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"ECONOMISM" IN ECONOMICS:  
ITS NATURE AND EFFECTS

*The article deals with the issues of negative effects of "economism" on economics. Theoretical sources of "economism", its basic postulates and methodological foundations are investigated. Special attention is paid to the "economism" destructiveness studied in theoretical and methodological aspects. The emphasis is made on the practical significance of this statement in terms of contemporary anti-crisis policy.*

*Keywords:* "economism"; economics; anti-crisis policy.

Євген А. Орлянський, Ігор С. Метелев  
«ЕКОНОМІЗМ» В ЕКОНОМІЧНІЙ ТЕОРІЇ:  
СУТНІСТЬ ТА НАСЛІДКИ

*У статті розкрито проблеми негативного впливу «економізму» на економічну теорію. Розглянуто теоретичні витoki «економізму», його основні постулати та методологічні основи. Окрему увагу приділено тій школі, яка наноситься економічній теорії на сучасному етапі в теоретичному та методологічному аспектах. Акцент зроблено на практичній значущості такого положення справ відносно антикризової політики на сучасному етапі.*

*Ключові слова:* «економізм»; економічна теорія; антикризова політика.

*Літ. 17.*

Евгений А. Орлянский, Игорь С. Метелев  
«ЭКОНОМИЗМ» В ЭКОНОМИЧЕСКОЙ ТЕОРИИ:  
СУЩНОСТЬ И ПОСЛЕДСТВИЯ

*В статье раскрыты проблемы негативного влияния «экономизма» на экономическую теорию. Рассмотрены теоретические истоки «экономизма», его основные постулаты и методологические основы. Отдельное внимание уделено тому ущербу, который наносится экономической теории на современном этапе в теоретическом и методологическом аспектах. Сделан акцент на практической значимости такого положения в антикризисной политике на современном этапе.*

*Ключевые слова:* «экономизм»; экономическая теория; антикризисная политика.

**Problem statement.** Cyclical crises are one of the main contemporary macroeconomic problems. The recent crisis has generated a lot of discussion about the future of market economic system as such. Its opponents have become more persistent in their predictions of its imminent collapse and a rebirth of something like the Soviet type command-administrative system. Panicky moods are stoked by dominating theoretical explanation of crises as an immanent feature of market economy. Inevitability of cyclical fluctuations became part and parcel of current economics (including university courses) as a regularity not to be questioned. This also implies the idea of the impossibility to carry out preventive anti-crisis policy. And this is happening in the conditions when each subsequent cyclical crisis occurs in increasingly tougher economic, environmental, social and political environment. Although none

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of the recent crises has reached the scale of the Great Depression of the 1930s, their danger to the world economy is becoming more and more expressed. Firstly, one should take into account the fact that the present day crises emerge on the background of permanently increasing huge volumes of production, resource costs, sales and profits incomparable with the 18–19th centuries. The problem of particular socioeconomic danger of crises arises, even if there is a conditional guarantee of their transient nature and inevitable getting over due to government regulation. This particular danger is expressed in too severe (albeit temporary) social consequences related to large-scale unemployment, underconsumption, social and political destabilization. On the other hand, crises are especially dangerous because of the aggravating deficit of nonrenewable resources coupled with increasing environmental problems.

Contemporary economics offers neither adequate assessment of these processes, nor effective countermeasures when they are most required. The situation can be regarded as the crisis of today's economics. This article focuses on causes and effects of such state of affairs viewed both theoretically and practically.

**Literature review.** The current situation reveals the limitations of the so-called "mainstream" approach in contemporary economics. This is the system of views of the group of leading schools in Western economics. Thus, "mainstream" is based on the dominance of economically deterministic approach. This approach was actually applied for the first time by the classical school. Classic economists took into account only economic determinants of all economic phenomena when forming causal links. Even if some other factors, for example, the psychological ones were taken for analysis then only material motives (the desire for enrichment, maximizing consumption of material goods etc.) were considered. The newly discovered economic laws were treated as universal and applicable in absolutely any historic conditions. Even of greater economic determinism was the marginalist theory. Marginalists introduced marginal analysis into scientific use. Here the process of wealth increment appeared in the most concentrated and formalized manner. In addition, they have exacerbated it by introducing highly individualistic subjective methodology. Later this tradition was carried on in the neo-classical school where marginal analysis was presented in the mathematical form. There was no place left for non-economic factors at all.

And also an opinion was formed that the system of domestic economic regularities closed in themselves was presented as a universal system with no national or specific historical differences.

