



City Research Online

City, University of London Institutional Repository

Citation: Denis, A. (2010). A century of methodological individualism part 1: Schumpeter and Menger (10/02). London, UK: Department of Economics, City University London.

This is the unspecified version of the paper.

This version of the publication may differ from the final published version.

Permanent repository link: <https://openaccess.city.ac.uk/id/eprint/1490/>

Link to published version:

Copyright: City Research Online aims to make research outputs of City, University of London available to a wider audience. Copyright and Moral Rights remain with the author(s) and/or copyright holders. URLs from City Research Online may be freely distributed and linked to.

Reuse: Copies of full items can be used for personal research or study, educational, or not-for-profit purposes without prior permission or charge. Provided that the authors, title and full bibliographic details are credited, a hyperlink and/or URL is given for the original metadata page and the content is not changed in any way.



School of Social Sciences
CITY UNIVERSITY LONDON

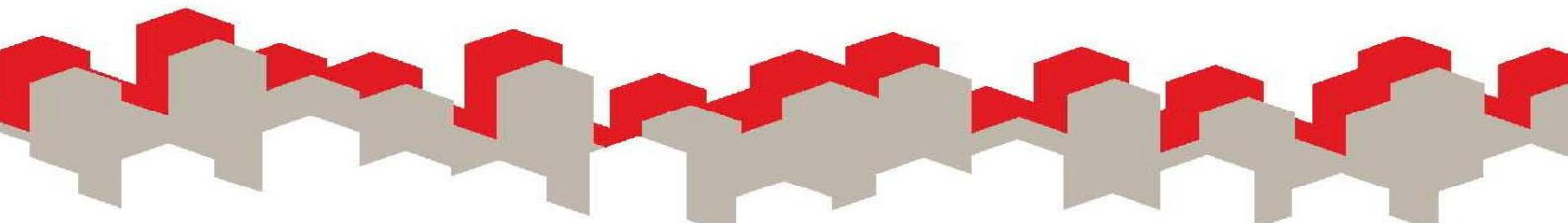


Department of Economics

**A Century of Methodological Individualism
Part 1: Schumpeter and Menger**

Andy Denis¹
City University London

**Department of Economics
Discussion Paper Series
No. 10/02**



¹ Department of Economics, City University London, Social Sciences Bldg, Northampton Square, London EC1V 0HB, UK.
Email: a.m.p.denis@city.ac.uk. T: +44 (0)20 7040 0257

A Century of Methodological Individualism

Part 1: Schumpeter and Menger

Andy Denis
City University London
a.m.p.denis@city.ac.uk

Version 1: June 2009

Abstract

2009 marks the centenary of *methodological individualism* (MI). The phrase was first used in English in a 1909 QJE paper by Joseph Schumpeter. Yet after 100 years there is considerable confusion as to what the phrase means. MI is often invoked as a fundamental description of the methodology both of neoclassical and Austrian economics, as well as other approaches, from New Keynesianism to analytical Marxism. However, the methodologies of those to whom the theoretical practice of MI is ascribed differ profoundly on the status of the individual economic agent, some adopting a holistic and some a reductionist standpoint. The purpose of the research of which this paper is part is to uncover and evaluate some of the meanings of the phrase *methodological individualism* (MI). This first paper considers the contributions of Joseph Schumpeter, who was the first to use the term, and of Carl Menger, considered by many to be the founder of MI. The approach adopted is to apply the intellectual apparatus developed in Denis (2004) to the arguments of these writers. This constitutes a test of that apparatus: is it able to clarify the standpoints to which it is applied? The conclusion reached is that both Schumpeter and Menger adopt a reductionist ontology in the sense of Denis (2004).

1. Introduction

February 2009 marked the centenary of the term *methodological individualism* (MI). The phrase was first used in English in a 1909 QJE paper by Joseph Schumpeter. MI is often invoked as a fundamental description of the methodology both of neoclassical and Austrian economics, as well as other approaches, from New Keynesianism to analytical Marxism. However, the methodologies of those to whom the theoretical practice of MI is ascribed vary widely and, indeed, differ profoundly on the status of the individual economic agent, some adopting a holistic and some a reductionist standpoint. Even after 100 years there is considerable confusion as to what the phrase means: Denis (2006b) shows with reference to a case study, a debate on the subject of MI between members of the History of Economics Societies email list, the hazard of mutual misunderstanding caused by lack of a shared understanding of the meaning of MI.

The purpose of the research of which this paper is part is therefore to uncover, clarify and evaluate some of the meanings of the phrase *methodological individualism* (MI). This first paper considers the contributions of Joseph Schumpeter, who was the first to use the term, and of Carl Menger, considered by many to be the founder of MI. The approach adopted is to apply the intellectual apparatus developed in Denis (2004) to the arguments of these writers. This constitutes a test of that apparatus: is it able to clarify the standpoints to which it is applied?

My interest in the topic is thus quite specific. In JEM 2004 I published a paper, “Two rhetorical strategies of *laissez-faire*”, setting out a new approach to economic methodology, an approach which emerged in my study of Smith, Hayek and Keynes (Denis, 2004). My 2006 paper on Malthus in *History of Economic Ideas* (Denis, 2006a) was an attempt to test this approach – was the two-rhetorical-strategies approach able to enlighten us, to tell us more about Malthus? The answer, I felt, was encouraging. Application of the new approach revealed a fundamental shift in Malthus’s methodology around the turn of the 19th century, between the *First* and *Second Essays*, a shift which had not previously been noticed in the literature. My interest here is the same: can this new approach enlighten us – can it help us to understand the meanings of MI?

