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CONCEPTIONS OF HUMAN BEINGS IMPLICIT IN ECONOMICS AND IN THE PRACTICE OF ECONOMIC POLICY

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Introduction

What are the conceptions of human beings implicit in the practice of economic policies? Do they have some impact on their results in contemporary societies? These are the central questions addressed in the second section of the paper. But in order to give deeper answers to them we thought it would be better to begin with some synthetic references to the conceptions of human beings implicit in the economic science per se that, very often, inspires economic policy making. Although these references are mostly hypothetical they help anyway to a better understanding of the central questions of the paper. The analysis is focused on the mainstream of Western economic science, i.e., the so called neoclassic-Keynesian synthesis. Only minor references to more 'heterodox' economic policies are included. At the end of the paper, a concluding section aims to link the two first parts. Its central question is if some agenda could be devised in order to avoid the consequences arising from what could be the key mistakes of the implicit conceptions of human beings dealt with in the paper.

1. HUMAN BEINGS IN THE ECONOMIC SCIENCE

The reasoning observed in this part of the paper is as follows. Since economists do not teach anthropology but economics, the answer to the question: 'what understanding or knowledge of man is contained in the subjects taught by economists?' may be quite different from what economists think man is not *qua* economists, but 'personally'. Lionel Robbins explicitly distinguishes what he thinks personally from what he does as an economist (1935-84:149).[1] More recently, John Davis affirms: 'Indeed, economists often believe themselves attached to a variety of philosophical ideas irrespective of whether these ideas have a genuine basis in their thinking about economics' (2003:82). Personal philosophical ideas used by economists in their everyday lives, many times have little in common with the philosophical concepts which surface in their economic thoughts. Several philosophers of economics have brought this to light extensively. Davis' recent book (Davis 2003) is completely concerned with the anthropological question and he arrives at the conclusion that just as the early neoclassical theory did, today's mainstream has tended to vanish the individual. Therefore, trying to answer adequately the question posed, we are not much concerned with the economists' personal ideas of man (which on the other hand are quite acceptable), but with the anthropological premises on which the teachings of economists are based.

How is it possible that economics having been born as a branch of moral and political philosophy during the classical era, and with modern age economists having a 'personal' reasonable outlook of man, the conception of man underlining their theories is so restricted? The answer we are about to offer is that the pressure to become part of the catalogue of sciences have led economists to adopt a specific scientific framework in which a comprehensive vision of man does not fit. It is a framework proper of a positive science, in which the demands of exactness (an epistemological prejudice) impose a requirement of determination (in the sense of fixity) in the object (an ontological *a priori*). This determination, in the case of social sciences, and specifically in the case of economics, normally excludes or withholds essential features which are necessary for its very explanation, such as human freedom, intentionality in decisions, situations of uncertainty which are not overcome with any type of calculus, ignorance or change in aims or preferences.[2] It also tries to lay aside normative elements,

[1] The first edition is dated 1932. Here we use and quote that of 1935. The 1984 edition includes his Richard T. Ely Lecture delivered at the American Economic Association in 1980.

[2] As Athol Fitzgibbons says, 'macroeconomic science presupposes a state of knowledge that is inconsistent with the phenomena the science is supposed to explain' (2000:13). Freedom in this paper is an analogous term: its most inner meaning is a radical openness of mind and will towards reality. The second analogous meaning is *liber arbitrium* or freedom of choice, an inner capacity of Will to decide, a power to will. Of course, Will is conditioned in its decisions by sociological, psychological and physiological antecedents as

precisely those with which economics could make a valuable contribution (because rationality is a normative concept, not only a descriptive one).

In sum, beyond the notions of human beings that an economist himself may have, what is relevant in order to answer the question here considered is to determine what is the notion of humans which is subjacent in the particular form economic science adopts according to each economic thinker. The hypothesis here maintained is that there is an 'epistemological bias' in current economics that affects its human content. We will try to show that this problem has been manifested in the evolution of the notion of economics itself.

1.1. *The Problem*

A large choir of self-critics has arisen within the economics profession in the last decades.[3] In this paper we follow the line of the argument of one of these, Sir Henry Phelps Brown. He has acutely pointed to one possible reason of the problems and misleading notion of humans underlying economic science, complaining about the smallness of the contribution that the most conspicuous developments of economics in the last quarter of a century have made to the solution of the most pressing problems of the time (1972:1).

He then quotes some affirmations of his colleagues:

'I find I've learnt a good deal in these last years – particularly how misleading most of my economic training has been', ... 'By far the best preparation for a useful career in economics after the university, is to go to an organisation working on practical problems, partly so as to understand how little use a great many of the academic gadgets are' (2).

well as by previous habits, however it is not totally and univocally determined by them. Decisions are not uncaused: they are caused by the person who wills conditioned as it were. In the human realm 'to be caused' is not equivalent to necessity. The former kinds of freedom are innate. Acquired freedoms are moral inner freedom – the capacity to act rightly – and external – political and economic freedoms, a power to do. These latter freedoms find their sources and fundaments in the former.

[3] See especially the Announcement 'A plea for a pluralistic and rigorous economics', signed by 47 top economists (*AER*, 82/2, May /1992), and the 'Petition to Reform Graduate Education', signed by other 463 economics professors (*AER*, 83/5, Dec./1993). See also, for example, Bell and Kristol 1981, Leontief 1958 and 1971, Morgenstern 1972, Deane 1983, Blaug 1998.

Today, thirty years later, we may hear a lot of economics' students and professionals saying similar things. Phelps Brown adds:

'The human propensities and reactions it [Economics] purports to abstract are not in fact abstracted, that is to say drawn out of observations, but are simply assumed (...)' (3).

For him, the result is a distorted vision of humans, which does not allow for a causally grounded explanation, diagnosis and prescription (cf. 6, 7). However, is it not legitimate to make assumptions and to abstract in economics, as in any science? Hal Varian affirms: 'A model's power stems from the elimination of irrelevant detail, which allows the economist to focus on the *essential* features of the economic reality he or she is attempting to understand' (1990:2, our emphasis on the word *essential*). We agree. However, the very aim of capturing the essential imposes constraints. As Morgenstern affirms, 'The abstraction would be faulty if it bypasses a fundamental feature of economic reality (...) Radical simplifications are allowable in science so long as they do not go against the essence of the given problem' (1964:255). Hence, the crucial problem is: 'what are the *essential* features of economic reality?' As most philosophers of economics, Uskali Mäki, accepts isolation, abstraction and idealisation, but, borrowing the expression from Coase and Richardson, he adds that 'the way the world works' imposes a constraint on theorizing (1998:314). He presents the pairs 'primary and secondary factors, *essential* and accidental properties, key features and incidental features, major and minor causes, causally and less relevant factors' (312): models should contain the first component of each pair. Abstractions or assumptions cannot pass over these elements.[4]

In the same vein, Hoover (2001) says: 'The interest in idealisation is precisely that it isolates the essential, but whether something is essential is a question not of form, but of what reality is like. The danger is that without a notion of *essence*, idealisation might be reduced either to a fancy name for an arbitrary selection of *ceteris paribus* conditions or to a formal nesting relationship for theories' (2001:37). But for him, the second components of Mäki's pairs are also relevant: '... the secondary factors must matter somehow if they are to be factors at all' (1998:39).

