

METHODOLOGICAL INDIVIDUALISM – CRITICIZING AND SUPERSEDING POSSIBILITIES

UDC 001.8

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Abstract. *Methodological process is a way of finding out the scientific truth, and, from the first economic theoreticians until today, a large number of methodological techniques have been used in the process of cognition. However, although there are many diverse scientific methods developed by the social sciences for the purpose of finding out the scientific truth, it can be said that there are two major theoretical ways of understanding and more concrete explaining of socio-economic reality: methodological individualism and methodological holism. This paper has the aim to get to the essence of the methodological individualism and the postulates it is based on. In that direction, the argumentation of different theoretical paradigms will be acknowledged, with a special accent on the relevance of the starting premises and the basic theoretical postulates of the two most influential and, probably most attractive methodological individualistic courses: the neoclassic and the Austrian school.*

Key Words: *Methodological individualism, methodological holism, axiom, reductionism.*

INTRODUCTION

The debate about the primacy of individual as opposed to social has lasted for centuries and, as Buchanan (1, p. 14) says, the chances are that it will last for centuries more. The essence of such debate lies in the basic principles of the deductive logic, which state that the economic research basically lies in the certain assumptions, in other words axioms that are not liable to the process of finding proofs. It is a detailed researching approach that says that no analysis can be initiated if the starting point is not something that does not have to be proved. "Most often these a priori assumptions are unarticulated and invisible, rooted deep in the background of the long chains of reasoning and by the means of which we come to the necessary conclusions". (12, p. 243)

The importance of the axioms rises from the fact that the deductive method as one of the basic methods of cognition needs certain premises to be used in the process. Logically perceived, the premises of the deductive conclusions can be obtained by the previous

conclusions, but this directing to the previous deductive conclusions can not last infinitely (the problem of the infinite regression). If a deduction is to be possible, at least some premises for the deductive conclusions have to be obtained in a non-deductive way. That is why a following question arises: is there not a kind of perception that would give the initial premises for using the deductive method? Even some antic philosophers believed that there are certain evident truths that are so evident that they do not need any proof. These directly obvious truths, which are not to be proved and represent the basis for employing the deductive method, are called the axioms.¹

With the aim of identifying the axioms that are the starting point of the methodological individualism, we will first take a look at some of its fundamental traits and efforts to prove the statement that the economy is the a priori science about human activity. In that sense we will discuss the concept and the development of the methodological individualism, the stands of the basic methodological individualistic and economical theoretical courses and afterwards we will explain the problems faced by those who support this methodological approach in analyzing the economic sphere of the social life.

1. HISTORY OF THE METHODOLOGICAL INDIVIDUALISM

Methodological individualism (atomism or compositional method) is the aspiration to analyze the characteristics of the system by analyzing the characteristics of its components. In the social reality these are individuals and their characteristics. Having in mind that the individuals or individual things, occurrences and beings, have a very large number of versatile traits, the term characteristic refers only to those characteristics mutual for a larger number of elements and on which it is possible to base certain regularities important for the explanation of the observed social occurrences. The characteristics of the elements to which we refer primarily are goals, wishes, intentions, beliefs and actions, since the human individual is in the basis of the methodological individualism.

Methodological individualism does not deny the existence of the complex social phenomena, as institutions, or the rules of behaviour valid for a large number of individuals. These phenomena are social reality, but, as some followers of the methodological individualism think, their explanation should be based on the individual characteristics of its constituents. It turns out that the methodological individualism is a reduction theory that creates a social phenomenon from the individual characteristics and traits.

The last conclusion says that the traits of the economic system are deduced from the individual wishes, intentions and preferences, which are caused by the wish that macro economy become constituted micro economic basis. There are some extreme stands about ignoring the needs of any innovations in economic coordination and institutional order, which would deny the need for macro economic theory and initiate its recasting into micro economic theory.²

¹ As opposed to the axioms, the postulates are the suppositions that can not be proved, whose validity is not directly obvious, but they are accepted because only with their help we can prove certain truth we firmly believe in.

