

## Beyond the Analytics of the Monetary Approach to the Balance of Payments: Methodology, Innovation and Monetarism

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### I. Introduction

The propagation and development over the last decade of the new monetary theory of balance of payments analysis has been attended by the somewhat uncommon yet not altogether unhealthy phenomenon of self-effacement in the sense of a reluctance on the part of its advocates to extol the novelty and originality of this approach. Indeed, a common feature of the recent literature in this area is to emphasise the old-orthodox content of this approach and most demonstratively to ascribe its origin to *David Hume*. Such generous or humble — whatever the case may be — attribution is, however, highly controversial (*Fausten*, [1979]). Short of the common attention to ‘money’ and long-run time perspective as well as anti-interventionist policy conclusions, there is little extant affinity in terms of basic orientation or analytical content between the Humean and modern monetary approaches. While the analysis of relative money demands and the identification of real balance effects as the vehicle for adjustment constitute the centerpoint of the modern approach, *Hume* paid scant if any explicit attention to these phenomena in his conception of the automatic adjustment mechanism, emphasising instead the strategic importance of changes in relative commodity prices. This quintessential analytical disparity suggests that the frequent attributions to *Hume* have been motivated by considerations which extend beyond the particular conception and analytics of the balance of payments adjustment model. These can be attributed, on the one hand, to a particular methodological approach to the history of economic thought which probably constitutes the specifically *Johnsonian imprimatur* on this body of balance of payments analysis. On the other hand, they may be of a more pragmatic although derivative nature,

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reflecting concern with the problem of audience receptivity to new ideas and controversial policy conclusions embedded in complicated analysis, as well as a manifest desire to dissociate the monetary approach from contemporary monetarism.

These three sets of considerations are explored in the following sections, and it is contended that these dimensions which extend beyond the analytical sphere proper provide insight into the meaning of the recurring and essentially unconditional genealogical attributions to *Hume* and the classical tradition of balance of payments analysis. The discussion focuses primarily on the contributions which *Harry Johnson* has made to the literature on the contemporary monetary approach. This bias reflects not only *Johnson's* erstwhile prominent "visibility" among the exponents of the new approach, his frequent discussions of its historico-doctrinal background and his insistence on its Humean origin, but also a fond memory of the man and teacher.

## II. Methodological Moderatism

In the most general sense, the emphasis on the long and continuous tradition that is allegedly extended by the contemporary monetary approach to the balance of payments is indicative of a repudiation of both the extreme relativist as well as the extreme absolutist approaches to the history of economic thought. This largely implicit methodological position is further adumbrated by *Johnson's* overwhelming concern with "scientific progress," by his conception of the current "style of scholarship" and, not least, by his scrupulosity in questions of originality.

The extreme relativist approach to the history of economic thought maintains that any particular economic theory is to be regarded as an isolated product, conceived and formulated *sub specie temporis* by its progenitor and justifiable always in the context of the particular socio-economic-historical circumstances prevailing at his time. The polar opposite to this approach is that of the absolutist "who, looking down from present heights at the errors of the ancients, cannot help but conclude that truth is concentrated in the marginal increment to economic knowledge" (*Blaug*, 1968, p. 4). Neither of these methodological approaches characterises the literature on the contemporary monetary approach. Rather, the frequent references to the long history and continuity of development of the latter combine to identify an intermediate position along this methodological spectrum that emphasises the pro-

gressive accumulation of theoretical insights and the systematic character of scientific progress. Implicit in this position is a presumption of the fundamental objectivity of “scientific economics” in the sense of the atemporal relevance of its basic propositions. In contrast to either of the extreme methodological positions, this intermediate standpoint has the corollary of acknowledging a degree of permanence in the analytical contributions made during the evolutionary historical progress and unfolding of that tradition irrespective of their overt cognitive pertinence to the specific propositions that are subsequently established. Thus, any such contributions enhance the body of knowledge, and it is this cumulated body of knowledge which provides progressive insight in and understanding of the economic process and yields successive sets of specific propositions.