[4] Joan Robinson expresses it accurately: 'It is easy to make models on stated assumptions. The difficulty is to find the assumptions that are relevant to reality. The art is to set up a scheme that simplifies the problem so as to make it manageable without eliminating the essential character of the actual situation on which it is entended to throw light' (1971:141).

According to Phelps Brown this problem of economics has to do with the change of its modern definition: it has adopted a 'discipline – determined', and not, as in the classics, a 'field-determined' definition (1972:7). 'The economist's studies', he suggests, 'should be field-determined, not discipline-determined'. A 'field-determined' economics would make room to both rational and irrational behavior, to allocation of means and to study an appraisal of ends or preferences chosen. All realities falling under the common language rubric of 'economic', no matter if they were rational or not, unstable, unpredictable, uncertain or related to ends or values would be considered. This would suppose to acknowledge that a large portion of economics would remain outside models. Consequently, it would suppose to accept a wider notion of science than positive science, a prudential or 'practical' economics (in the classic philosophical sense of 'practical'). Instead the 'discipline-determined' vision (a reduced form of the logic of choice) would have stemmed from trying to fit economics into some epistemological premises – the imitation of the epistemology of the physical sciences. Let us develop on this, beginning by a historical overview.

1.2. *A 'Field-Determined' Economics*

For Aristotle economics was a practical, namely, a moral science. 'The economic' (*oikonomiké*) is for him the use of what is needed to achieve the Good Life (*Politics*, I). He considers 'the economic' as an analogical concept embracing a human action, a capacity, a virtue and a science. It is the sector of the human life related to material 'human' necessities (which were for him subjective and relative, but not arbitrary: *Nicomachean Ethics*, V, 5). A notion of humans as material-spiritual free and intelligent agents underlies this concept. This is a 'field-determined' notion of economics. According to Adam Smith political economy was '[a] branch of the science of the statesman' (*Wealth of Nations*). Thus, he also bears a 'field (wealth)-determined' notion of economics that belongs to the realm of practical or moral science. When Smith explains the work of markets in terms of self-interest, it is within a social and moral framework. However, Smith belongs to another philosophical context. The main characteristics of humans for Smith, benevolence, sympathy and self-interest, are human feelings. Thus, he holds a weaker notion of human will (sensitive) than the Aristotelian (rational). This has probably to do with the invisible hand working independently of the human will. Besides, the book that remained alive was *The Wealth of Nations* while the moral one, *The Theory of Moral Sentiments*, was not of the concern of most of the economists. Those facts probably have connection with the progressive advancement of 'technique' as the predominant logic of human sciences after Hobbes. This notion was already paving the way to the positivist framework that economics will adopt later. As Davis says, 'Smith's "other" book, of course, has been largely forgotten, leaving the market and self-interest to be explained entirely naturalistically. This helped produce a vision of economics as a positive science long before Robbins narrowed the subject's policy space' (Davis 2003:182).

'Nassau Senior was the first economist to proscribe prescription' (Maloney 1990:187). Senior is the first economist to maintain the distinction between positive or neutral analysis, and policy recommendations in his *Outline of Political Economy* (1836). He delivered his presidential address to the Section F ('Economic Science and Statistics') of the *British Association for the Advancement of Science* in 1860. As Hutchison says, 'Section F had to assert its scientific respectability, and its worthiness to be included alongside the established subjects of natural science' (1962:9). According to Hutchison, Senior 'gives a brief restatement of his ultra – narrow view of 'Economic Science' and the economist's functions, according to which the subject is confined within the limits of a strictly 'positive' science with a narrowly economic subject-matter [wealth]' (13). That is, economics being tensioned by natural science is no longer a practical science and, in this way, it leaves aside essential human features belonging to the economic field. We will return to this point. However, he maintained a field-determined definition: 'Economic Science, or, to use a more familiar name, "The Science of Political Economy", may be defined as "The Science which states the laws regulating the production and distribution of wealth, so far as they depend on the action of the human mind"' ([1860] 1962:19). By the way, notice that he is adopting the 'laws talk', typical of positive sciences.

Alfred Marshall also maintained a field-determined definition: 'Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing' (1920-62:1). Economists 'deal with man as he is: not with an abstract or "economic" man; but a man of flesh and blood ... a man who is largely influenced by egoistic motives in his business life ... but who is also neither above vanity and recklessness, nor below delight in doing his work well for his own sake ... ' (22). However, he then reduces the scope of his human being when he affirms: 'But being concerned chiefly with those aspects of life in which the action of motive is so regular that it can be predicted, and the estimate of motorforces can be verified by results, they [the economists] have established their work on a scientific basis' (22). This basis means a simplification of motives to something formally tractable. Marshall was concretely committed with biology. However, we think that humans are more than biological beings. And as Phelps Brown adds, Marshallian possible predictions are not still achieved (4).

1.3. *Towards a 'Discipline-Determined' Economics*

The evolution described tells us about the quest for an easily manageable subject matter. Economics needs to create a determined, objective, and preferably observable subject because positive science is an exact study about this kind of subject. It needs to avoid subjectivism, introspection, oughtstatements, and even, when changeable, to fix the subject on a determined point.

Thus we pass through the modern currently accepted definition by Lionel Robbins: 'Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses' (1935-84:16). That is, it is the science of choice, namely, microeconomics. Economics becomes a 'discipline-determined' science. It is 'disciplinedetermined' because the subject is no longer a field related to the material necessities, production, distribution and so on. It is choice, every choice, as an aspect, point of view or perspective of approaching every human action.

The key to make human action fit into an exact frame is to consider ends or preferences as given. The exogenous character and the stability of preferences pave the way to build a deterministic scientific subject. Freedom is put into brackets.[5] Menger titled 'The Starting Point and the Goal of All Human Economy Are Strictly Determined' to Appendix VI of his *Untersuchungen*. And he says: 'Economy is really nothing else than the way which we travel from the previously indicated starting point of human activity to the previously indicated goal' ([1883] 1985:217). It is properly speaking a technical way and enables one to formulate exact laws, which 'formal nature is no different from that of the laws of all other exact sciences and of the exact natural sciences particularly' (218-9). For economics, ends are given. 'Economics', Robbins maintains, 'is not concerned at all with ends *as such*. It is concerned with ends in so far as they affect the dis-

[5] Neoclassicals and Austrians share the isolation of freedom. Mises speaks about an 'activistic determinism' ([1957] 1985:177 ff.). On Mises see Crespo (2002).

position of means. It takes the ends as given in scales of relative valuation, and enquires what consequences follow in regard to certain aspects of behaviour' (1935-84:30).

