

Thiago Dumont Oliveira

**The (un)intended consequences of Lionel  
Robbins' *Essay* in the Prehistory of  
Microfoundations**

Brasil

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*Opposition to Walras' and Jevons' claim that  
"economics, if it is to be a science at all, must be a mathematical science",  
has not failed to manifest it self. But, in my opinion, during the ensuing  
controversies swords have not been crossed over the crucial issue. For I believe  
that what social sciences, nay, all sciences need is not so much a new  
Galileo or a new Newton as a new Aristotle who would prescribe new rules  
for handling those notions that Logic cannot deal with.*

*Georgescu-Roegen, 1971, p. 41*



# Abstract

Robbins belongs to the prehistory of microfoundations, for his definition of economics helped to buttress the centrality that individual choice acquired after the Second World War. This, however, was an unintended effect of his seminal work *An Essay on the Nature and Significance of Economic Science*. Our claim is that, underlying his definition of economics, a novel approach to methodological individualism is advanced, in which the isolated individual plays the role of a temporary device. The economic man is but a first step in order to analyse more complex social phenomena. More specifically, three types of methodological individualism are outlined and it is argued that Robbins' approach cannot be classified as any of them; we thus propose a different category, that of 'first-step individualism'. Robbins' rationale for focusing on the isolated individual is not that social phenomena can be reduced to individual behaviour, but rather that this is the best starting point for economics, if it is to progress and be able to deal with more complex phenomena in the future. Robbins' participation in the Economic Advisory Council, in 1930, shed some light on Robbins' overarching interest on the interplay of economics as a science and political economy as a broader field that includes normative considerations. This renders invalid criticisms related to the absence of ethical considerations in Robbins' approach to economics. Thus, the *Essay* should be situated within his larger purpose of illuminating the extent to which the science of economics could serve as an important tool – necessary, though not sufficient – to orient the formulation of public policies.

**Keywords:** Lionel Robbins, Methodological Individualism, First-Step Individualism, Economic Advisory Council, Economics x Political Economy





# Resumo

Robbins pertence à pré-história dos microfundamentos, posto que sua definição de ciência econômica contribuiu para a centralidade que a escolha dos indivíduos viria a adquirir após a segunda guerra mundial. Não obstante, essa é uma consequência indireta de seu clássico *Um Ensaio sobre a Natureza e a Importância da Ciência Econômica*. A presente dissertação argumenta que, subjacente à definição de economia de Robbins, há uma nova abordagem no que tange ao individualismo metodológico. O indivíduo isolado é um elemento temporário, ou o ‘primeiro passo’, para se analisar fenômenos mais complexos. Mais especificamente, a abordagem de Robbins não é passível de classificação de acordo com as três modalidades de individualismo metodológico apresentadas; portanto classifica-se sua abordagem como “first-step individualism”. Robbins não defende a possibilidade de reduzir fenômenos sociais ao comportamento dos indivíduos, sua motivação para tomar o indivíduo isolado como ponto de partida é de que fenômenos complexos só poderão ser contemplados depois que os problemas mais simples forem resolvidos. A participação de Lionel Robbins no Economic Advisory Council em 1930 ilustra o interesse que Robbins demonstrou durante toda sua vida na interpenetração entre economia, enquanto ciência, e economia política, sendo este o campo mais amplo que inclui considerações normativas. Levando em consideração a demarcação entre economia e economia política, as críticas de que a ética não desempenha qualquer papel para Robbins perdem seu sentido. Portanto, o *Ensaio* deve ser situado no interesse do autor na importância da economia enquanto ferramenta – necessária, mas não suficiente – na formulação de políticas públicas.

**Palavras-Chave:** Lionel Robbins, Individualismo Metodológico, *First-Step Individualism*, *Economic Advisory Council*, Economia x Economia Política



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# Introduction

## The Nature and Significance of Robbins' *Essay*

Lionel Robbins' *An Essay on the Nature and Significance of Economic Science*<sup>1</sup> (henceforth *Essay*) defines economics as “the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses” (1969 [1935], p. 16). Although it is a moot point the extent to which Robbins' definition influenced economics, it surely played a role in laying the foundations of contemporary economics.

Lipsey (2009) identifies three legacies of Robbins that are still observable in modern economics: i) the idea that assumptions are intuitively obvious, ii) facts are not tests, but illustrations of theories and iii) economic theories are not context-specific nor historically constrained. He claims that it is hard to quantify the extent to which modern economics was influenced by Robbins, but that he definitely played some role:

There can be little doubt, however, that Robbins was an important link in their transmission to modern economists, both where he was initiator and where he was such a superb popularizer that he helped to make many of them the conventional wisdom of economics for generations to come (LIPSEY, 2009, p. 846).

Resende and Zeidan (2007, p. 270) likewise, stress that “the main transforming ideas put forward in the *Essay* accomplish a great deal to mould modern economics”. They argue that even more important than Robbins' definition of economics were “first, the differentiation between positive and normative economics, and second, the idea that economics can be expressed as a system of logical deductions from axiomatic principles”.

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<sup>1</sup> The book came out in 1932 and evoked numerous reactions, whereas the second edition was written in 1935, partly in response to these reactions. We use a reprint from the second edition from 1969

As Backhouse and Medema (2009) have shown, Robbins' definition gained widespread acceptance in the '70s. Duarte and Lima (2012, p. 1) suggest that there might be a connection between the acceptance of Robbins' definition and the rise of microfoundations:

It is probably no coincidence that microfoundations began to gain their greatest traction only in the 1970s, since [...] Robbins' definition finally conquered mainstream economics only at about that time.

The main goal of this dissertation is to investigate the peculiar approach to methodological individualism championed by Lionel Robbins, and whether or not he belongs to the prehistory of microfoundations. In order to answer this question, the first chapter of this work discusses the concept of methodological individualism. We start by defining reductionism, methodological individualism, psychologism, holism and collectivism (section 1.1). Section 1.2 presents a brief historical account of the uses of methodological individualism prior to the emergence of the concept itself. The first five papers to use the concept methodological individualism are the subject of section 1.3; most relevant for our purposes is Hayek (1944) since this paper inspired Popper (section 1.4.1), who, in his turn, inaugurated an intense debate among philosophers of science in the '50s/'60s (sections 1.4.2, 1.4.3 and 1.4.4).

Our main conclusion, presented in the second chapter, is that Robbins belongs to the prehistory of microfoundations, for his definition of economics helped to buttress the centrality that choice acquired after the second world war. However, this was an unintended effect of his seminal essay. Our claim is that, underlying his definition of economics, a novel approach to methodological individualism is advanced, in which the isolated individual plays the role of a temporary device. The economic man is but a first step in order to analyse more complex social phenomena. More specifically, it is argued that Robbins' approach cannot be classified according to the different versions of



methodological individualism outlined in the first chapter; we thus propose a different category, that of “first-step individualism” (section 2.4). Robbins’ rationale for focusing on the isolated individual is not that social phenomena can be reduced to individual behaviour, but rather that this is the best starting point for economics, if it is to progress and be able to deal with more fruitful problems in the future.

Further light can be shed on the argument by situating the *Essay* within Robbins’ overarching concern regarding the demarcation of economics and political economy, which in its turn was the product of Robbins’ lifetime interest in political issues . Hence, we show that Robbins’ peculiar approach to methodological individualism fits in with his hope that the role of economics in aiding the formulation of public policies could potentially increase overtime. He was clear that economics would never suffice given that both normative and positive considerations are required in the formulation of public policies:

All this is not to say that economists should not deliver themselves on ethical questions [...] an economist who is only an economist [...] is a pretty poor fish. I agree, too, that by itself Economics affords no solution to any of the important problems of life. I agree that for this reason an education which consists of Economics alone is a very imperfect education (ROBBINS, 1969 [1935], viii-ix)

Section 2.2 analyses Robbins’ participation in the Economic Advisory Council in 1930. This episode is of considerable interest for the purpose of our work. First of all, given that it took place two years prior to the appearance of the first edition of the *Essay*, an understanding of Robbins’ motivations and intellectual background at that point, and of the elements that would resurface on his works throughout the 30s, aids our understanding of Robbins’ goal with the *Essay*. It would be simplistic and it can be misleading to analyse the *Essay* without placing it in a broader temporal setting and accounting for Robbins’ other works.

Robbins' definition became the economists' mantra, yet his message was misread. Section 2.3 draws on part of the scholarship on Robbins which, in the same vein as our thesis, places the *Essay* within Robbins' wider concerns, which renders clear the continuity of Robbins' works throughout the 30s and 40s.

There are many legacies of Robbins' *Essay*, and the reason for focusing on his novel approach to methodological individualism is that his justification for treating isolated individuals as a first approximation is a pervasive feature of contemporary orthodox economics. Every undergraduate student learns, when confronting his professor, that one must walk before one can run. At first sight this seems like a plausible reason for learning to derive mathematical relations from an imaginary construct in order to gradually increase the complexity of the human being. Nevertheless, most students get so used to this that the exercise becomes an end in itself. This process is reinforced by (top) journals; one soon realises that the method is paramount in order to get published.

Robbins' *Essay* provided the methodological justification for the focus on the choices of agents. It should be noted, though, that his long term project was for economics to evolve from the isolated individual to one that is subject to social influences and uncertainty. To move from statics to dynamics. Economics should start with an abstract account of Robinson Crusoe in order to understand the economising man and gradually increase its complexity. With the benefit of hindsight it is clear that his conception of the isolated man as a first approximation became the *modus operandi*. The representative agent of modern macroeconomics illustrates the difficulties encountered by economics to further Robbins' initial goal.

# 1 Methodological Foundations

## 1.1 Preliminary Concepts

For the sake of clarity, a few concepts widely used throughout this work need to be defined at the outset: reductionism, methodological individualism, psychologism, holism and collectivism.

- Reductionism

Borrowing Schaffner's definition: "Intertheoretic explanation in which one theory is explained by another theory, usually formulated for a different domain, is generally termed theory reduction" (1967, p. 137). It must be noted that although the word reduction connotes explanation of some phenomena by its constitutive parts, it need not be the case. One can explain social phenomena by the behaviour of the individual, but the reciprocal is also true (e.g., the role of classes in Marx or religious beliefs in Weber).

- Methodological Individualism

The three most debated variants of methodological individualism are psychological / psychologistic individualism, subjective individualism, and institutional / institutionalistic individualism.

The common notion that these three variants share is not that social phenomena are reducible to individual behaviour, but rather what defines methodological individualism is a negative assertion: the belief that the individual is not reducible to social phenomena.

They are under the umbrella of methodological individualism precisely because they oppose holism.

The term “institutionalistic individualism” was created by Agassi (1960) and further developed in Agassi (1975). As he explains, individualism ascribes the “power to act [. . .] only to individuals; not to collectives” (AGASSI, 1975, p. 144), thereby “institutionalistic individualism” concurs with the other two variants in that only individuals are purposeful, i.e., collectivities are not organisms that exist independently of them. Nevertheless, it claims that social phenomena cannot be derived from individual behaviour, for there are feedback effects between agents and structure.

Whereas psychological and subjective individualism claim that social phenomena can be reduced to the individual, institutional individualism is the doctrine according to which individuals simultaneously shape and are shaped by society (ZOUBOULAKIS, 2002). In this sense, institutional individualism claims that individual behaviour is not a reflection of the social structure, thus it is a methodological individualistic explanation, yet there is a feedback effect between agent and structure that distinguishes this variant from psychological and subjective individualism, since these two assert that social phenomena are fully reducible to individual behaviour.

Finally, the difference between psychological and subjective individualism is that whereas the former proceeds by reducing social phenomena to individual behaviour and individual behaviour, in its turn, to the laws of psychology (e.g., Jevons), the latter concurs that social phenomena can be fully explained by individual behaviour, but argues that individual behaviour cannot be reduced to the laws of psychology, and that we learn by introspection instead - this variant is typical of the Austrian tradition.

Brodbeck (1954) uses a different terminology when discussing psychological and

subjective individualism. She dubs the former the “Galilean-Newtonian tradition”, which argues that “social theory is, in some sense, reducible to psychology which in turn, through physiology, is reducible to physics”. As to the latter, although she does not name it as such, the idea is that the “behavior of groups must be explained in terms of the behavior of individuals; but the psychology of individuals cannot be reduced to anything else”. (BRODBECK, 1954: 140-141).

Zouboulakis (2002) summarizes these three varieties of methodological individualism and adds that, in Hayek’s tradition (subjective individualism), individuals are subject to uncertainty and thus introspection is fundamental in assessing individual behaviour. For ease of exposition, we follow Zouboulakis’ terminology: psychological individualism, subjective individualism and institutional individualism.

- Psychologism

Udehn (2001, p. 41) argues that there is no consensus about the precise meaning of psychologism, but that in a broad sense “it is a form of reductionism. Some other theory or discipline is reducible to, or at least heavily dependent upon, some form of psychology.” Psychologism is not identical to psychological individualism, the former encompasses the latter. Nonetheless, since this dissertation does not address any other form of psychologism other than psychological individualism, the terms will be used interchangeably.

- Holism and Collectivism

Finally, Brodbeck (1954, p.155) distinguishes holism and collectivism (or “macroscopic”):

Social concepts are macroscopic relative to psychological ones; these in turn are macroscopic relative to physiological terms, and so on down to

the level of quanta of energy. Identification of ‘macroscopic’ with ‘holistic’ obscures the fact that one can be holistic on any level. Professor Hayek [...] is holistic with respect to psychological categories, since they may not be reduced to anything else

Udehn (2001, p. 39-40), in a similar vein, explains that holism is “the idea that there are wholes made of social parts, which are interrelated in a way that makes them different from a mere aggregate and irreducible to the parts taken in isolation.” Thus, holism is related to the idea of emergence, whereas collectivism means that individuals belong to a group because “individuals have something in common which turns them into a collective.”

The distinction between holism and collectivism notwithstanding, the terms will be used interchangeably on the present dissertation. For the purpose at hand, both concepts are used mainly as opposed to methodological individualism, i.e., in this dissertation they are taken in a broad sense to mean the reduction of individual behaviour to structural properties.

## 1.2 The dawn of methodological individualism

Although the term ‘methodological individualism’ was coined by Schumpeter (1908) in German, appearing for the first time in English in Schumpeter (1909), methodological individualism as an explanation of social phenomena predates the concept itself and can be traced back to the nineteenth century<sup>1</sup>. According to Udehn (2001, p. 7), prior to the nineteenth century there were

two main versions of the individualist theory of society which preceded methodological individualism; the theory of the social contract and the

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<sup>1</sup> This section provides a brief account of methodological individualism prior to Schumpeter (1908) drawing on Udehn (2001, chapter 2), see his book for a thicker historical narrative than we offer.

theory of spontaneous order, as it took shape in Adam Smith's idea of the market as an invisible hand.

Udehn (2001, p. 7) argues that methodological individualism originated as an “individualist counterreaction to the anti-individualist reaction of German historicism and the sociologism of positivist sociology.” If the German and English romanticism are a “reaction”,<sup>2</sup> then methodological individualism emerges as a “reaction to this reaction”:

[T]here existed at the beginning of the nineteenth century one social science; economics, and this science was largely individualistic. Other approaches to society, such as German historicism and French positivist sociology developed, partly, as reactions to the individualism of economics. Methodological individualism is, I suggest, a reaction to this reaction. (UDEHN, 2001, p.41)

The first “individualist theory of society”, the theory of social contract, can be traced back to the Greeks (Sophists and Epicureans<sup>3</sup>). Having disappeared during the Middle Ages, it resurfaced in the “Renaissance and culminated with the Enlightenment. The most important figures are Thomas Hobbes (1588–1679) and John Locke (1632–1704) [...]”. Hobbes' theory “is extremely individualistic, in the sense that it starts with natural, or pre-social individuals and explains the institution of society, or the state, solely in terms of the human nature of these individuals” (UDEHN, 2001, p. 7-8)

As to the “theory of spontaneous order”, more specifically to the question “were Adam Smith and the other classical economists methodological individualists? There is no answer to this question [...]” (UDEHN, 2001, p. 12). He does argue, however, that if Adam Smith is to be considered a methodological individualist, the particular branch that characterises his approach would be that of institutional individualism.<sup>4</sup>

<sup>2</sup> “Marx was not the only one and not the first to accuse political economists of excessive individualism. Similar accusations were part of the standard critique directed at classical economics from the quarters of German and English Romanticism.” (UDEHN, 2001, p. 11)

<sup>3</sup> Watkins (1957, p. 105) also argues that *methodological individualism* can be traced back to Epicurus

<sup>4</sup> For the sake of clarity, Udehn does not dismiss the argument that Adam Smith is an institutional individualist. And he tries to evade the question of whether Adam Smith is a methodological individualist by pointing that there are arguments to both sides. It should be noted, that although

After this detour, Udehn finally chooses Mill, the son, as the starting point for his history of methodological individualism: “By the time of John Stuart Mill, however, classical economics had become individualistic.” (UDEHN, 2001, p. 12) He argues that whereas James Mill was an institutional individualist, “John Stuart’s psychologism was more individualistic than the geometric method of James Mill.” (UDEHN, 2001, p.17) Udehn also highlights two differences between Stuart Mill and the classical economists:

[C]lassical economists, before John Stuart Mill, did not engage very much in methodological discussion and not at all systematically [...] The individualism of classical economics was more political and economic than theoretical and methodological. The classical economists favoured a free market with limited government, but their view of society was not radically individualistic and they did not advocate an individualistic methodology. (UDEHN, 2001, p. 12)

Udehn (2001, p. 18) claims that Stuart Mill presents “the first clear statement of the character and methodological role of economic man in the history of economic thought”, and that he “was a psychologistic, rather than an institutional individualist [...]”.

