

For philosophical, theoretical and empirical reasons we have suggested that classical-Keynesian political economy is likely to be a superior alternative to neoclassical economics which is, essentially, equilibrium theory and is too individualistic and mechanical. Society, the social structure, is something more than the sum of its parts and possesses laws of its own. Classical-Keynesian political economy also seems superior to the economic theory of centrally planned socialism which sees man uniquely as a part of the social machine and relies too heavily on the possibility of consistently planning economic activities. Because of the immense complexity of the modern world this is impossible. Marx's allusions to an Indian village when speaking of planning production, i.e. directly producing use values (Marx 1973/74a, vol. I, pp. 56–7), simply cannot be taken as a starting point for managing large monetary production economies with extensive division of labour. Centrally planned systems may function satisfactorily in times of war and of crisis. But in normal times, it is not possible to plan prices *and* quantities without severely disrupting an economic system. Normal prices must not be fixed since these are governed by the distributional institutions which determine the structure of money wages and of profit rates, and by the conditions of production; normal quantities and employment depend on effective demand; long-period employment policy must aim at setting up an institutional framework consistent with full employment (chapter 4, pp. 142–89, and 6, pp. 319–48). The central planning procedure may lead to socially inappropriate prices of production and partly to the production of goods which do not meet the preferences of consumers; both imply, as a rule, squandering labour and natural resources. Moreover, the plan is inimical to technical progress which, to the socialist enterprise, renders fulfilling the plan more difficult. It is likely that the technological gap between the highly industrialized and the socialist economies which, the armaments industry excepted, dramatically widened in recent years was an important cause for the downfall of the latter. Hence the market and the plan taken in isolation are not in a position to solve the socioeconomic problems arising in immensely complex monetary production economies. The two must be combined and adapted to specific socioeconomic and historical situations. Taking account of this fact, classical-Keynesian political economy attempts to provide an alternative conceptual framework flexible enough to tackle socioeconomic problems within differing historical and institutional circumstances.

The nature of the classical-Keynesian approach can perhaps be brought out more clearly by using political terms. While neoclassical economics – if linked with élitist liberalism – may broadly be associated with the political right and, correspondingly, the economic theory of (centrally planned) socialism with the political

left, classical-Keynesian political economy appears as the economic theory of the progressive centre taken in a broad sense.

Modern economic liberalism is a simplification of Adam Smith's system and ultimately rests on Walras's equilibrium theory if the economic sphere is considered. Political liberalism is intimately associated with Hayek. The economic theory of centrally planned socialism is a 'war and social crises system' which reflects the Soviet experience characterized by war, civil war, stabilization of the new social order by ruthless means and by forced collectivization and industrialization. This type of socialism bears very little resemblance to the humanist socialism sketched in Marx's *Early Writings*. Other strands of thought that could not be termed liberal or neoclassical nor socialist in the modern sense are: the mercantilist strand which culminated in James Steuart's work and some followers of mercantilism like Sismondi, Malthus to a certain extent, Hobson and others; Quesnay's and Ricardo's systems of thought; Friedrich List and the German Historical School; American Institutionalism; and Christian Social Doctrine based on Aquinas and Aristotle. All these strands of thought are rather heterogeneous and, with the exception of Quesnay and Ricardo, lack a clear-cut theoretical foundation. Here, Keynes's significance is apparent. In his *General Theory* Keynes explicitly wanted to provide these strands of thought, particularly the German Historical School, with a theoretically sound conceptual foundation. As already mentioned above, this clearly emerges from the foreword to the German edition. Keynes's and Kalecki's work was carried on by the Keynesian Fundamentalists and the Robinsonians respectively. Sraffa's work moved Ricardo and Marx to the fore. In the preceding chapters a classical-Keynesian synthesis and elaboration of these strands was suggested and its relationship to liberalism and, marginally, to socialism was sketched.

It should be made clear, however, that classical-Keynesian political economy is *not* a variant of the *Soziale Marktwirtschaft* which may be broadly linked up with the 'neoclassical synthesis', i.e. a free-market economy within which short-period employment policies, complemented by a social security system, are pursued. In the latter it is postulated that the market (exchange) can, in principle, solve all the important economic problems; however, institutions have to be created to repair eventual defects of the market system. Classical-Keynesian political economy is not a repair shop of the market, nor of the plan, but an intermediate system of its own along humanist lines. This emerges from the preceding chapters of this book.

To establish classical-Keynesian political economy as an alternative to neoclassical economics and to the economic theory of socialism will require the elaboration of comprehensive treatises in order to convince professional economists and, at a subsequent stage, the writing of textbooks to popularize the approach. The present study aims at exploring the *terrain* in order to prepare for this undertaking. In the preceding chapters it has been suggested that classical-Keynesian political economists can rely on an immensely rich intellectual heritage comprising all branches of the social sciences including social and political philosophy and the theory of knowledge. The problem does not therefore consist in inventing new theories but in

selecting and in elaborating already existing ones while adapting them to actual problems.

In this chapter it seems appropriate to take up some threads of thought on fundamentals already alluded to in chapter 2. In doing so it would have been desirable to integrate more fully Keynes's non-economic writings, e.g. his *Treatise on Probability*, and some recently published works on Keynes's vision, i.e. Carabelli (1988), Fitzgibbons (1988) and O'Donnell (1989) and possibly others, into the present chapter. This would have done justice to Keynes's overriding position within the classical-Keynesian system. However, it takes considerable time to come to grips with fundamental issues since these have to be put into the very large context of social and political philosophy without forgetting the theory of knowledge which plays a crucial role in Keynes's system of thought. But even if it were possible to 'digest' the works in question quickly enough, space would prevent us from taking due account of them. In the following, we shall, therefore, mainly concentrate on Fitzgibbons (1988), who deals in a very concise and appropriate way with Keynes's vision. This choice does not imply any value judgement on the merits of other works on Keynes's philosophy.