² Psychological analysis of the social and economic laws in literature is known as psychologism. Such extreme methodological orientation does not deny the importance of the institutions and other factors from the environment, but it claims that the social structure was created by man, so that it is accordingly explicable in

The term "methodological individualism" first appeared in Schumpeter's "Theory of economic development" (17, p. 1). However, the idea of methodological individualism as a fundamental principle of analyzing social occurrences and happenings has been proposed by Hobbes (1588), Spinoza (1632) and Locke (1632). They put the individual rather than divinity, collectives or family in the centre of the social and political philosophy. Hume and Smith are largely responsible for the further development of individualism.

Smith is considered a leading representative of the classic school, and as such he is largely deserving for the cognition of the scientific method in the analysis of the economic occurrences, specially in the sense of affirmation of the abstract and deductive way of reasoning and considerable overcoming of the frames of then leading descriptive, classificatory, simple generalizing and only to a small extent individual analytic research. The position of methodological individualism can be recognized in its stand that the natural action of people is initiated by the six motives: egoism, favour, longing for freedom, the sense of decency, working habits, and aptitude for trade, barter and exchange of one thing for another. (2, p. 1818). If the individuals are free in governing these motives, they will simultaneously maximize their utility, as well as general profit and well-being. Smith's belief in the human motives is faithfully depicted by the "invisible hand" that aims to the goals that are unintended. That is why Adam Smith became the apostle of the liberalism based on the positions of the methodological individualism, and the classical school the defender and the follower of the *laissez faire*.

The special acknowledgment for affirming the methodological individualism should be given to the representatives of the Austrian school. The key figures of the Austrian tradition in economic theory are Menger (Carl Menger), Wieser (Friedrich von Wieser), Bohm-Bawerk (Eugen von Bohm-Bawerk), and in the twentieth century Mises (Ludwig von Mises) and Hayek (Friedrich von Hayek).

The key role of the Austrian school in formulating the thesis of the methodological individualism is revealed, among other things, in the fact that its original explanation of the methodological individualism was given by its representative Ludwig von Mises. According to him, economic activity of the individuals is primarily meaningful and intended activity. It is assumed that the individuals react to the stimuli from the environment in a thoroughly programmed and optimizing way. Since a human is a being with certain needs, he starts the economic activity in order to change the state of insufficient satisfaction, and in that way maximize his usefulness. Such behaviour is an act of the personal motivation, but the individuals cannot go against the nature independently and in an isolated way, which implies that the individuals necessarily start the relations with other people. In this way, group activity appears as a consequence of the activity of the individuals that constitute the group, so it is logical that the functioning of the groups and the whole society is the reflection of the individual acting. In other words "all actions are taken over from the individuals, so the social collectives do not exist outside the actions undertaken by its members." (10, p. 42)

The second vedette of the Austrian school that shook the academics in the other half of the last third of the XX century is certainly Hayek. He firmly defended the neo-liberal ideas and methodological individualism, being one of the key figures of that time, the time of more and more serious critiques of the keynesianism and the economic downfall of the socialist

the terms of human nature. For example, the creation and functioning of the market can be explained by the psychology of 'the economic man', or his striving to obtain material property.

countries. Hayek's position is typically pro-market and presents all that is best about the market and its classical liberal form, emphasizing the real existence of the spontaneous economic order that is not the result of somebody's invention, but the consequence of the evolutionary process in which a bundle of information was weaved in. According to him, allocation of the resources is initiated by the subjective evaluating of the individuals who have their preferences and plans, and who start contact among themselves by means of market in order to realise these plans and preferences. Therefore, the individual wishes and intentions come across the general market process that is much more complicated than any other intentional engineering of its participants, and which, as such, forms a chain of objective rules of behaviour. The process of exchange through cooperation and competition and the content of the production of goods, suddenly employs knowledge from all levels: individual level, households, firms, and, through the changes of prices, interest rates, rents, incomes, gain, loss etc. In this way, spontaneous ordering of the market process surpasses the cognitive boundaries of the individual human minds and plans. (15, p. 12)

