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Methodology and policy prescription in economic thought:
a response to Mario Bunge*

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Abstract

Bunge (2000) distinguishes two main methodological approaches of holism and individualism, and associates with them policy prescriptions of centralism and *laissez-faire*. He identifies systemism as a superior approach to both the study and management of society. The present paper, seeking to correct and develop this line of thought, suggests a more complex relation between policy and methodology. There are two possible methodological underpinnings for *laissez-faire*: while writers such as Friedman and Lucas fit Bunge's pattern, more sophisticated advocates of *laissez-faire*, such as Smith and Hayek, base their policy prescription in a methodology quite divergent from the individualism Bunge describes.

Keywords

Individualism; holism; systemism; invisible hand; *laissez-faire*.

JEL classification code: B4

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1

This paper is a response to Mario Bunge (2000) 'Systemism: the alternative to individualism and holism'. Bunge's article makes a number of telling points and is evidence of a growing discomfort with the reductionism of the neoclassical school currently hegemonic within the discipline of economics. The present paper is in agreement with much of the substance of Bunge's article, seeking to correct and develop the line of thought he sets out.

Bunge's thesis is, firstly, that there are three fundamental research approaches in the social sciences: the two most influential, individualism and holism, being fatally flawed, with only the minority approach of systemism offering a viable way forward. Secondly, the relation between the three methodological approaches is mirrored by that between the three corresponding policy prescriptions associated with them: methodological individualism being associated with a policy individualism blind to social values, methodological holism with a policy centralism devoid of respect for the individual, and systemism with a mild form of intervention respectful of both individual and social values.

I suggest in this paper that the relation between policy prescription and philosophical standpoint in political economy is more complex than Bunge implies. In particular, there is more than one possible methodological underpinning for *laissez-faire*. As well as writers such as Friedman and Lucas who fit Bunge's pattern, more sophisticated proponents of *laissez-faire*, such as Smith and Hayek, base their policy prescription in a methodology quite divergent from the individualism Bunge describes.

2

As the title of Bunge's article implies, the two methodological approaches at the extremes of the continuum he describes are individualism and holism. They are inadequate, he argues, because each manages to avoid the other's error only by committing an opposite error of its own. For Bunge, 'holism' is inadequate 'because there are no relations without relata'; and 'individualism' so 'because all individuals are interrelated' (147¹):

"Neither of the two most influential approaches to the study and management of social affairs is completely adequate ... individualism is deficient because it underrates or even overlooks the bonds among people, and holism, because it plays down or even enslaves individual action. By contrast, systemism makes room for both agency and structure." (156-157)

Systemism, Bunge suggests, manages to synthesise the other two approaches, accepting the criticism each makes of the other. Apart from being defined negatively with respect to individualism and holism, systemism is characterised by viewing the world from a systems perspective: 'everything is either a system or a component of a

¹ Unqualified page numbers refer to Bunge (2000).

system and every system has peculiar (emergent) properties that its components lack' (147).

Bunge thus rejects holism as ignoring the fact that the relations, of which our systems of relations consist, depend fundamentally upon the material properties of the *relata*, the substrate-level entities which are doing the relating. But in doing so he is implicitly defining an anti-holist, or at least non-holist approach, which is shared by both individualism and systemism. It is also the case that Bunge criticises individualism for failing to take into consideration the *relationships* between agents, and the *emergence* of properties at the macro, or system level. But, again, in doing so he implicitly defines a non-individualist approach shared by both systemism and holism. Bunge's systemism thus lies at the intersection of the non-holistic and non-individualistic approaches. It is the latter contrast, between individualist and non-individualist methodological approaches with which the present paper is mainly concerned.

On the basis of this methodological analysis, Bunge proposes a corresponding typology of policy recommendations. He takes a clear stance on the relationship between methodology and policy: those on the right of the spectrum of policy views, those advocating *laissez-faire*, are more likely to appeal to individualist methodological premises, while those on the left, those adopting a more interventionist stance, are more likely to invoke holistic underpinnings for their policy pronouncements. He speaks of the 'obsolete individualism of ... Smith ... [and] the neoclassical economists' (147); 'the cultural policy of liberalism, which is based on individualism, is one of benign neglect. By contrast, the totalitarian cultural policy, which is based on holism, is one of censorship' (150-151); 'all market worshippers espouse individualism' (151). 'The radical individualists oppose all social planning in the name of individual liberties ... holists swear by top-down planning ... they are likely to ignore their aspirations and rights [sc those of the common people]. In either case, the powerless individual, whether forsaken or corralled, has nothing to gain' (153). By contrast, 'systemism takes into account social values (ignored by individualism) as well as individual values (ignored by holism)' (157).