Political economy, social philosophy and the philosophy of history

Keynes's vision

Some elements

Carabelli (1988), Fitzgibbons (1988), O'Donnell (1989), and other works recently published on Keynes's vision, are pathbreaking in that they produce an entirely new picture of the intellectual stature of Keynes. This is confirmed by two important recent biographies, those by Moggridge (1992) and Skidelsky (1983, 1992). Hitherto, Keynes has been considered a great economist who also did important work in other fields: in the political sciences and, in particular, in the theory of knowledge and in mathematics, his theoretical work being complemented by his practical activities as a statesman, as a promoter of the arts and as a clever businessman and speculator who enriched himself and King's College, Cambridge. Fitzgibbons now argues that 'it is possible to draw from the writings of John Maynard Keynes, without artificiality, a logically coherent and embracing structure of ideas, based upon a single vision, which permeated all aspects of his thought and which [was exceptionally] constant through time' (Fitzgibbons 1988, p. 1). The philosophical vision underlying Keynes's work gives it a remarkable unity which, however, cannot be perceived immediately since 'Keynes was not an explicit systematizer, and his deeper observations were scattered among his works' (p. 4). Nevertheless, if due account were taken of Keynes's overall performance he would definitely appear in stature equal to Marx. Both understood the working mechanism of capitalism in their respective lifetimes far better than any of their contemporaries. However, while Marx wanted to show, starting from Hegelian philosophy, that there was an inevitable historical process leading on to socialism, 'Keynes's system was consciously cast as a *third alternative* [our emphasis] to both Marxism and laissez-faire, and it is the only comprehensive alternative which says that the economy is neither a perfect machine nor a system doomed to failure, but a fallible

human institution improvable by human reason' (pp. 1–2). This is broadly in line with the argument set out in the preceding chapters. However, it has also been suggested that a classical-Keynesian middle-way alternative should be conceived of as a synthesis of Keynes and Ricardo, complemented by parts of Marx's historical method. Keynes's outlook, in spite of his having given a new impetus to macroeconomics, was essentially individualistic. Ricardo and Marx, however, uncompromisingly took up the point of view of society as a whole. This is required because the historically evolving institutional system represents an entity which is something more than the sum of its parts and hence possesses its own laws. Both the system and the behavioural viewpoint are required if a synthesis of socioeconomic thought is to be achieved, since men act within a social framework, and since the behavioural and the institutional systems interact.

'Keynes's innovation was to reconcile economics with the older traditions of moral and political philosophy' (Fitzgibbons 1988, p. 3; our emphasis). Building upon the work of his 'intellectual paragons, Plato and Burke . . . Keynes's metaphysical vision was that, from the vantage point of truth and other ideals, economics and politics can be seen as part of an ever-flowing river of change' (p. 195). If broadly interpreted, this point is also implied in the previous chapters of this study, for example in scheme 3 (p. 106) where some aspects of reality are classified according to their persistence in the course of time. The fundamental, essential and invariant principles located in the lowest layers are always there while the upper layers represent changing material forms in which the basic ideas are embodied. Examples of fundamental and unvarying principles are the notions of 'effective demand' and 'monetary production economy' in the socioeconomic sphere, and 'absolute truth' and 'probable truth' in the theory of knowledge (on the latter, see chapter 2, pp. 57–75). The realization of fundamental ontological and ethical principles may go in widely varying and changing historical circumstances, and the specific ways of putting these principles into practice will always be imperfect in that there will be deviations from an objectively given but partly unknown ideal which reflects alienation (chapter 2, pp. 39–53). For example, nobody will ever be in a position to say precisely what an ideal society ought to look like or, more specifically, what is to be understood exactly by a 'just and fair distribution of wealth and income' in some country.

In chapter 2 it is suggested that classical-Keynesian political economy implies a return to traditional, mainly Aristotelian, social and political philosophy. This also is broadly in line with Keynes's overall scientific undertaking, from the *Treatise on Probability* to the *General Theory* and beyond. However, Keynes's message regarding fundamentals largely passed unnoticed or was, and still is, basically misunderstood. Therefore, it seems appropriate to take up a thread of thought contained in chapter 2 (pp. 57–75) regarding some of his basic ideas on probability: 'In a draft preface to the *Treatise [on Probability]*, [Keynes] wrote: "The logic of probability is of the greatest importance, because it is the logic of ordinary discourse, through which the practical conclusions of action are most often reached"' (Fitzgibbons 1988, p. 17). To substantiate this assertion, Keynes started by criticizing Hume whose 'scepticism went too far because he believed that under conditions of probability, which is the usual