Schumpeter, one of the greatest economists of the XIX century, bears a certain extent of similarity to the Austrian school and its ideas. Although Schumpeter's methodological stand is not clear enough, (some people consider it even confused)³, Schumpeter is, in his theories of rivalry, enterprise or economic development, Austrian even in the most literal methodological sense. These theories of his are deductive, individualistic, and in a typical Austrian way they do not take into consideration economy as a whole, but rather perceive the market as a group of interactions among the individuals. (5, p. 2). The supposition about the meaningfulness of the human actions and the mechanic analogues connected to the programmed activity of the individuals is also supported by the representatives of the so-called neoclassical mainstream. Beginning with Alfred Marshall and his textbook 'The principles of economy' (1870), with Valras, Jevons, Pareto, and others, the dominant influence of the neoclassical theory was based mostly on the ideas of liberalism, methodological individualism and the concept of the general economic balance. Neo-classicists affirmed the position of the methodological individualism by starting, in their analyses, from the individuals that have the inborn individual preferences and motives according to which they adjust their behaviour in the circumstances of scarcity and possibility of choice. The starting points are therefore the universal theoretic boundaries that have to do with the individual that acts reasonably no matter what economic activity he is involved in (consumer, household, enterpriser), in order to later start creating the theory of consumption, production, prices etc. with no help of methodological mechanisms of transmission.

This kind of approach of the neo-classicists, which assumes the total independence of the small units (or firms), is based, as noticed by Potter, on the classical mechanical *balance of Langrange (1758)* and its system of equation: (18, p. 56)

1) *Behaviour equations* of the smaller units, each getting the maximum result from the usage of its resources and equates with the prices of the marginal productivity factors and the proportionality of the marginal usefulness;

2) *Relation equations*: the balanced price equates all supplies and demands, or in other words connects interrelating the exploiting of all goods and all services;

³ This opinion is strengthened by the fact that Schumpeter's inconsistency as author is the main problem in his relations to the Austrian school. During one conference Milton Friedman said that Schumpeter is sometimes Austrian, methodologically and theoretically, and that he sometimes goes to the other extremes, by writing like a follower of the German historicism. See: (5, p. 2)

3) Balance equation: balance does not allow any surplus or deficiency (insufficient exploiting or the resources).

On the basis of the above stated, it can be concluded that the normative approach is not a question mark for the neoclassical paradigm. The creation of the ideal formulas –the perfect competition, Pareto-optimal distribution, the behaviour of the consumers in the conditions of the totally free information, the idea of the realistic actuality as an aberration from the ideal (to which it is necessary to strive), characterize the typical scheme of the interpretation of the theoretic stand of the neoclassic in accordance with the practical needs. (7, p. 28)

Relatively long-lasting domination of the methodological individualism was partly endangered by the appearance of keynesianism and its striving to promote the holistic method and macroeconomic way of observing the basic economic items. However, the development of keynesianism and economic measures based on its grounds that have been undertaken to govern the market economy, were noticeably affected during the beginning of the seventies of the past century when the world was faced with the economic crisis. That, among other things, was the reason for the appearance of monetarism, the school of rational expectations and economics of supplies, gathered under the common denominator- orientation toward the methodological individualism and the practical activity which on this cognitive basis encouraged the belief in the power of the individual, private property and the market way of coordination among the economic subjects.

Monetarism, with its main representative Milton Freedman, is based on the opinion that the inflation and unemployment as the main indicators of this crisis, are caused by the excessive influence of the state, expansion of the budget programmes and the consequent escalation of the monetary stocks. Inflation, for monetarists, is therefore, primarily the consequence of the monetary expansion, whereas the growth of unemployment is the result of the excessive influence of the state and the enlargement of its expenses, which threatened the competitive structure of economy and lead to the decreased demand for work as a factor of production.

Starting from the supposition that the inflation is the biggest enemy, the monetarists suggest the restriction of the rate of the money in circulation, believing that the inflation can be eliminated without larger consequences for production and employment.

These stands clearly explain that the individual and its expectations are put into the centre of analysis of economic reality. Individuals are rational economic subjects who anticipate changes and act in accordance with them. That is why it is possible to leave the economy to the free impact of the Say's market law. After the disorder, the economy automatically re-establishes the state of full employment and the unemployment returns to its natural level.

However, the monetarists point out that it is possible to influence the behaviour of the individual manufacturers by the measures of the monetary politics, but that it is valuable only in the short terms, while there is a 'monetary illusion' present. After that, the economy returns to its balanced state, but with the higher level of inflation, so that the intervention of the state is not a popular measure for regulation of the national economy.

