CONTEMPORARY ISSUES IN ECONOMICS FROM AN INSTITUTIONAL PERSPECTIVE

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Introduction

The integration of social sciences with exact sciences has clearly led to the development of innovative fields such as neuromarketing and psychological economics. This interplay fosters interdisciplinary research, creating conducive environment for advancing scientific thought. Consequently, new disciplines like economics, psychometrics, and institutionalism have emerged. Notably, the establishment of economic science marks a significant milestone. For the first time, it defined its research subject distinctively from other scientific domains, enhancing the methodology used in economic studies. Furthermore, this field has scientifically elucidated the institutional nature of economic regularities and their observable effects within the market. Such clarity is not inherently required for the formation of a social science discipline, yet it underscores the unique contributions of economic science to our understanding of societal dynamics. It is clear that these developments demonstrate the profound impact of interdisciplinary collaboration on scientific inquiry. By combining insights and methodologies from diverse fields, researchers can cultivate a fertile ground for innovation, resulting in the emergence of new subfields. This collaborative approach not only enhances our understanding of complex economic and social phenomena but also allows for more nuanced frameworks that capture the intricacies of human behavior and institutional dynamics. Ultimately, such integration fosters deeper insights and more effective solutions to the challenges faced in today's dynamic world, illustrating the role of interdisciplinary work in advancing knowledge.

Methodology

The article delves into the institutional economic approach, which, from an evolutionary perspective, conceptualizes the economy as a complex system comprising various institutional activities. This provides an opportunity to analyze the relationship between economic factors and non-economic factors. After all, in modern economic conditions, it is impossible to separate and analyze only the totality of economic factors without giving importance to the institutional environment.This framework allows for a comprehensive understanding of the problem of human nature and its implications for economic behavior. In classical economics, prevailing theories posit that economic laws and market dynamics stem from inherently selfish human nature. In contrast, the sociological approach emphasizes that the motivations underlying economic actions are multifaceted. These motivations include, but are not limited to, social belonging, parental instincts, self-esteem, and a variety of other psychological and social factors. The institutional approach encourages blending insights from psychology, sociology, and economics, leading to the development of innovative frameworks for analyzing economic phenomena. Given this context, employing a retrospective analytical methodology becomes essential. Such a method-logy not only facilitates a robust foundation for institutional assessments but also allows for the integration of diverse analytical perspectives. In contemporary economic thought, this integration manifests in studies that utilize both absolute and relativistic methodologies, providing a richer understanding of economic phenomena.

Literature review

The interplay between human nature, economic patterns, market laws, and institutional factors has long attracted the attention of economists, sociologists, and representatives of related disciplines. Within this discourse, the institutional–philosophical approach is notable because it does not call for a moral transformation of human nature but rather accepts it as a constant element of economic activity. Classical political economy, beginning with Adam Smith (1776), emphasized the manifestations of human egoism and their economic significance. Smith's model of the "invisible hand" highlighted how the pursuit of individual self-interest could unintentionally guide social progress and economic development. Building on this foundation, later economists such as David Ricardo (1817) further entrenched the principle of self-interest as central to market behavior. Yet, the classical framework often reduced human nature to a static and self-centered construct, overlooking the influence of social belonging and psychological complexity. This perspective was reinforced in the neoclassical era, when Paul Samuelson's (1948) revealed preference theory and Milton Friedman's (1953) methodological instrumentalism formalized decision-making models that privileged rationality while deliberately avoiding psychological considerations. Empirical research, however, increasingly exposed the limitations of this paradigm. Behavioral anomalies such as herd behavior, overconfidence, and speculative bubbles challenged the predictive power of rationalist models [Shiller, 2000]. Daniel Kahneman and Amos Tversky's [Kahneman & Tversky, 1979] prospect theory demonstrated that decision-making is systematically shaped by cognitive biases, while Vernon Smith's experimental economics underscored the variability of real-world behavior. These findings revealed the need for an expanded theoretical framework that could account for both rational calculation and psychological influence.

It was within this context that institutional economics emerged in the early 20th century as an alternative to the classical orthodoxy. Pioneers such as Thorstein Veblen [Veblen, 1899], John R. Commons [Commons, 1934], and later Douglass North [North, 1990] argued that economic outcomes are not solely the product of individual utility maximization but are deeply conditioned by customs, norms, and historical evolution. Institutionalism reframed the economy as a complex, evolving system of interdependent activities, where individual actions are shaped by institutional constraints and social relationships. From an evolutionary perspective, the rise of institutionalism was no less significant than the marginalist "revolution," the Keynesian transformation, or the development of the German historical school.