state of knowledge, causation has no objective meaning except in theory . . . So causation is between propositions (as in a scientific theory) and not in reality, or in relations between *things*' (p. 17). 'Keynes reverted to [a revision of] Locke's theory [of causation, according to which] objects do have a strict connection together, but normally this is not discoverable. We do not know the *real* causes, but only probabilities' (pp. 17–18). Hence 'Keynes believed that, except in a few sciences, we do not normally understand the true causes of things [*causa essendi*, the explanation of the atomic constitution of the universe] but only the [*causa*] *cognoscendi*, or what is the cause according to our theories' (p. 18, quoting Carabelli). As to the atomic constitution of the universe, Keynes held, following Locke, 'that there are certain regularities . . . or at least that there are not an infinite number of possibilities [which] is a precondition for there being similarities between things [which, in turn, enables us] to draw up classifications based on similarities between them' (p. 19). However, '[a]lthough the universe considered abstractly may be atomic . . . knowledge of the universe is evidently organic. More fully . . . we may understand Keynes to say that the universe, together with our consciousness of it, conjointly forms an organic whole' (p. 21). This leads to limits regarding knowledge: 'But if knowledge is organic, then the rules of understanding are changed; mechanistic methods will be defeated by subtle and complex feedback effects' (p. 21). (Here, we ought to remember Marshall's remark about '[t]he Mecca of the economist [lying] in economic biology [!]' (Marshall 1920, p. xiv).) To take account of these limits of human knowledge, Keynes set up the (crucial) idea of objective chance:

Objective chance prevails when prediction is impossible in principle, given our human limitations. Objective chance covers such things as the distribution of raindrops, the motion of gas molecules, the birth of a great man . . . 'An event is not due to objective chance if a knowledge of the permanent facts of existence would lead to its prediction . . .

'An event is due to objective chance if in order to predict it, or to prefer it to alternatives . . . it would be necessary to know a great many more facts of existence about it than we actually do know, and if the addition of a wide knowledge of general principles would be little use' [Keynes as quoted in Fitzgibbons] (Fitzgibbons 1988, p. 22).

Keynes believed that the idea of objective chance had not been understood by those who wanted to argue that there is an equilibrium value in randomness, who wished to rely on constant statistical frequencies or the Law of Great Numbers, who stressed what will happen 'in the long run', who believed that there is a unique discoverable system among the chance and disorder of the universe (p. 22).

In fact, we are faced with 'causation without order' (p. 23). Thus, 'Keynes connected true causation with randomness, a way of thinking that had the utmost significance for his economics' (p. 24).

The above is broadly in line with the theory of knowledge implied in this study if *behavioural* outcomes, dominated by uncertainty, are considered. Keynes is certainly right when he considers rapidly evolving behavioural equilibria, associated with the behavioural system, as largely irrelevant, precisely because of uncertainty and expectations. However, Keynes clearly underrates our ability to picture the deterministic influence of slowly changing system equilibria associated with institutional set-ups on behaviour. This influence, for example through the principle of effective demand, may be clear-cut. We shall return to the alleged impossibility of Ricardian and Marxian (system) equilibrium economics below.

The logical theory of probability [associated with ‘objective chance’] presupposes intuition, and although it does not require that intuition is infallible or even mostly right, the stress is as much on insight as it is on theory. Logically as well as historically, according to Keynes, intuition is the first form of knowledge, so that despite its defects all knowledge must be based upon it. However, he did not suppose that intuition came out of nowhere. Probabilistic reasoning meant being able to apply patterns of similarity, first seen in the mind, to the chaotic facts (Fitzgibbons 1988, p. 234).

‘Keynes thought that science did possess procedures similar to those of art’ (p. 24, quoting Carabelli). Consequently, the

mechanical theory of the external world, a supposed unique correspondence between the facts and the mind, was false. Inspiration selects and imposes a pattern on the facts, and the choice of this pattern somehow involves an aesthetic element.

This picture of the scientist as partly an artist was further taken up in the *Treatise on Probability*, where Keynes said that science begins from analogy. Science is based upon pre-scientific knowledge, which was long and hard won; and scientific hypotheses do not arise randomly, but they too come from analogy (p. 25).

This aspect of Keynes’s theory of knowledge is in line with the role of Schumpeter’s *vision* in the social sciences alluded to in chapter 2: the neoclassical economist, and the socialist and the classical-Keynesian political economist look at socioeconomic phenomena through entirely different glasses. To explain facts, completely different concepts (variables and parameters) are chosen: when attempting to explain unemployment for example, the neoclassical economist looks at the labour market, the Keynesian and classical-Keynesian economist at effective demand; the same objective fact is interpreted in very different ways. Hence knowledge is always probable and no empirical test can eliminate this element of probability since facts are interpreted in the light of visions related to the functioning of society as a whole. Intuition is required because of the organic complexity of socioeconomic systems.

Moreover, Fitzgibbons argues that Keynes’s view on probability is also linked up with knowledge obtained by pure reason: ‘Keynes believed that probable knowledge, which again is knowledge of the world generally, comes not only from experience but also from understanding’ (Fitzgibbons 1988, p. 27). Now,

[t]he essence of Platonism . . . is that there is a truth beyond experience, of which the mind ‘bears witness to itself’ [Benjamin Jowett]; and it is also a Platonic doctrine that only a probable account of knowledge can be given, since knowledge presupposes classification, and is therefore inescapably based upon similarity and metaphor. Finally, Greek philosophy generally began by accepting common experience as valid, although it had to be interpreted by reference to a higher model. Each one of those elements is implicit or explicit in Keynes’s *Treatise on Probability*, and none of them is characteristic of the English tradition of philosophy (p. 28).

The English tradition has been broadly in line with modern mainstream philosophy and ‘[t]he hallmark of modern thought since its divorce from the metaphysics of the Middle Ages has been the faith in the superior logic of science’ (p. 34).

