

Methodological Individualism

Joseph Schumpeter

Preface
by
F.A. Hayek

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SUMMARY

(by Frank van Dun)

1. The political defeat of individualistic liberalism in the second half of the 19th century in no way detracts from the validity of the theory of methodological individualism.
2. The merit of methodological individualism should be investigated in terms of methodological fruitfulness; not in terms of its political uses (or abuses).
3. Individualism does not deny that every individual person is a "social being" whose actions are conditioned by social and cultural factors. On the contrary, it seeks to explain social phenomena as being meaningful from the point of view of acting men and women.
4. In economics it is both impossible and unnecessary to discard methodological individualism. Since the objective is to explain the operation of the price system, which is a social phenomenon, we cannot use the collectivist concept of "national income," "social capital" etc. because these already presuppose the pricing process. On the other hand individualistic principles do give an adequate explanation.

PREFACE

In 1908, when Joseph Schumpeter at the age of twenty-five, published his "Wesen und Hauptinhalt der theoretischen Nationalökonomie" (*Essence and Chief Contents of Economic Theory*), it attracted much attention, with the brilliance of its exposition. Moreover, though he had been trained at the University of Vienna and had been a leading member of the famous seminar of Eugen von Böhm-Bawerk, he had also absorbed the teaching of Leon Walras, who had received little notice by the Austrians and had adopted the positivist approach to science expounded by the Austrian physicist Ernst Mach. In the course of time he moved further away from the characteristic tenets of the Austrian school so that it became increasingly doubtful later whether he could still be counted as a member of that group.

Schumpeter was very much a "master of his subject", in contrast to the "puzzlers" or "muddlers" which follow their own distinct ideas; he also showed a strong receptivity to the dominant opinions in his environment and the prevailing fashion of his generation. Nowhere does this show more clearly than in the still entirely Mengerian chapter of his early book, now translated into English for the first time, and regarded as the classic exposition of a view which he later abandoned. Many of his students will be surprised to learn that the enthusiast for macro-economics and co-founder of the econometric movement had once given one of the most explicit expositions of the Austrian School's "methodological individualism". He even appears to have named the principle and condemned the use of statistical aggregates as not belonging to economic theory.

That this first book of his was never translated is, I believe, due to his understandable reluctance to see a work distributed which, in part, expounded views in which he no longer believed. His reluctance to keep his brilliant first book in print, much less having it translated, can probably be explained by his awareness that his own distinct opinions emerged only in his second book on the "Theorie der Wirtschaftlichen Entwicklung" (*Theory of Economic Development*), which came out four years after the first. Though the author may later no longer have been prepared to defend the ideas of his first work, they are certainly essential enough to the understanding of the development of economic theory. Indeed Schumpeter made a contribution to the tradition of the Austrian School which is sufficiently original to be made available to a wider public. I regard it as a very meritorious effort that Mr. Michiel van Notten had devoted his skill to publishing a faithful translation of that part of Schumpeter's first work which marks a distinct milestone in the evolution of opinion on the important subject of individualism.

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METHODOLOGICAL INDIVIDUALISM

Having disposed of the queries associated with the hypothesis of value and with the problem of human motivation, all we still need to prove is that our assumptions are based on the possession of wealth by the INDIVIDUAL. This is bound to evoke some criticism because, in this day and age, the validity of the individualistic concept is strongly queried ; indeed, atomism is most frequently disputed by the opponents of the theory. Classical theory places great importance on the individual ; more recent economic systems, by and large, followed this pattern, so exposing themselves to the same criticism. As a rule, the opponents of the theory do not realise that there is a difference between the old and the new economic system, and if they do, they do not know what the difference is and, in most cases, attack both systems indiscriminately.

