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Economics: Current and Future Developments

Volume 2

Pluralist Readings in Economics

Key Concepts and Policy Tools for the 21st Century

Maria Alejandra Madi

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Economics: Current and Future Developments

(Volume 2)

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Key Concepts and Policy Tools for the 21st Century)

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FOREWORD

The complexity of social and economic policy problems of the 21st century, including the widening of inequality gaps both locally and globally, is strongly increasing. Many take this as a call to revise, in a nontrivial way, our conceptual outlooks, and to increase recognition of the role and importance of multi-sided reflection of theory and practice. The evolution of capitalism and the globalization of its various forms has contributed to unprecedented social, political, and environmental challenges. The global financial crisis of 2007-2008 made clear the need to redress and redesign both the global economy and economics as a discipline, to broadening the dialogue on social responsibility, and to develop a new culture of decision making. The long-standing debates regarding economic systems, criteria of economic and social justice, and which macroeconomic policies bring about the best possible outcomes are gaining currency; this leads to asking new questions concerning various aspects of the state and market relationships on national and transnational levels, and the relation between freedom and capital economy. A pluralist approach is needed, both practically and methodologically, for a better grasp of the historical development and conditions of both the current socio-economic system and our framing and perception of it in problem solving approaches.

Pluralist Readings in Economics: Key-concepts and policy tools for the 21st century provides such conceptual openings in interdisciplinary engaged and accessible ways. In this eBook, Maria Alejandra Madi provides broad coverage of the topics through a careful selection of some of the influential economic thinkers, and offers a substantial literature overview that includes pointing the reader to the main tenets of the included authors' ideas, context, and interpretations. Dealing with complex problems requires an ability to go beyond our received ideas and conceptualizations of the problems in question to redefine them in new contexts, and to dialoguing on social responsibility. Maria Alejandra Madi's introductory work fits well with such end, preparing the reader for enlargement of the debate that aims to contribute to the transformation to a more just and sustainable economy and world.

The book is recommended for a broad interdisciplinary audience, specifically to students in social sciences and humanities. It will benefit all those who seek to better understand the complex stakes in the transitions of the capitalist system, in the tensions between regulatory policies, free market equilibria, and participatory openings in governance.

Malgorzata Dereniowska
Aix-Marseille University, Marseille,
France

PREFACE

As John Kenneth Galbraith pointed out economics is overwhelmed by an *'uncorrected obsolescence*.' The target of economics education is the comprehension of the reality in its economic dimension, that is to say, the understanding of those practices and ideas that support the evolution of material life and the provision of human needs. In the post-war period, economics was broadly understood as economic science, that is to say, as a specific area of the development of human knowledge. Today, the main challenge to economics as a discipline is to cope with changing economic realities. In the current setting, a pluralist approach to economics attempts to consider a broad scope of perspectives in order to apprehend the complexity of the real-world.

These *Pluralist Readings* aim to foster the awareness of diversity of ideas within economic thought. Its scope involves broad topics in economics and debates about historical and theoretical approaches, besides policy matters. We examine the contribution of major thinkers in relation to their understanding of the historical development of capitalism, highlighting the writings of Karl Polanyi. Rudolf Hilferding and Eric Hobsbawm. Indeed, at the heart of modern political thought there is an ongoing debate about the main features and the outcomes of the capitalist system. Considering the power issues at stake in the capital accumulation process, relevant questions have emerged in the economic debate. At this respect, we include the writings of scientists who sharply analysed the conflicts and tensions within the economic capitalist system, including Karl Marx, Michal Kalecki and John Kenneth Galbraith.

Significant contributions to monetary theory by Eugen von Böhm-Bawerk, John Maynard Keynes and James Tobin are also considered. Indeed, controversies about the role of money, interest rates and the banking system have been present in economic debates since the 18th century. Today, monetary issues continue to play an outstanding role in policy making. In addition, differing perspectives from economic thinking are presented on behalf of their insightful perspectives about the challenges for enhancing competition and price stability. In this attempt, Alfred Marshall, Joan Robinson and Milton Friedman's contributions are considered.

Some topics on theories of economic growth and business cycles are structured around great debates that have present in capitalist societies over the past 300 years. In this attempt, we include the contributions of Adam Smith, Joseph Schumpeter and Hyman Minsky around the outcomes of free markets, the role of technology and entrepreneurship and the impacts of the financial set-up on economic growth and cyclical business dynamics. In addition, controversies around the best way to organize economic activity—through government, through free markets or some combination of the two – have been always present in the economic debates. These issues are addressed by considering the writings of David Ricardo, John Maynard Keynes and Friedrich von Hayek - economists whose contributions to the economic policy debate have been outstanding in real-world economics.

Finally, as concerns on welfare, justice and fairness have been closely intertwined in economic thought, we address these relevant topics by including the contributions of Arthur Pigou, Amartya Sen and Elinor Ostrom.

We believe that the eBook will provide a space for reflection about economic issues that arise whenever one seeks to understand the complex process of evolution of the capitalist system.

The systematic study of some of the most influential interpretations about the economic features and outcomes of the capitalist system certainly offers an excellent opportunity for humanists to deal with some of the central concerns of social scientists.

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CONFLICT OF INTEREST

The author confirms that this book content has no conflict of interest.

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“The study of economics does not seem to require any specialized gifts of an unusually high order. Is it not, intellectually regarded, a very easy subject compared with the higher branches of philosophy and pure science? Yet good, or even competent, economists are the rarest of birds. An easy subject at which very few excel! The paradox finds its explanation, perhaps, in that the master-economist must possess a rare combination of gifts. He must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher - in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician”.

(Keynes, Collected Writings, vol. X: Essays in Biography)

CHAPTER 1

Evolution of Capitalism

Abstract: This chapter presents three critical appreciations about the capitalist system since the First Industrial Revolution in Britain until current globalization. Firstly, we consider Karl Polanyi's contribution about the First Industrial Revolution's effects on economic and social life. Then, we address the contribution of Rudolf Hilferding whose studies on financial capital highlights the role of banks in the expansion of large corporations and capital markets in the early 1900s. Finally, we consider Eric Hobsbawm's ideas about contemporary globalization that intertwines economic and political challenges along with social and cultural outcomes.

Keywords: First industrial revolution, Financial capital, Globalization.

1. INTRODUCTION

At the heart of modern economic thought lies an ongoing debate about the main features and the outcomes of the capitalist system. Which social, political, and moral relations emerge alongside the evolution of a capitalist economy? How are we to understand the larger historical significance of the financial transformations throughout the world? How has globalization transformed the world in which we live?

This chapter presents three critical appreciations about the capitalist system since the First Industrial Revolution in Britain until current globalization. First, we present Karl Polanyi's contribution about the First Industrial Revolution's decisive effects on economic life. He turned out to be world known on behalf of his criticism of the self-regulated markets as a "natural" institutional set-up where the search of individual enrichment is the "natural" characteristic of men.

Second, we address the contribution of Rudolf Hilferding who analyse the role of financial capital in the expansion of banks, large corporations and capital markets in the early 1900s. For him, the key to understanding the economic changes was the transition from free competition to monopoly. Indeed, Hilferding shows how the interconnections between banks and non–financial corporations create monopolies and cartels with market power to influence levels of output, prices and working conditions in different economic sectors.

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Finally, we consider Eric Hobsbawm's interpretation about contemporary world history. He explored the economic and political challenges of globalization along with the cultural and social outcomes. Besides, he pointed out the threats to economic stability and peace at the beginning of 21st century.

1.1. Karl Polanyi on the Liberal Myth

1.1.1. Setting the Scene

Karl Paul Polanyi was critical of the methodological individualism of the Austrian school as the point of departure of economic analysis. His critique focused the assumption of *homo economicus* – the representation of the self-interested agent who maximizes utility in his choices. In the book *Trade and Markets in the Early Empires* (1957), he addresses that it is necessary to distinguish between the formal and the substantive meanings of the concept of 'economics'. Reflecting on the epistemological concerns that arise in Economics as a scientific knowledge, Polanyi states that, at his time, Economics as a discipline mainly depended on deductive methods of inquiry.

However, in Polanyi's view, the economic analysis must cope with multiple issues associated with human nature and human needs [1]. Polanyi invites us to re-examine the concept of economics as many people are accustomed to think that the only way of organizing men's livelihoods is the market economy. Indeed, in the introduction to *Trade and Markets,* he proposes a new theoretical construction in order to explain the place and role of human beings in the social and economic system. And he addresses that men value material goods only as these goods serve the promotion of social standing. Adopting the method of economic anthropology, Polanyi privileges the study of principles of economic behaviour that are induced from empirical observation. In this approach, the economic question becomes an anthropological question. And the study of Economics could be known as substantial.

