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The nature and significance of Lionel Robbins' methodological individualism

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Abstract

Lionel Robbins' definition of economics helped to buttress the centrality that individual choice acquired after the Second World War. This, however, was an unintended consequence of his seminal work. 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 useful for analysing more complex social phenomena. The paper outlines three types of methodological individualism, and argues that Robbins' approach cannot be classified under 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.

JEL classifications: B20; B31

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1. Introduction

Robbins' *An Essay on the Nature and Significance of Economic Science* (henceforth *Essay*) defines economics as "the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses" (Robbins, 1969 [1935], p. 16). The book was much appreciated among his circle of friends (e.g., Harold Laski, Jacob Viner, F. A. Hayek, Wilhelm Röpke and Ludwig Von Mises), but outside of this group its reception was not very favourable, as can be seen in a series of critical articles written in the eighteen months following its publication, which led Robbins to publish a second edition in 1935 (Howson, 2011).[1] Despite Robbins' attempt to respond to criticism, the book would continue to be frowned upon for decades to come. As Backhouse and Medema (2009a) have shown,

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[1] Robbins spent his holidays in Austria in 1933 and was visited by Haberler and Machlup for a couple of days. These conversations would "bear fruit in the second edition of Robbins's *Essay*" (Howson, 2011, p. 240). In a letter to Machlup commenting on the modifications he made to the

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Robbins' definition was widely criticised until the 1960s, and it would only gain widespread acceptance in the 1970s. Although the extent to which Robbins' definition influenced economics is a moot point, it surely played a role in laying the foundations for its contemporary theoretical edifice.

Backhouse and Medema (2009b, p. 487) argue that "there are important connections between the rise of axiomatic methods in economics and the acceptance of Robbins definition of economics". The gist of their argument is that, if economics was to be based on the axiomatic method, as favoured by members of the Cowles Commission, then a definition which narrowed its subject matter was in order. The definition proposed by Robbins, in their view, was consistent with such a project. This is not to say the subsequent development of economics would have been different were it not for Robbins, but rather that "an analytical definition of economics that defined the subject in terms of *relationships*, playing down the importance of the empirical element" was necessary "for axiomatic methods to be seen as central to the subject" (p. 496). In the same vein, Giocoli (2003, p. 85) argues that "the most important achievement of the *Essay* was to shift the definition of economics from the *object* to the *form* of economic behaviour", allowing one to cast economic problems in terms of formal statements.

Zeidan and Resende (2007, p. 270), likewise, stress that "the main transforming ideas put forward in the *Essay* accomplish a great deal to mould modern economics". To them, 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". Colander (2009) believes that Robbins' definition was not the central message of his *Essay*, but rather simply a description of what he thought economists were doing. His most important point was the prescriptive message that economic science and political economy should be distinguished, following the classical economists' distinction between the science and the art of economics.[2] In hindsight, however, while his prescriptive message was virtually ignored, his definition of economics has "been central in shaping economists' image of what it is that they do" (p. 437). To Lipsey (2009), even though it is hard to quantify the impact of Robbins' *Essay*, one may safely say that it was "an important link" in transmitting his ideas "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).

The origins of Robbins' *Essay* have also been widely debated, and any attempt to affiliate his ideas to a specific school of thought risks losing sight of their eclecticism.[3] Robbins' influences were an amalgamation of different traditions, including the methodological precepts advanced by J.S. Mill, J.E. Cairnes, J.N Keynes, the Austrian and the Lausanne Schools, and a number of other economists such as Wicksteed, Weber, and Knight. As argued by Giocoli (2003, p. 90), "Robbins's reconstruction of the epistemological status of the key economic principles", conflating English verificationism and Austrian deductivism, "offered an effective *methodological compromise* between the competing approaches to the 'true' nature of economic theory". To Cowell and Witztum (2007, p. 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,[4] and that the *Essay* "would perhaps have been more coherent if it had taken such an approach wholeheartedly". In a similar vein, Hands (2009, p. 831) identifies "certain philosophical tensions" in Robbins' *Essay* "that are difficult to reconcile with other positions within the text, and/or with any well-established philosophical positions". In his view, however, had the *Essay* not contained such tensions, "it would not have been as influential as it was," for they allowed Robbins to

fourth chapter, he said "he owe[d] much more to conversations with you and Haberler on this matter than to anything that has been published in any journal" (quoted by Howson, 2011, p. 271).

[2] This distinction was already clear to Robbins as an undergraduate student, when he wrote that political science "not only attempts to explain *how* certain things are what they are: it also attempts to discover whether certain things are what they ought to be [. . .] people have confused these two departments of the science, and involved themselves in unutterable confusion" (quoted in Howson, 2011, p. 98).

