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Another Defense of Methodological Apriorism

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Economists who adopt the methodological posture which is identified as "apriorism" maintain that the distinguishing feature of economic science is the independence of its logical structure from the peculiarities of particular events. The economist's ability to construct such a logical structure is due to the fact that the events themselves do not constitute the *essential* empirical content of economics. Unlike the natural sciences, in which causality must ultimately be a matter of inference based upon the consequences of competing hypotheses, economic science relies upon knowledge of the causal factor, namely human action, from the very outset. Human action, in this view, constitutes the essential empirical content of economics, and the knowledge that individuals act purposefully provides a reliable postulate upon which to base chains of deductive reasoning.

In what surely must be regarded as an accurate reflection of prevailing sentiment concerning the choice-theoretic basis of economics, Richard Thorn [25, p. 143] characterizes the usefulness of the aprioristic method as crucially dependent upon hypotheses that "leave . . . individuals no choice but to accept the optimum course of action." It is reasonable to portray the work of writers such as Ludwig von Mises and Friederich A. Hayek—prominent apriorists and writers for whom pervasive uncertainty and the necessity to choose are inescapable qualities of human existence—as involving "single exit solutions"? We think not.

In what follows we first present the salient features of methodological apriorism in economics. Our remarks revolve around Thorn's representative précis [20, p. 142; see also 1, pp. 86–93; 12, pp. 3–7; 24, pp. 118–21] of this approach:

> According to this approach the fundamental postulates of economics are 'true' and that [sic] behavior will tend to conform in general, with these postulates. Of these fundamental postulates the idea of rational economic man has absolute primacy. It is the core from which other fundamental postulates such as profit and utility maximization are derived; together with the concept of pure competition and general equilibrium they are the core of classical and neoclassical economics.

In our view this description obscures important differences between the methodological underpinnings of the currently dominant neoclassical orthodoxy and that of the subjectivist-neoclassicism into which the older classical school initially evolved and whose orientation has been retained and developed by the Austrian-subjectivist school. Each of the notions embodied within such a characterization of apriorism reflects a basically sound insight. Yet, the highly stylized way in which they have been incorporated within the methodological foundation of the neoclassical orthodoxy renders them collectively less capable of facilitating one's understanding of the workings of the market economy than they might otherwise be.

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After restating the apriorist's interpretation of the axiomatic foundation of economics, we turn to the methodological dualism which is its logical corollary. We contend that the failure of economists to consider the epistemological status of economic science accounts for the ease with which they take up the use of "the" scientific method. This, in turn, veils the embarrassingly weak choice-theoretic basis of the present orthodoxy.

Natural science's reliance upon "the" scientific method is intended to promote the development of a taxonomic scheme for the facts of the external world without reference to what people think or do about the facts so recorded [4, ch. 2]. Indeed, "objectivity," in this sense, is the hallmark of natural science's indisputably spectacular progress. Yet, natural science's warranted expurgation of perceptual considerations from its taxonomy of the external world hardly signifies that such considerations do not exist at all. Surely, economists, themselves acting individuals, are acutely aware that reality embraces a dimension in addition to that of the external world, namely, the realm of purpose.

Science takes as its task the description and explanation of reality in all its dimensions. Thus, even if it were somehow possible to explain an arbitrarily chosen fact of the external world solely in terms of other such facts, that is, without reference to the realm of purpose, having done so would not constitute evidence that science had discharged its obligation. The manner in which the realm of purpose impinges upon the facts of the external world would remain, and this is a matter economics is uniquely qualified to address [10, pp. 146–151, pp. 163–165].

These epistemological considerations reflect themselves in our advocacy of methodological dualism. The apriorist balks at the prospect of employing in the study of the consequences of human conduct a method designed to facilitate the suppression of human purpose. In resisting the monistic overtures of "the" scientific method, the apriorist rejects an understanding of human action which is purged of its truly volitional elements.

1. The Fundamental Postulates of Economic Theory

Mises grounds his aprioristic system upon the self-evident and hence nonfalsifiable fact that human beings act, that is, employ means in the pursuit of consciously chosen goals. Human action, then, as the title of his *magnum opus* suggests, is the fundamental axiom of Mises' aprioristic research program. It is clear that Mises does *not* regard utility maximization and profit maximization as congeneric postulates of economic theory. In fact, these two postulates occupy vastly different positions within Mises' theoretical scheme.