In fact, the fundamental problem in economics, for Polanyi, is the attendance of human needs. Thus, the Polanyian concept of economics certainly offers to us a new way of looking at the "human beings" and at the "real economy" around us. This concept of economics is supported by ethical principles that touch on social justice. While taking into account different ways of organizing men's livelihoods, Polanyi provides a guide that stimulates empirical observations of economic life in the real world.

His criticism also focused on the myth of the self-regulated markets in capitalism. With the advance of industrialization, the liberal economic theory spread out the statement that the search of individual enrichment is the "natural" characteristic of men. For Polanyi, the institutional set-up and its economic and social outcomes cannot be considered "natural". Indeed, he looked for evidences in history and anthropology to show that the expansion and dominance of the behaviours based on the "economic motive" in the markets is essentially a modern phenomenon. The spread of this behaviour fosters the rupture of traditional social relations overwhelmed by links of reciprocity and redistribution within families and neighbourhoods.

The world-known Polanyi's book *The Great Transformation* (1944) emphasizes the deep impacts of industrialization on economic, social and cultural life. Indeed, Polanyi highlights the role of the free-market ideology in shaping a "new discipline" that supports the expansion of economic liberalism. The economic changes that enhanced and resulted from the Industrial Revolution cannot be apprehended if ignoring political, social and ethical issues. As one of the most original interpreters of the market economy, his analysis serves as an effective counter argument to free market fundamentalism.

Box 1. A biographical note.

Karl Polanyi was born in the city of Vienna in the year of 1886. While living in Budapest, he developed studies in Law and Philosophy.
In the 1920s, Polanyi worked as foreign editor of the Austrian leading economic publication *Österreichische Volkswirt*. On behalf of the European political crisis, he moved to England and then, in 1940, he accepted the invitation to give lectures in the United States. When he was working at Bennington College in Vermont, Polany concluded his book The *Great Transformation* that was first published in 1944. His academic career included a Visiting Professorship at Columbia University between 1947 and 1953. After his retirement, he continued to develop research projects while partly living in the U.S. and in Canada. Concerned with the stability of the world peace, he founded an international journal related to comparative studies of economics and politics. The first issue of the journal *Co-existence* was published in the year of his death, 1964 [2].

Box 2. Selected works.

Books
1937. Christianity and the Social Revolution.
1944. The Great Transformation: The Political and Economic Origins of Our Time
1957. Trade and Markets in the Early Empires. Economies in History and Theory
1963. The Plough and the Pen. Writings from Hungary, 1930-1956
1977. The Livelihood of Man.
Collected essays
1966. Dahomey and the Slave Trade. An Analysis of an Archaic Economy
1968. Primitive, Archaic, and Modern Economies: Essays of Karl Polanyi

1.1.2. Key Concepts

When reading Karl Polanyi, you must remember that:

CHAPTER 2

Capital, Labour and Power

Abstract: This chapter addresses the contributions of Karl Marx, Michal Kalecki and John Galbraith to these power issues. Firstly, we begin with Karl Marx who pointed out the centrality of class analysis to the study of power in capitalism. Then, we consider the analysis of Michal Kalecki on the degree of monopoly. Proceeding from a Marxist tradition, his analysis highlights important contemporary issues related to power in market structures and their outcomes in terms of income distribution. Finally, we present the main ideas of John Galbraith on the modern institutions. He deeply analysed the institutional set up of large corporations and highlighted their power in the markets and their relations with the nation-state.

Keywords: Capitalist system, Market power, Large corporations.

2. INTRODUCTION

Considering the power issues at stake in the capital accumulation process, relevant questions have emerged in the economic debate. Does capitalism promote freedom? Can it only provide the framework for one class to exploit another? Which are the relations within the capitalist class? Which is the role of the government?

This chapter addresses the contributions of Karl Marx, Michal Kalecki and John Galbraith to these power issues. First, we begin with Karl Marx who pointed out the centrality of class analysis to the study of power in capitalism. In this approach, the concept of class is a relational one and refers to the relation between those people that own the means of production and those who work for them.

Second, we consider the analysis of Michal Kalecki on the degree of monopoly. Proceeding from a Marxist tradition, Kalecki's analysis of the oligopolistic trends in contemporary capitalism highlights contemporary issues of power in market structures and their outcomes in terms of income distribution. His concern is to show how, in contemporary capitalism, income distribution between profits and wages are linked to the prices fixed in markets where corporate power is a reality.

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Finally, we present the main ideas of John Galbraith on the modern institutions. He deeply analysed the institutional set up of large corporations and highlighted their power in the markets and their relations with the nation-state.

2.1. Karl Marx on Capital as a Social Relation

2.1.1. Setting the Scene

Proceeding from the German philosophic school, Karl Marx´s studies on political economy and the development of the historical materialist argument are relevant advances in economic knowledge in the 19th century.

In his earliest writings on political economy, capital refers to the stock of durable fixed capital, such as machinery, warehouses and factories. Indeed, Marx re-thought this concept to highlight the 'social relations of production'. In *A Contribution to the Critique of Political Economy* (1859) he states that livelihoods are conditioned by the main features of the economic production. And he adds that it is the social existence of men determines their consciousness.

Marx also highlights that social relations appear inverted as social relations between commodities in the dynamics of market exchanges. This idea refers to the concept of the 'fetishism of commodities' that he introduced in his famous book *Capital,* published in 1867.

Marx explains how capitalism, as a mode of production, replaces the production for subsistence by production for trade in the markets. Workers and capitalists as formally free individuals meet as commodity owners in the market. Marx addresses that the real subsumption of labour means the subordination of human beings to machinery in the capitalist mode of production. Indeed, he understood that in large scale capitalist production, the alienating effects of technology overwhelm the mechanization of labour and life under industrialization.

While living abroad in France and England, Karl Marx deeply understood the struggles of civil society. Power is concentrated in the hands of capitalists who use it to benefit themselves (increasing their rate of profit) while exploiting the workers. As the free workers own only their ability to work, they must work for the capitalists for a wage.

Marx uncovers the economic laws of motion of capitalism. While focusing on the phenomenon of commodity exchange, he shows how capital exploits the working class by extracting surplus value from its labour. In other words, workers produce a surplus as they work more than the socially necessary labour time. However, they work for the capitalists that appropriate this surplus. Thus, he addresses that the relations between capital and labour are intrinsically antagonistic.

In short, Marx develops a critical understanding of the dynamics of capitalism and the potentialities of class struggles toward political, social and economic transformations. What he adds to our understanding is that the fundamental categories of thinking are historical. His writings call our attention to uncovering our present-day world in order to challenge current Western thinking about free markets.

Box 7. A biographical note.

Karl Heinrich Marx was born in Trier, Germany, in 1818. Because of his interest in philosophy, he abandoned the law studies.
In the summer of 1843, after marrying, Marx moved to Paris, where he focused his activities ion the studies of political economy and the French Revolution. After being expelled from France in 1845, he remained in Brussels until the outbreak of the February revolution.
In 1848, after being expelled by the Belgian government, he returned to Paris. However, after a short period, he was forced to leave the country and then moved to London. There, in addition to his studies and writings, he got deeply involved with the workers' struggles and turned out to be a cofounder of the International Working Men's Association.
Karl Marx died in London in 1883 [1].

Box 8. Selected works.

Books
1844. Economic and Philosophic Manuscripts of 1844
1845. The German Ideology
1847. Wage, Capital and Labour
1848. Manifesto of the Communist Party
1857. Grundrisse
1859. A Contribution to the Critique of Political Economy
1862. Theories of Surplus Value
1867. Capital, Volume I
1885. Capital, Volume II (posthumously published by Engels)
1894. Capital, Volume III (posthumously published by Engels)

2.1.2. Key Concepts

When reading Karl Marx, you must remember that:

1. The capitalist economic system is based on a mode of production for trade in the markets.
2. Workers are formally free persons. However, the subordination of labour to capital is the central feature of capitalism. Workers produce a surplus as they work more hours than those that are the socially necessary labour time.

CHAPTER 3

Money

Abstract: This chapter aims to present different perspectives on the theory of money. Firstly, we refer to Eugen von Böhm-Bawerk's theoretical approach developed in the late 1880s that highlights the concept of interest rate in the context of inter-temporal allocation decisions. Then, we consider John Maynard Keynes's contribution privileges that money is non-neutral and that the rate of interest is a monetary phenomenon. Finally, we include the Keynesian approach developed by James Tobin to monetary issues in bank money and banking strategies in order to clarify the dynamics of banks' decisions toward profitable assets.

