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Individualism

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The term ‘individualism’ has functioned as one of the main organizing principles of economics for over a century. Yet despite this, considerable ambiguity still surrounds the discipline’s use of the term. In particular, there is a lack of clarity on (i) its methodological interpretation and ultimate value as an organizing principle, (ii) the conception of the individual that is appropriate to reasoning in economics and (iii) the normative implications of the standard view of individuals in economics. These three issues are addressed in this chapter.

**Competing views of individualism**

Individualism in economics – often termed ‘methodological individualism’ – is the view that individuals should figure centrally in all economics-related explanations. In contrast, holism – or ‘methodological holism’ – is the view that social groups and other social aggregates should figure centrally in such explanations. Schumpeter coined the former term a century ago (Schumpeter 1908; and compare 1909), later defining it as an explanation that focused on the ‘behavior of individuals without going into the factors that formed this behavior’ (Schumpeter 1954, p. 889). He distinguished this from ‘sociological individualism’, the – in his view ‘untenable’ – idea that ‘all social phenomena resolve themselves into decisions and actions of individuals that need not or cannot be further analyzed in terms of supraindividual factors’ (ibid., p. 888). This last is what many economists and other social scientists today regard as the meaning of methodological individualism. For example, Elster defines methodological individualism as ‘the doctrine that all social phenomena (their structure and their change) are in principle explicable only in terms of individuals – their properties, goals, and beliefs’ (Elster 1982, p. 453). Schumpeter simply recommends that we take individual behaviour at face value, whereas Elster and others assert that all economic explanations are necessarily rooted in individual behaviour.

In this latter formulation, methodological individualism is sometimes associated with a strong form of ontological individualism. While general ontological individualism is the view that individuals are amongst the kinds of things that exist in the world, the strong form of this doctrine states that only individuals exist. Hayek (1955) was a leading proponent of this strong form of ontological individualism, arguing that supra-individual entities are not real things of the order of individuals but only concepts, where concepts are features of individuals. According to this view, methodological individualism implies a reductionist programme of explanation (compare Kincaid 1997). Following Elster’s language above, this would seek to reduce all explanations framed in terms of social entities – such as institutions, classes and social groups, norms and conventions – to explanations framed in terms of individuals.

Much of contemporary rational choice theory operates on this programme, seeking to explain social institutions and other durable social arrangements as solely the outcome
of the choices individuals make. Examples include the new institutional economics and classical game theory. The export of economic reasoning to other social sciences – known as 'economic imperialism' – is generally associated with the application of an individualist rational choice explanation to phenomena customarily believed to be inescapably social in nature in such fields as political science, sociology and law.

Agassi (1975), following Popper (1945), rejected this reductionist view. He argued that the correct form of individualism for economics and social science is what he termed 'institutional individualism'. If we suppose institutions and other supra-individual entities exist along with individuals, then we effectively combine individualism with holism by supposing neither can be reduced to the other (compare Boland 2003, Ch. 2). However, while this makes sense in principle, abandoning reductionism raises a new set of issues associated with explaining how individuals and institutions affect one another. Individual action is both influenced by its institutional environment, and also influences that institutional environment; similarly, institutions are the product of individual actions, and also condition individual actions. But if this is so, then why should we be speaking about any kind of individualism at all (Hodgson 2007)? Or, to turn this question around, why is the economics of Veblen, Commons and Ayers called 'institutionalism', since they also understood individuals and institutions to be mutually influencing? These questions suggest that focusing on methodological stances such as individualism and holism (institutionalism) may not be very helpful, and that if we are to better understand the significance of the individual in economics, we should begin by attending more closely to the conceptions of the individual used in economics.

**Competing conceptions of the individual**

Methodological individualism in the strong form identified above is associated with a particular conception of the nature of the individual. Since this conception strongly contrasts individuals with social institutions, individuals must by nature be non-social or socially isolated, atomistic beings. Thus, they can be defined only in terms of their own personal characteristics, which excludes any reference to individuals' social characteristics and social relationships. This particular conception originated in neoclassical economics in the late nineteenth century with the marginal utility theory. That theory described individuals subjectively in terms of their private psychological states. Later, the preference theory of neoclassical economics eliminated the concept of utility from the theory of choice, and post-war economics largely abandoned the earlier psychological interpretation of the individual. However, the individual remains an atomistic being in that individuals are still viewed strictly in terms of their own personal characteristics. Choices are explained simply in terms of the idea of individuals having their own separate objective functions, often still called 'utility functions', though without the original meaning of the term. Further, nothing is said regarding what factors, social or otherwise, might influence these objective functions.