The fundamental driving force of this process of scientific progress is intellectual curiosity and not time-specific phenomena, individual idiosyncrasy or philosophical prejudice — factors which may affect its particular characteristics. From an historical perspective, the influence of pure intellectual force on scientific progress in economics is deemed to have become increasingly important on account of the changing nature, particularly the rapid expansion, of the economics profession. But these intellectual forces are not expended *in vacuo*. They respond to and interact with the contemporaneous environment, and the recognition of this interdependence provides the compelling rationale for adopting an intermediate methodological position which displays, however, a relatively closer affinity with the absolutist approach.

*Johnson* (1975 a, p. 194) has characterised contemporary economics as “an increasingly cosmopolitan profession” and has argued (p. 184) that this development has wrought substantial changes in the “style of scholarship”: “In the perspective of history, the older style of scholarship represents the determination of a few dedicated men to preserving and painfully increasing man’s scarce stock of fundamental truth against the destructive pressures of cultural barbarism, and is an anachronism, or nearly so, in an age of large-scale collective pursuit of new and usable truth by the organized and cooperative activities of a host of scholars supported by a public keenly interested in the answers.” The emphasis on dedication is noteworthy, as is that on cooperation which characterises the new style of scholarship. Such cooperation may be explicit as is the case, e. g., in joint research projects, but it is not confined to such overtly cooperative ventures. Rather, cooperation — conceived in a very loose

sense — is implicit and pervasive, prompted, as it were, by the operation of competitive forces on the market place of ideas. In addition to the increasing incidence of outright cooperation in research, encouraged not least by advances in econometrics that have resulted in the building of large-scale models demanding the joint effort of teams of research workers, the incentives for passive cooperation have been strengthened by the proliferation of professional journals as a vehicle for the dissemination of research results, the conduct of debate and, generally, as a means for tying the practitioners of the profession closer together irrespective of geographic location.

It may be noted that individual dedication and cooperation need not constitute mutually exclusive alternatives. Rather, their alternative emphasis is designed to accentuate a shift in orientation and practice of the characteristic style of scholarship. And it is the recognition of this secular change which supports the presumption of the increasing objectivity of economic science. While organised and cooperative research activities persistently advance the “intellectually hard-won understanding of the economic system” (*Johnson*, 1975 a, p. 191), this advancement is not smooth and continuous. It tends to be interrupted and diverted by “red herrings across the trail of scientific study and understanding” (*Frenkel* and *Johnson*, 1976, p. 24) on account of temporarily dominant ideological influences or personal idiosyncracies of “high-ranking economists,” or even as a consequence of “scholarly chicanery” (*Johnson’s* term) or “hucksterism” (*Stigler’s* term) by members of the scientific community. But in contrast to the earlier isolationist style of scholarship the increasing cosmopolitanism of the economics profession tends to expedite the exposure and eradication of such biases and prejudices that may intrude into the discipline.

This conception of the “new style of scholarship” then supports the firm belief that any such aquatic miscreations ultimately cause only transitory diversions; the underlying presumption is that scientific progress continues inexorably, propelled by intellectual curiosity. And, consistent with *Popperian* sentiments, it is precisely because of, rather than despite of, the heterogeneity of the practitioners of the discipline that scientific cooperation does result in progress.

These methodological considerations are evident in the appropriate parts of the literature on the monetary approach. Consider, for example, the discussion by *Frenkel* and *Johnson* (1976, pp. 30 - 2) of its recent history. Here a remarkably heterogenous group of economists comprising *inter*

