [1983]

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Looking back over methodology literature that began with John Neville Keynes, it is difficult to find anything that has any direct bearing on economic literature in general. From the perspective of a practicing economist or economic theorist, until quite recently, methodology has been completely useless. The only possible exception is the very limited role methodology plays in our understanding of the history of economic thought.

The primary reason for such a bleak picture is that economics, like every other intellectual enterprise during the last 50 years, has been dominated by Positivism and its philosophical prejudice which considers only scientific activity to be “meaningful” and all else (including methodology and philosophy itself) to be “meaningless”. Against this background it has always been difficult for anyone to justify spending time studying methodology.

Nevertheless, many have contributed to methodology literature. Hutchison, Machlup, Friedman and Samuelson have made the most impact on the image of methodology in economics. Judging by what has been the course economics over the last 25 years, it certainly appears that none of these writers have had anything to say that would in any way affect the ordinary machinations of the everyday economist other than spicing up some of our rhetoric.

Today, most methodologists (ever the optimists) will probably disagree with the accuracy of this dismal picture. But, alas, there is no evidence to support their contrary view. I will outline the reasons why methodology has been in such a sad state and then I will discuss some recent signs that methodologists have figured out what it takes to raise the intellectual level of discussion in methodology circles.

The Paralysis of Methodology: Reactions to Friedman's Essay

For reasons which seem to elude almost all methodologists, the celebrated “debate” between the followers of Samuelson's methodological dictums and Friedman's 1953 essay have paralyzed methodological discussions in economics. Friedman's essay stated his version of an anti-positivist methodology which, as I argued in 1979, is merely a variant of instrumentalism. In many ways Friedman offers nothing new except to puncture holes in the pretentious balloon of Positivism.

In the words of President Harry Truman, “a stuck pig always squeals”. And so, we find much wailing and crying on the part of those economists who feel secure in the sophisticated coziness provided by Positivism. Unfortunately almost everyone who ventures into methodology thinks that they must begin by choosing sides – are you a Friedman follower or are you a “man”? And, until recently, the level of general discussion has not progressed much beyond that low level.

All of the critics of Friedman's essay have adopted stances which do not take Friedman seriously. Most simply try to show that Friedman was so dumb that he could not help committing logical errors in his essay. If Friedman were that dumb then his essay would have long ago disappeared from reading lists. The *KEY QUESTION* which must at some point be faced by all honest methodologists is: Why does Friedman's essay remain the most frequently cited article on economic methodology?

So as not to keep everyone in suspense, the answer is rather obvious. The reason is that most practicing economists believe in the methodological tenets expressed in Friedman's essay. They will not all say so publicly. For some it is a matter of social pressure. For most it is because they do not understand their own views on methodology – they just think that if they reject Friedman's ideology then must also reject his methodology. This is where methodologists should have come to the rescue. Unfortunately, they have also been caught up in the ideological dispute and thereby failed at their assigned task – to help us understand why economists do what they do.

Since 1979 almost everyone agrees that Friedman's methodology is nothing but his version of instrumentalism. If Friedman's view were as intellectually insignificant as so many seem to think, the admission by Friedman that he accepts the instrumentalist mantle should have been enough to cause methodologists to move on to some more important methodological questions. Sadly, they have not. Instead, my 1979 article seems to have elicited a new stream of anti-Friedman diatribes – none of which face the “key question” noted above.

Facing the “Key Question” in Methodology Today

In order to face the “key question” and the obvious answer, we also have to face the realization that concerns of econometrics and econometricians dominate the everyday activities of mainstream economics. As we have learned from our required courses on elementary econometrics, one cannot use an econometric model unless it is precluded from running afoul of the “identification problem”. Unfortunately, (as I argued in my 1968 SAJE article), requiring “identification” in effect neutralizes the model from question of truth or falsity. It is just like instrumentalism – truth does not matter in econometrics either!