The rationality involved in this kind of action is called 'instrumental rationality'. This kind of rationality does not necessarily mean full rationality and thus, it does not necessarily preclude irrational behaviours – passions, emotions, traditions or habits. Its essence is to be a calculable and algorithmic way of going from one point to another, both fixed. Therefore, the current mainstream is trying to insert non-strictly rational motives into the formal frame proper of the positivistic mentality. Keynes manifested his understanding of this trend and mentality when he wrote, at the end of his famous review to Tinbergen's book, 'I have a feeling that Professor Tinbergen may agree with much of my comment, but that his reaction will be to engage another ten computers and drown his sorrows in arithmetic' (1938:318).

The problem is not to consider economy as a kind or aspect of human action. The problem really is the halfway consideration of human action, a physicalistic or technical view of it that stems from Weber (cf. Llano 2001: Chapter 2), and leaves aside – enchained – intentions and ends. Thus, the problem is not 'discipline-determined' economics in itself but the way in which the discipline is defined. We need to define a discipline that covers the complete field. That may rely specially on human action; the complete action. What economics needs in order to enlarge its scope is to 'liberate' the fixed extremes (means and ends) and make them endogenous and changing. This will mean a prudential science, an inexact one.[6] However, this would hardly be accepted by a positivistic mentality. In the meanwhile, economists will go on making things more and more complicated within a misleading frame.

As Davis says, '[t]he [economic] theory of choice is about being instrumentally rational. Instrumental rationality is defined as the choice of actions that best satisfy an individual's ends or objectives *however* those

[6] When we speak about 'instrumental rationality' we are in the field of Weber's classification of types of social actions: instrumental, value – rational, effectual and traditional (Weber 1978:24-5). Therefore, speaking about the instrumental aspect entails excluding the other three. Actually, Mises (1960:82) reduces the latter to the former. The strategy of the mainstream is to include the motivations of the three other kinds into preferences and then to apply an instrumental reasoning. However, this means that it considers these motivations as homogeneous and consistent, when in fact they are heterogeneous and often inconsistent. The right strategy is to harmonise the four kinds of rationality through a prudential rationality. This is not an algorithmic process: cf., e.g., David Schmidtz (1994:246, 251).

ends or objectives may happen to be characterized. Instrumental rationality is a rationality of efficient means, and *per se* is completely agnostic regarding the nature of the ends means serve' (Davis 2003:27).[7] This shows us the connection of instrumental rationality with value neutrality.

Robbins says, 'Economics is neutral as between ends. Economics cannot pronounce on the validity of ultimate judgments of value' (1935-84:147). For Maloney this is actually a value-judgment: 'neoclassical economics studies the consequences, rather than the causes, of people's preferences: in choosing to do this it is saying that restricting economics' scope, and starting the story half-way through, is justified in the interests of greater analytical rigour' (1990:186).[8] The way to resolve the value-free problem is not to cast aside values – what is impossible – but to reason about them, and thus rationally determine the set of them at the roots of economics. Robbins still held subjective elements. A new important step after him was Samuelson's theory of revealed preferences. As Davis expresses, 'mainstream economics emerged from neoclassical economics through a progressive realization that subjective inwardness was altogether incompatible with a scientific world view' (2003:26). Samuelson's aim behind his proposal of revealed preferences (1948) was to surpass this problem. Davis goes on: 'However, with the elimination of subjectivity, the very basis in which individuals had been understood as independent beings was also eliminated (...) No longer required as an intermediary between taste and action, choice then becomes a general all-purpose logic that could be applied to any sort of agent, single individual, multi-individual, human or otherwise' (2003:26). In this way, 'the mainstream has been slowly destroy-

[7] In this way, the epistemological requirements are satisfied. As also Davis affirms: 'One reason that instrumental rationality theory has been attractive in economics is that having a single model of analysis makes possible a high degree of logical and mathematical determinacy in economic explanation' (Davis 2004:401).

[8] Today it is widely accepted that values cannot be removed from social thinking. Leo Strauss had said many years ago: 'It is impossible to study social phenomena, i.e., all important social phenomena, without making value judgments. (...) Generally speaking, it is impossible to understand thought or action or work without evaluating it. If we are unable to evaluate adequately, as we very frequently are, we have not yet succeeded in understanding adequately. The value judgments which are forbidden to enter through the front door of political science, sociology or economics, enter these disciplines through the back door' (1959:21). As some authors have shown, the moral theory adequate to instrumental rationality is utilitarianism, traditionally connected with economics (Hausman and McPherson (1996:45); Boudon (1997:20); Casson (1988:8).

ing the individual in the quest for a particular kind of scientific status' (Hargreaves Heap 2004:404). In fact, for some authors, the best metaphor for representing the economic agent today is the computer (Davis 2003: Ch. 5; Mirowski 2002, with the suggestive title of *Machine Dreams: Economics Becomes a Cyborg Science*).

There are actually some aspects or situations in which human behaviour is automatic and resembles computer logic, aspects or situations that economics may explain and even predict. However, these are confined to a few fields and moments. As Boettke puts it, '[t]he problem situation of economic actors had to be simplified drastically so as to yield the precise formulations Samuelson sought. Samuelson′s research program eliminated the conscious component from the economic choices facing individuals in a world of uncertainty. Choice was reduced to a simple determinate exercise within a given ends-means framework, something an automaton could master. The task of discovering not only appropriate means, but also which ends to pursue, was left out of the equation' (1997:20). An analysis of human action supposing given preferences can be completely formalized. Human motives are assumed as homogeneous and reducible to a hierarchical set of homogeneous preferences. However, this epistemological framework is clearly throwing out of the economic field essential features of human beings: freedom, human time, uncertainty (as different from risk), and heterogeneity.

For the mainstream, macroeconomics must also be reduced to microeconomics: we need to look for and to find the micro foundations of macroeconomics (Lucas). This is the way to give scientific foundations to macroeconomics. There are two ways of doing it: first, aggregation of all the individual actions, which is actually extremely difficult;[9] second, to use the fiction of 'the representative agent'. The 'representative agent' is a misleading abstraction, for it is impossible to represent millions of decisions, that are depending on macro economically influenced expectations or conventions. The representative agent is then an 'economic homunculus', 'like a universal Turing machine' (Davis 2003:100).[10]

[9] Impossible, for Kevin Hoover (2001).