This point is associated with a crucial issue mentioned in chapter 2: Keynes wrestled for a balanced synthesis between (traditional) metaphysics and the (modern) social sciences in line with modern scientific requirements. *Both* provide elements of knowledge: the vision, a metaphysical concept aimed at grasping essences of specific domains of reality and of complex entities on the basis of pure reason and of intuition, and scientific knowledge, theoretical and practical, interact to yield deeper knowledge, i.e. an approximate understanding of things. Hence metaphysical questions as to the *probable* essence of things, of ‘society’, of the ‘normal price’, of ‘production’, of how

things are in principle and how they are related in principle, are of the highest importance. Metaphysical queries are addressed to ‘wholes’ and the relationship between ‘wholes’ and ‘parts’, for example societies and their structure. Probable answers to metaphysical questions enable us to put together scattered pieces of theory in order to discover deeper structures of the real world. The systems elaborated by Quesnay, Smith, Ricardo, Marx, Marshall, Walras, Keynes, Sraffa and Pasinetti are all examples of attempts to answer fundamental questions in the social sciences.

However, ‘[t]he old metaphysics had been greatly hindered by reason of its having always demanded demonstrative certainty. Much of the cogency of Hume’s criticism arises out of the assumption of methods of certainty on the part of those systems against which it was directed . . . The demonstrative method can be laid on one side, and we may attempt to advance the argument by taking account of the circumstances which seem to give *some* reason for preferring one alternative to another’ (Keynes, *Treatise on Probability*, quoted in Fitzgibbons 1988, p. 36): to combine differing pieces of evidence in a cogent argument requires a vision (a metaphysical notion). Moreover, metaphysics has been misused in various ways. Wild speculations on the meaning of natural or utopian social states of affairs were made (and are still made). Most seriously, however, metaphysics was (and still is) misused for political purposes in that certain political and socioeconomic orders were (and are) declared natural and eternal in order to maintain the privileges of certain groups and classes. The philosophers of the Enlightenment, but also Marx, mercilessly unveiled the hidden purposes lying behind systems of ideology. The reaction against metaphysics has been too strong, however, in denoting it as superstition, the opium of the people or simply utter rubbish. Positivistic science subsequently took its place and marched on triumphantly. However, limits begin to appear, perhaps more clearly in the social sciences than in the natural sciences. In economics, for instance, there is a fragmentation of the great schools and a lack of communication and of mutual comprehension between many representatives of specific theories. This is accompanied by disillusionment and by a loss of perspective, frequently associated with resignation. In such a situation good – Aristotelian – metaphysics is needed.

Aristotle, at the outset of his *Metaphysics*, mentions that metaphysics is an architectonic science which helps us to bring order into the universe, the immense complexity of which we are faced with. Facts of all kinds, empirical and theoretical, have to be interpreted, evaluated, pondered and eventually put, approximately, in their right place. For the social sciences, this means that we would not be faced with very varied, sometimes unrelated theories, but with an ordered body of theories based on specific approaches. Given the latter, the scientist and the politician would be in a position to compare, to evaluate and to make a choice. Seen in this way metaphysics and the sciences are not mutually exclusive but complementary.

Metaphysics aims at proposing possible orders for parts of the universe. This leads to philosophies of nature and of society. To work out a complete and consistent, and therefore entirely thought-out system of social philosophy, is one of the immense tasks to be undertaken by classical-Keynesian social scientists if classical-Keynesianism is to become a serious rival to liberal or socialist economics. Social

scientists in general and economists in particular must be grateful to Carabelli, Fitzgibbons, O'Donnell and others for having uncovered Keynes's basic contribution to this undertaking. Many elements of Keynes's social philosophy have been incorporated in the previous chapters, most importantly the requirement that the study of the system ought to be logically separated from the analysis of behaviour.

Metaphysics is a matter of pure reason: the mind produces ideas in attempting to approach objectively given essences which constitute objective ideas. As a rule, theoretical and practical experience initiates metaphysical thinking. For instance, the materials used by a painter are extremely simple: a canvas, brushes and colours. Before producing a picture, experimenting and learning from the great masters is required. However, a painter will be able to produce a *unique* work of art only if he brings in his own ideas. Reality is, in the last instance, shaped by ideas, a fact definitely accepted by Keynes, as is evident from Fitzgibbons (1988) and from the very last lines of the *General Theory* for instance. Marx also accepted this, as emerges from his *Early Writings* and from many passages in *Das Kapital*. However, Marx rightly stressed that a material basis is always needed to *realize* ideas. For instance, it is not sufficient for some painter to be gifted and to have good ideas; he must also be in a position to acquire his means of subsistence. Moreover, there are in any society individuals or groups who, on the basis of the material means they command, may succeed in imposing their views (ideologies) which then constitute the dominant ideas. The control of parts of the modern mass media by powerful interest groups to influence public opinion is an evident case in point. Keynes argued that pressure groups may be successful in imposing their ideologies at times but that, in the long run, objective reason will succeed; it is an open question as to whether, in this respect, he was too optimistic or not.

