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**A Century of Methodological Individualism
Part 2: Mises and Hayek**

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**Department of Economics
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A Century of Methodological Individualism

Part 2: Mises and Hayek

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2009 marks the centenary of *methodological individualism* (MI). The phrase was first used in English in a 1909 paper by Joseph Schumpeter in the *Quarterly Journal of Economics*. 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 of 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). The first paper in the series, “A Century of Methodological Individualism Part 1: Schumpeter and Menger” (Denis, 2009), 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 present paper considers the contributions of von Mises and Hayek. The conclusion drawn is that Mises and Hayek based their methodological stance on fundamentally different ontologies, with von Mises building on the reductionism of previous writers such as Schumpeter and Menger, and Hayek, on the contrary, adopting a holistic ontology more in line with Adam Smith, Marx and Keynes. From an ontological perspective this leaves Hayek as something of an outlier in the Austrian tradition.

1 Introduction

2009 marks the centenary of *methodological individualism* (MI). The phrase was first used in English in a 1909 paper by Joseph Schumpeter in the *Quarterly Journal of Economics*. 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 of 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).

The approach adopted is to apply the intellectual apparatus developed in Denis (2004) to the arguments of these writers. In particular, I ask whether 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, are able to clarify the standpoints to which they are applied. The first paper in the series, “A Century of Methodological Individualism Part 1: Schumpeter and Menger” (Denis, 2009), 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. This examination of the writings of two foundational figures in MI suggests that both clearly operated within the reductionist paradigm. This implies that there is a fundamental methodological commonality between both these 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.

The present paper considers the contributions of von Mises and Hayek. The conclusion drawn is that Mises and Hayek based their methodological stance on fundamentally different ontologies, with von Mises building on the reductionism of previous writers such as Schumpeter and Menger, and Hayek, on the contrary, adopting a holistic ontology more in line with Adam Smith, Marx and Keynes. From an ontological perspective this leaves Hayek as something of an outlier in the Austrian tradition.

2 Hayek on methodological individualism

The key text for Hayek’s views on MI (Heath, 2009) is his wartime series of articles in *Economica* on “Scientism and the Study of Man”, later published as the first part, “Scientism and the Study of Society”, of *The Counter-Revolution of Science. Studies on the Abuse of Reason* (Hayek, 1979).

At the beginning of the chapter on “The Subjective Character of the Data of the Social Sciences” (Chapter 3), Hayek reviews the object and method of the social sciences:

They [sc social sciences] deal not with the relations between things, but with the relations between men and things or the relations between man and man. They are concerned with man’s actions, and their aim is to explain the unintended or undesigned results of the actions of many men (Hayek 1979: 41).

This emphasis on social relationships and unintended consequences already expresses a holism very different from the reductionism of the neoclassical school. For Friedman, for example, economics is based in the study of “a number of independent households, a collection of Robinson Crusoes” (1962: 13). In this view we understand the economy by aggregating the isolated actions of the many Robinsons on their islands. Any interrelationships between them are irrelevant, epiphenomena. In this paradigm the focus on unintended consequences is lost: on the contrary, if social outcomes are merely the aggregate of many – presumably intended – individual actions, then they too are intended. In Lucas, for example, unemployment is treated as ‘an individual problem’ and as therefore necessarily ‘voluntary’, a ‘choice’ (Denis, 2004: 344-346). The notion of unintended consequences is typically reserved for the discussion of market imperfections and state interventions in the economy which generate perverse incentive structures.

For Hayek, the object of social science is to explain different social structures in terms of the recurrent elements of which they are built up (Hayek, 1979: 58), and these recurrent elements are said to be the social relations between agents: “If the social structure can remain the same although different individuals succeed each other at particular points, this is... because they succeed each other in particular relations ... The individuals are merely the *foci* in the network of relationships” (58-59).

This notion of a social structure emerging from the interrelationships of the substrate level entities is what I have defined as holism. This standpoint is echoed throughout Hayek’s work, as we can see when Hayek addresses the question of the relationship between wholes and parts:

That a particular order of events or objects is something different from all the individual events taken separately is the significant fact behind the [phrase of] ... ‘the whole being greater than the mere sum of its parts’ ... [I]t is only when we understand how the elements are related to each other that the talk about the whole being more than the parts becomes more than an empty phrase (1952: 47).

The overall order of actions in a group is ... more than the totality of regularities observable in the actions of the individuals and cannot be wholly reduced to them ... a whole is more than the mere sum of its parts but presupposes also that these elements are related to each other in a particular manner (1967: 70).

Returning to Chapter 3 of *The Counter-Revolution of Science*, having just said that individuals are focuses in networks of relationships, Hayek goes on to say that “it is the various attitudes of the individuals towards each other ... which form the recurrent, recognizable and familiar elements of the structure” (Hayek, 1979: 59). It is these “attitudes of the individuals towards each other” that constitute “a constant structural element which can be separated and studied in isolation”. So Hayek identifies the ‘network of relationships’ with the ‘attitudes of the individuals towards each other’. This does not mean how two (or more) people feel about each other, but the beliefs about each other that they entertain and which drive their behaviour. For example, if a man is a policeman, he will, *qua* policeman, entertain “certain attitudes toward his fellow man”, while himself being “the object of certain attitudes of his fellow men which are relevant to his function as policeman” (59) – because that is what it means to be a policeman.