[10] The problem is not to try to 'micro found' macroeconomics, but the unreality and incompleteness of the microeconomics over which the mainstream tries to 'micro found' macroeconomics (cf. Fitzgibbons 2000:8). We cannot tackle here the issue of how to go from microeconomics to macroeconomics.

Lionel Robbins is the 'representative' economist. All modern economists share his 'discipline-determined' definition of economics – especially, with some nuances, Mises and Becker – which leads to this 'cul de sac'. However, Robbins was almost a humanist. That is, his concerns for the human being lingered and finally were dissolved by virtue of a misleading definition conditioned by an epistemological prejudice.

1.4. *Consequences and Therapy*

From Aristotle to nowadays analogies from medicine have been usually applied to human matters. Mark Blaug has recently affirmed: '"Modern economics is sick. Economics has increasingly become an intellectual game played for its own sake and not for its practical consequences (...). If a topic cannot be tackled by formal modelling, it is simply consigned to the intellectual underworld. To pick up a copy of *American Economic Review* or *Economic Journal*, not to mention *Econometrica* or *Review of Economic Studies*, these days is to wonder whether one has landed on a strange planet in which tedium is the deliberate objective of professional publication. Economics was condemned a century ago as "the dismal science", but the dismal science of yesterday was a lot less dismal than the soporific scholasticism of today. To paraphrase the title of a popular British musical": No Reality, Please. We're Economists' (1998:12).

Economics shows nowadays two important epistemological problems.

1. It tries to analyse – and claim to fully account for – the behaviour of human realities not economic in character, such as family, education, crime or politics (the Chicago research program). As a logic of choice economics legitimately does this task. In such a way, economics becomes anthropology; a reductivist anthropology, that analyses which of these realities are impoverishing and misleading for they are limited to only an aspect of the related human actions.

2. It analyses economic realities in a restricted way, in spite of some efforts to broaden its scope. On the one hand, it is trying to add more variables – cultural, psychological, and so on – but constraining them within the same mechanical-like frame. On the other hand, it defines limited fields by imposing restrictions to particular areas (neoclassical applied analyses), or by bounding rationality (Simon). These seem like medicines that attack only one aspect of the sickness. 'The problem with contemporary economics, then', Boettke says, 'is that it artificially restricts the questions we can legitimately ask about the real world' (1998:183).

Given this situation, we may either:

1. Struggle for the rehabilitation of the old 'field – determined' definition of economics which allows for a methodologically inter-disciplinary study enabling the possibility of a rich anthropology. This is the commonsense position, for it even fits with the meaning of the term 'economic' in nowadays common language (as defined in dictionaries). We prefer this.

2. Accept that economics is Robbins's logic of choice and taught more than economics, complementing it with sociological, psychological, ethical, etc. analysis which would be integrated with the economic in a prudential way.

What is clear is that current economics has deficiencies in dealing with economic matters, and that it exceeds its field trying to deal with non-economic matters; distorting them. As a result, the 'economicism' of our times is shaped and fostered by economics. The conclusion of this first part is that a change in the epistemology of economics is needed in order to enable a richer concept of human being, one that conceives a person clearly identifiable, free, self-reflexive, and both socially and historically situated.

2. Conceptions of Human Beings Implicit in the Practice of Economic Policies

Setting aside just for a while the crucial issues addressed in the previous section, we will try here to understand some of the conceptions of human beings implicit in the practice of economic policies. Three different points of view will be considered. First, what are the ways through which academic economics influences economic policy? The so called neoclassical-Keynesian synthesis and its evolution to more and more neoclassicism will be the core of the analysis. A short reference to the sociology of knowledge will help us to understand some reasons of its hegemony as a scientific paradigm and, to a lesser extent, as the matrix of economic policy making too. In the second place, we will refer to the 'sins of omission' in which economic policies incur, at least in part because of the influence of the neoclassical paradigm. The Washington Consensus is a very relevant and useful example to show these omissions. In the third part, we will analyze some of the 'sins of commission' of different economic policies, both orthodox and heterodox. Examples of the first ones will be trade policy and social security reforms, while biased fiscal policies and the state-owned enterprises will serve us as examples or heterodox policies.

2.1. *How Economics Influences Economic Policy: Between the Neoclassical Theoretical Hegemony and Orphan Wise Practices Everywhere*

The theoretical hegemony of neoclassicism as the rationale of economic policies seems clear nowadays in most of the world. Since the late sixties and early seventies it has gradually replaced the so called neoclassical-Keynesian synthesis that had prevailed since the thirties.[11] Of course, Keynes is not completely out of this mainstream. Some of his ideas about fiscal policy are embodied in modern policy-making and nowadays he enjoys some revival, not only as an icon but as a source of inspiration as well. But he is not the main character anymore; he is an escort with the very important but specific role of helping in case of recession.

The economic engine in hegemonic neoclassicism is not aggregate demand anymore, but omnipresent supply forces. This can be clearly seen in the theories of economic growth, very different indeed from the old theories of economic development; in the real cycles approach, opposed to the Keynesian vision of a pervasive insufficiency of aggregate demand; in the rational expectations models, in sharp contrast with the old, naïve beliefs in fiscal or monetary illusions; finally, in the non-accelerating inflation rate of unemployment (NAIRU), as opposed to cyclical or structural unemployment, as the goal of the economic policy. Of course, some alternative paradigms still have some life. In addition to the Marxist economics, less and less popular, we can mention the Austrian, the post-Keynesian, the institutional and the evolutionary theories or approaches to economics. But as far as the design of economic policies is concerned, they are just ideas of friends' circles that meet from time to time to maintain them alive.

Neoclassical hegemony is clearer in developed countries, but it is present in emerging and even less developed countries as well. It spreads to all economically relevant fields: academic research and teaching in the universities, businessmen's gatherings, international financial institutions and think tanks. But its major triumph appears to be in the realm of economic policies. In the particular case of emerging and less developed countries many academic centers exist that profess different varieties of Keynesian and Marxist economics. However, most of the times their members are disappointed

[11] The new lonely hegemonic neoclassicism was called New Classicism (Akerloff, 2002). However, we will maintain here the old name because the basic model was not changed and the rationale of the new name was just to differentiate the new way of thinking from that of the neoclassical-Keynesian synthesis.

when new governments elected with big popular majorities adopt economic policies with the seal of neoclassicism. As a way of exorcizing them, they are then called ‘neoliberalism’, a popular but misunderstooding name.