The paper first briefly recapitulates the two-rhetorical-strategies approach, then applies this approach to the founding fathers of the literature on MI, Schumpeter and Menger. The conclusion reached is that both Schumpeter and Menger adopt a reductionist ontology in the sense of Denis (2004). A further paper or papers will examine the contributions of Mises, Hayek and Popper, of the analytical Marxists, and, bringing the story up to date, of Arrow, Udehn and Hodgson.

2. Two rhetorical strategies of *laissez-faire* and interventionism¹

This section sketches the view developed in Denis (2004), that proponents of conservative policy prescriptions, such as *laissez-faire*, are compelled, to the extent that they are confronted with ontological issues, to make a choice between reductionism and holism, and, if they choose the latter, have to attach to it an invisible hand mechanism to underpin the

¹ This section draws on the corresponding section of Denis (2006a: 11-14).

reductionist policy prescription of *laissez-faire*. In the research project summarised in Denis (2004) I have tried to show two things: Firstly, that in a world of partially overlapping and partially conflicting interests there is good reason to doubt that self-seeking agent behaviour at the micro-level will spontaneously lead to desirable social outcomes at the macro-level. The presence in such a world of externalities, such as the prisoners' dilemma, implies that Nash equilibria cannot be assumed to generate socially desirable outcomes, even in the minimal sense of Pareto efficiency. And, secondly, that we can usefully distinguish between two kinds of argument for *laissez-faire*. Reductionist *laissez-faire* writers argue or assume that important aspects of the society we live in can straightforwardly be reduced to the behaviour of individuals: individual utility maximisation leads to social welfare maximisation by a process of aggregation. Apparent macro-level irrationality, such as unemployment, can thus be reduced to micro-level decisions on the trade off between leisure and labour. This is the well-known stance of Friedman and Lucas.

There are, however, more holistic economic proponents of *laissez-faire*, writers who also would like us to rely on the spontaneous interaction of self-seeking agents, but who recognise that social or collective rationality, or irrationality, may be emergent at the macro-level, and not reducible to the rationality, or otherwise, of substrate-level behaviour giving rise to it. In order then to present the macro-level outcomes as desirable, they have proposed various 'invisible hand' mechanisms which can, in their view, be relied upon to 'educate good from ill'. Smith, I argued, defended the 'simple system of natural liberty' as giving the greatest scope to the unfolding of God's will and the working out of 'natural', providential processes, free of interference by 'artificial' state intervention – the expression not of divine order but of fallible human reason. Hayek, adopting a similar policy stance, based it in an evolutionary process in which those institutional forms best adapted to reconciling individual agents' interests would, he believed, spontaneously be selected for in the inter-group struggle for survival.

Reductionism (often referred to in the literature as atomism) can be defined as the view that an entity at one level can be understood as a congeries, an aggregate of entities at a lower, substrate level, and that the properties and behaviour of higher level entities can be understood in terms of the properties and behaviour of its constituent lower level parts, taken in isolation. Holism (often referred to as organicism) is the opposite view, namely that phenomena at one level can be understood as emergent at that level, that a higher level entity can be understood as a product of the interrelationships between its component parts. The opposition between the two is often expressed in the literature by means of the formula that the whole **is** (reductionism), or **is not** (holism), equal to the sum of the parts. The contrast between the reductionist and holistic approaches can be illustrated by comparing the status of the individual in Friedman and in Hayek. Economics, Friedman says, is based in the study of "a number of independent households, a collection of Robinson Crusoes" (1962: 13). For Hayek, however, "individuals are merely the *foci* in the network of relationships" (1979: 59). So for one we arrive at the macro by aggregating large numbers of **isolated** micro elements, whereas for the other, it is the **interconnections** between the micro elements which are key.

An alternative to both of these approaches is to combine Smith's and Hayek's recognition of the holistic nature of the world we live in with rejection of their postulate of an invisible hand. In this view, rational self-seeking behaviour on the part of individual agents is by no means either the necessary or the sufficient micro substrate for the desirability of social outcomes. According to Keynes, for example, uncoordinated egotistical activity in unregulated markets may lead to inefficient outcomes. The price system aggregates rational individual actions but the aggregate is an unintended outcome as far as those individuals are

concerned. There is no particular reason why unintended outcomes should necessarily be desirable and often they are not. Individuals take responsibility for maximising their own welfare, given what everyone else is doing, but society as a whole has to take responsibility for organising the aggregate outcome, if undesirable aggregate outcomes are to be avoided: “there is no design but our own ... the invisible hand is merely our own bleeding feet moving through pain and loss to an uncertain ... destination” (Keynes, 1981: 474).

The purpose of the present paper is to apply this structure of ideas to the case of methodological individualism.