[3] His eclecticism extended beyond his economic views. As a schoolboy, his goal in life was to be a poet, and in 1915 he entered University College, London to read for an Arts Degree, choosing as subjects English and English History, Latin and Roman History, and French. When the time came to decide on what to specialise for his BsC (Econ), he chose the History of Political Ideas under Harold Laski's supervision. After graduating, he wanted to teach for a couple of years, but afterwards he intended to become a lawyer. Later in his life, he would spend 21 years working as a trustee of the National Gallery. He was also director of the Royal Opera House Covent Garden for almost three decades, and took the chairmanship of the Committee on Higher Education (Howson, 2011).

[4] Backhouse and Medema (2009b, p. 486) note that Murray Rothbard, who had no sympathy for mathematical economics, saw Robbins as "a fellow praxeologist".

accommodate some of the problems faced by early-20th century marginalism. Howson (2004) points out that Robbins' book followed very closely the lectures he gave at the LSE, but whereas in his lecture notes he referred mostly to English economists, in the book he added several references to Austrian economics, which makes it appear to be more Austrian than it actually was. O'Brien (1990, p. 155) further notes that "the task of disentangling the roots of his microeconomic views can never be completely solved," since while he was mainly influenced by Wicksteed in this topic, he also drew on many ideas from the Austrians which coincided with Wicksteed's thought, thus blurring their filiation.[5] We may thus concur with Witztum (2007, p. 58) when he says that "Robbins' intellectual heritage is complex and not necessarily particular to any of the existing schools of his time".

Advancing beyond the current state of the scholarly literature on the subject, this paper assesses Lionel Robbins through the lenses of the philosophy of science, and claims that a novel approach towards methodological individualism was advanced in the *Essay*. Even though Robbins himself never used the term 'methodological individualism', the central role played by rational choice theory in the development of post-war economics led to methodological individualism being closely associated to neoclassical economics, and hence to Robbins' methodology.[6] Both Caldwell (1994 [1982], ch. 6) and Hands (2001, p. 43) explicitly characterize Robbins as an advocate of methodological individualism, while the more general connection between this epistemological stance and neoclassical economics can be seen in Blaug (1980, ch. 15), Screpanti and Zamagni (2005, pp. 165–167), and Arnsperger and Varoufakis (2008). Robbins' affinities with Austrian economics, which has been long portrayed as a prime example of methodological individualism in the social sciences (Machlup, 1982; Hodgson, 1994), may also partially explain his reputation as a fellow proponent of the approach. As we will show, however, a careful reading of the *Essay* makes it clear that Robbins' argument cannot be easily subsumed into any of the definitions of methodological individualism usually found in the literature. The paper is organized in four sections apart from this introduction. Section 2 outlines the most well-known variants of methodological individualism, drawing on the debate led by philosophers of science during the 1950s and 1960s. Section 3 then examines how Robbins conceived the relationship between psychology and economics, in line with contemporary developments in the latter discipline. Combined, these two sections provide the background for Section 4, which discusses Robbins' peculiar brand of methodological individualism, and its place in his larger intellectual agenda. Section 5 concludes.

2. Methodological individualisms

The concept of methodological individualism was coined by Schumpeter in German in 1908, and in English in the following year (Schumpeter, 1908, 1909). Nevertheless, Udehn (2001) argues that methodological individualism as an explanation for social phenomena predates the concept itself, and can be traced back to the nineteenth century. 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 theory of spontaneous order, as it took shape in Adam Smith's idea of the market as an invisible hand (Udehn, 2001, p. 7).

To Udehn, methodological individualism originated in response to certain anti-individualistic philosophical strands that gained prominence during the nineteenth century. If German and English romanticism were a "reaction",[7] then methodological individualism emerged 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 (p. 41).

[5] O'Brien believes that Robbins' macroeconomics was more clearly influenced by Austrian economics, though even this was not clear-cut "because of the very roots of the work of Mises and Hayek" (1990, p. 155).

[6] For the relations between rational choice theory and the social sciences during the post-war era, see Mirowski (2002, ch. 7), Davis (2003, ch. 5), and Herfeld (2013).

[7] "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).

When analysing the first five economists ever to use the concept of 'methodological individualism',[8] we find that the expression only appears once in each of them, either in concluding remarks or as a footnote. Moreover, there is usually no detailed discussion of methodological individualism from a philosophical point of view (e.g., individualism versus collectivism). The only exception among these early writers is Hayek (1942), who was the first economist to address methodological individualism from a perspective broader than that of the economist. Indeed, this paper exerted a clear influence over Popper (1945),[9] whose interpretation of the concept served as the inspiration for a lively debate among philosophers of science throughout the 1950s and the 1960s.[10]

Zouboulakis (2002) argues that there are at least three variants of methodological individualism, namely psychological individualism, subjective individualism, and institutional individualism. According to the author, whereas psychological individualists assume away uncertainty and champion the use of the deductive-nomological method of the natural sciences, subjective individualists reject the possibility of mimicking the methods of natural science, since individuals are not perfectly informed. Institutional individualists, in their turn, deny the possibility of reducing social phenomena to individual behaviour, thus dismissing the attempt by psychological individualists to explain society in terms of psychological laws. Apart from rejecting reductionism, they also differ from subjective individualists due to accepting deductive-nomological explanations in the social sciences. Other concepts often employed by the literature on methodological individualism are those of "psychologism" and "subjectivism".[11] For clarity of exposition, in the rest of this paper we follow Zouboulakis' terminology.