This happens in spite of the Keynesian revival that is taking place as a consequence of the failure of ‘neoliberal’ reforms during the nineties, particularly in South America. This revival is partly shown in the new ‘heterodox orthodoxy’, the set of economic policies put in place by presidents Lagos in Chile, Lula in Brazil and Kirchner in Argentina. The three of them represent different varieties of social democracy, but the pillars of their economic policies and the reasons of their success are mostly orthodox, although with some Keynesian ingredients. Their orthodox components are fiscal equilibrium or surplus, inflation-targeting as the goal of the monetary policy and an open economy. The Keynesian component can be found in the intention of maintaining, at the same time, a depreciated currency to foster competitiveness. Of course, there is some conflict between the monetary and the exchange rate policies regarding the inflation rate. As far as this conflict is solved, this new sort of neoclassical-Keynesian synthesis will potentially replace the hegemony of ‘neoliberalism’ in South America in the years to come.

There are, however, other ongoing exceptions to the neoclassical hegemony that will lead us to find what we call *orphan wise practices of economic policy everywhere*. We have, in the first place, evident outliers from the paradigm as Cuba, North Korea or some Arabic countries, but none of them seem interesting because of their very clear failure regarding economic growth. More interesting are different sorts of non-orthodox economic policies that have been, and still are, successfully applied in China, India and other Asian countries like Malaysia – with its successful experiment of capital account controls – to whom we will refer later.[12] With the exception of Cuba and North Korea, still under the influence of Marxism, the noteworthy fact is that all the other ‘deviant’ economic policies have not been inspired in alternative theoretical paradigms. They are common sense (or nonsense) decisions of public officials, sometimes as a result of private lobbying, but most of the time devised as a sort of compromise between textbook economics and the social, cultural, political and institutional setting peculiar of each country. We will come back to these orphan wise practices of economic policy.

[12] Other experiments deserve still further examination, like the re-statization of utilities in Argentina or the renaissance of a comprehensive populism in Venezuela.

Even recognizing all the exceptions, the pervasive neoclassical hegemony could lead into the temptation of explaining it in terms of its role as the ideology best suited to the interests of the ruling classes or countries. But it is with the help of the finest sociology of knowledge built since the days of Karl Mannheim, and not with the support of vulgar Marxism, that we can try to explain or understand that hegemony. The first things we can thus discover are some undisputable achievements of neoclassicism and its predecessors,[13] some of which would deserve homage. From Adam Smith onwards, neoclassical thinking, with its sound (and propagandistic) analysis of pacific exchanges among human beings, has done and is still doing a crucial contribution to the justification of peace. As far as we know, this idea goes back at least to Montesquieu (*De l'esprit de lois,* 1748),[14] even before Smith's contribution. Later on, Benjamin Constant (1841) developed it eloquently.

> We have arrived at the times of trade, an epoch that must necessarily replace that of war ... War and trade are nothing else than different means to get the same goal: to achieve what is wanted ... Trade ... is a way of willingly achieving those things that cannot be obtained through violence ... A man that felt the strongest would never have the idea of trade ... Experience, proving to him that war ... implies different resistances and failures would guide him to trading, i.e., a less cruel, more sure way of compromising the others' interests to achieve what is convenient to his interests ... War is more ancient than trade. The first one is the savage impulse, the second is civilized reckoning.

For these reasons, whichever had been the particular interests expressed or defended by neoclassicism, its contribution to the common good has been enormous, similar perhaps to that of political liberalism to the development constitutional democracy. Of course, the market is a spontaneous and remote invention of humankind, not of neoclassicism. But the ideological and theoretical developments since the days of Adam Smith have contributed, perhaps decisively, to the subsistence of the market as an institution in spite of so many attacks against it during the last two centuries.

Paid the homage it is also fair to recognize that neoclassical economics has been, once and again, used and abused to defend particular interests in conflict with the common good. Some of the orthodox economic policies

[13] Some of these roots are analyzed in the contribution of Edmond Malinvaud (2005) to this Plenary Session.

[14] Chapter XXI, How trade opened its own way through barbarianism in Europe.

analyzed in this paper have been very well suited to particular beneficiaries that promoted them. But it does not seem fair to say that these private benefits were the only or the main cause of neoclassical hegemony. We can find at least two additional reasons to think this way. The neoclassical-Keynesian synthesis, the new neoclassicism and its classical predecessors have all been the theories of a success, not of a failure. They have accompanied, almost on the exact dates, the unprecedented miracle of world economic and social development that had begun in the XVIII century, and they were able to explain it. Secondly the current neoclassical hegemony is also the result of the big failures of its two main rivals. Marxism, because of its very well-known devastating political, economic and social consequences, and Keynesianism,[15] because of the frequent application of Keynes' lessons in such a biased way that they resulted in mega or hyperinflations and unsustainable public indebtedness in developing countries. So dramatic were the failures of the alternative paradigms that neoclassicism could have not dreamt of a more fertile soil to crop its theoretical and political hegemony.

2.2. *'Sins of Omission': the Case of the Washington Consensus*

In the original paper in which the Washington Consensus was coined, Williamson (1990) argued that the set of policy reforms that most of official Washington thought would be good for Latin American countries could be summarized in the following ten propositions.

1. Fiscal discipline.
2. A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure.
3. Tax reform (to lower marginal rates and broaden the tax base).
4. Interest rate liberalization.
5. A competitive exchange rate.
6. Trade liberalization.
7. Liberalization of inflows of foreign direct investment.
8. Privatization.
9. Deregulation (to abolish barriers to entry and exit).
10. Secure property rights.

[15] As we know at least since Axel Leijonhufvud (1967 and 1968), Keynesianism must be very carefully distinguished from the thought of John Maynard Keynes.

Ten years later, Williamson (2000, 2002), recognized some mistakes in this set of recommendations, particularly regarding interest rate and trade liberalization. But even recognizing the subtleties needed to rightly understand the debate, the fact is that these recommendations have been preached *urbi et orbi* by the IFIs during the nineties.[16] Even the most recent IMF catalogue for Latin America is basically the same (IMF, 2005). Certainly, international financial institutions (IFIs) can show evidences of additional recommendations they made here and there. But any person that was in charge of economic policies in a developing country during the nineties perfectly knows that IFIs' recommendations were those of the WC and that, eventually, the proper time to get support for 'the other' policies would never arrive. In the following list we can see an overwhelming set of policies needed to get a sustained economic growth and omitted by the WC.

1. A growth or development strategy, as a deliberate and cooperative public-private effort, as it was put in place in every economically successful country, at least since the days of the British Empire.

2. Unilateral trade liberalization was recommended without any caveat about its limitations in a context of world protectionism – particularly in agriculture and food- regional trade blocks and export promotion policies. On the contrary, all of them were intriguingly omitted, as well as a careful analysis of the pace of the liberalization.

