



UNIVERSITY OF NIŠ  
FACULTY OF ECONOMICS  
"ECONOMIC THEMES"

Year XLVI, N° 4, 2008, p. 1-13

Address: Trg kralja Aleksandra Ujedinitelja 11, 18000 Niš

Phone: +381 18 528 601 Fax: +381 18 523 268

## METHODOLOGICAL HOLISM AND THE CONTEMPORARY MAINSTREAM IN ECONOMY

PhD Dragoslav Kitanović\*

PhD Dragan Petrović\*

**Abstract:** *The basis of the methodological holism (methodological collectivism, organicism) is the position that all societal phenomena can only be explained by social structures, institutions or the culture of the society. This methodological procedure emphasizes that social relations dominate psycho-physical characteristics of individuals and accept the stance that attributes of the system define attributes of its constitutive elements. The goal is to penetrate into the essence of methodological holism and its basic postulates. In order to achieve that, the opinions of various theoretical paradigms will be taken into consideration. Special attention will be paid to relevancy and logical sustainability of the arguments that defend and attack the positions of methodological holism.*

**Key words:** *methodological holism, methodological individualism, collective mechanisms, institutionalization of individuals.*

### Introduction

Methodological holism, as one of the basic methodological approaches, presupposes that the basic social phenomena are supra-individual social categories, which is a sufficient reason to base the explanation of the social phenomena on the usage of these categories. Emily Dirkem called these categories 'the social facts' and in theory they are usually made up of the social groups, institutions, culture, habits,

---

\* Faculty of Economics Niš; e-mail: [draganp@eknfak.ni.ac.yu](mailto:draganp@eknfak.ni.ac.yu)

UDC 001.8 : 33

Received: November 16, 2008

tradition and all other norms that lead and direct the social influences in which there is a large number of individuals participating.

Methodological holism does not deny the fact that the society consists of individuals, but it emphasizes that it is not a simple set of individuals and their motives. The society represents a specific reality that is characterised by its own characteristics, different from the characteristics of the individuals, and precisely these characteristics are essential for the explanation of the social reality.

### **Methodological holism in the history of the economic thought**

Methodological holism can be found even in Plato's attempts to discover the origin of the state and society. Plato's holistic approach can be observed in a familiar phrase: 'the whole wasn't made for your sake; you were made for its sake'. (17, p. 1) According to Plato, it is perfectly natural for an individual to submit to the whole that is not a mere assembly of individuals, but a natural entity of a higher order. Such understanding of individuality became the basis of civilization, 'and...the greatest of all laws is: nobody, neither a man nor a woman must ever be without leadership and nobody must as a joke or in reality, create habits of doing something independently. Each person, in war and peace alike, has to live in the manner of the constant looking up to his leader and allowing him to govern even his most trivial activities, to stand when this is ordered to him, to march, to take a bath, to eat...' Plato writes.

The presence of the methodological holism can be noticed in Hegel's work as well. According to him, the individual reason or the reason of an individual is nothing but a product of the social heritage, historical development of the social group, or the nation in which the individual lives. That is why, among other things, Hegel perceived the state as an organism. His understanding of the essence or spirit is associated with the collective spirit of the nation that in fact shapes the state. (18, p. 74)

The high intellectual reputation of the Marxism is partly a consequence of the application of the methodological holism. As a matter of fact, Marx's economic determinism, the class theory, the competition theory, the theory of the economy cycle – are deeply holistic, so, according to this, they are consequently opposed to the methodological individualism.

A concise formulation of the Marx's confrontation with the individualism and the psychological approach is represented in his famous sentence 'It is not the consciousness of the people that determines their

### **Methodological Holism and the Contemporary Mainstream in Economy**

---

social being, it's vice versa, their social being determines their consciousness'. In the 'Preface to the critique of the political economy' Marx says: 'In the social production, during their life, people enter into certain necessary relations, independent of their own will, the relations of production that are related to a certain degree of development of their material production capabilities. The totality of these relations of production creates the economic structure of the society, the realistic basis for building the legal and political construction with appropriate shapes of the social consciousness. The method of production of the material life conditions the process of the social, political and the spiritual life in general. (11, p. 9).