Keywords: Interest rate, Non-neutrality of money, Process of bank money creation.

3. INTRODUCTION

Controversies about the role of money, interest rates and the banking system have been present in economic debates since the 18th century. Today, monetary issues continue to play an outstanding role in policy making. This chapter aims to present different perspectives on the theory of money.

First, we begin presenting the theoretical approach that Eugene von Böhm-Bawerk developed in the late 1880s. He was a relevant economist in the Austrian school of economic thought and turned out to highlight the concept of interest rate in the context of inter-temporal allocation decisions. In this approach, the value theory and the theory of capital are developed within a general equilibrium model.

Second, we highlight John Maynard Keynes's contribution to monetary theory that distances itself from Bohm Bawerk. In the 1930s, Keynes considered the particular features of the capitalist system as a monetary economy. In the 1930s, he highlighted the instability of the levels of spending, income and employment in the capitalist economic systems.

Finally, we considered the approach developed by James Tobin to monetary issues in bank money and banking strategies. Proceeding from the Keynesian background, in the 1950s, Tobin clarifies the dynamics of banks' decisions toward

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profitable assets in order to show that banks create deposits in the process of lending and hold reserves after evaluating opportunity costs.

3.1. Eugen Von Böhm-Bawerk on Inter-Temporal Allocation

3.1.1. Setting the Scene

Eugen von Böhm-Bawerk extended the value theory to the analysis of inter-temporal allocation decisions. Indeed, the theory of value and the theory of interest developed within a general equilibrium model where the element of time is decisive to understand the inter-temporal decisions. Under this approach, the nominal interest rate, as the price of an exchange transaction, results from subjective valuations of buyers and sellers regarding present and future goods.

In the theoretical framework presented in 1889 in *The Positive Theory of Capital*, Böhm-Bawerk inquires how time influences the value of goods. Based on empirical evidence, he highlights that, considering the same quantity of goods of the same quality, the value of these present goods is higher than the value of future goods. The payment of interest directly reflects the inter-temporal value differential between present and future goods. Indeed, future goods are traded at a discount, or, in other words, present goods are being traded at a premium. This idea was an extension of Carl Menger´s subjective value theory to an inter-temporal calculus.

Böhm-Bawerk presents three causes for the lower valuation of future goods. Firstly, there is a discrepancy between the inter-temporal structures of the wants to be satisfied by consumption goods and the availability of those goods. Secondly, he includes the impatient of individuals. Thirdly, he presents the degree of roundaboutness of production that considers the average time distance between the labour inputs and the consumption good output produced by these labour inputs. The greater roundaboutness of production and therefore a greater labour productivity, in the supply of consumption goods for the future is allowed by the earlier availability of inputs. On behalf of the action of these three factors, Böhm-Bawerk concludes that the real interest rate is positive in a stationary general equilibrium.

In short, the level of interest rate depends, on the supply side, on time preferences and, on the demand side, on productiveness. At that period, great economists - such as Knut Wicksell, Irving Fisher, John Bates Clark, Gustav Cassel and Carl Menger - did accept his monetary theory fully. Later on, some economists of the Austrian school, in particular Hayek and Mises, built their contributions taking into account the contributions of Böhm-Bawerk´s to the theory of capital.

Box 13. A biographical note.

Eugen von Böhm-Bawerk was born in Austria in 1851. After finishing his doctorate in Law (1875) at the University of Vienna, he began a parallel progression from Law to Economics. In the early 1870s, Böhm-Bawerk worked at the Austrian ministry of finance for a short period. His teaching career began in 1880 as a private lecturer of political economy at the University of Vienna. Between 1881 and 1889, he worked at the University of Innsbruck where got a steady position as professor in 1884. Later on, he worked on the project of the reform of the Austrian tax code and proposed a modern version of an income tax. He was also ambassador to the German court (1897) and promoted to the House of Peers (1889). In the period between 1895 and 1904, Böhm-Bawerk served as minister of finance. He aimed the strict adherence to the nation's gold standard and budget balance. After resigning, he returned to the University of Vienna and he was nominated vice-president (1907) and president (1911) of the Academy of Science. Böhm-Bawerk died in the ear of 1914, in Kramsach, Austria [1].

Box 14. Selected works.

Books 1884. Capital and Interest 1889. The Positive Theory of Capita 1896. Karl Marx and the Close of his System

3.1.2. Key Concepts

When reading Eugene von Böhm-Bawerk, you must remember that:

1. The concept of utility is a pillar of the theory of value since the marginal utility of any good determines its value.
2. According to the subjective theory of value, the marginal utility refers to the amount of the utility that an individual gets with the consumption of additional units of a good.
3. The value of a good is dependent on the interaction between *want* and *provision*. The price or exchange value of a good results from the interaction of competitive forces of supply and demand.
4. The payment of interest directly reflects the inter-temporal value differential between present and future goods.

3.1.3. Reading Passages: The Rate of Interest

The Reading Passages presented below were written by Eugen von Böhm-Bawerk's and were published in the book *The positive theory of capital*, Book VI, Chapter 1, 1889 [2]. In order to have in-depth understanding of Böhm-Bawerk's contribution, we elaborated a summary of the main ideas.

CHAPTER 4

Prices

Abstract: This chapter presents the contributions of Alfred Marshall, Joan Robinson and Milton Friedman to the study of prices. Firstly, Marshall highlighted the forces that shape the perfect markets and its prices. Secondly, Robinson considered the dynamics of real-world markets where imperfect competition seems to dominate. She showed how imperfect competition affects pricing and strategic decision making. Finally, Milton Friedman presented an analysis of inflation that restates the relevance of the quantity theory of money to explain the roots of inflation. His approach to the trade-off between inflation and unemployment has had deep consequences in the neoliberal economic policy agenda.

Keywords: Perfect markets, Imperfect competition, Price stability.

4. INTRODUCTION

Different perspectives from economic thinking are introduced throughout this chapter in order to present insightful perspectives oriented to understand contemporary debates over the challenges to perfect market competition and to the maintenance of price stability. In this attempt, we present the contribution of Alfred Marshall, Joan Robinson and Milton Friedman to the study of prices.

Firstly, Alfred Marshall highlighted the forces that shape the perfect markets and its prices. His economic analysis of markets, firms and industries focuses on the main economic features of the organization of production, behaviour of consumers, competition among firms and market forces toward price and output equilibrium.

Secondly, Joan Robinson considered the dynamics of real-world markets where imperfect competition seems to dominate. She showed how imperfect competition affects pricing and strategic decision making. Managerial decisions include price discrimination and market segmentation, for instance, as practices aimed to increase market share and profits. Both Marshall and Robinson microeconomic studies wonder how the behaviour of consumers and the firms' strategies shape the evolution of prices and output in different industries both in the short and in the long-run.

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Finally, Milton Friedman presented an analysis of inflation that is integrated into a macroeconomic framework that restates the relevance of the quantity theory of money and elaborates a theory of money demand to explain the roots of inflation. Considering the price dynamics, his macroeconomic approach highlights not only money supply at the roots of inflation but also the influence of inflation on the short-run and long-run levels of domestic product and employment. His approach to the trade-off between inflation and unemployment deeply influenced the economic policy agenda in the context of neoliberalism.

4.1. Alfred Marshall on the Market Forces

4.1.1. Setting the Scene

According to Alfred Marshall, the narrowness of the works of his contemporary English economists relies on the fact that they used to ignore history and statistics, but that they assigned universality to economic dogmas and paid little attention to study economic variations in habits and institutions of industry.

Marshall addressed that Economics is the study of human beings that aims to explain the ordinary business of life oriented to the satisfaction of their needs. In his *Principles of Economics* (1890), he considered not only induction and deduction as useful methods for Economics, but also the method of partial equilibrium that relies on the idea that it is better to focus the economic analysis about the forces that directly influence a phenomenon and consider the set of other forces in action as *ceteris paribus*, that is to say, consider the other forces as remaining equal during this analysis. According to Joh Maynard Keynes, Marshall is the founder of modern diagrammatic economics in his attempt to describe the market forces in the analysis of the economic phenomena.