The principle that an individual, in consciously pursuing goals, always seeks to maximize utility follows from the fundamental axiom of action itself. All action is an attempt by the actor to substitute a more satisfactory for a less satisfactory state of affairs. It is the uneasiness of the actor with conditions as they are expected to emerge without conscious intervention which motivates action. Were the individual perfectly satisfied with the present and prospective situation—if all desired ends were instantaneously realized—means could hardly be described as scarce. Action therefore implies a scarcity of means in relation to desired ends. And it is this condition of scarcity which imposes upon the individual the necessity of choosing which desired goals to pursue and which to renounce. The ends which one chooses to forego are demonstrably less valuable than are those to which that individual's limited stock of means is applied. "Utility maximization," then, is merely a term used to indicate that the individual *must* allocate limited means to the attainment of most highly preferred ends. Scarcity and therefore utility maximization are thus embedded in the very concept of action.

The postulate of profit maximization does not enjoy the same status within Mises' axiomatic system as does the postulate of utility maximization. The utility-maximization postulate is purely formal in that it does not specify the nature of the ends which acting individuals seek. It is aprioristic in the same sense as is the fundamental axiom of action of which it is a strictly logical implication. The profit-maximization postulate, however, is considerably more restrictive by virtue of its precise specification of the ends which individuals pursue, namely, the highest possible monetary profit. Action itself does not ensure that monetary-profit-maximizing behavior prevails. Therefore, rather than regarding these two postulates as occupying the same rank, Mises treats the profit-maximization postulate as a lower-order postulate, an analytical convenience which facilitates the elaboration of theorems describing the functioning of the money-exchange economy. These theorems are strictly applicable, of course, only in those cases in which the profit-maximization postulate applies. Thus, while the apriorist asserts with assurance that individuals always maximize *psychic* profit, that is utility, this condition may or may not be associated with the maximization of monetary profit.

2. Rationality

Rationality in Mises' view is not merely an analytically necessary, or even useful, "assumption" of economic theory but the defining characteristic of *all* human action. "Action," Mises notes, "always seeks means to realize ends, and it is in this sense always rational . . . [13, pp. 65–66]" Individuals act rationally, then, simply because human action cannot be undertaken without purpose. Action, *ex definitione,* must be guided by human reason in the pursuit of consciously chosen goals. Since human action is motivated by scarcity, an objection to the claim that individuals act rationally is equivalent to an assertion that scarcity has been overcome. To be sure, no matter how utopian one's flights of fancy may be, reality is firmly grounded in scarcity.

Economists are often accused of relying excessively upon an idealized notion of people and their intentions. "Rational economic man" has become a symbol of the extent to which economists have removed themselves from reality. There is more than a bit of irony in this, for in ascribing rationality to the individual, one merely concedes that the individual, however well- or ill-equipped to do so, must act. And unlike other social sciences, which are often unabashedly normative in content, economic science built upon an aprioristic methodological foundation makes no attempt to assess the value of the ends which individuals seek or the efficacy of the means which they employ to reach them.

3. Competition and Coordination

Those who adhere to the aprioristic methodology typically view the matter of coordination of individual activities as the *raison d'etre* of economic inquiry. Within a market framework such coordination arises in a spontaneous fashion, resulting not from deliberate human design but from human action constrained only by certain general, abstract rules or conventions. An order which forms itself in this spontaneous manner achieves a degree of complexity far in excess of that which would have resulted had an order been organized by deliberately assigning a position to each element. However, use of the assumption of perfect competition presents an insurmountable obstacle to understanding the process by which such a complex order emerges.

As Hayek [5, passim but especially pp.

33–56] repeatedly emphasizes, the conditions which define a state of perfect competition actually define a situation in which full equilibrium already prevails. Individuals on both sides of the market are assumed to be price-takers and therefore have no discretion at all with regard to price. The prices "taken" by such buyers and sellers must be such as to reflexively induce a set of decisions which clears markets and generates no subsequent changes in the structure of prices. It cannot be otherwise, for if each individual is a price-taker, then no individual is a price-maker. This defines a state of affairs in which all the required information is assumed given to all individuals, who now merely await the signal to do what must be done. The competitive process, a process whereby the initially conflicting plans of market participants with imperfect knowledge are brought into greater coordination, is presumed to have already completed its task [7, pp. 179–90].