We should note here the contrast between the essentially asocial notion of the individual as Robinson Crusoe, characterising such neoclassical writers as Friedman and Lucas, and the essentially social notion of the individual in Hayek. The individual here is a vehicle of social relations: what is of interest about an individual is not that he is Fred or Susan, or prefers jam or peanut butter, but that he plays a rôle dictated by the totality of social relations focused in him. Substituting another person at this nodal point in the social network will “preserve a constant structural element”, and it is this structural element which is the proper object of study of social science.

Identifying these ‘constant structural elements’ is possible, according to Hayek, because we can empathise with the agents’ beliefs, motivations and actions. We can intuit the meaning these actions have for the participants. We do not simply observe and obtain rules of social behaviour via induction, but are able to infer motivation on the basis of the humanity shared by agent and observer. The objective, on the basis of this *Verstehen*, is to identify and “understand ... the unintended and often uncomprehended results of the separate yet interrelated actions of men in society ... to reconstruct these different patterns of social relations” (59). In this ‘reconstruction’ we start with the ‘separate yet interrelated’ decisions made by individuals – decisions which are made separately by each person on the basis of his own beliefs and his own goals, but which are interrelated because what the individual believes will be the consequence of his actions depends on his place and rôle in the network of social relations. The latter, therefore, the unintended pattern of social relations, thus enters into the account in two ways – as a determinant of the individual actions, and as a result of the actions taken by the many. It is both what we start with, and what we reconstruct by “the following up of the implications” of those individual decisions.

Chapter 4, entitled “The Individualistic and ‘Compositive’ Method of Social Science” (Hayek, 2979: 61-76), is as one might expect key for our understanding of Hayek’s version of MI. Hayek starts by noting that “in the social sciences our data or ‘facts’ are themselves ideas or concepts”. He has already in the previous chapter identified these facts, these data, with the network of social relations. It is therefore the case that ideas enter into social sciences “in two capacities, as it were, as part of their object, and as ideas about that object” (61). We need to distinguish between “the views held by the people which are our object of study” and those people’s “ideas about the undesigned results of their actions – popular ideas about the various social structures or formations”. Only the former, the ideas which people hold which motivate them to behave in certain ways are the object of study of the social science: the latter are the views which social science attempts to refine or replace with scientific views of the unintended social structures. This is not to say that the second class of ideas cannot itself motivate behaviour and constitute the data for a science, and Hayek argues that this is perfectly possible.

This contrast – “between ideas which being held by the people become the causes of a social phenomenon and the ideas which people form about that phenomenon” (62-63) – turns out to be essential for Hayek’s definition of MI:

that he [sc the social scientist] systematically starts from the concepts which guide individuals in their actions and not from the results of their theorizing about their actions, is the characteristic feature of ... methodological individualism (64).

MI, for Hayek, is to be contrasted with ‘scientism’, which starts with ‘popular generalizations’, ‘the speculative concepts of popular usage’, ‘naively accepting’ them as

facts. Since this is popular speculation about patterns of social relations, about unintended social structures, that is, about social wholes, these popular generalisations are ‘collectives’ and scientism is to be identified with ‘collectivist prejudice’ (65).

Since, as I have indicated, Hayek uses the social to explain the social: the network of relations determines the attitudes and motivating beliefs of each nodal individual, and the unintended consequences of the resulting individual actions constitute the social structure, the pattern of social relations, then the question arises, what is it which is *individualist* about this method? To answer this, Hayek changes tack. He represents science as a passage from the part to the whole or the whole to the part. “The physical sciences necessarily begin with the complex phenomena of nature and work backward to infer the elements from which they are composed ... the method of the natural sciences is in this sense, analytic” (65-67). The phenomenon is complex: the given whole has to be traced back to its more simple parts. In society the opposite is true: what is given to us, by our *Verstehen* of the knowledge and motives of individuals, are the simple parts: what we have to do is to combine them in thought to discover the ‘principles of coherence’ of the ‘wholes’ which we cannot observe. This path of the mind from the simple to the complex is ‘compositive’ or synthetic. What Hayek does not say explicitly here is that if we follow this logic faithfully, and it is this that makes social science methodologically individualist, then natural scientists must necessarily be methodological holists.