According to the Marxist, dialectical materialistic theory, a man is primarily a social being that mediates in the transmission and expression of the social laws and changes. The social development itself happens through the struggle of the classes in the conditions of disproportion between the forces of production and the relations of production, which, as opposed to the methodological individualism, emphasizes the importance of the social structures, social formations, and consequently of the transformation of one order into another. (5, p. 3).

The German historical school had an important role in the affirmation of the methodological holism. The creation of this theoretic economic trend is associated with the fourth decade of the nineteenth century and the famous Roscher's enclosure called 'The draft for the lectures on the state economy according to the historical method', published in 1843. Roscher (20, p. 1) thought that the economic theory of the classical school needs to be completed and it that way made it applicable to the new economic circumstances. According to him, the economic behaviour is conditioned by the context – historical, social, and institutional. In the above mentioned enclosure from 1843, he pointed out that the legal and the political history, together with the history of civilization in general, should be included in the study together with studying the history of the economic life. Bruno Hildebrandt (20, p. 2) claimed that the economy of the classical school should be abandoned, or that the economists direct their attention to the exploration of the economic life of the people.

The followers of the so called historical school can be characterised as the typical supporters of the empirical and holistic orientation; of empiric orientation because they denied the possibility to determine the economic laws by the systematic and historical analysis. In order to realize this type of study, the German theoreticians applied descriptive historic method. This meant gathering and analyzing the data about the phenomena from the

economic life and the economic development of certain countries, which was a reliable indicator of their inclination toward the holistic methodological procedure.

The holistic orientation of the younger historical school was most convincingly presented by Menger's key opponent, Gustav Smoler. (20, p. 20). According to him, the economic science needs to be transformed into the science about society with the aim to reach three key goals: to present the development of different economic institutions, to determine the topology of the social conditions inside of which there is an influence of institutions of different economic system, as well to present the historical sequence of economic systems in the forms of phases of the economic development. Smoler insisted on the necessity of examination of rules, as well as on the explanation of the ethical motives of the human actions. (9, p. 81). According to his opinion, the economic science should contribute to the understanding of morality, laws and institutions as a global context inside of which people act.

A theory which during the end of the XIX and the beginning of the XX century started to work toward an ambitious goal of denying the basis of the methodological individualism and promote the positions of methodological holism, was certainly an 'early' (old) institutionalism. The contribution of the early institutionalism (Veblen, Commons, Michal) to this field can be looked at mainly through respecting and evaluating highly the impact of the institutions (especially the informal ones) on the economy and the society in general, denial of the maximising hypotheses and premise of the individuals as the naturally given entities, doing of the numerous empirical studies on the economic cycles, job market, the flow of the prices in the market, etc. It is often mentioned today by a large number of the imminent economic theoreticians that the representatives of the early institutionalism the ones that, during the course of the economic studies, introduced a new approach that points out the significance of the social norms and the mechanisms of their change. It is considered that they, by confronting the individualistic reductionism and simplification, brought the human behaviour into the connection with the strong impact of the institutions, especially with the informal ones such as habits, customs, tradition, morality, etc.

Poper also showed understanding for the methodological holism, although he strongly criticised the some of the Marx's beliefs. In his attempts to explain the nature of the human society and state, he reminded that this process was mainly about the natural convention based on the social nature of man. That social nature has its roots in the imperfection of

### **Methodological Holism and the Contemporary Mainstream in Economy**

---

the human individual. *The state, according to this, has to be placed on a higher level than the individual, since only the state can be self sufficient, perfect and capable to turn the inevitably imperfect nature of the individuals into good.* (18, p. 113)

A person that strongly influenced the application of the methodological holism in understanding of the economic reality and that is nowadays considered the creator of the modern macro economy is certainly John Maynard Keynes. One can notice in his work a totally opposed approach to the problems of the socio-economic reality in relations to the others renowned authors from the area of the economic theory, which is mainly a consequence of a different starting point in the methodology of the scientific research work. His concept is basically inspired by uncertainty and the insufficient knowledge of the economic subjects in the process of the economic decision making. Starting from the philosophical ideas of Hume, Bacon and Mandeville, he based the analysis of the economic behaviour of the economic subjects on the unexpected consequences of individual behaviours. (7, p. 2) In this way, his scientific orientation gets the character of proclaiming the application of the methodological holism, which among other things had the impact on Keynes finding the solution of the problem in the state interventionism, denying the understandings that are based on the liberalistic economic ideology. By supporting the economic politics of interventionism and by giving a totally new role to the state, different from the one it had in the eyes of the classicists, he made relative the role of the individuals in the economic sphere of the social life. The state takes the main role in the national economy and by its own mechanisms regulates the economic processes and gets it into the state of balance.

