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# Individualism

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## Individualism

Individualism in classical economics concerns the roles individuals play in an economic process understood primarily in terms of classes, and thus lacks the connotations that typically attach to the term in present-day economics. Indeed, individualism is generally associated with neoclassical economics rather than classical economics, and consequently it will be helpful to distinguish individualism in neoclassicism in setting out a classical understanding of the concept. The term 'individualism' has different meanings according to whether one is concerned with the analysis of action and causality, value theory or the social conception of the individual. The discussion here contrasts neoclassical and classical economics in each of these three respects. It concludes with an appraisal of the comparative grounds for their respective conceptions of individualism.

### Action and causality

Neoclassical economics is methodologically individualist in that it assumes that the decisions of individuals are the source of all action, and that actions undertaken by groups of individuals are in principle always explainable in terms of the actions of individuals. Individual decisions are themselves explained in terms of individual psychology, more specifically in terms of privately held beliefs and inner desires, where the latter – the motive force behind actions undertaken – are assumed to vary to such an extent across individuals as to require that action be explained individually. That individual interest is understood solely in terms of private desires implies that self-interest excludes the interests of others, or at best makes promotion of others' interests a means to the pursuit of self-interest. (Acts of 'altruism' always enhance own utility.) A further, independent assumption is that the effects of individuals acting on pri-

vate desires are sufficiently distinct in their impact on economic life to account for distinguishable patterns of events. Consequently, as a causal theory of explanation, neoclassicism supposes that the domain economics concerns is only adequately addressed when cause-and effect patterns are distinguished on an individual-by-individual basis. This domain of concern in economics is taken to be supply-and-demand price formation in markets for individual goods and services. As a theory of action, then, neoclassicism makes a double claim that methodological individualism succeeds in its chosen domain of explanation, and that there are no other possible domains of interest in economic life, or at least ones susceptible to systematic examination.

Classical economics, especially as originally developed in Adam Smith's analysis of moral sentiments (Smith, 1976 [1759]), understands individuals to be socially situated in the sense that their individual psychologies reflect shared desires and feelings. Individuals may still act out of self-interest, but because individuals in like situations often possess like desires, their actions tend not to distinguish them individually, nor are the effects of their actions particularly distinct in their impact on economic events. Individuals' self-interest, then, may include regard for others, who share similar desires and interests – indeed, Smith supposes individuals capable of empathy for one another. Reasoning in this manner discourages thinking of psychology as sharply separate from sociology, ethics, theology, jurisprudence and history, since shared desires and interests typically intermediate across the spheres these different subjects concern. This more holistic approach to understanding the motive force behind action also encourages thinking of agency in collective terms, since, as the classical economists recognized, broad distinctions in social-economic orientation and motivation to act can be identified in terms of group and class affiliations. Consequently, methodological collectivism as an alternative to methodological individualism rather assumes that classes and groups of individuals are the principal source of action in economic life, and that individual behaviour where these affiliations are involved can itself be explained to a large degree in terms of an individual's class or group interests.

### **Value theory**

That individual desires arguably do not vary across individuals to the extent methodological individualism requires raises questions about whether neoclassicism succeeds in its chosen domain of explanation. Putting aside this issue for the moment, how does classicism's alternative view of the individual mark out a domain of explanation susceptible to systematic examination overlooked or ignored by neoclassical economics? The

latter's focus is supply-and-demand price formation in markets for individual goods and services. David Ricardo (1951 [1817]), in contrast, developed both a labour value analysis for reproducible commodities and an account of the distributional shares of the three main classes of early 19th-century England. Labour values are explained in terms of labour time of average skill and energy necessary for a commodity's manufacture. They presuppose working individuals share a capacity to labour that any typical working person may exercise. Distributional shares accrue to individuals as members of classes. They presuppose interrelated sets of social relations which explain individuals' relative positions in the production process. It is important not to draw the mistaken conclusion from this that faceless classes are at root in the classical's explanation of value. Rather, because individuals in similar circumstances act in similar ways, their actions as individuals are in important degree explainable in terms of their shared commitments. That is, the classical approach to value operates in terms of individuals, but emphasizes that individuals are socially embedded.

This latter point may be re-stated by distinguishing the neoclassical and classical approaches to value as subjective and objective, respectively. Neoclassical economics employs a conception of individuals shorn of all social connection by characterizing desire and interest – more formally, preferences – in a radically subjective way. By assumption, individual psychology may not be explained in terms of anything social scientists may reasonably claim about the nature of human beings (indeed even psychologists are not consulted), so that all that is left to be done is formally to order a possible individual's imagined set of desires according to some hypothesized index (utility or simply a given preference ordering). In contrast, classical economics employs a conception of individuals that explains motivation more conservatively by attributing plausible social characteristics to historical individuals that provide grounds for identifying their likely desires. This approach to value is objective in that it makes value magnitudes a function of sets of social patterns upon which different social sciences may empirically converge. The classical approach to individual action, behaviour and value, then, is objective, both because it eschews neoclassicism's narrow view of individual psychology and because it methodologically resists strategies of theorizing that may lead to arbitrariness and artificiality.