I am not at this point primarily interested in the adequacy of this characterisation of social and natural science. We only need to note here, firstly, that natural scientists don’t just analyse the given into its simplest categories, but they then also retrace their steps, working those simple elements up into mental models of the given. Our understanding of an amoeba is not complete when we can say how much carbon, nitrogen, etc, one contains. Natural science is as synthetic as analytic and generally analysis and synthesis are inseparably bound together. And, secondly, that the simple elements of social science are, as Hayek himself has shown in the previous chapter, not individual persons, but the beliefs which motivate them. And the latter are a product of the constellation of social relations within which the individual person is embedded. Since social relations are intangible, it is not given to anyone what the relevant relations are, what beliefs and what incentive structure they present to the individual. These can only be discovered by analysis, by thought, by comparison with empirical observation, in a word, by work. Moreover, it is obscure in Hayek’s account how we are to ‘reconstruct’ social wholes, starting with the simplest elements, in order to ‘discover’ ‘the principles of structural coherence’ of those social wholes, if we don’t know what those principles of coherence are in the first place: knowledge of the principles of coherence is a prerequisite of this reconstruction, not a consequence of it. These principles can, again, only be found by abstraction, by analysis. In the study of social activity analysis thus plays as great a rôle as synthesis. So this model of science as analytical in the natural and synthetic in the social domains doesn’t seem to work. The point here, however, is to note the rôle of the model in Hayek’s argument. The method of the social sciences is said to be ‘individualist’ because it ‘starts’ with individuals. But when we recall that these individuals are not considered *qua* individuals, but as vehicles of specific socially inculcated beliefs, as nodes in networks of social relations, the aptness of the designation seems questionable. Methodologically what Hayek describes is entirely holist.

It may be useful in conclusion to this account, to examine Chapter 6 “The Collectivism of the Scientistic Approach” (Hayek, 1979: 93-110), where Hayek again attempts to bring out what he believes is individualist about his methodology by contrast with the ‘collectivism’ of the

approach he is arguing against. Collectivism, he says, is the “tendency to treat wholes like society or the economy, capitalism (as a given historical “phase”) or a particular industry or class or country as definitely given objects about which we can discover laws by observing their behavior as wholes” (93). This, for Hayek, is impossible since these social wholes are not ‘given’ or observable: “what of social complexes are directly known to us are only the parts ... the whole is never directly perceived but always reconstructed by an effort of our imagination” (93, n 1). It is worth dwelling on this. In particular, it is worth underlining that Hayek is absolutely not denying the existence of social wholes, or our ability to say anything sensible about them. On the contrary, reconstructing social wholes in thought forms the very *raison d’être* of social science: “The social sciences, thus, do not deal with ‘given’ wholes but their task is to *constitute* these wholes by constructing models from the familiar elements – models which reproduce the structure of relationships between some of the many phenomena which we always simultaneously observe in real life” (98). What is ‘collectivist’ about scientism for Hayek is thinking that social wholes are given to observation instead of having to be reconstructed by the compositive method. Whatever the virtues and vices of this distinction between methodological individualism and collectivism in Hayek’s account, it is clear that both are species of holism.

3 Mises’s notion of methodological individualism

a *Mises’s rhetorical strategy*

I will confess at the outset that Mises is one of the more difficult writers I have read on the subject of MI. I have argued in “A century of methodological individualism Part 1” that Schumpeter and Menger adopted a reductionist stance comparable to Friedman and Lucas, as well as to Bentham, Ricardo and the later Malthus, while in the earlier part of the present paper I have argued that Hayek’s standpoint is holistic in the tradition of Adam Smith, Dugald Stewart and the earlier Malthus, as well as of Marx and Keynes. We are now in a position to examine Mises’s contribution to the discussion on MI. The source of the difficulty is that in some ways Mises adopts elements of both standpoints. It will be necessary to set out his rhetorical strategy with care, to see how he combines these disparate and contradictory elements. Once that is in place it will be possible to turn to what he has to say explicitly on the topic of MI.

We start with Mises’s rhetorical goals: what does he want to convince us of? We can then move on to the means he adopts to attain that goal. It is abundantly clear that Mises, like Adam Smith, Dugald Stewart, Malthus, Hayek, Friedman and Lucas, is a pro-capitalist, pro-market forces writer:

The market economy or capitalism, as it is usually called, and the socialist economy preclude one another. There is no mixture of the two systems possible or thinkable; there is no such thing as a mixed economy, a system that would be in part capitalist and in part socialist (Mises, 1996: 258).

Socialism is not a realizable system of society’s economic organization because it lacks any method of economic calculation ... Socialism is not an alternative to capitalism; it is an alternative to any system under which men can live as human beings. To stress this point is the task of economics (679-680).

The purpose of economics, for Mises, is to convince us of the virtues of capitalism and the impossibility of socialism or any kind of mixed economy. How does he propose sell us this agenda? What is the central argument that he deploys?