3. Although the liberalization of the capital account was not explicitly included in the original WC, it was part of the operations' manual of the IFIs during the nineties. Furthermore, the WC did not emphasize the convenience of opening the capital account well after all the effects of the liberalization of the current account have taken place.

4. No comprehensive human capital policy was recommended. On the contrary, it was advised a sort of poor-suited redirection of public expenditure toward very basic fields like primary health care and primary education.

5. Just when the IT revolution was gaining momentum, the WC omitted even to mention science and technology public policies, associated or not to industrial policies, like the Small Business Innovation Research Program in the USA (1982).

6. No reference to the need of developing public policies towards small and medium firms – like the ones promoted by the Small Business Administration in the USA – was included either.

[16] All the second part of the paper has greatly benefited from Stiglitz (2002b).

7. The recommendation for privatizations was not accompanied by enough emphasis on the crucial role of regulatory agencies and the promotion of people's capitalism.

8. The introduction or generalization of value added tax (VAT) was advised *urbi et orbi*, ignoring that it is not a tax well suited to federal countries.

9. The very evident recommendation of developing social protection nets, to protect people from the severeness of trade liberalization and deregulation policies, was included very late in the IFIs manual.

10. The same delay was observed regarding institutional development and anti-corruption policies, lately included in what were called second generation reforms.

The omission of this set of policies is really intriguing,[17] since at least some of them had already had acceptance in the theory and practice of economic growth. However, not only the practitioners are to blame for the omissions. First, because it seems clear that they have to do with the conceptions of human beings reviewed in the first part of the paper. Additionally, academic economics had spent too much time to react to the Great Depression and the short run approach of the Keynesian paradigm, limited to the economic cycle, and to avoid short term unemployment, remained hegemonic until the oil crisis in 1973. It is true that Roy Harrod (1939), Evsey Domar (1946) and Robert Solow (1957) had made very important contributions to the theory of economic growth. But only since the seventies mainstream economics reassumed the old, classical preoccupation with long run economic development.[18] This was implicitly recognized by Robert Lucas (1988): 'Once one starts to think about (economic growth), it is hard to think about anything else'.

A typical sociology of knowledge hypothesis that can help to understand the omissions is that even when economic theories and policies were elaborated in developed countries, most of the omissions of the WC were particularly relevant for developing countries. The institutional frameworks and policies referred in the aforementioned list emerged endogenously in the real world of developed countries, some of them associated to the

[17] Rodrik (2000b) presents an interesting analysis of the issues dealt with in this part of the paper.

[18] Only two decades ago macroeconomic books began to include the systematic study of economic growth. Fortunately, most of them include several chapters at the beginning. Something similar happened with open macroeconomics, essential to the study of small or developing countries, but included in macro textbooks only in the early seventies.

Welfare State. Nothing comparable happened in the developing world and, to make things even worse, during the golden age of world development of the late fifties and the sixties the core recommendations regarding economic growth continued to be wrong. Neoclassicism is not to blame in this case, but a hybrid misleadingly called 'theory of economic development' that was demand-centered, with the Keynesianist approach transformed in growth policy and with the seal of the closed strategy of import substitution industrialization (ISI) even in countries where the domestic market was too small to make them viable.

Almost without transition these recommendations were replaced by those of the Washington Consensus. In the meantime, a growing influence of the new institutional economics[19] had begun to take place and, accordingly, the toolbox of the hegemonic paradigm became limited to 'right institutions and right incentives'. However, the meaning of 'right institutions' was narrowed, setting aside the great diversity of institutional realities capable of harboring at the same time the market economy, a moderating state, mechanisms to improve the income distribution and a successful economic growth or, even better, economic development. This approach had been dealt with by a bunch of authors, from Michel Albert (1991) to Dani Rodrik. In the last twenty years it has shown all its light in the ad hoc institutional devices designed by the most successful emerging countries. They were inspired both in some of the recommendations of the WC and in some of its omissions and are clear examples of what we call orphan wise practices of economic policy. Chile, Ireland and Portugal are perhaps the blue chips of the WC, but it is important not to forget that the three of them have had a growth strategy and very active trade and even industrial promotion policies. Furthermore, in spite of the fact that the WC completely omitted to recognize the advantages of regional trade blocks, in both European cases the incorporation into the European Union was decisive. The Asian cases, including of course China and India, are even more convincing examples of institutional designs much more based on the omissions of the WC than in its recommendations. It seems evident that when the recommendations *and* the omissions of the WC are taken together the result is a more realistic (although implicit) conception of human beings than if we consider only the former. In fact, human beings appear then not as cybernetic individuals reacting to economic stimulus, but as persons with broad-

[19] Particularly the developmens of Douglas North, Mancur Olson and Oliver Willliamson.

er needs and interests, living in a specific society with its history and culture and having a variety of goals, not only the maximization of utility. Of course, this more personalistic conception is closer to that contained in the Social Doctrine of the Catholic Church. *The realism of this approach finds perhaps its clearer proof in the fact that economic policies in the real world are a combination of some pieces of economic theory and important doses of theoretically orphan but wise practices emerging from the history, culture and society of each country*. As it was mentioned at the end of the first part of the paper, academic economics have recently been trying to amend old mistakes through the inclusion of geographic, historic, cultural or social variables.[20] Unfortunately, this amendment has not yet completely reached economic policy-making, particularly in the case of the advices of IFIs. Once again, this seems to have direct relation with the ahistorical vision of human beings reviewed in the first part of the paper.

2.3. *Sins of Commission*

Omission sins are important, but sins of commission also matter. The first ones have allowed us to disentangle some aspects of the relationships between economic theories and economic policies. The study of the second ones will allow us to more directly approach the core of the paper, i.e., that some of the assumptions about human beings of the economic theories that inspire economic policies can have devastating effects. These will be more intense when the policy-oriented theories are put into practice in a fundamentalist way, i.e., without translating them to the particular history, society and culture of the country in question.

Orthodox Sins Trade Liberalization

We have already mentioned that this WC recommendation completely ignored the realities of a world context characterized by protectionism – particularly in food, textiles and agriculture – and regional trade blocks. But our interest here is different, i.e., its assumption of an almost instantaneous adjustment in the reallocation of resources. This recommendation was based on comparative statics and in copious cross-section economet-

[20] Perhaps the clearest example of this change can be found in the concept of 'ecological rationality', developed by the Nobel prize Vernon Smith (2003).

ric studies. Both of them basically compare benefits and costs of being open or closed to international trade. As such, they (mostly implicitly) assume that, given the new relative prices arising from openness, resources will instantly move from the (now) less competitive sectors to the most competitive ones. The reality is, of course, very different. The adjustments tend to be slower and they depend on a vast set of other economic signals beyond the reach of economic policy. In spite of these realities, we have very few studies analyzing what can happen in these long transitions, particularly in terms of unemployment and its political consequences. This policy mistake compounds when the country that opens faces world protectionism in its most efficient sectors. In this case, the idle resources of non-competitive industries that reduce themselves or go bankrupt cannot be sufficiently compensated by increased employment in the booming sectors. The result is a huge increase in unemployment.[21]

Fortunately, a more realistic vision about the relationships between trade and growth in developing countries have recently begun to develop (Rodríguez and Rodrik, 2000). For instance, Winters (2004) rightly points out the vast set of institutional, economic and social conditions that should be in place in order to have positive effects of trade liberalization on growth.[22] This is good news for the rehabilitation of academic economics from some past mistakes, but it does not guarantee that its messages are going to be taken into account by the IFIs. The IMF last report keeps giving the advice of trade liberalization for Latin America without any caveat (IMF, 2005).