*alia Meade* and *Mundell*, *Harberger* and *Hahn*, is identified as having rendered a contribution — more or less subtle — to the development and refinement of the monetary approach. Indeed the authors attribute strategic importance to *James Meade* in the genesis of the monetary approach (p. 30): “The modern revival of the monetary approach may be said to have begun, in an important but indirect sense, with *James Meade’s The Balance of Payments*.” This judgement may seem surprising at first glance since it is made in full recognition of the fact that “from a formal point of view” *Meade’s* work contained “major defects,” namely “confusing” the marginal propensities to save and to hoard as well as “confusing” equilibrium flow and transient stock-adjustment phenomena and failing to utilize the theory of stock-flow relationships. But attributing credit to *Meade* irrespective of these formal defects suggests that the overriding concern of the authors rests with the intellectual impact that *Meade’s* work may have exerted on the evolution of balance of payments analysis and not so much with the analytical specifics of his models. In pursuit of this objective they make a conscientious — and occasionally almost self-effacing — effort at tracing what *Stigler* (1955, p. 301) has called “the process of scientific fermentation . . . which consists of having the theory ‘worked over’ from many directions by many men.” Their emphasis is placed on the interdependence and contiguity of the various relevant theoretical contributions and is associated with an apparent disregard for the differential impact which these may have exerted on the analytical development. There is, for instance, only a fleeting and undocumented reference (p. 30) to *Johnson’s* own important contribution of 1958, although this paper is designated as “basic” in the Editors’ Preface to the anthology (p. 10). This particular characteristic had elsewhere been identified as a distinguishing feature of *Johnson’s* writing and, by inference, of his conception of scholarly work. “*Johnson’s* style of writing and care in acknowledgements tends to give the impression that he has not had an original idea in his life, but that everything is consolidation, building on bricks laid by others and so on. He tends not to highlight what is new in his work but rather to stress continuity in the development of economic theory” (*Corden*, 1972, p. 727). Although the occasion was a review of some of *Johnson’s* contributions to the theory of protection, *Corden’s* observation is of general relevance.

During this “fermenting” process the theory takes shape, undergoing modifications and permutations, with no presumption that there must

exist clearly discernible, unambiguous and comprehensive similarities in the analytical specification of the various stages of development of the theory. The notion of the unity of thought, of a coherent “tradition” being upheld and continued, is not deemed to be contradicted by the observation of highly dissimilar manifestations — in terms of specific analytical models — of that theory. Nor is the process of scientific fermentation neatly bounded in the sense of being demarcated by seminal contributions marking the origin and culmination of any particular idea or theoretical construct.

These characteristics pose complex problems for the historian of economic thought in retracing the process of scientific fermentation as well as for the scholar intent on establishing his affinity with such a tradition. The latter predicament is particularly severe if such claims to affinity pivot on the averred origin of that tradition. Although such a strategy is plausible in view of the potentially unifying property of a common origin vis-à-vis the variegated expressions of these ideas during their subsequent development and “working over”, it is rendered inefficacious by the problem of the intractability of the ideational origin. “It is always difficult to date the birth of a particular set of ideas or trend of thought, and perhaps even harder when this represents a critical reaction against traditional doctrine and an integrated system of related concepts. Any doctrinal innovation has its precursors, its unknown and at the time neglected forerunners” (Dobb, 1973, p. 244). The process is ongoing and this feature precludes in principle the concrete identification, in terms of purely intellectual considerations, of the origin of any specific set of ideas.

These considerations suggest that the prevalent tendency to associate the origin of the contemporary monetary approach to the balance of payments with *David Hume* is in principle inadmissible. Although *Hume's* impact on the subsequent development of balance of payments analysis is incontrovertible, he cannot be regarded as the ultimate originator of the monetary approach or, for that matter, of the price-specie-flow-mechanism. Any such claim is proscribed not only by strict conceptual considerations but is also inconsistent with the specific evidence available in the literature. “When *Hume* published his *Political Discourses*, in 1752, therefore, all the essential elements of the theory of the self-regulating mechanism were already available in previous literature, and several fairly satisfactory attempts to bring them together into a coherent theory had been made” (Viner, 1954, p. 84). Assign-

ing the origin of this tradition of balance of payments analysis to *Hume* regardless amounts to an arbitrary truncation of the process of scientific fermentation. While such a truncation may be defensible or even desirable on pragmatic grounds, the choice of its placement is of necessity influenced by extra-scientific considerations. The contention that *Hume's* was "the most influential formulation of this theory in England prior to the nineteenth century" (*ibid.*, p. 74) may be of relevance in this context as may be the superior quality of his exposition (*ibid.*, p. 84). Alternatively, one might focus on his fundamental anti-interventionist policy orientation and observe its striking compatibility with the modern approach. Whatever the specific reasons for the emphasis on *Hume*, the fact itself and the associated intrusion of extra-scientific considerations clearly identify the methodological position of the advocates of the monetary approach as intermediate along the absolutist-relativist spectrum. Conversely, it is this methodological orientation which explains to some extent the importance generally accorded *David Hume* in the genesis of the monetary approach to the balance of payments.