Mises argues that under capitalism, agents do not have conflicting, but only common interests, a postulate he refers to as “the ‘orthodox’ ideology of the harmony of the rightly understood, i.e., long-run, interests of all individuals, social groups, and nations” (176). So for Mises there is a natural harmony between the interests of individuals. Any supposed conflict of interest is only apparent:

For what the individual must sacrifice for the sake of society he is amply compensated by greater advantages. His sacrifice is only apparent and temporary; he foregoes a smaller gain in order to reap a greater one later. No reasonable being can fail to see this obvious fact ... In striving after his own—rightly understood—interests the individual works toward an intensification of social cooperation and peaceful intercourse ... The utilitarian economist ... does not ask a man to renounce his well-being for the benefit of society. He advises him to recognize what his rightly understood interests are (146-147).

The source of this harmony of interest is the division of labour:

What makes friendly relations between human beings possible is the higher productivity of the division of labor. It removes the natural conflict of interests ... A pre-eminent common interest, the preservation and further intensification of social cooperation, becomes paramount and obliterates all essential collisions (673).

Mises is very specific about the circumstances in which this natural harmony of interests would be violated. Harmony will arise, he argues, just as long as population is below its optimum level:

The natural scarcity of the means of sustenance forces every living being to look upon all other living beings as deadly foes in the struggle for survival, and generates pitiless biological competition. But with man these irreconcilable conflicts of interests disappear when, and as far as, the division of labor is substituted for economic autarky of individuals, families, tribes, and nations. Within the system of society there is no conflict of interests as long as the optimum size of population has not been reached. As long as the employment of additional hands results in a more than proportionate increase in the returns, harmony of interests is substituted for conflict. People are no longer rivals in the struggle for the allocation of portions out of a strictly limited supply. They become cooperators in striving after ends common to all of them. An increase in population figures does not curtail, but rather augments, the average shares of the individuals (667).

So, for Mises, as long as population is below the point at which declining returns to additional labour set in, people cannot have essentially conflicting interests. The significance of the level of population is this: if there are increasing returns to labour, people have the incentive to cooperate, to divide their labour and share the benefits of doing so. If there were no unexploited benefits from cooperation, there could be no cooperation, and hence no society. We would have a merely animal existence. If population exceeded its optimum level, additional labour would reduce the productivity of all. At the margin, there would be

an incentive not to cooperate. But everyone can be thought of as marginal, so everyone would have an incentive not to cooperate: we would live in an asocial, even antisocial, world of conflicting not harmonising interests.

In Mises's account, then, men may seem to have an interest to lie, cheat and steal, but to do so would damage private property, the market and division of labour. In the long run, we all benefit from these features of capitalism, so we have an incentive not to engage in behaviours which disturb them. The incentive to lie, cheat and steal is a short-term or apparent interest, the incentive not to is the real, 'rightly-understood', long-run interest of individuals. But this depends on population not exceeding its optimum level.

Mises believed that it was, at the time of writing, not the case that the optimum level of population had been reached, and indeed not likely ever to be the case. The reason is relevant to our enquiry, as we will see shortly. For Mises, humans will not reproduce in excess of the numbers which can be supported at the level of overall satisfaction which people aim for. Differently from animals,

Man integrates the satisfaction of the purely zoological impulses, common to all animals, into a scale of values, in which a place is also assigned to specifically human ends. Acting man also rationalizes the satisfaction of his sexual appetites. Their satisfaction is the outcome of a weighing of pros and cons. Man does not blindly submit to a sexual stimulation like a bull; he refrains from copulation if he deems the costs—the anticipated disadvantages—too high. In this sense we may, without any valuation or ethical connotation, apply the term *moral restraint* employed by Malthus (668).

Individual behaviour led by rational self-interest – moral restraint – will thus automatically lead to the desirable social outcome that the level of population will not exceed its optimum level.

Given that individual people in society have no conflicting interests, one might ask, why then do we need a state? Mises's response is revealing. A typical defence of the rôle of the state is to say that, because individuals have divergent interests, and if not prevented from acting on them, will do so, to each others' detriment. But for Mises, on the contrary, the state is only necessary to protect us from those who are not fully rational – the old, the young, the mentally ill, and the people too stupid to be able to see their own interests properly, or too morally weak to be able to control themselves:

The anarchists overlook the undeniable fact that some people are either too narrow-minded or too weak to adjust themselves spontaneously to the conditions of social life. Even if we admit that every sane adult is endowed with the faculty of realizing the good of social cooperation and of acting accordingly, there still remains the problem of the infants, the aged, and the insane. We may agree that he who acts antisocially should be considered mentally sick and in need of care. But as long as not all are cured, and as long as there are infants and the senile, some provision must be taken lest they jeopardize society. An anarchistic society would be exposed to the mercy of every individual. Society cannot exist if the majority is not ready to hinder, by the application or threat of violent action, minorities from destroying the social order. This power is vested in the state or government (149).

This argument – that the individual and society have interests which aligned so that what the individual does in his own interest is exactly what society would have wanted him to do – calls for careful examination. One might think that the essence of the human condition is that we have partially overlapping and partially conflicting interests: we all want a bigger cake, which we can get by cooperating, and we all want a bigger slice, which we can get by competing. This is the structure of the prisoners' dilemma: overlapping interests on the main diagonal, and conflicting interests in off-diagonal outcomes. But for Mises, we only have the overlapping interest of the larger cake. It is worth dwelling on this point.