Reform of the Pension Systems

The reform of the pay-as-you-go systems into private, individual capitalization ones was another typical recommendation of IFIs during the

[21] This was very clear in the case of Argentina, not by chance one of the countries most affected by agricultural protectionism.

[22] Santos-Paulino y Thirlwall (2004) underline that trade liberalization push imports more rapidly than exports, thus frequently leading to balance of payments crises. Arbache, Dickerson y Green (2004) point out very complex effects of trade liberalization on wages. In the case of Brazil, it did not prove to be true the prediction of the standard international trade theory about the equalization of wages among sectors. The reason is that trade opening is used to being accompanied by capital and technology inflows that increase demand for qualified labor.

nineties.[23] Only a few countries accepted the proposal. In the case of Chile, it was a very clear success, while in the case of Argentina the results were mixed. The proposal has gained momentum once again because of the announcement of President George W. Bush to implement this reform in the USA.

Behind this proposal we can find again wrong assumptions about time. In the case of trade liberalization, the relevant time was the one needed to reallocate resources. Instead, the central issue here is about the assumption of the human capacity to foresee the distant future.[24] 'Sociologists and humanists ... have normally been more skeptical on this point. With his wonderful penetration, Tocqueville wrote more than a century and a half ago that conditions in modern secular societies foster "a brutish indifference to the future, an attitude all too suited to certain propensities in human nature"' (Llach, 2002).[25] Notwithstanding, based on the perfect foresight hypothesis, the pension system reform proposals made two predictions that proved to be wrong. The first one was that the evasion of payroll taxes, earmarked to the pension system, would be strongly reduced because, after the reform, workers would perceive those contributions as personal saving and not as taxes anymore. It was a very important point, because in the past it had happened in many countries that those taxes, legally earmarked to collective capitalization systems, were expropriated by the government for other purposes. The second point emerged from the necessity to incur in fiscal deficit during the transition period in which the government loses the income of active workers but remains paying the retirements to the pensioners. Strictly speaking, this is not a fiscal deficit, but the anticipated amortization of an actuarial debt of the government with future pensioners. It is true that the government would lose income, but at the same time it would *pari passu* reduce its obligations with the future retired. It was believed that, coherently, perfect foresighted capital

[23] In World Bank (2004) there is an *ex post factum* revision of this reform in Latin America.

[24] For the last decades, both the perfect foresight and the permanent income hypothesis have been relaxed through methodological devices like imperfect information, bounded rationality, ecological rationality and different forms of decision making under uncertainty. See the prominent contribution of Stiglitz (2002a) and also Guesnerie (2002), Kahneman (2003) and Smith (2003).

[25] Tocqueville predicted that in times of religious skepticism men would be more inclined to 'give themselves over to the satisfaction of their least desires without delay' (Tocqueville, 1835, 1840, p. 521).

markets would consider the transitory deficit as what it really was, i.e., a reduction of the actuarial public debt and, as a consequence, they would take it into account at the time of assessing the country risk. Of course, this did not happen, as did not happen either with the country risk assessment of OECD countries, where actuarial pension system debt is on average 200% of GDP (Raga Gil, 2002 and 2004; Llach, 2002).[26]

'In the long run we are all dead', Keynes said. Regarding pension systems, people and markets have tended to behave with this Keynes' saying in mind more than in the way predicted by the neoclassical model. People have believed more in the magnificent promises of the Welfare State than in its eventual commitment to legal regulations or pension systems. Perhaps they were not wrong after all, because governments feel very frequently obliged to pay pensions even to people that had not previously paid for them. As a consequence, the historical process of development of the Welfare State happened in such a way that we did not have the opportunity to know if the perfect foresight-permanent income assumption really applied or not and if it was rational to under-save (Akerloff, 2002; Llach, 2002).

Gaining Confidence Through Contractionary Policies to Overcome Recessions

We can find again the problem of time in this frequent recommendation of the IFIs about how to deal with the consequences of sudden stops, i.e., financial and banking crises associated with capital flights in emerging countries. The prescription generally was 'more fiscal adjustment', either through tax increases, expenditures reductions or both. The hope here was that such adjustments would have an immediate, intense and positive effect on confidence, thus allowing the reversion of capital outflows into capital inflows, and that this positive effect would be more than enough to compensate the fiscally induced contraction of aggregate demand (Stiglitz, 2002b). It was a big bet to the confidence and the supply side, ignoring that aggregate demand also exists. We find here, once again, the implicit idea that time is almost non-existent, based distantly and crudely on the theory of rational expectations and the Ricardian equivalence.

[26] Additionally, it did not hold either the Ricardian equivalence (after David Ricardo), according to which when governments begin to run a deficit and this is financed through an increase in public debt, private savings should also increase because people would know that in the not so distant future taxes must be increased to service the public debt.

Heterodox Sins Keynesianism and Biased Fiscal Policy

Sins of commission, of course, have not been only of the neoclassical paradigm. It is not even necessary to evoke the evident failure of the Marxist-Leninist command economies – nor to their even worse, devastating human consequences. It is possible to find very relevant examples in the Keynesianist economic policies too. Its sins have been really crude and based on a wrong reading of Keynes. Its central idea is very simple. Economies live in a chronic state of idle capacity, particularly in the case of human resources, and for this reason it is almost always good for governments to run fiscal deficits, not only to prime the pump of economic activity but also to maintain it working. Two very concrete, historical results emerged from this recommendation. Either mega or hyperinflation, when the deficit was financed by the central banks issuing money, or unsustainable public indebtedness, when the financing came issuing bonds. Economic and social effects were devastating with both policies, from the German hyperinflation in 1923 to the Argentine crisis in 2001 and including in the meantime very frequent episodes, most of them in developing countries.

