

## Methodological Individualism and Methodological Institutionalism for Interdisciplinary Research<sup>1</sup>

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Submitted for the first international inaugural WINIR conference to be held in Greenwich, London, UK, from 11 to 14 September, 2014.

**Abstract.** The paper explores the methodological premises and their role in interdisciplinary research in the social sciences and economics. Methodological individualism and holism are considered as alternative but complementary methodological principles in economics and sociology. The ongoing competition between proponents of methodological individualism (in neoclassical economics and sociological mainstream) and holism (mostly in heterodox economics and structural sociology) for obtaining ‘genuine knowledge’ in social and economic analysis is presented. We analyse the content, capabilities and limitations of proposed ‘synthetic’ approaches and concepts like “institutional individualism”, “methodological relativism”, “the theory of human action”, “structuration theory”, and “critical realism” combining both methodological principles. We conclude that today there are no satisfactory or internally consistent ‘synthetic’ methodologies that can be used to develop useful social and economic theories for acting researchers. The principle of *methodological institutionalism* (Keizer, 2007; Kirdina, 2013) is offered and considered as the implementation of a holistic approach into the social sciences and economics. It is shown that methodological institutionalism and methodological individualism express two epistemological philosophical positions such as holism (“the whole is more than sum of its parts”) and reductionism (“the whole is understood as the set of primary elements forming it”) respectively. We consider the complementarity of methodological individualism and methodological institutionalism in conducting interdisciplinary research.

The paper is organized as follows. Section 1 draws attention to the role of fundamental methodological premises for interdisciplinary research. Common and shared assumptions play a crucial role in generating relevant knowledge within the frameworks of the research conducting specialists of different disciplines. Next, we

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<sup>1</sup> The reported study was supported by the Russian Foundation for Humanities, research project № 14-02-00422.

try to understand whether it is fair to consider methodological individualism and holism as alternative principles in economics (Section 2) and social science (Sections 3). In Section 4 we analyze some ‘synthetic’ approaches and concepts such as “institutional individualism” and “methodological relativism” in economics and then “theory of human action”, “structuration theory”, and “critical realism” in social science, proposed to overcome limitations of both principles of methodological individualism and holism. That *methodological institutionalism* actualized the principle of holism in relation to economic and social analysis is offered in Section 5. We go on to show in Section 6 that methodological institutionalism and methodological individualism express two epistemological philosophical positions such as holism and reductionism. The complementarity of approaches, based on methodological individualism or institutionalism, which are needed for interdisciplinary research, is discussed. The paper ends with the Conclusion given in Section 7.

## **1. Introduction: The role of fundamental methodological premises for interdisciplinary research**

Wide development of interdisciplinary research (in this case, mostly economics and sociology) is driven by the increasing complexity of modern societies. Specialists in different branches of science come together within the frameworks of joint projects. In this context, the methodological work is becoming increasingly important. If, for applied projects, the direct comparison and "summation" of economic and sociological knowledge contributes to a satisfactory solution, that is not to say that it is sufficient in the generation of fundamental knowledge. The "mechanical combination" of results obtained by different sciences does not often lead to the cognition of holistic phenomena and their basic regularities, but, instead, to the accumulation of fragmented and eclectic descriptions of essential and nonessential properties, relationships, and connections. Almost inevitably it contributes to theoretical reductionism.

Therefore, we can see an intense formation of new “splicing” disciplines, in the subjects through which interdisciplinary synthesis is carried out. Among them are Economic Sociology (Parsons, Smelser, 1956; *The Handbook of Economic Sociology*, 1994), Socio-Economics (Etzioni, 1988; Shabanova, 2012), and others. There are also increasingly voices in favour of ‘the erosion of traditional boundaries’ between the social disciplines and economics, because they have a common object of study and empirical basis, as well as similar analytical tools. Therefore, one says in Russia that “conditions for the formation of general social analysis as a science of the function and development of public institutions and on the behavior of human groups within these institutions are created” (Polterovich, 2011, p. 101). A similar approach is proposed by proponents of ‘social liberalism’. Thus, the Russian economist Alexander Rubinstein states that ‘social liberalism’ is a paradigm that goes beyond pure economic methodology and relies on “the use of the broader assumptions used in a number of scientific disciplines ... in institutional theory, sociology, philosophy, etc.” (Rubinstein, 2012, p. 16).

In contrast to these trends, this paper will analyze the methodological problems of ‘classical’ interdisciplinary research in which “representatives of different disciplines interact, studying different aspects of the same object” (New Encyclopedia of Philosophy, 2001, vol. II, p. 518). Here the participants have the task of overcoming one of the Kant’s contradictions between the understanding of, in this case, general social reality and sciences, operating with their own limited and different basic assumptions, and schemes for interpreting the information about this reality. The successful solution to this problem within interdisciplinary<sup>2</sup> research assumes that such a description of the studied subject that could be studied by means of all the participating disciplines, and the results obtained by them could refine and improve the initial description.

Lessons learned from the implementation of large interdisciplinary projects have shown that the methodological support plays the key role for them as well as the creation of a generalized subject schema, functionally similar to subjects of disciplines involved. Identification and formulation of principles, on the basis of which the direction and the focus of scientific research should be selected and then the results should be interpreted, are thus of prime importance.