Given that we have a society in which population does not exceed its optimum level, there are, at the margin and for all intra-marginal units, unexploited opportunities to gain from cooperation and division of labour. Hence it is in the interest of any individual to cooperate and he has no interest in any action which would damage that cooperation. However, this makes a big assumption. It assumes that there are no (significant) externalities. If there are externalities, then it might very well be in the interest of the individual to engage in socially undesirable behaviour. For this conclusion to be avoided we would have to be able to demonstrate that the adverse consequences to society would be felt by the individual actor himself. But this may not be the so. A case in point is the argument about moral restraint (Denis, 2006a). Malthus wrote that the improvement to society due to the practice of moral restraint

is to be effected ... by a direct application to the interest and happiness of each individual. It is not required of us to act from motives to which we are unaccustomed; to pursue a general good which we may not distinctly comprehend, or the effect of which may be weakened by distance and diffusion. The happiness of the whole is to be the result of the happiness of individuals, and to begin first with them. No co-operation is required. Every step tells. He who performs his duty faithfully will reap the full fruits of it, whatever may be the number of others who fail. This duty is intelligible to the humblest capacity. It is merely that he is not to bring beings into the world for whom he cannot find the means of support ... It is clearly his interest and will tend greatly to promote his happiness, to defer marrying till by industry and economy he is in a capacity to support the children that he may reasonably expect from his marriage; and ... considerations of his own interest and happiness will dictate to him the strong obligation to a moral conduct while he remains unmarried (Malthus, 1958, II: 169).

This is very much Mises's argument: "Every step by which an individual substitutes concerted action for isolated action results in an immediate and recognizable improvement in his conditions" (Mises, 1996: 146). In adopting this reductionist standpoint, Mises's argument, like Malthus's, must depend on assuming that there are no significant externalities, prisoners' dilemmas or free riders. Mises's view that individual and social goals are perfectly aligned parallels Malthus's argument that the 'full fruits' of individual restraint are enjoyed by the individual practicing it, whatever anyone else is doing. As soon as the question is posed, the answer presents itself: such externalities simply cannot be assumed away. Why individual choices on reproduction should lead to socially desirable population levels, without any mechanism to ensure this, remains mysterious.

Now it is clear that Mises is perfectly well aware of the possibility of externalities, and indeed he uses the argument against socialism:

under socialism [the socialist authors say] every worker will know that he works for the benefit of society, of which he himself is a part. This knowledge will provide him with the most powerful incentive to do his best ... However, ... While the sacrifices an individual worker makes in intensifying his own exertion burden him alone, only an infinitesimal fraction of the produce of his additional exertion benefits himself and improves his own well-being (Mises, 1996: 677).

Why the externality or public-good argument that Mises cites in his critique of socialism does not apply to the issue of conflicting or harmonic interests is not addressed.

This kind of argument I have previously, in particular in relation to Lucas and Malthus (of the *Second Essay* onwards), characterised as reductionist. In a reductionist ontology the whole is held to be just the sum of the parts: the whole may be understood as the parts – taken in isolation – writ large. So in Lucas unemployment is understood as the sum of all the household decisions regarding the trade-off between leisure and wage income; it is therefore necessarily voluntary. Mises thinks the same:

What causes unemployment is the fact that ... those eager to earn wages can and do wait. A job-seeker who does not want to wait will always get a job in the unhampered market economy ... It is only necessary for him either to reduce the amount of pay he is asking for or to alter his occupation or his place of work (598).

If the whole is just the sum of the parts, apparent macro-level pathologies such as unemployment can be reduced to rational, micro-level, individual decisions. The ground for a *laissez-faire* policy prescription is prepared. It is if one adopts a holistic ontology, where the whole is not the sum of the parts, and macro level entities emerge from the interrelationships between the micro-level substrate entities, that a mechanism is needed to explain how social outcomes are desirable, if a policy prescription of *laissez-faire* is to be sustained. Examples of such mechanisms are the invisible hand of a benevolent deity in Adam Smith and a human-favourable group-selectionist process of social evolution in Hayek (Denis, 2005; Denis, 2002). Mises posits no such black-box mechanism: his approach is reductionist.

b *Mises on MI*

Having established the outlines of Mises's rhetorical strategy, we can now turn to what he has to say explicitly about MI. I will focus on Section 4, "The Principle of Methodological Individualism", part of Chapter II, "The Epistemological Problems of the Sciences of Human Action", of Mises's *Human Action: A treatise on economics* (Mises, 1996: 41-44).

At the beginning of the section, Mises defines MI as follows:

Praxeology [ie "the general theory of human action"] deals with the actions of individual men. It is only in the further course of its inquiries that cognition of human cooperation is attained and social action is treated as a special case of the more universal category of human action as such (41).