3. The meanings of MI: the founding fathers

(i) *Schumpeter*

It seems appropriate to start with the originator of the term MI. The term *methodologischer Individualismus* was introduced in Joseph Schumpeter’s 1908 *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*. Chapter 6, “Methodological Individualism”, was translated into English and published as a pamphlet in 1980, with a Preface by Hayek (Schumpeter, 1980). A year after publishing his book in German, Schumpeter published a paper in English in the *Quarterly Journal of Economics*, “On the concept of social value”, and the first appearance of the term methodological individualism in English occurs at the end of this paper (Schumpeter, 1909: 231). The first sentence of the final section, “Summary”, is

“First of all, it is here claimed that the term ‘methodological individualism’ describes a mode of scientific procedure which naturally leads to no misconception of economic phenomena.”

This is the first and only reference to MI in the paper. A footnote states that the claim made here is more fully elaborated in Schumpeter’s 1908 book in German, just mentioned.

The main purpose of Schumpeter’s paper is to investigate the meaning of the term ‘social value’. Section I, “Methods of pure theory are individualistic”, sets the scene methodologically, and the rest of the paper – Section II, “Meaning of the concept of social value”; Section III, “Concept of social value opens up an optimistic view of society and its activities”, and Section IV, “Relation of the theory of prices to the concept of social value” – applies this methodology to the specific question in hand. Our interest is in the method, and its application to the concept of social value is only of interest in so far as it illuminates that methodological approach. However, methodology is in Schumpeter’s paper in the foreground throughout, as the question of the meaning of social value “is a purely *methodological* one” (Schumpeter, 1909: 213)².

Schumpeter’s analysis is presented as empirical and positive: this is what economists do, he says: the point is not to comment on their methodology, not, that is, to make value judgements about it, but merely to show some of its implications:

² Emphasis in citations follows the original – exceptions are noted as such.

“At the outset it is useful to emphasize the individualistic character of the methods of pure theory. Almost every modern writer starts with wants and their satisfaction, and takes utility more or less exclusively as the basis of his analysis. Without expressing any opinion about this *modus procedendi*, I wish to point out that ... it unavoidably implies considering individuals as independent units or agencies. For only individuals can feel wants.” (Schumpeter, 1909: 214).

Since standard assumptions about those wants give us utility curves³, the latter “therefore, have a clear meaning only for individuals”. We should note that though Schumpeter says here that he expresses no opinion about the procedure, he does say elsewhere that it is “free from inherent faults, and, as far as it goes, fairly represents facts” and that it “naturally leads to no misconception” of economic phenomena (Schumpeter, 1909: 215, 231). We may take it, therefore, that in fact MI is to be endorsed, and this is much more explicit in the book (Schumpeter, 1980).

So the argument is: (i) most economists start with wants and analyse utility via utility curves; (ii) only individuals can feel wants; and therefore (iii) utility curves are only meaningful for *independent* individuals, “individuals as independent units”. Further, utility curves and the quantities of goods together determine marginal utilities for each individual, which are

“the basis and the chief instruments of theoretical reasoning; and they seem, so far, to relate to individuals only ... Marginal utilities do not depend on what society as such has, but on what individual members have ... we have to start from the individual: first, because we must know individual wants; and, secondly, because we must know individual wealth.” (Schumpeter, 1909: 214-5).

Schumpeter summarises how economics starts from individualist assumptions and, via individualist reasoning, builds up to social phenomena as follows:

“Marginal utilities determine prices and the demand and the supply of each commodity; and prices, finally, tell us much else, and, above all, how the social process of distribution will turn out. We gather from the theory of prices certain laws concerning the interaction of the several kinds of income and the general interdependence between the prices and the quantities of all commodities. This, *in nuce*, is the whole of pure theory in its narrowest sense; and it seems to be derived from individualistic assumptions by means of an individualistic reasoning. We could easily show that this holds true not only for modern theories, but also for the classical system. It is submitted that this treatment of economic problems is free from inherent faults, and, as far as it goes, fairly represents facts” (Schumpeter, 1909: 215).

By contrast, we cannot start from Society:

“It now becomes clear that the same reasoning cannot be directly applied to society as a whole. Society as such, having no brain or nerves in a physical sense, cannot feel wants and has not, therefore, utility curves like those of individuals ... ”

³ The term ‘utility curve’ seems to refer to any one of total or marginal utility curves, or indeed constant utility (or indifference) curves.

Two points are worthy of note here. Firstly, Hodgson (2007: 212-3) suggests that

“for Schumpeter, methodological individualism was no universal injunction or methodological principle from which we depart at our peril. Instead for him it was an attempt to demarcate the ‘pure theory’ of economics from other approaches and methods of scientific inquiry ... Schumpeter upheld methodological individualism as neither a universal principle of social scientific research nor an obligatory rule for all social scientists.”

Well, this is ‘sort of’ true, but only sort of. As Hodgson points out, we need also to look at Schumpeter (1986) to clarify his stance. There Schumpeter identifies a *Sociological Individualism*, by which

“we mean the view, widely held in the seventeenth and eighteenth centuries, that the self-governing individual constitutes the ultimate unit of the social sciences and that all social phenomena resolve themselves into decisions and actions of individuals that need not or cannot be further analyzed in terms of superindividual factors” (Schumpeter, 1986: 888).

Before proceeding, the reader is invited to pause and consider: is this description consistent with what Schumpeter wrote in 1909? And is it consistent with the methodology of neoclassical economists such as Friedman and Lucas?