However, the difficulties with the initial methodological premises and their explication, which require both an advanced scientific reflection and deep theoretical knowledge (i.e., the ability to handle a wide range of theories of different degrees of generality in relation to the subject under study) from the participants lead to the fact that the necessary methodological work for interdisciplinary research often is not being done. In this case there is an arbitrary mix of practices and premises of disciplines involved in such research. Fairly often the methodology of leading disciplines dominates other methodological approaches. A well-known example is the so called ‘economic imperialism’. It means an expansion of economic neo-classical analysis with its models and methods into the related areas of social science, or “economic analysis of seemingly non-economic aspects of life” (Lazear, 2000, p. 99). It has led to the development of new economic concepts (from the public choice theory to the theory of human capital), where the approaches of other social sciences traditionally involved in the study of the same processes have been ignored.

When we aim to maintain and use the models and approaches of each of sciences involved in interdisciplinary research, the problem becomes more complicated. In this case, a consistent direction of scientific research and a joint interpretation of the results are made possible by relying on similar theoretical assumptions and a common methodological background. We consider the most fundamental of them to determine the specific research approaches used by

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<sup>2</sup> *Interdisciplinary* research should be distinguished from the work carried out on the basis of a *multidisciplinary* approach, which is based on assumptions of a generalized understanding of the research subject, with respect to which separate disciplinary understandings appear as parts. In addition, each of the disciplines retains its methodology and underlying assumptions unchanged (Augsburg, 2005, p. 56). An example of the multidisciplinary approach use see Alexandrov, Kirdina, 2012; 2013.

economists and sociologists, namely the principles of methodological individualism<sup>3</sup> and holism.

## 2. Methodological individualism and holism in economic theory

Reliance on the principle of methodological individualism characterizes not all, but many studies conducted by economists especially in mainstream economics. Mainstream economics may be thought of as a conceptual population of neoclassical economists, united by common ideals, principles and standards of economic research. Mainstream economics is also termed the orthodox economic theory or neo-classical economics. Today it is the dominant school of economic thought (Colander et al., 2004, p. 490). The unity of mainstream economists is provided primarily by common assumptions of economic analysis<sup>4</sup>, where the principle of methodological individualism plays a key role.

Scientists, who have devoted special monographs to the analysis of methodological individualism, are skeptical about achieving a final agreement about its content (Udehn, 2001). But we can use the following very common definition: methodological individualism suggests an explanation of social phenomena in terms of individual behavior (Lukes, 1973; Hodgson, 1988; and the others<sup>5</sup>). Although individualism is not an ‘apology for selfishness,’ nevertheless, according to the principle, all economic phenomena are analyzed ‘through the prism’ of individual actions of economic agents.

Economic agents such as individuals, firms or even the state are the main starting point of the theoretical analysis from the point of view of methodological individualism (Shastitko, 2002, p. 36). All of them are considered as entities focused on gaining profitable advantages (neo-institutionalists include social norms and rules as possible advantages too) through competition and cost minimization (neo-institutionalists also take into account transactions costs).

In neoclassical economics the principle of methodological individualism is used not only at the micro-, but also at the macro-level of analysis. It is assumed that social events at the macro-level, such as inflation, unemployment, organizational change, the evolution of cultural norms, and others can be explained in terms of individual actions (Toboso, 2001, p. 769). In this case, the laws governing the behavior of individual economic agents - households and firms, - are studied, and are then applied to the regularities of collective behavior. Robert

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<sup>3</sup> Sociology and economic science have common historical roots and are involved in the study of the society in different aspects. They are often based on similar premises and principles, and the principle of methodological individualism is one of them and illustrates this fact most clearly. Thus, the economist Joseph A. Schumpeter, who was a student of famous sociologist Max Weber, introduced the approach of his teacher into economic theory and named it in 1908 as “methodological individualism” (Udehn, 2001, p. 214). The sociologist Weber was the first, who has developed theoretically this principle, and Schumpeter referred to him in his writings.

<sup>4</sup> They include also the postulates of maximizing behavior, stable preferences and market equilibrium.

<sup>5</sup> Reviewed extensively in Hodgson, 2007, p. 98-99.

Heilbroner called this approach, which is based on the methodological individualism principle, the “approach to economic problems by studying certain aggregated processes” (Heilbroner, 1970, p. 21). So the macroeconomic dynamic is obtained from the simple aggregation of individual actions (Dosi, 2012, p. 52), and macroeconomic development is derived from the behavior of micro-units (Ackley, 1968, p. 570; Campagna, 1981, p. 5-7). This approach continues to dominate among modern orthodox neoclassical macro-economists.

It is similar for the neo-institutional economic theory<sup>6</sup>. We agree that the neo-institutional theory declared as going beyond the neoclassical postulates, actually relies heavily on the same basic assumptions of orthodox neoclassical economics and remained within its paradigm (Nesterenko, 2002, p. 11; Blaug, 1994, p. 958). In fact, “institutional economics is incorporated into orthodoxy” (Williamson, 2000, p. 596) and “methodologically the new institutional economics is similar to neoclassical economics” (Keizer, 2007, p. 5). In connection with this, the important remark made by John Commons in 1936 remains valid. He wrote that, despite the variety of theoretical innovations, the subject analyzed by neoclassical economists is still “a maximum-net economics. In recent years the theory has incorporated certain institutional factors, like patents, trade names, trademarks, goodwill, under such names as ‘imperfect competition’, ‘monopolistic competition’, ‘competitive monopoly’. Yet even with these added evolutionary complexities, the theory continues to be maximum net-income economics, regardless of others”, based on the principle of methodological individualism. “Its characteristic problem is that the optimum size of an individual establishment for obtaining the maximum net income of money” (Commons, 1936).

