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FACETS OF INDIVIDUALISM IN ECONOMY

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Abstract

The present article intends to be a short but general overview of the main perspectives on individualism. As any other respectable science, economics was in a permanent search of an appropriate method. Its complex phenomenology requested a mechanism to build the analysis on. And individualism can be counted among the key-principles of economic judgement. The history of economic thought makes frequent referrals to the issue. There are two main interpretations given to the term of individualism. On one side there is the methodological norm of analysis for economics as science. On the other hand is the pragmatic sense, an economic behavior. Economic theory interacts with practice. Having *homo oeconomicus rationalis* as theoretical starting point the analysis developed in the works of the classics and neoclassics and found a redoubtable opponent in the socialist philosophy and praxis.

Keywords: individualism, hierarchy, social puzzle, spontaneous order, pure entrepreneur, wealth

Introduction

Market economy, capitalism and liberalism as known today owe their existence to the special emphasis on individualism. Given its importance, great figures expressed their views trying to shape its complex coordinates, launching themselves in polemics open to both positive and negative criticism. A should give a better image of the role of individualism in economy today.

Facets of individualism

The individualistic manner of acting on economic ground is, first of all, a natural impulse of the human being. Adam Smith enrolled to prove it in *Wealth of Nations*, when saying that it is a normal attitude for an individual to

pursue his self-centered interest. Then after the confrontation of these individual interests on the free market, general wealth is born. Smith argues that this *homo oeconomicus rationalis* is the best solution for the progress of the civilized nation, so excluding others in the decision-making process is not harmful in the end.

Later, John Stuart Mill takes the same side. Only that, in his vision the liberty of the individual in economy should be limited in the sense that the action of one should not have a negative effect on others. Later Max Weber introduces what is known as methodological individualism – a way of judging facts related to individual and society. He agrees with analyzing the social phenomena through the mirror of individual actions, which have different motivational roots. Using methodological individualism, in his assertion, does not mean imposing an individualist system of values to the entire society, but understanding it with the individual as a starting point. This line of thought is followed in the works of

Weber's liberal successors, each one leaving specific fingerprints on the issue.

The main way of enforcing benefits coming from economic individualism was via its opponent, the collectivism (known under various other names, such as: holism, socialism, centralism or communism). History put the two perspectives under test. By far the winner proved to be the former. But the polemics made around these contradictory concepts worth to be mentioned in order to have a general picture on the values that each one operates with.

It is hard to give a covering definition of the concept of 'individualism', but eventually the words of the French anthropologist, Louis Dumont should throw some light: "For us, each man is, in principle, an embodiment of mankind, so each one is the equal of others, and free." [1] The individual is set on the throne, becomes the measure of all things, including the events on the market. The correlation with freedom is justified by the benefits of private property. And equality is to be understood, in Dumont's view, through the religious side of the human beings. We are all equal in God's eyes; therefore the same applies to the social relations. But the individual goals are far superior to the holist ideals of the society. For Dumont holism is equal to hierarchy (defined as the relation between one who dominates and the other who is dominated, opinion suggested by the position of the Catholic Church when compared to Protestant Church) and individualism is the same with equality. He accuses hierarchy of dissolving the man's particular value. From this angle, the individual is valuable only because society makes him to be so.

Karl Marx sustains the opposite. For him, the promotion of the private property since medieval times (through the feudal system of landowners) was a great crime at individual's address. The Marxist logic says human beings were always subsumed to the social framework. The relations created among individuals are the one that matter, not the individuals themselves. So, the man is nothing but a piece of the great social puzzle.

Marx despises the capitalist system, because, he argues, in it the man is just a producer of added value. The individual must submit the created value to the forces of the exchange on the market, so he gains no benefit out of it. More, for Marx, the unit of value for a man is his labor, spent in vain for the wealth of others.

Instead the socialist system gave the chance to individuals to make efforts that serve the common well-being, finally turning to their profit. These ideas pictured a beautiful world, with social peace, where every person had something to win from the social and economic relations. The economic reality of the 90's showed us the disastrous effect of this kind of approach. The communism turned the East-European countries into a closed camp, with no elements of comparison, with an unrealistic exchange rate of their currency. The economy was planned in detail and no derogation was allowed. The individual was supposed to be happy when the nation's leader praised the fantastic results of the plan, and had no real right to express his opinion in discordance with the central vision. Poor, lied and suppressed the individual was nothing compared to the mass.

Against this idealistic perspective, among others, the voices of two remarkable ultraliberals rise: Frederic Auguste von Hayek and Ludwig von Mises. Both analyze individualism from a double perspective: as a manner of judgement in economics as science and as behavioral norm in society.

