METHODOLOGY AND ECONOMICS

Methodology and Economics

A Critical Introduction

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To the memory of my father

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JOHN PHEBY

Foreword

In recent years the attention given to methodological issues within economics has grown considerably. Several books on the subject have been published, courses established and two new journals, *Economics and Philosophy* and *Research in the History of Economic Thought and Methodology*, launched.

Why such interest? The most popular explanation argues that economics is experiencing a period of crisis. It is felt that during such periods economists tend to reflect more about what they are doing. The publication of books entitled *Why Economists Disagree, The Crisis in Economic Theory, Economics in Disarray* and *Why Economics is not Yet a Science*, suggests that something of a crisis exists. Crisis or not, there can be little doubt that the confidence acquired by economists during the post-war period has been severely shaken. Many Western industrialised nations experienced unprecedented growth and prosperity in the years following the Second World War and Keynesian demand management policies were often regarded as being primarily responsible for this economic success. This helped to foster the impression that economists had a certain degree of control over the running of the economy. Indeed budgetary policies seemingly took on the guise of 'engineering' a modest fall in unemployment or inflation. The stock of economists was probably never higher – they seemed to enjoy a public esteem unrivalled by other social sciences and it appeared that the 'dismal' science could, at last, deliver something positive and beneficial to mankind at large.

Regrettably, those halcyon days are now behind us. The growing economic malaise of the late 1960s gave way to crises that have gripped many countries through much of the 1970s and 1980s. As a result the Keynesian consensus that existed to a considerable extent during the 1950s and 1960s was shattered and this has contributed to the current situation where several alternative macroeconomic theories compete for our critical attention.

Against this background it is not surprising that many economists have turned to methodology for succour. Some feel, as Milton Friedman comes close to suggesting, that if we can obtain the 'right' methodology then economics is more likely to arrive at results that are less ambiguous and therefore a new consensus could emerge. This hope is unlikely to be fulfilled from studying methodology. It will become apparent that no one methodology will rescue us from all our problems.

There are other writers who believe that the study of methodology could give rise to a new direction in economics. This group, in which I include myself, argue that the methodological biases of the past have restricted the ability of economists to deal with many of the problems of the late twentieth century. That is, economics has been modelled upon the natural sciences in a rather mechanistic fashion. This attempt to imitate the natural sciences is referred to as 'scientism' or 'naturalism'. It is my belief that if we view economics more as an organism then the methodological implications are quite radical. Therefore, although there is something to the crisis theory it does not completely explain why methodology has become more popular in recent years. Methodology is about very fundamental issues that go far beyond the whims of crises and fashion. The subject matters because the methodologies that different economists practice differ in subtle ways. If we are not aware of this, some of the nuances of their work can be lost.

What then is methodology? This is not an easy question to answer. Methodology means different things to different people. That this is so will become abundantly clear below. Although what methodology means is best dealt with in the more detailed context of each chapter, a broad outline will be presented here. It is concerned with the nature and status of a discipline. Methodologists typically seek to establish certain standards and criteria by which we can appraise and evaluate economic theories. In this context the notion of testability proves to be a primary concern in methodology and most of the chapters will consider the different ways in which this is approached. The appropriate balance between conceptual and statistical analysis has also been an important consideration within methodology.

As already indicated, the nature of economics has been moulded along the lines of the natural sciences. This is significant because it means that techniques designed for such sciences play an important role in economics and this applies particularly to the widespread use of mathematics and statistics. Methodology also needs to pay some attention as to how far such methods are appropriate to economics.

In writing this book I have two objectives in mind. When I studied methodology I found the lack of a clear and intelligible introductory book a great handicap. This feeling of frustration has heightened since I have taught my own methodology course. Consequently, my primary concern is to produce a book that will deal, in as simple a manner as possible, with a subject that is often rather difficult, and remote, to the unfamiliar reader.

My second aim is to present some arguments in support of those economists who see methodology as a useful means of promoting a different type of economics. This will be done by criticising the 'naturalism' of much economics and suggesting some of the alternative directions that can be taken.

In order to achieve these two objectives the book has been constructed in the following way. The first chapter deals with two extreme methodological positions, inductivism and deductivism. The former stresses observation and systematic statistical work as the best route to knowledge whilst the latter emphasises thought and introspection. Although few economists can be classified as fully fledged inductivists or deductivists there are two reasons why I begin my analysis with them. Firstly, many of the historical debates within economic methodology have been couched in these terms. Consequently it will be argued that they have left their mark on the approach adopted by many economists. Secondly, some of the other methodologies considered in the book are direct responses to, or elaborations upon, inductivism and deductivism. Therefore consideration of them serves a very useful scene-setting purpose.

The next chapter considers the work of Sir Karl Popper. His contribution has been largely stimulated by some of the issues arising from Chapter 1. We also appreciate the crucial signficance afforded to testability within methodological discussions. Chapter 3 deals with Thomas Kuhn. He has developed a more structural view of methodology which considers the way in which the scientific community sets and changes the standards of what counts as acceptable science.

The next two chapters, concerning Imre Lakatos and Larry Laudan, are in their own ways elaborations upon the methodologies of Chapters 2 and 3. The sixth chapter considers instrumentalism. This is a position that is derived from inductivism. I have postponed discussion of Friedman's famous essay 'The Methodology of Positive Economics' until this chapter for two reasons. Firstly, it will be argued that Friedman's essay is best interpreted as instrumentalist. Secondly, this methodological position is placed in a much clearer perspective when following the earlier chapters.

The Austrians form the subject of Chapter 7. They are a group of economists in the deductivist tradition who are typically suspicious of systematic statistical work by economists. We shall see that their rejection of 'naturalism' makes their position more interesting as well as more controversial.

In Chapter 8 I consider Marx's methodology: this is an approach that is both complex and difficult to categorise. The final section will consider some of the implications for treating economic methodology more as a vehicle for the study of an organic social science.

J.P