We suspect that the prevailing ascription [1, p. 91; 25, p. 142] of reliance upon "perfect" competition to the apriorist follows from the usual description of "the" economic problem as achieving an allocation of given resources in accordance with "objective" efficiency criteria. The role of competition, however, is not at all the allocation of *given* resources, if "given" is understood to mean "known to a single individual." Rather, the role of competition is, in the first instance, to discover what these resources are. The process of discovery involves individuals undertaking activities which sustain the activities of others whose intentions and identities are very much unknown to them. Were the issue simply one of allocating known resources in accordance with certain efficiency criteria, which, in turn, reflect "given" preferences, the method of competition would be quite an inefficient way of achieving such efficiency. The persistence of competition in the presence of sometimes overwhelming difficulties is indicative of the fact that this is hardly the issue. Neither resources nor preferences have any operational meaning outside of the market context. It is only through competition in the nontechnical sense in which the term is used that resources and preferences are revealed at all.

Attempts to assess the outcome of the workings of a market economy on the basis of prescribed "objective" criteria involve the inappropriate treatment of a complex order as if it were the means-ends structure of a single individual—an economy literally considered. The means-ends structure of a single individual serves a singular scale of preferences, whereas the market economy, a complex order, cannot be described meaningfully as having a scale of preferences. To describe the market economy in terms which attribute to it a scale of preferences mistakenly employs the notion of choice at the aggregative level, a level where it is suitably used only if the individuals concerned organize themselves deliberately rather than spontaneously. This view, which purports to consider allocative efficiency, has conferred intellectual credibility upon a regulatory environment which, although established to foster a "competitive" allocation of resources, has often been patently anti-competitive in its effects. In addition, this view implicitly obscures the fundamentally subjective character of the data of the social sciences, an issue to which we now turn.

4. The Alleged Theory-Fact Dichotomy and The Role of Subsidiary Empirical Postulates

Thorn [25, p. 142] raises an issue which, in his view, presents the apriorist with an obstacle difficult to clear: what recourse is available to the apriorist when theory and fact are apparently not in agreement? A response to this requires that attention first be given to a more basic issue, namely, the nature of so-called facts in the social sciences.

The nature of "facts" in the social sciences is best considered by initially contemplating how one would propose to construct a classificatory scheme for different kinds of facts within the realm of social affairs. Is it only physical properties of an object to be classified, for example, which dictate that it be placed under one heading or another; or is there some additional knowledge upon which one draws in implementing such a taxonomic scheme?

Consider, for example, whether or not a particular item should be placed under the heading "shovel." The answer to this question, as Hayek [5, pp. 57–76] points out, involves consideration of three elements. One of these is an acting individual, the second a desired result and the third a physical object. Without invoking the purpose for which the individual acts and therefore intends to use the object it is impossible to determine whether or not the object is "in fact" a shovel. This is seen even more clearly by considering the matter from the perspective of attempting to establish a definition for the entire set of items included under the heading "shovel." Such a definition includes reference to little else other than the purpose for which the acting individual envisions a shovel to be appropriate.

This conclusion pertains not only to the objects of human activity but to human action as well. There are no physical properties which define an act as "work." Work is work because an acting individual believes it to be work.

Thus, the data of the social sciences are fundamentally subjective in character in that they reflect the intentions which the individual associates with various objects and actions. A remaining question, however, concerns the manner in which the economist ascertains these intentions. The economist *qua* acting individual "understands" intent by virtue of personally engaging in purposeful action. A consequence of this *Verstehen,* or "interpretive understanding," is that one imputes meaning to the action or object on the basis of analogy with one's own pattern of purposeful action. One "observes" another person from within, as it were, through the construction of a hypothetical model. Were this not the case, were it not possible to assign meaning on the basis of analogy, the external world would be unintelligible aside from its physical manifestations. The fact that people communicate with one another itself adequately demonstrates that such imputation of purpose actually occurs.

The matter is not altered by confining one's attention to "facts" descriptive of social complexes rather than those pertaining to an individual, although a greater degree of objectivity is often alleged to inhere in the former. Hayek [5, pp. 57–76] suggests that in order to demonstrate that even at more highly aggregative levels the so-called facts are actually models, or theories, an example like the following be considered. Suppose that the economist is informed that the 1970's was a period of inflation in the United States. Further suppose that the economist learns that during the period several people moved from New York to Florida for the purpose of entering the Florida-based X industry and that the franc price of the dollar fell. Are these additional pieces of information, the change in residences and the movement of the exchange rate, part of the "fact" "a decade of inflation"?