Udehn’s interpretation of Mill as a psychological individualist is the standard position in the literature. As far as we are concerned, the only exception is Zouboulakis (2002) where he claims that Mill is an institutional individualist. We close this section on the note that although Mill did not use the expression, he was a forerunner of methodological individualism:

John Stuart Mill’s *System of Logic* (1843) was probably the most influential work written on scientific method in the nineteenth century and this is especially true of the part devoted to the “social” or “moral” sciences. Mill did not use the term “methodological individualism”, but he did address the issue and advanced certain ideas that are clear manifestations of “methodological individualism”, in the sense eventually attached to this term. (UDEHN, 2001, p.45)

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Udehn claims that “There is no answer to this question”, his book answers to the question on the negative. After all, we have already seen that his main thesis is that methodological individualism appeared in the nineteenth century as a reaction to German romanticism, hence classical economics is an individualistic theory, yet not methodological individualism. Indeed, after some to-ing and fro-ing he claims that the classical economists are holists of sorts (UDEHN, 2001, p. 14).



If Stuart Mill presented the first formulation of methodological individualism, “economics became definitely individualistic in 1871, when Stanley Jevons and Carl Menger made the marginalist revolution, together with Leon Walras (1874).” (UDEHN, 2001, p.49) We will have more to say about marginalism on section 2.4, but we now move to the first explicit uses of the term methodological individualism among economists.

### 1.3 From Economics...

This section summarises the first five papers to use the concept “methodological individualism”: Schumpeter (1909), Hicks(1934), Machlup (1937), Hayek (1942) and Lachmann (1944). In all of these papers the expression only appears once, either on the concluding remarks or as a footnote. Overall, there is no detailed discussion of the principle - with the exception of Hayek.

Apart from the single appearance of the concept in these five papers, even implicitly there is not much of a discussion of individualism versus collectivism, i.e., the discussion held by these early economists is completely different from that among philosophers of science. Hayek differs from this group, although he only uses the concept once,<sup>5</sup> for he is the first to address methodological issues from a broader perspective than that of the economist, and, indeed, this paper certainly influenced Popper (section 1.4.1). According to Hodgson (2007), Popper’s friendship with Hayek might have been part of Popper’s (1945) motivation to discuss methodological individualism. On section 1.4.1 we argue that the influence is deeper than this, and that Popper’s ambiguities derive from his attempt and failure to reconcile Hayek’s positions with other traditions.

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<sup>5</sup> Indeed the paper has three parts and the term “methodological individualism” only appears once in the first paper and does not appear in the other two papers.

In this sense, though a complete account of the use of methodological individualism among economists would amount to more than 390 papers, and delimiting any subgroup of this sample would be arbitrary, we believe that starting with these first five papers to use the word prior to Popper (1945) makes sense from a historical perspective, given that Popper's motivation for entering this debate came from economics, particularly Hayek.

### 1.3.1 Schumpeter

The term methodological individualism was coined by Schumpeter (1908), though it seems to have been employed in a different sense from its current usage. Schumpeter (1909, p.213, emphasis in the original) stresses, at the outset, that his investigation “is a purely *methodological* one and has nothing whatever to do with the great problems of individualism and collectivism [...]”. The author does not discuss reductionism at any extent and his paper is not concerned with the metaphysical issues involved in discussing methodological individualism and collectivism; instead, Schumpeter (1909, p. 214) takes the “individualistic character of the methods of pure theory” as a basic tenet: “Almost every modern writer starts with wants and their satisfaction, and takes utility more or less exclusively as the basis of his analysis”. He claims to be a mere observer, not wishing to express “any opinion about this *modus procedendi*”.

Rather surprisingly, the first paper to use the concept of “methodological individualism” claims that individualism and collectivism are out of the scope of the paper for they are not “methodological”. Perhaps the key to this apparent paradox is that Schumpeter restricts his scope of analysis to that of the “methods of *pure theory*” (SCHUMPETER, 1909, p. 214, emphasis added). Hence, Schumpeter can evade the broader question of reducibility by, instead of claiming that economics must be individualistic, arguing that

the economics of J.B.Clark and V. Wieser is individualistic.

It is in this context that the word first appears, in the concluding remarks of his paper: “it is here claimed that the term ‘methodological individualism’ describes a mode of scientific procedure which naturally leads to no misconception of economic phenomena.” (SCHUMPETER, 1909, p. 231)

According to Udehn (2001, p.105), Schumpeter’s (1954) distinction between political individualism, sociological individualism and methodological individualism aimed at defending methodological individualism from the accusation of political ideology. Schumpeter claimed they were separate matters.<sup>6</sup>

### 1.3.2 Hicks

The term made its second appearance in Hicks (1934). Like Schumpeter, there is not much discussion of methodological individualism per se, and methodological individualism is virtuous by assumption, rather than a topic subject to investigation. The concept only appears in the last page of his paper on Walras, when highlighting two of his great achievements:

The other great quality of Walras’ work to which we may here allude is its rigorous “methodological individualism.” Far better than any earlier economist—better even than Marshall—he realized that the only economic explanation of a phenomenon is its reference back to individual acts of choice. Even he did not emancipate himself entirely from that sham utilitarianism which was the bane of his contemporaries, and which led them to suppose that the working of the free market “maximized utility” for the community as a whole. But this in his work is a mere excrescence,

<sup>6</sup> Although there is usually a tendency for methodological individualists to support economic liberalism and for holists to be more pro-government, from a logical point of view, the economic argument and the political position are independent. One can surely have a strong political position without being aware of any social theory at all, by the same token, one might have a strict position towards methodological individualism and be completely apolitical. To illustrate this point, Udehn (pp. 31-32) argues that Herbert Spencer is “the primary example” of an “unusual combination”; having been an organicist in the theoretical realm that championed political and economic individualism otherwise. The author adds that the accusations of Spencer holding a conflictual position arise from not distinguishing “clearly between ontological, methodological and political issues.”

and is easily disregarded. In his central doctrines he held firmly to the true significance of economic subjectivism, and therefore broke with the Labour Theory of Value more drastically than Marshall, and quite as drastically as the Austrians. For him individual choice was all-important in its function as explanation; and it is our realization of this which has led us to understand that it is not, for the economist, necessarily anything more. (HICKS, 1934, pp. 347-348, emphasis in the original)

### 1.3.3 Machlup

Machlup (1937) is the next author to use the term “methodological individualism”, and again it occupies a very limited space in the paper. Indeed, it only appears once, in a footnote. The author takes methodological individualism as a tenet. Nonetheless, he claims that economics should not abstract of “typical” features. More specifically, he argues that sellers decide their levels of prices and output based upon their expectations about other sellers’ actions, and, therefore, expectations form a constituent part of human behaviour that must be taken into account if one is to be a “consistent” methodological individualist:

Consistent methodological individualism calls for an interpretation of demand curves as pictures of typical sellers’ estimates. What the “actual facts” do is to influence and reshape the estimates of the sellers who learn by experience. (MACHLUP, 1937, p. 446)

### 1.3.4 Hayek

Hayek (1942) is the first economist to investigate methodological individualism from a broader perspective.<sup>7</sup> It is not only a more detailed account, for the “paper” is made of three parts, but, more importantly, Hayek deepens the discussion in many ways; he may even be said to have started the discussion properly, since the papers before him only mentioned the concept fortuitously. Furthermore, Hayek deserves a special place in our narrative, since he directly influenced Popper.

<sup>7</sup> The paper *Scientism and the Study of Society* was published as three different parts (1942, 1943, 1944). For the purpose at hand the first paper should suffice, since the expression “methodological individualism” only appears once in these papers, in the first part.

Hayek (1942, p. 269) criticised the “slavish imitation of the method and language of Science [...]” and dubs as “‘scientism’ or the ‘scientistic prejudice’” the “uncritical application of habits of thought to fields different from those in which they have been formed.”

The gulf between the methods of the natural sciences (“Science” in Hayek’s terminology) and social sciences is that “the world in which Science is interested is not that of our given concepts or even sensations.” (HAYEK, 1942, p. 275) The world of the social scientist, on the other hand, is one where concepts and sensations are key elements:

The question is here not how far man’s picture of the external world fits the facts, but how by his actions, determined by the views and concepts he possesses, man builds up another world of which the individual becomes a part. And by “the views and concepts people hold” we do not mean merely their knowledge of external nature. We mean all they know and believe about themselves, other people, and the external world, in short everything which determines their actions, including science itself. This is the field to which the social studies or the “moral sciences” address themselves. [...] They 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, 1942, p. 276)

This is not to say that social science is always different from natural science, he uses contagious diseases as an example of a social scientific problem that can be addressed with the tools of natural sciences: “There are, in other words, natural sciences of man which do not necessarily raise problems with which we cannot cope with the methods of the natural sciences.” (HAYEK, 1942, p. 276)

“Moral sciences” is a branch of social sciences “concerned with man’s conscious or reflected action, actions where a person can be said to choose between various courses open to him, and here the situation is essentially different.” He acknowledges that men live in a physical world and their actions can “be defined in purely physical terms.” Nonetheless,

physical explanations do not shed light on the particular problems of “moral sciences”, and if we were to limit our investigations to physical explanations of “human action, we would confine ourselves to less than we know about the situation.” (HAYEK, 1942, p. 277)

Concepts and ideas cannot be defined “objectively”<sup>8</sup>: “So far as human actions are concerned, the things *are* what the people acting think they are.” (HAYEK, 1942, pp. 277-278, emphasis in the original) Thus, whereas the method of the natural sciences abstracts from some of the physical properties in order to derive other, unknown properties, social sciences fall short of mimicking this procedure since they abstract “from *all* the physical attributes of the things in question [...]” (HAYEK, 1942, p. 278, emphasis in the original)

Drawing on his distinction between natural science and moral science, Hayek arrives at his conception of the principle of methodological individualism. Though lengthy, the next two passages clearly state Hayek’s version of methodological individualism. We leave it for later the question of whether he was a subjective or an institutional individualist;<sup>9</sup> for now, it is safe to say he was not a psychological individualist:

While concepts or ideas can, of course, exist only in individual minds, and while, in particular, it is only in individual minds that different ideas can act upon another, it is not the whole of the individual minds in all their complexity, but the individual concepts, the views people have formed of each other and the things, which form the true elements of the social structure. If the social structure can remain the same although different individuals succeed each other at particular points, this is not because the individuals which succeed each other are completely identical, but because they succeed each other in particular relations, in particular attitudes they take towards other people and as the objects of particular views held by other people about them. The individuals are merely the *foci* in the network of relationships and it is the various attitudes of the

<sup>8</sup> “There are no better terms available to describe this difference between the approach of the natural and the social sciences than to call the former objective and the latter subjective. Yet these terms are ambiguous and without further explanation their use might prove misleading” (HAYEK, 1942, p.279). The distinction will not be addressed here since Hayek introduces the terms “analytic” and “compositive or synthetic” later on the paper in order to avoid such ambiguities, as we shall see.

<sup>9</sup> For a detailed discussion of Hayek’s methodological individualism see Brodbeck, 1954; an alternative interpretation that sheds doubt on Hayek’s methodological individualism - at least on his later works when he abandoned the term - is available in Hodgson, 2007.

individuals towards each other (or their similar or different attitudes towards physical objects) which form the recurrent, recognisable and familiar elements of the structure. (HAYEK, 1942, p. 284)

Hayek's methodological individualism, thus, takes the individual as the starting point, yet individuals' beliefs about social phenomena influence their actions and these beliefs are socially constructed rather than objective facts:

It is very important that we should carefully distinguish between the motivating or constitutive opinions on the one hand and the speculative or explanatory views which people have formed about the wholes; confusion between the two is a source of constant danger. It is the idea which the popular mind has formed about such collectives as "society" or the "economic system", "capitalism" or "imperialism", and other such collective entities, which the social scientist must regard as no more than provisional theories, popular abstractions, and which he must not mistake for facts. That he consistently refrains from treating these pseudo-entities as "facts", and that he systematically starts from the concepts which guide individuals in their actions and not from the results of their theorising about their actions, is the characteristic feature of that methodological individualism which is closely connected with the subjectivism of the social sciences. The scientific approach, on the other hand, because it is afraid of starting from the subjective concepts determining individual actions, is, as we shall presently see, regularly led into the very mistake it attempts to avoid, that of treating as facts those collectives which are no more than popular generalisations. (HAYEK, 1942, p. 286)

At this point, Hayek (1942, p. 287) replaces the ambiguous terms "objective" and "subjective" for, respectively, "analytic" and "compositive<sup>10</sup> or synthetic". That is, the individual does not observe the whole, only elements that compose social phenomena. The individual has to reconstruct the wholes by "systematic fitting together of the elements with familiar properties [...]".

In order to support his claim that one does not observe wholes, Hayek quoting Robbins argues that "[i]n Economics [...] the ultimate constituents of our fundamental generalisations are known to us by immediate acquaintance. In the natural sciences they are known only inferentially." (ROBBINS, 1935, p. 105 *apud* HAYEK, 1942, p.287)

<sup>10</sup> The term compositive was borrowed from Menger (HAYEK, 1942, p. 287)

To conclude, Hayek's main point is that the individual is cause and consequence in the sense that what he knows by "immediate acquaintance" - his beliefs - is part of the *explanans*, however they are synthetic rather than analytic.

### 1.3.5 Lachmann

Lachmann (1944) only uses methodological individualism in the last page of the paper, where he offers a summary:

We must leave it to the reader to judge whether in this way a deeper insight, a more satisfactory understanding of the problem has been achieved. But it is evident that his judgment will have an important bearing not only on the relative merits of "methodological individualism" and "methodological collectivism", but also on the issue which formed our starting-point in this paper, viz. the mode of co-operation between economic theorists and historians. As Professor Hayek has repeatedly pointed out, there is no inherent antagonism between those who evolve abstract patterns of human action and those who use them for the explanation of concrete events; the two methods are in fact complementary. There can, of course, be no historical narrative which is not at least an attempt at a rational explanation of the events narrated, for it is impossible to give any intelligible account of social phenomena in any other way. The greatest obstacle to closer co-operation between theorists and historians seems to lie in the fact that theorists find it difficult to produce models with time-dimensions, while historians cannot apply models which have no time dimensions to the explanation of real processes which have.

Lachmann is referring to Hayek's paper just discussed. It could be argued that the method that he champions - a combination of history and economics - is closer to institutional individualism. Lachmann starts his paper claiming that "economic research into the realm of dynamics will necessitate much closer co-operation between economic theorists and historians than has existed so far" (LACHMANN, 1944, p. 64). Now, it is telling that he attributes to Hayek the idea that "there is no inherent antagonism between those who evolve abstract patterns of human action and those who use them for the explanation of concrete events; the two methods are in fact complementary." That is, Lachmann endorses Hayek's conception and, as will be shown in the next section, so does



Popper. We are not in a position to say what sort of methodological individualism do these three authors champion <sup>11</sup>, but it looks like they share a similar methodological stance. Though it cannot be said that Popper accepted Hayek wholeheartedly, or, at least, in a consistent way when different parts of his arguments are tried to be reconciled, as we shall now see.

## 1.4 ... to the Philosophy of Science

We now switch to the debate led by philosophers of science in the '50s/'60s (see section 1.4.3). The inspiration for this debate was Popper (section 1.4.1), and Popper's inspiration, in its turn, was economics, particularly Hayek. Thus, though our switch from economics to philosophy may be considered arbitrary, the narrative can be read as "linear" from another perspective.<sup>12</sup>

Udehn (2001) identifies the debate inaugurated by Popper as the second of three periods of intense debate between methodological individualists and methodological holists: i) the end of nineteenth century and beginning of the twentieth century, ii) post World War Two, particularly during the '50s, and iii) 1980 onwards; a debate related to the spread of rational choice from economics to the other social sciences which has not ended yet.<sup>13</sup>

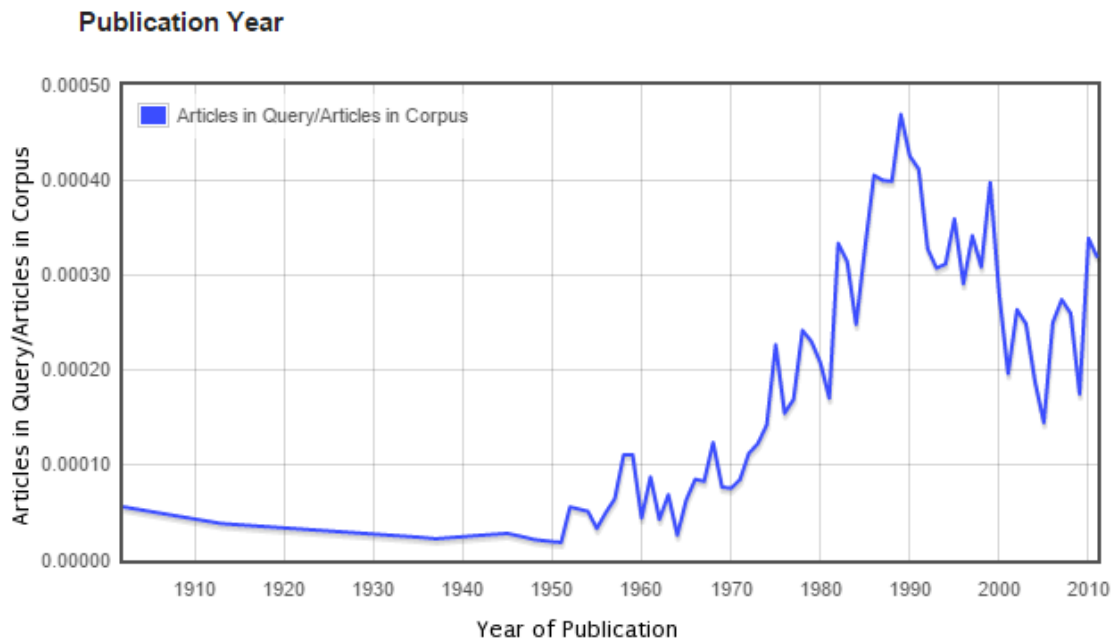
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<sup>11</sup> The literature usually classifies Hayek as a subjective individualist, but a case could be made that he is an institutional individualist. Later on the paper, when talking about undesigned results, he uses as an example the way that tracks are formed: "At first every one will seek for himself what seems to him the best path. But the fact that such a path has been used once is likely to make it easier to traverse and therefore more likely to be used again; and thus gradually more and more clearly defined tracks arise and come to be used to the exclusion of other possible ways." (HAYEK, 1942, p. 289) This is the idea of emergence, which would be more attributable to institutional than subjective individualism.