No empirical proof can be advanced to sustain the above argument on the role of metaphysics: ideas might simply represent the output of the brain, which is fed by inputs (sensations). However, metaphysical thinking was considered possible and reasonable by great thinkers at *all* times (Hirschberger 1988). Keynes's vision confirms this. On deeper reflection it is ultimately impossible to reduce knowledge to sensation. Nobody has ever directly observed the principle of the multiplier or the principle of the social and circular process of production, which constitute invisible principles structuring parts of the real world. These concepts had to be *thought out* by great political economists. This is not to deny that theoretical and practical experience, including observation, may start scientists thinking about principles governing the real world; and, possibly, we can understand principles only if we 'visualize' and apply them to concrete real-world situations. All our thinking about essentials (the essence of things and the way in which these are interrelated) is metaphysical. For example, a neoclassical economist's claim that markets would co-ordinate individual economic actions in a socially meaningful way if there were sufficient competition is a metaphysical statement that can never be scientifically proved or disproved. All the classical-Keynesian political economist can do is to try to convince his neoclassical colleague of the fact that, in overall terms and on a fundamental level, his system of political economy is more plausible than neoclassical theory. Important arguments for

the relevance of metaphysics are also advanced by natural scientists. Sir John Eccles, Nobel Prize winner for Physiology and Medicine in 1963, says:

If I should be asked to express my philosophical position, I would have to admit that I am an animist . . . As a dualist I believe in the reality of the world of mind or spirit as well as in the reality of the material world . . . I accept all of the discoveries and well-corroborated hypotheses of science – not as absolute truth but as the nearest approach to truth that has yet been attained. But . . . there is an important residue not explained by science, and even beyond any future explanation by science (Eccles 1984, p. 9).

This also holds for the social sciences, including history, with the possible difference that the non-explained residual might be even more important than in the natural sciences. For example, historians diverge widely on the causes of the First World War. Since the various causes that produced this historically unique event are mixed up organically, divergence of opinion is likely to persist, so much the more as fundamental values and even passions are important here. If the object of science is a complex and interrelated whole, like society or parts of society, then important unexplainable residuals are bound to remain. Keynes clearly perceived the probable and thus fallible nature of human knowledge.

On the actual state of the sciences, Eccles declares that

[t]he tremendous successes of science in the last century have led to the expectation that there will be forthcoming in the near future a complete explanation in materialistic terms of all the fundamental problems confronting us. These ‘great questions’, as they are called, have exercised the creative thinkers from Greek times onward. It has been fashionable to overplay the explanatory power of science and this has led to the regrettable reactions of anti-science and of all manner of irrationalistic and magical beliefs. When confronted with the frightening assertion that we are no more than participants in the materialist happenings of chance and necessity, anti-science is a natural reaction. I believe that this assertion is an arrogant over-statement (Eccles 1984, pp. 8–9).

Every sensible individual may observe that considerable intellectual arrogance and materialism are also present in socioeconomic theory and reality and are perhaps still growing. Fitzgibbons, in the very last lines of his book, states: ‘Now Keynes’s song is fading, and economics is based on materialistic values, or pseudo-science, or ideology and the struggle for power’ (Fitzgibbons 1988, p. 198). This is perhaps too harsh a statement, but there is certainly considerable truth in it.

One might ask why metaphysics has from time to time been submerged by excessive positivism. A classical answer was possibly given by Antoine de Saint-Exupéry’s *petit prince*: ‘L’essentiel est invisible pour les yeux’ (Saint-Exupéry 1946, p. 72). Truth, goodness, justice and beauty, as far as they are embodied in various spheres of the real world and as ideals cannot, in the last instance, be seen, they must be thought. The same is true of the basic causal forces governing the real world, the principle of effective demand or the ultimate determinants of the value of goods for instance. This is perhaps the essence of Keynes’s vision.

Causal forces are thus invisible. This implies that (pure) causal models are ideal types (chapter 3, pp. 81–9) that are produced by the mind, although the elaboration of such models may be initiated by theoretical and practical experience. For example, what can be observed are *actually existing* capital stocks, capacity output levels, sector sizes and prices. These are the aggregate results of past and present individual decisions. The persistent influence of the socioeconomic system upon individual decisions cannot be directly observed however: in chapter 3 (pp. 81–9) invisible

demarcation lines have been mentioned, which are delimiting system equilibria linked up with fully adjusted situations (e.g. normal prices and quantities) and the corresponding observable elements of the real world (market prices and quantities actually sold). Fully adjusted situations associated with normal levels of output and employment and normal prices cannot be seen directly, but only indirectly so to speak. First, their existence must be thought out and argued, and the capital-theory debate is certainly an important element of argument. This results in pure models such as were elaborated by Piero Sraffa and Luigi Pasinetti, for example. Only secondly can the social scientist, on the basis of pure models reflecting principles, construct applied frameworks and look for empirical facts that speak in favour of the (probable) correctness of the pure models. However, owing to the immense complexity of the real world a definite proof will never be possible except, perhaps, for partial behavioural problems, e.g. the temporary impact of a marketing campaign upon the volume of sales of a product.

The fact that the ideas structuring the real world are invisible does not of course mean that the material expressions of ideas are of secondary importance. The above suggests that the material world constitutes a ladder enabling our minds to get nearer to the various ideals, for example truth in the social and in the natural sciences, or aesthetic perfection in the arts: ‘matter is in fact the complement [to mind], providing the handholds and footholds on the mountain of our spiritual climb’ (Eccles 1984, p. 7). This pictures perfectly the nature of human knowledge which was, perhaps, brought out best by Aristotle.