The economist's answer to this question, which, again, is an attempt to group facts of a kind, must involve recourse to a logical construct, a theory, which indicates what is part of the "fact" "inflation" and what is not. "Inflation" is not observed in its totality. It has meaning because and only insofar as the economist is in possession of a scheme which indicates how its various elements are related. Social theory, Hayek [5, pp. 57–76] explains, is logically prior to history. However, as a matter of experience, that is of history, theory and "fact" are indistinguishable since the so-called fact would be unintelligible without a logical system which structures its individual elements. In the absence of such a system of structural relations, history as it is commonly understood would cease to be history. In what sense, then, can theory and fact be in disagreement with one another?

5. The Subject Matter of Economics

That a prospective theory-fact dichotomy should have become such an integral component of the economist's perspective itself calls for explanation. Here again, however, preliminary considerations suggest themselves. To properly formulate such an explanation, we must first address a question that reaches to the very heart of any inquiry concerning methodology: what is the subject matter of economics? Our contention is that concern with the prospect of a theory-fact dichotomy can be understood only within the context of a particular answer to this question.

On the one side, apriorists insist that economic science deals on its most fundamental level not with things such as wealth or goods but with people, specifically, valuing and acting human beings. In contrast, the dominant neoclassical orthodoxy conceives the basic concerns of economics to be the "objective" economic quantities which emerge in consequence of the purposeful behavior of acting individuals. As a result of this emphasis, the neoclassical perspective relegates the human values and preferences which constitute the subjective roots of the observed prices and quantities of goods to a misleadingly subordinate role.

The suppression of the subjective element in the explanation of economic phenomena has a long tradition in the history of economic thought, one which dates back at least to the Ricardian definition of economics as the science of wealth. This tradition suffered a severe setback as a result of the marginalist revolution of the 1870's, which ushered in a period of somewhat greater concern for the subjective basis of economic activity. Especially in the Austrian-school variant of marginalism the central focus of economic analysis shifted from the objects of wealth to the subjective valuations of acting individuals.

Reappearance of the objectivist tradition was largely the consequence of the attempt by a number of the leading mathematical economists to structure economics along the lines of the science of classical mechanics [10, pp. 67–69]. In this effort, writers such as Jevons, Edgeworth and Pantaleoni seized upon the wealth-maximization principle of Ricardian economics and grafted it onto marginal-utility analysis. The result was a structure of economic theory which Jevons aptly referred to as the "mechanics of utility and self-interest" and which Edgeworth labelled the "Economic Calculus." Within the framework of this variant of marginalism the principle of self-interest operates as an all-pervasive and irresistible force which dictates the arrangement of consumption, exchange, production and distribution of wealth into certain equilibrium patterns which can be analyzed and described according to the maximization principle. Thus, for these early marginalists, a blind mechanical "force," one which lives to this day, displaces the conscious valuations of the human actor as the underlying cause of observed economic phenomena.

In a famous turn of the century debate on the methodology of economics [for an account see 21, pp. 54–56; and 10, pp. 155–57], Pareto [19, p. 196], adopting this mechanistic and positivistic view, argues that economics, like science in general, "proceeds by replacing the relationships between human concepts (which relationships are first to occur to us) by relationships between things." However, for his adversary, the apriorist Benedetto Croce [2, p.

175], economics is not about "... physical things and objects, but actions. The physcial object is merely the brute matter of an economic act." Pareto rejects the teleology to which Croce subscribes and admonishes economists to confine their attention to the "result of action," and leave the "nature" of action to the metaphysicians. In Pareto's [20, p. 204] behavioristic view, human action is a subject for science only insofar as it yields "facts and concrete cases."

Pareto's mechanistic conception of economics is taken to what surely must be regarded as its extreme by Schumpeter in his first treatise on economics. Schumpeter [10, pp. 68–70] argues that economic analysis should be focused exclusively on the changes occurring among the "objective" economic quantitites of goods, treating such changes as if they take place automatically and independently of the human actor involved. Since economic quantities are conceived by Schumpeter to be mutually determined, the changes among them are appropriately described by a system of mathematical functions. As Kirzner [10, p. 69] notes, for Schumpeter, "it is the existence of these functional relationships between all these quantities that makes economic science possible. Indeed it is these relationships that constitute the whole of the subject matter of that science."