Within perfect competition, the price of a good (or commodity) is fixed in the market by the interaction of the forces of its supply and demand. Marshall's demand theory examines how rational consumers behave if they want to maximize their satisfaction from the consumption of goods. The curve of individual demand relates the quantities demanded of a good at certain prices, other things remaining constant. According to the law of diminishing marginal utility, the additional utility (or benefit) that a consumer obtains from an increase in the amount consumed of a good diminishes on behalf of the amount of this good that the consumer already has. Considering the aggregation of the consumers' behaviour in a specific market, the individual demand curves can be aggregated in order to derive the market demand curve that relates the total quantity demanded of a good at certain prices. Rational consumers will substitute one good for another until they get maximum satisfaction.

The price elasticity of demand of a good is the measure of the relationship between a change in the level of a good price and the quantity demanded of this good in a period of time. Among the factors that condition the price elasticity of demand, Marshall highlights the kind and uses of goods, the consumers' preferences and behaviour in terms of habits, the possibility of good substitution and the role of time in shaping demand conditions of a good.

In his *Principles*, Marshall also developed a theory of supply where the rational producer aims at minimizing costs. Costs are classified into; i) prime costs such as wages and raw materials that vary in accordance with the level of production and ii) supplementary costs such as fixed costs related to depreciation expenses, debt services, rental payments and salaries for employees. Among the factors of production, labour is a primary one and the organization of the production in the firms by businessmen is considered to be a kind of labour. Under the marginal productivity theory of distribution, the price of a factor of production depends on its marginal productivity.

Marginal costs in manufacturing follow the law of diminishing returns. In accordance with this economic law, since no improvements are introduced in the cultivation of land, if more units of capital and labour are added in land cultivation, this fact generally results in less than proportionate increases in the total quantity produced. Considering the law of diminishing returns in manufacturing, as the quantity of labour added to fixed capital increases in the short-term, there are less than proportionate increases in the total quantity produced and the marginal costs of production generally rises.

Marshall's introduction of the relevance of time in the study of the markets represented a significant contribution to microeconomic analysis, both in the short but also in the long-run. Considering the long-term analysis of industries, Marshall highlights an industry would produce more cheaply in the presence of increasing returns. Indeed, the long-run supply curve of an industry is related to the behaviour of internal and external economies of scale. First, internal economies of scale are related to the kind of business organization and the level of efficiency of the firm. They usually increase along with the increases in the production levels. Second, external economies depend on system factors that are external to a firm. They usually affect the evolution of the costs of production along with the expansion of the size of the industry.

Among the internal economies, Marshall points out the economy of the utilization of materials, the efficiency of investing in larger machines, the reduction in costs on behalf of discounts for purchasing and selling in huge quantity, and for low freights, the easier loan conditions, the improvements in skills, specialization of

CHAPTER 5

Growth and Economic Cycles

Abstract: This chapter explores the foundations of some theories about economic growth and business cycles by surveying influential works of political economy. Firstly, we examine Adam Smith's contribution to the study of the impacts of the division and the specialization of labour on productivity and economic growth in the context of free markets. Then, we present the contribution of Joseph Schumpeter to the capitalist development based on cyclical innovations as structural changes in a long-term process of creative destruction. Finally, we consider the more recent writings of Hyman Minsky that examined the real-world of financial institutions and studied issues connected with growth, business cycles and financial institutions.

Keywords: Labour productivity, Innovative entrepreneurs, Financial fragility.

5. INTRODUCTION

This chapter is structured around great debates that have shaped our understanding of economic growth and business cycles in capitalist societies over the past 300 years. The role of free markets, technology, entrepreneurship and finance on growth and business cycles are included. We explore the foundations of some theories of economic growth and business cycles by surveying influential works of political economy.

First, we examine the classical contribution of Adam Smith that reveal an optimistic vision of the future of the free-market system because of its dynamism founded on the division and specialization of labour.

Secondly, we present the contribution of Joseph Schumpeter that privilege the cyclical study of the capitalist development. In his approach, cyclical innovations are considered structural changes that emerge in the capitalist process of creative destruction.

Finally, we consider the more recent writings of Hyman Minsky whose critical analysis focused on mainstream economics. From the Keynesian tradition, Minsky examined the real- world financial institutions and studied those problems connected with growth, business cycles and financial dynamics. Indeed, he

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predicted a deep transformation of the economy after financial deregulation.

5.1. Adam Smith on Economic Progress

5.1.1. Setting the Scene

In the late 1770s, Adam Smith's early systemic contribution to political economy appeared in his book *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). At his time, the approach to the roots of economic growth was overwhelmed by the idea that the wealth of nations resulted from the accumulation of gold and silver.

Smith rejects this idea and proposed that the wealth of a nation should be measured by the total amount of its production and the total amount of commerce. In his vision of economic progress, he considers the fundamental forces that propelled the dynamics of a free market system based on individual self-interest towards increasing productivity and highly beneficial consequences to the whole society.

According to Smith, self- interest permeates all human activity and stimulates the members of a particular society to develop activities for which others are willing to pay. He believes that each human being, while searching for the fulfilling of his particular interests, turns out to contribute to the well-being of the society where he lives. In the market system, each individual - motivated by self-interest - freely chooses a trade or selects a particular task. Selfish motivations turn out to be tempered by interaction (competition) and result in social harmony.

In the late 1770s, Smith highlights the social benefits of free-market economies since the division and specialization of labour would lead to high increases in productivity. His famous description of the pin factory with ten workers shows that if each worker is specialized in a single task, the total output per worker increases at the end of the day. However, the total output per worker would decrease if each worker is involved in many tasks f the manufacture of pins.

Considering the dynamics of the free markets, Smith addresses that prices and quantities of goods to be produced are determined by competition. As Smith shows in the well-known example when people demand more gloves than shoes, i) the price of the gloves will rise as the quantity of gloves demanded exceeds the quantity supplied, ii) the price of the shoes will decrease because the quantity of shoes supplied exceeds the quantity demanded. As profits in the production of gloves become larger than usual, new producers will be stimulated to enter the market until the forces of market competition reduce the level of profit. In other words, on behalf of the higher profits, new firms start producing gloves and attract workers because of higher wages. As a result, i) the glove production rises above demand and the glove prices decrease, ii) the production of shoes falls below demand and the shoe prices increase. This price increase turns out to stimulate further shoe production. In truth, according to Smith, the balance of the markets results from the interaction of forces, such as the self-interest of workers and the competition between firms. Indeed, the self-regulating market (laissez faire) can operate without government controls to achieve economic well-being.

In the book *The Wealth of Nations*, Smith explains that by accumulating profits, capitalists can expand their business and contribute to increase national income and wealth. As the capitalists add more machines to the production process, they enhance the division and specialization of labour and increasing productivity. If the additional machinery demands more workers, this fact leads to higher nominal wages that turn out to reduce the level of profits. Indeed, this law of population addresses that as capital accumulation increases the nominal wages for workers, the amount of people in the working class will rise and finally this will push the nominal wages down. Consequently, in the long-run, profits will increase again and the capital accumulation process will continue.

After the publication of Smith's ideas, the emergence of the doctrine of *laissez-faire* did not happen soon [1]. It was not until the nineteenth century that Great Britain completed abandoned the Mercantilist agenda.

Box 25. A biographical note.

Adam Smith was born in the year of 1723, in the city of Kirkcaldy, Scotland. He studied at Burgh School and, when he was 17 years old, he went to Oxford on a scholarship and there he remained for six years.
In the year 1748, he started working as a public lecturer at the University of Edinburgh, where he met the Scottish philosopher David Hume who influenced his academic career. Some years later, Smith was offered the Chair of Logic and Chair of Moral Philosophy at the Glasgow University Faculty (1751).
In the late 1750s, after publishing *The Theory of Moral Sentiments*, Smith travelled to France as tutor of the future Duke of Buccleuch (1763–1766).
I was in the year of 1776 that Smith published *The Wealth of Nations* and one year later e was named rector of the University of Glasgow.
Adam Smith died in 1780, at the age of 67 [2].

Box 26. Selected works.

Books
1759. The Theory of Moral Sentiments
1762-63. Lectures on Rhetoric and Belles Lettres
1763. Lectures on Justice, Police, Revenue and Arms
1776. An Inquiry into the Nature and Causes of the Wealth of Nations
Collected writings and correspondence
1812. The Works of Adam Smith. With an Account of his Life and Writings
1976-1983. The Glasgow Edition of the Works and Correspondence of Adam Smith

CHAPTER 6

Economic Policy

Abstract: This chapter focuses on the writings of David Ricardo, John Maynard Keynes and Friedrich von Hayek - economists whose contributions to the economic policy debate have been outstanding in real-world economics. Firstly, we present the proposal of David Ricardo, who addresses, in the 19th century, that international free trade could be beneficial for all countries. Then, we present Hayek's theoretical contribution to economic policy reinforced the free market fundamentalism over government interventions. Finally, we include Robert Mundell's contribution to the study of macroeconomic policy challenges in open economies which clearly predicted the outcomes of the transformations in exchange rate regimes and global financial regulation after the 1970s.