There is much to be said for this account. While there may not be a tight, one-to-one relationship between methodological standpoint and policy prescription, nevertheless, there certainly are policy implications of the choice between individualism, systemism and holism. If, for example, one were to adopt a non-individualistic approach and recognise that the unintended collective outcomes of an unplanned, uncoordinated mass of individual self-seeking actions might have far from desirable features, then the obvious implication would be to see whether there is anything that could be done about it. The individualist approach, on the contrary, says that, assuming individuals can be counted on to optimise, to do the best they can for themselves given the constraints they face, the aggregate outcome of those individual actions will also be in some sense the best available: state intervention in the economy is nugatory.

These two approaches can be illustrated by reference to Maynard Keynes and Robert Lucas. Keynes, for example, clearly advocates a non-individualist, indeed a systems approach:

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“I have called my theory a *general* theory. I mean by this that I am chiefly concerned with the behaviour of the economic system as a whole And I argue that important mistakes have been made through extending to the system as a whole conclusions which have been correctly arrived at in respect of a part of it taken in isolation.” (Keynes, 1973: xxxii)

Keynes sets out very clearly here what he takes to be the distinguishing feature of the two approaches: that, on the one hand, we can derive **correct** conclusions from the study of *microeconomic* phenomena ‘taken in isolation’, but that to extend those conclusions to *macroeconomic* phenomena leads to error, and, on the other, that the correct approach is (what we would now call) a systems approach, aiming to examine the behaviour of ‘the economic system as a whole’.

Lucas, on the contrary, is a very clear spokesman for the trend in economics which favours an individualistic methodology, arguing strongly for ‘the reincorporation of aggregative problems such as inflation and the business cycle within the general framework of ‘microeconomic’ theory’ (Lucas, 1987: 107). It is in his view quite illegitimate to regard macro phenomena as ‘the province of some other, different kind of Economic Theory [such as] Keynesian “macroeconomics”.’ Here we have a clear expression of the desire to reduce macroeconomics to microeconomics, and a characterisation of the Keynesian approach as ‘abandonment ... of the only “engine for the discovery of truth” that we have in economics.’

Both these passages cited occur in contexts – a preface to the *General Theory*, and the concluding paragraph of *Models of Business Cycles*, respectively – where the authors are standing back from the detail of the theories that they are presenting, and indicating what they regard as the underlying general features of their approaches. What they choose to highlight in both cases is their selection of a individualist or anti-individualist methodological approach.

3

However, there is a problem with this way of looking at things. A profoundly influential trend within political economy, epitomised by advocates of *laissez-faire* such as Adam Smith and Friedrich Hayek, has postulated an invisible hand mechanism, in which order in human affairs is ‘emergent’, ‘resulting from human action but not design’ (De Vany, 1996: 427). Perhaps the canonical statement of an invisible hand mechanism is Smith’s statement that

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages.” (Smith, 1976b: I.ii.2)

In this well-known and apparently simple statement, the butcher, brewer and baker do not care about the dinners they provide, so that, in some sense, the desirable social outcome of feeding the members of society is achieved *in spite of* rather than *because of* the motives and behaviours of the food providers: the desired social outcome, that we be fed, emerges from self-seeking behaviour. This notion of emergent order seems at odds with the proposed association between *laissez-faire* and methodological individualism just noted: Bunge’s typology suggests that individualists fail to

recognise interrelationships and bonds between individuals, and that it is the non-individualist approaches of systemism and holism which are characterised as recognising emergence.

The question therefore arises, whether invisible hand mechanisms are consistent with the individualist approach. Haworth (1994) performs an invaluable service by addressing precisely this issue. He identifies two 'theses', implicit in libertarian thought, which he defines as follows, each illustrated by a statement from a libertarian source (Haworth, 1994: 32-34). Then the libertarians' logical dilemma arises from the mutual incompatibility of the two theses:

The reducibility thesis: the fully developed market economy can be understood as the sum or aggregate of its discrete components, the individual bilateral exchanges at the micro level. In evidence of this, Haworth cites Sir Keith Joseph: 'Since inequality arises from the operation of innumerable preferences, it cannot be evil unless those preferences are themselves evil.'

