

The Foundations of Economic Method

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First published by
GEORGE ALLEN & UNWIN
London, Boston and Sydney

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First published by George Allen and Unwin 1982 and reprinted 1984
This version reset and reprinted at Simon Fraser University 1992 and published on internet 1998.

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Publication data for 1982 edition:

British Library Cataloguing in Publication Data

Boland, Lawrence A.
The foundations of economic method.
I. Economics–Methodology
I. Title
330.01'8 HB 131

ISBN 0-04-330329-5 (hardcover)
ISBN 0-04-330328-3 (paperback)

Library of Congress Cataloguing in Publication Data

Boland, Lawrence A.
The foundations of economic method
Bibliography: p.
Includes index.
I. Economics–Methodology. I. Title
HB131.B64 330.072 82-4100

ISBN 0-04-330329-5 (hardcover)
ISBN 0-04-330328-3 (paperback)

TO MY FAMILY

Brenna, Alana and Irene

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Acknowledgements

I wish to thank the American Enterprise Institute and the editors of the following journals for giving me permission for the use of copyright material: *The Canadian Journal of Economics*, *The Quarterly Journal of Economics*, *The Journal of Economic Literature*, and *The South African Journal of Economics*.

As well, I wish to take this opportunity to thank Shyam Kamath, Irene Gordon, Malcolm Rutherford, Chris Jensen, David Hammes and Donna Wilson for reading and criticizing the original manuscript, and Elizabeth Bland for editing the final version. Also, I wish to thank my friends and colleagues, especially Clyde Reed, John Richards and John Chant, for their helpful suggestions and criticisms — and Stan Wong for his ever-valuable advice.

Preface

Given that most textbooks on neoclassical economic theory begin with a chapter about methodology, one might easily conclude that most economists think that the methodology of economics is absolutely fundamental. This is an illusion. The view that the appropriate methodology must be in hand *before* we begin our analysis of the facts is an artifact of an old-fashioned philosophy of science (viz., Inductivism) that was long ago discarded. According to the currently accepted philosophy of science (viz., Conventionalism), the nature of neoclassical theory is supposed to be quite independent of any individual economist's opinion of the appropriate methodology of economics. Today, we are supposed to believe that there is no need to discuss methodology simply because it does not matter. I shall endeavor to show that it does matter — and that, furthermore, methodology cannot be easily detached so as to be simply dispatched in an introductory chapter. The pressing theoretical problems that continue to challenge neoclassical theorists today are direct consequences of implicitly accepted views of the appropriate methodology for neoclassical economics.

Although I have written this book for economists — it has not been tailored to the tastes of philosophers — it is presumed that the reader is aware of the more elementary views of methodology found in standard textbooks and books on the history of economic thought. Since I cannot see how one can understand economic methodology without understanding economic theory, I shall presume that the reader has successfully negotiated a course through intermediate micro- and macroeconomic theory.

My argument in this book is rather straightforward. I shall argue that every neoclassical research program is designed (1) to be consistent with acceptable ways of dealing with the Problem of Induction, and (2) to provide a methodological individualist explanation of economic behavior of the economy, that is, one which is based on the methodological prescription that allows only individuals to be posited as the locus of decision-making. With this in mind, I shall argue that neoclassical economists have thereby made their research program an impossible task because the Problem of Induction cannot, and need not, be solved. They compound this difficulty with psychologism, that is, by erroneously identifying individuals with psychological states. I will not press the additional point that the Conventionalist view of methodology (viz., that an individual's view of methodology does not matter) is