### III. Innovation in Economics and the Problem of Audience Receptivity

Further insight into the meaning of the emphasis on orthodoxy may be gleaned from more pragmatic considerations. These comprise on the one hand the concern with the success of scientific innovation in the sense of the effective dissemination of novel and controversial ideas, and on the other hand apprehension over the potentially adverse implications for the monetary approach of the polarisation in economics between monetarism and anti-monetarism.

An incisive challenge to existing orthodoxy as such rarely encounters a large receptive audience. The prevalence of vested interests and intellectual lethargy, particularly in a discipline which has experienced a fast rate of expansion, tend to militate against the spontaneous and disinterested examination of new ideas. In an attempt to overcome these built-in impediments the shrewd innovator may resort to the "techniques of the huckster" or to "scholarly chicanery." Alternatively, a less contentious means for promoting the desired impact on the discipline consists in establishing some continuity with orthodoxy, skilfully invoking the spirit of the ancients in order to relate new ideas and complex theoretical constructs to familiar concepts and well-trodden analytical ground. "Great economists are those who influence the profession as a whole, and this they can do only if their doctrines do not involve too

great a change from the views and knowledge of the rank and file of the science" (*Stigler*, 1955, p. 294).<sup>1</sup> More specifically, *Johnson* (1971, p. 10) has argued that the establishment of "some sort of continuity with the orthodoxy of the past" constitutes an indispensable prerequisite for the success of a counter-revolution.

The recurring allusions to *Hume* and to the classical tradition do tend to convey the impression of such continuity. Yet the effective novelty of the contemporary monetary approach is not in dispute as evidenced most clearly by its frequent designation in the own literature as "the new approach". Neither has its controversial nature gone unnoticed. A recent commentator has observed that ". . . a small but influential group of international economists has stood traditional [*sic*] balance-of-payments analysis on its head . . . [Their] views pose a direct challenge to the current orthodoxy and they have revolutionary implications for balance-of-payments policy and even for balance-of-payments accounting" (*Whitman*, 1975, p. 494). Thus, the monetary approach possesses, or is seen to possess, those attributes — novelty, complexity, controversiality — which predispose it to a highly sceptical reception. The severity of this problem is acknowledged by some of its advocates and, to judge by the vehemence of *Johnson's* remarks (1975 b, p. 221), it seems to occupy a position of prominent concern.

"In consequence [of the analytical complexity of the contemporary monetary approach], the student reared in traditional Keynesian international monetary theory has to master a great deal of unfamiliar analysis before he can get to grips with the new approach and its difference from and common ground with the Keynesian approach; and, in line with the common propensity of academics to save themselves intellectual effort by caricaturing theories that otherwise they would have to consider on their intellectual merits, there has been a noticeable tendency to dismiss the new approach as merely an international economics application of an eccentric and ludicrous point of view of a contemporary lunatic fringe, referred to as 'monetarism'."

The last issue raised by *Johnson*, namely the assimilation of the monetary approach with monetarism, will be discussed in the next section. In the present context it may be observed that the association of the monetary approach with the theory of the price-specie-flow adjustment

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<sup>1</sup> Let the intended meaning of this quotation be misconstrued, I wish to emphasise that it is not my intention to seek a self-conscious hankering after "greatness" lurking behind every reference to *Hume*. Rather, the pertinent concern is the exercise of influence over professional opinion — which, in time, may indeed reveal "greatness."



mechanism is potentially serviceable for weakening imminent audience hostility. It is eminently suited for the purpose for at least three reasons: in general, to the extent that this association has substantive content, it does establish continuity with past orthodoxy. Secondly, and more specifically, the theory of the price-specie-flow mechanism commonly associated with *David Hume* has exercised a decisive influence on the development of economic thought and (intermittently) on the formulation of policy by exposing the analytical fallacies of mercantilism and has in consequence become endowed with an “overwhelming reputation.” Thirdly, in its standard version the conventional theory of the automatic adjustment mechanism is presented with such a degree of analytic simplicity that has enabled it to become common fare in virtually any textbook and, in consequence, to become comprehensible even to non-specialists only remotely conversant with economic analysis. These characteristics — continuity, reputability and simplicity — constitute serviceable preconditions for the effective propagation of the essentially novel, controversial (or “counter-revolutionary”) and complex analytics and policy conclusions of the monetary approach. Further support for this conjecture may be derived from a perusal of *Johnson’s* ‘tongue-in positivist-cheek’ sketch of a counter-/revolutionary manifesto (1971, *passim*).