Selected problems

Keynes’s position was individualistic in the sense that behavioural outcomes dominate. He was a genius, a theoretical and practical all-round man, whose mind, in face of a universe forming an immensely complex organic whole, was ‘capable of [a great many] rational intuitions and which [could] faintly discern beyond the flow [of reality] and through turbulent airs the transcendent ideals’ (Fitzgibbons 1988, p. 24). ‘[For Keynes] intuition is the first form of knowledge, so that despite its defects all knowledge must be based upon it’ (p. 24) and form the basis for practical action. However, given the complexity of the universe, knowledge may be very limited indeed as ‘[t]here are processes in a causal web beyond our sciences or powers of calculation. If we stamp our feet, Keynes says, the moons of Jupiter may be slightly displaced in their orbits, although our sciences are not fine enough to recognize it’ (p. 21). This is reminiscent of agnosticism: ‘the consequences [of most things], even if they persist, are generally lost in the river of time’ (p. 24, quoting Keynes). ‘In particular . . . investors are typically unable genuinely to resolve uncertain situations’ (p. 31). Such propositions suggest that excessive individualism may be destructive regarding the acquisition of knowledge in the social sciences: the effects of individual actions fade out in the infinite if not co-ordinated by an automatic mechanism, supply and demand for example, in a socially meaningful way. This issue is alluded to in chapter 5 (pp. 281–308).

However, there are at least two important factors which favour the acquisition of knowledge: the presence of space and time and the existence of historically evolving

institutions and the forces governing their interplay. Space and time divide the universe into subsystems with varying degrees of independence. In the social world, there are individuals living in families, going to school and working in enterprises; there are villages, towns, regions and states; associations of the most diverse kinds have existed for a long time or are being created newly; the world as a whole is linked through a network of international relations on various levels. Each subsystem is governed by a set of causal relations which link different spheres of space. The existence of causal relations enables the social scientist to describe approximately the functioning of a subsystem as a whole or of some aspect of it; pure models exhibit principles, real-type or applied models realizations of principles in concrete situations; comprehensive theoretical systems represent attempts to capture the working mechanism of economies as a whole, for example neoclassical economics or classical-Keynesian political economy. But there are also specific theories of employment, of value and distribution. Because of the permanent presence of space, the effect of some predetermined variable upon one or several determined variables is likely to be much stronger in its immediate neighbourhood than in very distant places. An educational reform in a European country may positively influence its long-run export performance which, in turn, may have a whole series of positive effects on the social and economic level; in particular, the normal level of employment may permanently increase. However, the success of this country may negatively influence economic activity elsewhere, e.g. somewhere in Asia. To study the influence of the educational reform on specified economic and social aspects of the country in question is obviously of great interest and might give rise to various research projects. However, it might be difficult to find research students wishing to study possible effects of that reform in some Asian country, although there might be effects; the problem would have to be put in another way, i.e. on the level of interactions between economies.

The second factor which facilitates the acquisition of knowledge is the presence of institutions. Given the immense complexity of societies, it is impossible for the individuals making up societies to decide as rationally as possible at every moment of time on every problem that might arise. It is inconceivable that the members of a society democratically decide each day on whether to drive on the left or on the right, on the expenditure pattern of the state and the amount of taxes to be levied, on the organization of education, on the ways to produce and to consume or on how to spend leisure time and so on. To organize social and individual life, institutions, i.e. persistent ways of pursuing individual and social aims, come into being almost spontaneously; in fact, behaviour means participating in institutions presently existing. Institutions and their interplay form the social structure which partly determines individual actions through formal constraints (rules of behaviour) and material constraints (e.g. scarcity and effective demand). Social institutions, for example the social process of production, are preconditions for the pursuit of individual aims, for instance in the sphere of consumption. The institutions existing in a society are the heritage of the past and constitute as such the contribution of past generations to the solution of present problems. However, old institutions may lose their meaning since the overall situation changes, mainly because of the social impact of technological

change, as Marx perceived with incomparable insight; new institutions will, as a consequence, have to be created in order to master new challenges. This leads to institutional change which manifests itself in an immensely complex historical process. In this process elements of harmony co-exist with elements of conflict in varying degrees.

Institutions remain unchanged for long periods of time or change but slowly. This introduces areas of stability into individual, socioeconomic and political life. To study the impact of these permanent aspects of individual and social life is the main object of the social and historical sciences. The object of study must remain reasonably constant if knowledge is to be obtained at all; looking at very rapidly changing behavioural aspects of social and individual life associated with uncertainty (e.g. unpredictable events that may affect single individuals or investment projects) leads to agnosticism. This is illustrated by chapter 12 of Keynes's *General Theory* where the behaviour of the *individual* investor is pictured. Fitzgibbons also confirms Keynes's penchant towards agnosticism: 'economics is in the realm of the ephemeral. The economics of Ricardo and Marx and Marshall, arch determinists who dreamed of economic science, were to be supplanted . . . by the economics of transition and meaningless change. Keynes's theories of value and interest represent his attempt to formalize a new and non-deterministic method of economics' (Fitzgibbons 1988, p. 129). This implies that 'Keynes meant to show that there is no such thing as a hidden economy, that the economy of appearances is the only one, and that the Ricardian method "of adopting a hypothetical world remote from experience as though it were the world of experience and then living in it consistently" was to be condemned for its abstractedness rather than praised for its science' (p. 127). The existence of long-period system equilibria associated with system-governed fully adjusted situations is questioned.

In this, Keynes was misguided. To say that 'the economy of appearances is the only one' implies positivism, which, as a rule, is associated with materialism and individualism; the latter leads to dealing uniquely with behaviour and with behavioural outcomes. Positivism, however, is strictly anti-metaphysical and therefore stands in sharp contrast to Keynes's vision. This contradiction in Keynes's position is perhaps due to his placing in sharp opposition the real (visible) world and 'transcendent' ideals: positivism is associated with the former, idealism with the latter. This dualism may lead to almost unrestricted positivism. Joan Robinson's position regarding knowledge is typical: 'One of the great metaphysical ideas in economics is expressed by the word "value"' (Robinson 1962b, p. 26). 'Among all the various meanings of *value*, there has been one all the time under the surface, the old concept of a Just Price . . . *Value* will not help. It has no operational content. It is just a word' (p. 46). The last sentence indicates that Joan Robinson basically takes a nominalist, anti-metaphysical and positivistic position.