On the first question, it is difficult to discern a difference here, from what Schumpeter was saying in 1909. It is surprising and instructive to see what Schumpeter says next in *History of Economic Analysis*: “This view is, of course, untenable so far as it implies a theory of the social process” (Schumpeter, 1986: 888-9). Nevertheless, it remains permissible “for the special purposes of a particular set of investigations ... to start from the given behaviour of individuals without going into the factors that formed this behaviour ... In this case we speak of Methodological Individualism” (Schumpeter, 1986: 889).

The contrast which Schumpeter draws here between MI and ‘Sociological individualism’ (SI) is as follows. **MI** means starting with the behaviour of individuals and treating that behaviour as primitive and given. As he has already explained Schumpeter (1909), this is a *requirement* for economic science: it is a procedure which is “free from inherent faults”, “fairly represents facts” and “naturally leads to no misconception”; and “we have to start from the individual ... the same reasoning cannot be applied directly to society” (Schumpeter, 1909: 215, 231). **SI** is ‘untenable’, however, according to Schumpeter, not because there is anything wrong with the methodological approach it describes, so far as economics is concerned – that methodological approach simply is MI – but because it makes MI a requirement for *other* disciplines, disciplines which may wish to further analyze the decisions and actions of individuals. So Hodgson is correct that Schumpeter is proposing “a division of labour between different social disciplines” (Schumpeter 1986: 889), **but** – this is not be taken as endorsement of methods other than MI for the understanding of social phenomena. In other words, it is a demarcation criterion *combined* with a very clear injunction as to what methods are applicable in social science. The violation of SI which his standpoint admits is a very precise one, namely the further analysis, by disciplines other than economics, of the decisions and actions of individuals in terms of superindividual factors. Preferences may be themselves socially determined. He has already said this in the QJE paper:

“it is only as long as an individual is isolated that the total as well as the marginal utilities of all commodities he may possess depend exclusively on him. All utilities are changed when he lives in society, because of the possibility of barter which then arises ... Our individual will now put a new value on his goods because of what he can get for them in the market ... This fact may be said to show the direct social influence on each individual’s utility curves. Secondly ... Everyone living in a community will more or less look for guidance to what other people do ... The phenomenon of fashion affords us an obvious verification of this ... We must look at individual demand curves and marginal utilities as the data of purely economic problems ... Social influences *form* them, but *for us* they are data, at once necessary and sufficient, from which to deduce our theorems.”

So a clear methodological approach emerges, and one which is reductionist in the sense discussed above in Section 2 of this paper, one which is entirely consistent with that of Friedman and Lucas. Indeed, individuals are not isolated and their utilities depend upon social influences including the value they place on commodities due to the psychological forces of fashion and herd behaviour, and because the fact of a market places a new value on items which individuals could conceivably sell. These influences on individual decisions and behaviour are the domain of other sciences, such as psychology. But in economics, we are able to put aside questions as to the *reason* for this or that individual preference, and ask instead only about the *consequences* of such preferences:

“For theory it is irrelevant *why* people demand certain goods: the only important point is that all things are demanded, produced, and paid for because individuals want them. Every demand on the market is therefore an individualistic one” (Schumpeter, 1909: 216).

To study the social consequences of these individual preferences, by using the ‘individualistic methods’ which Schumpeter describes, we assume that the isolated individual is indeed the atom of society. Hence Schumpeter’s verdict on the neoclassical writers of the marginal revolution:

“it may be shown that, within the range of problems that primarily interested them, that is within the range of the problems that come within the *logic* of economic mechanisms, the procedure of the theorists of that period [sc 1870-1914] may be defended as methodological individualism, and that their results, so far as they went, were not substantially impaired by the limitations that are inherent in this approach” (Schumpeter 1986: 889).

This subsection has tried to show the true and the false in Hodgson’s reading of Schumpeter as proposing MI as a ‘(sub)disciplinary demarcation device’, but not a methodological imperative. A footnote to this account considers the relation between Schumpeter and his teacher, Max Weber. Joseph Heath, in the online *Stanford Encyclopedia of Philosophy*, writes that “the theoretical elaboration of this doctrine [sc the doctrine of methodological individualism] is due to Weber, and Schumpeter uses the term as a way of referring to the Weberian view” (Heath, 2009: 2). “Weber’s ... point of departure and the ultimate unit of his analysis is the individual person” (Gerth & Wright Mills, 1970: 55). In Weber’s own words:

“Interpretative sociology considers the individual [*Einzelindividuum*] and his actions as the basic unit, as its ‘atom’ ... In this approach, the individual is ... the sole carrier of meaningful conduct” (Weber, 1922: 132).

“In general, for sociology, such concepts as ‘state’, ‘association’, ‘feudalism’, and the like, designate certain categories of human interaction. Hence it is the task of sociology to reduce these concepts to ‘understandable’ actions, that is, without exception, to the actions of participating individual men.” (Weber, 1922: 142).

Given the close connection between Schumpeter and Weber, it seems highly likely that what Weber here describes is exactly the ‘Sociological Individualism’ that Schumpeter rejects in *History of Economic Analysis*. His criticism of it being that, while the mode of procedure Weber describes is unexceptionable and indeed necessary in economics, it should leave open the possibility of other disciplines exploring the social influences on the preferences and hence on the decisions and ‘understandable’ actions of participating individual men.