Keywords: Free trade, Free market fundamentalism, Open economies.

6. INTRODUCTION

Controversies around the best way to organize the economic activity—through government, through free markets or some combination of the two have always been present in the economic debates. This chapter focuses on the writings of David Ricardo, Friedrich von Hayek and Robert Mundele- economists whose contributions to the economic policy debate have been outstanding in real-world economics.

First, we present the ideas of David Ricardo, who convinced the contemporary political economists that the importance of this proposition about the benefits of international free trade. Indeed, the economic debate between those who defend government interventionists and those who privilege free markets has been also alive in the 20th and 21st centuries.

Second, we highlight the contribution of Hayek as an adversary of Keynes. The outcomes of the Great Depression fostered a deep economic discussion about full employment and government policies where Keynes was a prominent figure. In this setting, he proposed government interventions that, through the management of monetary and fiscal policies, could stimulate economic growth. However, Hayek rejected the possibility of policy management of economies and societies

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and his criticism of central planning reinforces market fundamentalism. In the 1980s, his ideas were rediscovered. Indeed, the Thatcher and Reagan revolution against the interventionist welfare state revealed the victory of the free market fundamentalism over government interventions.

Finally, we consider Robert Mundell's approach to the study of macroeconomic policy challenges in open economies that clearly predicted the outcomes of the transformations in exchange rate regimes and global financial regulation after the 1970s.

6.1. David Ricardo on Free Trade

6.1.1. Setting the Scene

David Ricardo became well-known because of his contribution to the Bullion controversy in the early 1810s. On one side, the Bullionists, including Ricardo, argued that inflation results from the issue of excess banknotes and was deleterious to the interests of the English economy and society. On the other side, the Anti-Bullionists addressed that the quantity of money supply and bank notes was driven by the needs of trade. Indeed, Ricardo defended the principles of the gold standard and, therefore, he addressed that bank notes should be convertible into gold ingots.

Later on, in his *Essay on the Influence of a Low Price of Corn on the Profits of Stock* (1815), Ricardo investigated the impact of the capital accumulation process on the rate of profit and formulated the law of diminishing marginal returns. This economic law assesses that the additions to output will tend to diminish when increases in the amount of variable resources were combined in production with a fixed resource.

Ricardo also opposed to the adoption of restrictive trade policies (such as the Corn Laws) and defended deep changes in foreign trade. At this respect, he formulated the idea of comparative costs in order to show that free trade gains result from specialization and trade of different goods that countries produce at lower comparative costs.

In the year of 1817, David Ricardo published the book *Principles of Political Economy and Taxation* where he developed a theory of value in the context of a theory of distribution. In his theoretical approach, the principles of differentiation, specialization in production and perfect competition lead to an interpretation of the international market where flows of trade are based on the equilibrium of relative prices in the markets of good and services. Thus, the idea of relative prices is crucial to build international trade relations because relative prices express the competitive advantages between countries in the international setting. These ideas have been dominant in theoretical approaches to international trade for a long time.

In Chapter VII of the *Principles*, he presents a well-known example that considers: i) two countries that produce cloth and wine, ii) the labour costs are the most relevant in the analysis, iii) the productivity of labour (quantity of output produced per worker) differ across sectors of economic activity in those countries.

In his numeric demonstration, Ricardo shows that the specialization in the production of any good in each country is based on the countries' comparative advantage in production that results from a comparison between production costs of goods across countries. Ricardo's model demonstrates that free international trade is beneficial for both countries

Box 31. A biographical note.

David Ricardo belonged to a Jewish family and was born in the city of London, England, in 1772. When he was fourteen years old, he began working at the London Stock Exchange with his father. Seven years later, his family disinherited him for marrying a Quaker. Later on, he established himself in the financial market as a dealer and made a fortune.
In his late twenties, the *Wealth of Nations* (1776) stimulated Ricardo's interest in economics and later on he started writing on economic ideas for newspaper articles. After retiring from business in 1814, Ricardo decided to invest in landed estates and became a member of the British parliament and served in the period between 1819 and 1823. He actively participated in the discussion of England's economic policy issues. Ricardo died in 1823, Gatcombe Park, Gloucestershire [1].

Box 32. Selected works.

Books, papers and correspondence
The Works and Correspondence of David Ricardo
Vol. 1. Principles of Political Economy and Taxation
Vol. 2. Notes on Malthus
Vol. 3. Pamphlets and Papers 1809–1811
Vol. 4. Pamphlets and Papers 1815–1823
Vol. 5. Speeches and Evidence
Vol. 6. Letters 1810–1815
Vol. 7. Letters 1816–1818
Vol. 8 Letters 1819 – June 1821
Vol. 9 Letters 1821–1823

6.1.2. Key Concepts

When reading David Ricardo, you must remember that:

1. Free trade, as a normative aspect of the theory, is a principle that allows the

CHAPTER 7

Welfare, Social Justice and Governance

Abstract: This chapter provides a range of economic and philosophical perspectives drawing from the classic writings of Arthur Pigou, Amartya Sen and Elinor Ostrom. Firstly, we present the contribution of Arthur Pigou that highlights the relevance of government interventions to address the impacts of externalities on social welfare. Then, we consider Amartya Sen's ideas that show deep concerns about justice in contemporary economic theory and public policy. Finally, we present the contribution of Elinor Ostrom to the management of common-pool resources, at local and global levels.

Keywords: Welfare, Capabilities, Governance of commons.

7. INTRODUCTION

Since the days of Adam Smith, concerns on welfare, justice and fairness have been closely intertwined in economic thought. Today, these topics are relevant to the current economic debate because Western societies are facing increasing social challenges because of unsustainable patterns of growth. Indeed, the outstanding feeling is that the outcomes of so called "progress" have been economic instability, deleterious working conditions and inequality. As a result, opinions about the threatens of globalization have increased founded on a deep criticism of the 'Washington Consensus' agenda that privileges deregulation and free markets as pillars of economic growth.

This chapter provides a range of economic and philosophical perspectives drawing from the classic writings of Arthur Pigou, Amartya Sen and Elinor Ostrom. First, we present the contribution of Arthur Pigou on externalities. The British economist highlights the relevance of government intervention to address the impacts of externalities on social welfare.

Second, we consider the ideas of Amartya Sen that put together economic theory, social choice theory and moral philosophy to develop an approach to justice. Indeed, departing from economics and philosophy, Sen highlights the role of ethics in addressing economic and social problems.

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Finally, Elinor Ostrom adds to our understanding in economics how institutional arrangements, in a diverse set of ecological and social economic political settings, affect human behaviour and economic outcomes. Indeed, she highlighted the relevance of polycentric systems of governance to address a sustainable governance of the commons. As Ostrom warned, there is one ideal governance regime, but a variety of regimes of governance that may achieve sustainability. Indeed, she addressed that institutional arrangements influence the governance of urban policies, private business and natural resources.

7.1. Arthur Pigou on the Economics of Welfare

7.1.1. Setting the Scene

Arthur Cecil Pigou's economic studies and research were preceded by philosophic reflections on ethics, the nature of science and methodological issues. He further explored, as Alfred Marshall's pupil, the conditions that prevent perfect markets from guaranteeing the maximization of benefits for all society. In Pigou's understanding, the foundations of welfare are the individual's satisfactions or utilities. Individual economic welfare refers to the satisfaction or utility that an individual gets from his expenditure on goods and services. According to him, social welfare is considered as the sum of all individual welfares of society.

In the book *Wealth and Welfare* (1920), Pigou concludes that improved economic welfare would result from national income growth, income redistribution to poor people and lower income variability and, in particular, lower variability of the share of national income received by poor people. In this book, he highlights that the gap between the marginal net social product and the marginal private net product reduce the levels of welfare. Pigou also emphasizes the relevance of the concept of externalities that refer to costs or benefits not considered by economic agents that takes action in economic activities. As a result, he suggests taxes or subsidies that are now called Pigouvian taxes and subsidies.

The British economist addresses that the existence of negative or positive externalities in the markets is a sufficient justification for government intervention. If economic activities in the production of goods and services create negative externalities, such as pollution and health problems, a tax should be imposed on this activity to discourage it.