Stated in such bold terms this viewpoint can be easily dismissed on grounds of formalities. But, again, there really is little counter-evidence. And given the pervasive influence of econometrics both in the academic sphere and in the overtly “applied” sphere of business and government policies, it is easy to see why discussions of Friedman's instrumentalism strikes such tender cords. Note, however, this tenderness is primarily due only to the inability of economists to separate ideology from methodology.

The Current Set of Alternatives

Fortunately, there are some methodologists who are unwilling to engage in the endless rituals concerning Friedman's instrumentalism. They can be roughly separated into three groups. There are (1) those who plead for “Methodological Pluralism”, (2) those that are eager to uncover the “errors in econometric methods” and (3) those who, like me, think that our job is to explain why economists do what they do.

1. “Methodological Pluralism”

It is easy to see that if there is a choice to be made it is not just one of whether to reject Friedman's instrumentalism since there are many other “isms” out there to consider. Still the question might be asked, if there are many different methodologies (e.g., instrumentalism, fallibilism, conventionalism, inductivism, etc.) which one is “best”? But what if one is clearly superior to any other? “Methodological Pluralism” starts from the presupposition that there is no “best method” and thus our only job is to understand all the contenders and above all stand ready to criticize anyone who claims that theirs is the “best”.

“Methodological Pluralism” is the most popular stance taken today regarding methodology – the leading advocates seem to be Sheila Dow [1980], Bruce Caldwell [1982]. However, it should be recognized that Methodological Pluralism is merely conventionalism raised to a meta-theoretical level. Recall that with conventionalism one is not supposed to claim their theory is true (or false) since without induction we could never prove any theory's truth status (see Boland [1979, 1982]). At the meta-theoretical level the methodological pluralists claim that we cannot prove that any methodology is the “best” hence none is best. Thus we see that Methodological Pluralism is just another intellectually defeatist stance – one which will have great appeal to liberal-minded intellectuals who are afraid to argue or to take a strong stand.

2. Errors in Econometric Methodology

There are methodologists who are willing to take strong stands albeit in the rather narrow confines of econometrics and econometric theory. As I noted above, today the economics profession is dominated by instrumentalists whose major tool is econometric model building. Econometric model builders, being instrumentalists, never allow us to ask them whether their models are true. Nor are we even allowed to question the use of some of their behavioral assumptions contained in those models (such as assuming rational expectations or an exogenous money supply). The only question allowed is whether the model works whenever their favorite behavioral assumptions are included. (Of course, there are some econometricians who attempt to go beyond instrumentalism by engaging in “hypothesis testing” but their “testing method” is usually a sham that would be acceptable only in a conventionalist methodology.)

Some econometric theorists have begun to ask questions about the internal consistency of certain econometric techniques and more importantly about the instrumental adequacy of the most popular techniques (e.g., Hendry [1980], Leamer [1983], Mayer [1980]). From the standpoint of methodology these critical studies may prove to be the most productive efforts in methodology since Friedman's essay.

3. Explaining How Economists Explain

Once the severe limitations of econometric techniques are widely recognized, it is apparent that few methodologists understand why economists choose to explain events the way they do. Why must everything yield to neoclassical behavioral assumptions? Was John Maynard Keynes giving a new explanation of economic events or was he merely criticizing neoclassical explanations? If everyone agrees that there is no inductive logic, why is it still an essential part of almost every neoclassical (or Marxist, or institutionalist, etc.) explanation? Why must we turn from building allegedly unrealistic “equilibrium models” to building “disequilibrium models” if the latter can only be understood in terms of the former?

Some of these questions are being approached by examining how various economic theorists approached their objectives. Stan Wong's book [1978] is probably the best example, and the recent books by Hausman [1981] and Hicks [1979] are clearly on the right track. But most significantly, as these books all demonstrate, progress in this type of methodological study requires a much deeper understanding of the nature of economic theory than has been evident in earlier methodological writings. It is more fruitful to attempt to understand what particular economic theorists are doing by first considering what *THEIR* aims and *THEIR* problems and solutions are than just examining what some favorite philosopher thinks they should be doing. Probably most important is the final realization that the familiarity with a few old clichés from Physics or Chemistry will simply not do anymore.

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