Economists, who were not satisfied with neoclassical analysis’s capabilities, chose the alternative methodological principle of holism. They proposed that society be considered as a whole system different from the sum of its constituent individuals and follow the presumption that gives primary importance to the social whole. As the dynamic integrity of the economic system is provided by the structures of existing institutions, it is no coincidence that for the first time the term *holism* was applied by representatives of traditional or original institutionalism. Allan Gruchy (1947) is considered as the pioneer among the old institutionlists in introducing the term (Toboso, 2001, p. 768).

Since then, the debate between proponents of methodological individualism and methodological holism about which principle is the more relevant in economic analysis continue. Geoffrey Hodgson has edited and published a brilliant selection of articles on the topic (Hodgson, 1993). Later Fernando Toboso, summarizing the results of theoretical discussions between European and North American scholars (among them Seckler, 1981; Coase, 1984; Dugger, 1990; Furubotn, 1993; Langlois, 1989; Maki, 1993, Rutherford, 1989 and others) noted that orthodox neoclassical economists and representatives of the new institutional theory (largely following neoclassical assumptions) are based primarily on the principle of

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<sup>6</sup> Other names are new institutionalism or neo-institutionalism or new institutional economics or new institutional theory.

methodological individualism, while the supporters of traditional, or original institutionalism (attributed to heterodox economics<sup>7</sup>), usually used a holistic approach (Toboso, 2008, p. 5).

Methodological holism is still a controversial issue and several versions of it exist. Thus, there is no clear explanation as to the meaning of a “holistic approach” (Toboso, 2001, p. 768). According to Malcolm Rutherford (Rutherford, 1994), the main differences are related to the extent to which researchers recognize the role and power of the social whole, affecting the behavior of individuals.

Competition between supporters of methodological individualism (most of them orthodox neoclassical economists) and holism (mostly heterodox economists) at the present time continues in economic theory as well as debate as to whose knowledge is true. It is reflected in constant criticism by heterodox economists of mainstream economic representatives. The latter, however, continue to hold their predominant positions. The main argument in the discussion is explaining and applying mathematical models developed by neoclassical economists, which oppose the poorly formalized ‘narrative’ schemes of heterodox economists.

### **3. Methodological individualism and holism in sociology.**

In sociology, which is closer to philosophy than economics, methodological individualism is clearly associated with the epistemological premise of reductionism. Reductionism posits that the social reality can be described and analyzed by means of the reduction of its complexity to the level of analysis of individual behavior. Max Weber actively "prescribed" that social science be based on the principle of methodological individualism in his writings of the early XX century. This was later supported by John Watkins (Watkins, 1952) and Karl Popper (Popper, 1957, p. 130, 136). Since then, the principle of methodological individualism entered the sociological dictionaries and came to characterise the "theoretical positions based on the fact that adequate sociological assessments necessarily involve an appeal to the people, the interpretation of their obligations and the causes and reasons for their actions" (Big Explanatory Dictionary of Sociology, 1999, p. 416).

Despite the popularity of studies based on the principle of methodological individualism, they are not particularly common in sociological research compared to economics. Already during the emergence of sociology as a discipline, the failure of the principle of methodological individualism for understanding the social processes was recognized. One of the founders of sociology, the French

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<sup>7</sup> Heterodox economics is “not mainstream economics” (Dequech, 2007, p. 295), theorizing more about social processes rather than individual ones (Lee, 2011). Marc Lavoie (1992) defines heterodox economics as holding to realism, organicism, procedural rationality, and a focus on production (all of these are counterpoised with neoclassical principles). Tony Lawson argues that heterodoxy can be identified as advocating depth realism and open systems (Lawson, 2006, p. 497). One of the central elements of heterodox economics is that its members self-identify as heterodox (Wrenn, 2007; Colander et al, 2004; Dequech, 2007 and the like).

philosopher Emile Durkheim, wrote in the late XIX century that society is a reality *sui generis* ("as it is"), which is not derived from the properties of the acting social actors (Durkheim, 1995). So he was the first to formulate the theoretical assumption of the 'methodological collectivism' or 'holism' in sociology (Radaev, 2005, p. 19-20).

In sociology and social science as well as in economics the debate between the proponents of holistic approach, which considers social phenomena as a whole which is not reducible to individual actions, and supporters of methodological individualism, which explains the whole only through the actions of individuals, has yet to reach a conclusion. Nevertheless, in modern sociology the studies based on methodological individualism or holism are not in such stiff opposition, as in modern economic theory. They form two not so much opposed but complementary clusters of studies reflecting properties of the social reality with the necessary completeness. Reliance on the one or another principle allows researchers to concentrate on various aspects and features of social phenomena. This is evident, for example, when scientists working on the same subject use the different definitions for the studied subject.

