



BOOK REVIEW

REASON AND REALITY IN THE METHODOLOGIES OF ECONOMICS – AN INTRODUCTION

By Glenn Fox, Cheltenham, U.K.: Edward Elgar Publishing Limited, 1997, ISBN 1858985798, 152 pp.

Despite the 1980s resurgence of methodology of economics as a subject of discussion and writing, it has not, according to Lawrence Boland (1997), led to a serious acceptance of the subject matter by “mainstream” economists. Noting the importance of bringing methodology into the mainstream, he concludes that the problem may be that “methodologists have nothing *useful* [italics added] to say to mainstream non-methodologists”. It is in the context of looking at the importance and usefulness of understanding what methodology is, why it is important and how it can better serve the development of economics, that Fox’s book comes as a fresh introduction to this subject.

The book contains nine chapters spanning 139 pages, including an extensive nine page list of references and a four page index. The book aims at helping to resolve some of the “existing and emerging methodological controversies in economics” by providing a “better understanding of the various schools of thought on the subject,” (p. x). To Fox, there are at least five major schools, i.e. positivism, instrumentalism, *a priorism*, realism and rhetorical analysis, which differ on fundamental “watershed methodological questions.” These questions are: what is the purpose of economic inquiry, what are the legitimate sources of economic inquiry, what is the scope of application of economic knowledge, and what is the appropriate structure of an economic theory?

Before addressing the five schools of thought on these four fundamental questions, Fox begins by asking if there is a “crisis in economics” (pp. 1-17). While external critics have been around for a long time, Fox points out that “criticism from within the ranks of practicing economists has become more frequent and more troubling” (p. 2). This internal criticism has, according to Fox, seen the emergence of “economists-philosophers” and “philosopher-economists” since the

1970s whose main focus has been to discuss methodology as theory appraisal. According to him (p.2), “pure methodological positions are rare” in economics. Instead, economists employ several methodologies, selecting elements from different philosophical programs in an eclectic or pragmatic fashion. This lack of awareness of the methodological differences between economists has led to various “areas of dissent” such as the debate on the relationship between theory and data and the role of econometrics (pp. 4-10); the fragmentation of macroeconomics (going beyond the Monetarists-Keynesian debates) where the relevance of the concept of equilibrium, the relationship between individual and aggregate approaches to economic modeling, the issue of rationality as optimization as well as the role of time and information are being debated (pp. 10-11); and the issue of policy relevance versus formalism (pp. 13-14).

In Chapter 2, *How Economists Know What They Know* (pp. 18-32), Fox surveys the agreements and disagreements among economists and tries to ask the question of *why* such agreement or disagreement takes place and what its basis is. He posits the view that if economists aspire to be ‘scientists’, they need a general protocol for the authentication of economic knowledge claims (p. 31). However, he states that the profession “suffers from an overabundance of competing protocols,” namely between the five schools of thought. Since ‘modern methodological orthodoxy’ is an eclectic enterprise, this creates the problem of incompatibility of some ideas based on the authentication principle of competing claims.

Chapter 3, *What is Methodology* (pp. 33-50) is probably the heart of the book, hence greater attention in this review. He rightly points out that many confuse method or technique with methodology. The latter denotes the appraisal of theories. *Methodology is closely related to epistemology, which is the study of the theory of origins, the nature, the methods of authentication and the limits of knowledge* (p.33). Therefore the epistemology of economics is concerned with the sources of economists’ knowledge about human social interaction, the scope of application of that knowledge, and the protocol through which that knowledge is validated. He adds that methodologists are also concerned with semantics and, more recently with rhetorics, i.e., the distinctions in the meaning of important concepts used in economic theory and analysis. The traditional view of methodology requires theory appraisal to meet the criteria of coherence (internal logical integrity), correspondence (relationship between theory and phenomena) and the secondary criteria of clarity and simplicity known as Occam’s Razor.

Fox then discusses his four methodological questions. On the purpose of economic analysis, he lists out understanding and explanation

(with its offshoot prediction) as two main traditions and surveys contemporary economists' views on this (pp. 37-42). He states that different purposes of economic inquiry can lead to quite distinct positions in theory and analysis, even if the differentiation is based on the relative weight attached to the various purposes of economics. In his discussion on the sources of economic knowledge (pp. 42-44), he highlights four potential sources: extra-human entities (Revelation), self-knowledge (Reason) or introspection, objective human observation of the external world (Observation), and Tradition. He states that the second and third categories form the main debate in modern economics and admits that with the exception of a few, economists have abandoned the possibility of economic knowledge originating outside human consciousness. This point is very important for proponents of Islamic economics or any 'religious-based' economics today.