Of little difference is the macroeconomic approach. Certainly, the "neoclassical synthesis" (being the theoretical basis of most of "Economics" courses in the West) accepted Keynesian conclusions about the failure of the 20th century's market economy to automatically overcome crises. But these conclusions are not far away from economic determinism. Indeed, the best achievement of macroeconomics and policy in this regard is the Keynesian theoretical model of economic growth fueling during the overproduction crisis generated by the lack of aggregate ("effective" in the Keynes' terminology) demand. His theory became the basis for practical models of anti-crisis policy of the state. However, none of theoretical models proposed by the "mainstream" representatives can offer any approaches connected with the preventive effect on economic fluctuations, since all of them base only on economic determinants. Therefore, society can only passively wait for the next depression fluctuation to

try to mitigate its effects. This happens since under the prevailing theories cyclical fluctuations are seen as a product of factors though various, but having the same economic origin. Under this approach the conclusion about the fatality of cyclical fluctuations is inevitable.

All this is taking place due to the fact that major theoretical schools are variations of the "economism" ideology. Swiss economist and sociologist P. Ulrich (2004: 18) defined "economism" as "the belief of economic rationality only in itself and into nothing else". His colleague in the Swiss school of sociology A. Rich (1996: 23) also believed that "for the approach called "economism" it is typical to assess all phenomena and forms of social life solely (or primarily) from the standpoint of economic rationality and material productivity". On the practical level, "economism" results in the so-called "economic way of thinking" which is best (and very openly) expressed by American economist P. Heyne (1990). He points out that "but for an astonishingly few exceptions, economic theories are built on the basis of a definite assumption that individuals take such actions that, in their view, will bring them the greatest net benefit (net advantage)" (Heyne, 1990: 23).

Naturally, such statements were objected to. Academic schools of the old institutionalism and German historical school criticized "economism" since the 19th century. Alternative approaches have been put forward by neoinstitutionalism as well. However, the "mainstream" virtually ignores these objections. Only some representatives of the contemporary Western economic science (Rich, 1996; Ulrich, 2004) disagree with the "mainstream" on some issues. Prominent businessman G. Soros (1999) is known to have criticized "economism" as well. Nevertheless, even Western scholars (with the exception of, maybe, P. Ulrich (2004)) pay hardly any attention to the problem of complex detriment to economics caused by "economism" on the fundamental and educational levels.

This issue is of interest for post-Soviet researchers as well. But they treat the problem of "economism" primarily in terms of its negative impact on the society and economy. The works of Russian researches M. Prokhorov (2014), Y. Osipov (2010), V. Kutyrev (2012), Belarusian researcher S. Semernik (2012), Ukrainian scholar N. Ilyina (2014) can be mentioned in this regard. However, reflection of "economism"'s domination in economics (both in science and in university courses) and detriment caused by it still does not get enough attention. Criticism of "economism" has basically ideological and political nature. Therefore, to identify the issues disregarded by the dominating economics is of undeniable scientific value. In this case it is the author's vision of what escapes the attention of mainstream economics and the resulting negative consequences for the comprehensive study of economic processes. This paper also reveals the authors' attitude to "economism"'s influence on the inability of economics to adequately assess economic realia.

**Research objectives:**

- to identify methodological limitations of the current economics ("mainstream");
- to determine the detriment caused by "economism" dominance in economics that prevents economics from being up to challenges of real economy of the early 21st century.

**Key research findings.**

*1. What does current economics ignore?* The dominance of this paradigm in contemporary economics causes actual failure to comprehend at least several fundamental interrelated points:

1. Historical approach to the analysis of one or another economic phenomenon. In present day university subjects cover only the current state of economic phenomenon in a specific situation of the contemporary economy (being usually the developed markets of the West). We do not see any features of this phenomenon in other historical situations. We do not see the impact of the specificity of national and cultural features on economic development. Denial of the impact of one or another historical period features or national characteristics takes place exactly because of their non-economic origin and impossibility to fit them into the framework of "economism". Thus, a priori a scientific-methodological principle of priority of certain universal laws of overall economic regularities over national specificity of a particular country or historical period which follows the logic of the same "economism" is introduced. There are many examples of how the same process is differently manifested in various historical and national conditions. This happens due to various combinations of causes and external conditions. The use of standard criteria prevents its objective evaluation.