Contemporary research has expanded this interdisciplinary integration. Behavioral economics bridges psychology and economics, offering explanations for consumer choice anomalies and decision heuristics [Thaler & Sunstein, 2008]. Meanwhile, economic sociology emphasizes the embeddedness of economic action in networks of trust and cultural norms [Granovetter, 1985]. Together, these approaches underscore the complexity of human motivations, which extend beyond the narrow pursuit of self-interest to include social, cultural, and institutional dimensions.

In summary, the literature illustrates a progressive broadening of economic inquiry – from the rationalist assumptions of classical and neoclassical thought toward more dynamic and interdisciplinary frameworks. Institutional approaches, in particular, provide a comprehensive lens for understanding how human nature, social norms, and historical context interact to shape economic behavior and market systems.

Scientific novelty

This framework raises critical questions about the relationship between individual motivations and broader societal outcomes. While it underscores the idea that personal ambition can drive economic growth and innovation, it can also overlook the potential for unequal benefits and disparities within society. By elevating personal interest as the primary driver for economic and social progress, this approach risks neglecting essential considerations of equity and social responsibility.

Analitic approach. Evolutionally we could define the economic system as functioning of various laws and market principles. Understanding, discovering, and scientifically interpreting the law is crucial for effectively defining the field of political economy. These economic patterns can be likened to natural laws, revealing a structured and systematic approach to economic behavior.

Many deviations from rational behavior are both widespread and systematic, remaining unaffected by the law of large numbers. Such phenomena are particularly common in the financial and economic sectors, a field where one might ironically expect minimal irrationality. Developed financial markets, despite being highly competitive, are precisely where psychological influences on behavior become most evident. These influences manifest in various forms, such as the tendency of markets to follow fleeting financial fads, sudden shifts in investor sentiment, unwarranted beliefs in the superiority of active portfolio strategies, excessive trading volumes, and certain predictable patterns in asset prices. As a result, researchers are increasingly utilizing psychological methodologies to explain these occurrences. Traditionally, however, economists have been reluctant to embrace psychology, often dismissing it due to perceived deficiencies in rigor and clarity within its theories and conclusions. Formal economic theory typically relies on a limited set of criteria to represent preferences, steering clear of delving into human psychology,a tradition deeply rooted in history.

In the 1940s, Paul Samuelson introduced the concept of revealed preferences, which liberated economic science from the obligation to directly assess subjective experiences. It was assumed that rational behavior alone sufficed as a basis for deriving conclusions that align with observed individual actions. According to Milton Friedman, the validity of these assumptions was deemed less critical than their utility in simplifying decision-making models, which facilitated rigorous analysis and credible conclusions.

At the turn of the 20th century, favorable historical conditions enabled the United States to become the wealthiest and most socioeconomically advanced nation globally. The U.S. economy transitioned from free-market competition to a monopolistic phase of capitalism, characterized by an increasing concentration of production and capital, intensifying existing social contradictions. In response to this trend toward monopolization and the government's emerging antitrust policies, American economists laid the groundwork for a new economic theory centered on social justice. It was during these decades, specifically the 1920s and 1930s, that institutionalism emerged – a term derived from the Latin institutio, meaning custom or established order. This school of thought aimed to explore the interplay of social and economic factors, as well as the potential for society to exercise social control over the economy.

Historically, the institutional perspective emphasized the principle of sympathy, which focused on maximizing personal interests. This principle plays a significant role in explaining social and economic behavior, as it highlights how individuals navigate their choices within the marketplace. By examining these interactions, we can gain deeper insights into the motivations driving economic activity and the broader societal implications. Furthermore, the interplay between individual interests and institutional norms helps to shape market dynamics. As researchers engage with these principles, they contribute to a more comprehensive understanding of how economic systems operate, ultimately enriching the discourse around political economy. This exploration sheds light on the complex relationships between personal motivations, societal expectations, and economic outcomes, highlighting the significance of both individual choices and institutional frameworks in shaping economic realities.

Methodologically, this approach is enriched by the axiom of the "invisible hand," a foundational concept in economic liberalism. This principle suggests that individuals, while pursuing their own self-interests, inadvertently contribute to the overall welfare of society. It posits that when people act motivated by personal gain they can create outcomes that benefit the collective, guiding resources to their most efficient uses without the need for direct intervention. The "invisible hand" not only underscores the efficiency of free markets but also emphasizes the intricate balance between individual actions and societal benefits. By integrating this axiom into the methodological framework, we gain a deeper understanding of how economic interactions operate in a liberal economic context. This perspective illuminates the delicate interplay between personal ambition and the collective good, reinforcing the importance of free-market principles in fostering innovation and growth within an economy.