The common notion shared by all three variants is not that social phenomena are reducible to individual behaviour; rather, what defines methodological individualism is the negative assertion that the individual is not reducible to social phenomena. They are all classified under the umbrella of methodological individualism precisely because they oppose holism. Their approach to reductionism, however, differs in significant ways. Whereas psychological and subjective individualism both claim that social phenomena can be reduced to the individual, the "institutionalistic individualism" approach developed by Popper's disciple Agassi (1960,1975) takes a different route.[12] While concurring that individualism ascribes the "power to act [. . .] only to individuals; not to collectives" (1975, p. 144) — in other words, that only individuals are purposeful — it nevertheless claims that social phenomena cannot be derived from individual behaviour, since there are feedback effects between agents and structure.

More specifically, institutional individualism may be interpreted as a methodological individualistic approach since it claims that individual behaviour is not a reflection of the social structure, even though recognizing that agent and structure mutually affect each other. The latter element distinguishes this variant from both psychological and subjective individualism, which assert that social phenomena are fully reducible to individual behaviour. In the case of psychological individualism, the analysis proceeds by reducing social phenomena to individual behaviour, and individual behaviour, in its turn, to the laws of psychology (as in Jevons, for instance). Whereas subjective individualism concurs that social phenomena can be fully explained by individual behaviour, it argues that individual behaviour is subject to uncertainty and cannot be reduced to the laws of psychology; therefore, individuals rely on introspection to make their choices. Such an approach is typical of the Austrian tradition of economics.[13]

Brodbeck (1954) uses a different terminology when discussing psychological and subjective individualism, even though her definition of the two approaches is very similar to the one sketched above. 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" (p. 140). Regarding the latter, although she does not name it as such, the idea is that

[8] Schumpeter (1909), Hicks (1934), Machlup (1937), Hayek (1942), and Lachmann (1944).

[9] Incidentally, Hayek was the editor of *Economica* when Popper's paper was accepted (Udehn, 2001, p. 200).

[10] A non-exhaustive list of authors involved in this debate consists of Brodbeck (1954), Mandelbaum (1955), Goldstein (1956, 1958), Watkins (1952, 1957), and Agassi (1960, 1975). For an overview, see Lukes (1968), Hodgson (2007), and King (2012).

[11] For a thorough discussion of methodological individualism, see Agassi (1960), Boland (1982), and Udehn (2001).

[12] Popper (1966 [1945]) rejects the individualism-holism dichotomy and argues that Schumpeter's version of methodological individualism should be called "psychologistic individualism" (Boland, 1982, p. 29). Popper's ambiguous conception of methodological individualism led his students Watkins and Agassi in different directions: Watkins defended psychological individualism, whereas Agassi championed institutional individualism. For a discussion of Popper's ambiguities, see Redman (1993, pp. 103–141).

[13] The Austrian School may have more similarities with Institutionalists than this classification suggests, but it is out of the scope of this paper to discuss such points of contact, a thorough assessment of which can be found in the "Symposium on Austrian and Institutional Economics" published in the 1989 edition of *Research in the History of Economic Thought & Methodology*.

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" (p. 141).

The debate among philosophers of science in the 1950s and 1960s raised a series of methodological pitfalls associated with the explanation of social phenomena based solely on individual behaviour. Agassi's institutional individualism, it could be argued, crystallises these objections in an attempt to free methodological individualism from its shortcomings. This debate is not only interesting in its own terms, but also for its implications to contemporary mainstream economics — a disciplinary subfield where psychological individualism has found fertile ground.[14]

According to Goldstein (1956), Hayek, Popper and Watkins offered the most important accounts of the principle of methodological individualism, though "it cannot be said that they have attempted to provide a systematic argument in defense of it" (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" (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" (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" (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. Brodbeck (1954, pp. 149–150) concurs with Goldstein on the difficulty of explaining social phenomena based solely on 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".

If macro phenomena cannot be explained solely in terms of individuals, the latter, conversely, cannot be understood without taking account of the influence of institutions upon individual behaviour. Borrowing Mandelbaum's expression, there are "societal facts" concerning the organization of society that are as important as "psychological facts" (Mandelbaum, 1955, p. 307). 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" (p. 309). To claim that individuals can be fully explained by sociological elements is the methodological counterpart of psychological individualism and neither approach is satisfactory. Boettke (1989, p. 66) refers to these positions as "naïve" individualism and "naïve" holism.