Hence Keynes *in some instances* places a 'messy' real world in opposition to Platonic ideals. This is extremely dangerous, not only for the social sciences, but also on a political level. For example, neoclassical economists place in sharp opposition, on the one hand, crude positivism in empirical work and pragmatism in policy-making –

exemplified by monetarism and ‘supply-side economics’ – and, on the other, highly sophisticated and abstract models describing ideal or hypothetical situations. This may lead to confusion because there is, for example, no clear link between theory and policy. In the political sphere the separation of reality and ideals might lead one to argue, for instance, that, given heavy social disorder, a ruthless dictatorship would be justified to bring about some ‘ideal’ society. Therefore, in this book, we have always taken the position of Ricardo, Marx and Marshall which is, ultimately, based on Aristotle’s: below the immediately visible surface, there is a hidden reality governed by stable or slowly changing causal forces structuring the real world which reflects the functioning of the institutional system. If this were not so, there would be no social sciences, and potential knowledge on social matters would be submerged by agnosticism. On the political level the Aristotelian view implies that social progress may be achieved through institutional reforms in response to particular situations and taking account of human weaknesses (see chapter 6). Hence there is no question of realizing an ideal society.

Excessive positivism thus implies that individuals are almost helplessly faced with a chaotic visible universe. Fortunately, however, the individual is not standing alone or isolated from other individuals in an immensely complex universe, but is acting within an institutional framework, a social structure, which is governed by specific laws and partly determines his actions. Uncertainty and very imperfect knowledge about the ‘chaos’ of appearances, for example rapidly changing behaviour, and determinism and probable knowledge about underlying social structures governed by rigid social laws co-exist. The fate of each individual investment project is likely to be highly uncertain and the volume of trend investment is rigidly determined by the institutional set-up of a society (chapter 4, pp. 142–204). The latter implies that there are system equilibria associated with fully adjusted situations and that, therefore, ‘a hidden economy’ in the sense of Ricardo and Marx exists.

From the writings of Keynes it emerges, however, that he was not, on the whole, systematically overwhelmed by agnosticism. Keynes did accept that quite certain statements are possible if institutions and historical developments are considered:

The Treatise on Probability and *The General Theory* have a common subject matter, namely the prevalence of uncertainty, and address a common problem, which is whether sensible and rational decisions can be made under conditions of probability and uncertainty. This question had been posed and answered by Hume, who said in effect that they cannot. At first Keynes simply said that, Hume notwithstanding, rational intuitions commonly do occur. This answer defines the *Treatise* as one of Keynes’s early works, when Keynes held what he came to regard as his glib belief in human rationality. By comparison, where *The General Theory* later assumed the prevalence of human irrationality, it seemed to turn back towards Hume. In particular, Keynes later said that investors are typically unable to resolve uncertain situations, and *try to follow conventional rules* [our emphasis] . . . Keynes was almost certainly aware that he was conceding a point to Hume when he wrote *The General Theory*. In 1933 he had cited this passage as indicative of Hume: ‘Tis not, therefore, reason which is the guide of life, but custom. That alone determines the mind, in all instances, to suppose the future conformable to the past’ (Fitzgibbons 1988, pp. 31–2).

This almost Marxian statement of Hume’s leads Fitzgibbons to say: ‘Although Keynes’s *Treatise* might establish the ideal, Hume was right on a point concerning common practice. But if Hume was right to say that people follow conventions, then it is logical that humanity should be subject to the same causal laws as matter’ (p. 32).

Here, liberty and rationality are sharply contrasted with determinism and irrationality. However, in this study it has been suggested that liberty and individual rationality can (and must) be reconciled with determinism and social rationality. Human actions are almost never entirely free nor entirely determined since they take place within an institutional framework leaving some freedom of choice. While many economists think that freedom and necessity (or liberty and determination) cannot be reconciled, eminent historians do not find any difficulty in doing so: ‘The logical dilemma about free will and determinism does not arise in real life. It is not that some human actions are free and others determined. The fact is that all human actions are both free and determined, according to the point of view from which one considers them’ (Carr 1986, p. 89; the whole of chapter IV on ‘Causation in history’ is important here). For example, there is considerable freedom for the individual worker seeking a job or for the individual investor realizing an investment project while, simultaneously, the principle of effective demand, through the social structure, i.e. the institutional system, *determines* both the volume of *normal* employment and of *normal* investment which, in turn, sets *long-period restrictions* to each worker and investor. Hence, the act of finding a given job is free or determined according to whether a microeconomic (behavioural) or a macroeconomic (system) standpoint is adopted. Given this, the classical-Keynesian project of synthesizing Keynesian and Ricardian elements seems quite sound (see also chapter 3, pp. 103–18). The problem is not one of choosing between opposing theories but of bringing together and synthesizing theories implying different ways of looking at reality.

Therefore, Keynes’s too pronounced individualism leads him to contrast sharply the individual with the whole universe, a position which ultimately implies agnosticism. From an ethical point of view this gives rise to another sharp contrast between the highly imperfect real world and the ideal world: ‘Keynes’s vision was partly that all worldly affairs are subject to change to a possibly large degree, or to what he called “objective chance”; but it also pointed to an independent sphere of ideals, appreciable by the mind, by which we might steer cross-current’ (Fitzgibbons 1988, p. 49). There is in Keynes’s system ‘a direct relation between ethics and the messiness of the world’ (p. 50). The sharp opposition between the real and the ideal is typical of Plato by whom Keynes was heavily influenced (pp. 26–31). A sharp contrast between the ideal and reality is also present in liberal and socialist socioeconomic systems. In neoclassical economics, very down-to-earth empirical methods are used to come to grips with a messy reality; these stand in strong contrast to the highly formalized general equilibrium models depicting hypothetical or ideal situations; in this context, some philosophers of science have rightly spoken of *Modellplatonismus*.