Moreover, if economic activities in production create positive externalities—for instance by enhancing higher levels of education, subsidies should be granted for those activities that create such positive externalities. In other words, when social net product diverges from private net product at the margin, a compensation mechanism can be introduced in the markets by the imposition of a tax or the creation of a subsidy.

Lionel Robbins challenged this approach to welfare economics because it is based on the supposition that utility is measurable and because it is a normative approach. Also, in the 1960s, Ronald Coase rejects the need of taxes and subsidies if those people affected by externalities and the economic agents that create them can easily get together and bargain [1]. Besides, public choice economists put in question the efficacy of the Pigouvian taxes and subsidies because governments fail just as markets do. However, up to now, most economists still consider that the Pigovian taxes are efficient policy instruments to improve welfare.

Box 37. A biographical note.

Arthur Cecil Pigou was born in Ryde, Isle of Wight, United Kingdom, in the year of 1877. He began his studies at King's College in 1896 and, three years later, he obtained a Bachelor of Arts degree. Afterwards, Pigou developed his studies on economics, ethics and political philosophy. He was largely influenced by Alfred Marshall's ideas.

After being a fellow of King's College, he worked as professor of Economics at Cambridge University. He won the Adam Smith prize at Cambridge (1903) for an essay which was published in 1905 as *Principles and Methods of Industrial Peace*. This essay was the basis for the lectures that he presented at the University College London in the period between 1903 and 1904.

His theoretical research on equilibrium economics was crucial to build the foundations for his work on welfare economics. Arthur Pigou died in 1959 [2].

Box 38. Selected works.

Articles
1904. Monopoly and Consumers' Surplus
1910. Producers' and Consumers' Surplus
1927.The Law of Diminishing and Increasing Cost
1928. An Analysis of Supply
1947. Economic Progress in a Stable Environment
Books
1912. Wealth and Welfare
1920. The Economics of Welfare
1927. Industrial fluctuations
1928. A study in public finance
1933. The Theory of Unemployment
1952. Essays in Economics

7.1.2. Key Concepts

When reading Arthur Pigou, you must remember that:

1. Social welfare is regarded as the aggregation of individual welfares. Each individual attempts to maximize the satisfaction or utility from his expenditure

CONCLUSION

Throughout these *Pluralist Readings*, the combination of historical focus with the discussion of modern issues and debates permits to appreciate the ongoing dialogue between classical and contemporary views in Economics. Throughout this ongoing dialogue, we highlighted, among other issues:

- Alternative accounts of the development of economic thought
- Concerns about the limitations of economics as a specific discipline
- Classic debates and discussions on economic policy
- New developments within economics, both those that challenge and those that extend the economic research towards interdisciplinary approaches.
- Joint research efforts conducted by researchers from different disciplines to create new conceptual, theoretical and methodological frameworks to address current sustainability challenges.

Indeed, these *Pluralist Readings* aim to foster the awareness of diversity of ideas within Economics without aiming to classify the selected authors into the orthodox/ heterodox dichotomy that overwhelms the economic debate. The scope of the selected contributions involves broad topics in Economics and open debates about theoretical approaches and policy matters.

A BRIEF OVERVIEW

The expansion of financialization, while economic growth remains uncertain, has spread unemployment, income gaps and less welfare in the 21st century. The institutional set up that has threatened the supply of public social services and kept labour cheap turned out to favour the expansion of global corporations, financial asset portfolios and new business models. Besides, the new millennium challenges the foundations and dynamics of representative democracies because of the role of financial power over economic, social and political life.

Taking into account this background, these *Pluralist Readings* explore a pluralist intellectual path, through the historical evolution of economic ideas, to enhance a deeper understanding of current social, political and economic relations.

In this concluding section, our purpose is to present a brief overview of what the selected influential thinkers add to our understanding about the changing institutions, dynamics and outcomes of capitalism. The following brief overview points out to the reader the main tenets of the selected authors' ideas in order to enhance the enlargement of current debates on proposals that aim to transform contemporary economic and social life in more sustainable and more just.

Karl Polanyi (1886-1964)

Throughout the First Industrial Revolution, economic, social and cultural transformations turned out to subordinate social relations to the market economy. The economic changes that resulted from the Industrial Revolution cannot be apprehended if ignoring the political, social and ethical issues. In this setting, the commodity fiction is the vital organizing process in the market economy. Labour, land and money are commodities in a context where social life is embedded in the economy rather than the economy embedded in social life. In other words, the economic motive overwhelms social life. Although the double movement refers to the institutionalization of the market economy, Polanyi highlights the historical emergence of mechanisms of social protection to face the harmful social effects of the institutional set-up of the free-markets that, in his own words, seems to be is a "satanic mill".

Rudolf Hilferding (1877-1944)

Britain's international role in the world began to erode, even though it still remained important as an international trade and banker, after the Second Industrial Revolution. This new historical phase is called as Monopolist Capitalism since the real-world economy is characterized by the capital concentration and centralization in industrial markets that is leveraged by financial institutions. Financial capital reveals the inherent tendency of capital accumulation towards the predominance of interest-bearing capital. The new business trends expresses the expansion of financial capital with the growth of joint-stock corporations that fosters industrial monopolization. In this context of monopolization, as Hilferding highlights, financial capital increasingly expands its power over business and has deep influence on market structures and the evolution of demand and national income.

Eric Hobsbawm (1917-2012)

In the nineteenth century, the Pax Britannica was a period associated with the hegemony of the British Empire. During this period, there was a classic division between an industrialized centre and a producing periphery of raw materials. The British economy was a central element in the development of the nineteenth-century world economy. In the 1880s, Britain consumed almost half of the world-wide traded wheat and meat and bought most of the tea and raw cotton, besides 35% of the wood. In the context of the Second Industrial Revolution, the control over the international markets was redefined. This period of national rivalries and neocolonialism expressed the conflicts that arose from the reorganization of manufacturing and trade flows at the system level. In the mid 1950s, the American hegemony changed the world order. After World War II, a redefinition of international trade agreements favoured a gradual liberalization of international trade flows. Throughout this period, American corporations enhanced inter and intra-firm international trade flows. There was a generalization of the American growth model's main features: industrialization, urbanization, mass consumption, cheap energy (oil). Within this setting, development strategies were linked to the coordination of economic policies to foster growth by nation–states. After the 1970s, the influence of globalization over the economic, social, cultural and political life has spread, as Hobswam shows, huge challenges, including weak economic growth, higher income inequality, violence, civil conflicts and wars in a context where nation-states seem to be unable to face social needs and the maintenance of public order.

Karl Marx (1818-1883)

The capitalist economic system is based on a mode of production for trade in the markets where workers are formally free persons. However, the subordination of labour to capital is at the centre of the capitalist mode of production. Workers produce a surplus as they work more than the socially necessary labour time and capitalists exploit the working class by extracting surplus value from its labour. As a result, the progressive movement of capital can be referred as "money generating money". The real subsumption of labour under capital means the subordination of human beings, on a large scale, to machinery, that is to say, to capitalist production. In this setting, Marx highlights the alienating effects of the real subsumption of labour that turn out to overwhelm all social dynamics.

Michal Kalecki (1899-1970)

The Kaleckian theory of effective demand refers to the relationship between spending, production, prices and income distribution. In this approach, the variables of spending (capitalist consumption, investment and consumption of workers) are related to economic sectors of integrated production. There are three economic sectors of vertically integrated production, which produce respectively: capital goods (D1); consumer goods for capitalists (D2) and consumer goods for workers (D3). At the same time, in each economic sector, income is distributed in the form of profits (P1, P2 and P3) and wages (W1, W2, W3). The factors affecting income distribution include: the degree of monopoly; the ratio of the costs of raw materials and labour costs, and the composition of the industrial structure. As Kalecki emphasizes, the evolution of priced depends on firms' market power, which in turn is affected by industrial concentration. The price formation in market structures where firms hold market power to fix their prices above direct costs (wages and raw materials) reveals the power of concentrated capital over labour and society.

John Kenneth Galbraith (1908-2006)

After the middle 1950s, the modern industrial system refers to the group of corporations that has control of a large part of the output produced in key sectors of the economy. Within these corporations, the technostructure controls the industrial shareholders and plan the long-term growth of the corporation. This technostructure does not act to maximize profits, but principally to maintain the organization in the market and to ensure its further expansion by using retained profits. He shows how these organizations develop informal practices of pricing, in conjunction with strategies of marketing, advertisement, research & development to favour the feasibility of long-term planning. Considering the market power of large corporations in the modern industrial system, Galbraith's highlights the set of deep interconnections between large corporations and governments.