It could be illustrated by the example of the Russian economic sociology, which began to develop in Russia in the 1990s. Thus, Vadim Radaev from Moscow in his published lectures on economic sociology has identified the subject of this new discipline as a study of the sociological or socio-economic actors (Radaev, 1997, p. 158-159). This is consistent with the principle of methodological individualism. At the same time, in the Novosibirsk<sup>8</sup> School of Economic Sociology the subject of economic sociology includes first of all the study of economic institutions forming unchanging institutional core of the economic system as well as their constantly changing institutional forms (Bessonova, 1998, p.11). Such a definition of the subject of economic sociology is typical for a holistic approach following the Durkheim's tradition. As a result, contemporary sociological knowledge has been enriched by the contribution of scientists analyzing the current Russian social and economic problems from the different angles and methodological positions.

#### **4. 'Synthetic' approaches in economics and social science**

As we noted above, the crucial point for interdisciplinary research is to establish a common methodological framework. Therefore, special attention is paid to the review and analysis of the most famous attempts to construct 'synthetic' approaches and concepts that overcome, in the opinion of their authors, the contradictions and limitations of the principles of individualism and holism applied separately. Often these approaches seek to become the common methodological framework for interdisciplinary projects involving sociologists and economists.

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<sup>8</sup> Novosibirsk is a city of Siberia.

Here we consider the examples of ‘synthetic’ approaches and concepts in economics and sociology.

#### **4.1 ‘Synthetic’ approaches in economics: “institutional individualism” and “methodological relativism”.**

Among the results of constant debate between the supporters of the individualistic and holistic approaches one was the recognition that each approach by itself is not enough. In this regard, some economists try to find a third path or a middle way. One of the most famous attempts to find a third way in the economic analysis is the formulation of the so-called principle of “institutional individualism”.

Firstly the term *institutional individualism* was introduced by Joseph Agassi. He pointed out that the behavior of individuals is determined by not only their goals, but also the institutions forming a big part of the circumstances in which individuals act (Agassi, 1960, p. 247). Lars Udehn clarified that in the 1960s Agassi considered institutional individualism only as a new version of methodological individualism (Udehn, 2002, p. 489), but later he retracted this point (Agassi, 1975). Nevertheless, Ian Jarvie, who took the institutional individualism approach from Agassi (Jarvie, 1972), continued to call it methodological individualism (Udehn, 2002, p. 489).

Udehn believes, however, that there is an important difference between these two principles. Thus, from the standpoint of methodological individualism social institutions are explained as the result of human behavior. It is the opposite with the institutional individualism approach, in which institutions are considered as a causal explanation of human behavior. Since the latter is characteristic of a holistic approach, institutional individualism cannot be reduced to the principle of methodological individualism (Ibid). Therefore, the new term “institutional individualism” is appropriate for the analysis. Udehn notes (Ibid, p. 490) that James Buchanan, Ronald Coase, Douglass North, and Oliver Williamson adhered to this strategy (along with methodological individualism).

The Italian scholar Fernando Toboso goes a step further to clarify institutional individualism as a middle way between methodological individualism and holism, as a non-systemic and non-reductionist explanation (Toboso, 1995, 2001, 2008).

Toboso advocated that institutional individualism is not a strong part of the *hard core* methodological principles or assumptions. Institutional individualism may be used in combination with many alternative *hardcore* methodological assumptions because it is only ‘one mode of explanation’. So it can serve both traditional institutionalists with their holistic approach and new institutionalists with their reductionist methodological individualism - and both can remain in line with the *hardcore* methodological principles of the school concerned. Toboso stresses that the introduction of the institutional individualism approach does not lead to the convergence of traditional and new institutionalism.

According to Toboso, institutional individualism makes it possible to give the explanation of *human behavior* [italics mine - SK] not only based on the rationality principle but as a “non-calculated behavior, that is, of rule-following behavior, norm-guided behavior, etc.” (Toboso, 2001, p. 771). We could say that instead of the *homo economicus* model he proposes the *homo institutus* model. Referring to Agassi (Agassi, 1975), Toboso explains that the institutional individualism approach involves the role of social and institutional factors in the study to explain of human interactions and their consequences. Following three propositions or rules are defined by Toboso (2001, pp. 774-775) as characteristics of institutional individualism:

1. Only persons can pursue aims and promote interests (it makes institutional individualism a different mode of explanation from that of methodological holism);
2. Sets of institutional rules affecting interactions among persons must be part of the explanatory variables (that is a different mode of explanation from that of methodological individualism, particularly in its standard or strict version);
3. Marginal institutional changes always result from individual or collective actions and take place within wider institutional frameworks.

Analyzing and summing up the views of institutional individualism supporters, we understand that they continue to focus on the analysis of human interactions and the figure of the economic entity, although they are more attuned to an expanded range of different conditions affecting economic entities, including institutions. It is, in fact, only a softer version of the methodological individualism principle, when the micro- and the macroeconomic effects are presented as a result of the interaction of individual actors within the framework of institutions. In other words, we must admit that they are discussing merely an extended version of methodological individualism principle, whilst still preserving the ‘explanation of social phenomena in terms of individual behavior.’

Another attempt to develop economic methodology using more general assumptions than the principle of methodological individualism is presented in works by Alexander Rubinstein. He writes as follows: “Adhering to methodological subjectivism and being a longtime critic of the “formulaic methodological individualism”... I believe it is appropriate to replace it with the more general ontological principle used in a number of scientific disciplines, including linguistics, sociology and philosophy. I am talking about some sort of synthesis of individualism and holism called “methodological relativism”” (Rubinstein, 2013, p. 5)<sup>9</sup>. According to Rubinstein, the principle of methodological relativism provides an explanation of human behavior not only by purely economic reasons, but also attracting “macro-sociological variables” (which is similar to institutional individualism advocated by Toboso).