As far as the scope of economic analysis is concerned (pp. 44-45), Fox asks whether economic theory should be limited to the material/financial dimensions of human social interaction or can it provide insights into other less tangible areas or ends. While earlier scholars tended to prefer the former, since Robbins, economists have attempted to expand the boundaries of economic analysis. He cites the works of Becker (education), Coleman (legal) and Buchanan (politics) among others. One of the problems he cites in expanding economic analysis to other areas is the issue of 'replication' or, more precisely, the lack of it. This leads to the discussion of the appropriate structure of scientific theory (pp. 45-46). The issue here is whether the criteria for theory appraisal in economics is similar to that of the physical/biological sciences or not, hence the position of monists (yes) and dualists/pluralists (no). Other issues relevant are the meaning of fundamental concepts in economics such as rational behavior and equilibrium, as well as the role of mathematics in economics.

According to Fox, economics being a social science has certain characteristics that differentiate it from the hard sciences. Firstly, data is usually historical, hence the problems of confounding and collinearity. Secondly, the diversity of human beings, their cultural traditions and social institutions create problems of identifying goals, preferences, perceptions, expectations and abilities. This has led to a greater integration of economic theory with social theory in general, and hence challenges the traditional reductionist approach of science. This, to some, brings into question the 'scientific' credentials of economics.

Chapters 4-8 then look at the five schools of economic methodology according to Fox. Chapter 4 (pp. 51-72) starts with the school that sees economic methodology as positivism and falsificationism represented by scholars such as Hutchinson, Samuelson, Blaug and Silberberg.

Chapter 5 (73-85) looks at economics as prediction and instrumentalism as represented by Friedman. Chapter 6 (pp. 86-98) sees economics as deduction or a *priorism*, represented by the works of Nassau Senior (1836/1965), J.M. Keynes (1963) and J.E. Cairnes (1888/1965). Chapter 7 (pp. 99-113) views economics as realism while chapter 8 (pp. 114-120) looks at economics as conversation and rhetoric. The views of the proponents of these schools, their critics and Fox's overall discussion of these chapters are left for the reading pleasure of the reader.

Having set out his framework of analysis and using that framework to discuss and debate the various views held by the five schools of thought in economic methodology, in his concluding chapter, Fox goes back to his position on methodology as theory appraisal by asking the question: "*Is Economics A Science?*" He reemphasizes the eclectic nature of economic methodologies and how these hybrid methodologies sometimes lack coherence. Authentication claims are disputed because different philosophical positions treat appraisal differently (p. 122). While many economists invoke both *understanding* and explanation as synonymous, there are important distinctions and implications for the discipline. While the former involves attempts to "apprehend meaning," the latter seeks "to show that a particular phenomena is an example of a more general law or principle."

According to Fox, while most economists subscribe to some version of logical positivism and Popperian falsificationism, there is a growing criticism of this position. Friedman's instrumentalism also suffers from the fact that the prediction record of economists has not been very impressive. The other minority doctrines or schools of *a priorism*, scientific realism and textual criticism are all marginalized although, according to Fox, if there was a more tolerant view of scientific economics, they have much to contribute.

Fox then ends by making some preliminary observation of what he sees as the way forward. Firstly, there is a general consensus that economics differs from the natural sciences not just in degree but also in kind. Meaning is important in economics since it is dealing with individuals and social phenomena. Secondly, this implies that the nature of prediction in economics must be seen and judged differently from that of the natural sciences. The whole issue of 'objectivity' in economic analysis must be understood in the context of it being bound by the values, perceptions, preferences, cultural and social settings of the economic agent.

This is where, according to Fox (p. 127), the study of methodology can contribute to economic discourse. Firstly, it can cultivate awareness of diversity of perspectives held by economists. Secondly, it provides greater awareness of the 'foundations' of analysis, i.e., what is known,

how it is known, clarification of concepts, etc. Thirdly, methodology makes us more conscious of the nature of criticism in our discipline that is very important for the development of any discipline.

For proponents of Islamic economics, Fox's book provides an excellent, basic introduction to an area that is hardly discussed in economics, but one that the present writer sees as an obligatory requirement for the development of contemporary Islamic economics. While Fox argues that greater awareness and understanding of methodological positions are important for developing the economics discipline, the discussion still focuses on different schools within the overall 'reason-observation' tradition of western science. His call for greater tolerance between competing perspectives is with reference to the various schools of thought he has discussed. For proponents of Islamic economics, we will require the boundaries of 'tolerance' to be extended to include perspectives that see revelation as a valid and authentic source of knowledge. I do not know if even the most tolerant economist-philosopher or philosopher –economist in contemporary scholarship in economics will be able to accept this. Islamic economists will find this probable unacceptance due to a more serious version of what Boland termed "the intolerance of liberal minded pluralism" coupled with the "hypocrisy in matters deemed ideological." Nevertheless, as the last line of Fox's book states, there is no reason to give up and for Islamic economists, this certainly is not an option.

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