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## ETHICAL APPROACH TO ECONOMIC METHODOLOGY TRANSFORMATION

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### Abstract

The paper shows the connection between economics, socio-economic reality, and ethics especially during the market reforms in Russia. It gives the opportunity to prove that economic behaviour largely depends on ethical qualities of economic actors. Ethical approach helps the author to reconsider some methodological premises of economic science to overcome the so called crisis of economics and to promote the humanistic paradigm of economic science.

**Keywords:** ethics, morality, humanistic paradigm, methodological humanism, qualities of economic actors.

Recent researches have shown that many socio-economic phenomena can be explained from the point of view of human psychology, as well as that the behaviour of economic actors is determined by their specific ethical qualities. However, that is an exception for “blackboard economics” and the main reason for its crisis; to overcome this crisis we suggest to review economic science methodology from the ethical point of view. The economy and other spheres of life now require returning to the origins of human existence – to ethics, which determines our possibilities to improve the quality of life, to modernize the economy, to provide conditions for sustainable development of the society. Awareness of the importance of the role of human qualities in determining the nature of economic relations and an increasing number of publications on this problem allow speaking about a new orientation of economic science, which can be characterized by an extensive epistemological and forecasting potential and an ability to explain many phenomena of economic life through human nature understanding. Humanistic paradigm has a revolutionary importance and requires a human as the key economic agent and the purpose of economic development [1]. We mean the

formation of humanistic paradigm of economics as a science based on the new wave of economics and ethics interaction.

In the development of economics and ethics three stages of their interaction can be distinguished. Originally (in pre-capitalist formations) economic issues were integrated into ethical and religious issues. Gradual separation of economics from ethics was institutionalized during the so called marginalist revolution. As a result orthodox economic science started to position itself as a branch of knowledge, ethically neutral and free from scientist's value judgements. In the capitalist formation the development of theoretical and methodological views of the role of ethics (morality) in economic relations has become cyclical in nature. The attention to the moral and ethical content of economic phenomena has been resumed nowadays on the current downward wave of the big cycles of economic conjuncture [2]. The humanistic methodology is based on dialectical logic, which denotes the interdependence of socio-economic processes, and rejects simplifications, one-sidedness, and formalism. Indeed, the history of mankind shows us that prosperous states collapse if moral crisis penetrate the society [3]. The development of such countries as Japan and some states in Western Europe proves that the lack of favourable climatic, territorial, and other natural resources doesn't always limit the rate of qualitative economic growth because traditional social values include diligence, careful attitude to other people's work, mutual respect, law-abiding. Huge natural resources are not the key to socio-economic prosperity.

The current situation in the world economy indicates that the frequency of economic crisis is increasing. It also threatens to turn into permanent recession, accompanied by greed, the cult of money and consumerism, lie and deception in business and international relations. Therefore, it is hard to smooth cyclical fluctuations of the economy without a radical reform of public mind. Economic recession can also be the result of global moral crisis of modern civilization. But we have to remember that the human soul is in crisis, not the economy [4].

As the moral crisis is a widespread phenomenon for many countries, the Western society was defined as permissive in the 1960s, because it allows almost any violations of moral norms. Some studies of the 1970s confirmed a sharp decline in moral standards in the developed societies – the leaders of mass culture and market economy.

Low moral level of the population, values instability and inconsistency have affected Russia. Market economy has brought hypocrisy, vulgarity, greed, apathy, passivity, disappointment, lie, and deception. The values of industriousness, compassion, faithfulness were depreciated. The result was the spreading of criminality, shadow economy, harmful habits, and socially dangerous diseases. Moral relativism and indifference have become real

problems. All these things are typical characteristics of socio-economic formation decline.

The adoption of market economy in Russia has led to all aspects of social life commercialization. Not only business, but also personal relations have become mercenary. We still judge people by the sum of money they have. A new source of values was found in mass culture, which cultivates indifferent, infantile, greedy, morally, mentally, and physically weak generations of young people. Mass culture is an integral feature of globalization. On the one hand, it encourages cultural dialogue, development, information and knowledge spreading. On the other hand, mass culture and the development of information technologies and means of communication promote new ways of manipulation to form commercially efficient consumer behaviour.

Large-scale cultivation of the same type of behaviour and consumption is aimed to increase business performance with the help of commercial advertising, mass media, cinema, and other modern arts. The unification of human social experience forms a new type of man, who is focused on his/her personal utilitarian needs and is not able to think critically or make his/her own judgements. Ultimately, the process of social standardization doesn't give way to progress, which has to be based on diversity.