Thus, individualism in this strong form simply reduces the individual to its most abstract conception possible. While this may be well suited to formal analysis in mathematical models, it tells us little about the behaviour of individuals in particular historical social settings. Indeed, there is nothing in this highly abstract conception of the individual that identifies what kind of individual is involved, since there is nothing in the idea of an objective function that prevents this formal tool from being applied to single human
beings, groups of human beings (think of firms and countries), animals or even machines such as computerized stock trading programs. All can be understood as ‘individuals’.

Alternatively, allowing that individuals have social characteristics as well as personal ones gives us a non-atomistic conception of the individual which may be termed the conception of the individual as ‘socially embedded’ (Davis 2003). Individuals who occupy locations in networks of social relationships are members of social groups and are influenced by social institutions. They are still individual by virtue of the distinct location they occupy in these social phenomena, but they also have social characteristics by virtue of their various relations to others. In this non-reductionist understanding, supra-individual entities also exist. Social networks, social groups, institutions and patterns of social relationships are all real entities alongside individuals. The challenge of this broader view, then, is to explain how individuals can be motivated by a combination of personal and social factors.

Sen offers one such account in his argument that commitment behaviour is fundamentally different from behaviour motivated by self-interest (Sen 1977). Commitment cannot be understood in terms of self-interest, since it is essentially other-oriented. At the same time, commitments to others are personal when they are made by one person to another (or to a number of others). Commitments, then, are made by individuals who are embedded in social relationships structured by commitments. Another example is the phenomenon of collective intentions or individual intentions expressed using the first-person plural ‘we’ language. When people make statements preceded by ‘we’, they bind themselves to others who fall within the scope of their use of the ‘we’ term. Their statement is thus essentially other-oriented. At the same time, expressing an intention is something one does individually. Consequently, individuals are socially embedded when using ‘we’ language, just as when they make commitments to others. A third example is the phenomenon of trust. When individuals trust one another they put aside their view of each other as different and separate. They are held by a bond that encompasses them as individuals. But they are still individuals in that trust holds between people. Thus, individuals are socially embedded when trust relationships prevail. A final example is associated with Smith’s ([1759] 1976) concept of the impartial spectator. Smith believed that individuals could remove themselves from their own situation to judge the well-being of others from a disinterested, impartial perspective. In effect, they put themselves in the place of others, but since they are able to do this as individuals, they embed their own view in social understanding.

Individualism, therefore, need not imply either that individuals are socially isolated atoms or that they invariably act out of self-interest. When we substitute the conception of the individual as socially embedded for the conception of the individual as atomistic, we are still pre-eminently concerned with individuals, though individuals are then understood in terms of their social characteristics as well as their personal ones. This wider perspective is especially important when we turn from behavioural analysis to normative analysis in economics, since this perspective allows us to expand the array of normative considerations that we bring to bear on the evaluation of economic outcomes and states of affairs. That is, when individuals are seen to have social characteristics as well as personal ones, normative concerns that pertain to relationships between individuals come directly into the picture alongside normative concerns that pertain specifically to individual well-being.
The discussion that follows charts this expansion in normative concerns by first identifying those concerns that specifically target individual well-being, and then going on to show how the wider perspective on the individual afforded by a conception of the individual as socially embedded raises additional normative concerns specifically associated with relationships between individuals.

**Expanding the scope of normative concern**

The standard view of the individual as an atomistic being is also associated with normative evaluation by the standard of Pareto improvements. The Pareto criterion recommends changes that improve at least one individual’s well-being without worsening that of any other individual. An improvement in well-being for an isolated individual can be measured only in terms of the individual’s personal characteristics, which is a matter of achieving a higher degree of ‘preference’ satisfaction, as understood in terms of the individual’s objective function. There is a small space in which such improvements can also concern the well-being of others when an individual feels sympathy for others. But such well-being gains for others are only a by-product and not the determinant of a Pareto improvement. Moreover, in the atomistic individual framework, individual advantage is not comparable across individuals, so one cannot compare a collection of improvements in well-being of others with whom an individual might sympathize with the individual’s own resulting improvement in well-being.

Pareto improvements, thus understood, are not a very good measure of what is involved in improvements of an individual’s well-being. Since the individual’s objective function represents the individual’s own ‘preferences’, it is possible that what an expert outside observer (such as a health professional) would regard as an improvement in the individual’s well-being would not be seen as such by the individual. The isolated individual framework, however, rules out outside observer evaluations. Therefore, this issue cannot arise in Pareto evaluations, despite evidence from ordinary experience that others do sometimes know what is to individuals’ advantage better than they do themselves.

