EXAMINE THE STRENGTHS AND WEAKNESS OF METHODOLOGICAL INDIVIDUALISM IN POSITIVE POLITICAL ECONOMY

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INTRODUCTION

In the early stages of the development of social science, evolution was among the most important theoretical concept, and holism and individualism were the exception (Udehn, 2001). Recently, methodological individualism in political economy such as the rational choice approach and game theory are the latest trend and the application has spread to other fields of studies. This essay examines the strengths and weaknesses of the application of methodological individualism in political economy by firstly defining the meaning of each term and then pointing out the convergence of such methodology to science and the strength of the subsequent benefits. Next, by introducing the concept of holism and debates concerning rational choice theory, this essay admit that there is benefits of holistic approach such as Marxism and also show appreciations for historical and cultural factors, and concludes that the complementary relationships between the holism with methodological individualism.

METHODOLOGICAL INDIVIDUALISM IN POSITIVE POLITICAL ECONOMY

To assess the strengths and weaknesses of methodological individualism in a positive political economy, first the key terms need to be defined. Methodology differs from the term method as it is more related to belief and knowledge, while method is the actual way of collecting data or information. Individualism can be a normative ideology that stresses the independence of individuals physically, as well as emphasising the individuals’ will and freedom. This is associated with the recent economic mainstreams of liberalism and globalisation (Kydd, 2008). Introduced as a methodological precept for the social sciences by Max Weber, in Economy and Society (1968), and later given the name of methodological individualism by Schumpeter (1980). This individualistic belief in the development approach has dominated social sciences. In economics, typically, the analytical equilibrium is determined by the collection of the mass of individuals with assumed generally identical behaviours. In political science, the recent trend of application of rational choice approach and game theory in war studies or international relations analysis are pervasive and prominent (Laver, 1997; Cramer, 2002; Kornhauser, 2008).

Methodological individualism is a methodological belief in which individual behaviour is central and essential to the understanding of social phenomena. In other words, social phenomena can be understood through examining individual behaviours. To strong individualists such as Elster, individuals are the only basic unit that is applicable to study societies, and groups and organised activities are collective actions of individuals who are motivated by their ideas and beliefs. Every social event can be divided into individual-level perspective, or social perspective can be reduced into psychological perspective (Udehn, 2001; Hodgson, 2007). Holding a belief in methodological
individualism means that the world is seen as a reflection of a collection of individuals’ concepts.

Additionally, the recent discussion of methodological individualism focuses on whether social laws are reducibility, or irreducibility. This view is typical of positivist philosophers and social scientists, who take scientific theories as hypothetical-deductive systems of law-like statements and who believe in the covering-law model of explanations. John Stuart Mill, George Homans, and Hans J. Hummel are the representative. Also, Watkins accepts the existence of social or ‘macroscopic’ laws, but objects that they are unique of its own kind. This is the equivalent to believing that social laws are reducible to psychological laws. Methodological individualism, therefore, is a principle emphasises concerns on the definition of social concepts, the explanation of social phenomena and the reduction of social laws.

Positivism stresses descriptions and explanations of what and how societies are, without normative judgment of how the society ought to be. More importantly, positivism engages systematic and formalized hypothesising and empirical testing procedures (Amadae and Bueno de Mesquita, 1999). Thus, positive theory manages to apply natural scientific method in social studies. For instance, in positive social study, people explain the impacts of institutions on economic development by observing facts, hypothesising over the observations and then examining the hypothesis using empirical evidence. Usually, this does not involve normative assessment over the outcome such as questioning the desirability or efficiency, or requiring justification for the outcome or the valuation of the analyses (Chai, 2005), though positive studies may inevitably engage normative valuation in the process (Hamlin, 2009). As David Hume (1739) states “one can never derive “ought” propositions from “is” propositions.