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<sup>9</sup> Rubinstein notes that this term was introduced firstly by Ukrainian philologist Oleg Leshchak (2002, p. 38-42).

Rubinstein also introduced the principle of heterogeneity of economic actors, meaning that they have both individual and group interests. Respectively, two irreducible but complementary spheres forming the public interest are distinguished: the market aggregating individual interests and politics aggregating group interests (Rubinstein, 2013, p. 39).

However, it is still not clear how the author carries out the synthesis of individualism and holism. We can see that by choosing specific methods of analysis, he is often based on the principle of methodological individualism in its standard interpretation. Thus, when Rubinstein highlights the political structures as the subject of study, he defines them “as a collection of ‘authentic advisers’ of major and minor parties representing the interests of the respective groups of voters” (ibid, p. 36), but not as impersonal structures of institutions, which is typical for a holistic approach. So, it may be supposed that he continues to follow the methodological individualism principle in fact.

For both institutional individualism and methodological relativism, the mission to construct synthetic approaches in economic analysis beyond the limitations of methodological individualism has yet to, and may never, succeed.

#### **4.2. ‘Synthetic’ approaches in social science: “theory of human action”, “structuration theory”, and “critical realism”<sup>10</sup>.**

For many years, social scientists believed that attempts to integrate holistic and individualistic approaches were futile. Those who have tried to do it lost their presence of mind and again took refuge in the opposing camps of individualism or holism (Archer, 1999, p. 159). Margaret Archer gives the example of Walter Buckley’s attempts (Buckley, 1967), who, finally giving up the analysis of social structures as “abstract constructs”, retreated to the methodological individualism principle. Peter Blau (Blau, 1964) was considered as opposite example. He proclaimed interrelated analysis, but, according to Archer, was unable to escape the holistic approach. Therefore, she argued that prior to the 1980s in sociology “no one has yet been able to pass between Scylla and Charybdis of individualism and holism” (Archer, 1999, p. 160).

However, in the last two decades of the twentieth century, sociologists began, once again, this Odyssean journey. Structuration theory by Anthony Giddens, “the emergents’ theory of human action”, the representatives of which include Margaret Archer and Pierre Bourdieu (Elder-Vass, 2010) as well as critical realism by Roy Bhaskar are the well-known cases. Such approaches could be thought of as a “meta-approach connecting different theoretical traditions to analyze the interaction of 'structure' and 'agent'” (Sitnova, 2012, p. 65).

But can these concepts overcome the opposition of individualistic and holistic approaches? Is it possible to speak about the synthesis of micro- and

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<sup>10</sup> All these concepts are considered only in terms whether and what extent they present synthetic approaches combining methodological individualism and holism.

macro-sociological approaches and a combination of holism and individualism without being compelled to choose one of them as the fundamental base? We believe that a careful reading of the works of the authors mentioned above does not give sufficient reasons for this.

Thus, analyzing the structuration theory (Giddens, 2001), social science methodologists note the following: The definition of the structure in Giddens's works deprives the structure of its autonomous properties (thus the author begins from the standpoint of methodological holism), and the focus of his analysis is concentrated on actions of social actors. Giddens actually considered social systems from the micro-sociological approach's point of view and based the research on the habitual for him the principle of methodological individualism.

Similar conclusions could be made with regard to the theoretical constructs of Roy Bhaskar (Bhaskar, 1979, 1989). Bhaskar distinguishes between generative structures and social relations. "The social sciences abstract from human agency to study the structure of reproduced outcomes, the enduring practices and their relations... If the sphere of the former is social structure, that of the latter is social (and socio-natural) interaction. They may be linked to the study of society as such, where society is conceived as the system of relations between the positions and practices (or positioned-practices) which agents reproduce or transform" (Bhaskar, 1986, p. 124). According to Bhaskar the social structures, as opposed to the natural mechanisms, exist only because of the activity of actors and cannot be characterized independently of them (Bhaskar, 1989, p. 78). Although the social structures exist as 'material objects', they are transferred from one place and time to another only through human practice (Bhaskar, 1979, p. 174)<sup>11</sup>. Ted Benton writes in this regard that Bhaskar "in his interpretation of social structures, ultimately deprives them of their independent status ...and, therefore, the status of reality *sui generis*. It seems that Bhaskar is committed to one of the variants of individualism in social theory" (Benton, 1981, p.17).

The theory of genetic structuralism of the French sociologist Pierre Bourdieu has also been considered as a project combining methodological individualism and methodological holism (History ..., 2000, p. 386-403). The notable idea and the key term of the Bourdieu's concept is *habitus*, which includes social relations as dispositions, social representations, practical schemes of thinking and acting incorporated and internalized by actors. On the one hand, the *habitus* is produced by the social environment, creating 'a system of acquired durable dispositions', so that the historical and social conditions limit its formation. On the other hand, the *habitus* is also the 'mechanism that generates practices'. However, despite the heuristic value of the concept of Bourdieu, his arguments in favour of what, that a "middle point between action and structure" is found (Big Explanatory Dictionary of Sociology, 1999, p. 67), are not recognized as credible in the sociological community. In other words, the alleged synthesis of two fundamental sociological approaches to individualism and holism in these concepts "remains difficult" (Gromov et al., 1996).