As manner of judgement in social sciences, F.A. von Hayek calls himself an adept of the already mentioned methodological individualism. He states that a distinction must be made between ideas which lead to a social phenomenon and the ideas on that specific phenomenon. Just as one person's opinion regarding a commodity might determine a change in its price, differ from our own view about that very modification of price.

Individual opinions are fundamental in shaping the possible structure of the social relations they generate. And these opinions submit to the law of 'spontaneous order'. The Hayekian reasoning shows that institutions appeared not as a goal in itself, but as a resultant of the successive actions of different individuals. He gives the example of the creation of money as institution in economy. No man ever set a goal in placing it in the centre of the economic system, but it came out of the temporal evolution of the relations of trade.

So institutions exist in order to serve individual interests, not to be served by individuals. In the same smithian spirit, Hayek defines society as "aggregate of all the actions of its members" [2], recognizing that the true value of

the individual stands in his essential contribution to the social economic progress, not vice-versa (as holists sustained).

His good friend Mises shares this opinion. He agrees with Marx with respect to the fact that man comes into the world in a given social environment, but society is a sum of individuals united in a common effort of cooperation. Society is built on partnership, not on the obligation to adhere at a preset general goal. So, individuals must not sacrifice their own wishes and purposes on the social shrine: "First we must realize that all actions are performed by individuals. A collective operates always through the intermediary of one or several individuals whose actions are related to the collective as the secondary source." [3]

The market is a result of the contribution of each member; its social nature comes from here. On this market, Mises gives to the individual the double quality of producer and consumer in the same time, pointing that there will always be groups in society interested in defending the increase of the real income of their members; such as political parties, trade unions or producers' organizations do. The target is the same, but the position from which is hoped to be reached varies. Mises puts this in a plastic way: "A cathedral is something other than a heap of stones joined together. But the only procedure for constructing a cathedral is to lay one stone upon another. For the architect the whole project is the main thing. For the mason it is the single wall, and for the bricklayer the single stones." [4]

In the Misesian optics each individual has the right to choose, has free will. Although he does many things due to the routine of his inherited habits (habits of consuming and economizing, for example), he may very well change it as soon as he discovers that he can reach his goal following another path, which seems more efficient.

Israel Kirzner, one of Mises' disciples, will further explore the changing habits of individuals. He draws the image of the 'pure entrepreneur'. This individual has the mind always working, in permanent alertness, in order to discover the opportunities that were not explored yet, before others do. Once discovered the opportunity turns into a factor of production. Also he is ready to learn from the mistakes of

the past, while following the subconscious impulses of action.

Not noticing the opportunity translates, in Kirzner's view, in a misallocation of resources in economy. An undiscovered resource is a useless one, blocking potential gains. In the same time, entrepreneur's alertness in searching for resources makes him improve his actions. In other words, openness to change gives him better profit than otherwise. The equilibrium is reached when there is nothing to be learned from the guidance of the subconscious impulses.

On the other hand, that alertness of Kirzner's entrepreneur sends to the idea of human capital formation. Starting with Schumpeter's creative destruction, economists like Garry Becker and others stressed on the importance of human skills as key-input in production, with further impact on economic growth. In a society that promotes sound individualism, the members practice self-reliance and this is nothing but an incentive to develop their abilities as to follow their dreams. This way, they will not expect the outside world (the state) to provide them the income; instead they will proceed in obtaining it by themselves.

Conclusions

After picturing individualism at a glance some personal opinions are necessary.

- We always considered that tracing the main directions of the national economic policy on individualistic grounds lead to development.
- Stimulating the private initiative translates into higher economic performance. Giving way to individual choice the innovative skills improve the business environment and appliance of the rule of law becomes possible.
- Having recent history as silent observer we can afford to say that there is no true liberty in socialism. There is no such thing as collective liberty, is just an invention of some enthusiastic ideologists that wanted capitalism dead. Individualism is a virtue that cannot ever be under the monopolistic control of certain people or thinkers.
- The list of pros and cons regarding individualism in economy is open. Free will, free initiative on the market, private property,

macro wealth, selfishness, solidarity, liberty of mind, innovation, self-reliance, diminished social protection – nobody can have it all, but all have the chance to be success-

ful at some point. And this makes room for progress.

Notes

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2. Hayek, Frederick, *The Counter-Revolution of Science-Studies on the Abuse of Reason*, Liberty, Press, Indianapolis, 1979, p. 63
3. Mises, Ludwig, *Human Action. Treatise on Economics*, 4th Edition, Fox&Wilkens Publishing Inc., San Francisco, 1996, p. 41
4. Mises, Ludwig, *Human Action. Treatise on Economics*, 4th Edition, Fox&Wilkens Publishing Inc., San Francisco, 1996, p. 45

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