Freedman's followers, gathered in the School of rational expectations, went a step further in emphasizing the individuals in methodology of the research work. They believe that the economic subjects are subjects with awareness who cannot be surprised by the state politics, because they constantly anticipate the changes in the economic sphere of the social life. According to them, Phillip's curve is also vertical on the level of the natural unemployment rate, in the long run, as well as in the short period of time.

2. THE POSITIONS OF THE MAIN THEORETICAL ORIENTATIONS IN UNDERSTANDING METHODOLOGICAL INDIVIDUALISM

Although the methodological individualism and the composition method derived from it (the striving to create macro economy on micro economy basis) are the guidelines of the neoclassic and the neo-Austrian school, there are certain differences noticed in the concrete studies. A possible attempt to synthesise and simplify these differences can be presented in the following way:

1) *The decentralised system of decision:* The neoclassicism in its studies starts from the individuals and their aims, intentions and preferences. However, its further conclusions point out that the impacts of the individual economic agents show themselves in the shape of the elemental, undividable subjects of decision making, such as households (as consumers) and firms (as manufacturers and the buyers of the manufacture factors). In this context it turns out that the economic decisions are brought by firms and not people. This kind of the system of the decentralised decision-making, however, is not typical for the methodological individualism of the Austrian school. Although they do not question the market subjectivity of the firms, the Austrians, nevertheless, think that the final decisions are made by people.

2) *The debate on the possibilities of the central planning:* After they arrived to the USA during 1930's (5, p. 3), Mises and Hayek started a debate with the leading economists of the neoclassic mainstream, and it referred to the possibilities of the central planning in solving the problem of the allocation of resources. As a matter of fact, Mize and Hayek explicitly asserted that the central planner cannot solve the problem of information and knowledge about the use of resources, because such information can be generated only by the market. The annulment of the market creates darkness; there are no prices to signal what, where, by whom and how much is needed, and the planners simply can not know what is to be done to satisfy the unlimited needs out of the limited resources. However, the majority of the representatives of the neoclassic mainstream of that time did not show understanding for these arguments of the Austrians. The neo-classicists had somewhat more cautious attitude concerning the issue of the fatality of the central planning, which was one of the things that brought their colleagues from the Austrian school in the position of the school treated as different, special school, separated from the neoclassic mainstream.

3) *The resistance toward the growing influence of the Keynesianism:* During 1940's the neoclassic economists were not completely immune to the growing influence of Keynesianism. That, among other things, reflected itself in the growing interest in studying the macroeconomic, aggregate variables, such as social products, investments, savings, etc. As opposed to that, the Hayek's strong support of the methodological individualism led to the unrecognising of the macro economy as a science. According to them, the macro economy practically does not exist- there are only interactions of the individuals and the economic variables like expenses and profit.

Although Keynes shares and accepts the greatest part of the epistemological principles of Hayek, he believes that the collective expectations influence and are expressed by the individual preferences and expectations that the state can influence by governing the macroeconomic aggregates. The expectation theory was the weak side of the neo-Austrian school and Hayek. (8, p. 9).

4) *The resistance toward the formalism and the general theory of balance:* There was a strong trend toward the massive applying, even idealizing of the mathematical models in economy during the second half of the XX century. "Instead of explaining the causative-consequential connections and relations of the studied phenomena, relating to the form of occurrence and facts gets more important place in the economic theory. This brings the analysis, in its largest part, to the analysis of the quantitative connections and relations among the observed phenomena, and the explanations of the factors that determine the quantitative relations among the observed phenomena."(13, p. 49.) Such occurrence, motivated by the wish to make the economy respectable following the example of the "real" sciences such as physics, is in the economic sciences known as formalism. For Austrians however, this is just an illusion of science. They confront the transplantation of the methods from the natural sciences into economy, keeping text instead of equations as a main form of expression. Speculations about why the nature of the economic life cannot be understood by implementing the multitude of information in the mathematic formulas and equations, can be illustrated by the following observations made by Hayek: 'by applying mathematic formulas and equations, we lose the insight into the real structure of the human relations, static values only teach us of the past and they don't give the excuse for the supposition that these relations will stay constant and we don't get the successful prognosis of the individual events.'(4, p. 136)