### **Alternative social conceptions of the individual**

These differences naturally direct attention towards the topic of the comparative social conceptions of the individual in neoclassical and classical economics, where this concerns the way a vision of society defines individ-

ual capacities and well-being. Though the emphasis thus far has been on how neoclassical and classical economics explicitly understand the nature of individuals, each also has a view of the economy as a whole which in turn corresponds to a view of the society in which the economy operates. From this vantage point, individuals may be inferred to be certain types of beings with fairly specific horizons. Thus neoclassical theory in its paradigmatic competitive general equilibrium form almost always rests on the idea that human society depends upon a system of private property relatively evenly distributed across individuals. Individuals' capacities to act are then strictly explained as a capacity to freely exchange property accumulations in such a way as to produce marginal improvements in individual well-being. Well-being is essentially private in nature, because it derives from consuming privately owned property to satisfy private desires. It is susceptible of only marginal improvements, because changes in well-being are tied to incremental changes in consumption.\*

Classical economics begins with the idea that the economy resembles an organism functionally organized to grow (more or less healthily) through time. The economy's sectors are linked through a production process that provides for necessary consumption, and creates a surplus for growth and/or discretionary consumption. Classes or groups of individuals are distinguished according to the functions in which they engage, implying that individual capacities to act and standards for well-being are explained in terms of class activities. However, in contrast to neoclassical economics, there is an important element of indeterminacy in a classically understood economy, since there is no mechanism to resolve social disputes over the use of an economy's surplus. This means that, while individual capacities and well-being are well-defined with respect to participation in production, they are not well-defined in regard to full consumption, where this involves both point-in-time use of goods to sustain participation in production, and also consumption to determine the reproduction of types of roles – thus capacities and well-being – for individuals through time.

These differences between neoclassical and classical economics regarding the capacities and well-being of the individual can be further elucidated by comparing their different perspectives on social justice. Judgments about the justice or injustice of social arrangements as applied to particular individuals help us elicit the expectations different types of social-economic systems create regarding individual capacities and well-being. Thus that it is unjust in a neoclassical economy to forcibly seize or damage others' property and just to fulfil one's contracts combine to indicate that individuals' well-being depends on an array of rights meant to reinforce activities of exchange and private consumption. In a classical



economy, questions of distributive justice arise, where the fairness of different possible uses of an economy's surplus become central. Here different standards for just distribution of goods compete, reflecting different expectations about the reproduction of types of roles available to individuals in economic growth. Nonetheless, that distributional justice judgments exist at all demonstrates that individual capacities and well-being are generally understood in a developmental sense. That is, debate over fair use of an economy's surplus presupposes that individuals are transformable beings whose natures are not tied to inherited property accumulations. Thus, compared to the neoclassical system, the classical world retains an important element of open-endedness in its social conception of the nature of the individual.

It remains to comment briefly on the relative merits of the two views of individualism advanced here. Recall that neoclassicism depends on a double claim that it is successful in its chosen domain of explanation, and that this is the sole domain where systematic analysis is possible. That the latter claim fails, it was suggested above, raises questions regarding neoclassicism's success in its chosen domain. What, then, does the classical understanding of individualism imply on this score? The classical view of the individual relies on a variety of social criteria that establish the prerogatives and rights of individuals. In effect, sociology, jurisprudence, theology, ethics and so on combine to determine the limits and boundaries on individuality. On the neoclassical view, however, individuals' distinctiveness is rather a matter of their unique and separate psychologies. Specifically, since individuals' desires are private in nature, individuals are distinguished from one another by having their own respective sets of desires, or by having preferences over goods that are uniquely their own.

But note that there is a problem in this characterization of individuality. To be able to speak of distinct individuals we must be able to say what it is that distinguishes any one individual from other individuals. But it begs the question to say that an individual's *own* preferences distinguish that individual from other individuals, since reference to an individual's *own* preferences presupposes the very individual whom those preferences are meant to distinguish. Individuals having uniquely their *own* preferences, therefore, is insufficient for establishing the boundaries on individuality, and rather signals that those boundaries need to be established on some other basis. Neoclassicism, however, has no other basis for establishing these boundaries, because it operates with a conception of the individual as an entirely subjective being. It thus lacks a coherent concept of the individual, and must accordingly rely on postulating that individual action can be explained on the basis of private psychologies.

Indeed, methodological individualism has generally been defended in a priori terms or as a tautology about utility maximization.

Classical economics, then, appears to explain better the nature of individuality in seeing individuals against a backdrop of social relations which may be investigated from many different points of view. Individual action and the causal effectiveness of individual behaviour then depend upon the context in which individuals operate, and the classical analysis of value, distribution and growth incorporate this insight. In addition, the broader social conception of individuals in classical thought permits an arguably richer normative discourse regarding economic and social policy. Though these latter themes were given initial development by the early classical economists, it is worth noting that they have received greater attention in post-Kaleckian, post-Sraffian debates over command of an economy's surplus.

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**See also:**

Homo Oeconomicus; Rationality; Utility.

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**Innovation**

There are few topics in economics which combine such a high degree of importance with such a great difficulty with respect to analytical treatment. No one doubts that the economic development of capitalism has been bound inseparably with the creation and application of new final goods, new methods of production and the exploitation of previously undiscovered or unexploitable natural resources. The capitalist dynamic and qualitative change in these senses are synonymous. Smith, Ricardo and Marx were well aware of the magnitude of the innovation-led transformations that they saw at work (Rosenberg, 1976). The economic historian recognizes this dualism when explaining the growth in per capita incomes in the industrialized world by linking it with the various phenomena associated with structural change: new activities replace existing activities and give rise to the changing relative importance of firms, sectors, regions and countries within the capitalist system. Whether Schumpeter was right to apply the label 'creative destruction' is debatable, but he was certainly correct