Theoreticians have not been backward in voicing their viewpoints, and we are faced with a controversy that, as with so many discussions concerning the fundamentals of our discipline, fails to reach any conclusion : both parties throw up general arguments and defend them with a tenacity based on the degree of their political and social convictions. Of course, it is impossible to reach any agreement such as this, and often it seems that agreement is not even wanted. Yet all that is needed to settle the dispute is to consider which problems actually need to be solved and what end-results are wanted from these two opposing systems. By doing this the dispute loses its controversial character and the difficulties tend to resolve themselves. To achieve this let us first consider the objections made by opponents of the theory of the "individualistic conception of things," and then discuss various tendencies within the theory which pursue the same end.

What did the critics of the classic system have in mind when they attacked its individualistic principle ? As with almost all criticisms of the classic system, these are mainly directed at certain practical aspects. Political individualism, to a greater or lesser degree, opposes socialism and any type of social regulation; slogans such as "free play of economic forces," "individual initiative and responsibility" and others, were countered by opposing slogans. The political defeat of individualistic liberalism was also detrimental to the scientific reputation of those works which held individualistic postulates apparently relating to the fundamentals of pure economy. Not only is this well-known but it is also known that the development of social political efforts which involved outstanding scientific support led to the vehement denial of individualism for ethical as much as for political reasons. The importance of the individual was under attack: he was told that he owed his existence and his development to society, and that the fruit of his work did not belong to him alone. But even

forgetting this, there is still no doubt that the hatred of atomism in political economy comes mainly from this quarter. However, it is important to realise that there is not the slightest connection between individualistic science and political individualism. The attacks made by historians and social politicians against the individualistic national economies may be justified; to a certain extent they are; and if the historian criticises the theoretician for his political beliefs, he is correct, as there is no doubt that such a belief would not have been possible, had the theoretician studied his history more closely. But to put the blame for this on the science of political economy would be going too far. It is true that the theory widely advocates free competition; it is also true that, to a certain degree, free competition leads to maximum satisfaction of the economic parties involved; however, correctly formulated, this proposition would not only cease to sound offensive but would cease to have any practical interest, as we will see later. **IT IS IMPOSSIBLE TO DERIVE ANY ARGUMENTS FROM THE THEORY, EITHER FOR OR AGAINST POLITICAL INDIVIDUALISM.** We are therefore fully in agreement with any objection that is raised against the misuse of the theory to defend indifference to social misery. However, it would be wrong to reject the theory for this reason alone.

To summarise this part of our argument we must strictly differentiate between political and methodological individualism, as the two have virtually nothing in common. The former starts from the general assumption that freedom, more than anything, contributes to the development of the individual and the well-being of society as a whole and puts forward a number of practical propositions in support of this. The latter is quite different. It has no specific propositions and no prerequisites, it just means that it bases certain economic processes on the actions of individuals. Therefore the question really is: is it practical to use the individual as a basis and would there be enough scope in doing so, or would it be better, in view of specific problems and the national economy as a whole, to use society as a basis. This question is purely methodological and involves no important principle. The socialists can answer it in terms of methodological individualism and the political individualists in terms of their social concept of things, without getting into conflict with their convictions. This way we have achieved something: our question has lost its practical significance and has been divested of focal interest. This has happened many times before with modern* economics, and here lies the difference, perhaps the biggest, between modern and classic systems of economy. Often with modern economics it is difficult to separate theory from practice. With the classic system the lines are drawn much more distinctly and, in fact, some theoreticians have vigorously denied that it has anything in common

* the German or historical School (vert.)

with the symbolic "Manchester" concept. But even so, its opponents are correct in as much as it has again and again been violated. On the whole, however, economics as a science may be considered to be free of this obstacle.

Let us now look at the second part of our thesis. We must admit at this point that we cannot do more than show that we are aware of the criticisms and what we think about them. An exhaustive answer to this whole issue can be drawn only from the whole of our argument.

To replace the individualistic concept by a socialistic one or at least placing more emphasis on the social factor is one of the urgent reforms most frequently asked for. But how should we achieve this and what advantage would we obtain from it?