Schumpeter's almost exclusive emphasis on unmotivated changes in economic quantities leads him—just as the Ricardians' overriding concern with wealth leads them—to ignore the human agent in the explanation of economic phenomena. Indeed, Schumpeter explicitly rejects teleology as essential to economic analysis and seeks to replace the categories of causality and purpose in economics by mechanical relations of mutual determination. Undoubtedly, the apriorist Croce would respond to Schumpeter just as he does to Pareto. Croce [3, 198] maintains that experience reveals "... the fundamental distinction between external and internal, between physical and mental, between mechanics and teleology ..." In Croce's view, Pareto's position is not based on empirical evidence but on an "implied metaphysical postulate," a postulate "... that the facts of man's activity are of the same nature as physical facts; that in the one case as in the other we can only observe regularity and deduce consequences therefrom, without ever penetrating into the nature of the facts ... How would you defend this postulate of yours except by a metaphysical monism?"

6. The Central Question

The point ultimately at issue, then, between apriorists and their methodological adversaries is the nature of the subject matter of economics and, by implication, whether it is such that it can be meaningfully analyzed using the methods of the natural sciences. By specifying the subject matter of economics as the observed behavior of unmotivated quantities, modern neoclassical economists, like their predecessors in the mechanistic tradition, portray economic phenomena with a "simplicity" warranted only in the portrayal of a physical fact. After all, the category of purpose has a limited role in a system built up around functional relationships among things. In proceeding in this fashion, the economist relinquishes knowledge of ultimate causality—purposeful human action—and is led to endorse methodological monism. Economics and physics in this view both lack a causal-genetic character and must therefore rely upon the same method of investigation.

The economist, like the natural scientist, who is truly unaware of causality, must now abide by Popper's dictum that science seeks to explain the "known" by the "unknown." One observes empirical regularities in the course of events and then constructs an explanatory hypothesis specifying functional relationships among observable variables. This tentative hypothesis is then subjected to the test of empirical falsification by comparing predictions deduced from it with events as they emerge in some future period. (In practice, the economist departs from the method used in the natural sciences by relying upon empirical tests which compare what are, in effect, "retrodictions" deduced from the hypothesis with the "facts" ascertained from a given historical period.) Yet, it is the rejection of teleology as essential to one's understanding of economic phenomena which is the price one pays for the use of such a procedure in economics.

In contrast to this mechanistic conception of economics, the aprioristic orientation involves the explicit recognition of the purposeful strivings toward desired goals by human beings as the ultimate cause of observed economic phenomena. Economics, in this view, is expressly teleological. Moreover, since it is evidently only individuals who choose goals and act to achieve them, the basic unit of analysis for the apriorist is the individual human actor.

In maintaining that teleology is a critical element in the comprehension of economic events, the apriorist portrays an "objective" economic fact as a complex resultant of a myriad of decisions taken by individual economic agents, each of whom acts on the basis of subjective preferences, knowledge and expectations. To the apriorist, then, an observed economic quantity is not given as an ultimate datum of analysis but must itself be traced back to the subjective acts of valuation of the individuals involved. In this task, the economist engages in what Hayek [4, pp. 61–76] calls the "compositive method," seeking to explain complex economic phenomena in terms of the subjective and individual elements of which they are ultimately composed. Economics [5, p. 72] is "not *about* social wholes as wholes . . ." Its task is rather to "*constitute* these wholes, to provide schemes of structural relationships" which are used in "fitting together into a meaningful whole" the elements actually found.

The mistaken characterizations of apriorism one so often encounters in the literature on methodology appear themselves to be based upon a failure to appreciate the more deeply seated issue, that is, the logical character of economic science. Hayek [5, pp. 125–27] maintains that the essential elements of one's comprehenion of social phenomena are part of an individual's experience. In economics, it is the elements of the complex phenomena which are indisputably known, whereas in the natural sciences elements of theoretical interpretation can at best by hypothesized. Apriorism does not at all constitute a categorical denial that economics involves any empirical content whatsoever, as one often is led to believe. Rather, the apriorist's aversion to empirical testing of economic propositions rests upon a reluctance to distort the logical structure of economics. Such distortion is seen as arising out of the formulation of economics in a fashion appropriate in the theoretical interpretation of only simple phenomena.