The invisible hand thesis: the market is a 'paradigmatic exemplar' of want-satisfaction (ie, unrestricted market forces leave agents better off than any alternative economic environment) because an invisible hand transmutes our self-interested behaviour into socially desirable outcomes. Haworth cites Mandeville as an example: 'the grand principle that makes us social creatures, the solid basis, the life and support of all trade and employment without exception is *evil*'.

So the individualist approach, based on considering individuals in isolation and ignoring or deprecating their interrelationships, says that an entity cannot display a property or quality unless its substrate displays that property: system level properties simply reflect substrate level properties – and thereby emergence is excluded – while the job of the invisible hand is specifically to transmute a property at the substrate level into its opposite – which is therefore necessarily emergent – at the system level. For Sir Keith the aggregate outcome cannot be 'evil' as long as the preferences it is based on are innocent; for Mandeville, on the contrary, the aggregate outcome cannot be good unless the preferences underpinning it are 'evil'. Thus Haworth is able to conclude that the libertarians cannot have it both ways: 'libertarianism is seriously broken backed in the sense that it must abandon one of its central theses' (Haworth, 1994: 34).

Howarth's analysis can be taken further. There are two possibilities: either we inhabit an individualistic or a non-individualistic world – either a world where an entity at one level can be understood as a congeries, an aggregate of isolated entities at a lower, substrate level, or a world where a higher level entity has to be understood as a product of the *interrelationships* between its component parts. If we lived in the former, the macro level would simply reflect the micro level. The individual would be directly social: there would be no distinct category of the social. Individual utility maximisation would directly be social welfare maximisation: the distinction between them would be meaningless. Likewise, macro irrationality would be just a summary of micro irrationality: unemployment would either be a product of irrational behaviour by workers, such as 'pricing themselves out of jobs', or it would be the product of a rational desire for leisure, and, hence, itself rational. In general, individuals could

with confidence be left to get on with it without supervision or intervention. An individualist world would be a *laissez-faire* world.

If, on the other hand, we were to inhabit a non-individualistic world, then individualists would have a problem. Yet this is the kind of world we actually live in. It is fairly obvious that higher level entities are not simply aggregates of their micro components: water does not behave as an aggregate of hydrogen and oxygen; steam, liquid water, and ice do not consist of tiny gaseous, liquid and solid molecules; nor do chairs consist of hard, green, ugly or uncomfortable molecules (Haworth, 1994: 35). All these properties emerge at higher levels. The problem faced by the individualist is how to reconcile this fact of an obvious disjuncture between levels with the *laissez-faire* policy prescription. Libertarians face severe difficulties sustaining a logically consistent policy individualism in a non-individualist world.

The invisible hand is one potential solution to this problem. Advocates of *laissez-faire* face a choice: either one can ignore the disjuncture between levels, and adopt a thoroughgoing individualist methodology and policy stance – this seems to be line taken by Joseph in the passage cited above, by Lucas and by Friedman – or with Hayek and Adam Smith one can accept that disjuncture and adopt a non-individualist methodology but at the same time postulate a mechanism reconciling that methodological non-individualism with a *laissez-faire* policy individualism. Such a mechanism is an invisible hand mechanism. The invisible hand allows us to say, granted that social outcomes are not *logically* bound to reflect individual behaviour in an aggregative, summary manner, nevertheless a mechanism exists which ensures that *in practice* they do so. The invisible hand is what allows us to think, and act, in an individualist way in a non-individualist world: it underpins individualism by tacitly conceding the opposite. *Laissez-faire* is vindicated and we are inveigled into tying the visible hand behind our back, if we can be persuaded that the invisible hand will do its job instead, and do it better.

4

Smith and Hayek tacitly recognise a non-individualistic world by invoking invisible hand mechanisms. Smith and Hayek are methodologically very distant from the crudely individualistic methodology of Lucas and Friedman. Compare the standpoints of Hayek and Friedman. For Friedman, economics is based on the study of ‘a number of independent households – a collection of Robinson Crusoes’ (Friedman, 1962: 13). For Hayek, on the contrary, ‘individuals are merely the *foci* in the network of relationships’ (Hayek, 1979: 59). So Hayek subscribes to a very clearly non-individualistic, and Friedman to an equally clearly individualistic methodology. Yet they still both endorse the same basic framework for policy of *laissez-faire*.