The theory of the general economic balance has a special role in the transition of the neoclassical economy into formalism, and its transforming into self-sufficient game of solving mathematical problems with little common ground with the outside world. As a matter of fact, the neoclassical model of the economic balance is based on the premise of maximal accomplishment of the static efficiency. In his reference to the equilibrist premises of the neoclassical paradigms, the famous author Francois Peru says that 'the general balance is an exquisite example of the 'manipulation'; it attempts to solve in advance, at the same and statically, the questions of existence, unity, optimality and the stability of the balance.'(18, p. 56) However, the Austrian school also does not accept this degree of idealisation and glorification of the economic balance in understanding the market and the general economic occurrences. This is, as the Austrians say, a mechanic concept of balance that does not explain anything and that finally can create a wrong picture of the functioning of the market.

5) *The relationship toward the positivism:* Under the influence of the logic positivism, neoclassicism increasingly accepts the empirical testing of the hypothesis as a dominant methodology and a way of cognition. As a matter of fact, the positivism⁴ as an epistemological school created in the second half of the XIX century, reduces the cognition only to that which can be positively known by experience, and by discarding any kind of metaphysics. This means that the only legitimate knowledge is the empirical science, while the attitudes of the ethics are less important - according to some representatives of the neoclassic, almost senseless. As opposed to that, the economy for the Austrians is primarily logic, in which the main method is deduction. They claim that the empirical tests in the social sciences are unreliable and that for that reason they cannot have the attribute of the exclusively scientific proof.

⁴ The most important positivist thoughts were created by O.Comte, J. Stuart Mill and E. Durkheim. Comte (1798-1857) as the founder of positivism supported the method of the empirical science, in which there can be only the empirically provable claims about the reality. See: (14, p. 1)

6) *The conception of rationality*. The attitude that the people do not have sufficient amount of knowledge and information points to the fact that the Austrian school is basically inspired by uncertainty and the cognitive inferiority of the economic subjects. This is certainly an act directed against the neoclassical model of total rationality, because of which the Austrian school can be listed among the founders of the conception of the limited rationality. (8, p. 1)

The disbelief in the classical model of the total rationality is present in almost all Hayek's conceptions (about the spontaneous order, insufficient and 'scattered' knowledge, enterprising, competition, etc.). Starting from the misbalance between the condition of being informed, on one hand, and the cautiousness of the economic agents on the matter of the possibility of using resources, on the other hand (20, p. 46), Hayek places the man capable of work and with limited cognitive possibilities in the middle of his study. In his lecture about the 'Illusiveness of knowledge', held on the occasion of receiving the Nobel prize in 1974, Hayek points out that the motivation for planning and intervention is not so much a product of the mental neurosis as it is the result of the *scientism*, or our over-emphasized fascination with the positivist knowledge. People put too much faith in the scientific expertise, as if the knowledge itself has the monopoly of generating knowledge and truth. The scientism is based on the wrong supposition that the spontaneous social order can be governed and skilfully shaped through the state interventionism and the planning of the national economy. (15, p. 13, 14, 15)

3. CRITICAL ANALYSIS OF THE METHODOLOGICAL INDIVIDUALISM

The assumption about the meaningfulness of the human actions and the mechanic analogues related to the programmed activity of the individuals can be a subject of serious discussions.

Firstly, the serious critique of the methodological individualism was initiated by, as many analytics point out today, the representatives of the 'early' institutionalism. They denied (3, p. 453) the presence of the naturally built-in mechanism - rational motives, preferences and intentions, striving to explain the relationship between the primary tendencies of the human consciousness and the social life. The conclusion connected to this is that people should be observed in a larger context of the socially conditioned behaviour as 'a wide-spread way of thinking and acting that follows certain habits and customs'. (19, p. 83). Veblen (21, p. 239) made the biggest contribution to this field. His conceptions about 'the habits of thinking' and 'instincts' were during the last years classified as one of the primary 'weapons' aimed against any kind of reductionism and simplification in the social sciences. In contrast to the early, the 'new' institutionalism has much milder view concerning the basic positions of the methodological individualism. The main representatives of this theoretical orientation seem to influence in the direction of the adequate 'methodological addition', striving to complete the neoclassical supposition about the naturally given individuals by implementing the thesis on the institutionally shaped individuals. The neo-institutionalism makes this step forward by not doubting the individual's intention to be rational. However, since the uncertainty is the immanent trait of every socio-economic system, the agents of the economic activity, with their imperfect cognitive capabilities, can not be certain that they will allocate the resources in an optimal way, and maximize the utility. (6, p. 190,191)