There is not a single definition for the study of political economy, because the definition varies depending on the area of study. For example, there is confusion about whether it is political economics or economic politics. Some academics emphasise the involvement of state in economic activities, associating political economy with the understanding of the management of the economic affairs of the state or the interaction between economic activities and the power involved (Caporaso and Levine, 1992). Institutionalisms emphasises the role and changes of institutions and defines political economy from an institution-matters view as the interaction between institutions and economic process (Pennington, 2009). Overall, the key studies of political economy cover the understanding of individual behaviours, the role and changes of institutions, and its impact on economic process. Its valuation in terms of politics and economics has a wide range of applications, from anthropologists, sociologists to geographers. They apply political economy when referring to the regimes of politics or economic values that emerge primarily at the level of states or regional governance, but also within smaller social communities and social networks. Historians, nonetheless, employ political economy theory in
assessing the impact of language, culture, and histories on human society (Hirth, 1996).

Caporaso and Levine (1992) summarised the combination of economics and politics in a table considering methods and substance. The political economy contains the II and III cell- applying the economic method in analyses of political situations and examining the political involvement in economic activities with political science.

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From a historical perspective, classical economic theory actually combines the understanding of both economic and political activities. Although contemporary economics seem more about cost and benefit analysis, trade theory, mathematics and modelling economic situations etc., traditional economics indeed consider both economics and politics. For instance, the content presented by The Wealth of Nations was not purely economics but involved the implications of the limited roles of states. Economics traditionally aimed to understand households, institutions and societies, the human struggle for power, and the role of state, which was thus traditionally called political economy.

Perhaps benchmarked by the Principles of Economics by Alfred Marshall in 1980 and the application of mathematical skills and economic modelling in the late 19th century, classical economics or political economy was replaced by the name economics. Even though the application of mathematics and modelling in economics studies has been significant during the past decades, mathematics is only one of the skills that is required in studying economics and the theories of political economy have not lost their potency. A revival trend of political economy emerged recently in academic research and practical applications (Groenewegen, 1987; Stanley, 2013). Increasing support for interdisciplinary
studies of economics and politics has proved necessary in understanding the real world situations.

Economics and politics both have their own importance; however social phenomena are more complicated than pure politics or economics. Society is comprised of individuals, institutions, and economic and political activities; therefore, studying societies necessitates the interdisciplinary of economics and politics. Additionally, in the political and economic arenas, the case is more common that people apply a combination of the two theories. For instance, economic policy-making cannot avoid the competition between political power and economic interests that significantly influence policymaking. This not only provided motivation for the evolution of each study itself towards a more complete consideration of both economic and political aspects but also stimulated and advanced the idea that a combination of knowledge is crucially important in understanding societies. Political economy emerged based on this need and the aim to provide more practical approaches to analyse social phenomena.

Positive political economy, in this context, can be viewed as a study that analyses and explains the interaction of political and economic activities through a formal and logical approach. Economists and political scientists often consider methodological individualism such as: rational-choice for assumptions on human behaviours and game theory in interactions in examining phenomena beyond economics' standard remit, such as government failure and complex decision making implies an individual centrality in the analytical procedure. Other topics include analysis of public policy issues for example economic regulation, monopoly, rent seeking, market protection, and distributional politics. Empirical analysis includes the influence of elections on the choice of economic policy, determinants and forecasting models of electoral outcomes, central-bank independence, and the politics of excessive deficits.

**WHY METHODOLOGICAL INDIVIDUALISM**

Methodology is a set of rules, or principles for scientific research and has been claimed to be the main motive for the improvement of epistemology and meteorology of science (Udehn, 2001). Academics believe that good social science promotes the growth of the knowledge of society. Individualistic beliefs in methodology state that society comprises of individual and human interactions, which determine the kind of society and create favoured institutions. This reflects that naturalists understand every object in the world is made up of something called basic units and that the changes of the natural world are purely decomposition and reunion of the basic unit. By claiming individualistic view in social study, methodological individualism has been able to apply a more scientific approach than historical or cultural explanations and has been granted advantageous subsequently.
Considered as a more scientific approach, methodological individualism is widely accepted to promote the development of knowledge of society. Formalising analytic processes provides a standard to follow which can achieve further development. The logical approach grants a more convincing feature. Social scientists vigorously managed to employ formalised and logical ways in social studies. According to a proponent of methodological individualism, Elster (1982), a “mechanism” is mandated in social science studies. He further argued that social science without the mechanism that logically explains the relationship of facts and ideas are simply speculation.