Now we have seen that both reductionists such as Menger and Schumpeter, and holists such as Hayek, can claim to 'start' with the individual, and from the individual to move on to the social wholes of which the individual is a part. The question is, whether such individuals are

the isolated atoms of Menger's atomism, or the *foci* of networks of social relations that Hayek posits. In the latter case, it could be argued that we are not really starting with individuals, since the individual as focus of a network of relationships already presupposes society.

As I have argued elsewhere (Denis, 2006) this question of starting point is not very interesting. That top-down and bottom-up approaches may be considered to be equally valid is exemplified by Milton Friedman's (1976: 316) statement that while both Keynes and he used a top-down methodology, most Keynesians and monetarists used a bottom-up approach. Similarly, Trotsky (1973: 233-234) illustrates a discussion of Marxist notions of science by means of equally approving references to the top-down approach of Freud and the bottom-up research strategy of Pavlov. My own view here is that the choice of top-down or bottom-up heuristic is a wholly pragmatic matter: there is no issue of principle here, no golden key to knowledge of the world. The methodologically pluralistic statements of Trotsky and Friedman are therefore to be endorsed. There is no proper starting point for science: we start from wherever we happen to be. The choice of a top-down or bottom-up heuristic will depend on our interests, our goals, what we think we already know, and our hunches about what we might be about to find out.

What *is* of great interest, however, is whether the individuals with which one starts, if one chooses to start with individuals, are conceived of as essentially social entities or, on the contrary, modelled as isolated atoms. If we are to take literally Mises's statement about starting with individuals, only later moving on to the "cognition of human cooperation" then the clear implication is that for Mises, these individuals are atomic. The absence of any statements corresponding to Hayek's careful description of individuals as nodes in networks of social relations is also evidence for this interpretation.

Immediately after this introductory statement defining MI, Mises presents a summary of the case against MI, as he has defined it:

Real man is necessarily always a member of a social whole. It is even impossible to imagine the existence of a man separated from the rest of mankind and not connected with society. Man as man is the product of a social evolution. His most eminent feature, reason, could only emerge within the framework of social mutuality. There is no thinking which does not depend on the concepts and notions of language. But speech is manifestly a social phenomenon. Man is always the member of a collective. As the whole is both logically and temporally prior to its parts or members, the study of the individual is posterior to the study of society. The only adequate method for the scientific treatment of human problems is the method of universalism or collectivism. (41-42)

Some discussion of this case against MI, as Mises imagines it, is warranted. The first half dozen lines appear to be a correct statement of that case, though rather vague. The point is not simply that the individual is a member of a collective, but that his behaviour is dictated by the network of relations within which he operates, that is, by the interaction and interdependence between the individual and myriad other individuals. The whole is not 'logically and temporally prior to its parts'. The relation between whole and parts cannot be dismissed so lightly. The whole is indeed logically prior: in an organic unity each part only exists, and has the meaning it has, conditional on forming a part of the whole. This is the difference between an organic unity and a congeries. The whole, it is true, in turn depends on the parts, but in general not on any particular part: the relationship is not symmetric. The

whole cannot be ‘temporally prior to its parts’, even though it may well chronologically pre-date many, even all of its extant parts, as my body is older than any of its cells. The parts must have existed prior to the emergence of the whole, though, of course, not *qua* parts of this whole, which did not yet exist. Finally, Mises last statement about the necessity of ‘universalism or collectivism’ needs elaboration: what exactly does this methodological collectivism consist of?

Mises’s response to this case against MI may be quoted in its entirety:

Now the controversy whether the whole or its parts are logically prior is vain. Logically the notions of a whole and its parts are correlative. As logical concepts they are both apart from time. (42)

And that’s all he has to say about it. We are left in doubt as to how the claim that wholes and parts are correlative meshes with the claim that we need to start our investigation with the part.

In the following paragraph Mises discusses whether social entities can be said really to exist:

It is uncontested that in the sphere of human action social entities have real existence. Nobody ventures to deny that nations, states, municipalities, parties, religious communities, are real factors determining the course of human events. Methodological individualism, far from contesting the significance of such collective wholes, considers it as one of its main tasks to describe and to analyze their becoming and their disappearing, their changing structures, and their operation. And it chooses the only method fitted to solve this problem satisfactorily.

First we must realize that all actions are performed by individuals. A collective operates always through the intermediary of one or several individuals whose actions are related to the collective as the secondary source. (42)

So social entities such as nations and states do exist: this is at least a step away from Margaret Thatcher’s infamous claim that there was ‘no such thing as society’. Nevertheless, if we are to base the analysis of such entities on the actions of the isolated individual, we are approaching very close to Menger’s ‘exact’ or ‘atomistic’ orientation of research, that is, a reconstruction on the basis of the “simplest elements, thought of in their isolation” (see Denis, 2009).