<sup>12</sup> "Popper, then, was not an 'Austrian' in his methodology for the social sciences. He was, however, an Austrian by birth and, what is more, he was a student of Ludwig von Mises and a friend of Friedrich von Hayek. This fact alone makes for a certain continuity between Austrian and Popperian methodological individualism. More important, however, is the fact that Popper read an early version of *The Poverty of Historicism* at Hayek's private seminar in London in 1936." (UDEHN, 2001, p. 200)

<sup>13</sup> See Fine; Milonakis(2009)

Figure 1 – Proportion of papers among philosophy journals to use the expression “methodological individualism”

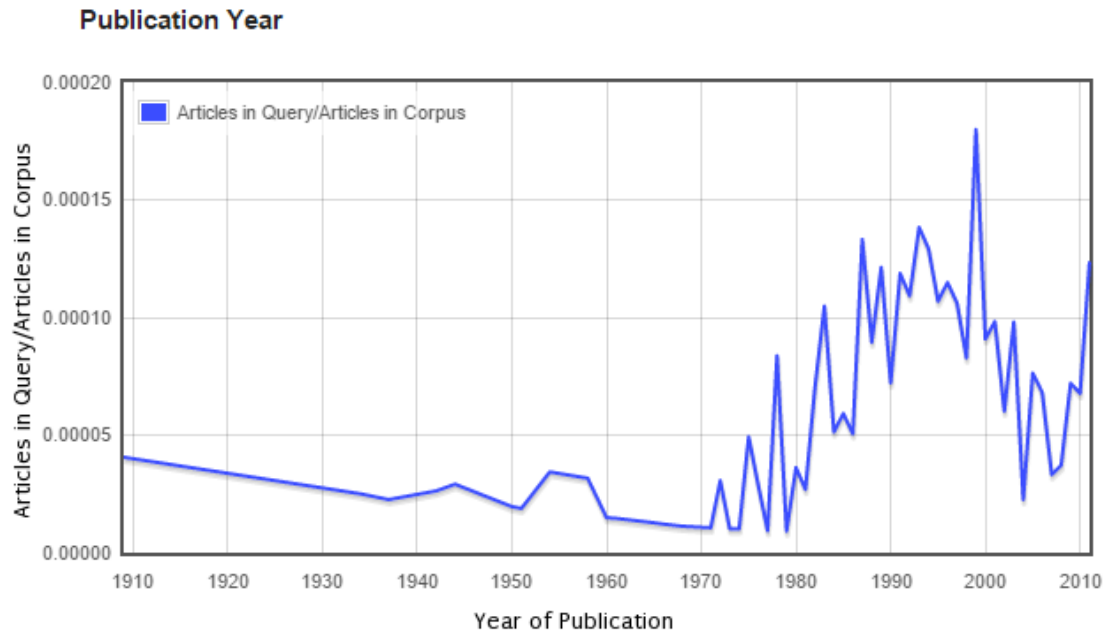


Source: Jstor

As the following two figures suggest, although the number of papers to use the expression “methodological individualism” relative to the total number of papers has grown over time both in philosophy and economics journals, this tendency can be observed as early as 1950 among philosophers, probably as a consequence of Popper, whereas the interest in the subject among economists seems to have risen only after 1970.

King (2012) notes that no prominent economist participated in this intense debate and that Robbins’s absence is remarkable, since its inspiration came from Popper and Watkins, both at the LSE at the time. Although Robbins was most likely familiar with this debate, it is not surprising that he did not engage directly with it. First, to our knowledge Robbins never made use of the term methodological individualism. Secondly, in spite of the *Essay* being one of the most debated methodological works in Economics, Robbins was not concerned with methodology *per se*; he does not make use of concepts from the

Figure 2 – Proportion of papers among economics journals to use the expression “methodological individualism”



Source: Jstor

philosophy of science. *In nuce*, Robbins' *Essay* is about the methodology of *economics*, and it is written by the pen of an *economist*.

King (2012, pp. 53-54) argues that the debate should be understood in its broader context, keeping in mind its underlying political motivation:

It is not entirely clear why the question should have become important to social theorists at this time [...] There was probably a political motivation with methodological individualism being seen as an antidote to the collectivism and the potentially totalitarian Hegelian holism attributed to Marx and (with more justice) to some of his followers. A more narrowly academic motivation would have been supplied by the contemporary controversy between Marxists and Weberians on the nature and origins of bureaucracy, which was a very live issue in the early stages of the Cold War.

As to the academic motivation, Redman argues that Popper's *Poverty of Historicism* was meant as an allusion to Marx's *Poverty of Philosophy*, which in turn alluded to

Proudhon's *Philosophy of Poverty*. (1993, p. 107)

The debate among philosophers of science in the '50s/'60s rose a series of methodological pitfalls related to the explanation of social phenomena solely upon individual behaviour. Agassi's institutional individualism, it could be argued, crystallises part of these objections in an attempt to free methodological individualism from its shortcomings (section 1.4.4). This debate is interesting not only in its own terms, but also for the implications it has when assessing contemporary mainstream economics (section 1.4.3).

### 1.4.1 Karl Popper

Popper (1945) describes the methods of “historicism”<sup>14</sup> as “scientistic” in Hayek's (1944) sense. The most characteristic feature of historicism is the attempt to find a “*law of evolution* of society [...]” (POPPER, 1945, p. 69, emphasis in the original). Social sciences, however, cannot mimic the natural sciences, since there are no laws of evolution: “The evolution of life on earth, or of human society, is a unique historical process.” (POPPER, 1945, p. 70) Since historical processes are unique, it follows that hypotheses about them cannot be tested empirically.

Following Hayek, Popper (1945, p. 80) argues that “most of the objects of social science, if not all of them, are abstract objects; they are theoretical constructions.” Individuals construct abstract “models” of social phenomena which, otherwise, would be too complex to be grasped. If ideas are “models” and not “things”, it follows that “methodological essentialism”<sup>15</sup> falls short, since only individuals can construct models, they must be *the* unit of analysis. These “things” do not exist out there, only in the minds of individuals. Thus the task of social science is to

<sup>14</sup> “I mean by ‘historicism’ a methodology of the social sciences that emphasises their historical character and aims at historical prediction.” (POPPER, 1944, p. 86) See the first part of his paper for a lengthy discussion of historicism.

<sup>15</sup> “By ‘essentialism’, Popper means conceptual realism, or the thesis that there are universals.” (UDEHN, 2001, p. 201)

analyse our sociological models carefully in descriptive or nominalist terms, viz., in terms of individuals, their attitudes, expectations, relations, etc. - a postulate which may be called “methodological individualism”. (POPPER, 1945, p. 80)

The centrality of the individual does not mean that psychological science plays any role at all. Popper (1945, p. 82) considers the social sciences to be “independent of psychological assumptions, and that psychology can be treated, not as the basis of all social sciences, but as one social science among the others.” His suggestion of what should replace psychology brings us to a pervasive element in Popper’s writings: “[W]e must next replace the theory of psychological propensities by something better; I suggest, by an *institutional (and technological) analysis*.” (POPPER, 1945, p. 87, emphasis added)

From our discussion thus far, it could be argued that Popper followed Hayek nearly *ipsis litteris*.<sup>16</sup> Our emphasis on “*institutional (and technological) analysis*”, nonetheless, is to stress a key ingredient that distinguishes Popper from Hayek, and, thereby, to shed some light on Popper’s convoluted use of methodological individualism. Udehn (2001, p. 200) claims that Popper’s main contribution was that he brought institutionalism to the fore, even though he could not reconcile it with his version of methodological individualism, a task that would be left to Joseph Agassi (1.4.4).

Udehn (2001, pp. 209-210) differentiates Hayek’s and Popper’s methodological individualism as follows:

According to the original version of methodological individualism, institutions do not belong in the situation, at least not if they are conceived of as belonging to an autonomous reality ‘above’ individuals, capable of acting back upon them. According to Austrian methodological individualism, institutions should be analysed and explained as the result of the actions of individuals, but not as a cause of human action. According to Popper, however, human action and thinking is, at least partly, caused by social institutions. According to the Austrian view, institutions exist only as ideas in people’s minds. According to Popper, they exist in an

<sup>16</sup> Incidentally, Hayek was the editor of *Economica* when Popper’s paper was accepted (UDEHN, 2001, p. 200)

autonomous world of objective ideas ‘over and above’ individuals. [...] The main difference between Popper and the Austrians, however, is that Popper rejects the subjectivism of the latter. Methodological individualism is no longer a corollary of an intersubjective theory of society. According to Popper, subjectivism leads to psychologism and, ultimately, to a genetic concern with the origins of society. In order to avoid this predicament, Popper adopts institutionalism. What is more, institutions are conceived of as objective elements of social reality, not as ideas in the minds of individuals. This creates a tension in Popper’s social science methodology which is not easily resolved [...]

There are a few conflicting positions in Popper’s works. These are difficult to reconcile, according to Redman (1993, p. 104), since “Popper’s philosophy has evolved considerably since the 1930s, leaving behind confusing and conflicting streams of thought.” Thus, it is not possible to analyse each work in isolation, “he keeps developing his ideas further and in divergent directions. [...] A consistent philosophy of the social sciences cannot be found in Popper’s work to date.”

Redman (1993, p. 124) lists three ambiguities in Popper’s work: i) the idea that “physics can be applied successfully to economics (his thesis of naturalism)”; ii) “he asserts that laws are not trends. But then he asserts that trends can in fact be formulated as laws.”; iii) the possibility of a “purely objective method” for social science: situational logic.

The most important ambiguity, for our purposes, is that the blurry role of institutions leads to the problem of infinite regress. Popper’s claim is circular since institutions are an important part in the explanation of individual behavior (which should replace psychology), yet institutions themselves can be explained by individual behaviour:

The problem with Popper’s arguments against psychologism is that they seem to hit methodological individualism too. Popper’s main argument, implies the adoption of an institutionalist method, but this suggestion does not work as long as Popper insists that also institutions must be analysed by an individualist method. (UDEHN, 2001, p. 204)

For Popper psychologism was correct to the extent that social phenomena should be reduced to the behaviour of the individuals, and that one should adhere to methodological individualism rather than methodological collectivism. Nevertheless, he objected to the idea that an individualistic method implied a psychologistic approach. He proposed situational logic and institutionalism as alternatives to psychologism. Popper's conception of methodological individualism was too broad to be of much use, and this explains why his students took it in different directions:

'Situational analysis' is Popper's final name for a methodological tool which he had earlier called 'logical' or 'rational' reconstruction, the 'zero method', the 'logic of the situation' and 'situational logic'. It is a method for constructing models in social science, based on the assumption that people act rationally in the pursuit of their ends. If we know people's ends, the situation in which they act when seeking these ends and assume that they act rationally, i.e., choose the adequate means for attaining their ends, then, we can explain why they acted as they did. [...] Among Popper's pupils and followers, only J.W.N. Watkins seems to equate situational analysis with rational choice, while Joseph Agassi, Ian. C. Jarvie and John O. Wisdom appear to take a more broad view of this method. But how individualistic is situational analysis. That, I suggest, depends upon what is included in the situation. (UDEHN, 2001, pp. 206-207)

## 1.4.2 John Watkins

Watkins' first paper on methodological individualism takes Weber's "ideal types" as its point of departure.<sup>17</sup> The purpose is to abstract from individuals:

(a) general schemes of personal preferences ; (b) the different kinds of knowledge of his own situation which the individual may possess ; and (c) various typical relationships *between individuals* and between the individual and his resources. (WATKINS, 1952, p. 24)

As some authors have noted,<sup>18</sup> Watkins includes the "relationships between individuals" in his supposedly individualistic methodology, i.e., there is some ambiguity in

<sup>17</sup> We briefly assess Weber on sections 2.4 and 1.4.3

<sup>18</sup> See section 1.4.3

arguing that explanations must be solely in terms of individuals, but that the interactions with other individuals must be accounted for. As King (2012, p. 54) has argued, “the principle of methodological individualism” defined by Watkins “proved to be vacuous. He could not avoid references to situations” which were “irreducibly social situations, so that ‘methodological holism’ had been let in through the back door”.

Now, regardless of some ambiguity, Watkins’ justification for using methodological individualism was that holistic explanations are articles of faith; to impute the whole with a characteristic that does not derive from individual behaviour is a religious, rather than scientific, approach:

The Israelites also imputed their fortunes and misfortunes to a superior entity immune from their own activities; but they rightly called this “God.” All social phenomena are, directly or indirectly, human creations. A lump of matter may exist which no one has perceived, but not a price which no one has charged, or a disciplinary code to which no one refers, or a tool which no one would dream of using. From this truism I infer the methodological principle which underlies this paper, namely, that the social scientist can continue searching for explanations of a social phenomenon until he has reduced it to psychological terms. (WATKINS, 1952, pp. 28-29)

This, of course, leads to the question of what are human dispositions. Watkins quoting Robbins, perhaps paradoxically, answer to this question is that

the ultimate premises of social science are human dispositions, i.e. something familiar and understandable. They “are so much the stuff of our everyday experience that they have only to be stated to be recognised as obvious.” (ROBBINS, 1935, P. 79 *apud* WATKINS, 1952, p. 32)

The last two excerpts contradict one another in the sense that Watkins is a psychological individualist - social phenomena must be reduced to “psychological terms” - but he uses Robbins’ idea of “stuff of our everyday experience”, which is a heritage of Austrian economics - more specifically the idea of introspection. We shall see on section 2.4 that Robbins’ approach to methodological individualism is a compromise between these



two alternatives and, thus, a new approach in itself which we dub “first-step individualism”.

Robbins would hardly agree with Watkins that the

major theoretical advances in social science consist in the perception of some typical feature of our mental make-up which had previously been disregarded, and in its formulation in a way which is more deductively fertile and which goes to explain a wider range of facts, than the psychological generalisations relied on hitherto. (WATKINS, 1952, p. 34)

Indeed, Watkins explicitly denies introspection when discussing Hayek. Just as Popper before him, Watkins praises Hayek: “I hasten to add that I owe much to other parts of Professor Hayek’s argument, and that I suspect that my paper contains a good deal of unwitting plagiarism of it.” (WATKINS, 1952, p. 39). Nonetheless, he also follows Popper in breaking partially with Hayek, and this twist is precisely his adoption of psychological individualism instead of Hayek’s subjective individualism. Specifically, he disagrees that one needs to recur to one’s own thoughts in order to understand the others:

[T]he historian is no more precluded from reconstructing a strange and unsympathetic personality than is the scientist from reconstructing the behaviour of an atom which does things he would not dream of doing himself. (WATKINS, 1952, p. 38) <sup>19</sup>

Watkins (1957) tries (unsuccessfully) to defend the shaky position just discussed:

Following in their footsteps [Hayek and Popper’s] I have also attempted to defend methodological individualism in “Ideal Types and Historical Explanation” [...] This article has come in for a good deal of criticism, the chief items of which I shall try to rebut in what follows. (WATKINS, 1957, p. 106)

He does not manage to provide a more precise definition than in his first paper. Though lengthy, the following passage shows, on the one hand, the lack of clarity of what “methodological individualism” is supposed to mean, and, on the other hand, how Watkins

<sup>19</sup> As a footnote to this passage he adds: “Failure to recognise this vitiates, I think, some of the argument in Professor F. A. Hayek’s ‘Scientism and the Study of Society’ (WATKINS, 1952, p. 38)”

gets very close to the heart of the issue as would be subsequently debated by a series of philosophers of science (see section 1.4.3):

[T]he ultimate constituents of the social world are individual people who act more or less appropriately in the light of their dispositions and understanding of their situation. Every complex social situation, institution, or event is the result of a particular configuration of individuals, their dispositions, situations, beliefs, and physical resources and environment. There may be unfinished or half-way explanations of large-scale social phenomena (say, inflation) in terms of other large-scale phenomena (say, full employment); but we shall not have arrived at rock-bottom explanations of such large-scale phenomena until we have deduced an account of them from statements about the dispositions, beliefs, resources, and inter-relations of individuals. (The individuals may remain anonymous and only typical dispositions, etc., may be attributed to them.) And just as mechanism is contrasted with the organicist idea of physical fields, so methodological individualism is contrasted with sociological holism or organicism. On this latter view, social systems constitute “wholes” at least in the sense that some of their large-scale behaviour is governed by macrolaws which are essentially sociological in the sense that they are *sui generis* and not to be explained as mere regularities or tendencies resulting from the behaviour of interacting individuals. On the contrary, the behaviour of individuals should (according to sociological holism) be explained at least partly in terms of such laws (perhaps in conjunction with an account, first of individuals’ roles within institutions and secondly of the functions of institutions within the whole social system). If methodological individualism means that human beings are supposed to be 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. (WATKINS, 1957, p. 106)

What most critics of Watkins claimed (see sections 1.4.3 and 1.4.4) was precisely that if methodological individualism and holism mean what Watkins just described, then they are exclusive; they do not, however, necessarily mean that. Watkins’ defense of methodological individualism is circular since it encompasses “inter-relations of individuals” and may only provide “half-way explanations”. In a nutshell, Watkins falls short in the same sense than Popper, or more to the point, he has not been able to advance on the original arguments of his professor, and thus the same objections made to Popper in the last section extend to his pupil. The next section presents an overview of the debate instigated by Popper and Watkins.