The essence of this completed approach is that the individuals, who naturally aim at the maximization of usefulness, are forced in the conditions of uncertainty to adjust their behaviour to the established formal and informal institutions. In accordance, we should remember North's (16, p. 201) definition according to which 'institutions are state rules, moral and ethic norms of behaviour which create a set of restrictions of the individual behaviour oriented toward profit making and material fortune.'

One of the authors that seems to be very agile and ambitious about the actual methodological problems was certainly Nozick (17, p. 1,2). The support or denial of the methodological individualism is, according to him, primarily a question of sustainability of the a priori theory of human impact. Such a cautious approach can prove its validity by the fact that methodological individualism can easily fall into the trap of the extremely reductive way of looking at certain economic and social phenomena. One of such stands is the claim that the rules of the market entered into all the elements of the social life, so that we can talk about universalizing of the market exchange and market analysis of the purpose of human existence. (9, p. 163) The other extreme refers to a stand that the theories of the human activity are reducible to neurophysiology, chemistry, physics, or those according to which the social science is reducible to them in a way void of human influence.

CONCLUSION

The acquisition of knowledge is a very complex intellectual process that depends on a large number of factors. The most important among them is certainly the choice of the methodological approach, or in other words, the principles on which the research is based. One of these approaches is methodological individualism; very relevant taking into consideration that the present mainstream economy exists on its basis. The basis of the methodological individualism is the claim that the theories of the social sciences are reducible to the theories of individual human activity, and that the group and general social characteristics are derivable from the individual characteristics, or that the laws of the group behaviour are derivable from the laws of individual behaviour. Concerning the economic science, there are extreme opinions in this direction. These opinions are about the need to completely modify the macroeconomy into microeconomic theory, which can also be understood as ignoring the claims about the development of the economic coordination and the improvement of the institutional order.

Although the methodological individualism enabled forming of the very relevant conceptions on certain phenomena in socio-economical sphere of life, it must be concluded that it nevertheless represents a form of a reductive approach of reaching the scientific truth. Therefore it is necessary to point out that the contemporary society and economy is so complex that the achievements of this methodological approach should not be applied one-sidedly, neglecting the impact of the various factors that are in the modern analysis identified with the functioning of the institutional social structure. This means that it is the scientific imperative to create the 'unbiased' methodological nucleus by which the individuals and the institutions are proclaimed relevant and equally arbitrary social entities. The importance of such parallel methodological procedure has, in the context of the economic science, the aim to point out that both levels - macroeconomic and microeconomic - have a certain degree of autonomy, which only speaks of the necessity of their synergy.

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METODOLOŠKI INDIVIDUALIZAM U FUNKCIJI TUMAČENJA EKONOMSKIH POJAVA

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Metodološki proces je put kojim se dolazi do naučne istine i od prvih ekonomskih teoretičara pa sve do danas, razvijen je veliki broj metodoloških tehnika koje su se koristile u procesu saznanja. Međutim, bez obzira na veliki broj različitih naučnih metoda koje su društvene nauke razvile u cilju dolaženja do naučne istine, može se reći da postoje dva osnovna teorijska puta za razumevanje i konkretnije objašnjenje društveno-ekonomske stvarnosti: metodološki individualizam i metodološki holizam. Ova rad ima za cilj da pronikne u suštinu metodološkog individualizma i postulate na kojima se on zasniva. U tom pravcu biće uvažena argumentacija različitih teorijskih paradigmi, sa posebnim akcentom na relevantnost polaznih premisa i osnovnih teorijskih postulata dvaju najuticajnijih i, verovatno, najatraktivnijih metodološkoindividualističkih pravaca u ekonomskoj teoriji: neoklasike i austrijske škole.

Ključne reči: Metodološki individualizam, metodološki holizam, aksiom, redukcionizam