The scientific approach in social studies enables reduction and replacement in the development of theories. The development of methodology has resulted in rules that tell people when the secondary theory can be eliminated or whether it is a requirement or supplement. This resembles a process of filtering where the unnecessary will be replaced, and the deficiency will be supplemented to come out with something that can fit all and is significant in explaining facts. Perhaps the outcome of the scientific approach can identify basic and fundamental rules of the mechanism operating in society, for instance, the underlying economic force- the invisible hand.

It has been a long time since Plato and Aristotle started to understand the world using scientific concepts instead of myths. At that time, without technological support in addressing the reason for the changes of the nature, philosophers developed a way of understanding the world that is logical. To put this in a more blunt way, they tried to “makes sense” by careful induction or deduction.

Nowadays, in general, three assessments determine a good scientific study. The first is the logical approach where ideas become connected and understandable because they are logically related. The second is the testability, where the process and the outcome of a scientific analysis should be able to be tested, resulting in the same outcome when applying the same approach. This implies that science should be able to face challenge and truths last. Finally, good science allows room for epistemological and methodological advancement by logical approach and tests.

However, there is a question about whether social studies should follow the same analysis as the natural world. Mainly since nature is essentially different to the human environment. Rules, principle in the natural world is created and designed by the God, and there are truths, visible and concrete things (Gaarder, 1994). They are things that can be observed and examined by controlling quantity or time. By such method scientists can provide an understanding of the natural world. Scientists can come out with results that are able to prove throughout time; perhaps the evolution is rather subtle than human societies. Society is a human-created environment, a complexity of actors, institutions and the rules and organisations. Methodological Individualism suggests that the composition is the individuals, but there is a substantial criticism of this
because in certain situations it is the state rather than the individual who should be the basic unit in analysis, such as international relations. Additionally, imperfect information is the most often reason for rejecting the traditionally assumed concept of perfect rationality of individuals in methodological individualism of rational choice theory. People can act irrationally for many reasons, whether it is cultural norm rationales; moral discrimination or their actions could be determined by a structural framework as claimed by Marxian. Society is fast-paced in a changing world and whether a general rules underpinning the operation of society exists is an interesting question, but rational choice approach is at rick of being too narrow-minded.

However, all theories have to make assumptions. It is impossible to understand or precisely analyse societies without simplification. The goal is to come up with simplifications that are good enough in certain domains; simplifications that can reasonably characterize the entities and mechanisms involved, and produce predictions that are better than what we were capable of before. Methodological individualism meets this expectation, being simple, more general and scientific with more explanatory capability.

More importantly, to me, the question is not about whether narrow-minded of rational choice approach. Instead, the question is “are we aiming at seeing the whole picture of society” or “are we interest in casual effect relations, problem solving and prediction of future”. In this sense, rational choice approach can be narrow-minded but it is because it focuses on the target while others tend to describe the speculation of societies. Therefore, the question of understanding society is more likely to be the idea of multidimensional, rather than whether it is narrow or broad. By multidimensional, I mean even though methodological individualism such as rational choice approach is concentrating on only few factors or instruments, that is because its aim at the purpose. And understanding societies does not necessary deny this way of approaching. Instead, multiplying wholesome dimensions of methodological individualism analyses to eventually comprise a big picture of the society is far more powerful in terms of its analytical, explanatory, and predictive purpose, because this is explaining events from different dimensional and in a formal, logical and scientific way. In the sense of our purpose of social studies is more about problem solving and future forecast, the critiques of narrow-minded become meaningfulness. Yet, studies should help people understand the world and solve their daily problems economically and politically.