### 1.4.3 The bulk of the debate

This section overviews the debate led by philosophers of science in the '50s / '60s (BRODBECK, 1954, 1958; MANDELBAUM, 1955; GOLDSTEIN, 1956, 1958; WATKINS, 1952, 1957), drawing also on a few more recent accounts of the principle of methodological individualism among non-philosophers (LUKES, 1968; HODGSON, 2007; KING, 2012)

The debate raised a series of methodological pitfalls associated with the explanation of social phenomena based solely upon individual behaviour. Agassi's (1960, 1975) institutional individualism (section 1.4.4), it could be argued, crystallises these objections in an attempt to free methodological individualism from its shortcomings.

This debate is interesting not only in its own terms, but also for the implications it has when assessing contemporary mainstream economics. This dissertation does not aim at drawing explicit lessons from this debate to analyse the *état de choses* of macroeconomics. Rather, our main interest resides in providing further clarification on these variants of methodological individualism (and their shortcomings) in order to classify where Robbins stands accordingly.

Goldstein (1956) argues that Hayek, Popper and Watkins offered the most important accounts of the principle of methodological individualism. However, "it cannot be said that they have attempted to provide a systematic argument in defense of it" (GOLDSTEIN, 1956, p. 801). As the author argues, acknowledging that social systems cannot exist independently of their constituent parts (individuals) is not sufficient for defending methodological individualism. Methodological collectivism does not mean that collectives exist independently of people, "not even the stronger doctrine of ontological collectivism (e.g., Hegel) requires such an absurd thesis" (GOLDSTEIN, 1956, p. 802). The important point is that

there are problems confronting social science that require solutions not amenable to individualistic analysis and yet are not holistic or historicistic. Methodological collectivism does not deny that there is much to be usefully learned from the study of the individualistic aspects of human action (GOLDSTEIN, 1956, p. 802)

Furthermore, methodological individualism is incapable of dealing with “theoretical questions of institutional development and change” (GOLDSTEIN, 1956, p. 803), due to its focus on synchronic social research (where sociocultural context is taken as given) rather than diachronic social research (what caused a given sociocultural context to be what it is). Whereas they are not mutually exclusive, and a researcher should use both approaches to answer different questions, “methodological individualism implicitly rules out the possibility of diachronic social research” (GOLDSTEIN, 1956, p. 808). An individual might plan his daily activities without considering social change; the government, however, makes decisions based on a much longer timespan, and hence public policies are likely to fail if they do not incorporate diachronic social research. The author therefore favours combining methodological individualism and collectivism, and stresses that a non-individualistic theory need not be holistic.

Goldstein (1956, pp. 807-808) argues that “Mr. Watkins views all non-individualistic theories as necessarily holistic”, and shows that this need not be true by drawing on Murdock’s anthropological theory of kinship nomenclature, which is neither individualistic, holistic nor historicistic:

There is no appeal to the nature of the whole [...] Professor Murdock claims no inevitable necessity for the kind of change he describes. But he does insist that whenever the theoretically necessary and sufficient conditions obtain for some determinate kind of kinship system, then we may reasonably expect that kind of system to appear

Brodbeck (1954) concurs with Goldstein on the difficulty of explaining social phenomena based solely upon individual behaviour, and argues that even if such a

reduction were possible, it “provides an explanation, not a substitute. [...] Even with the reduction, the science of psychology remains what it is. Greed is still greed, not a congeries of atoms and electrons” (BRODBECK, 1954, pp. 149-150).

If macro phenomena cannot be explained solely in terms of individuals, the latter, conversely, cannot be understood without taking account of the ‘social embeddedness’ of human behaviour (GRANOVETTER, 1985, p. 481). Borrowing Mandelbaum’s (1955, p. 307) expression, there are “societal facts” concerning the organization of society that are as important as “psychological facts”. He illustrates this point by arguing that one would not be able to explain to a Trobriand Islander how a bank transaction works without resorting to some preliminary explanation of the role of banks in our society. Thus, behaviour is unintelligible unless status and role are acknowledged. This is not to say, however, that behaviour can be reduced to ‘societal facts’: “two individuals, say two bank tellers, may behave differently towards me in spite of the identity in their roles” (MANDELBAUM, 1955, p. 309). To claim that individuals can be fully explained by sociological elements is the methodological counterpart of psychological individualism; neither approach is satisfactory, for they constitute “undersocialized” and “oversocialized” conceptions of human action (GRANOVETTER, 1985).

According to Lewin (1996, p. 1300), the ‘undersocialized’ approach that came to prevail in economics was a side effect of the debate around the relationship of economics and psychology during the first half of the twentieth century. While this debate gained currency, she argues, the institutionalist critique that consisted of placing “a greater emphasis on the evolution of institutions and the social embeddedness of economic activity” was sidestepped.

Lukes (1968, p. 120) dubs this approach “Truistic Social Atomism”, a theory

“made up of banal propositions about the world that are analytically true, i.e. in virtue of the meaning of words”

Udehn (2002) argues that the Austrians played a fundamental role in the emergence of methodological individualism:

Its point of departure, at least from Weber and onwards, is individuals as cultural beings living in society. According to Weber, von Mises, and von Hayek, economics and sociology are cultural sciences. This does not imply any break with methodological individualism, however. Society and culture are subjective phenomena existing only in the minds of individuals, or epiphenomena [...] I call this the “ontological twist,” because it saves methodological individualism by transforming it into an ontological thesis about the ultimate nature of society (UDEHN, 2002, p. 487).

Agassi (1975, p. 145), in a similar vein, notes the importance of the Austrians but adds his own mentor to the picture:

I tend to consider as one of the most significant changes in twentieth-century philosophical practice, to be that of a shifting in debates concerning doctrines from ontology (theory of what there is) to methodology (theory of the study of whatever is there). It seems to me to be the joint invention of Max Weber and Ludwig von Mises popularized and entrenched with the aid of Hayek and Popper, to be sure (AGASSI, 1975, p. 145).

More important in Lukes (1968) for our purposes is the idea that methodological individualism and methodological collectivism are not incompatible *per se*; what renders them mutually exclusive is the assertion that only individuals or collectivities matter. Nevertheless, methodological individualism does not necessarily mean this. He argues that there is a “continuum” of “individual predicates” ranging from “most non-social to most social”. For the sake of the argument he classifies these predicates in four groups: i) does not presuppose consciousness nor social groups, ii) presupposes consciousness but not social groups, iii) presupposes a social context, but only implicitly and iv) “are maximally

social, in that they presuppose and sometimes directly entail propositions about particular types of group and institution” (LUKES, 1968, p. 123-124).

The take-away message of Lukes’ paper (1968, p. 126-127) is that methodological individualism can be rendered harmless as long as explanations focused on individual actions refer to the fourth predicate. This is so because, with respect to predicates one and two, “no-one has yet provided any plausible reason for supposing that, e.g., (logically) presocial drives uniquely determine the social context or that this context is causally irrelevant to their operation”, and predicates of type three, although they may be useful, cannot be taken as an universal principle:

Why rule out as possible candidates for inclusion in an explicans [...] statements that are about, or that presuppose or entail other statements that are about, social phenomena? [...] Finally, if the claim is that the individual predicates must be of type (iv), then it appears harmless, but also pointless [...] propositions incorporating them presuppose and/or entail other propositions about social phenomena. Thus the latter have not really been eliminated; they have merely been swept under the carpet

Hodgson (2007) concurs with Lukes, arguing that there is no example of methodological individualism that excludes completely social phenomena, even if it is only implicitly. He identifies an ambiguity as to whether explanations should be solely in terms of individuals or in terms of individuals and their interactions with other individuals. Whereas the former has never been achieved yet, the latter necessarily implies some level of socialization, even if minimal. Watkins and Popper, for instance, advocated the inclusion of individuals plus interactions among them in the explananda. Hayek goes even further, for he requires not only interactions among individuals, but that individuals interact with the environment. Hence, even the three most widely debated practitioners of methodological individualism define it in an ambiguous manner which admits some role for sociological elements. General equilibrium theory, likewise, presupposes that individuals communicate with each other and thus language (and its rules) is required, hence even if it is not explicit in general

equilibrium models, relations between individuals are structured and individuals' actions are not independent of institutions.

The author goes on to suggest that if this is the case why continue using the concept of methodological individualism? That is certainly a legitimate question, the term may be misleading for its supposedly exclusive focus on individuals is untenable. Nevertheless, the term has been widely used for over a hundred years and it will probably continue to be used, hence rather than suggesting its end a more fruitful avenue might be to clarify the limits and advantages of its different versions. In spite of the apparent impossibility of explaining social phenomena wholly in terms of individuals, the point at hand is that there is a spectrum of importance attributed to social phenomena. Thus, the approach of Watkins and modern economics can be criticised not for the absence of social phenomena, but for the limited role that they play. For, even if one could explain social phenomena completely in terms of individuals, the question remains whether that is desirable. As argued above, reducibility provides an explanation, not a substitute. Further, individualism and collectivism are complements, not substitutes.

Hodgson (2007) identifies three ambiguities regarding methodological individualism. The first ambiguity is whether it refers to a “universal methodological imperative”, as most economists would argue (although not philosophers), or if it is a “(sub)disciplinary demarcation device”, as in Schumpeter’s original formulation. The second ambiguity is related to Udehn’s “ontological twist” mentioned above; there is often a conflation of social ontology and social explanation, as if the former implied the latter. The third ambiguity is whether explanation is to be couched solely on individuals or upon individuals and their interactions with other individuals. These ambiguities will be further explained throughout the text.



Popper's disciple Watkins is a proponent of psychological individualism: "This means that social institutions are excluded from the description of the situations of individuals". Udehn calls this approach an "ontological truism", but notes that it is also grounded on epistemology since people acquire knowledge only from other individuals, not from "social wholes" (UDEHN, 2002, pp. 488-489).

The ontological and epistemological justifications are commonplaces among psychological individualists. Underlying the ontological justification, Lukes (1968) explains, are two claims: i) individuals (but not social phenomena) can be observed and ii) individuals (but not social phenomena) are easy to understand. He rejects both by means of the following examples: one can observe the procedure of a court but not the intentions of individuals being trialed, furthermore the procedure of the court is much easier to understand than the motives of criminals.

Udehn (2001) argues, nevertheless, that one may be an ontological and epistemological individualist without being a methodological individualist. Furthermore the attempt to endogenize all social institutions is not possible due to the problem of infinite regress, i.e., at least one institution must be taken as given in order to explain the others. He also notes that even if one assumes that social phenomena can be reduced to psychology in principle, whether this reducibility is possible in practice is a different issue.

Assuming that reducibility is possible in practice and desirable, one could rightly ask why should the individual be the starting point, why not reduce the individual to its constituent parts? Hence, even if all institutions could be endogenized the problem of infinite regress would still be problematic for the reduction of social phenomena to its constituent parts in the sense that

if explanatory reduction to micro-components were the legitimate aim,

then this would be no justification for claiming that rockbottom explanations are in terms of individuals. Instead we would face the daunting task of attempting to explain all social phenomena exclusively in terms of the most elementary subatomic particles (HODGSON, 2007, p. 222).

Thus, one can only argue that there are versions of methodological individualism in which institutions are endogenous if one does away with the problem of infinite regress. It is not possible to build a theory in which individuals are completely asocial and sociocultural elements play no role; however limited the importance of social phenomena in some versions of methodological individualism, it seems more appropriate to argue that there is a spectrum of importance attributed to sociological elements among different methodological individualists rather than take a binary posture. There is inherently a social component to any social theory, even if implicitly.

Lukes (1968, p. 126) concurs with Udehn and Hodgson about the difficulty of achieving reducibility in practice:

This could logically be achieved either by developing a theory which will explain the 'historical, economic, sociological . . . anthropological context' exclusively in terms of (e.g.) the central nervous system or by demonstrating that this 'context' is simply a backdrop against which quasi-mechanical psychological forces are the sole causal influences at work [...] no-one has given the slightest clue as to how either alternative might plausibly be achieved, there seems to be little point in taking it seriously, except as a problem in philosophy. Neuro-physiology may be the queen of the social sciences, but her claim remains entirely speculative.

To sum up what has been said in this section, methodological collectivism is not the opposite of methodological individualism. The former does not rule out the importance of analyzing the behaviour of the individual and the latter does not expunge social phenomena from its theory, even if it is only implicit. In a nutshell:

What we know about social systems we have learned from observing the behavior and probing the thoughts of particular human beings. Furthermore, the only way to test the truth or falsity of any diachronic theory of sociocultural change would be to observe individual behavior

[...] What methodological collectivism does not admit is that all the general conceptions of social science may be exhaustively analyzed in terms of the actions, interests, and volitions of specific individuals [...] inasmuch as the problems of social science differ from those of psychology [...] the claim that all sociocultural concepts are, in the end, psychological is untenable. While the experience of each person is subjective, neither the content nor the occasion of the experience is. I strongly suspect that no little amount of confusion on this point stems from the failure to distinguish between the psychological and the phenomenological or sociocultural concepts of mind (GOLDSTEIN, 1956, pp. 812-813).

#### 1.4.4 Joseph Agassi

Institutional individualism argues that individuals simultaneously shape and are shaped by institutions. It is not psychologistic - social phenomena cannot be fully explained by psychology - nor subjectivistic, for it does not rule out deductive-nomological explanations in the social sciences.

The most distinguishing feature of institutional individualism is that it accounts for feedback effects of social phenomena upon individuals. In that sense, institutions are not endogenous, but arguments in the explanans. As we have said, reductionism can work from micro to macro or the other way around; institutional individualism denies both approaches, or, to put it differently, it denies reductionism. Hence, in the context of economics, an institutional individualist would neither pursue microfoundations nor macrofoundations. Rather than “foundations”, he would search for “bridges” among individuals and society; a horizontal relation between them instead of a vertical one is what defines an institutional individualist approach to economics.<sup>20</sup>

Early practitioners of institutional individualism can be found among the Scottish Enlightenment and Marshall (UDEHN, 2001), Adam Smith (SONG, 1995) and John Stuart Mill (ZOUBOULAKIS, 2002).

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<sup>20</sup> The metaphor that bridges — and not foundations — describe more accurately the relationship between microeconomics and macroeconomics is the main argument presented on King's book (2012)

The term was created by Agassi in 1960 and further developed by him in 1975. In his 1975 paper the concept of “institutionalistic individualism” is much better explained and his argument will be summarized in what follows.

A methodological individualist need not adhere to “psychologistic individualism”, for institutionalism denies psychologism’s claim of reducibility by arguing that “there exist distinct social yet not psychological entities (called institutions, customs, traditions, societies, etc.)”. (AGASSI, 1975, p. 144)

Agassi argues that individualism is not necessarily opposed to collectivism or holism, under which “individual ends and decisions are created by social forces” (AGASSI, 1975, p. 145). He defines holism and individualism as follows: <sup>21</sup>

- Holism
  1. Society is the ‘whole’ which is more than its parts (holism).
  2. ‘Society’ affects the individual’s aims (collectivism)
  3. The social set-up influences and constrains the individual’s behaviour (institutional analysis)
  
- Individualism
  1. Only individuals have aims and interests (individualism).
  2. The individual behaves in a way adequate to his aim, given his circumstances (rationality principle)
  3. The social set-up is changeable as a result of individual’s action (institutional reform)

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<sup>21</sup> AGASSI, 1975, p. 146

These propositions are not mutually exclusive and one could endorse all of them. Hence, holism and individualism would only be opposites if in addition to these propositions one argued that “wholes” have distinct aims when compared to individuals, as if the social structure was an organism that exists independently of individuals.

In the same vein, Udehn (2002, pp. 500-501) argues with respect to his “weak” version of methodological individualism abovementioned that it “makes it difficult to continue talking about individualism and holism as opposite doctrines”, this is so because:

With the occurrence of institutional and structural individualism on the scene, important holistic elements were included in methodological individualism. The result is that the previous line separating methodological individualism and holism has become blurred and the two doctrines no longer appear as clear-cut opposites. Weak methodological individualism is a mix, or synthesis, of individualistic and holistic elements.