In what follows we will try to show that Robbins' *Essay* provided a methodological justification for focusing on the isolated individual, with long-term implications for the subsequent development of economics. Nevertheless, Robbins did not claim that social phenomena could be fully explained by analysing the isolated individual; on the contrary, economic man was to be only a temporary device, a first step towards understanding more complex phenomena. Hence, we argue that an unintended consequence of the *Essay* was to buttress the increasing centrality of individual choice in economics after the Second World War. If the argument put forth is accepted, it follows that the criticisms raised against methodological individualism outlined above, though valuable for discussing the contemporary state of mainstream

[14] Psychological individualism came to prevail in economics, according to Lewin (1996), as a side effect of the debate about the relationship between economics and psychology during the first half of the twentieth century. While this debate gained currency, the institutionalist critique that consisted in placing "a greater emphasis on the evolution of institutions and the social embeddedness of economic activity" was sidestepped (p. 1300).

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 explained exclusively in terms of individual behaviour. To properly understand Robbins' own brand of methodological individualism, however, we must first examine his ideas about the relationship between psychology and economic theory.

3. Economics and psychology in Robbins' *Essay*

In his attitude towards psychology, Robbins illustrated the move towards ordinal utility theory that, under the influence of Pareto, Edgeworth, and Slutsky, was such a marked feature of LSE economics during the 1930s (Chipman and Lenfant, 2002; Moscati 2013, 2015). His most influential contribution to this development was, of course, the famous argument against the scientific legitimacy of interpersonal comparisons of utility (Robbins, 1969 [1935], ch. 6). To Robbins, the fact that economists studied the choices of individuals meant that psychology mattered for economics, but it was not the job of the economist to explain why people had specific preferences. Psychology was not completely ruled out, but it played the very limited role of acknowledging that individuals were purposeful, and that different people had different ends, while the nature of wants fell completely 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).

As noted by Hands (2009, p. 835), whereas in the first edition of the *Essay* 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 replaced by "incentives" to avoid any behaviourist flavour. Robbins' project was to insulate economics from psychology: "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). Besides thus disposing of the psychological hedonism that traditionally infused British utilitarian philosophy, Robbins was equally dismissive of behaviourism, which he labelled a "queer cult" (p. 87).

On "Remarks on the Relationship Between Economics and Psychology", Robbins clearly stated that "there is no intimate relationship between Economics and Psychology, and no important propositions depend upon a correct determination of what relationship there is" (Robbins, 1997 [1934], p. 151). He argued that lack of knowledge of psychology had never prevented any economist from developing new propositions, and that "Economics is almost entirely independent of any particular kind of Psychology", even if economists clearly dealt with "considerations which may be designated psychological (or, more properly, as psychical)". Psychological elements were absent from classical economics, which was "predominantly *technical* in character",[15] and hence left unexplained "the primary conditions of any system of economic relationships, the influences operating on the demand side — the psychological elements in the system" (pp. 153–154). Robbins was thus saying that psychology mattered in the sense that demand must be accounted for, which he took as "one of the main achievements of the work of the last seventy years" (p. 155). Nevertheless, recognizing that both supply and demand played a role in the determination of equilibrium was to attribute a very limited role to psychology, and virtually no role to psychological theory — as should be clear from his statement that economists deal with psychic, rather than psychological elements.

On Robbins' account, the recognition that economic value was determined by individual valuation, and not by the valuation of social classes, led to the "development of a value theory taking proper account of psychological elements [. . .] and the way was clear for a theory making subjective valuation its main foundation" (p. 155). Yet, while Jevons based his theory on psychological hedonism, which "in many quarters [. . .] is regarded as discredited", the bulk of Jevons' argument remained valid regardless of hedonism if only one recognised that individuals could order their preferences, "a conception which is quite independent of any particular doctrine concerning the springs of human action" (pp. 156–157). Furthermore, the attempt by behaviourists to go beyond the simple postulate that individuals can compare the utility of different commodities was a step backwards, since "scientific method demands that we should leave out of account anything which is incapable of direct observation". Failure to recognize that individual choices depended on "introspective data", and were thus ultimately non-observable, was nothing more than a "false

[15] As, for instance, in the case of the labour theory of value, or the Ricardian theory of rent.

imitation of natural science" (p. 158). After all, the determination of prices depended on people's expectations about the future, which were clearly non-observable. Robbins concluded that economics could not exclude "its psychological elements", but these did not bear "any close relation with systematic psychology" because they were "conceived in a purely formal manner". Since no assumption was made about "their necessary content", it followed that "our conclusions are independent of the truth or falsehood of scientific doctrines which profess to explain this content" (p. 159).

