Methodological Individualism and Rational Choice in Neoclassical Economics: An Institutionalist Critique

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Abstract

This review paper is an attempt to take a critical look at methodological individualism and rational choice that form the hard core of neoclassical economics, from an institutionalist perspective. I try to establish that methodological individualism is a project of reductionism, by discussing reductionism in the context of social sciences, and by analysing methodological individualism in the context of neoclassical economics. Philosophical and institutionalist critiques are then employed to elucidate that methodological individualism as practised in neoclassical economics is not capable of explaining real world phenomena, especially that of the predominantly traditional societies of the developing countries. The rational choice theory as espoused in neoclassical economics is also discussed and I have tried to build an institutionalist critique from the perspectives of various strands of institutionalisms in economics. The neo-institutionalism and new institutionlism, though some relaxation of the axioms has been attempted, still uphold the neoclassical maxims of methodological individualism and rational choice. The approach of the alternative institutionalist school which attempts to explain individual agency as influenced by the social as well as institutional contexts seems more suitable to explain real world phenomena.

Key Words: methodological individualism, rational choice, institutionalism, reductionism, neoclassical economics.

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