According to *Johnson*, the success of a new and revolutionary economic theory is contingent on a number of intellectual and social prerequisites. Although *Johnson* used these criteria in a critical assessment of the Keynesian revolution and monetarist counter-revolution, they are equally serviceable in the context of the “counter-revolution” in balance of payments theory occasioned by the contemporary monetary approach. *Johnson’s* general prerequisites are, first, the existence of an important economic problem with which the prevailing orthodoxy is unable to cope — in the present context this is to be found in the persistence of balance of payments imbalances in conjunction with the phenomenon of world-wide inflation; secondly, attack on the central proposition of the conservative orthodoxy — denial of the sustained manipulability of the balance of payments through non-monetary channels, i. e. expenditure and/or exchange rate changes; thirdly, appearance of novelty with simultaneous retention of “valid or at least not readily disputable components of existing orthodoxy theory” (p. 4) — e. g. the exceedingly vague assertion that the balance of payments is a “monetary” and not a “real” phenomenon and the shift of emphasis from the propensity to save to the

propensity to hard; this feature is further illustrated by the vascillating designation of the monetary approach as “new,” “not new,” “new [but] not actually new” (Johnson, 1975 b, p. 220) and by the identification of various facets of the preceding post-1930s approaches that have been assimilated by and incorporated into the monetary approach (see e. g. Johnson, 1976); fourthly, the appropriate degree of difficulty to understand — this aspect is emphasised repeatedly in the literature; fifthly, provision of a new methodology — *a priori* insistence on full general equilibrium analysis, which is transmogrified by deference to pragmatic exigencies into a qualified acceptance of positive economics “the essence of which is not to pursue descriptive realism as represented by the largest possible system of general equilibrium equations, but to select the crucial relationships that permit one to predict something large from something small, regardless of the intervening chain of causation” (Johnson, 1971, p. 9)<sup>2</sup>; and sixthly, identification of an important empirical relationship for purposes of econometric testing — determinants of the flow of international reserves and their influences on the money supply process and adjustment behavior in domestic money markets.

In addition to this bill of particulars a “counter-revolution, however, has to cope somehow with the problem . . . of establishing some sort of continuity with the orthodoxy of the past” (*ibid.*, p. 10). In the context of the monetary approach this end is promoted, *volens volens*, in the first instance by asserting the “spiritual” — or temporal — affinity of the contemporary monetary approach to *David Hume*, and to the theory of the automatic price-specie-flow adjustment mechanism. More constructively, at least potentially so, the continuity with the orthodoxy of the past may be established by “a careful combing of the *obiter dicta* of the great neo-classical . . . theorists for any bits of evidence that showed recognition (or could be interpreted to show recognition) . . .” of some of the salient features of the new theory (*ibid.*, p. 11). The current literature on the modern monetary approach does indeed comprise an item (Frenkel and Johnson, 1976, pp. 32 - 43)<sup>3</sup> which contains a collection of

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<sup>2</sup> It is interesting to note that on this occasion Johnson identified “the continuing reliance on the methodology of positive economics . . . [as one of the two] . . . most serious defects of the monetarist counter-revolution” (p. 12) while subsequently he unequivocally acclaimed positive economics as “the contemporarily accepted methodology” (1975 a, p. 190).