Turning now to Schumpeter (1980), the first point to note is that Schumpeter appears to take a stronger line here than he does in the QJE paper the following year, and an instance of this is his use of the term ‘atomism’ throughout as a synonym for MI: “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” (1980: 2). He speaks of “the hatred of atomism in political economy” which, he says, stems from opposition to *political* individualism (1980: 3). MI, Schumpeter says,

“has no specific propositions and no prerequisites, it just means that i[t] bases certain economic processes on the actions of individuals. Therefore the question really is: is it practical to use the individual as a basis ... or would it be better ... to use society as a basis. This question is purely methodological and involves no important principle” (1980: 3).

When he says that MI lacks ‘specific propositions’, ‘prerequisites’ and ‘important principles’, the contrast he has in mind is with *political* individualism, which starts from the proposition or principle that freedom contributes to the well-being of individuals and society (1980: 3).

Schumpeter is explicit here that the underlying issue concerns the adoption of a holistic or reductionist ontology:

“If we wanted to study ... the nature of economics we would have to comment on the two concepts which represent two completely opposite points of view in this field. One the 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’.” (1980: 4)

This is a critical distinction – although, as we will see it does not cut the way Schumpeter expects it to, nor as subsequent readers have understood it to do. In brief, my thesis is that the holistic, or “organicist” approach, seeing macro level entities as an organism or a system, characterises Smith, Dugald Stewart and the early Malthus, as well as Marx, Keynes and Hayek, while the reductionistic approach, the standpoint which reduces social entities to the ‘economic actions and existence of individuals’, is characteristic of Malthus from the *Second Essay* of 1803 onwards, of Bentham and Ricardo, of Schumpeter, Weber, and Mises, of Friedman and Lucas, and of the analytical Marxists such as Elster and Roemer.

Schumpeter identifies this fundamental division in the methodology of economics, but immediately spoils things a little by denying that this ontological question is of any relevance; rather the real question is an epistemological one, and for practical purposes the two can be separated, and ontology discarded:

“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 ... 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” (1980: 5).

As we will see later, Mises adopts the same line, that ontology is a waste of time and ontological questions both unanswerable and unimportant. It is a theme of my approach that one cannot so easily dispense with ontological questions. On the contrary, everything Schumpeter says here is laden with ontological implications, and indeed relies upon and expresses what I have called a reductionist ontological orientation. How we know the world is not to be divorced so easily from how the world is.

Continuing the theme that ontology is irrelevant, Schumpeter claims that MI is desirable because it is what computer scientists would call a ‘quick and dirty’ way to obtain desirable results:

“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 ... Principal⁴ objections against ‘atomism’ as we represent it, therefore, do not exist” (1980: 6).

The apparent concession that “atomism would not get us far” in other disciplines, such as sociology, is to be understood in the sense already discussed that other disciplines may wish to investigate the social origins of the preferences of individuals, but for pure economic theory this is unnecessary. This does not therefore in any way indicate any deviation from a reductionist ontology of economics.

I conclude therefore that the version of MI which we find at the beginning of the twentieth century in the work of Schumpeter and Weber, consists of the reductionist claim that we can start out with individuals conceived of in isolation, and by considering the behaviours which such isolated individual atoms will engage in, in pursuit of their own interests, we may arrive at the social phenomena we wish to explain. There only remains the footnote, that Schumpeter feels a need for space for other disciplines to explain individual preferences, including the social influences thereon.

⁴ *Prinzipielle* is better translated as *principled* than *principal* – AD.

(ii) *Menger*

From a consideration of Schumpeter, the originator of the term methodological individualism, we turn to Menger, seen by many as the founder of the approach designated MI, even if he did not himself use the term. Menger is certainly extremely important for the debate on MI; opinions vary, however, on what exactly Menger's role was. For Udehn,

“according to Menger ... The ultimate explanation of all economic phenomena ... is in terms of the behaviour of economising individuals. The starting-point of Menger's analysis is the isolated individual, represented by Robinson Crusoe alone on his island ... This is Menger's 'atomistic' method which would later become known as 'methodological individualism' (Udehn, 2001: 88).

“To conclude: Carl Menger may be considered the founder of 'methodological individualism', but ... he did not use this term himself ... he called it 'atomism' which means that complex phenomena should be explained in terms of their simplest elements, or parts” (Udehn, 2001: 94)

For Heath, however,

“It is worth emphasising the difference between *methodological* individualism, in Weber's sense, and the older traditions of atomism (or unqualified individualism) in the social sciences. Many writers claim to find the origins of methodological individualism amongst the economists of the Austrian School (especially Carl Menger) ... The atomistic view is based upon the suggestion that it is possible to develop a complete characterisation of individual psychology that is fully pre-social, then deduce what will happen when a group of individuals, so characterized, enter into interaction with one another. Methodological individualism, on the other hand, does not involve a commitment to any particular claim about the *content* of the intentional states that motivate individuals, and thus remains open to the possibility that human psychology may have an irreducibly social dimension ... Most theorists of the Austrian School, however, like Carl Menger and Ludwig von Mises, were pure atomists.” (Heath, 2009: 3-4).

It is clear from Heath's account that what is here designated 'atomism' is a close parallel of 'sociological individualism' in Schumpeter's account. That is, it is Schumpeterian MI plus the claim that individual tastes and preferences may themselves be analysed on the basis of the isolated individual. We should note that this atomism is thus more demanding, more strongly reductionist, than the atomism that Schumpeter defends in his 1908 book, and which he identifies with MI. So is Menger fairly to be associated with either of these reductionist versions of MI?