Although some practitioners seem to lean towards instrumentalist empiricism, the weight of opinion is with a pragmatic scientific realist perspective (Fearon and Wendt, 2002). Indeed, a positive or scientific approach has proved advantageous in academic development. According to Udehnh (2001), methodological individualism has advantages of reductionism, humanism and has consistency with political individualism. It is common for science to be based on epistemological and ontological assumptions about knowledge and society. The positivism in political economy is a clingingness of
social studies to science. This may explain the significantly influential potency of economics in social studies and capability of practical application such as being a tool for public policy of nations and the commonality of application of rational choice and game theory in political science.

METHODOLOGICAL INDIVIDUALISM AND RATIONAL CHOICE THEORY

Rational choice theory is categorized as a subset of methodological individualism in which the actor is assumed to make decisions rationally. Actors are assumed to have preferences over the various possible outcomes in any situation and so can rank them in terms of their desirability. They then choose whatever strategy or course of action that makes the best outcomes more likely to occur, or maximizes the actor's "utility" or happiness. Rational actors' preferences must be transitive, meaning that, if a man prefers an apple to an orange and an orange to a lemon, he must prefer an apple to a lemon. In addition, rational actors must process information correctly. Specifically, they are assumed to update their beliefs about the likelihood of uncertainties by responding to new information according to the laws of probability (Kydd, 2008).

The rational choice approach, a typical methodological individualism approach, has been claimed to have a greater explanatory power in positive political economy analyses than cultural or structural institutionalism, because it requires lessen pre-conditions on the approach. The rational choice approach takes an innocent position on peoples' ideas and beliefs and preference as given. This prevents rational choice theory from being too complicated to practically apply as historical and cultural approach often being criticised. In addition, with a given preference and assumptions of self-interested economised behaviour of individuals, through being attacked by arguments that irrational actions are common or human beings are not all self-interested; people care about others especially their family and lovers, the rational choice approach is capable to analyse almost every situation by analysing society with simplicity (Hamlin, 2009).

Regarding the ability of theory to explain social changes; methodological individualism can propose a general rule of an individuals' reaction to the change of the social environment, such as new policy implementation, by observing social phenomena in terms of individual behaviour patterns. Although general assumptions over individual psychology is needed and may not correctly match individuals’ thoughts in a society, methodological individualism still offers a useful explanation of the change, which can be applied to policy decision making. Therefore, providing leaders and decision makers with the bigger picture of the situation enables predictions, whereas the cultural approach cannot generalise and has too many factors to identify any
specific suggestion about the society and this is criticised as not being practical to use in policymaking.

The explanatory power of the individualistic approach can be described in a daily example, which also shows the difference between trying to explain an event by using a “bottom up” and “top down” method.

For example if a man is entering a room wearing wet clothes, the methodological individualists in the room would say “the man got wet before he came in; he does not have an umbrella; the wet stain looks like rain; somebody saw him left home wearing dry cloth”. Summing up individuals coming in with the same characteristics of wet clothes, then individualists would conclude that there is high possibility that it is/was raining out, which conclusion is built on the observed facts and hardly to have severe falsity.

While in the same situation, holists would speculate the weather and see it is raining out and then they comment on the man coming in wearing wet clothes with the reason of the rain. This kind of description is dualistic because if the reason the man got wet was because of the rain, then the holist comment is correct and can be more powerful than individualist approach as it does not require many individuals to have such explanation. They see the weather and the wet man and explain the observation with some relationship. However, if the man was wet not only because of the rain, or it was nothing to do with the rain, then the holist was wrong and there is high possibility of falsity. And this is why structuralism often illustrate the situation of a certain time and place well but hard to apply to any other time or place. Thus, structuralisms such as Marxism have received damaging critiques of their approaches and explanations.

Methodological individualism is a bottom up approach while structuralism represents a top down view. The difference in their function and explanatory power can be seen in this case.