To Robbins, the three basic postulates of the *Essay* — that individuals can order their preferences, that there exists more than one factor of production, and that there is uncertainty about future scarcities — only needed "to be stated to be recognised as obvious", and there was no need for controlled experiments to validate them. They were not, however, self-contained principles, and subsidiary postulates were required to apply them. Since these subsidiary postulates were not known *a priori*, "before we apply our general theory to the interpretation of a particular situation we must be sure of the facts" (1969 [1935], pp. 78–80). Robbins could thus maintain the centrality of the individual to economics, which implied that a psychological dimension was necessarily involved, while simultaneously holding that this did not require invoking any specific psychological theory:

> This was a skilful solution because it enabled him to satisfy the requirements of the escape from psychology by freeing economics of any specific psychological foundation, and, at the same time, preserve both a front-stage place for the volitional side of economic activity and a back-stage place for the very useful assumptions of consistency and perfect foresight (Giocoli, 2003, pp. 89–90).

Hence, rather than the demise of psychology, Robbins' conception attributed a limited role to psychological theory, namely to establish that individuals were goal-oriented and acted purposefully. Brown and Spencer (2007, p. 251) 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.*

Maas (2009) argues that Robbins' interpretation of the relationship between psychology and economics was influenced by Weber. Inspired by Weber's criticism of psychophysics, Robbins adopted the latter's notion of means-ends rationality to characterize the actions of individuals as purposeful. This did not imply, however, that the examination of choices required physical measurement. Rationality was understood as a benchmark, and the actions of individuals would often deviate from the best possible choice:

> Means-ends interpretations thus implied the rationalization of empirical reality, but did not imply the rationality of reality itself. They served to *circumvent* the concrete complexity of empirical, real-world situations by proceeding on the assumption that these situations were the result of intentional optimizing actions (Maas, 2009, p. 509).

This means that economics was not restricted to rational choice; economics used "ideal typical" explanations, not the "causal nomological accounts of the natural sciences". Hence, causal relations in economics were different from the natural sciences in that they could only predict what would happen if there were no deviations from rationality, but they did not allow the researcher to predict actual choices (p. 509). Following Weber, Robbins saw human actions as

> fundamentally intentional and goal-oriented. For Weber, intentionality and rationality were different sides of the same coin [. . .] As a consequence, Weber could deny the relevance of physiological (and psychological) research to the concerns of economists (Maas, 2009, p. 511).

The main difference between the two authors rested on how they "drew the boundaries between economics, psychology and history" (p. 501). While Weber could completely reject psychology, Robbins did not go that far, even if he used psychology "on a limited basis" (p. 514). This difference can be explained by Weber's situating rationality in a "specific historical setting", namely "the rise of capitalist accounting techniques" (pp. 511–512). Therefore, while in Weber means-ends rationality was strictly objective in the sense that there was only one end (profit), and anyone could choose the best means to achieve it regardless of psychological considerations, Robbins dealt with multiple ends. The boundaries of economics were thus different to each author. While Weber completely rejected psychology by embracing history and restricting his analysis to the merchant,[16] Robbins dismissed the influence of institutional settings on the choices of individuals by arguing that, even though psychology mattered to the extent that individuals pursued various ends, such ends were given and thus not the concern of the economist.

4. First-step individualism

Having thus clarified how Robbins conceived the relationship between psychology and economics, we are now finally in a position to understand the peculiar variant of methodological individualism espoused by him. King (2012) notes that no prominent economist participated in the debate about methodological individualism outlined in Section 2, and that Robbins' absence, in particular, is remarkable, since its inspiration came from Popper and Watkins, both his colleagues at the LSE at the time.[17] Although Robbins was most likely familiar with the debate, it is not entirely surprising that he did not become directly involved in it. First, Robbins never made use of the term methodological individualism. Second, in spite of the *Essay* being one of the most debated works of all time in the methodology of economics, Robbins was not concerned with methodology *per se*, and thus did not use concepts from the philosophy of science (Hands, 2009). In a nutshell, Robbins' *Essay* was about the methodology of *economics,* and written by the pen of an *economist*.

According to Robbins, what distinguished his own definition of economics from the "material welfare" conception espoused by John Stuart Mill and his followers was that, whereas the latter was "classificatory", in the sense that it analysed specific kinds of behaviour, Robbins' alternative was "analytical", examining but an "aspect" of behaviour: "There are no limitations on the subject-matter of Economic Science save this" (1969 [1935], pp. 16–17). Robbins rejected the "material welfare" definition by arguing that, although in ordinary speech the words "economic" and "material" were 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 (1969 [1935], pp. 4–5).