The second distinction is that between institutionalism and psychologism: <sup>22</sup>

- Institutionalism

1. Society is the primary social entity (institutionalism).
2. One’s primary duty is to one’s society (collectivist morality).
3. Social conditions affect individual conditions (collectivism).

- Psychologism

1. The individual is the primary social entity (psychologism).
2. Society is subject to criticism of individual conscience (autonomy of morals).
3. Individuals affect social conditions (institutional reform).

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<sup>22</sup> AGASSI, 1975, p. 149

By the same token, Agassi (1975) explains that psychologism and institutionalism are only to be taken as opposites if one argues that either society or the individual are primary. However, as long as one views neither of them as primaries these apparently dissonant positions can be reconciled. Hence, by dropping the primariness of both “wholes” and individuals one can argue that individuals shape society (psychologism), but that “wholes” also shape the individual (institutionalism). Thereby, the choice is not between institutionalism and individualism, but rather between institutionalism and psychologism, on the one hand, and between holism and individualism, on the other hand.

There are thus four possible methodological combinations:<sup>23</sup>:

1. Psychologism / Holism: “There are rare examples of writers who abide by [...] holistic psychologism; the only important instances of it are two, I think: Plato’s division of the state into three classes in parallel to the division of the mind into three faculties, and Carl G. Jung’s theory of the collective subconscious”
2. Psychologism / Individualism: “[D]eveloped by the more traditional eighteenth-century writers from the classical economists, sociologists, and psychologists”
3. Institutionalism / Holism: “[T]he romantic nineteenth-century tradition and its offshoots, especially Marxism and functionalism”
4. Institutionalism / Individualism: Karl Popper

The only example of “institutionalistic individualism” he provides is Popper. Whereas in his earlier paper he refers to “institutionalistic individualism, which I consider to be Popper’s great contribution to the philosophy of the social sciences” (AGASSI, 1960, p. 244), fifteen years later his position is more nuanced, noting some tensions in Popper’s work:

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<sup>23</sup> Agassi, 1975, p.149-151

I find Popper's theory slightly out of focus: his moral philosophy seems to me to be too often more in accord with psychologistic-individualism [...] a point which can be modified with no great effort. (AGASSI, 1975, p. 154)

Nevertheless, in spite of such tensions he still ascribes some elements of Popper's work such as situational logic to "institutionalistic individualism" and ends his text by claiming that

many thinkers seem to have felt the need for a via media between the two traditional views, psychologism and collectivism, and even for a consistent synthesis between the reasonable elements in them. I maintain that Popper and his commentators have finally succeeded in carrying out this intuitively felt programme, thus rendering explicit the approach which in fact underlies the fruitful and reasonable part of existing institutionalist social studies, while retaining the central thesis of individualism, namely the thesis that only individuals have aims and responsibilities (AGASSI, 1975, pp. 154-155).

In a nutshell, Agassi's main goal in the text is to claim that institutional individualism is able to incorporate all relevant propositions of individualism, psychologism, institutionalism and holism, but two pre-requisites are that i) society is not taken as an organism in the sense that it has goals of its own, and ii) that neither the individual nor society are taken as primary:

[W]e may assert that 'wholes' do exist (though, of course, not in the same sense in which people exist), but they have no (distinct) interests. These 'wholes' are social groups as well as social institutions - in the widest sense of the word, and covering a wide variety, from customs to constitutions, and from neighbourhoods to states. An institution may have aims and interests only when people give it an aim, or act in accord with what they consider should be its interests; a society or an institution cannot have aims and interests of its own. Yet, both the individual and society are now taken as primary, at least in the sense that we cannot reduce psychology into sociology and we cannot reduce sociology into psychology [...] the very claim that both the individual and society are primary, weakens the sense of primariness [...] in a sense institutionalistic individualism cannot admit any primary society (AGASSI, 1975, p. 152, original emphasis).

Agassi considers "holist social dynamics" to have no explanatory power, whereas psychologistic individualism's attempts to keep track of the interactions of many individuals

are unfeasible. Further, neither approach would suffice to explain feedback effects. He illustrates this point with an example: suppose that institutional circumstances are such that workers decide to create a trade union, this trade union might in turn influence other workers to create a trade union as well, as an effect employers will tend to form organizations to defend their own interests, finally there could be organizations on both sides affecting the relations between workers and employers. The government may, in turn, intervene through legislation given these circumstances: “Thus, unintentionally, the first trade union organizers have started a social avalanche”. (AGASSI, 1975, p. 154).

\* \* \*

Our next chapter on Lionel Robbins will be developed in light of the discussion thus far. Particularly, it will be highlighted the novelty of his approach to methodological individualism when compared with anyone who preceded him. Robbins’ *Essay* can be seen as a methodological expression of the rupture that was taking place in the interwar period. However, the *Essay* is not merely a product of Robbins’ intellectual influences; his novel approach to methodological individualism had (unintended) long term implications for the development of economics.



## 2 Lionel Robbins in the Prehistory of the Microfoundations: The (un)intended consequences of the *Essay*

This chapter tries to show that the unintended consequence of Robbins' *Essay* was to provide a methodological justification for focusing on the isolated individual. Robbins did not claim that social phenomena could be fully explained by analysing the isolated individual; on the contrary, the economic man was a temporary device, a first step to understand more complex phenomena.

Since our argument is that Robbins belongs to the prehistory of microfoundations, we start with brief historical account of the rise of microfoundations — Section 2.1.

Section 2.2 analyses Robbins' participation in the Economic Advisory Council in 1930. This episode is of considerable interest for the purpose of our work. First of all, having been two years prior to the first edition of the *Essay*, an understanding of Robbins' motivations and intellectual background at that point, complemented by identifying the elements that would resurface on his works throughout the '30s, aids the understanding of Robbins' goal with the *Essay*. It would be simplistic and it can be misleading to analyse the *Essay* without placing it in a broader temporal setting and accounting for Robbins' other works.

Section 2.3 draws on part of Robbins' literature which, in the same vein as our thesis, argue for placing the *Essay* within Robbins' wider concerns with the demarcation between normative and positive, which renders clear the continuity of Robbins' works

throughout the '30s and '40s.

Section 2.4 highlights the novelty of his approach to methodological individualism when compared with anyone who preceded him. Robbins' *Essay* can be seen as the “methodological expression” of the rupture that was taking place in the interwar period (MILONAKIS; FINE, 2009, p. 217).

If the argument put forth is accepted, it follows that the criticisms raised towards methodological individualism on Section 1.4.3, although valuable for discussing the contemporary state of mainstream economics, do not apply to Lionel Robbins. With the benefit of hindsight, it seems that his message was misread and economics proceeded as if macro phenomena could be derived from individual behaviour. However, due to the pervasiveness of his definition in textbooks and the increasing focus on choice after the Second World War, it can be argued that Robbins belongs to the prehistory of microfoundations, regardless of what his project actually was.

## 2.1 The Unintended Consequences

There are many legacies of Robbins' *Essay*, and the reason for focusing on his approach to methodological individualism is that his justification for treating isolated individuals as a first approximation is a pervasive feature of modern economics.

Robbins' *Essay* provided the methodological justification for the focus on form rather than substance. It should be noted, though, that his long term project was for economics to evolve from the isolated individual to one that is subject to social influences and uncertainty. To move from statics to dynamics. Economics should start with an abstract account of Robinson Crusoe in order to understand the economising man and

gradually increase its scope of analysis. With the benefit of hindsight it is clear that his conception of the isolated man as a first approximation became the *modus operandi*. The representative agent of modern macroeconomics illustrates the difficulties encountered by economics to further Robbins' initial goal.

Microfoundations for macroeconomics falls short in that it fails to acknowledge the interactions among individuals and the influence that social phenomena have upon them. The “fallacy of composition entails that an entire economy may behave in ways that cannot be inferred from the behaviour of its individual agents” (KING, 2012, p. 9) Microfoundations of contemporary macroeconomics rules out downward causation and emergent properties, as if individuals lived *in vacuo* and institutions (customs, traditions, norms, rules etc) played no role.

Hoover (2006, p. 146) argues that the representative agent is embedded in an “eschatological justification”, for “the representative-agent model is but the starting point for a series of fuller and richer models that eventually will provide the basis for an adequate macromodel”, a claim very much in the spirit of Robbins' idea of ‘first approximation’.

Duarte and Lima's book (2012) challenges the standard interpretation that the history of microfoundations starts with Lucas' works in the '70s. Rather, the debate regarding the relationship between micro and macro is as old as the distinction between micro and macro in the 1930s:

What should we think of the standard narrative? [...] the internal narrative of mainstream macroeconomics is likely to be unreliable, its principal function being to buttress a particular, historically contingent methodological argument. (DUARTE; LIMA, 2012, p. 4)

Our work shares this historical perspective: the history of microfoundations is not the history of Lucas and his followers. The novelty of our work is to claim that Robbins belongs to the prehistory of microfoundations. Duarte and Lima's (2012) book makes

very little reference to Robbins. Likewise, King (2012, p. 76) provides a historical account of microfoundations starting with Hicks up to the present. He argues that Hicks' *Value and Capital* (1939) uses a representative agent and was the first "endorsement of the microfoundations dogma in all but name".

Whereas most economists would agree that Robbins played some role in the consolidation of mainstream economics post 1945, the literature lacks any attempt of relating him with microfoundations as far as we are aware. The present work tries to close this gap.

Hoover (2012, p. 21) also identifies a prehistory of microfoundations (not including Robbins) and three microfoundational programs following this prehistory: i) the "general equilibrium program", ii) the "aggregation program" of Klein and iii) the "representative-agent program". The first two programs should be distinguished from the third in the sense that they "seek non-eliminative microfoundations. If they were perfectly successful, we would nonetheless continue to use macroeconomics. In contrast, Lucas advocates eliminative microfoundations".

Regarding the general equilibrium program, he explains that there are two variants. One approach is that of Hicks (1939) by which macroeconomics can be reduced to individual behaviour: "[T]he composite-commodity theorem provides a set of conditions under which the aggregate can be treated as an individual" (HOOVER, 2012, p. 36). In that sense, the aggregate utility function would take the same form as the individual utility function if the prices of goods change in the same proportion. The second variety, championed by Weintraub (1979), is non-eliminative in the sense that he proposed a bridge between micro and macro rather than a foundation:

Keynesian problems can arise directly from the interactions of individual

agents [...] it encompasses both microeconomics, identified with successful coordination, and macroeconomics, identified with coordination failure (HOOVER, 2012, p. 37).

Klein's aggregation problem starts with the optimization of individual agents, but

unlike Frisch, he is not willing simply to take his aggregates off the shelf uncritically; and, unlike Hicks, he is not willing to restrict his concerns to special cases suitable for theory [...] Klein argued that a more fruitful approach was to take both microeconomic theory and Keynesian economic theory as given, and to work out aggregates that made them compatible with each other (HOOVER, 2012, pp. 39-40).

Unlike Hicks, who does not discuss whether the restricting conditions on the composite-commodity theorem hold, Klein was concerned whether it was legitimate to assume that what is valid for the individual is also valid for the aggregate. Hence, Hoover (2012, p. 41) sees this program as non-eliminative since Klein's

approach to microfoundations does not suppose that we build up from secure micro-data, but that we start with the available data and a feasible macroeconomic model [...] and constantly work to disaggregate it and to elaborate it in the direction of a complete Walrasian general-equilibrium model

Finally, with the representative-agent program the distinction of micro and macro became blurred, the former fully explaining the latter. As Lucas (1987, pp. 107-108) put it:

If these developments succeed, the term "macroeconomics" will simply disappear from use, and the modifier "micro" will become superfluous. We will simply speak, as did Smith, Ricardo, Marshall, and Walras, of economic theory

The first use of the expression "microeconomic foundations" is due to Sidney Weintraub in 1956 and the term "micro-foundations" was first used by the same author in 1957 (KING, 2012, p. 89). The first book to have "microeconomic foundations" on its title was Phelps (1970). Hoover (2012, p. 46) claims that the volume edited by Phelps

was the watershed event in the establishment of the representative-agent microfoundational program. There is an irony in this since the sensibility that informed the Phelps project and many of the contributions to the volume was more the role of search, which involves many agents, and heterogeneous information than it was the representative agent.

Lucas and Rapping's (1970) contribution to this conference is a turning point in the making of the new classical macroeconomics and the "fount of the representative-agent program" (HOOVER, 2012, p. 46). Phelps' main contribution to the conference was his islands metaphor which is based on the idea that information is costly. Other important works in the '70s on the issue of microfoundations are Weintraub (1977, 1979) and Harcourt (1977).

These works from the 1970s, nonetheless, would hardly qualify as microfoundations in the current sense the concept has acquired. They were related to general equilibrium theory rather than to the use of a representative agent with rational expectations. The current approach to microfoundations came to the fore in the 1980s with the works of Lucas.

De Vroey (2012, p. 185) argues that the transition from IS-LM models to DSGE can be understood as a revolution *à la* Kuhn, and that Robert Lucas can be taken as the "spokesperson" of this revolution: "[A]lthough revolutions are always a collective enterprise, it is nonetheless widely accepted that one person, Robert Lucas, played a pivotal role in the transformation of macroeconomics"

As Rizvi (1994) explains, the aggregation problem was sidestepped with the introduction of the representative agent. The attractiveness of the representative agent is that it is immune to the Sonnenschein-Mantel-Debreu theorem. Kirman (1992, p. 118) concurs with Rizvi and points four problems implied by the use of the representative agent: i) "Individual maximization does not engender collective rationality" and vice-versa,

hence “[t]here is simply no direct relation between individual and collective behavior”, ii) “the reaction of a representative agent to a change in the parameter of the model [...] will not necessarily be the same as the aggregation of the whole he represents”, iii) the representative agent may prefer A to B whereas every individual prefers B to A and iv) explaining the behaviour of the aggregate by one individual is constraining, for the sum of interactions between individuals leads to complex dynamics.

Cardoso and Palma (2007, p. 395) argue that the flexibility of the neoclassical model has guaranteed its survival, yet this is at once its main strength and weakness, for “somewhere in the hyperspace of assumptions compatible with it the truth lies”. They argue that the Sonnenschein-Mantel-Debreu Theorem, the Folk Theorem and the Boldrin-Montrucchio Theorem imply that “anything goes theoretically. It is possible to reach any set of theoretical results by appropriately choosing the starting assumptions”

Although recently some effort has been made to introduce heterogeneity in DSGE models, Duarte and Lima (2012, p. 10) note that using a “few types of agents, each representing some larger class of heterogeneous agents, raise issues hardly different from those raised by a single representative agent”

The main motivation for this dissertation is the state of affairs of neoclassical economics. As is often the case in the history of economic thought, Lionel Robbins is now a caricature. Although he is usually seen as a precursor of rational choice theory and an important figure for his classic definition of economics, the present dissertation tries to show that Robbins would be extremely critical of the representative agent paradigm. Thus, his unintended legacy survived, nurturing his caricature, whereas his most important ideas were forgotten.

## 2.2 Lionel Robbins and the Economic Advisory Council

1

This section assesses Robbins' participation in the Economic Advisory Council (henceforth E.A.C) in 1930, drawing mostly on The Lionel Robbins Papers held by the LSE.<sup>2</sup> The divergences between him and Keynes are highlighted and an attempt is made to shed some light on Robbins' overarching interest on the interplay of economics as a science and political economy as a broader field that includes normative considerations. This renders invalid criticisms related to the absence of ethical considerations in Robbins' approach to economics. Specifically, some elements that would resurface in Robbins' later works are identified, and it is argued that the *Essay* should be situated within his larger purpose of illuminating the extent to which the science of economics could serve as an important tool — necessary, though not sufficient — to orient the formulation of public policies.

In 1930 a committee was assembled to discuss the causes of the current economic crisis in England, and propose remedies to accelerate recovery. J. M. Keynes was the chairman of the E.A.C, the other members being H. D. Henderson, A. C. Pigou, J. Stamp and L. Robbins. Robbins opposed the use of tariffs and public works in this endeavor; failing to convince the other members of his arguments, he refrained from signing the document and wrote a draft minority report explaining the nature of his divergences.

The gist of Robbins' arguments within the E.A.C was the criticism of nationalistic policies (e.g., the use of tariffs, subsidies and public works) as responsible for creating tensions among countries. Accordingly, he saw the free market engendering peace among

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<sup>1</sup> We would like to thank the London School of Economics for providing access to the Lionel Robbins Papers during the summer of 2015.

<sup>2</sup> For ease of exposition, we use P.L.R as an acronym for "The Papers of Lionel Robbins".



nations and this is a theme that underlined many of his works throughout the 1930s. However, Robbins explicitly stated that claims of this nature were not those of an economist, in the strict sense of the term. That is, although Robbins' criticism of nationalistic policies is a constant theme in his works during the interwar period, he was here speaking as a political economist, not as an economist per se. For every point in which he opposed Keynes's recommendations, Robbins had both an "economic" and a "non-economic" (or "political economic") argument.

Robbins' "economic" explanation for the Great Depression follows from his background, a blurred amalgamation of the approaches championed by the Austrian and Lausanne schools, with the addition of ideas from Weber, Wicksteed and Knight. Robbins' disagreement with Keynes on tariffs and public works was embedded, on the one hand, in his theoretical background, and on the other hand, in his belief that nationalistic policies would lead to a second world war. Robbins argued that the economist must resort to knowledge that lay outside the realm of economics, and, indeed, he did recur to considerations that lay outside of economics both during the E.A.C and in his later works.