The dominant post-war influence of the Keynesianism started to pale out during the seventies of the XX century. The phenomenon of stagnation, the deficit in the budget, decrease of productivity, inefficiency of the public sector etc. have anew intensified the appeal to the macro economy and its basic source – methodological individualism. The fundamental theoretic researches started to move from the field of conceptualization of the aggregate variables to the problems of the strategies of the companies, the investment decisions, and techniques of production and the development of the companies.

In such a rise of the individualistic doctrine, supported by the neoclassical mainstream and the neo-liberal theories embodied in the monetarism, economy of the supplies and the school of the rational expectations there is the appearance of the neo-institutionalism. The fact

that it appeared in the core of the neoclassicism influenced the authors of this theoretic school to turn to neoclassical marginality instruments in their analysis. However, in the neo-institutional theory, the growth of the social wealth, exchange, distribution and consumption is not primarily explained from the stand of interests and preferences of the isolated individuals, but more and more attention is paid to the study of the of the interrelations among the elements of the economic system. It turns out that by the implementation and the adequate valuing of the institutional dimension of the society, the institutionalism contributed to the completion of the economic analysis and made a step forward in the course of using the parallel methodological procedure and higher valuing of the holistic methodological approach.

The work of the followers of the institutionalism was among other things, dedicated to the realistic analysis of the uncertainty in the light of the fact that the formal and the informal institutions are very important in giving the information about the intentions and preferences of the economic participants. (13, p. 178). The relevance of the study area of the followers of institutionalism, based on the analysis of the fundamental economic phenomena (institutions, property rights, Transactional expenses, contracts, etc) and the application of the category apparatus that is far more realistic in depicting the economic and the social ambience, allows the representatives of this paradigm to raise their voice against any kind of the methodological reductionism and the artificial and simplified analytic distinctions characteristic for it.

#### **The arguments in favour of the holistic methodological procedure**

1) The concrete phenomena of the economic life can not be explained with the help of only one tendency, even if it is as obvious as the hedonistic resistance and the individual's striving to maximize the utility. The proper historical approach does not allow the simplification of the ties, phenomena and the relations characteristic for the whole society, as well as for the certain spheres of the social life. Is it, for example logical for the character of certain foreign affairs to be analysed by a historian, only on the basis of the character and the affinities of the leading diplomats; the development of the art of one period only on the basis of the individuality of the artists that were affirmed at the time; the war successes only on the basis of the gifts and talents of the army commanders.

### **Methodological Holism and the Contemporary Mainstream in Economy**

---

Methodological holism, no matter how illogical it may look at the beginning, has its roots in the very core of the individual evaluation and preferences. As a matter of fact, in the very behaviour of the individuals there is a seed of the collective mechanisms which in fact restrict the individual acting from which they were created.

The explanation of the appearance of the collective arrangements on the basis of the non-restricted interactions and free decision of the individuals is very simple and logical. Firstly, the fact that the individuals have their own interests to maximise the utility and to make a profit is not being questioned. However, they do this in the market where different forms of regularities appear in the process of bringing face to face the autonomic, different and conflicting interests, and these different regularities as such, restrict the impact of the individuals, but also protect these individuals from the various forms of violence. 'There is a need for an order without which there can be no functioning or surviving of any organised community. Individuals consciously deprive themselves from their own sovereignty in order to remove the violence as a form of the interpersonal communication, and in order to protect from each other and to save time, energy and the resources that would, in the arrangement of Hobs, have to be spent on saving what the other members of the community produced'. (10, p. 51) The individuals, consequently, create the minimal level of the security in the collective mechanisms necessary for the efficient functioning of the market, which is in the conditions of the uncertainty the necessary precondition for the beginning of the economic activity.