To illustrate his point, he explained that the wages of an orchestra were economic, even though they were not related to material welfare. Likewise, the audience buying seats to watch a concert spent their money on a non material good. Even though concerts did not increase the material welfare of society, they were an economic activity. Hence, the material welfare of society was part of what economists study, but not the subject-matter of economics.[18]

Parsons criticised Robbins for defining a method instead of a subject matter (Milonakis and Fine, 2009, p. 218). Interestingly, the term 'economic imperialism' was coined by Souter (1933) in response to Robbins' book, although the phenomenon as we came to understand it would only materialize a few decades later. Falgueras-Sorauren (2007, p. 22) offers a more nuanced interpretation of Robbins' *Essay*, somewhat in the spirit of our argument, claiming that it does not entail economics imperialism, even though 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

[16] For this reason, Zouboulakis (2002) considers Weber an institutional individualist. Agassi (1960, p. 260) argues that "Weber's approach is on the borderline between psychologism and institutionalism".

[17] Popper first came to the LSE in 1936 to give a talk on "The Poverty of Historicism" at the seminar organized by Hayek, who was "very impressed with the paper (and so he thought was Lionel)" (Howson, 2011, p. 290). Ten years later Popper became a Professor at the LSE. The concept of "methodological individualism" is absent from Howson's book, and her references to Popper, Watkins and Agassi do not shed much light on how familiar Robbins was with the debate. Apart from philosophical issues not being a central concern to Robbins, the large number of activities in which he participated in the 1950s and 1960s may help to explain his silence in the matter. In the 1950s, he wrote two books on English classical political economy (Robbins, 1952, 1958), became a trustee of the National Gallery, directed the Royal Opera House, and took the chairmanship of the Committee on Higher Education. In 1959, he joined the board of the *Financial Times* and gave up his chair of Economics at the LSE, although he continued working there for the next twenty years (Howson, 2011).

[18] Falgueras-Sorauren (2007) notes that, although most economists since Adam Smith offered definitions of their subject matter that were related to wealth, "the definitions they proposed were not of the same nature" (p. 18). Whereas some authors, such as Say and Lauderdale, "concluded from their research that actual wealth is also composed of nonmaterial goods" (p. 18), others, like Malthus and Stuart Mill, defined wealth as synonymous with material products. Robbins objected precisely to this second approach.

> Economics an imperialist discipline, but the relentless application of the "economic method" to analyzing all human behaviour.

Robbins did not claim that human action was fully explainable by its economic aspect. More broadly, social phenomena could not be reduced to individual action; his justification for studying the choices of Robinson Crusoe was, rather, that it was a necessary first step towards addressing more complex issues. His approach to methodological individualism was to argue that social phenomena could not be fully derived from isolated individuals, but that understanding the choices of the isolated individual should be the starting point for 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], pp. 93–94).

In the above passage, we find Robbins in Millian territory. Even though he disagreed with Mill concerning the definition of the subject matter of economics, Robbins shared his conception of economic theories as enunciations of tendencies that were always in force, but whose deductive implications were only true 'in the abstract', since in the world of concrete phenomena their effect was always confounded by other 'disturbing causes' (Mill, 1844, pp. 144–50). There was one important difference, however, between their methodological approaches to this matter. To Mill, the premises that sustained economic theories — such as the human desire for the acquisition of wealth — were simplified, but still true descriptions of reality. Robbins, on the other hand, opened the door for the use of premises that were not only simplified, but strictly speaking false. The use of economic theory to understand concrete problems was thus no longer a matter of simply complementing economic knowledge with the intellectual fruits of other disciplines. More realistic and adequate premises had to be introduced as the theory matured. Eventually, Robbins hoped, the initial assumptions would be dropped altogether:

> Economic Man is only an expository device – a first approximation used very cautiously at one stage in the development of arguments which, in their full development, neither employ any such assumption nor demand it in any way for a justification of their procedure (Robbins, 1969 [1935], p. 97).

In the contrast between Mill and Robbins on this matter, we can envisage the changing role of psychology in early-20th century economic theory. Rather than looking for the universal springs of human action on which to ground the laws of economics, Robbins advocated the use of premises that could simplify the analysis of the relevant phenomena. In line with the work being developed at the time by his LSE colleagues J. R. Hicks and R. G. D. Allen, he focused on the analytical tractability of the assumptions constituting the backbone of economics, while downplaying their accordance with any established psychological theory. Robbins acknowledged that individuals were subject to uncertainty, but argued it was useful to assume they had perfect foresight as a first approximation. Subjectivism, though important in Robbins' thought, was not fully endorsed by him. His approach conflated elements of subjective and psychological individualism, but he also retained enough of the Millian tradition to see these simplifying assumptions as devices that had to be eventually eliminated if the theory was to have any practical usefulness — as the previous passage indicates, his ultimate aim was to free economics from economic man.