The E.A.C emerged from a series of luncheons organized by Ramsay Macdonald during November — December, 1929, attended by businessmen, trade unions and economists.<sup>3</sup> These meetings discussed "remedies for the immediate industrial situation and ways of improving the information and advice on economic policy [...]" (HOWSON; WINCH, 1977, p. 20). The E.A.C operated from February, 1930, to April, 1931, and it was "part of the elaborate machinery set up by the Labour Government to tackle the problem of unemployment" (HOWSON; WINCH, 1977, p. 29).

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<sup>3</sup> Howson and Winch (1977) provide a detailed account of the origins, the institutional settings and the political / economical context of the short-lived E.A.C. The present dissertation does not discuss the E.A.C per se, our main focus is on Lionel Robbins.

A Committee of Economists would be created shortly after the Prime Minister circulated a list of questions to the E.A.C. In Keynes' answer to the first question, "What in your view are the chief causes of our present industrial position?" he suggested a committee of economists should be created within the E.A.C for this was a "highly complicated issue requiring thorough investigation and elucidation" (HOWSON; WINCH, 1977, p. 40).

Ramsay Macdonald agreed with Keynes to set up a committee of economists to "review the present economic condition of Great Britain, to examine the causes which are responsible for it and to indicate the conditions of recovery".<sup>4</sup>

Although the first meeting took place on September 10, the disagreement between Robbins and Keynes started as soon as the first letters were exchanged. On August 31, Robbins sent a letter to Keynes suggesting that

our deliberation might be considerably enlightened if we were to hear the views of three or four foreign economists (a) on the general slump (b) on the British position as it appears in the rest of the world. Formal evidence would not help very much [...] but informal conversations might prove very useful [...] if I were asked [...] I should name Viner for America [...] Röpke for Germany, Ohlin for Scandinavia and Hayek for Central Europe. As usual France wouldn't be much help.<sup>5</sup>

Keynes was lukewarm to foreign economists aiding the committee:

[o]n the question of evidence, we must discuss that on our first meeting. I doubt whether outsiders can tell us much to the point which we do not know between us; though I should very much like to have a talk with Viner if he is passing through London.<sup>6</sup>

During the first meeting, it was agreed that the question of whether or not they would consult with foreign economists should be decided after the first draft of the report was written. Contrary to Robbins' wish, the consultation never happened. The second

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<sup>4</sup> P.L.R., Letter from Ramsay Macdonald to Lionel Robbins, E.A.C / 251, robbins/5/1, 23 July, 1930.

<sup>5</sup> P.L.R., robbins/5/1, emphasis in the original.

<sup>6</sup> P.L.R., letter from Keynes to Robbins, robbins/5/1, 7 September, 1930.

meeting was held the following day, when the members agreed to answer a questionnaire prepared by Keynes.<sup>7</sup> While Henderson's, Pigou's and Stamp's answers ranged from 4 to 15 pages, Robbins wrote 38 pages in which the differences of opinion between him and the rest of the committee were clearly manifested. He came back once again to the point of inviting foreign economists to assist the committee, putting in evidence his markedly different academic background when compared to the rest of the committee.<sup>8</sup> He suggested that "a day's conversation" with Hayek, "whom I personally should regard as being the foremost monetary expert now actively working on the Continent", would be "more helpful at this stage than many days spent in elucidating our private differences."<sup>9</sup>

He ends his answer to the questionnaire apologizing for its length, but justifying that the differences of opinion amongst members of the committee asked for such a detailed account:

Sooner or later our views and our differences must be stated. Since it must be my duty to state my reasons for any attitude which I feel compelled to adopt and since I cannot expect that my colleagues are as well acquainted with my general background as I am with theirs, it seemed to me worth while taking this opportunity to indicate its main relevant outlines. If one has to be a bore, it is better to be a bore on paper than during important conversations.<sup>10</sup>

The two questions prepared by Keynes were (i) whether investment, tariffs, and the reduction of money wages would affect employment, prices and real wages in Britain and (ii) whether real wages and money wages were too high.<sup>11</sup> Most of the discussion held by the committee revolved around these questions.

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<sup>7</sup> P.L.R, robbins/5/2.

<sup>8</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, p. 19, September 23rd, 1930.

<sup>9</sup> Referring to this excerpt, Howson and Winch (1977, p. 60) argue that this statement "was not the result of arrogance on the part of the youngest member of the committee, but of viewing the problem from a theoretical standpoint which needed to be defended at length [...]"

<sup>10</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, pp. 37-38, September 23rd, 1930.

<sup>11</sup> P.L.R, E.A.C. (E.) 8, September 15th, 1930.

Robbins' answer to the questionnaire reveals several differences of opinion between him and Keynes. First of all, as to whether money wages were too high, he argued that he was

unable to provide a quantitative answer to the questions we have set ourselves [...] I confess that even if I were in a position to be surer about the quantities involved I should still regard the general enquiry as relatively fruitless. I do not believe that considerations of general statistics are likely to help in this matter [...] It is not high wages but rigid wages which are the main condition of disequilibrium. Given the rigidity wages may be too high, but it is the rigidity not the height which is causally effective.<sup>12</sup>

If some wages were high, but not necessarily all of them, any attempt to reduce the general level of wages would not be the appropriate measure. Rather, he claimed that unemployment insurance was the villain causing rigidity and the incapacity to adapt to changes. As long as restrictions were abolished wages would tend to come back to equilibrium. Thereby, the wages of some sectors might diminish, but employment would rise to an extent that would cause the wages of the labour force as a whole to increase.

Robbins then launched an explicit attack on Keynes' *A Treatise on Money* (1930):

Let us take the general analysis which our chairman has expounded. (I have not yet finished reading his book so in what follows I shall use the Wicksell-Hayek terminology with which I am more familiar, rather than his own which I do not yet thoroughly understand).<sup>13</sup>

Keynes's argument that the money rate was above the natural rate was misleading, according to him. If it were true, then monetary policy would be an effective way to enable recovery. He nevertheless found Keynes' assumption undue, and proposed an alternative: that the natural rate had been too high since the war. If this were the case, keeping the money rates low given the high level of the natural rate "would merely secure an artificial

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<sup>12</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, pp. 7-9, September 23rd, 1930.

<sup>13</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, p. 14, September 23rd, 1930.

prosperity in the immediate future at the expense of sowing the seeds of disproportionalities and depression later on”.<sup>14</sup>

Which of the assumptions was correct was not subject to statistical verification, according to Robbins. Nevertheless, he believed that the latter was more likely to be true. On the one hand, savings had been negative in many parts of the world since the war, fixed capital had expanded excessively, working capital had been destroyed, and the world population had increased rapidly; on the other, the supply side was subject to political uncertainty. Robbins claimed to have asked five (unnamed) economists under the age of 35 whether they “regard the natural rate of interest in the world at large for the years 1924-1930 as being high or low relatively to the pre war rate.” Having all five answered that it was too high, he concluded once more for the need of foreign economists to assist the committee:

All of which I venture to suggest, goes very strongly to support my plea that we should invoke the assistance of a certain number of foreign economists. It is abundantly clear that many of our deliberations are going to turn upon the validity and the quantitative assumptions of what may be called the interest theory of fluctuation [...] I am not suggesting that anything has been published elsewhere which approaches the complexity and the great aesthetic beauty of the theorems propounded by Mr. Keynes. But the broad notions are familiar to those who walk in the paths of Wicksell and Mises and the habit of judging events in these terms is much more widely diffused.<sup>15</sup>

Next came the effectiveness of investment to induce recovery.<sup>16</sup> Whereas he found it desirable that investment increased in the “world at large”, Robbins was reluctant about increasing investment in England. More specifically, he distinguished between increasing investment in “‘normal’ channels” and “public works”. Investment in “‘normal’ channels”, in its turn, could be “(i) additional to, or (ii) at the cost of, investment abroad by home

<sup>14</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, p. 17, September 23rd, 1930.

<sup>15</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, pp. 18-19, September 23rd, 1930.

<sup>16</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, p. 27, September 23rd, 1930.

investors.” His only suggestion for adding to the level of investment was, once again, to eliminate restrictions in the labour market. On the other hand,

[a]n increase in ‘domestic private’ investment at the expense of foreign investment, secured, not by the offer of more attractive terms, but by interference with the capital market, seems to me much more dubious.

He conceded that there were circumstances in which government incentives could work for a very short period, but not as a long-term policy. The reason for his objection was an argument constantly present in Robbins’ works throughout the 1930s (as will be discussed later):

[P]artly on profound scepticism in the whole philosophy of economic nationalism, of which the proposal to limit the investment of the investment surplus to the local government areas which we call nations, is such an important part. I do not pretend, however, that this last objection is purely “economic” in character. If you want that kind of world then I suppose the economist, quae economist, has nothing to say about it. But I confess that I find it surprising that twelve years after the world war, rational beings should find the prospect of a series of right little, tight little national economies, busily engaged in reducing the volume of international exchange to a minimum, the sort of world they are willing to accept without a fight.<sup>17</sup>

As far as public works were concerned, although he admitted this was a difficult issue to answer a priori, he argued that they would only be desirable under a set of conditions that were not likely to hold: there must be a “clear opening” for the government to investment, it must be “carried out with speed” and not cause more unemployment at the moment of its dismantling than it created in the first place.<sup>18</sup> More importantly, however, was his claim that, as long as flexibility of wages was assured, “the desirability of these ad hoc expedients would be greatly reduced.”<sup>19</sup>

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<sup>17</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, p. 27, September 23rd, 1930, emphasis in the original.

<sup>18</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, p. 28, September 23rd, 1930.

<sup>19</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, p. 27, September 23rd, 1930, emphasis in the original.

Moving to the subject of tariffs, his objections followed the same reasoning exemplified above: “In a society, in which money wages were held uniformly rigid above the equilibrium level [...] it is theoretically possible that a tariff by raising prices and so lowering real wages might reduce unemployment.”<sup>20</sup> Nevertheless, Robbins did not believe that to be the case; some wages might be too high, but not necessarily all of them. Hence, flexibility in the labour market was the cure-all, while tariffs would not be of much help. It is interesting to note that the abovementioned quote – “the economist quae economist, has nothing to say about it” – points clearly to the demarcation between positive and normative economics later to be developed in the *Essay. Economics* (as a science) can only predict the effects of a policy; it cannot suggest whether or not it should be adopted, for that is a matter that lies in the realm of political economy.

The third to fifth meetings of the E.A.C were held between September 26-28. Keynes informed the committee that the Prime Minister had asked for the report to be delivered by October 20, and it was agreed that Keynes would write a draft of the discussion so far.<sup>21</sup> The draft report was discussed and slightly changed over the next meetings, but the changes are not relevant for the purpose at hand. The draft consisted of a first part discussing the causes of the slump, especially the fall in prices and the consequent high level of money wages, and a second part that proposed remedies to induce recovery. After a few revisions, the remedies were divided into seven categories: A) remedies external to this country; B) ways of increasing the efficiency of the labour force in this country; C) reductions of domestic money wages; D) subsidies to wages; E) ways of increasing business confidence; F) ways of increasing home investment; and G) tariffs.<sup>22</sup>

Robbins largely disagreed with the draft report. Hence, in the seventh meeting

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<sup>20</sup> P.L.R, robbins/5/3, E.A.C (E.) 13, p. 28, September 23rd, 1930.

<sup>21</sup> P.L.R, robbins/5/1.

<sup>22</sup> P.L.R, robbins/5/4, E.A.C (E.) 32, October 13th, 1930.

(October 8, 1930) it was decided that Robbins would prepare a draft minority statement of the reasons for his disagreement with the chairman's draft. During the eighth meeting (October 15th, 1930), Robbins presented his draft statement so that the committee could discuss whether it was possible to incorporate parts of it into the draft report. Though the first part of the report, containing the diagnosis, was rewritten according to Robbins' objections, the second part presenting the remedies would end up having no influence of Robbins whatsoever.<sup>23</sup>

In October 22, 1930, Robbins wrote a note explaining why he refrained from signing the draft report. Apart from the rewritten first part (the diagnosis), he also agreed with the "International Remedies and Remedies designed to foster elasticity to Industry and the Wage system." Regarding the other remedies, however, he claimed that they

contemplate at disproportionate length measures which are neither desirable or, in many cases, practicable, and I wish to dissociate myself altogether from the decision to frame the report on these lines.<sup>24</sup>

First, he stressed that he was much more concerned with rings and monopolies than the rest of the committee, and that if trade unions were asked to comply with wage reductions, then, by the same token, measures should be taken to restrict monopolistic practices. Second, he opposed any attempt to restrain foreign lending:

To impose differential taxation on any form of foreign investment would be at one blow to inflict damage to the prestige of London as an international money market, and, at the same time, to repudiate all the laborious efforts which have been expended by the representatives of this country in Geneva to eliminate the anomalies of double taxation.<sup>25</sup>

With regard to public works, although he agreed with the criteria outlined on the

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<sup>23</sup> P.L.R, robbins/5/1.

<sup>24</sup> P.L.R, robbins/5/4, E.A.C (E.) 65, p. 1, October 22th, 1930.

<sup>25</sup> P.L.R, robbins/5/4, E.A.C (E.) 65, p. 2, October 22th, 1930.



draft to orient whether or not public works should be carried on, as mentioned above, he was sceptic whether

the effect of such measures as already have been put into operation has been wholly good; and I am more apprehensive that a continuance of such policy may definitely tend to delay the coming of recovery.<sup>26</sup>

He also opposed wage subsidies, considering them unfair and inappropriate given the budgetary constraint facing the country. Regarding tariffs,<sup>27</sup> apart from the objections relating to nationalistic policies, his ‘economic’ argument was that a “substantial proportion of the unemployed are in export industries.” The introduction of tariffs would

injure foreign customers [...] it would be an odd state of affairs in which we had to lend more abroad in order to enable customers to buy goods which we had prevented them by the exchange of their own products!

Furthermore, tariffs would be prejudicial precisely to the sector which had the highest unemployment rate:

[P]rotection would raise the costs of the export industries. If the tariff is general, raw material prices must be affected. If it is limited to manufactures, domestic prices would still be raised.

Switching back to political economy, one can find the seeds of the criticism of tariffs that would crystallize in his works from the late 1930s:

A tariff is an affirmation of separatism, a refusal to co-operate, a declaration of rivalry. That twelve years after a war which devastated civilisation and threatened to destroy the goodly heritage of European culture, we should even be discussing such matters, is a sad reminder, not only that some men lose faith in a good ideal when it is not realised quickly, but that most are totally blind [...]<sup>28</sup>

<sup>26</sup> P.L.R, robbins/5/4, E.A.C (E.) 65, p. 2, October 22th, 1930.

<sup>27</sup> P.L.R, robbins/5/4, E.A.C (E.) 65, p. 4, October 22th, 1930.

<sup>28</sup> P.L.R, robbins/5/4, E.A.C (E.) 65, p. 4, October 22th, 1930.

This section revealed many ideas that would be further developed in Robbins' subsequent works. In his contributions to the E.A.C, one finds attempts to demarcate the 'pure science' of economics from political economy, a topic that would later occupy a prominent place in the *Essay*. As mentioned above, Robbins analysed the effects of tariffs from a purely technical point of view, but went on to argue that it was not the job of the economist (quae economist) to choose among competing policies. The same holds for other topics discussed within the E.A.C; Robbins often presented both the "economist" and the "political economist" arguments.

The *Essay*, thus, cannot be fully understood without taking into account Robbins' intellectual trajectory, and his intense desire to participate in the discussion and formulation of public policies. The *Essay* outlined the toolbox at the economist's disposal, but it by no means argued that policies could be oriented solely on these grounds, without accounting for normative concerns.

Perhaps this argument can be made clearer by a brief examination of Robbins' later works; these works are in many ways an extension of the themes Robbins presented before the E.A.C. Moreover, these works belong to political economy rather than economics according to Robbins' definition, though they make use of economic theories. Thus, Robbins' writings after the *Essay*, on the one hand, expand many of the arguments he presented before the E.A.C, and, on the other hand, these works are a materialization of Robbins' methodological stance in the sense that arguments from economics and political economy are intertwined.

Nearly fifty years after participating in the E.A.C, Robbins (1978, p. 114) wrote a review of Howson and Winch's book (1977) about the short-lived council:

Speaking broadly, it cannot be said that the deliberations of the Council

as such were much of a success; the failure at an early stage of its special Committee of Economists to reach agreed recommendations regarding the growing crisis of 1930 doubtless contributed to this; and with the abandonment of the gold standard by the U.K. in 1931, its deliberations as a council came to an end [...] it is in the vicissitudes of the reactions of its members to the problems of a changing situation, the new position of sterling, the continuing high unemployment, the finance of rearmament and so on, that perhaps the main interest of the narrative resides. It reveals a growing tendency to mutual influence between the leading officials of the Treasury, especially Sir Richard Hopkins and Sir Frederick Phillips, and the main economists concerned, John Maynard Keynes, Hubert Henderson, and – a comparative late-comer – Dennis Robertson, which in many indirect ways may have had some impact on policy.

According to Robbins, there was not sufficient integration between the E.A.C and the Prime Minister to enable the discussions held by the former in 1930 to influence the formulation of public policies and “any organization of this sort is doomed to function more or less in a quasi-academic void” (Robbins, 1978, p. 114).