Setting out the case against this reading, Chris Matthew Sciabarra, in his 2000 book *Total Freedom: toward a dialectical libertarianism*, discusses Menger in a section of Chapter 3, “After Hegel”, entitled ‘Beyond the atom: The organic legacy of classical liberalism’ (Sciabarra, 2000: 111-121). After quoting Barry Smith's claim that “Marx and Menger share an Aristotelian antipathy to atomism” (Sciabarra, 2000: 117), Sciabarra writes:

“In praising the ‘organic orientation of social research’, Menger seeks an integration of micro and macro approaches. The former, disparagingly called ‘atomistic’, can

never ‘deny the unity of organisms’ ... His micro-level analysis is not opposed to the organic orientation” (Sciabarra, 2000: 121).

Finally, Sciabarra quotes Menger on the organic metaphor in social science:

“The normal function of organisms is conditioned by the functions of their parts (organs), and these in turn are conditioned by the combination of the parts to form a higher unit, or by the normal function of the other organs ... Organisms exhibit a purposefulness of their parts in respect to the function of the whole unit, a purposefulness which is not the result of human calculation, however ... There exists a certain similarity between natural organisms and a series of structures of social life, both in respect to their function and to their origin” (Menger, cited in Sciabarra, 2000: 120).

It seems clear from this that Menger cannot be regarded as an atomist in Heath’s meaning of the term. To evaluate Sciabarra’s reading, however, we need to turn to what Menger himself wrote. Menger deals explicitly with this question in his 1883 work *Investigations Into the Method of the Social Sciences (Untersuchungen über die Methode der Socialwissenschaften und der Politischen Oekonomie insbesondere)*, in particular Book Three, ‘The Organic Understanding of Social Phenomena’ (Menger, 1985: 129-159). Indeed, the fundamental opposition between the ‘atomic’ and the ‘organic’ standpoints is set out early in the Preface: in the ‘postclassical period’, Menger writes,

“The conception of the national economy as an organism and of its laws as analogous to those of anatomy and physiology confronted the physical conception; the biological point of view in research confronted the atomistic” (Menger, 1985: 24).

We should start, however, by noting that the passage Sciabarra cites is a list of contents of Book 3 Chapter 1 – not a list of statements that Menger endorses, but a list of arguments that he proposes to address. It is therefore invalid to cite this passage in support of Menger’s “use of organic analogies” or to underpin the contention that Menger “relies heavily on the organic metaphor”, as Sciabarra does (2000: 120).

Menger starts his discussion of organicism with the statement that “There exists a certain similarity between natural organisms and a series of structures of social life, both in respect to their function and to their origin.” After some discussion of this statement he moves on to society: “We can make an observation similar in many respects in reference to a series of social phenomena in general and human economy in particular” (Menger, 1985: 129-30).

“Natural organisms almost without exception exhibit, when closely observed, a really admirable functionality of all parts with respect to the whole, a functionality which is not, however, the result of human calculation, but of a natural process. Similarly we can observe in numerous social institutions a strikingly apparent functionality with respect to the whole ... They, too, present themselves to us rather as ‘natural’ products (in a certain sense), as unintended results of historical development. One needs, e.g., only to think of the phenomenon of money, an institution which ... is the unintended product of historical development” (Menger, 1985: 130).

If this analogy holds, then it has far-reaching consequences for the methodology of economics:

“Now if social phenomena and natural organisms exhibit analogies with respect to their nature, their origin, and their function, it is at once clear that this fact cannot remain without influence on the method of research in the field of the social sciences in general and economics in particular ... if state, society, economy, etc., are conceived of as organisms, or as structures analogous to them, the notion of following directions of research in the realm of social phenomena similar to those followed in the realm of organic nature readily suggests itself. The above analogy leads to the idea of theoretical social sciences analogous to those which are the result of theoretical research in the realm of the physico-organic world, to the conception of an anatomy and physiology of ‘social organisms’ of state, society, economy, etc” (Menger, 1985: 130-131).

Thus far, it would seem, Sciabarra’s reading holds up. However, the very next lines tell us that Menger’s purpose is quite otherwise:

“In the preceding discussion we have presented the basic ideas of the theory of the analogy of social phenomena and natural organisms ... we do, indeed, believe that in the foregoing we have presented the nucleus of the above theory in the form and in the sense in which it is expounded by the most careful and most reflective writers on this subject” (Menger, 1985: 131).

All along, Menger is not articulating his own standpoint, but setting out the ideas he is going to criticise. Against this view he makes two points, firstly, that the analogy between society and natural organisms is only very partial, and, secondly, that it is superficial. The analogy between social and biological entities is partial because

“A large number of social structures are not the result of a natural process ... They are the result of a purposeful activity of humans ... Social phenomena of this type, too, usually exhibit a purposefulness of their parts with respect to the whole. But this is not the consequence of a natural ‘organic’ process, but the result of human calculation ... Thus we cannot properly speak of an ‘organic’ nature or origin of these social phenomena” (Menger, 1985: 132).