In this approach, personal interest is prioritized over public interest, leading to a methodological emphasis on the belief that maximizing individual interests inherently serves the greater public good. This perspective has been somewhat fetishized, suggesting that the achievement of the collective welfare is merely a byproduct of individuals pursuing their own interests.

Moreover, this methodological bias may hinder a more holistic understanding of public welfare, as it simplifies complex social dynamics into a straightforward equation of individual gain equating to collective benefit. Therefore, while the principle of the "invisible hand" serves as a cornerstone of economic liberalism, it is important to critically assess its implications and acknowledge the need for a balanced perspective that considers both personal ambition and the collective well-being of society.

Thus, from a methodological standpoint, particularly in the classical sense, the individual serves as the foundational starting point of the economic narrative. In this context, thinkers like Adam Smith and David Ricardo, along with their contemporaries, framed human nature in a specific way: they portrayed the individual as primarily motivated by self-interest. This representation emphasizes that people act based on their inherent, selfish inclinations rather than being seen as historically conditioned or shaped by societal influences.

Moreover, while this classical approach provides a framework for understanding market dynamics, it may also simplify the intricacies of human nature by failing to account for altruism, cooperation, and the social structures that influence personal decision-making. Acknowledging the interplay between innate tendencies and historical factors can lead to a more nuanced comprehension of economic behavior and human interaction in society.

From an institutional perspective, human nature is understood as a psychological construct that is both changing and dynamic. This view contrasts sharply with the more static conception of human nature that prioritizes public interest. Instead, the institutional approach recognizes that individuals, shaped by their historical contexts, actively engage with their present circumstances while also envisioning and constructing their future.

In this framework, individuals are seen as entities carrying the weight of their past experiences, which influence their present decisions and future aspirations. This continuity highlights the complexity of human behavior, showcasing how personal values, social norms, and historical factors interplay to shape individual actions.

When viewed through this lens, dialectical materialism emerges as a philosophical response grounded in historical context. It posits that human development and societal change result from the dynamic interplay of material conditions and human activity. This perspective emphasizes that history is not merely a backdrop but a formative element that continually influences human nature and institutional structures.

By recognizing the fluidity of human nature and the influence of historical change, this approach provides a richer understanding of individual behavior within economic systems, highlighting the importance of adaptability, social relationships, and the ongoing construction of identity and meaning in an ever-evolving societal landscape.

This perspective presents humanity as an instinctual being, where actions are guided by fundamental desires for personal gain. It suggests that the pursuit of self-interest is a natural feature of human existence, defining the individual’s role within the economic system. However, this view can overlook the complexities of human behavior and the significant impact of historical and social contexts on individual motivations.

Conclusion

In today's context, it increasingly appears that individuals may achieve their goals more efficiently by tapping into the selfishness of others. Each person, motivated by their own personal interests, actively contributes to the overall satisfaction of societal needs, often more effectively than if society operated under a unified or conscious objective.

This principle is vividly illustrated in market dynamics. For example, when a limited number of sellers control a market, one may increase prices to maximize profits. Conversely, in a competitive environment with many sellers, prices tend to decrease as they compete for consumers’ attention. Despite these fluctuations, the fundamental driving force behind economic activity remains the concept of selfishness.

Emphasizing self-interest as a key motivator reveals an important truth about economic behavior: when individuals pursue their own objectives, they inadvertently generate solutions and opportunities that benefit society as a whole. This relationship underscores the idea that, while selfishness may seem like a purely individualistic trait, it can also serve as a catalyst for broader social progress, illustrating the complex interplay between personal ambition and collective welfare in economic systems.

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This article explores contemporary issues in economics from an institutional perspective, emphasizing the interplay between individual motivations, market laws, and broader social structures. While classical and neoclassical traditions conceptualized economic behavior as driven primarily by rational self-interest, recent interdisciplinary research demonstrates the limitations of this reductionist approach. Drawing on insights from institutional economics, behavioral economics, and economic sociology, the study highlights how norms, historical evolution, and cognitive biases shape decision-making and market outcomes. The institutional framework reframes the economy as a dynamic and evolving system of interdependent activities, where personal ambition operates within social and cultural constraints. By analyzing key contributions from Adam Smith to contemporary behavioral theorists, the article underscores the importance of integrating psychological, social, and historical dimensions into economic inquiry. The findings suggest that self-interest, though central to economic activity, gains meaning and direction only through institutional contexts that mediate its effects on innovation, equity, and collective welfare. This approach provides a more comprehensive basis for interpreting contemporary economic patterns and offers a foundation for developing policy frameworks that account for the complexity of human behavior within institutional systems.