Robbins (1969 [1935], p. 38) understood economics as "relationships between ends conceived as the possible objectives of conduct, on the one hand, and the technical and social environment on the other", stressing that the economist was not interested in the "things" themselves, but only on the relationship between them. As pointed by Backhouse and Medema (2009b, p. 488), Robbins was criticised by Hutchison for having excluded "technological, psychological, and social facts" from economic analysis.[19] His methodological justification for focusing on individual

[19] Backhouse and Medema are referring to Hutchison, 1938. Howson (2011, p. 271) notes that Hutchison spent the years 1934–35 at the LSE and wrote a note (Hutchison, 1935) which Robbins regarded as a "very good note", which "got completely home so far as my use of the term 'tautology' was concerned" (Letter from Robbins to Machlup, quoted by Howson).

behaviour, while ruling out the social, the historical and the ethical, was that it would lead to 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" (1969 [1935], p. 20). Economics should 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 appeared in his discussion of statics and dynamics. Robbins recognised that, as a long-term research program, economic analysis should be dynamic; to analyse such complex problems, however, 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 (Robbins, 1969 [1935], p. 103).

Although this might seem appealing at first, with the benefit of hindsight one may object that this exercise has become an end in itself. The long-term consequence of Robbins' *Essay* seems to have been to provide a methodological justification for the increasing focus on choice over the following decades. Backhouse and Medema (2009a) note that, "though he did not formulate it in these terms, Robbins' definition fitted well with acceptance of a rational choice model of behaviour" (p. 816). Indeed, Robbins defined rationality as consistency of preferences. He went on to note, however, that choices need not be transitive to be consistent. When time and effort were considered, 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" (1969 [1935], p. 92). Moreover, preferences would not necessarily be transitive when uncertainty was acknowledged, and hence "it is not true that the subject-matter of economics is limited to consistent action [. . .] it is only in terms of irrational choice, that many of the more complex situations which economics has to study can be explained" (1997 [1934], p. 161). Even so, however, Robbins assumed away intransitivity of preferences and uncertainty in his conception of economic man as a first approximation or temporary device. This solution emerged as a compromise between his different influences. In this sense, although his definition fit well with a rational choice model of behaviour, it did not cling to rationality as it came to be understood by economists:

> 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 or self-consciousness. (Ross, 2007, p. 135)

As we have argued in Section 2, psychological individualism advocates that social phenomena can be reduced to the actions of individuals, which on their turn are reducible to psychological laws, thus implying that the deductive-nomological method of the natural sciences can be used in the social sciences as well. Subjective individualism, while also reductionist, stops at the individual level: due to uncertainty and imperfect information, the method of the social sciences cannot mimic that of the natural sciences. Institutional individualism is not reductionist and claims that there are feedback effects between individuals and institutions, in the sense that individuals both shape and are shaped by the social structure. Let us now finally see why Robbins does not fit well within any of these traditions.

In Robbins' approach, perfect rationality and perfect foresight were auxiliary assumptions that might be applied to specific situations, yet economics also dealt with other issues that did not depend on them. Hence, while he closely followed Austrian subjectivism in his main theoretical assumptions, and on the distinction between the methods of the social and the natural sciences, he did not fully embrace this tradition. Robbins accepted the use of economic man as an expository device, downplaying the role of uncertainty and expectations, and he thus cannot be properly defined as a subjective individualist. Robbins' approach to methodological individualism conflated elements of subjective and psychological individualism, but it was more than just that. By using the 'expository device' argument, he could justify the use of special assumptions concerning rationality and foresight on the grounds that, once economics reached a more mature stage of development, they would be rendered unnecessary. His 'first-step individualism', as we propose to call it, allowed him to place limited importance on contemporary debates about the psychological foundations of choice,[20] not clinging to any specific psychological doctrine, nor attributing a central role to rationality. At the same time, by letting perfect rationality and perfect foresight enter through the back door, the methodology of economics

[20] See Bruni and Sugden (2007), Moscati (2007), Lenfant (2012), and Hands (2017).

outlined in the *Essay* was compatible with the program advanced by psychological individualists, as in the case of intertemporal utility maximization. Finally, Maas' (2009) distinction between Weber's use of means-ends rationality in a historically given context *vis-à-vis* Robbins' refusal to explain agency in terms of an institutional setting shows that, whereas one might argue that Weber was a proponent of institutional individualism, Robbins certainly cannot be classified as such. In fact, there are no arguments to be found in Robbins in support of institutionalism — quite the contrary, he was a fierce critic of both the German Historical School, and the American institutionalist movement.[21]