The analogy is superficial because it

“is by no means one which is based upon a full insight into the nature of the phenomena under discussion here, but upon the vague feeling of a certain similarity of the function of natural organisms and that of a part of social structures. It is clear that an analogy of this kind cannot be a satisfactory basis for an orientation of research striving for the deepest understanding of social phenomena ... *Natural* organisms are composed of elements which serve the function of the unit in a thoroughly mechanical way. They are the result of purely causal processes, of the mechanical play of natural forces. The so-called social organisms, on the contrary, simply cannot be viewed and interpreted as the product of purely mechanical force effects. They are, rather, the result of human efforts, the efforts of thinking, feeling, acting human beings” (Menger, 1985: 133).

So for Menger organic notions offer an explanation of only some but not other social phenomena, and even here only offer an incomplete explanation:

“that part of the social structures in reference to which the analogy with natural organisms comes in question at all exhibits this analogy, therefore, only in certain respects. Even in these respects it only exhibits an analogy which must be designated in part as vague, in part really as extremely superficial and inexact” (Menger, 1985: 134).

Because organic notions are so limited, superficial and inexact in social science, scientific research simply cannot be based on them, though they may have purely presentational advantages:

“there seems to be no doubt that play with analogies between natural organisms and social phenomena ... is a methodological procedure which scarcely deserves a serious refutation. Yet I should still not like in any way to deny the value of certain analogies between natural organisms and social phenomena for certain purposes of presentation. Analogy in the above sense, as method of research, is an unscientific aberration. As means for presentation it still may prove useful for certain purposes” (Menger, 1985: 137)

So the presentation of social entities as organic may conceivably be a useful figure of speech, an analogy or metaphor, but should never be taken literally.

This leaves open the question, how we are to understand those social phenomena which ‘arise behind men’s backs’, as the unintended consequences of the behaviour of many humans. To see how Menger addresses this, we have to understand his view that there are “two basic orientations of theoretical research”, the “realistic-empirical orientation”, and the “exact” or “atomistic” orientation. The former sets out “to investigate the types and typical relationships of phenomena as these present themselves to us in their ‘full empirical reality,’ *that is, in the totality and the whole complexity of their nature*” (Menger, 1985: 56). In contrast,

“The function of the exact orientation of theoretical research is to apprise us of the laws by which not real life in its totality but the more complicated phenomena of human economy are developed ... from these most elementary factors in human economy, in their isolation from other factors” (Menger, 1985: 63).

The phrase ‘in their isolation’ suggests a reductionistic approach, and this is no accident:

“The nature of this exact orientation of *theoretical* research in the realm of ethical phenomena ... consists in the fact that we reduce human phenomena to their most original and simplest constitutive factors ... and ... try to investigate the laws by which *more complicated* human phenomena are formed from those simplest elements, thought of in their isolation” (Menger, 1985: 62).

Without being diverted into a potentially lengthy discussion of the adequacy of this dualistic account of scientific knowledge, it is very clear that the “exact” orientation which Menger describes, is wholly consistent with reductionism, as I have defined it: the reduction of entities at one level to an aggregate of lower level entities *taken in isolation*.

The relation between the two orientations is that

“exact economics by nature has to make us aware of *the laws holding for an analytically or abstractly conceived economic world*, whereas empirical-realistic economics has to make us aware of the regularities in the succession and coexistence of the *real* phenomena of human economy” (Menger, 1985: 72-73).

Thus, for all Menger’s assertions that the two are complementary in theoretical science, it is nevertheless clear that for Menger only the atomistic method can generate theoretical knowledge, while the empirical-realist method is little more than description, stylized description perhaps, but description nonetheless.

We are now in a position to understand Menger’s approach to the understanding of social entities embodying the unintended consequences of individual actions, such as money, markets, language, religion and the state (Menger, 1985: 146). His response is the same for natural as for social science: to attempt to understand entities as organic is to remain at the descriptive level and to fail to provide true theoretical insight:

“From the circumstance that organisms present themselves to us in each case as units and their functions as vital manifestations of them in their totality, it by no means follows that the exact orientation of research is in general inadequate for the realm of phenomena discussed here ... The actual consequence of the above circumstance for theoretical research in the realm of organisms is that it establishes a number of problems for exact research, and the solution of these cannot be avoided by exact research. These problems are the exact interpretation of the nature and origin of organisms (thought of as units) and the exact interpretation of their functions ... This problem ... is undertaken by the exact orientation of research in the realm of social phenomena also, and especially in the realm of those which are presented to us as the unintended product of historical development.” (Menger, 1985: 143).

So the scientific response to the existence of apparently organic entities is “exact” or “atomistic” analysis, that is, a reconstruction on the basis of the “simplest elements, thought of in their isolation”. This is a clear statement of reductionism in the sense set out in Denis (2004).

In Denis (2004) I drew attention to the Panglossian consequences of the adoption of a reductionistic ontology. If the macro is just the aggregate of isolated micro behaviours, then individual rationality implies a socially rational outcome. Any apparent macro pathology, such as employment, can be ascribed to micro level decisions – which are either rational, in which case the apparent unemployment can be safely regarded as voluntary, a species of leisure, or they are the consequence of micro-level errors – pricing oneself out of a job – which cannot be rectified by collective action. A reductionist ontology creates a strong default policy prescription of *laissez-faire*.