In the natural sciences, whose purpose actually is to understand simple phenomena, deductive processes must begin with a tentative hypothesis which arises from inductive generalizations regarding observable phenomena. In economics, a discipline which can be considered "empirically deductive" [5, p. 127], the process of deductive reasoning starts with known empirical elements. These elements are then used to discover regularities in complex phenomena which direct observation does not have the capability to establish.

The teleological and individualistic conception of economics thus leads to the adoption of a method of explanation which is the inverse of the method which characterizes the mechanistic conception of economics. The latter, the method of the natural sciences,

involves explaining the "known" by the "unknown," that is, empirically observed economic phenomena by hypotheses whose ultimate "truth" can never be ascertained but whose operational "validity" can be tentatively established by empirical testing. In contrast, the procedure of apriorism is to begin with what is empirically known, the teleological source of economic phenomena, and to compose out of the subjective elements inferred from this an explanation of "objective" economic events, whose full complexity can never be grasped by mere empirical observation bereft of theoretical insight into their subjective foundations.

Human action is ultimately predicated upon human valuation, which is itself subject to constant change and permits of no measurement. In economics there are no quantitative laws to be discovered simply because there are no constant relationships among variables. The historian, in considering events which reflect countless causal forces, must assign greater or lesser emphasis to each of these forces as circumstances warrant. All that can be required of economic theory, a body of strictly logical propositions, is internal consistency. It cannot be tested by history. From this aprioristic perspective, the fashionable exercise of testing economic theory by confronting it with historical information is more appropriately considered a test of the theoretical economist *qua* historian. The test consists in "understanding" which empirical postulates to invoke.

7. Teleology and Macroeconomics

The prominence which teleological and individualistic considerations find in the apriorist's orientation leads some economists to worry that apriorism necessarily entails the wholesale rejection of macroeconomics. Mark Blaug [1, p. 51], for example, claims that "methodological individualism strictly interpreted . . . would rule out all macroeconomic propositions that cannot be reduced to microeconomic ones, and since few have yet been so reduced, this amounts in turn to saying goodbye to almost the whole of received macroeconomics. There must be something wrong with a methodological principle that has such devastating implications."

The advocacy of apriorism does not necessitate that one deny the usefulness of a macro, or overall, perspective. Yet, the apriorist is skeptical about the usual portrayal of macroeconomics as an independent field of study, a portrayal which disrupts the essential unity of economic theory. The reliability of an overall perspective depends upon its being built-up upon a sturdy micro foundation.

Leland Yeager [27, p. 2] puts the matter rather well: "The sound precept of methodological individualism does not call for rejecting the overall viewpoint in favor of the individual viewpoint. It calls, rather, for building bridges between the two, particularly by relating propositions about all economic phenomena, including the behavior of macroeconomic aggregates, to the perceptions and decisions of individuals." One theoretical sphere in which economists clearly fail to build such bridges is the modern monetary approach to the balance of payments. Here, they adopt a posture which ". . . goes beyond merely recommending attention to the supply and demand for domestic money holdings in an analysis of balance-of-payments disequilibrium and adjustment and actually *identifies* a payments surplus under fixed exchange rates with the process of satisfying an excess demand for money and *identifies* a deficit with the process of working off an excess supply of money [27, p. 12–13]." The result is an analysis which lacks the richness of the more flexible monetary approach developed years earlier by the apriorists Mises [15; 23] and Hayek [6].

Suppose, for example, that under an international pure specie standard domestic consumers increase their expenditures on foreign imports as a reflection of enhanced valuations of foreign products relative to those produced domestically. Assume further that the demand for money balances remains unchanged for these individuals and that no other changes in the real or monetary data occur elsewhere in the system. Under the postulated conditions, the proponents of the modern monetary approach, by virtue of their identification of balance-of-payments flows with the process of repairing domestic monetary disequilibrium, must deny any disruptive effect upon the balance of payments. For implicit in such identification of balance-of-payments flows with restoration of domestic money market equilibrium is the notion of the nation attempting to acquire and maintain a desired level of money balances. And since by hypothesis there is no change in the demand for money, there can be no balance-of-payments flows. In this view, which mistakenly attributes to the nation the ability to actually make choices, the balance of payments is a necessarily equilibrating force. The adjustment is assumed to proceed entirely in the commodities sphere. The nation is seen as simply increasing its exports of domestic products, now demanded less urgently, in order to pay for the increased imports of the now more highly regarded foreign products, all the while the level of its money balances remaining unchanged.