<sup>3</sup> For the present purpose Frenkel’s approximately contemporaneous paper (1976) can be ignored for its documentary section does not add significantly to the “evidence” presented in the corresponding section in Frenkel and Johnson (1976) cited in the text.

seemingly apposite *obiter dicta* extracted from the orthodox literature. That paper is prominently placed as Chapter One in the collection of the “basic documents” of the monetary approach. Its authors are not unaware, however, of the tenuity of this procedure as a means for conclusively establishing the existence of the alleged tradition or continuity with orthodoxy, and they introduce their collection of select *obiter dicta* with a corresponding disclaimer:

“In the present section we make no claim to provide such a comprehensive analysis . . . in full scholarly detail [of] the exact origins and evolution of the various ideas that are embodied in the monetary approach . . . Rather our purpose is to cite the writings of some of the eminent classical and neoclassical economists to document our *assertion* that throughout the last two centuries the monetary approach to the balance of payments has been the dominant intellectual approach to that collection of economic problems, even though, as always in intellectual history, progenitors for other approaches can be found (p. 33; emphasis added).

The fact that the claim to the orthodox content of the monetary approach remains essentially one of assertion even in the explicit context of an investigation into its “historical origins” does not serve to buttress the disinterestedness of that claim. Rather it suggests the presence of extraneous concerns, and this supposition is strengthened further by observation of the frequency with which this claim is unequivocally asserted in the literature. The nature of these extraneous concerns is elucidated by an examination of *Johnson’s* own perception of the requirements for successful innovation in economics which lends support to the inference that they may embrace considerations of strategy for the dissemination of counter-/revolutionary ideas. Thus, the pursuit of a receptive audience for the novel, complex and controversial theoretical and policy propositions of the contemporary monetary approach constitutes another facet of the meaning of the recurring references to its *Humean* origin.

#### IV. The Monetary Approach versus Monetarism

A preoccupation with this distinction constitutes the third dimension of the meaning of the frequent but essentially undocumented references to the orthodox tradition of the modern monetary approach.

The economics profession has lately become increasingly polarised into “monetarists” and “Keynesians.” Not only is the meaning of these designations exceedingly vague and obscure for either camp accommo-

dates both moderate and extremist versions of the doctrine as well as intermediate points of view, but this polarisation has also intensified the ideological element in debate with the result that contending propositions tend to be assessed not always or exclusively on the basis of their intrinsic intellectual merit (*Mayer*, 1975, pp. 191 and 313). It is the explicit desire of the advocates of the monetary approach to prevent the assimilation of their theory with either doctrine, and in particular to counteract the incipient tendency towards association of their theory with contemporary monetarism. This desire follows directly from the considerations developed in the preceding sections — emphasis on scientific progress which dictates the exposure and suppression of ideological influences and requires large receptive audiences for new ideas — and it is a fairly recent phenomenon, prompted presumably by the observation of the increasingly doctrinaire nature of this polarisation.

In the early literature on the contemporary monetary approach that approach was liberally designated as “monetarist” (e. g. *Johnson*, 1972, pp. 14, 236, 237). More recently, however, the importance of the failure to distinguish between the alternative suffixes as one source of “various, and often ill-informed criticisms” has been succinctly emphasised (*Frenkel* and *Johnson*, 1976, p. 24):

“To begin with, the approach is described as ‘monetary’, and not ‘monetarist’, precisely to avoid confusion with recent domestic policy debates in which the term ‘monetarist’ has been used by the debators to present alternatively attaching ‘appropriate’ and ‘too much’ importance to money, and specifically to the use of monetary as contrasted with fiscal policy in economic stabilization.”

For a more provocative expression of this concern *Johnson’s* complaint (1975 b, p. 221) may be repeated here, that “there has been a noticeable tendency to dismiss the new approach as merely an international economics application of an eccentric and intellectually ludicrous point of view of a contemporary lunatic fringe referred to as ‘monetarism’.”

It is not the aim of this paper to develop an operational definition of monetarism for the purpose of an exhaustive comparative study and assessment of the logical validity of the claim that the monetary approach is fundamentally distinct from monetarism. For a proximate identification of monetarism reference may be made to *Brunner’s* list of “defining characteristics” (1970, *passim*) which also figure prominently in *Mayer’s* more extensive, though not unchallenged, list of monetarist propositions (1975, p. 192 *et passim*). These comprise (1) the relative price approach

to the transmission mechanism and the resulting emphasis on asset substitution instead of real balance effects; (2) the “approximate” separation between aggregative and allocative forces which obviates the need for general equilibrium analysis of aggregate economic performance; (3) the presumption of the inherent relative stability of the private sector; and (4) the contention of the dominance of monetary impulses. *Per contra*, the monetary approach to the balance of payments emphasises the importance of real balance effects as the major vehicle for adjustment; it insists on the need for general equilibrium methodology and reveals no presumption of either the inherent stability of the private sector or of the dominance of monetary impulses. In fact, *Johnson* (1977, p. 1), “after years of learning to appreciate the necessity and the difficulty of distinguishing between monetary and real phenomena” warns against “the dangers of the politically popular belief that desirable real results can be achieved by manipulation of monetary magnitudes and manoeuvres with monetary mystique.”