Thus, the first normative gain available in moving to the wider perspective of the socially embedded conception of the individual is to allow for a broader evaluation of individual advantage made possible by recognizing individuals’ social characteristics. For example, taking Sen’s capability approach (Sen 1999) as providing one way of characterizing individuals as socially embedded (on the grounds that individual capabilities are judged by social standards of attainment), individuals’ social characteristics can be evaluated to determine well-being improvements in a manner able to go substantially beyond what the Pareto improvement measure tells us about individual well-being.

Another way of looking at an expanded understanding of individual well-being concerns the distinction between wants and needs. In the standard framework this distinction does not exist, because individuals’ preferences are only associated with desires and wants. However, in many instances social institutions, which involve relatively settled networks of social relationships, effectively differentiate needs from wants by prioritizing some activities over others. For example, educational systems prioritize learning and skill acquisition over other possible uses of individuals’ time, and they justify doing so by treating education as a need. Individuals are thus seen socially as having needs. This identification of a need is often reinforced by emphasis in the practices of the relevant institutions on the value of care. Taking care seriously as a value is equivalent to investing
intrinsic worth in its recipients. Thus institutions may not only redefine individual well-being in terms of a distinction between wants and needs, but also reshape the status of individuals as objects of well-being concern by establishing practices organized around the value of care.

What further normative concerns enter the picture, then, when we turn from seeing how individuals may be understood socially to individuals' own social characteristics, especially as reflected in the social relationships that arise between them? Here, Rawls's ([1971] 1999) influential thinking offers an excellent point of entry. Rawls emphasizes justice, freedom and equality, three fundamental social values that have long been a major part of the history of social ethics. Accordingly, his explanation of justice rests upon two principles. The first principle is that individuals are entitled to as much freedom as is compatible with all individuals having the same freedoms. This requires an equal distribution of what Rawls calls 'primary goods', namely, 'rights and liberties, powers and opportunities, income and wealth', and also 'self-respect' (ibid., p. 62). We may interpret this to mean that in a just society freedom requires a fundamental equality to exist between individuals. In contrast, in the atomistic view of the individual, freedom is only about subjective choice being constrained by one's resources and endowments, and has nothing to do with the existence of other people. Rawls's second principle of justice is the 'difference' principle, which modifies the extent of equality in a society by allowing for inequalities in access to opportunities in society only when they benefit the least well-off. That is, in a just society inequalities are only permitted when they do not infringe freedoms from the point of view of those at risk. In contrast, according to the atomistic view of the individual, inequality is socially unconditioned in that it simply reflects accidental differences in individuals' resources and endowments, and therefore lacks any foundation in normative principles.

Rawls's two principles of justice, then, implicitly require us to expand our understanding of the individual from the atomistic conception to a more normatively rich conception. More generally, it is fair to say that the narrowness of the atomistic conception significantly narrows the scope and quality of normative evaluation possible in economics, so that any serious engagement of economics with ethics depends on broadening the conception of the individual.

Rawls himself understood his thinking as a kind of Kantian constructivism (Rawls 1980, 1993). By this he meant a strategy of devising procedures for establishing legal and political arrangements that reasonable individuals would support given the opportunity for serious reflection (a 'reflective equilibrium'). While this does not tell us precisely how to handle cases in which apparently reasonable people disagree, it does serve to link the process of creating social arrangements with a particular view of individuals as being able to engage in civic dialogue framed by a general requirement of openness and willingness to revise one's thinking. Put in terms of the discussion here, individuals also have as one of their essential social characteristics the status of being citizens of a liberal society. They not only enter into social relationships with others that involve justice, freedom, and equality as underlying normative principles, but they also possess a special status as reasonable individuals by virtue of their capacity to reflectively engage with others in determining social and political arrangements for the societies of which they are members.

Kant himself ([1785] 1959) emphasized individuals' autonomy, arguing for the intrinsic value and moral dignity of individuals. Rawls ties individuals' autonomy to participation
in society, and thus invests individuals with a value and dignity as social beings. Clearly the conception of the individual involved on either account is far removed from the narrow, socially isolated conception of the individual found in standard economics. We might conclude, then, by offering a final appraisal of what the concept of individualism can and ought to involve in social science and economics. An adequate concept of individualism, it seems fair to say, needs to comprehend individuals in the full range of aspects they exhibit and which concern them. This surely includes their natures as social and moral beings.

References

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See also the entries on: Homo economicus; Immanuel Kant; Rationality; John Rawls.