2. The dynamic nature of economic phenomena. "Economism" is characterized by its static approach to the analysis of economic processes. Some economic phenomenon is treated as a kind of "objective" reality without considering its development and evolution. And the fact that this economic phenomenon can change its properties and attributes in the process of development is ignored. This drawback is closely related to the previous point, the historicity principle is disregarded. The combination of these two points causes the actual neglect of the indisputable fact that various national economies are at different stages of development, and one and the same economic phenomenon can be fundamentally different in them.

3. The influence of other non-economic factors on the economy. In fact, at present "economism" has completely ousted elements of the historical school and institutionalism approaches from the contemporary economics as an academic course. Such factors as religion, ethics, tradition, transformation's side effects and (to a large extent) psychology were virtually excluded from the analysis while the influence of these factors on the economy is undeniable. Historical school and institutionalism – the theories neglected by the "mainstream" – have demonstrated it quite well.

4. The methodological principle of holism which is worth dwelling on. Holism as research method ultimately examines all natural processes as integrated logical combinations. Their constituent elements are meaningful only within such complex (that can be the entire universe) and have no significance individually. With regard to economics holism was used by one of its main apologists, G. Schmoller (1998) (the second wave of the Historical school) as the principle of the same integrity. According to this principle only a collective entity can be the main subject of economic life. From this very standpoint he criticized the individualistic methodological principle of C. Menger (1992) (the founder of Austrian marginalist school) who considered economy, as stated above, only from the standpoint of a particular individual interests

(e.g., the "Robinson Crusoe" principle as the basis of the methodology and the maximization of marginal utility of an individual as the ultimate motivation of a consumer). Incidentally, it is interesting that C. Menger (1992) advocated also other ideas unacceptable for G. Schmoller (1998) — such as the deduction priority, the postulates of human nature and economic laws universality. From the standpoint of the Schmoller's holism a particular individual's interests are of no importance if we consider this individual outside his social community. In addition, he thought that the inductive study is more effective than deductive one and that all economic laws are valid only against specific historical background. It is this methodological principle that carried on the tradition of the historical school founders to study economic interests and practical activities of such collective entity as a nation.

5. Irrational behavior of economic agents. "Economism" absolutizes such rational motives as maximizing of monetary income (for producers) and maximization of consumption (utility) (for consumers) as their activities' targets. For example, the marginalist theory narrowed down all life activities of an individual to maximization of income in order to maximize consumption. Applying similar methodological principles English classicists and neoclassicists described production activity of a company. Production structure should seek maximizing profits through various ways of resources combination. Profit maximization should be the only target of a company in the long run. Any departures are possible only on short term intervals as a way to achieve long-term goals. Ideologically, such ideas date back to the well-known statement of A. Smith (1999: 91), the founder of the classical school, concerning "economic person". At most, possibility of other targets in the short term is admitted. But they are accepted only as interim ones and are used as the means to achieve long-term objectives. Other aims and activity motives are not accepted in principle, especially if factors not directly related to the economy are offered as such. Anything that goes beyond this rationality is ignored. Nevertheless, irrational motives actually are often stronger than rationality in decision-making in the economy. This can be exemplified by the change of economic systems (for instance, the emergence of the communist economy in the USSR and other countries which was a priori inefficient and created for political and ideological reasons).

As a result, economics (especially as an academic course) is presented as a set of virtually unchanged theoretical constructs which realism, according to one of the authors, is considered "in terms of their initial postulates and not their usefulness for the understanding of the reality" (Efimov, 2007: 18). In fact, we are talking about the absolutisation of the "scientific abstraction" principle. Under this approach the zone of "abstraction" covers too wide range of factors and events the immateriality and impermanence of which are in no way justified. From this follows the poor potential of the "mainstream" contemporary economics to explain the reasons for today's crises because they do not fit the realm of economy. And naturally it translates into the inability of such economics to suggest measures preventing crises as they require going beyond "economism". In fact, as P. Ulrich (2004: 10–11) stresses, "today's mainstream economics .... is constructing only unilateral functions of the market system modeled in the quite study and, as a rule, is trying to neutralize the ethical and practical problems of the public sector by completely dissolving them exactly in the "logic of the system".