2) Restricting of the individual freedom and decision making is also necessary in the case of obtaining the public goods. It is about the generally accepted problems of the financing of the public goods, which is in theory explained by the non-existence of the individual motives for the paying of the public goods – the phenomenon of the free user (free rider problem). As a matter of fact, the individuals and the economic subjects in general, strive as a rule to the state where the state regularly provides the public goods and finances the building of the institutions in order to reduce the level of the transactional expenses. However, all these individuals are not equally diligent when it comes to financing the public goods. A part of them engages themselves into the adventure of the 'free riding', which is concretely manifested in the disrespect of the laws and the tax evasion. Finally, this comes to the point when the individuals obeying the law and the companies associated with it become mocked, and the regular providing of the public goods becomes endangered. (15, p. 432-433). That is why instead for the market that is inefficient in the domain of the public goods,

there is a need for the institutionalised coercion with the aim of the rational obtaining of these obviously inevitable preconditions for the normal functioning of the community.

3) The seemingly clear and autonomic individual psychological phenomena nevertheless depict the dynamic relationship of the individuals and the state system. As a matter of fact, the ruling neo-classics presuppose the existence of the homogenous human strivings aimed at the fulfilment of the completely rational goals. The practice however, undoubtedly shows that the individuals are still not the uniform agents that strive to reach the identical, mainly highest economic goals. The most recent studies of the economic behaviour stress not only how much the individuals are rational in their attempts to make themselves adaptable to the conditions of the order but also to what extent is their behaviour based on the imitation, inertness, isolation, habits, tradition etc. That is why it's not good to close eyes in front of the fact that in the economic sphere of the social life there are numerous differences on the micro level, which automatically actualises the stand on the relative autonomy of the macro economy. Translated onto the real functioning of the economy, this means that the rules on the systematic level represent the significant 'back-up' that through the positive 'feedback' alliance makes impact on the efficacy of the microeconomic subjects. In this way, the picture of the developed market economy as a complex structural system becomes capable of the development based on the principles of the self-organising.

4) By coincidence, every individual is born in a certain natural and social environment. Even when there isn't enough understanding for this environment it must be admitted that it leaves a deep trace on the mental structure of an individual. Individual simply has no choice but to suffer different influences and to respect certain rules of the ambience in which he lives, no matter whether he looks upon them with approval or doubt. And at the same time it is completely irrelevant in which way certain rules of behaviour were established. If, for example we suppose that the state didn't participate in the process of the structuring of the economic space, it doesn't mean that the individuals will not in their behaviour govern themselves by certain norms of behaviour. In the absence of the state rules certain habits are at their disposal, good business customs, linguistic norms and conventions etc. It turns out that the individual, whether he wants it or not, with the aim of better understanding of the actual (most often unconscious) socio economic circumstances necessarily chooses to apply certain conceptual paradigms. The point is as the sociologists say in the



### **Methodological Holism and the Contemporary Mainstream in Economy**

---

phenomenon of certain institutionalisation and culturalising of the individuals.

5) The fourth restriction stems from the collective character, or the mentality of a certain community that could be disinclined toward certain individualistic arrangements and be inclined toward the collectivist forms of organizations. The scepticism toward the enterprise and the developmental impulses based on the realisation of the individual motives and actions is mainly a result of the socialistic heritage, but also of the deep religious roots. For example, the Protestantism implies equality at the start, equality of the citizens (equality in front of the law) but it doesn't exclude consequential property and economic differentiation, which is the result of the impact of the market mechanism. Opposed to this, the idea of equality in the Orthodox Christianity refers more to the equality of the result than to the equality of the conditions of coming to this result or the equality in front of the law (19, p. 110). Consequently it turns out that the dominant aspects of the consciousness of the Orthodox countries are still connected to the egalitarian paternal syndrome, so that the needs for solidarity and collectivism are still important notions in their existence. In this sense, the state of Serbia is not an exception, which in the context of relationship toward individualism can be seen in the strong disapproval of the growing class of enterprises. Although in the economic circles the process of activating the capital is considered to be one of the basic preconditions of the economic recovery, the citizens increasingly get the impression that the owners of the capital and the enterprisers behave in the spirit of the 'wild' capitalism, so that they are the pillars and the promoters of the asocial reaching of the egoistic goals. (14, p. 536). Therefore, it is not at all surprising that from the point of view of the citizens business is not frequently an euphemism for criminal, market a synonym of the political struggle of the mafia clans, and the ownership itself a consequence of the intensive deceits and thefts