Eugene von Böhm-Bawerk (1851-1914)

The concept of utility is at the centre of the theory of value since the marginal utility of any good determines its value. According to this subjective theory of value, the marginal utility refers to the amount of utility that an individual gets with the consumption of additional units of a good. However, the value of a good is dependant on the interaction between *want* and *provision*. In other words, the price or exchange value of a good is the result of the competitive forces of supply and demand. He shows the role of inter-temporal allocation and of the degree of roundaboutness of production in the analysis of the rate of interest. Böhm-Bawerk highlights the valuation of present and future goods and concludes that the rate of interest is determined, on the supply side, by time preference and, on the demand side, on the productiveness. In his view, the level of interest rate of equilibrium is determined by real factors.

John Maynard Keynes (1883-1914)

In a monetary economy of production, money links the present and the future. Money is the asset has the highest degree of liquidity. The higher degree of liquidity of a non-monetary asset depends on the possibility of converting this asset into cash at lower transaction costs in a particular period of time. Among non-monetary asset, investment refers to: i) spending on capital goods, also called fixed capital, such as the purchase of plant and equipment either to replace existing capacity that is depreciating or to increase capacity; ii) inventories that firms hold to satisfy miscalculated demand on the final goods they produce. Aggregate investment is an autonomous form of spending and its level is mainly conditioned by expected profits, the level of interest rates and business conventions. In a dynamic perspective, consumption and investment are linked through flows of income: changes in the level of investment spending provoke changes in the level of income and consumption. On behalf of the uncertain future and the alternatives of wealth accumulation, investment is the most volatile component of gross domestic output. Considering the instability of income in the capitalist system and the structural presence of involuntary unemployment, Keynes highlights the role of anti-cyclical government interventions to manage aggregate demand by monetary and fiscal policies.

James Tobin (1918-2002)

In the process of money creation, bank strategies and central banks' instruments and policies are intertwined. Also known as the monetary base, the high powered money corresponds to notes and coins that perform the payment functions by virtue of legal tender status. Under the central bank monopoly of issuance, the monetary base is a claim that general public, government and banks have on the central bank. The monetary base is considered to be part of the liabilities at the central bank balance sheet in the form of currency in circulation, cash hold by public outside the banking system, and bank reserves, either vault cash at commercial banks or commercial banks' deposits at the central bank (required and voluntary reserves). In the process of money creation, the monetary base is also called high-powered money because of the magnifying effects of its changes on the quantity of money supply through the money multiplier. Considering this setting, Tobin highlights that money bank creation is a driver of economic growth and speculation in the contemporary capitalist system where banks are profit-seeking agents tat manage complex portfolios of assets and liabilities.

Alfred Marshall (1842-1924)

In a perfect market, the price (value) of any good is determined at the equilibrium point of its demand and supply. In other words, the price (value) of any good is determined by the economic forces that condition the behaviour of supply and demand at the margin. Indeed, the marginal utility of a good and the marginal cost of production govern the value of a good in a perfect market. Time and space are relevant in the analysis of prices. For instance, the market price of a good may be defined as the price ruling at a particular period if time where the supply is fixed and the price depends mainly on demand. Besides, in the short-run, the amount of variable inputs can change and the fixed plants remain constant and in the case of long-run periods, not only the amount of variable inputs can change, but also the size and features of the plants. Marshall's analysis of markets and prices shows that Economics is the study of human beings that aims to explain the ordinary business of life oriented to the satisfaction of their needs.

Joan Robinson (1903-1983)

A market is considered imperfect when consumers have different scales of preferences between firms that produce the same good. Under imperfect competition, the demand curve for a good of an individual firm slopes downward and the price of the good is greater than marginal revenue since the price elasticity of demand is less than infinite. Besides, imperfect market competition will also arise when the participation of the output of one firm in the total output of the industry is high. In this setting, normal profits refer to the level of profits that occur when there is no trend for changes in the number of firms in an industry. In the real-world, as the level of normal profits depends on the conditions of the firms' supply, normal profits could differ according to the scales of production of the firms in the same industry and across industries. Robinson shows how, in imperfect markets, managerial decisions, that include price discrimination and market segmentation, are practices aimed to increase market share and profits. Consequently, the market power of these firms tuns out to reinforce unfair competition.

Milton Friedman (1912-2006)

In the late 1960, monetarism restates the quantity theory of money as a theory of money demand and price stability as the main target of economic policy. Central Banks should follow monetary rules to control the quantity of money supply and, therefore, to avoid the emergence of inflationary pressures. Considering the Phillips curve – that shows an inverse relation between unemployment and the rate of change of nominal wages (or prices) – Friedman proposes a short-term and long –term theoretical approach about the relation between inflation and unemployment. Until today, the non-accelerating inflation rate of unemployment (NAIRU) is considered in policy issues: it is the level of unemployment level determined by real factors that does not put upward pressures on inflation.

Adam Smith (1723-1780)

At the time of Smith, the English government extensively controlled foreign trade, prices and wages. Smith rejected the Mercantilist agenda that proposed the accumulation of gold and silver, a favourable balance of trade through increasing exports, expansion of foreign markets for English manufactured goods, high tariffs to protect the domestic industry, expansion of foreign trade to provide raw materials and a strong merchant marine. Smith was influenced by the age of Enlightenment –historical period overwhelmed by the faith in human reason. The doctrine of the laissez-faire, a product of the Enlightenment, proposed the expansion of free markets and the end of the control of the government on foreign trade. In this setting, Smith proposes that the wealth of a nation should be measured by the total of its production and commerce. In his analysis of the roots of the expansion of the manufacturing system, he highlights the role of the division and specialization of labour on productivity and the growth of free markets.

Joseph Schumpeter (1883-1950)

The Schumpeterian entrepreneur is the one who introduces new products or processes in the markets by new combinations of ideas, factors of production, inputs and technological resources, for instance. The outcomes and linkages of the cyclical clusters of innovations are qualitative and structural changes in markets and industries. In this setting, the emergence of the innovative entrepreneur is associated with new social and economic facts associated with the process of capitalist creative destruction understood as a discontinuous process of development. Schumpeter's ideas on the role of innovative entrepreneurs in the development of the capitalist system have influenced the policy agenda of many developed and developing countries in order to enhance technological innovation in small business, mainly startups.

Hyman Minsky (1919-1996)

The Wall Street paradigm is based on the existence of a monetary economy based on credit relations, organized markets of financial assets, speculation and uncertainty. In this monetary economy, there is a set of interrelated balance sheets and cash flows between income-producing firms, financial institutions and central banks. These relations influence the valuation of the stock of capital assets, the evolution of credit and the pace of investment. Throughout the business cycles, the portfolio structure of firms can be *hedge* (firms can payback debts and cover the interest and principal of the debt from current cash flows); *speculative* (the current cash flow of firms can cover the interest due, but the firm must regularly re-borrow the amount of the principal) or *Ponzi* (the current cash flow of firms is not sufficient to cover the interest or principal due). According to Minsky, the financial fragility hypothesis emphasizes the active role of central banks and financial institutions in shaping the cyclical path of growth in contemporary economies.

David Ricardo (1772-1823)

Free trade, as a normative aspect of the theory, is a principle that allows the market exchanges of goods between countries to be guided by the specialization in production. Ricardo believes that, in the context of free trade, the exchange of goods between countries results from the differences in the costs of production. In his classical example, he shows that being the labour costs associated with the production of wine lower in Portugal than the labour costs in England for the same end, Portugal presents a comparative advantage for the production of wine and England for the production of cloth. In Ricardos' view, free trade is mutually beneficial for all countries engaged in foreign trade and capital mobility equalizes the rate of profits between countries.

Friedreich von Hayek (1899-1992)

According to Hayek, the coordination of multiple and independent individual plans and decisions is the fundamental problem in Economics. Only the competitive price market system can achieve such coordination since rational economic agents consider that market prices are signals that reveal relevant market information to make economic calculations. To preserve the competitive order, Hayek rejected the Keynesian agenda of government interventions and he even proposed the denationalization of money in the 1970s. In his view, no government can gather sufficient information in order to elaborate future plans for the economy and society. Besides, political pressures usually misguide policy interventions' targets. Under the neo-liberal agenda, his recommendation for emphasizing price stability in policy making has been globally adopted.