Nevertheless, looking at the big picture, Robbins saw the E.A.C as an important first step. A few years later the Economic Section of the Cabinet Office was established,

reporting through the Secretary of that office to the Lord President, then effectively responsible for coordination of the economic side of the war effort; and Keynes, Henderson, and Robertson had become members of the Treasury. It was only then that the provision of systematic economic advice began to have a direct and continuous impact on the evolution of central policy (Robbins, 1978, p. 115).

The E.A.C was thus an important institution in the sense that it led to the creation of other similar-minded institutions, such as the Economic Section of the Cabinet Office, and also that the economists who participated in it would eventually assume important public positions. As Howson and Winch (1977, p. 47) note, “this must have been the first occasion that an official body consisting entirely of economists was entrusted with such a far-ranging brief.” But apart from this, the debate between Robbins and Keynes within the confines of the E.A.C is of interest since many themes that would appear in Robbins’ later works can already be found in the arguments he advanced before the E.A.C.

Two years after publishing the *Essay*, Robbins wrote *The Great Depression* (1934) now providing a lengthy explanation of the causes of the slump, and of the remedies that could induce recovery. Later on, he wrote *Economic Planning and International Order* (1937), *The Economic Basis of Class Conflict* (1939a), and *The Economic Causes of War* (1939b). Robbins' stance on nationalistic policies as creators of tensions among countries that possibly led to war, and the related defense of the free market as the best means to ensure peace, are scattered throughout these works from the late 1930s. We have just shown how Robbins already argued along these lines in 1930.

Finally, regarding the 'economic' arguments presented by Robbins during his sojourn with the E.A.C, they were further developed in his 1934 book - an extended version of his interpretation of the Great Depression, as reported before the E.A.C. As Wright (1987, p. 474) argues, *The Great Depression*

was in fact a more elaborate presentation of the arguments given by Robbins to the Committee of Economists which combined an Austrian business cycle theory with a discussion of various structural factors which had produced an ossified economy no longer able to adapt to a changing economic environment (WRIGHT, 1987, p. 474).

Although he gradually came to acknowledge the potentially important role of public works, and also played a role in the eventual emergence of "Keynesianism"<sup>29</sup>, his lifetime rejection of the use of tariffs and the creation of artificial incentives derived from his criticism of nationalistic policies. He further developed this idea in *Economic Planning and International Order* (1937) where he criticized tariff policies and monetary reforms. Nationalistic policies create rivalry between countries, and it would be preferable to have an international plan based on the gold standard and international liberalism. Hence, the concept of "planning" in this work meant the creation of "institutions and frameworks that would permit international liberalism" (TILY, 2007, p. 323).

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<sup>29</sup> See Tily (2007)

In the preface of the book he states that it is

essentially an essay in what may be called Political Economy as distinct from Economics in the stricter sense of the word. It depends upon the technical apparatus of analytical Economics; but it applies this apparatus to the examination of schemes for the realization of aims whose formulation lies outside Economics; and it does not abstain from appeal to the probabilities of political practice when such an appeal has seemed relevant.

Masini (2007, p. 358) further notes that in this book

he added important reflections on economics and political economy and tried to better clarify the relationship between the economist and policy choices [...] he tried to show a way to tackle both with atomistic agents and collective bodies, each of them facing ever-changing choices and needing a (federal) constitutional framework within which a coordination could emerge.

*The Economic Basis of Class Conflict* (1939a) further developed this idea by offering

an implicit rejection of Marxist notions and [...] taking tentative steps to seeing class conflict arising from nationalistic struggles for economic ascendancy between nations. Workers in one nation were seen as pitted against workers in another. (TILY, 2007, p. 324)

Finally, in *The Economic Causes of War* (1939b, p. 99), Robbins came back to his same old argument that the “ultimate condition giving rise to those clashes of national economic interest which lead to international war is the existence of independent national sovereignties”, and proposed the creation of “The United States of Europe” as an institution that could bring the war to a close.

Although brief, we hope this discussion of Robbins’ later works will suffice to shed some light on the continuity of his intellectual endeavors throughout the 1930s. Additionally, since the arguments developed by Robbins within the context of the E.A.C. became crystallized in some of his later works, it follows that a proper understanding of

the *Essay* requires this seminal text to be placed against the background of the author's broader activities at the time.

## 2.3 Economics x Political Economy

The *Essay* is Robbins's most widely read book, and the enormous amount of criticism directed at the author becomes understandable when this book is considered in isolation from his other works. As the author acknowledged on the preface to the second edition of the *Essay* (1935), the book was rewritten given the large amount of misunderstanding towards the first edition. One common incorrect criticism concerned the relationship of ethics and economics. Indeed, he mentions the importance of ethics a few times throughout the book, e.g., "economists should have speculated long and widely on these matters, since only in this way will they be in a position to appreciate the implications as regards given ends of problems which are put to them for solution" (ROBBINS, 1969 [1935], p. 150).

Recent scholarship has echoed these early criticisms. Atkinson (2009), for instance, claims that as a legacy of Robbins' *Essay*, contemporary economists make judgments about economic welfare without discussing its foundations: "Where I part company from Robbins is that I believe that questioning the welfare criteria is a legitimate part of economics" (ATKINSON, 2009, p. 792).

This was by no means Robbins' position. Perhaps one can distinguish the intended and the unintended consequences of Robbins' seminal work; in this case, Atkinson may be right that this was an unintended legacy of Robbins' work, in the sense that he helped buttress the centrality of the individual at the expense of welfare considerations. However, this is not parting company with Robbins, but with a caricature of him.

Through an analysis of the arguments deployed by Robbins during the E.A.C proceedings - which predate the *Essay* and share many common elements with the works he wrote after publishing that piece - it can be argued that his seminal work was only a step in his intellectual journey to define the boundaries between economics as a science and political economy as a broader field on inquiry, with special emphasis on the practical implications of the former on the latter.

In the *Essay*, Robbins is writing as an economist *quae* economist, not as a political economist. Nonetheless, even the *Essay* contains passages related to economic policy, particularly in its fifth chapter (incidentally, protective tariffs is one of the examples he provides). Masini (2007) claims that the *Essay* can be understood as part of Robbins' lifetime project to demarcate the positive and normative spheres of economics, and to illuminate the extent to which the pure science of economics can shed light on practical questions:

[Robbins]always conceived economics as a technical knowledge indispensable for assisting policy choices, long before he wrote the *Essay* in 1932 and until he died. No major changes have influenced his epistemological attitude towards economics, especially on this aspect. Simply, his message was not properly understood during his life and was certainly completely misunderstood immediately after the publication of the *Essay* (MASINI, 2007, p. 346).

In his Richard T. Ely Lecture, Robbins replied to the criticisms directed towards the *Essay*. Nearly fifty years after its original publication, he was still struggling to make its main points clear. He stressed that economics is different from the natural sciences since individuals are purposeful, i.e., “our explanations must to some extent be teleological” (ROBBINS, 1981, p. 2). Furthermore, unlike natural scientists, economists cannot make predictions, since individuals are able to learn and adapt to the environment - time series may thus be an interesting method for analyzing the past, but not the future. More

importantly for the present discussion is, first, Robbins' insistence on the demarcation between economics and political economy, and, second, that they are complementary for policy analysis:

Needless to say I do not at all deny that, in the course of evolution of economics as we know it, there has been a good deal of intermixture of political and ethical discussion with the scientific discussion of fact and possibility [...] provided the logical difference between the two kinds of propositions is clearly kept in mind, I am in the least hostile to the combination. (ROBBINS, 1981, p. 4)

Economics was no panacea for Robbins,<sup>30</sup> his claim was not that public policies could be fully determined based on economic knowledge, but that the tools of economics can be used to predict the outcomes of alternative public policies. These "outcomes", however, are not sufficient to rank alternative policies, since "better" and "worse" are not economic categories, but people's evaluations of the outcomes. People are free to choose less over more if they will, and that is not for the economist to say. By the time the crowd starts deliberating who had won the contest, the economist should be long gone. By then, he must already have completed his task, that of comparing the competitors in every objective basis. He may, of course, join the deputation, but he is logically impeded of doing so in the capacity of an economist. Robbins' message was thus that: "Politics are much too important to be left to the politicians", and economists have an important role in aiding policy makers:

*they are aware of what they are doing and do not claim scientific authority for conclusions which clearly go beyond science, there is much to be said for the practitioners of scientific economics discussing such questions of policy. They may not agree on the extra-scientific elements in their arguments. But, provided the distinction is observed, there is everything to be said for the discussions of policy to be conducted by those who are*

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<sup>30</sup> "it is important when we are called upon to deliver the verdict of economic science that we should continually guard against the appearance of feeling greater certainty than we have. It is not only in the year 1930 that the world will have need of the advice of economic experts" (P.L.R, E.A.C (E.) 13, robbins/5/3, September 15th, 1930)



*aware of the objective implications of the values on which policy rests (ROBBINS, 1981, p. 8).*

The literature on Robbins is mostly focused on methodological themes. In the papers presented at a conference celebrating the *Essay's* 75th anniversary (COWELL; WITZTUM, 2007), there were few references to Robbins' involvement with the formulation of public policies, even despite the fact that he was very engaged with political activities throughout his life:

Robbins's biography is itself a testimony of civil and political action. He was a man of action, not only academically as a vivid guide of the London School of Economics. He was a member of some Secret Committees for the Economic Advisory Council of the British Government; he was later appointed Head of the Economic Section of the War Cabinet; he was among the founders of the association Federal Union which gathered prominent intellectuals to promote the idea of a federal Union of Britain and France during the Second World War [...]. After the war he was an outstanding figure of British institutional and political life (MASINI, 2007, p. 345).

In 1940, he was given leave from the LSE to work at the Office of the War Cabinet, becoming the head of its Economic Section the following year. In 1943, he served as a member in the British delegation at the Hot Springs Conference, and in 1944 he participated in the Bretton Woods Conference (HOWSON; MOGGRIDGE, 1990). He was also amongst the founding participants of the Mont Pèlerin Society, even writing its Statement of Aims, although resigning shortly thereafter (GRANVILLE; SHAPIRO, 2007, p. 380).

In his youth, as told in his autobiography, he was attracted to socialism (ROBBINS, 1971). In fact, having started his studies at the LSE aiming to specialize in the history of political ideas, he shifted to economics believing it could provide a better framework from which to analyse politics. As he tells Iris Gardiner in a letter from 24 June, 1924, "it seemed so futile to go on studying it. [...] Economics seems more fruitful in practical

results and capable of yielding greater intellectual satisfaction.”<sup>31</sup>

Young Robbins’ hope that economics was “more fruitful in practical results” would follow him throughout his life. Although the demarcation between economics and political economy has been largely recognized as one of Robbins’ methodological tenets, part of the literature seems to overlook that Robbins follows Marshall’s maxim about the two blades of the scissor.<sup>32</sup> We believe many of the criticisms towards the *Essay* are rendered invalid when the book is situated within Robbins’ wider concerns, though even his seminal work contains a few excerpts referring to the importance of ethical considerations, as already mentioned.

Granville and Shapiro (2007) note that Robbins played an important role in the socialist calculation debate, but his position regarding the role of the state during a slump changed between 1930 and 1950:

Although the younger, pre-war Robbins was a passionate proponent of a rather exceptionally rigid orthodoxy, which denied the possibility of intervention in the Great Depression [...] both time, his experience in government during the war [...] and close working contacts with others who had been seen as opponents, certainly mellowed him (GRANVILLE; SHAPIRO, 2007, pp. 379-380)

Tily (2007) concurs with Granville and Shapiro (2007) that Robbins would become a Keynesian of sorts in the 1940s, adding that the *Essay* should be understood in the context of the economic turbulences of the 1930s, and the debate engendered by them:

[I]n the 1940s, Robbins emerged as a leading instigator of the ‘Keynesian’ approach in Britain. He led the Economic Section of the Cabinet Office, from where the celebrated Employment White Paper would emerge. But again, the White Paper remained lukewarm to monetary reform [...] Lionel Robbins was a central figure in economic and wider policy debate of the 1930s and 1940s [...] LSE economists opposed each and every one of Keynes’s monetary initiatives [...] he and his colleagues began a

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<sup>31</sup> Cited in Howson (2004, p. 417)

<sup>32</sup> A possible objection is that in Robbins the economic blade is sharper than the political economy one. Maybe there is some truth to that, however that does not seem to contradict our main point that Robbins constantly reminds the importance of both “blades” in the formulation of public policies.

relentless opposition to Keynes's programme for monetary reform and a defence of the monetary status quo, of the gold standard and dear money [...] The Essay on the Nature and Significance of Economic Science was a public manifesto of his school. (TILY, 2007, pp. 306-307)

One of the main points of disagreement between Robbins and Keynes in the E.A.C was whether tariffs were an effective remedy for the slump. The clash with Keynes led Robbins to convince Beveridge, director of the LSE at the time, to form a committee in order to express the opinion of LSE economists regarding tariffs. The resulting document was published in 1931 under the title *Tariffs, The Case Examined, by a committee of economists under the chairmanship of Sir William Beveridge*. In 1934 Robbins published *The Great Depression*, “a rival to Keynes's Treatise and forthcoming General Theory” (TILY, 2007, p. 315). The seeds of the main points advanced in *The Great Depression* can be identified in Robbins' clash with Keynes amidst the E.A.C proceedings.

Wright (1989, p. 471) notes that the skirmishes between the two prominent economists predate their encounter in the E.A.C – in fact, according to the author, an “intellectual rivalry can be traced to 1925 when Robbins produced an ‘unprovoked’ attack on Keynes's monetary policy prescriptions”. Wright also claims, moreover, that Robbins' *Essay* and *The Great Depression* were both influenced by his experience in the E.A.C:

Robbins was not only concerned with the scientific respectability [sic] of economic discourse, but with demarcating the boundary between scientific analysis and ethical conventions and suggesting the appropriate grounds on which economists might intervene in policy matters. There seems little doubt that this concern was in part encouraged by and addressed to his contemporaries on the Committee of Economists and his dissatisfaction not only with the conclusions of the final report [...] but equally with the way in which the discussion had been conducted. In particular, Robbins had complained of the ‘aesthetic’ theorising of Keynes, which had intertwined political and ethical concerns with more straightforward economic theorising. (WRIGHT, 1989, p. 472)

This shift can be placed on a broader canvas by taking account of the consolidation

of “Keynesian” economics throughout the 1930s, and the increasing willingness of the majority of the economics profession to search for new solutions for the slump. The clash between Robbins and Keynes and its aftermath, in its relation to the emergence of Keynesianism, could be further analyzed through the lenses of the sociology of the economics profession. As Goldstein (1993) explains, for ideas and interests to translate into political outcomes they must be “politically salient”, in the sense that there are shared beliefs between the political community and its sponsors that could support their adoption. Regarding “Keynesianism”, she argues that

the decision whether governments should adopt Keynesian policies in the 1930s or 1940s was not settled by objective facts. Classical economics had suggested that to stimulate employment during economic downturns, governments should not cushion the effects of recession. Keynes argued precisely the opposite, believing that government spending has desirable multiplier effects on aggregate demand. (Goldstein, 1993, p. 2)

This section has argued that i) Robbins has been interested in politics throughout his life, indeed he chose economics as a career precisely because he thought it was a powerful tool for policy analysis and ii) the logical implication of his demarcation between economics and political economy is that the two blades of the scissors are essential in formulating economic policies. Now, as to why Robbins received so much misdirected criticism, this is not completely clear. A tentative answer would be that ideological and theoretical arguments often walk hand in hand and part of the critiques might be biased in the sense that they tried to find fault where there was not, guided by a more fundamental objection to Robbins’ defense of the free market. A less controversial, though incomplete, explanation is that he was a victim of terminology; he continued to distinguish between economics and political economy while the profession at large increasingly meant the former to encompass the latter:

Marshall's broad use of the term, economics, to include work that was previously included only under the term political economy is likely to be, in part, responsible for the misinterpretation of Robbins's methodological point (COLANDER, 2007, p. 237).

Be it as it may, his "methodological point" was, as we have argued in this section, that positive and normative considerations are complementary in the formulation of public policies:

Robbins's famous definition of economics was of "economic science" which he saw as only a narrow branch of the field of economics. Moreover, it was descriptive, not prescriptive [. . .] His prescriptive message was that policy belonged in the "political economy" branch of economics. He believed that while the science of economics should avoid value judgments, the political economy (applied policy) branch of economics should, and must, include value judgments. That prescriptive message has been lost (COLANDER, 2007, p. 231).

In this sense, the *Essay* should be partly understood as an effort to demarcate the boundaries between economics as a science and political economy, although Robbins' ultimate goal in this work was to develop a scientific approach that could somehow orient the formulation of public policies:

For Lionel Robbins, economics is the toolbox of economic policy and of political action. No doubt economic reasoning can and should be detached methodologically from political (and ethical) matters but the former represents the basic training for the latter (MASINI, 2007, p. 360).

Accordingly, we now proceed to investigating Robbins' *Essay* in light of the author's concern with the demarcation of economics and political economy. Our claim is that, underlying his definition of economics, a novel approach to methodological individualism is advanced in which the isolated individual is a temporary device; a first-step in order to understand complex social phenomena.