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<sup>11</sup> Similar with the Giddens standpoint.

Göran Therborn rightly noted that since the first years of its existence as a discipline, sociology attempts to explain two most important groups of phenomena as human social actions and the results of human social actions. Accordingly, sociologists investigate why people act in certain ways in social relations or they explore a set of phenomena that can be described as the results of human social actions (Therborn, 1991). Therefore, the diversity of sociological explanations is located between the two poles and the corresponding methodological principles - either individualism or holism. Even in the first outstanding “neoclassical sociological synthesis”, which Therborn connects with the name of Talcott Parsons and his work “Structure of Social Action” (Parsons, 1937), the great American sociologist, however, though he established the “coordinate system”, focused only on the points of this system, namely, the values and norms of the existing social actors (Therborn, 1999, p. 82) preferably following the methodological individualism.

It can be stated that although the discussion about the prospects of the “synthetic” approaches in sociology continues, the convincing examples of their construction, in our opinion, are not yet realised.

### **1. The methodological institutionalism principle**

Along with attempts at constructing synthetic approaches it makes sense, in our view, to also develop the principles of methodological individualism and holism themselves. Here we present an elaboration on the holism principle in the analysis of social and economic structures.

We can see that usually the principle of *holism* has been used by sociologists and economists ‘directly’ and without specification. Here we try to investigate the principle more carefully. Holistic approach means that we focus on the characteristics of the system, not reducible to the properties of its components and not deducible from them. But individuals with their social and economic behavior are exactly the elements of the system, and therefore their study will not allow us to judge the properties of the social and economic systems as a whole. Based on the fact that the integrity of the social and economic systems is provided primarily by the structures of institutions, the subject of analysis from the standpoint of the holistic approach, in our opinion, may be primarily institutions. Therefore holism in the analysis of economic and social systems could be refined in the so-called principle of *methodological institutionalism*.

The methodological institutionalism as an epistemological premise for the analysis implies the investigation of any social and economic systems and processes from the point of view of formal and informal rules (institutions) supporting their integrity and development as well as the explanation of social phenomena in terms of functioning and changes of institutional structures.

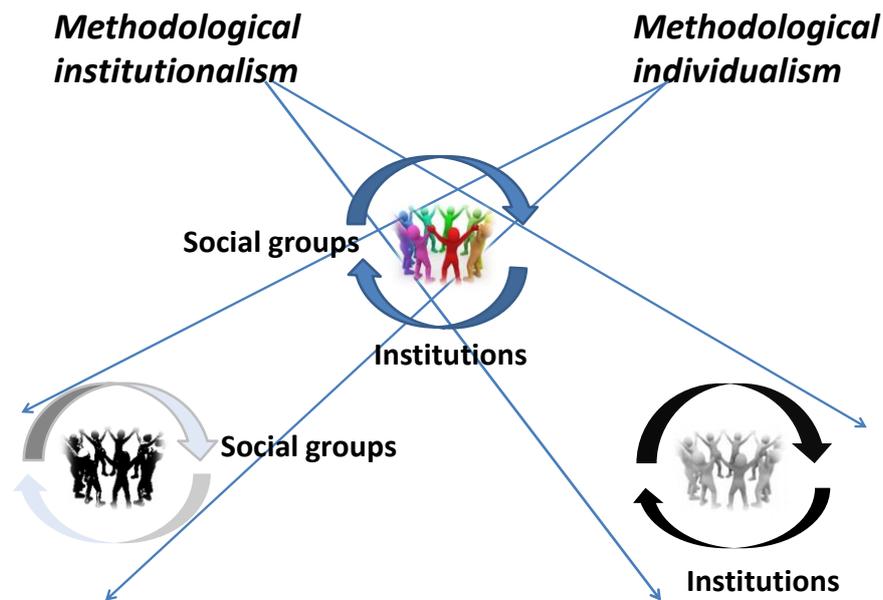
Methodological institutionalism should not be understood only in the ontological sense, referring to institutions as the object of analysis. Methodological institutionalism means a different view on social and economic reality and new vision when institutions are deemed and believed to be the main cause of the

observed phenomena, including human actions and differences in economic life. This is contrary to methodological individualism when causation is attributed to the characteristics of individuals and their behavior. In other words, attention is paid to the context in which the individuals act namely the system of rules and institutional environment.

Although the analysis based on this principle is not new for sociologists, political scientists, and economists (see below for examples), there were no special term to designate and label it. One of the rare works, where, among other things, the term of methodological institutionalism was introduced and discussed, is a discussion paper by Piet Keizer of Utrecht University, which devoted to the methodological analysis of the study of institutions in sociology and economics. For him, the essence of methodological institutionalism is the level of explanation. The problem consists in the identification of the most stable level, regulating the activity of certain actors, and its subsequent study. Keizer writes: "When a researcher has chosen a particular level as the most stable one, then this is the level of explanation whatever the level of the phenomenon under scrutiny. This approach is called methodological institutionalism" (Keizer, 2007, p. 14). He supposes that "methodological institutionalism synthesizes the macro approach or methodological collectivism and the micro approach or methodological individualism" (ibid, p.20) because the institutions include the rules and norms on macro- and micro levels. We think that such understanding makes Keizer's position purely formal.