Robert Mundell (1932-)

The evolution of the international monetary system has been characterized by the adoption of different exchange rate regimes and by different degrees of international capital mobility across countries. Considering the changing international institutional set-up, Mundell highlights the influence of the type of exchange rate regime and the degree of international capital mobility on the efficiency of monetary and fiscal policies to accomplish increases in aggregate income in open economies. Among the conclusions of his model: i) in the context of a fixed exchange rate regime and high international capital mobility, the management of fiscal policy can increase the levels of aggregate income; and ii) under floating exchange rates and high capital mobility, the management of monetary policy is efficient to increase the levels of aggregate demand. After the crisis of the Bretton Woods system in the early 1970s, Mundell`s analysis on the macroeconomic challenges in open economies and currency areas proved to be increasingly relevant to policy makers.

Arthur Pigou (1877-959)

According to Pigou's analysis on welfare, each individual in society attempts to maximize the satisfaction or utility from his expenditure on different goods and services. Different people derive the same satisfaction or utility out of the same real income. Satisfactions or utilities can be compared across people considering that the gain in utility of an additional amount of income to a poor man is greater than the loss of utility to a rich man from the same amount of income. In this setting, social welfare is regarded as the aggregation of individual welfares. In Pigou's view, national income growth generally results social welfare improvement if it does not reduce the share of income of the poor people. Any income redistribution that favours poor people without reduction in national income improves social welfare. His mainly contribution to welfare shows that the existence of negative or positive externalities in production is a sufficient justification for government intervention by means of taxes or subsidies. Until today, the Pigouvian tax is considered to be an efficient policy instrument to face negative externalities.

Amartya Sen (1933-)

According to Sen, income inequality, health, education, unemployment and social exclusion should be integrated into a multifaceted analysis of well-being. Departing from this idea, the capability approach focuses on the actual ability to do different things that a person values doing. In other words, capability is the aspect of freedom related to individual substantive opportunities in society. Mainly concerned about the deep connection between Economics and Justice, Sen's contribution to the theory of social choice opened space towards the study of rules for collective decisions to shape policy interventions oriented not only to expand human capabilities of all members of society but also to face the demand for justice, such as the demand for sustainable development. In the attempt to formulate a theory of justice that aims at the formulation of new policy strategies and interventions, Sen argues for a renewal of the bond between the two disciplines: philosophy and economics.

Elinor Ostrom (1933-2012)

According to Ostrom, social-ecological systems are complex systems that couple natural and human systems. Departing from this idea, she builds a theoretical approach to the management of common-pool resources at local and global levels. Common or common-pool resources as public goods with finite benefits. Therefore, common-pool resources can be potentially used beyond the limits of sustainability because of the lack of exclusion of users. This creates an incentive for increasing the rate of use of this resource above its physical or biological renewal. Besides, common property is a kind of institutional arrangement about ownership and responsibility. Considering this framework, polycentric systems of governance are required to build collective-actions. Indeed, Ostrom highlights that there is one ideal governance regime, but a variety of regimes of governance.

MAPPING PATHS FOR FUTURE DIALOGUES

After the brief overview of the main contributions of selected influential thinkers, we can conclude that the findings depend not only on the questions asked, but also on the facts in dispute and the interests confronted. Besides, the ongoing dialogue in Economics fosters current generations of students and economists to spread the renewal of the bond between philosophy and economics to re-think and expand future dialogues about the following issues:

- Ontological indeterminism that overwhelms market dynamics;
- Epistemological fallibilism in economic knowledge;
- Role of mathematics in realist economic theories;
- Role of induction, deduction and abduction in economic inquiry;
- Realism of economic theories.

Schools of economic thought coexist with ontological, epistemological and methodological differences- such as Neoclassical, Monetarist, Marxist, Iinstitucionalist, Neoricardian, Austrian, Post-Keynesian, Evolutionist, Sraffian, to mention some of the most relevant. Despite such diversification of assumptions and proposals, the Neoclassical has been the dominant theory since the 19th century - both at the academy and in the formulation of policies – and adopts the regularity of the rational behaviour of agents in decision-making as the ontological presupposition about the social reality. From the methodological point of view, this theoretical approach emphasizes the importance of mathematical models as analytical resources. As a result and, mainstream (neoclassical) theoretical models reinforce the logical and deductive mathematical method and turn out to reject the complexity and evolutionary dynamism of the real world.

The global financial crisis of 2007-2008 put in question the assumptions of neoclassical theory and revived the debate over the credentials of this economic theory as a science with predictive power. However, even after the crisis have denounced the gap between reality and the framework of neoclassical economic models, economists of this theoretical dominant school of thought have insisted on the validity of the ergodic axioms for the development of new deterministic models. Indeed, such economists insist on the use of general equilibrium theories that seek to explain the behaviour of economic relations using deterministic models.

We can identify a relevant feature of the crisis in current economic knowledge by reference to the insistence on the determination of the object of investigation of Economics - matter that became known as the Ricardian Vice. This term, which refers to the English Economist David Ricardo, was coined by Joseph A.

Schumpeter in his book *History of Economic Analysis* when he criticized the "habit" assigned to Ricardo to present simplified assumptions to represent the economy as a whole and as the basis of practical economic solutions in tautologies.

Indeed, Schumpeter rejected, in the process of formulation of economic theories, the use of simplifying assumptions as the basis for the construction of reasoning that favour causality relations because this "habit" - the Ricardian Vice- generates analytical results of tautological nature that lack of practical importance to solve economic problems. By rejecting the Ricardian Vice, Schumpeter emphasizes the complexity and indeterminacy of the object of investigation of economic sciences.

The changing environment of economic activities and behaviour of agents throughout cronological time -that is irreversible- refers to a certain degree of indeterminacy associated with the specificities and the evolution of the economic system where the standards of behaviour are complex and interrelated variables influence the economic, social and political context. Such lack of precision makes innocuous the procedures often used by economists who have built and used economic models in which both the ontological uncertainty about epistemological uncertainty are not considered.

In this regard, Schumpeter criticizes the behaviour of economists who use a hypothetical-deductive logic in the construction of knowledge in Economics. In other words, his criticism is addressed to those who believe to understand the essential aspects of economic reality from a strictly logical method- which ultimately privilege mathematical modelling and hypothetical-deductive approaches.

However, economists that privilege deductive methods of inquiry in Economics, have caused, by omission and, as a result, the risk of adopting a proper nominalist bias in the formulation of economic concepts. Today, the intense concern about problems of method in Economics strengthens that mentioned nominalism. As a result, the dialogue with the reality ends up being rejected in a context where mathematical models based on the "ideology" of the individual rational or with limited rationality have been spread.

Such bias would not reveal a realism that would address the general nature of the possibilities of the object of investigation in Economics, which would shape the nature of economic theories to be adopted. Given the nature of the object of investigation in Economics, that displays a multitude of variables, and is subject to a high degree of indeterminacy, casualties cannot be taken as causalities. In this sense, a deterministic ontology does not seem to cope with the complexity of the economic phenomena.

As John Maynard Keynes warned, uncertainty and randomness are inherent to economic phenomena. As a result, the interpretation of the economic phenomena demands not only purely deductive logic, but also other forms of inquiry. To reject the axiom of ergodicity of neoclassical theories, Keynes criticizes the predetermination of the future and, consequently, the power of prediction of probability distribution analysis when applied to the decision making process in an uncertain world.

Therefore, a certain degree of indeterminacy of the economic phenomena should be considered in the formulation of economic theories. The acceptance of a certain degree of indeterminacy in economic phenomena reinforces the importance of formulating realistic economic theories that consider the economic system as a dynamic and evolving process where chance and economic laws are intertwined. Indeed, these realist theories are required to propose new solutions to face the current deep social and economic challenges in the context of globalization.

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ABBREVIATIONS

BIS = Bank of International Settlements
CEO = Chief Executive Officer
CSR = Corporate Social Responsibility
ECB = European Central Bank
FED = Federal Reserve System
ILO = International Labor Organization
IMF = International Monetary Fund
IUF = International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations
LSE = Londos School of Economics and Political Science
M&A = Mergers and acquisitions
NAIRU = Non-accelerating rate of unemployment
OECD = Organization for Economic Cooperation and Development
PK = Post Keynesian
R&D = Research and Development
SEEA = System of Environmental and Economic Accounts
SEEAF = Sytem of Environmental and Economic Accounting for Fisheries
SEEA-MFA = System of Environmental-Economic Accounting for Material Flow Accounts
SEEAW = System of Environmental-Economic Accounting for Water
TPP = Trans-Pacific Partnership
UN = United Nations
UN COP = United Nations Conference of Parties
UNCEEA = United Nations Committee of Experts on Environmental-Economic Accounting
UNSD = United Nations Statistics Division
UK = United Kingdom
U.S. = United States
Worl War I = First World War
Wold War II = Second World War

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