## 2.4 Lionel Robbins' "first-step individualism" in the prehistory of Microfoundations

What distinguishes Robbins' definition of economics from the "material welfare" definition that preceded it is that whereas the latter is "classificatory", in the sense that it analyses particular kinds of behaviour, the former is "analytical", examining but an "aspect" of behaviour: "There are no limitations on the subject-matter of Economic Science save this" (ROBBINS, 1969 [1935], p. 16-17). Robbins (1969 [1935], p. 4-5) rejects the "material welfare" definition by arguing that although in ordinary speech the words "economic" and "material" are used interchangeably, "the final test of the validity of any such definition is not its apparent harmony with certain usages of everyday speech, but its capacity to describe exactly the ultimate subject-matter of the main generalisations of the science".

To illustrate his point he explains that the wages of an orchestra are economic, even though the production of music does not increase society's welfare. Likewise, the audience buying seats to watch a concert spend their money on a nonmaterial good. In spite of the fact that concerts do not increase the material welfare of society, they are an economic activity. Hence, the material welfare of society is part of what economists study, but it is not the subject-matter of economics. In fact, Robbins proposes an approach-based definition rather than defining the subject-matter of economics.

Falgueras-Sorauren (2007, p. 18) notes that although most definitions of economics were related to wealth since Adam Smith, "the definitions they proposed were not of the same nature". Whereas some authors (e.g., Say and Lauderdale) "concluded from their research that actual wealth is also composed of nonmaterial goods", others (e.g., Malthus

and Stuart Mill) defined wealth as synonym with material products. Robbins's objection is to this second approach.

Parsons criticised Robbins for defining a method instead of a subject matter (MILONAKIS, FINE, 2009, p. 218). Interestingly, "economic imperialism" was coined by Souter (1933) as a reaction to Robbins' book, although it would only become a reality a few decades later with Becker. Falgueras-Sorauren (2007, p. 22) offers a more nuanced interpretation of Robbins' *Essay*, somewhat in the spirit of our argument, by claiming that it does not entail economics imperialism, but that it has indirectly influenced this approach:

[S]tating that any human action has an economic dimension is not imperialistic per se, for this does not prevent the recognition that it has social, ethical, or political dimensions – and that each dimension must be studied by its corresponding science [...] It is not the fact that all human actions have an economic dimension that makes Economics an imperialist discipline, but the relentless application of the "economic method" to analyzing all human behaviour

Robbins does not claim that human action is fully explainable by its economic aspect. More broadly, social phenomena cannot be reduced to the individual level; his justification for studying the choices of Robinson Crusoe is, rather, that it is a necessary first step. His approach to methodological individualism is to argue that social phenomena cannot be fully derived from isolated individuals, but that understanding the choices of the isolated individual should be the starting point of economic analysis:

[T]he assumption of perfect rationality in the sense of complete consistency is simply one of a number of assumptions of a psychological nature which are introduced into economic analysis at various stages of approximation to reality [...] The perfect foresight, which it is sometimes convenient to postulate, is an assumption of a similar nature. The purpose of these assumptions is not to foster the belief that the world of reality corresponds to the constructions in which they figure, but rather to enable us to study, in isolation, tendencies which, in the world of reality, operate only in conjunction with many others, and then, by contrast as much as by comparison, to turn back to apply the knowledge thus gained to the explanations of more complicated situations. (ROBBINS, 1969 [1935], p. 93-94)

Robbins acknowledges that individuals are subject to uncertainty, but argues that it is useful to assume they have perfect foresight as a first approximation. Subjective individualism is hence ruled out. One might be tempted to classify him as a psychological individualist, but he dismisses both hedonism and behaviourism. The nature of wants is out of the scope of economics: “So far as we are concerned, our economic subjects can be pure egoists, pure altruists, pure ascetics, pure sensualists or - what is much more likely - mixed bundles of all these impulses (ROBBINS, 1969 [1935], p. 99).

Psychological theory has a very limited role in his abstract account of the isolated man. Hands (2009, p. 835) notes that whereas in the first edition Robbins wrote that “[a]ll that we need to assume is the obvious fact that different possibilities offer different stimuli to behaviour,” in the second edition the words “stimuli to behaviour” were changed to “incentives”, in order to avoid any behaviourist flavour. Robbins’ project to insulate economics from psychology can be seen in the following excerpt:

Recognition of the ordinal nature of the valuations implied in price is fundamental. It is difficult to overstress its importance. With one slash of Occam’s razor, it extrudes for ever from economic analysis the last vestiges of psychological hedonism” (ROBBINS, 1969 [1935], p. 56).

He is equally dismissive of behaviourism, which he labels a “queer cult” (ROBBINS, 1969 [1935], p. 87).

Maas (2007, p. 177) argues that Robbins’s interpretation of the relationship between psychology and economics was influenced by Weber<sup>33</sup> Psychological elements matter inasmuch as individual actions are purposeful, hence there is necessarily a psychological aspect implied in individual decision. The examination of choices does not require physical measurement, however. Robbins’s conception follows Weber’s “instrumental or goal-oriented

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<sup>33</sup> “According to Popper, himself, situational analysis is the method of marginalist economics. As such, it has much, but not everything, in common with Max Weber’s ideal type of purely rational action” (UDEHN, 2001, p. 207). For a fuller exposition of Weber see Udehn (2001, pp. 95-104).



rationality [...] For Weber, intentionality and rationality were highly related concepts [...] Thus, Weber could deny physiological research relevance to the concerns of economists”

Furthermore, rationality is understood as a benchmark and individual's actions will often deviate from the best possible choice:

Means-ends interpretations thus implied the rationalization of empirical reality, but it did not imply that reality itself was rational. They served to circumvent the concrete complexity of empirical, real-world given situations by proceeding on the assumption that these situations were the result of intentional optimizing actions (MAAS, 2007, p. 183, emphasis original).

Hence, rather than the demise of psychology, Robbins's conception attributes a limited role for psychological theory, i.e., individuals are goal-oriented and act purposefully: “It was Weber's view of rationality [...] that carried the day in twentieth century economics [...] Lionel Robbins's *Essay* serves as an exemplar, certainly because economists read Robbins, not Weber” (MAAS, 2007, p. 186).

Brown and Spencer (2007, p. 251, emphasis original), in a similar vein, distinguish

‘psychology’ as referring to an academic discipline and ‘psychology’ as referring to everyday concepts of thought, feeling etc. For Robbins, economics could be seen to rest upon a partly ‘psychological’ foundation in the latter sense of the term, but it neither depended on nor required any particular theory from psychological *science*.

Moreover, they note that the “‘first step’ assumption [...] reflects the views at that time of several of Robbins's contemporaries, such as Knight and Hayek” (BROWN; SPENCER, 2007, p. 253).

Robbins' influences are an amalgamation of the Austrian and Lausanne Schools, mostly, and a few more economists such as Weber, Wicksteed and Knight. According to Cowell Witztum (2007, iii) “the economics he defined and, which still lives in contemporary

textbooks, was new and brave and suggested yet another school of thought (the LSE School)". Sugden (2009, p. 869) argues that Von Mises' praxeology was an important influence on Robbins, and that the *Essay* "would perhaps have been more coherent if it had taken such an approach wholeheartedly, but I conjecture that it would have struck less of a chord with the economics profession". In a similar vein, Hands (2009, p. 831) argues that Robbins' *Essay* has "certain philosophical tensions [...] that are difficult to reconcile with other positions within the text, and/or with any well-established philosophical positions", nonetheless "if these tensions had not existed within the text, it would not have been as influential as it was". These tensions, he argues, allowed Robbins to accommodate the problems faced by marginalism in the beginning of the twentieth century. Howson's (2004) classic paper on the origins of Robbins' *Essay* concludes that the book is more Austrian in appearance than in content. Summing up, "Robbins's intellectual heritage is complex and not necessarily particular to any of the existing schools of his time" (WITZTUM, 2007, p. 58).

Robbins' methodological justification for focusing on individual behaviour, ruling out the social, the historical and the ethical, is that this would provide a better understanding of the economic problem itself: "[I]t is only when contemplating the conditions of isolated man that the importance of the condition that the scarce means must have alternative uses [. . .] leaps clearly to the eye" (ROBBINS, 1969 [1935], p. 20). Economics would proceed by gradually increasing the complexity of this construct, thus approaching the human being as a social entity subject to the uncertainty of the world. A similar logic appears in his discussion of statics and dynamics. Robbins (1969 [1935], p. 103) recognises that, as a long-term research program, economic analyses should be dynamic; however, in order to analyse dynamic problems the starting point should be statics:

[W]e study these statical problems not merely for their own sake, but in order to apply them to the explanation of change [. . .] their chief significance lies in their further application in economic dynamics. We study the laws of "rest" in order to understand the laws of change.

Although this may seem appealing at first sight, with the benefit of hindsight one may object that this exercise (in economics) has become an end in itself. The long-term unintended consequence of Robbins' *Essay* seems to have been the formulation of a methodological justification for the increasing focus on choice on the following decades. Backhouse and Medema (2009, p. 816) note that "though he did not formulate it in these terms, Robbins' definition fitted well with acceptance of a rational choice model of behaviour."

Indeed, Robbins defines rationality as consistency of preferences. He goes on to note, however, that choices need not be transitive in the sense that  $x > y$  and  $y > z \Rightarrow x > z$  in order to be consistent. When time and effort are taken into account, it might be rational to violate transitivity: "The marginal utility of not bothering about marginal utility is a factor of which account has been taken by the chief writers on the subjective theory of value from Bohm-Bawerk onwards" (ROBBINS, 1969 [1935], p. 92). Moreover, preferences will not necessarily be transitive when uncertainty is taken into account: "It is not rational to will a certain end if one is not conscious of what sacrifice the achievement of that end involves" (ROBBINS, 1969 [1935], p. 155).

Nonetheless, Robbins assumes away inconsistency of preferences and uncertainty in his conception of the economic man as a first approximation or temporary device. This "solution" is a compromise between his different influences, it could be argued. Therefore, although his definition indeed fits well with a rational choice model of behaviour, it does not cling to rationality:

What Robbins is mainly saying [...] is that economics is essentially about ‘agency’. ‘Agency’ is necessarily rational, in precisely the sense of ‘purposive’. It does not necessarily involve sophisticated computational processing of self-consciousness. (ROSS, 2007, p. 135)

Watkins (section 1.4.2) comes to a similar conclusion about Robbins. He argues that “[t]he historian who tries to interpret overt behaviour must assume that it is purposeful but not necessarily fully rational”, and cites Robbins’ *Essay* to support this claim. And Watkins, we have argued, is a psychological individualist, a branch of methodological individualism in which psychology plays a much more important role than in any other variant. If Watkins is willing to affirm this, it should not come as a surprise that Robbins’ unintended legacy is but a caricature of his ideas.

At this point a clarification is in order. The abovementioned quote that “Lionel Robbins’s *Essay* serves as an exemplar, certainly because economists read Robbins, not Weber” (MAAS, 2007, p. 186) may lead to the objection that what we claim to be the novelty of Robbins’ *Essay* was already present in Weber. Though we agree with Maas that Robbins’ conception of rationality is indistinguishable from Weber’s, Robbins’ conception of the economic agent does not does not cling on rationality, or, at least, this is not a central part of the *Essay*. That is, full rationality is one of the assumptions that can be made as a first approximation, Robbins’ justification for starting with the isolated individual, what we call “first step individualism”, does not depend on his particular conception of rationality. Furthermore, Robbins’ approach differs from Weber’s in a number of ways when their motivations are taken into account, i.e., Weber should be read in the light of the *Methodenstreit* whereas Robbins’ main concern was the interplay of economics and political economy, thus it is useful to read Robbins’ approach against his own preoccupations / intellectual context rather than Weber’s. To put it shortly, Robbins’ economic man can be rational *a la* Weber - or not - but his man is embedded on a much broader methodological

framework than that of rationality.

Furthermore, the literature offers at least three interpretations of what kind of methodological individualist Weber was, which by itself is an evidence that Robbins' methodological individualism need not be the same kind of Weber's even though their conception of rationality is the same. Udehn classifies Weber as a subjective individualist (although he does not use this expression), citing a letter sent by Weber to Robert Liefmann in which he argues that sociology should employ a "strictly 'individualist' method". Moreover, the author stresses the role of subjectivism in Weber's sociology, and distinguishes him from neoclassical economics due to his concern with social action. King (2012, p.53) argues that Weber "was not a consistent methodological individualist; sometimes he was a structuralist, or materialist, as Marx". Finally, Agassi (1960, p.261) takes a different route by arguing that "Weber's approach is on the borderline between psychologism and institutionalism".

Perhaps Robbins' approach can leap more clearly to the eye, to paraphrase Robbins, when he is assessed against marginalism, rather than Weber. Robbins' definition of economics and the methodological precepts that underlie his conception of rationality as a first approximation to comprehend the world depart from marginalism in that the latter

still had some lingering attachment to the concerns and traditions of classical political economy. These are all effectively eliminated in the shift from utility itself towards utility functions, indifference curves and ordered preferences by anonymous individuals and anonymous goods. (MILONAKIS; FINE, 2009, p. 226)

Robbins was part and parcel of the changes taking place in economics in the first half of the twentieth century. One should not argue that Robbins' *Essay* was a watershed moment in the history of economic thought. It did provide a "methodological expression" for the shift from plutology to catallactics, however (MILONAKIS; FINE,

2009, p. 217). Although his conception of rationality did not necessarily imply rational choice, the unintended consequence of his seminal work was to provide some input for the move from marginalism to neoclassical economics that was gaining momentum precisely when he was writing. In that sense, neoclassical economics should not be interpreted as a natural development of marginalism:

The old marginalists accepted a limited scope of application of core principles in deference to other forms of behaviour and other factors such as the role of institutions, and economics itself as a discipline was perceived to be the study of supply and demand for given markets. Economics became a method and a set of techniques rather than a subject matter. (FINE; MILONAKIS, 2009, p. 6)

Robbins's *Essay* provided the methodological justification for the focus on economics as a technique rather than substance. It should be noted, though, that his long term project was for economics to evolve from the isolated individual to one that is subject to social influences and uncertainty. To move from statics to dynamics. Economics should start with an abstract account of Robinson Crusoe in order to understand the economising man and gradually increase its complexity. Thus, his definition of economics must be situated within Robbins' wider concerns on the relationship between economic theory and the formulation of public policy. Indeed, Robbins' works are mostly on political economy, not economic theory. His participation on the E.A.C also reflects this interest in the formulation of economic policy and illustrate his concept of "first-step individualism".

## Final Remarks

Robbins' definition of economics populates standard economics textbooks, and we have argued that, underlying it, there is a novel approach to methodological individualism. His justification for analysing the choices of an isolated individual with perfect rationality and perfect foresight is that it should be but a first step in order to address more complex problems in the future. The economic man is thus conceived as a temporary device. Robbins' approach to methodological individualism cannot be classified as psychological individualism, subjective individualism or institutional individualism, thus we have proposed to dub it "first step individualism".

Robbins' approach is consistent with his overarching concerns as an economist: to demarcate the boundaries between economics and political economy, and to establish the usefulness of positive and normative considerations in the formulation of public policies. In this sense, the *Essay* is part of Robbins' agenda, and the focus on the isolated individual as a first step fits in with his hope that economics would evolve by incorporating complexity, thus becoming increasingly helpful to orient public policies. Although his agenda was not carried on, his definition of economics was increasingly accepted by the profession over the decades following the second world war. The unintended consequence of the *Essay* was to buttress a conception of the economic man as a choice maker, thus securing a place for Robbins in the prehistory of microfoundations.

If the interpretation put forth is accepted, it follows that the criticisms towards reducibility sketched on sections [1.4.3](#) and [1.4.4](#) do not apply to Lionel Robbins. A future avenue for research would be to try and draw lessons from this debate for a critical enquiry

about the current state of modern macroeconomics.

We also analysed Robbins' participation on the E.A.C in 1930. The tensions between him and Keynes were highlighted and the arguments underlying their differences of opinion were assessed. Forty years later, in his Autobiography, Robbins (1971, p.154) recalled this clash as

the greatest mistake of my professional career [...] How had I got myself into this state of mind [...] the trouble was intellectual. I had become the slave of theoretical constructions which, if not intrinsically invalid as regards logical consistency, were inappropriate to the total situation which had then developed and which therefore misled my judgement [...] The theory was inadequate to the facts.

Hence, the analysis of the E.A.C. reveals, on the one hand, the arguments that would crystallise in Robbins' later works and, on the other hand, a polarization between standpoints favouring free markets or public works in the figures of Robbins and Keynes that would cease to exist in the following years with the emergence of a Keynesianism of sorts. The profession would gradually come to accept some of Keynes' ideas although much of it was lost in translation. It could be interesting to further develop the historical and political context underlying the emergence of "Keynesianism" in future works — in other words, the next step of this research could be to analyse the clash between Robbins and Keynes, and its aftermath, through the lenses of the sociology of the economic profession.

Whereas Robbins rejected Keynes' proposal of public works during the E.A.C, throughout the decade his position changed. This switch is representative of the profession's increasingly favourable attitude towards measures of this sort. Moreover, the emergence of "Keynesianism" was not a technical achievement of the economics profession, but rather a mutual compromise between the political and economic communities in the search for a solution to the slump. Following Goldstein's (1993) terminology, during the '30s public works would increasingly become "politically salient", as the depression lingered on. In



this sense, one could say there was an interplay between the shared beliefs of sponsors, on the one hand, and the development of economic theories, on the other hand, that would prove fruitful and pregnant with consequences.



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