In our opinion, the problem is more complicated. The transition from micro- to macro level of analysis is not associated with the aggregation of individuals into the social groups only. There is a transition to an object with a new essence. The principle of methodological institutionalism allows us to "catch" this new institutional essence, characterizing the macro-level of economic and sociological analysis and not presenting directly at the level of individuals. The predecessors of the principle of methodological institutionalism were, in our opinion, great classical scholars such as Karl Marx (1818-1883) and Torstein Veblen (1857-1929). For more information see Kirdina, 2013.

Figuratively the features of social and economic analysis from the viewpoint of methodological institutionalism and compared with the premise of methodological individualism are presented on the picture.



**Fig. The subject of social and economic analysis from the standpoints of methodological institutionalism and methodological individualism**

We can see that the study of society or economy (at the centre of the diagram), where individuals and groups of individuals co-exist with the institutions, determined their behavior, for proponents of methodological individualism focuses on the behavior of individuals, whereas for supporters of methodological institutionalism, it depends on the analysis of patterns of interacting (institutions), which support or, in some cases, contradict each other. The methodological institutionalism premise draws our attention not to that which may be easier to see - the actions of social and economic agents - but to that which is hidden from direct observation and which conditions this behaviour, namely institutions.

Metaphorically, institutions in society can be presented as the ‘power lines’ of an electromagnetic field. Interactions between moving particles are carried out by means of the magnetic field’s power lines. Similarly, the interactions of actors are carried out by institutions (‘power institutional lines’) as attractors forming the structure of society. Institutions reflect the most important agreements, historically found by social actors in the course of inconsistent and sometimes conflicting interactions providing largely sustainable development. Thus, from the position of methodological institutionalism, the economy is not a sum of interacting agents but a system of rules by which they interact (Dosi, 2012, p. 38).

According to Douglass North, institutions are made up of formal (constitutions, legislature, regulations) and informal rules (norms, common law, codes of behavior) which constrain human actions, as well as enforce obedience on them. (North, 1993). When we try to move the iron filings with power lines we can observe their return movement under the influence of magnetic lines. Similarly,

the mechanism of sanctions in the case of movement away from accepted human behavioral norms forces people to act under the existing rules.

Examples of the implementation of the principle of methodological institutionalism in economic research could be found in works of Hungarian economic anthropologist Karl Polanyi (1886-1964), who had as his objective the description of the economy “as instituted process” (Polanyi, 1957). This approach, according to Polanyi, “helped to get rid of misconceptions of artificial identification of economy with its market form” (ibid). He refused the main premises of mainstream economics, such as scarcity and rational choice, by describing the economy from a position of methodological individualism. Polanyi has focused on the analysis of the societal conditions that depend on the structure and stability of the economic process as a whole, as well as on the analysis of economic and non-economic institutions in which the human economy is embedded. It allowed him to detect the patterns, which he called the forms of integration. Polanyi emphasized such forms of economic integration as reciprocity, redistribution and exchange and also the forms of their “institutional support”. As a result he introduced methodology which is applicable to the analysis of real economic systems of different countries and different historical epochs. In modern Russia his ideas are developed in ‘razdatok-theory’ (Bessonova, 1998) and the institutional matrices theory (Matrix institutional..., 2003; Institutional matrices theory, 2010; Kirdina, 2014a; Sandstrom, 2012).

Another example of the manifestation of the methodological institutionalism principle are the theoretical studies of the German economist, Walter Eucken (1891-1950). He determined that, in the basis of the diversity of economic systems, a limited number of “pure forms” underline that which he called centrally planned economy and free market economy. Every economic system has its differences and peculiarities, its own form of economic ‘orders’ implementing “pure forms”, i.e. the organization and division of labor, credit relations, payroll, pricing and the like (Eucken, 1939). The main rule of ‘the art of economic policy’ consists in the preparation and presentation of right general conditions in relation to the economy as a whole (Eucken, 1965). Eucken’s theory of economic orders was a methodological basis of “social market economy” and the so-called postwar German economic miracle. Ideas by Eucken and his followers continue to be considered in the design of modern Germany’s economic policy and the promotion of its stable growth.

The principle of methodological institutionalism is also often used, in our opinion, in works attributable to the comparative institutional analysis. Among Eucken its representatives are S. Koopmans, M. Montias, E. Neuberger, U. Duffy, the regulationist R. Boyer and others. They mostly deal with the study of economic systems as a whole and so, wittingly or unwittingly, rely on the principle of methodological institutionalism and its related premises. The set of these related premises includes, according to the Russian scholar specializing in economic methodology Oleg Ananyin (Ananyin, 2002, p. 9-10, 12), the following:

- development of a universal and ideologically neutral language to describe different economic systems;

- definition of economic systems as institutional structures;
- holistic approach focused on the economic system as a whole, not on the behavior of the economic agents;
- institutional approach and the construction of the underlying structure of institutions (*the morphology* in term by W. Eucken), forming the base of economic systems;
- comparative and typological analysis, based on the underlying structure of institutions;
- hermeneutic methodology, which results in elaborating of “ordoliberal orders” (W. Eucken) or “modes of regulation” (according with regulation theory) and an understanding of the real-life economic systems as special cases of these orders or modes.

## **2. The complementarity of the principles of methodological individualism and methodological institutionalism in interdisciplinary studies**

The complementarity of methodological individualism and methodological institutionalism based on the complementarity of such more general philosophical preconditions as holism and reductionism.