We can see this as Mises pursues the idea of the reduction of society to individual persons, of the whole to its parts:

a social collective has no existence and reality outside of the individual members’ actions. The life of a collective is lived in the actions of the individuals constituting its body. There is no social collective conceivable which is not operative in the actions of some individuals. The reality of a social integer consists in its directing and releasing definite actions on the part of individuals. Thus the way to a cognition of collective wholes is through an analysis of the individuals’ actions (42).

Throughout these statements Mises fails to distinguish between the *intentions* of agents’ actions and the *consequences* of those actions. The life of a collective is not just lived in the

actions of the individuals which constitute it, but in the consequences to the individuals of actions taken by individuals. In what circumstances would it be permissible to ignore this distinction? The circumstance that there was no difference between the actor and the agent whose welfare is impacted by the action. This is what Mises appears to be assuming: that there are no externalities, no interests of others not shared by the interest of the actor.

Mises concludes his consideration of MI with the statement that

Those who want to start the study of human action from the collective units encounter an insurmountable obstacle in the fact that an individual at the same time can belong and—with the exception of the most primitive tribesmen—really belongs to various collective entities. The problems raised by the multiplicity of coexisting social units and their mutual antagonisms can be solved only by methodological individualism (43)

This notion of MI is clearly a reductionist one. It is very different from the Hayekian view that individuals are embedded in networks of relationships and that it is these relationships which constitute the structural element leading to particular patterns of behaviour of the individuals. For the holistic standpoint it is not individual people which form the elements of society, but the relations between them. As Toynbee puts it in his definition of ‘society’ at the start of *A Study of History*:

Society is the total network of relations between human beings. The components of society are thus not human beings but relations between them. In a social structure “individuals are merely the *foci* in the network of relationships” (Toynbee, 1972: 42, citing Hayek)

c *Elements of holism and organicism in Mises*

I said earlier that there were difficulties in discerning Mises’s rhetorical strategy, and consequently inferring what he meant by MI. The cause of this difficulty is in part the appearance in *Human Action* of many elements of a more organic and holistic ontology. This section will note some of these passages and attempt to reconcile them with what has already been said regarding Mises’s reductionist approach.

Chris Matthew Sciabarra’s book *Total freedom: toward a dialectical libertarianism* (Sciabarra, 2000) examines what he claims is the dialectical heritage of the Austrian school, which makes it an intellectual cousin of Marxian economics. Without going into a lengthy discussion at this point, there is a strong overlap in meaning between what Sciabarra refers to as *dialectics*, what methodologists of economics commonly refer to as *organicism*, and what I have defined as *holism*; in so far as they are distinct, indeed, holism is a prerequisite for dialectics. Where Sciabarra finds dialectics, this is a strong suggestion that we should look for holism. Sciabarra (2000: 115-121) claims that Menger is a dialectical thinker who adopted an “organic orientation of social research”, but I have argued (Denis, 2009) that this is based on a simple mistake, a misreading of the text, and that in truth Menger’s approach is wholly reductionist, indeed, in his own words, “atomistic”. Sciabarra’s account of dialectics in Hayek (122-133) is completely consistent with the reading I have proposed in the first part of the present paper. Mises (122-127), I suggest, comes somewhere in between. According to Sciabarra, “Mises was an organic thinker” (124), his “portrait of the price system” is “thoroughly organic” (124), he views market institutions “as organic relational structures

constituted by human actors” (125), and “views society itself as an organism of sorts” (125). Sciabarra notes an “emphasis on the organic whole in Mises” (125). “Structural processes are rooted in the organic relations among fully social, purposeful individuals, who think, value, and act. Methodological individualism, Mises proclaims, focuses on the ‘becoming’ and the ‘disappearing’ of wholes” (125). What are these claims worth?

Mises repeatedly expresses the view that both the natural and social worlds are characterised by interconnection, by interrelatedness rather than isolation:

In speaking of the laws of nature we have in mind the fact that there [is] an inexorable interconnectedness of physical and biological phenomena and that act[ing] man must submit to this regularity if he wants to succeed. In speaking of the laws of human action we refer to the fact that such an inexorable interconnectedness of phenomena is present also in the field of human action as such and that acting man must recognize this regularity too if he wants to succeed (Mises, 1996: 761).

For Mises, in consequence of the ubiquity of interconnectedness in social life, the discipline of economics must itself be viewed holistically:

Economics does not allow of any breaking up into special branches. It invariably deals with the interconnectedness of all the phenomena of action. The catallactic problems cannot become visible if one deals with each branch of production separately. It is impossible to study labor and wages without studying implicitly commodity prices, interest rates, profit and loss, money and credit, and all the other major problems. The real problems of the determination of wage rates cannot even be touched in a course on labor. There are no such things as “economics of labor” or “economics of agriculture.” There is only one coherent body of economics (874).