Teleological considerations, however, lead the apriorist to recognize that the adjustment process does not involve the mutually consistent choices and actions of a single macroeconomic agent. As a consequence, the apriorist's analysis of such a disturbance involves the emergence of an initial balance of payments deficit and corresponding outflow of money from the focus country, as consumers shift their expenditures from domestic to foreign products. Now, from the point of view of these consumers this outflow of money certainly can be characterized as "equilibrating," because it reflects their attainment of a preferred position. Nevertheless, far from serving to repair an existing state of monetary disequilibrium, the flow of money under consideration disrupts the prevailing equilibrium in the interindividual distribution of money balances.

Out of the disequilibrating impact of the balance-of-payments flow, however, emerge forces which provide for its ultimate reversal. Thus, the producers of those commodities away from which demand turns suffer decreased incomes, a development which threatens to leave them with insufficient money balances. In order to negate the deterioration of their holdings of money, they and the people from whom they normally purchase set about to become net sellers. In part, this involves the desire to directly reduce imports and increase exports. But it also exerts downward pressure upon domestic prices, the result of which is to further reduce imports and increase exports as the terms of trade turn against the focus country.

Complementary forces manifest themselves abroad. Producers of those items in favor of which demand turns realize increased incomes and a consequent build-up of excess money balances. Their resulting eagerness to become net buyers directly stimulates the focus country's exports and dampens its imports. Moreover, the upward pressure upon domestic prices which follows from efforts to eliminate excess money holdings reinforces the movement of the terms of trade against the focus country. Thus, forces which arise both in the focus country and abroad set in motion a balance-of-payments adjustment process whereby the original equilibrium distribution of money holdings among individuals and hence nations is re-established.

Their monetary approach to the balance of payments leads Mises and Hayek to the same comparative-static conclusion as that provided by the more rigid modern monetary approach. However, their concern with the individual economic agent encourages them to analyze the dynamic, microeconomic process according to which that comparative-static, macroeconomic result emerges. Rather than promoting abandonment of an overall perspective, methodological individualism yields rewarding insights into its micro foundations.

Concluding Remarks

Thorn [25] informs readers of this *Journal* that economics is in a state of theoretical disarray. This, it seems, is an assessment with which fewer and fewer economists are anxious to take issue. Thorn's [25, pp. 139–40] suggestion is that the first step on the road to reconstruction requires that economists reconsider their methodological positions. We certainly concur in the importance which Thorn attaches to methodology. At the same time, however, we endorse Kirzner's [9] conclusion that neoclassical economics is not in need of a set of fundamentally new insights but requires that closer attention be paid to those insights to which it owes its inception.

In this paper we have undertaken to restate and reinterpret the essential features of the aprioristic methodology in economics. We have argued that methodological apriorism was intimately involved with the emergence of subjectivist-neoclassicism and the fuller insight into the causal nexus of market phenomena which it promotes. Several of these propositions strike a sympathetic chord in most economists; yet, the extent to which contemporary economic thought benefits from this remains minimal. The very benchmark of the economic point of view, the proposition that costs are the subjective values of foregone alternatives, now appears to be clothed in objectivity as a result of the continuing preoccupation with the notion of perfect competition and the state of full equilibrium it defines [26]. This apparent objectivism is reminiscent of that which held sway in the period before the marginalist revolution, during which time the lack of a satisfactory theory of value encumbered attempts to expound the operation of the price system.

The primary virtue of this interpretation of aprioristic methodology is double-edged; it at once discourages economists from claiming both too much and too little on behalf of their discipline. The methodological individualism so heavily stressed by the apriorist brings into sharp focus one's understanding that economic phenomena derive from human action which, in turn, is reflective of ever changing human valuations. There are no constants in economics and, therefore, no quantitative laws for which to search. Economic theorems are afforded credibility as a result of their being deduced from reliable postulates that are directly observed and "understood" on an interpretive basis by the economist. Strangely, some are reluctant to concede that even within the context of one's study of human action individuals should be treated anthropomorphically. Yet, as Kirzner [11] suggests, the denial that introspection has a role in economics is analogous to the claim that a physicist should ignore information obtained from the knowledge that molecules act purposefully. In this regard, at least, the economist is at a considerable advantage.

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