In terms of *Brunner's* taxonomy, then, the monetary approach cannot readily be subsumed under the mantle of monetarism and this contention is explicitly endorsed by *Brunner* on another occasion (1976, p. 32): “Indeed, we do find formulations in the professional literature, most particularly in articles exploring the ‘monetary approach to the balance of payments,’ centering attention on the money market and the supply of and demand for money. But it is quite false and misleading to use such formulations as a general description of ‘monetarist analysis’.” The tendency to do so persists regardless as evidenced *inter alia* by *Grubel's* recent suggestion (1976, p. 1) that “for simplicity we might call [the monetary approach] ‘international monetarism.’” Apprehensiveness within the ranks of the monetary approach over this externally imposed association is real and undisguised, and explicit efforts are made to correct it. But in addition to such overt efforts the objective of differentiating the monetary approach to balance of payments theory from monetarism may also be deemed to be indirectly promoted by the juxtaposition of the alleged orthodox background of the monetary approach and the alleged lack of such an orthodox foundation of monetarism.

The orthodox content of monetarism has been the subject of a vigorous debate. The claim that contemporary monetarism is solidly embedded in the classical quantity theory tradition pervades *Friedman's* writings, has been challenged and refuted by *Patinkin* (1969, 1972) only to be reasserted in *Friedman's* response to this challenge (1972). The debate was marred

by a lack of agreement among the protagonists regarding the essence of the classical quantity theory tradition as well as the criteria by which to classify theories, and to that extent the issue remains unresolved. Be that as it may; what is relevant in this context is that *Johnson* (1971, p. 11) has accepted and endorsed unreservedly *Patinkin's* challenge: “*Don Patinkin* has very recently — and over-belatedly, from the standpoint of the history of economic thought — exploded these efforts to provide bridges between the pre-Keynesian orthodoxy and the monetarist counter-revolution. He demonstrates conclusively . . .” the existence of fundamental differences in the theorising, as distinct from feasible imputations to select *obiter dicta*, of the respective schools of thought.

Thus, according to the “most visible” exponent of the monetary approach, contemporary monetarism has no valid claim to the orthodox heritage; the monetary approach, on the other hand, does have such a claim. In his frequent discussions of the monetary approach *Johnson* never neglected to press that claim by referring in one way or another to its orthodox foundation, even at the risk of semantic incongruity: “The new approach is not actually new, but deeply rooted in the classical and neoclassical tradition of balance-of-payments theory initiated by *David Hume's* ‘price-specie-flow mechanism’ . . .” (*Johnson*, 1975 b, p.220). The frequency and assertive nature of these statements tend to convey an urgent concern with firmly associating the monetary approach with the classical tradition of balance of payments analysis. This concern may have been prompted not only by a desire to claim, on behalf of the monetary approach, the reputation which such a tradition bestows, but also by the more subtle objective of reinforcing and accentuating the distinctness of the monetary approach from contemporary monetarism. The urgency of this concern is explicable by recognition of the fact that the *differentia specifica* — relative importance of monetary impulses, modus operandi of adjustment mechanism and method of analysis — are all too readily disregarded by commentators on the monetary approach with the effect of enhancing the susceptibility of its assessment to the ideological element pervading the current polarisation of the profession.

## V. Conclusion

The monetary approach to the balance of payments is said by its advocates to continue the classical and neoclassical tradition of balance of payments analysis, going back to *David Hume*. This claim, conspicuous for its assertiveness, constitutes a prominent feature of the literature.