These are the facts which should be considered in the process of finding the reasons because of which the wide public in Serbia does not easily accept the fact that the newfangled owners have wide, as they perceive, absolute property rights in the disposal and using of their property. There is even the hope that the state will considerably restrict the property rights of the 'exploitation' oriented enterprisers, so that they wouldn't abuse at the expense of the workers and the wider community. (16, p. 358).

The spirit of collectivism of our citizens can be recognized in the opinion of the majority that the state should solve the problem of the

unpaid salaries in the companies, since the status of the worker, even without the efficiency guarantees the salary to the workers. Together with this appeared the striving that the state should prolong the deadline for allowing the financial compensations for the workers who become unemployed in the process of the privatisation. Also, the majority of the population (it is estimated above 60%) thinks that the state should give the financial support to the companies so that they could overcome the problems of the restructuring and eventually avoid the bankruptcy, notwithstanding the fact that the major part of these companies disrespected the ethics of the market business by not paying what they were obliged. It should also be noted that the largely rooted opinion of the public is that the state is not sufficiently protecting the national manufacturers, leaving them to the merciless foreign competition (8, p. 92, 93).

### **The critique of the methodological holism**

Although methodological holism made possible the creation of the very relevant concepts of certain phenomena in the socio-economic sphere of life, many people warn that its uncritical application is nothing but a kind of reductionism in the economic study (6, p. 64). Similarly to the fact that the explanation of the methodological individualism comes down to exclusiveness of certain parts, the explanation of the methodological holism comes down to the primacy of the social environment. That is why there are realistic warnings that the uncritical and careless application of the holistic principle might cause the researchers in the position of the main exponents of the cultural determinism. In addition to this, it should be mentioned that there are some opinions according to which the old institutionalism lost its relevance precisely because it turned into methodological collectivism that was used for the unrealistic 'over socialisation' of the human behaviour (3, p. 481, 510).

One of the loudest critics of the methodological holism was certainly Karl Menger. It was according to him impermissible that the German historical school didn't notice a distinction between the historical and the theoretic understanding of the social sciences. Menger sees the misconception of the representatives of the historical school in the fact that they want to understand the economic changes only in the strong connection with the social and state development of the people, while they perceive the process in which the economic subjects become independent, their separation from the complex of the national and state life as

### **Methodological Holism and the Contemporary Mainstream in Economy**

unhistorical and unrealistic act in relation to the life of the people (12, p. 77-83).

Methodological extremism, even when it comes from the promoters of the logically sustainable assumptions of the holistic methodological position, necessarily raises the issue of the infinite regression. As a matter of fact, the aims of the individuals can be explained by the influence of the institutions from the point of view of the extremely understood holistic methodological procedure. However, the logic tells that the appearance of these institutions should be brought in connection with the influence of some earlier institutions, and it makes a vicious cycle. It can be concluded from the above mentioned that any choice made concerning the question of the primacy – whether institutional or individual, is analogue to the question what is older – a hen or an egg?

### **Conclusion**

The acquirement of knowledge is a very complex intellectual procedure that depends from a large number of factors. The most important among them is certainly the choice of the methodological approach, or the principles on which on which the scientific research work is based. One of these approaches is certainly methodological holism, very relevant concerning the fact that there are various serious critiques on account of the mainstream economy from its point of view.

It is undeniable that a great step forward has been made thanks to the methodological holism. This is particularly evident in the field of creating assumptions for more objective and thoughtful perceiving of the current socio-economic phenomena. However, the correct methodological procedure implies avoidance of the traps of various kinds of reductionism, individualistic as well as holistic. That is why it is a scientific imperative to create an unbiased methodological core which would proclaim the individual and the social characteristics of the society as the equally relevant entities. In this way, among other things, and in the context of the economic observation we solve the problems related to the explicative primacy, showing that the both levels - micro economic and macro economic are equally important, which only speaks in favour of the relative autonomy and the necessity of their synergy.