Just so in the case of Menger. The exact or atomistic analysis of the unintended social consequences of individual actions – money, markets, language, and so on – shows that they result from deliberate self-seeking behaviour of individuals. These “social phenomena come about as the unintended result of individual human efforts (pursuing *individual interests*) without a *common will* directed toward their establishment” (Menger, 1985: 133). An analysis drawing on a different ontology might ask in which case to what extent the institution in question served society, and what, if anything, could be done to improve it. But

for Menger, can therefore simply be *assumed* to be socially desirable. With respect to language, religion, law, markets and money,

“We are confronted here with the appearance of social institutions which to a high degree serve the welfare of society. Indeed, they are not infrequently of vital significance for the latter and yet are not the result of communal social activity. It is here that we meet a noteworthy, perhaps the most noteworthy, problem of the social sciences:

“How can it be that institutions which serve the common welfare and are extremely significant for its development come into being without a common will directed toward establishing them?” (Menger, 1985: 146)

In conclusion to this sub-section, therefore, we can see that Sciabarra’s attempt to present Menger as holding an organic view of social institutions seems not to work. Udehn’s reading that “The starting-point of Menger’s analysis is the isolated individual, represented by Robinson Crusoe alone on his island” does seem to be supported by the passages from Menger that I have cited above.

4. Conclusion

This paper constitutes the first part of an examination of the topic of *methodological individualism*. The study has consisted of an application of the ideas set out in Denis (2004), in particular, the concepts of **holism** – the standpoint that phenomena may be understood as emergent and based in the interrelationships between substrate entities, and **reductionism** – the standpoint that phenomena are to be understood as congeries of substrate entities taken in isolation. An examination of the writings of two foundational figures in MI, Schumpeter and Menger, suggests that both clearly operated within the reductionist paradigm. If correct, this implies that there is a fundamental methodological commonality between both writers and others adopting a reductionist standpoint, such as Bentham and Ricardo, and Friedman and Lucas. On the other hand it does imply a surprising and profound difference in methodology between them and those writers, such as Smith and Hayek, with whom they might have been expected to share an approach. A further paper or papers will examine the contributions of Mises, Hayek and Popper, and of the analytical Marxists, and, bringing the story up to date, those of Arrow, Udehn and Hodgson.

Bibliography

Andy Denis (2004) “Two rhetorical strategies of *laissez-faire*” *Journal of Economic Methodology* 11 (3): 341-353.

Andy Denis (2006a) “Collective and individual rationality: Robert Malthus’s heterodox theodicy” *History of Economic Ideas* 14 (2): 9-31.

Andy Denis (2006b) “Some Notes on Methodological Individualism: Orthodox and Heterodox Views” Working paper. Available online from Social Science Research Network, URL: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=947260 (Accessed 26 June 2009).

Milton Friedman (1962) *Capitalism and Freedom* Chicago: Chicago University Press.

HH Gerth and C Wright Mills (1970 [1948]) "Introduction: the man and his work" in Weber (1970): 3-74.

Hayek, F. (1979) [1952] *The Counter-Revolution of Science* Indianapolis: LibertyPress.

Joseph Heath (2009) "Methodological Individualism" *The Stanford Encyclopedia of Philosophy* Edward N Zalta (ed), forthcoming URL:

<http://plato.stanford.edu/archives/sum2009/entries/methodological-individualism> (Accessed 26 June 2009).

Geoffrey M Hodgson (2007) "Meanings of methodological individualism" *Journal of Economic Methodology* 14 (2): 211-226 (June).

John Maynard Keynes (1981) *Activities 1929-31. Rethinking Employment and Unemployment Policies*, in D Moggridge (ed) *The Collected Writings of John Maynard Keynes* Vol. XX London: Macmillan, for the Royal Economic Society.

Carl Menger (1985) *Investigations Into the Method of the Social Sciences* New York and London: New York University Press for The Institute for Humane Studies. Mises Institute 2009 Edited by Louis Schneider, translated by Francis J Nock. Originally published (1883) as *Untersuchungen über die Methode der Socialwissenschaften und der Politischen Oekonomie insbesondere*. Online edition, Mises Institute 2009, URL: <http://mises.org/books/investigations.pdf> (Accessed 26 June 2009).

Joseph Schumpeter (1909) "On the Concept of Social Value" *The Quarterly Journal of Economics* 23 (2): 213-232 (February).

Joseph Schumpeter (1980) *Methodological Individualism* Brussels: Institutum Europæum. English translation by Michiel van Notten of the corresponding chapter of Joseph Schumpeter (1908) *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*, with a preface by FA Hayek, and a Summary by Frank van Dun. URL:

http://mises.org/books/schumpeter_individualism.pdf (Accessed 26 June 2009). The translation is questionable in places; the German text may be consulted online in the Google Internet Archive at <http://www.archive.org/details/daswesenundderh00schugoog> [unfortunately pp 98-99 are missing, however] (Accessed 26 June 2009).

Joseph A Schumpeter (1986 [1954]) *History of Economic Analysis* London: Routledge.

Lars Udehn (2001) *Methodological Individualism: Background, History and Meaning* London: Routledge.

Max Weber (1922) *Gesammelte Aufsätze zur Wissenschaftslehre* (Tübingen, 1922). Cited in Gerth & Wright Mills (1970: 55).

Max Weber (trans, ed: HH Gerth & C Wright Mills) (1970 [1948]) *From Max Weber: Essays in Sociology* London: Routledge.