In our opinion this tendency appears to a large extent to originate from the one discussed earlier on. The social politician and the national economist are in many cases one and the same person. If the former emphasises the social factor, it is obvious for the latter to do the same. In this connection we have to repeat what we said before: this is not necessary. Yet we cannot ignore what underlies the scientific approach of this group, but must take it into consideration. On the other hand, biology and sociology also provide ideas toward this end. Some biologists speak of an "erreur individualiste" from placing too much value on the individual who, in fact, is only one link in a chain of a long development. Similarly, some economists start from the fact that the individual cannot live alone and can only be understood as part of his social environment where he is exposed to an array of social influences which are absolutely impossible to study for any single individual. Therefore an individualistic economy would be of little value, and many sociologists have pointed this out. Biology has had an even more direct influence by what is known the "organic concept of the state" which, however, is of no interest in this context. Finally, there is a third aspect which is advocated by some theoreticians who use the concept of society and social value within the scope of pure theory.

Let us now elaborate on this theory. Little would be gained by joining the general discussion which is, after all, only too well known. If we wanted to study, for instance, the nature of economics we would have to comment on the two concepts which represent two completely opposite points of view in this field. On one hand, there is the concept of the national economy as an "organism" and, on the other hand, there is the concept of economy as a "result of economic actions and the existence of individuals." Again it is obvious that both these concepts can be defended by general arguments. Of course, every mass phenomena consists of individual phenomena, and

the obvious conclusion is that we need to study the latter in order to understand the former. It is equally obvious that the members of one national economy or of one particular class are much more intimately connected by innumerable ties with each other than they are with members of any other grouping. Effects and counter-effects of either an economic or non-economic nature as well as cooperation and antagonisms play an important part which does not necessarily show up on the individual. This leads to the conclusion that any social group would have to be used as a unit on which the concept is based. One party can prove to the other that the state is not an animal body and that every machine consists of distinguishable piecyparts, and in the same way the other party can equally well prove that people never live or work alone and that a machine is more than just a number of incoherent iron parts. Yet again we would like to emphasise that analogies and generalities do not serve any purpose: only a detailed study can yield acceptable results. This particular matter is something different: what economics really is — i.e. whether the individual is the driving force or whether something else is — is unimportant. In general we are happy to accept anything that social politicians and historians will tell us about this, and we do not believe that it is worth our while to discuss any abstract model in the sense of natural law. We do agree that the individual's actions are determined by social influences, and that any individual is a minute factor in this. In this particular context this is of no importance. What counts is not how these things really are, but how we put them into a model or pattern to serve our purpose as best as possible. In other words which concept is the most practical format from the viewpoint of the results of pure economy.

This proposition is as paradoxical as it is fundamental: is the nature of a political economy supposed to be of no significance to the political economist? We not only believe that this is a valid question but we can go further by saying that even the nature of economics is not important to us. We have to concentrate only on the end-result that we want to achieve, which in this particular case is the price phenomena. Only by doing this will we be able to concentrate our thoughts, clearly and precisely, on what is really important.

Applying what we have so far stated to the issue in question, we will be able to clearly understand the nature of what we call "methodological individualism." As we have already stated, it does not have any practical requirements nor any moral or other valuations of different organisational forms of economy and therefore it cannot fall under the criticisms of this category. As we will see, it also does not state any facts that might be decisive for the actions of the individual. We want to describe certain economic processes and then only within very close limits. Broader reasons causing these processes might be interesting, but they do not affect our results. They fall into

the field of sociology and, for that reason, our concept cannot be disproved by the evidence that the processes in a political economy cannot be interpreted on a purely individual basis. If the national economist elaborates his individualistic methods with facts and should insist that any explanation hinges on the individual, we would be forced, up to this point, to side with their opponents. However, one ought not forget that such propositions may, as a rule, be simply disregarded without altering the purely economic aspect of the issue. In this type of case criticism can easily go too far so that it is impossible to differentiate between right and wrong.

Finally, methodological individualism is not a philosophical speculation nor a future ideal, nor anything like it, although this has been imputed into the theory, rightly or wrongly, as previously explained. Every unbiased critic will have to admit that our model is not subject to any of these criticisms that have become mindlessly repeated slogans.