**References**

1. Becker, G., Irrational Behavior and Economic Theory, J. Polit. Econ., 1962.
2. Евстигнеева, Л., Евстигнеев, Р., Проблема синтеза общеэкономической и институционально-эволюционной теорий, Вопросы экономики, 8/98.
3. Granovetter, M., Economic Action and Social Structure: The Problem of Embeddedness, American Journal of Sociology, 1991.
4. Hodgson, G. M., Economics and institutions: A manifesto for modern institutional economics. Cambridge: Polity Press, Philadelphia, Pennsylvania Press, 1988.
5. Hodgson, G. M., On the Evolution of Thorstein Veblen's Evolutionary Economics, The Judge Institute of Management Studies, University of Cambridge, 1996.
6. Hodgson, G.M., Sammuels, W., Tool, M., The Elgar Companion to Institutional and Evolutionary Economics, L-Z, 1994.
7. Kitanović, D., Petrović, D., Teorija ograničene racionalnosti – Hajek, Kejnz i institucionalisti, Ekonomske teme, Ekonomski fakultet, Niš, 3/2007.
8. Kitanović, D., Petrović, D., Transformacija ekonomskog ponašanja u Srbiji – problemi i perspektive, Institucionalne promene kao determinanta privrednog razvoja Srbije, Ekonomski fakultet Univerziteta u Kragujevcu, 2004.
9. Koslovski, P., The theory of Ethical Economy in the Historical School, Spriner, 1995.
10. Madžar, Lj., Institucionalne prepreke individualnih sloboda, Pojedinaac i država, Centar za ekonomska istraživanja instituta društvenih nauka, Beograd, 2005.
11. Marks, K. Predgovor prilogu kritici političke ekonomije, Prilog kritici političke ekonomije, Kultura, Beograd, 1969.
12. Menger, K. Istraživanja o metodi društvenih nauka, s posebnim osvrtom na političku ekonomiju, Velikani ekonomske misli, knjiga 1, Službeni glasnik, 2008.
13. Норт, Д., Институты, институциональные изменения и функционирование экономики. М. Фонд экономической книжки "Начала", 1997.
14. Petrović, D., Etika tržišnog/netržišnog ponašanja u Srbiji, Teme, Časopis za društvene nauke, Univerzitet u Nišu, 4/2002.
15. Petrović, D., Liberalni institucionalizam kao nova tendencija, Ekonomske teme, Ekonomski fakultet, Niš, br. 1-2, 1999.
16. Petrović, D., Unapređenje svojinskih odnosa kao pretpostavka efikasne tržišne privrede, Teme, Časopis za društvene nauke, Univerzitet u Nišu, 2/2007.
17. Platon, sr.wikipedia.org/sr-el.
18. Poper, K., Otvoreno društvo i njegovi neprijatelji, tom 2, Beogradski izdavačko-grafički zavod, 1971.
19. Sekulović, M., Reforma države – uslov uspešne tranzicije, Ekonomski anali, tematski broj januar, 2002.
20. German historical school. Cepa.newschool-edu/schools/historic. htm.

**METODOLOŠKI HOLIZAM  
I SAVREMENI MEJNSTRIM U EKONOMIJI**

**Rezime:** U osnovi metodološkog holizma (metodološkog kolektivizma, organicizma) stoji težnja da svi fenomeni društva jedino mogu biti objašnjeni pomoću socijalnih struktura, institucija ili kulture društva. Ovim metodološkim postupkom ističe se prevladavanje socijalnih odnosa nad psihofizičkim osobinama individua, odnosno prihvata stav da svojstva sistema opredeljuju svojstva njemu pripadajućih elemenata. Cilj ovog rada je da pronikne u suštinu metodološkog holizma i postulate na kojima se on zasniva. U tom smislu biće uvažena mišljenja različitih teorijskih paradigmi, sa posebnim akcentom na relevantnost i logičku održivost argumenata kojima se brane, ali i napadaju pozicije metodološkog holizma.

**Ključne reči:** Metodološki holizam, metodološki individualizam, kolektivni mehanizmi, institucionalizacija individua