The simplicity also enables modelling in the analyses and modelling offers dependable and objective explanation of the situation, which is beneficial and useful not only in understanding the present but also more importantly in predicting the future. For instance, with a chorionic data analysis, past trends can provide likelihood of the future and based on this a suitable policy can then be made. This gains rational choice approach great popularity in economic and political policy regime.

However, modelling necessitates a certain degree of abstraction, simplification and idealisation of the reality. When analysing a situation, academics purposely ignore the less important factors in order to focus on the aim of the modelling. Also, they include only some of the reality, because it is the most salient and significant features that modelling tries to capture. Nevertheless, stylising realism into a pure form of model-suitable information
is needed in positive analyses. This significantly helps people focus on their purposes of applying a model, while leaving it a weakness of irrelevance to the reality.

Economic models are criticised for not being similar to the real situation as social phenomena are never simple. Social phenomena are often, as claimed by historical institutionalisms, an accumulation of a series of historical events. Consequently, understanding an event incurs careful analyses of a series of past experiences. To cultural analysts, social phenomena are closely related to the underlying informal norms such as culture, custom and languages. In this context, analysing certain events requires looking carefully at a wide range of possible contributions. Both historical and cultural concerns are reasonable and may be more relevant to the situation and provide a greater descriptive aim, but lack analytical power and are weaker in providing predictions of future trends for policymaking. Therefore they tend to only describe situations while the rational choice approach can offer greater practical applications.

From a pragmatic scientific realist perspective, evidence for the irrationality of human behaviour is troubling but not a vital weakness of the rational choice theory and it calls for two responses. The first is to investigate when people act more or less rationally. It could be that in some circumstances people behave more rationally than in others, which limits the domain of the theory. The second is to investigate models of bounded rationality. Such models may highlight when structural conditions lead bounded rational actors to act "as if" they were rational and when they do not, both of which should refine our understanding of human behaviour.

The rational choice approach is often associated with the weakness that uncertainty and insufficient information often lead to irrational actions of individuals, especially in political situations. Recent research (Boettke, Coyne and Leeson, 2007) suggests that there is a weakness when applying rational assumption in political situations. He argued that behaviours of political actors sometimes are not symmetric. This is bounded by limited informed and the limitation is determined by the environment that actors are in. In addition, Alchian (1950) claims that economists are too optimistic about perfect information and the assumed behaviour. He emphasises the existence of uncertainty and non-motivated actions of individuals, and therefore it is the possibility distribution of success that accounts for the variation in actions rather than from perfect actions.

Path dependency emerged to challenge the assumption of homo economicus of rational choice theory. It is claimed that possibilities and numbers of other options decrease when certain events have happened and a certain path has been selected. This means that history is always ‘choice constraining’ in the sense that what has been done in the past affects the range of options that can be pursued now and in the future.
This pattern seems more pervasive in the relationship between economic decision-making and politics. Historical and cultural theorists claimed that paths that people follow provide a structure for economic decision-making and political relationships. This will reflect the identities and values based on specific historical events. These events and the identities represent discriminated distribution of power, economic resources and social status for actors. Once a particular set of identities and interests have been formed – the range of feasible choices is then constrained accordingly. Although this is said to not necessarily imply permanently fixed patterns, any changes that occur will be relatively limited by prior historical events. For instance, Chinese society is still significantly influenced by the bureaucracy and the confusion value, which has been claimed to be neither democratic nor a prosperity stimulated ideological attachment. Another example is that agricultural policy in Europe aims to be just and fair, which may be inefficient in the American’s view.

However, historical and cultural explanation has been criticized as not generalized and unable to be derived from a more micro-level scrutiny. Furthermore, path dependency failed to explain some radical transformations of development. Nonetheless, historical accounts have been criticized to be the explanations that explain the action without purposive actors. As a result, academics suggest a role of rational choice analysis, but perhaps a more flexible one that takes interests in static terms (Pennington, 2013a; 2013b).