## *II. In what ways is economics disadvantaged by the dominance of "economism"?*

1. Disregard of the historicism principle results in the fact that courses of economics and practical guidelines of economists to politicians fail to suggest preventive measures to oppose cyclical crises. It is well known historically that regular economic cyclical crises on the global scale do not accompany market economic system from the moment of its appearance. It is thought that this phenomenon became regular only since the early 19th century (Grinin, 2009: 5). Before there was nothing like that in economic development and overproduction crises were rare and localized. However, a researcher holding "economism" views cannot objectively analyze the traditional market economic system (up to 17–19th centuries) as then he would have to admit the impact of non-economic factors (ethical, ethnic, religious) on business processes. These factors considerably stabilized market conditions which helped preventing conjunctural distortions. As a result, cyclical fluctuations largely leveled off and there were no periodic crises of overproduction (as a purely economic phenomenon). Naturally, this deprives economy regulators of considerable potential for preventive response. Besides, it is needless to remind that the principle of historicism is crucial for post-communist economies. The transitional period in which they currently operate has a considerable historical specificity. It is well known, for example, that the use of standard methodology of transition reforms on the shock therapy concept gave completely different results in various countries. High level of losses from the transformation crisis in these countries was caused exactly by the use of the reform methods inadequate to their historical specificity.

2. Disregard of the dynamic nature of economic processes also makes science unable to suggest significant complex of influence methods to the market economy regulators. For example, the phenomenon of inflation is presented at the period of the second half of the 20th century in most current academic courses. In fact, inflation has gone through a long process of evolution and its features are very important for understanding of both the essence of this phenomenon and the choice of effective anti-inflation policies. In fact, such an approach is a way to disregard the possibility of various ways to examine economic phenomena. The abovementioned inflation can be an example of the fact that current academic courses do not take into account the whole process of transformation from the monistic, just monetary option into multi-factorial phenomenon. By the way, in the transitional post-Soviet economy this seemingly theoretical problem was of great practical significance in terms of adequate assessment of inflation priority causes and the choice of anti-inflationary policy measures.

3. Following the principle to determine economic processes' nature by merely economic factors (the key principle of "economism") will never let us to objectively assess this nature. Currently, this generally makes such economic analysis being estranged from reality as the narrowness of the above approach has long been evident. The hypertrophied monism of this approach was pointed out, for example, by such prominent practitioner G. Soros (1999: 50–51). This approach does not allow, for example, including business ethics in the analysis. "Economism" will never recognize the impact of business ethics on economic processes. Meanwhile, outside the "mainstream" there is a certain tendency to consider the dominating influence of business ethics on the nature of economic system. One of the authors of this article examined

the potential of anti-crisis business ethics of traditional market economy (Orlianskiy, 2010).

4. Rejection of holism has led to the fact that the analysis of economic activity of collective subjects such as corporate community, nation etc. was neglected. Even the activity of the state is considered merely from the standpoint of serving the interests of individuals while ignoring own interests such as of the bureaucratic class, which is absurd to deny. Contemporary courses of economics actually deny what institutionalists, starting with T. Veblen (1984: 202), are developing and what was not available to classicists and marginalists. It concerned collective economic entities and other institutional structures. The achievements of the historical school in addressing dependence of economy on ethnic and religious factors remain also outside the research field of "economism" supporters.

5. Previous aspect becomes even more actual given the dominance of the principle of rationality priority in the activity of individuals. That is, even methodological individualism appears very limited since the focus is only on one (economic) side of human personality with the rest being ignored. Hence, the extreme economic determinism of the whole theory described, for example, by A. de Benoist (my.arcto.ru) when he characterizes neoliberalism of F. von Hayek: "In the society of disunited individuals trade on the market is the only possible form of social integration. In the tradition of liberal thought the market is seen as an abstract way of social regulation, the "invisible hand" which is a means to reveal the objective social laws governing human affairs regardless of any political power". This creates a false impression that it is possible to solve crisis problems by merely economic methods. But practice shows the failure of such an approach. And here one can go back to the issue of cyclical crises which was the starting point of this article. It is the view on the economy as a closed system that results in the inevitability of cyclical crises and impossibility of preventive anti-crisis policy.

**Conclusion.** Thus, the main problem of contemporary economics (in the form it is presented in the majority of university courses) is the rule of "economism". On the theoretical level, it narrows the scope of scientific analysis leaving out a huge complex of factors that have tremendous impact on business processes in spite of being non-economic in origin. In addition, economism impoverishes methodological basis of researches reducing it to individualism. On the practical level, all this does not allow contemporary economics adequately assess economic realia and to suggest effective methods to strengthen the stability of market economy (primarily, we are talking about preventive crisis management). As mentioned above, such a state of economics is by itself a crisis problem. It means that in its present state economics (both as a science and as an academic subject) is unable to perform its social functions, theoretically or practically. To improve this situation, we should integrate the above elements of the historical school and institutionalism into the current "mainstream" economics. This will be the subject of our further research.

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