The principle of holism is an epistemological philosophical premise studied since Aristotle (IV century BC). The essence of holism is the understanding that "the whole is more than the sum of its parts". This holistic position means the priority consideration of the whole with the new properties arising from the interaction of elements therein and absent from the elements of the system.

In epistemology, holism is opposed to reductionism, in which the specificity of the whole ‘is searching’ in its constituent parts, and the whole is understood as a formation of its primary elements. Methodological reductionism and methodological holism interpret the social and economic systems differently, considering them either as an additive, in which the system is formed as the sum of its parts, or as emergent or integral with special essence. Living and social systems belong, generally, to the second type.

Reductionism and holism, as well as analysis and synthesis, are of two complementary cognitive methods, which are effective for solving various research tasks, and are widely used in different systems of knowledge, both natural and social. Each of these techniques is useful, but exaggerated, which may lead to the loss of its epistemological value. Methodological reductionism’s limitations can bring the highest to the lowest, denying the higher forms their specificity and autonomy. This is typical, for example, for so called biologism when considering social systems. In turn, the absolutization of wholeness can lead to detachment of the highest from the lowest both in structural and in genetically-evolutionary relationship. In the economic theory this can result in the disregard to the mechanisms ensuring the integrity of the economic systems, as well as in excessive abstraction of economic categories, which was typical, in our opinion, for the political economy of socialism during Russia’s Soviet period.

Methodological holism and methodological reductionism are parts of a common system of scientific knowledge and must presuppose each other (New Encyclopedia of Philosophy, 2001, p. 430). At the same time in different sciences they receive, as a rule, their specific content depending on the subject field. In economic and social sciences reductionism is reflected in the principle of methodological individualism. Holism is implemented in principle of methodological institutionalism in the analysis of the economy and society.

Analysis of long-term discussions between supporters of the two methodological principles and the unsatisfactory results of their "synthesis" in economics and sociology allows us to suggest that, in this case, there is complementarity of two additional approaches, based on the methodological principles of individualism and institutionalism. It helps to gain knowledge about the society in terms of different notions which are not reducible to each other. Irreducibility in this case means the inability to follow two approaches (or synthesize them) simultaneously when conducting studies. That does not remove, however, the possibility of using either one or the other when solving different research tasks.

Indeed, the object of interdisciplinary research conducted by economists and sociologists is a social life with its inherent duality expressed in the fact that social structures (institutions), on the one hand, and social activities and behavior of individuals, on the other, are its equivalent and complementary elements. Respectively, scholars have to base their work on the alternative, but mutually necessary methodological principles of institutionalism and individualism,

Nor should one forget about time and the time dimension of socio-economic life. In respect of time, structures (institutions) precede social activities. If the result of an activity (which has its inner laws) is a structure, then it, in its turn, determines the subsequent activities. Structures and activities often or usually are "not synchronous", and therefore, as suggested by Archer, analytical dualism becomes logically necessary (Archer, 1995, 1998, 2003). Analytical dualism is "a matter of theoretical necessity, if we want to clearly define the processes that can explain certain social changes, i.e. if we want to develop climbed-social theory for working researchers" (Archer, 1999, p. 190). Archer's clarifications additionally justify the foundation of the complementarity of methodological individualism and institutionalism. These premises or approaches are used at different stages of sociological (and economic) analysis - the first is more relevant in a state of change, or morphogenesis; and the other for static, or morphostasis.

Based on these two premises, interdisciplinary studies allow us to obtain two not-identical descriptions taken from two different viewpoints: one will include elements that are missing in the other, and vice versa. Clearly, in the framework of one approach, it is impossible to fully explain the social and economic processes. That is why the approaches should not be considered as opposing but, instead, mutually supportive. Both can be creatively used depending on the nature of the research and scientific problems. Thus, we have shown this on the example of works by Karl Marx. In his oeuvre can be found works based on both the principle

of methodological individualism and that of institutionalism (see more in Kirdina, 2014b).

### 3. Conclusion

The principles of methodological individualism and institutionalism are used both in economic and social research. They reflect different views on the nature and structure of economic and social systems and complement each other. Typically, they are used at different stages of economic and sociological analysis. The principle of institutionalism is adequate for the analysis of structures at the stage of morphostasis; the principle of individualism is effective at the stage of change, or morphogenesis. Just as individuals change their glasses for nearsightedness and farsightedness depending on their need to consider certain phenomena and objects, so scientists, depending on their research tasks, could follow either set of methodological premises and principles.

Attempts to construct ‘synthetic’ approaches’, based simultaneously on the methodological principles of individualism and holism (institutionalism) continue with no signs of abating in both economics and sociology. However, there are, as yet, no satisfactory and internally not-contradictory ‘synthetic’ methodological schemes, on the basis of which it would be possible “to develop useful social theory for researchers working”. Rather we could assume a long period of coexistence of the considered principles as complementary, allowing the growth of knowledge within the different systems, which are not reducible to each other. Certain scholars in economics and sociology (for example, Karl Marx) are able to use either principle, depending on the research task or topic. Others (such as the author of this paper) usually follow one of them. Therefore, the principles of methodological individualism and holism, being complementary, have a clear perspective when conducting interdisciplinary research in economics and social sciences. That which is important is that researchers engaged in interdisciplinary projects must be aware what of the methodological strategy they follow at each stage of that research.

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