**METHODOLOGICAL INDIVIDUALISM AND METHODOLOGICAL HOLISM**

According to Watkins (1952; 1957), “If methodological individualism means that human beings are the only moving agents in history, and if sociological holism means that some superhuman agents or factors are supposed to be at work in history, then these two alternatives are exhaustive.” Holists, it appears, are those who pose non-human entities that in some unexplained way are supposed to determine what happens to men, while individualists believe individual centrality.

Methodological individualism has dominated social science, spreading to other areas of study. In political economy, it is usual that the analysis is based on all accounts of economic interaction on individual behaviour. A typical individualistic approach in economics actually has two categories-microeconomics that addresses human behaviour in economic process, and macroeconomics that is concerned with national level economic performance. The trend of microanalysis in macroeconomics has emerged recently. Proponents claim macroeconomics cannot be fully understood without individual-behavioural analysis. Strong individualist such as Elster (1982) have attacked structural explanations by insisting only individualistic factors can logically explain social and structural changes. Cohen (1980) considered this work as lacking in functional explanation of historical materialism. Still some
academics such as Arrow (1994), though a proponent of methodological individualism, intends not to extend too much of this approach and insists the inevitable engagement of social principles.

Elster (1978), an analytical Marxist, applied game theory in a structural framework. He claimed that an individual emerges as a microcosm that in sum comprises the whole network of social relations. In addition, it is the social relations together with the same interest priority that lead to social changes. In this sense, conflicts and social solidarity are understood without assuming a common interests and need for cooperation as Marxian. To Elster, methodological individualism is a trivial truth. Moreover, he is relatively individualistic. He made no room for the social institutions and social structural explanations and insisted that every social event can be divided into psychological units. Cohen (1980) responded to Elster in defence of historical materialism.

In Elster’s (1982) article on ‘Marxism, Functionalism and Game Theory’, he criticized the functional tendency in the Marxism, and urged that game theory can replace functional explanation with Marxism’s structural methodology. Cohen (1980) did not agree with this view, disagreeing on the validity of functional explanation for individuals and that classes conduct themselves in class struggles. He argued that functional explanation applies to the long-term outcomes of class struggle, which must conform to the central theses of historical materialism. Historical materialism suggests that 'the class which rules through a period, or emerges triumphant after epochal conflict, is the class best suited, to preside over the development of the productive forces at the given time'. Game theory in contrary can only highlight the conflict of a certain time, and the strategies pursued, but it cannot give answers to the question of why epochal conflict is settled one way rather than another.

Arrow (1994) claimed that the individualistic perspective in people dealing with or viewing things is pervasive. Individualistic approach explicably explains and proposes in terms of individual rather than social categories and has been supported by economic research, promotions, criterion that explains human behaviour. However, social factors are considered in economic analyses with an emphasis of the importance of technical information in explaining the existence of the irreducible social category of economics.

In short, social principles are worth including, but functional explanation does not necessarily mean causal relationships, and both social principle and functional explanation views indeed have beneficial effects in the methodological individualism approach. The question is whether the theories match the reality and this in turn provides the methodological individualisms with negation in analyses.
CONCLUSION

Methodological individualism in positive political economy is a study that manages to analyse and explain the interaction of political and economic activities through a formal and logical approach such as rational-choice assumptions on human behaviours and game theory in interactions in examining phenomena beyond economics’ standard remit. The strength of applying the individualistic view to understand the political economy issue can be concluded as beneficial because of its logical feature, formalization and generalisations as well as its strong explanatory power with a bottom up approach to situations and changes. However, assumptions on individuals’ behaviour and the situation when applying theories such as rational choice and game theory are said to be too simple, abstract and stylized and thus not relevant to the real world. This indeed attracts a number of critics, but the practical merit this methodology has on policymaking cannot be denied. Holism such as the historical and cultural approach or structural speculation provide a larger and descriptive picture of society including time span and institutional and functional aspects, which does not have to conflict with methodological individualism, and can be complementary in terms of providing an individualistic approach with a higher degree of correlation to the real situation.

REFERENCE