One way to overcome the problems of market transformation is to build a new ethical model of economic development, providing moral health of the society. It is necessary to take into account that even the best institutions, including legal norms, don't work if they do not correspond to the moral status of the society [4]. Every event is the result of human actions. So to improve something we need to change something in our mind and behaviour. The nature of economic relations depends on human character (according to the achievements of social sciences and humanities), including material, intellectual, and social levels. Thus the hard core of post-non-classical economics must become a new model of man based not on two or three characteristics of an individual convenient for mathematical formalisation, but on the structure of his varied ethical qualities. Many philosophers of the past considered a man to be a multi-dimensional creature, interacting with other people in economic space and time. For example, A. Smith in «The Theory of Moral Sentiments» described a large variety of socio-psychological motives of economic behaviour (selfishness, self-control, compassion, prudence, justice). Great attention to the psychological aspects of entrepreneurial behaviour is paid in «The General Theory of Employment, Interest, and Money» by J. M. Keynes [5, 6]. Economic science has recently recognized that economic agents are heterogeneous; they follow not only selfish but also altruistic orientations. Short-term, utilitarian behaviour can't always be associated with optimization in a long-term period. So the concept of formal classical rationality can be replaced by the concept of ethical rationality. In this case rational behaviour is

connected with other people's interests as we live in complex social environment.

Rationality is not only an integral characteristic of homo oeconomicus, but one of the most debatable economic categories. Mainstream economics operates under at least three different definitions of rationality (maximizing one's objective function, achieving one's goal, choosing more preferable alternative). Because of theoretical and practical limits of using these definitions of rationality, scientists all over the world (following M. Weber, G. Becker, O. Williamson) suggest their alternatives, for example, ecological, selective, subjective, flexible, adaptive rationality. Some scholars are of the radical opinion that the concept of rationality is tautological and meaningless. Studying rational behaviour of well-informed homo oeconomicus, scientists are not so rational themselves: they prefer simple cases and abstractions. In our opinion the premise of rationality can be improved by accepting rationality as reasonableness, purposefulness, moderation in ethical way of thinking, if we consider ethics (as a science objecting personal qualities, not preaching or moralization) to form ontological foundations of economics. In the history of economic thought ethical rationality is defined through the discourse of rational egoism (A. Smith, L. Mises, G. Becker, E. Ostrom) or genuine rationality, which means following ethical norms as internal motives, duties (Aristotle, R. Owen, A. Marshall, J. M. Keynes). Unlike classical economic rationality ethical rationality intends economic agents to follow personal and public interests in a long-term period. Ethical rationality is connected with multi-dimensional model of man in economic space and time. Ethical rationality can help scientists to solve inveterate problems of economics, such as scientific and behavioural rationality integration, positive and normative science dichotomy explanation. On the whole ethical rationality has profound traditions in the history of economic thought and can now make a great contribution in economic methodology advancement.

A new multi-dimensional model of man and the concept of ethical rationality as one of the main features of a new economic man form a basis for the principle of methodological humanism, which gives us the opportunity to overcome some disadvantages of individualism-collectivism dichotomy. Both methodological individualism and methodological collectivism don't tell us anything about the real human nature. On the contrary the main feature of methodological humanism is that we apply a dialectical model of man as a singular, particular and universal category. So a man becomes not only an individual but also a member of the society and mankind [2].

The unity of logical and historical aspects of human development causes the necessity to reconsider the scope of economics as a science. Traditionally economics is defined as a science of rare resources allocation. This definition disparaged economics to so called economic imperialism, helped

to spread economic approach to other social sciences. At the same time economics has lost its own scope and method. That's why the humanistic paradigm of economic science supposes returning to relations of production and forces of production dialectics as a scope of economics, which corresponds to the new wave of economics and ethics interaction and to interdisciplinary approach (researches in the field of economics, philosophy, ethics, anthropology, psychology, and sociology) as one of the main characteristics of post-non-classical stage of theoretical knowledge development.

Such premises of humanistic paradigm as a multi-dimensional model of man, ethical rationality and methodological humanism are aimed to overcome the so called crisis of economic science and to bring it back to real social problems solution. In this regard we try to show the perspectives of economic science development on the basis of interconnection between economics and ethics. Ethics can make a valuable contribution to economic science, especially concerning the problem of fundamental uncertainty, micro and macro analysis correspondence. Some long-standing problems of economics can be solved with the help of ethics. The role of ethics is also significant in studying the dynamics of the world economy, improving economic indicators, developing economic cycles theory.

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