Regarding the central issue of this paper, what is really surprising is that the behavioral assumptions behind these recommendations have some analogies with those of a very rapid market adjustment aforementioned in relation to the neoclassical orthodox sins. Of course, there are some differences. While Keynesianism trusts mainly quantitative signals, the neoclassical preferences are for price signals. But beyond these differences, Keynesianism firmly believes that supply could (almost) always react in a non-inflationary – or at least, not very inflationary – way to demand increases. Something similar happens with neoclassicism that believes that confronted with market incentives, resources will move very rapidly, also allowing very fast adjustments to relative price changes. In the case of Keynesianism, if the market price signals are insufficient or wrong, the recommendation is to correct those signals through government intervention. But at the end of the day, social reality tends to be frictionless in both cases, not putting relevant resistance to the action of economic incentives.

The State as Producer

I expect to see the State, which is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage, taking an ever greater responsibility for directly organising investment (John M. Keynes, *General Theory*, p. 164).

One of the most enduring consequences of the Great Depression was the mistrust in the ability of market forces to guarantee economic prosperity. This mistrust was particularly intense regarding the capacity of private investment to fulfill the demand for public services and utilities. Coherently, since the World War most of the countries partially or totally nationalized them. The performance of state-owned enterprises was very uneven. Reasonably successful in Northern Europe and North America, they were a very clear failure in the developing world, not only regarding the efficient provision of services, but also because of their role as relevant sources of chronic fiscal deficit and corruption.

Although a vast economic literature had analyzed different kinds of market failures, up to thirty years ago the debate about the productive efficiency of organizations was poor. Positions in favor or against private firms, cooperatives or the state were based more on ideologies or commonsense opinions than in rigorous analyses. In the seventies, it began to develop an opposite academic literature, based on the new approaches of institutional economics and industrial organization, emphasizing state failures. This literature played some role in the legitimation of widespread processes of privatization, but their determinant factors were political, i.e., the will of Margaret Thatcher and Ronald Reagan and their governments and the dramatic ending of socialist regimes, that made evident the outstanding failures of state-owned enterprises.

We are now living some reversal of the privatization wave, mainly due to some evident mistakes, like the insufficient or wrong behavior of the regulatory agencies. The consensus seems to be, however, that the benefits of privatizations have clearly surpassed their costs. Perhaps the best evidence of this consensus is that cases of re – statization are the exception, not the rule, even after changes in the political orientation of governments in countries that privatized during the nineties. With the advantage of the historical perspective it is possible to say that the *urbi et orbi* recommendation of nationalizing public services and utilities was a heterodox mistake. It did not take into account that the majority, if not all, of the developing countries were not prepared to manage, or even to regulate, utilities. The resulting waste of resources was really enormous.

As a conclusion of this section it is important to remark, however, that the problem that underlies the discussion about privately owned vs. state-owned organizations is far from being solved. If it is true, as mainstream economics tends to think, that only or primarily economic, egoistic motivations and incentives govern the behavior of human beings, serious difficulties arise to conceptualize not only good-performing public enterprises but any other collective entity as well.[27]

3. Final Remarks

The moral causes of prosperity ... reside in a constellation of virtues: industriousness, competence, order, honesty, initiative, frugality, thrift, spirit of service, keeping one's word, daring – in short, love for work well done. No system or social structure can resolve, as if by magic, the problem of poverty outside of these virtues (John Paul II, 'Address to the U.N. Economic Commission for Latin America and the Caribbean', Origins 16 (April 16, 1987, p. 775).

Interestingly enough, although the first and the second parts of this paper were initially written independently by the two co-authors, the conclusions they reached were at the end not only compatible, but basically the same. On the theoretical side, we concluded that the anthropological vocation of economics has transformed it in economicism, and even in economic imperialism. The problem here is that the results so obtained are misleading. They impoverish the reality, even after trying to include cultural, social, political or psychological variables in the analysis.

[27] See Le Grand (1997). Keynes clearly perceived the problem when he wrote: 'I believe that in many cases the ideal size for the unit of control and organisation lies somewhere between the individual and the modern State. I suggest, therefore, that progress lies in the growth and the recognition of semi-autonomous bodies within the State-bodies whose criterion of action within their own field is solely the public good as they understand it, and from whose deliberations motives of private advantage are excluded, though some place it may still be necessary to leave, until the ambit of men's altruism grows wider, to the separate advantage of particular groups, classes, or faculties – bodies which in the ordinary course of affairs are mainly autonomous within their prescribed limitations, but are subject in the last resort to the sovereignty of the democracy expressed through Parliament. I propose a return, it may be said, towards medieval conceptions of separate autonomies ... In England at any rate, corporations are a mode of government which has never ceased to be important and is sympathetic to our institutions. It is easy to give examples, from what already exists, of separate autonomies which have attained or are approaching the mode I designate – the universities, the Bank of England, the Port of London Authority, even perhaps the railway companies. In Germany there are doubtless analogous instances' (Keynes, 1926, p. 41-42).

On the practical side, we found that when those theoretical results or assumptions are directly traduced into economic policies in a fundamentalist way, i.e., without taking into account historical, cultural, social or political circumstances of the entity to which they are applied, they tend to produce wrong, and sometimes devastating, results. On the contrary, when this fundamentalism is avoided through the mediation of Aristotelian-Thomistic prudence, when the economic analysis is taken just as what it is and its assumptions are not confused with reality, economics can help a lot to better policy making. This is so because visions of the causes of economic prosperity and of economic life that are similar to those of John Paul II quoted here, are more realistic than the ones of mainstream economics referred in this paper. Definitively, they grasp reality better. Having said this it is also important to recognize that perhaps we are living a period of increasing individualization and economization of human life and a continuous growth of the sphere of individual and economic activities at the expense of free and social activities.[28] If this is so, if economicism really exists, would it not be the case that the 'economicist' current paradigm of economics do nothing else than reflect this reality?

This situation is increasingly understood nowadays by a good portion of the economic academy and profession. So intense are the underlying tensions around economics and its place in societies that it is even legitimate to question if we are living a Kuhnean situation regarding the neoclassical paradigm. Evidences against, or not explained, by it are growing (Stiglitz, 2002a). However, neoclassicism is a very powerful tool and its replacement seems distant. For our part, we do not pretend to have obtained clear-cut prescriptions about what to do. But it is possible to get anyway some general orientations. On the theoretical side, we should struggle for the rehabilitation of the old 'field-determined' economics which allows for an inter-disciplinary study and a richer anthropology. If that is not possible, the second best is to accept economics as logic of choice, but complementing it with sociological, psychological and ethical analyses, integrated with economics in a prudential way. These general orientations are truly essential to avoid the devastating effects of economicism when it is applied to policy making in a fundamentalist way.

[28] Economicism can be precisely defined in terms of a secular increase in the price of time that results in the secular growth of the economy at the expense of other social spheres (Llach, 2002).

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