All we are saying is that the individualistic concept leads to quick, expedient and fairly acceptable results, and we believe that any social-orientated concept within the pure theory would not give us any greater advantages and is therefore unnecessary. However, if we go beyond pure theory, things are different. For instance, in organisation and even more in sociology, atomism would not get us very far, but in view of its methodological character this is not of any consequence.

By doing this we have gone one step further and removed many difficulties which have been a major stumbling block in the past. On the other hand, however, we have divested our issue of any scientific and principal interest. We have not solved a problem but we have proved in fact that the problem did not need to be solved. It follows quite naturally from this that those theoretical discussions using the famed or ill-reputed methods of "Robinson" will not be affected by the objection that the latter could only exist in exceptional cases and then never for any length of time. This clearly shows the misunderstanding inherent in so many of these criticisms.

Principal objections against "atomism" as we represent it, therefore, do not exist. Any objections raised refer to what apparently is connected with it but which is actually separate from it. In fact, the individual processes do not interest us, yet they serve to describe mass phenomena in our area. The action of an individual concerns us as little as the hair colour of an individual does the ethnologist. He cannot observe the haircolour of a people but only of individuals and from his observations of individuals he draws his conclusions about the people in terms of being statistically "typical" or "representative." This example is not quite applicable. However, it shows

that individualistic methods and social results are by no means incompatible.

We do believe that the old individualistic method is indispensable in our time, though only for the purpose of pure theory in the strictest sense. Our method only fits theory and only in this field has it yielded usable results. On one hand it is impossible, on the other unnecessary, to discard it, considering that the problems have actually been worked out. This might be necessary in the future as it has already been the case outside that very limited area. But for the present any further interpretation would only serve to hamper true progress. We cannot prove this here with general explanations; only a detailed study of pure theory and its individual theses can show this.

All that we are able to do is to counter some of the criticisms, eliminate some misunderstandings, and show the reader that we do not want to say anything that might raise doubts about the principles of the theory. That much can be discussed in general terms. In the following we will not discuss social categories in general terms but will show in practice that the individualistic concept in our sense — stripped of any practical interest — proves useful and sufficient for our needs. A conclusion about the second part of our argument can only be drawn from the whole of the following. In doing so it is up to everybody to form economic concepts of a social category for the purpose of discussing social or political problems wherever this might be desirable. We wish to again stress that whatever has been said applies to pure theory alone.

In this context we should mention the two most important groups of concepts which could be given a collectivistic interpretation but which we do not wish to discuss in detail at this time. The first group is characterised by terms such as "national income," "national wealth" and "social capital," and plays an important part in German literature (Held, Wagner). Stolzmann, in particular, advocates their importance in this context. In purely theoretical issues, however, he uses them very rarely — a fact which supports our approach — and where he does they are just a mode of expression and do not change the individualistic principle of the theory.

If we model our theory independently of any prejudices and requirements from outside, we will not come across these concepts at all. Therefore we will not elaborate on them, although if we did, we would discover a multitude of queries and difficulties which would be closely associated with distorted ideas and would not really lead to any valuable conclusion.

The second group hinges on the concept of social value. The very

early stages of the theory showed signs of this approach, but only recently has it become really important due to the "social values" advocated by the Americans. Some of the concepts within this group cannot even be applied to practice, as for example, the "value for humanity" which has no precise meaning. The social value of the "Clark School" is the only that really has scientific significance. But we cannot discuss this either and just would like to say that we can ignore it for methodological purposes.

Something that needs to be mentioned: we often encounter the concepts of "total demand" and "total supply." These do not fall into social categories but are combinations of individual processes. We do not believe that by using them we follow the requirement for stressing the social aspect. That would mean that we consider social phenomena to be nothing but the sum of individual ones, a viewpoint which we completely reject. Total demand and total supply are concepts which rest on entirely individualistic principles.