An attempt by the claimants (*Frenkel* and *Johnson*, 1976) to establish its logical validity admittedly remained inconclusive. The monetary approach differs from the Humean adjustment mechanism not only in its fundamental orientation — money supply process and relative money demands versus real commodity exchange — but also in the analytical specification, most notably in the conception of the transmission process — real balance effects versus changes in relative commodity prices (*Fausten*, [1979]). Thus, if this claim is to have any meaning short of the trivial observation that current knowledge cannot meaningfully be separated from the cumulated body of existing knowledge, then this meaning must lie beyond the analytical sphere.

I have distinguished three aspects of the meaning of this claim to orthodoxy. These three dimensions do not yield independent alternative explanations but they are mutually consistent, integrated by a profound concern with the advancement of economic understanding. The strategic aspect derives from a methodological approach to the history of economic thought that is intermediate to the polar extremes of absolutism and relativism but approximates relatively closer to the former with its emphasis on “scientific progress.” The second dimension relates to the requirements for successful innovation in economic theory, particularly the need for a large, receptive audience for novel ideas, and the third to the preoccupation with dissociating the monetary approach from contemporary monetarism in an attempt to evade the increasingly ideological polarisation of the profession which as such is inimical to scientific progress. These three dimensions, thus, jointly yield a plausible and consistent explanation for the practice of invoking the “spirit of the ancients” on behalf of the monetary approach, yet the distinct analytical dissimilarities continue to make this practice suspect.

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### Zusammenfassung

#### Von der Analytik des monetaristischen Ansatzes bis zur Zahlungsbilanz: Methodologie, Innovation und Monetarismus

In der vorliegenden Studie wird der Versuch unternommen, den Hintergrund für die in der Literatur häufig auftauchende Rückführung des monetaristischen Ansatzes auf David Hume und die klassische Theorie der Zahlungsbilanzanalyse zu erhellen. Legt man die verschiedenartigen analytischen Unterschiede zwischen den klassischen, besonders aber den Humeschen und



den gegenwärtigen monetaristischen Ansätzen zugrunde, so wird behauptet, daß dies außerhalb des Bereiches der präzisen Analytik ökonomischer Modelle liegt. Es wird argumentiert, daß statt dessen die regelmäßig wiederkehrenden Anspielungen auf die Orthodoxy Zeichen einer allmählichen methodologischen Annäherung an die Geschichte des ökonomischen Denkens sind und daß sie weiterhin sowohl mit den Erfordernissen der Weiterentwicklung der Nationalökonomie als auch mit dem ausdrücklichen Wunsch übereinstimmen, den monetären Ansatz vom gegenwärtigen Monetarismus zu lösen.

### Summary

#### **Beyond the Analytics of the Monetary Approach to the Balance of Payments: Methodology, Innovation and Monetarism**

In the present study an attempt is made to elucidate the meaning of the frequent attributions in the literature on the frequent attributions in the literature on the monetary approach to David *Hume*, and to the classical tradition of balance of payments analysis. Given the distinct analytical dissimilarities between the classical, specifically the *Humean*, and contemporary monetary approaches, it is contended that this meaning lies outside the sphere of the specific analytics of economic model-building. Instead, it is argued, the recurring references to orthodoxy are indicative of a non-extremist methodological approach to the history of economic thought, and further that they are consistent with the requirements of innovation in economics as well as with the express desire to dissociate the monetary approach from contemporary monetarism.

### Résumé

#### **De l'analytique de l'hypothèse monétaire à la balance des paiements: méthodologie, innovation et monétarisme**

La présente étude tente d'éclairer les fondements du renvoi, si fréquemment effectué dans la littérature scientifique, de l'hypothèse monétaire à David *Hume* et à la théorie classique de l'analyse des balances de paiements. Si l'on prend pour base les multiples différences analytiques existent entre les hypothèses classiques, et en particulier celle de *Hume*, et les hypothèses monétaires actuelles, l'on prétend que cette tentative échappe au domaine de l'analytique précise des modèles économiques. L'on argumente au contraire que les allusions régulières aux références d'Orthodoxy constituent une approche méthodologique graduelle de l'histoire de la pensée économique et qu'elles doivent demeurer en accord avec les exigences de la poursuite du développement de l'économie nationale et avec le voeu formel de détacher l'hypothèse monétaire du monétarisme actuel.