These are not isolated statements. Mises is here expressing a clearly holistic social ontology:

Society is concerted action, cooperation. Society is the outcome of conscious and purposeful behavior ... The actions which have brought about social cooperation and daily bring it about anew do not aim at anything else than cooperation and coadjuvancy with others for the attainment of definite singular ends. The total complex of the mutual relations created by such concerted actions is called society. It substitutes collaboration for the—at least conceivable— isolated life of individuals. Society is division of labor and combination of labor. In his capacity as an acting animal man becomes a social animal. (143)

Many further examples of this holistic vision could be cited. I’ll confine myself to two more: “What is called a price is always a relationship within an integrated system which is the composite effect of human relations” (392). And “The exchange relation is the fundamental social relation. Interpersonal exchange of goods and services weaves the bond which unites men into society” (194).

These passages are enough to demonstrate the Sciabarra is onto something here: there is no question but that Mises systematically adopts and presents a salient and very clearly holistic social ontology. So what is going on? How does this relate to the reductionism with which Mises was associated in the first section of the present paper?

To answer this we have to return to the idea of a rhetorical strategy with which this series of papers began (see Denis, 2004). The model suggested was one where many economists are seen as attempting to persuade us of something. An economist supporting, for example, a policy of large-scale government intervention in the economy, has to convince his audience that socially desirable outcomes cannot normally be expected to arise spontaneously. Similarly, an economist supporting *laissez-faire* as a default policy prescription has to convince us of the opposite. I argued that there were two possible kinds of arguments which might serve this cause, two possible rhetorical strategies in defence of *laissez-faire*. In a reductionist strategy the social outcome is presented as just the aggregate of all the individual decisions: if the latter are rational then so is the former. In a holistic strategy the social outcome is something quite different from the individual actions of substrate level agents, but emerges from the interconnections between them. The problem with the latter approach is that if the social outcome does not simply reproduce the quality of the individual actions underpinning it, there is no reason to assume that rational individual decision-making will translate into desirable social outcomes. In order to convince us that rational social outcomes will nevertheless emerge from rational individual behaviour, an additional mechanism is also required. This is represented by the invisible hand of a benign deity in Adam Smith, and by a human-favourable process of evolution of social institutions in Hayek.

Returning to Mises, we can see that he systematically advances a holistic social ontology. The question is, what work does this do in convincing us that self-seeking individual behaviour will spontaneously lead to desirable social outcomes. The answer, I suggest, is that it does no work at all towards this goal. On the contrary, as explained earlier in this paper, individuals for Mises spontaneously have a common interest: each only has to do what is in his own true, long-run interest, in order to act in a socially desirable way. There is no hint that the fact, that emergent social entities – the price system, for example – are something organic and therefore different in quality from the individual behaviours on which they rest, might lead to any question regarding their desirability. No mechanism is proposed which might lead individual self-seeking behaviour nevertheless to underpin desirable collective outcomes – for the simple reason that none is required.

4 Conclusion

In this paper I have examined the views and stances of Hayek and von Mises towards methodological individualism (MI) in order to attempt to unravel their conception of the rôle of the individual in society. This study was prompted by the observation that writers to whom MI is ascribed have fundamentally diverse notions of the relation between micro and macro, between self-seeking individual behaviours and the desirability or otherwise of the social outcomes to which those behaviours lead. The reductionism of neoclassical writers such as Lucas and Friedman really does start with the asocial, biological individual, and interprets social outcomes as the aggregate of individual choices. Individual utility maximisation is directly social welfare maximisation. The previous paper in this series argued that the foundational writers in the Austrian tradition, Menger and Schumpeter, shared this perspective.

Hayek's standpoint, however, is quite different. For Hayek, individuals are only nodes in the network of social relationships, so 'starting with individuals' means starting with the social relations within which they are embedded. It is debateable whether term 'methodological individualism' aptly characterises this perspective. I have suggested that Mises forms something of a transitional form between Menger and Schumpeter on the one hand and

Hayek on the other. Mises presents two social ontologies, one holistic and one reductionistic. It is the reductionistic social ontology, however, which is presented as the reason that socially desirable consequences can be relied upon to emerge from individual self-seeking behaviour.

Nevertheless, the holistic, organic ontology in many ways overshadows the reductionistic ontology in the pages of *Human Action*. It may be that Hayek spotted this and sought to rectify it in his own ontology. If social entities are organic, emerging from the interconnectedness which Mises identifies as ubiquitous within the market system, what is to guarantee that these emergent outcomes will have desirable features? We know that Hayek questioned the ‘rationalism’ of Mises’s account (Sciabarra, 2000: 123, Klein, nd) – that society is the intended consequence of purposeful individuals, instead of the unintended consequence. It may be that Hayek found the organic and holistic ontology in Mises’s work attractive, and that he sought to repair a perceived lacuna in Mises’s work by reference to an evolutionary process of the development of social institutions (Denis, 2002). While it is the case that I have noted an instance of an economist adopting both reductionist and holist ontologies (Denis, 2006a) – Malthus switches from holistic providentialism to reductionism between the *First* and *Second Essays* on Population – the existence of both standpoints side by side may create problems of consistency for the writer.

The next part of this series of papers will examine the contributions of Popper and the analytical Marxists.

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