For Smith the invisible hand is literally the hand of an omniscient and omnipotent deity desiring nothing other than the maximisation of human welfare:

“all the inhabitants of the universe, the meanest as well as the greatest, are under the immediate care and protection of that great, benevolent, and all-wise being, who directs all the movements of nature; and who is determined, by his own

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unalterable perfections, to maintain in it, at all times, the greatest possible quantity of happiness.” (Smith, 1976a: VI.ii.3.1)

Smith’s standpoint is spelled out in detail in Denis (1999); for a contrary view, however, see Pack (1995).

For Hayek, writing in a more secular age, the invisible hand mechanism takes the form of an evolutionary process, specifically the group selection theory of VC Wynne-Edwards (Hayek, 1967: 70). Richard Dawkins criticises succinctly the group selectionist argument endorsed by Hayek:

“A group, such as a species or a population within a species, whose individual members are prepared to sacrifice themselves for the welfare of the group, may be less likely to go extinct than a rival group whose individual members place their own selfish interests first. Therefore the world becomes populated mainly by groups consisting of self-sacrificing individuals. This is the theory of ‘group selection’ [expressed] in a famous book by V.C. Wynne-Edwards ... [But if] there is just one selfish rebel, prepared to exploit the altruism of the rest, then he, by definition, is more likely than they are to survive and have children. Each of these children will tend to inherit his selfish traits. After several generations of natural selection, the ‘altruistic group’ will be over-run by selfish individuals, and will be indistinguishable from the selfish group.” (Dawkins, 1989: 7-8)

The point is, not that it is impossible for behaviour which leads to desirable consequences for the group to emerge, but that such behaviour needs to be underpinned by individual incentives. The theory of group selection – whether in a biological or social context – suggests that processes will be selected for when they lead to desirable collective outcomes. But it does not provide any mechanism linking those desirable processes to individual interests. The question, why individuals should act in the manner required by the theory, is left unanswered. For a contrary view of Hayek’s evolutionary theory, however, see Whitman (1998).

The alternative to both of these *laissez-faire* approaches is to combine recognition of the non-individualist nature of the world we live in with acceptance that there is no invisible hand. In this view, rational individual self-seeking behaviour is by no means the necessary and sufficient micro substrate for the desirability of social outcomes. Rather, behaviour must be *directly* social if desirable social outcomes are to be obtained. According to Keynes, for example, egotistical activity uncoordinated by the state may lead to inefficient outcomes. The price system aggregates rational individual actions but the aggregate is an unintended outcome as far as those individuals are concerned. There is no particular reason why unintended outcomes should necessarily be desirable and often they are not. Individuals take responsibility for maximising their own welfare, given what everyone else is doing, but society as a whole has to take responsibility for organising the aggregate outcome if undesirable aggregate outcomes are to be avoided:

“There is no design but our own ... the invisible hand is merely our own bleeding feet moving through pain and loss to an uncertain ... destination.” (Keynes, 1981: 471)

The *laissez-faire* policy prescription does, indeed, embody a policy individualism. However, there is more than one way of sustaining that standpoint methodologically. One can suppose that the world truly is individualist in relevant ways and that supposed macro-level pathology is simply the summation of micro-level behaviour which may or may not be pathological. *Laissez-faire* is an individualist policy prescription in the sense that it issues from an individualist methodological standpoint. Or one can accept that the world is non-individualistic and hence that macro-level pathologies might in principle be emergent at the macro level, but at the same time postulate the existence of an invisible hand mechanism which ensures that the individualist policy prescription of *laissez-faire* is nevertheless valid.

In substance Bunge's article is a significant contribution to our understanding of the methodology of economics – perhaps best embodied in his bold injunction to 'see agency through Weber's microscope, and structure through Marx's telescope' (154). The argument of the article, however, can be developed in an important respect. The pronouncements of Friedman, Lucas and Sir Keith fit Bunge's suggested pattern linking *laissez-faire* policies to individualist methodological presuppositions. But to lump non-individualist writers such as Smith and Hayek in with them, would both be mistaken and allow us to ignore the fundamentally ideological role of invisible hand mechanisms in allowing economists to retain some approximation to efficiency as their default notion of how the capitalist economy actually works.

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