We differ somewhat from Maas, however, in our interpretation of the role of psychology in Robbins' *Essay*. To Maas, Robbins saw means-ends rationality as a psychological theory, and it would thus be "misleading to draw a distinction [. . .] between 'specific' and 'general' psychological theories [. . .] the difference is really one of kinds" (2009, p. 512). He claims that Robbins rejected hedonism and behaviourism, yet "embrace[d] another theory that hinged on an explanation of rationality in terms of means and ends". Maas does not explain, however, in what sense does the notion of means-ends rationality refer to any psychological theory, nor does he present any historical evidence that might illustrate how Robbins was influenced by psychology. Howson's (2011) biography contains virtually no reference to the influence of psychological theory on Robbins' thought.[22] She further stresses "the (non-existent) relation between psychology and economics" (p. 235) postulated in the 1934 paper discussed above, and also that Robbins' LSE lectures already advocated that "the propositions of economics did not depend on any psychological theory or on a concept of 'economic man"' (p. 214). Even if one concurs with Maas that Robbins' means-ends rationality is a kind of psychological theory, this would still not imply that he can be classified as a psychological individualist, given the distinction he drew between causal explanation in the social and natural sciences. Following Weber, but also the Austrian tradition, Robbins rejected the use of nomological explanations in the social sciences. Even if perfect rationality and perfect foresight were assumptions that could be used in some cases, Economics also dealt with irrational behaviour, so that these assumptions were only useful as benchmarks, not as the theoretical foundation that would suit a psychological individualist.

To be sure, we are not claiming that Robbins' *Essay* was a watershed moment in the history of economics. Robbins was part and parcel of larger changes that were taking place in economics during the first half of the 20th century, concerning especially a reconceptualised relationship between psychology and economic theory. Robbins' novel approach to methodological individualism, as advanced in the *Essay*, was a by-product of numerous theoretical influences, and of his larger purpose of illuminating the extent to which the science of economics could serve as an important tool — necessary, though not sufficient — for the formulation of public policies.[23] Milonakis and Fine (2009, pp. 217–218) claim that

> in the wake of the marginalist revolution, the capacity to develop economics as a separate discipline was considerably enhanced by the breach with classical political economy and the narrowing of the scope of inquiry to market relations. But even these freedoms could not release the discipline from irresolvable tensions. The thrust of marginalism itself was to base economic analysis on the optimising behaviour of individuals [. . .] this found its methodological expression in Lionel Robbins' (in)famous and deliberate redefinition of economics as the allocation of scarce resources between competing ends. But Robbins' attempt to characterise the discipline as it was or was becoming, with a helpful push on his own part, exhibited considerable strains and encountered considerable opposition.

Although his conception of rationality did not necessarily imply rational choice, one unintended consequence of his seminal work was to provide further impetus for the move from marginalism to neoclassical economics that was gaining momentum precisely at the time of his writing. As an "accomplished historian of economic thought" (Howson, 2011,

[21] "The influence of the German Historical School was responsible for the intrusion of all sorts of sociological and ethical elements which cannot, by the widest extension of the meaning of words, be described as *Economic* History" (Robbins, 1969 [1935], p. 40). Further on the text he argues that the attacks received by the "orthodox conception of the science since the times of Senior and Cairnes [. . .] have been *political* in nature [. . .] This was certainly the case with the majority of the leaders of the younger Historical School [. . .] It is equally the case to-day with the lesser schools which adopt a similar attitude. The only difference between Institutionalism and *Historismus* is that *Historismus* is much more interesting" (pp. 82–83).

[22] She mentions he took a psychology course for two terms in 1919, and then another in general psychology between 1921/22, but otherwise does not suggest that these were influential in his thought.

[23] See Robbins (1981), Masini (2009), and Colander (2009).

p. 5), an economist involved in political debate throughout his life, and a deep believer in the capacity of economic theory to illuminate practical problems and thus serve as a tool for the betterment of society, it comes as no surprise that Robbins would insist throughout his career on the distinction between economics and political economy that went unnoticed by many readers of the *Essay*, and led to so much misconception about its central message.

5. Final remarks

Hutchison (2009) saw the *Essay* as a resuscitation of methodological discussions in Economics after forty years of "methodological vacuum" since Keynes' *The Scope and Method of Political Economy* (1891). He criticised Robbins' use of perfect rationality and perfect foresight as "purely heuristic", noting their important role in 20th-century economics. As long as these assumptions were "not an essential part of a substantive theory which was being applied to the world", they would be harmless. However, Robbins' "purely heuristic" use of economic man got "slipped into a theory which was being applied to policy in the real world, for example, as part of an equilibrating process" (pp. 299–303).

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

Robbins' take on this issue was 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* was part of Robbins' agenda, and the focus on the isolated individual as a first step fit in with his hope that economics would evolve by incorporating the complexities of concrete reality, thus becoming increasingly helpful for orienting public policies. Although his agenda was not carried out, his definition of economics was increasingly accepted by the profession over the decades following the Second World War. An unintended consequence of the *Essay* was thus to buttress a conception of economic man as a choice-maker.

There are many angles to be considered when looking at 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 modern economics. Robbins' *Essay* provided a methodological justification for the focus on form rather than substance. It should be noted, however, that his own long-term project was for economics to evolve from the isolated individual to one who was 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 then gradually increase its complexity. With the benefit of hindsight, it seems clear that his conception of the isolated man as a first approximation became the *modus operandi*. Hoover (2006, p. 146), for instance, 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. The use made of the representative agent within modern macroeconomics illustrates how difficult it has been for the profession to further Robbins' original goal.

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