A complement

Keynes’s approach is basically Platonian: the mind and its probable connections with objective ideas are of primary importance and the real world represents an imperfect reflection of ideals. The *humanist* approach underlying the present study could, however, be termed Aristotelian: ‘ideas are embodied in the real world, not that the real is to be found in ideas only’ (Hirschberger 1984, 1988, vol. I, pp. 72, 153;

chapter 2 above). In his *Politics* Aristotle systematically examined the *social dispositions* of man: society and the social institutions composing it may come into existence only if individuals are *unequal in ability* and are *complementary*. Aristotle's *Politics* thus deals with the social framework within which human actions take place. The nature of actions and how these ought to be regulated is the theme of *Nicomachean Ethics* which deals with the individual dispositions of man (Brown 1986, chapter 6); this sphere is also the realm of *equality*. The idea of man as an individual and a social being is sketched in chapter 2 (pp. 27–39).

An important element has to be integrated into Keynes's vision, namely the various institutions and their interplay (the social system or structure) mentioned in chapters 2 and 3, above all the social institutions which are the outcome of the social dispositions of man. Moreover, institutional and technological change, that is historical developments, have to be accounted for. Some problems arising with institutions and history have been dealt with in earlier chapters of this study, specifically in chapter 4. There a specific issue concerning the nature of the social philosophy underlying classical-Keynesian political economy was dealt with, i.e. the relationship between organicism and holism.

In the light of classical-Keynesian social philosophy Keynes's statement 'that the universe, together with our consciousness of it, conjointly forms an organic whole' (Fitzgibbons 1988, p. 21) might be highly misleading and dangerous. To see society as an organism might imply a totalitarian society, in that each individual fulfils certain tasks within the social organism and counts only as a member of society. Evidently, Keynes did not think in terms of this traditional concept of a 'social organism'. Rather he presumably held a basically atomistic vision of society which was in line with his individualism. The organic element comes in with the hierarchy of values which is pursued by individuals and in that the different values are organically linked with each other, which implies that individuals are entities and that, therefore, the various spheres of life are complementary (chapter 2, pp. 39–53). However, when he states in the *General Theory* 'that the duty of ordering the current volume of investment cannot be safely left in private hands' (Keynes 1973b, p. 320), doubts might arise. Individualism seems to lead to chaos and therefore requires, temporarily at least, a very strong state to restore order, including full employment. This might open the door to a rather extreme kind of socialism, as many have feared, particularly Hayek whose violent reaction against Keynes is fully understandable: Hitler and Stalin were solidly established in power when the *General Theory* was published. In this work Keynes even suggests that 'the theory of output as a whole . . . is much more easily adapted to the conditions of a totalitarian state, than is the theory of production and distribution under conditions of free competition and a large measure of laissez-faire' (Keynes 1973b, p. xxvi). In this context, some rather disquieting remarks of Marshall's should also be mentioned:

The notion of continuity with regard to development is common to all modern schools of economic thought, whether the chief influences acting on them are those of biology, as represented by the writings of Herbert Spencer; or of history and philosophy, as represented by Hegel's *Philosophy of History* . . . These two kinds of influences have affected, more than any other, the substance of the views expressed in the present book (Marshall 1920, p. ix).

This is a strange association of liberalism (Marshall) and totalitarianism as is potentially implied in an organic-cum-holistic view of society (Hegel), the whole being possibly complemented by evolutionism which may imply the domination of the strongest and of the most ruthless (social Darwinism). To be sure, neither Marshall and Keynes, nor Spencer and Hegel advocated the latter. But the danger is that totalitarian and élitist conclusions might be drawn from an organic and evolutionist view of society, wherein élite might be defined as ‘natural superiority’ of individuals or even of some race. Totalitarianism need not be political, as was the case with totalitarian socialism - which stands in contrast to the humanist socialism of Marx -, totalitarianism may also be economic and appear in the more subtle shape of money and finance. Everything tends to become a commodity - privatization is but one expression of this tendency - everything, must as a consequence, be profitable, and huge masses of finance capital seek profitable investment opportunities in the productive and in the finance sector. Marx stresses this point time and again in his *Kapital* (Marx 1973/74).

This indicates the importance of being clear about social philosophy. In the humanist view, change and evolution only occur on the level of phenomena. Objectively given ontological and ethical principles are invariant, for example, the principle of effective demand or the notions of justice in exchange and distributive justice. This implies, for example, that there is no moral progress on a fundamental level. More generally, as the German historian Leopold von Ranke remarked, all societies, all cultures and all historical epochs are broadly equal. Since no society and no individual is perfect great achievements in all domains and failures, even catastrophies coexist if large epochs are considered. Hence, if society is seen as a *moral* organism because hierarchically ordered social and individual aims are pursued within institutions by individuals - as is implied in Keynes’s social theory -, the view of society as an organism can of course be accepted: the organic character of society emerges from the complementarity of institutions. This view of society need not lead to dangerous consequences if it is borne in mind that social structures ought to serve individuals, i.e. to provide the social preconditions for the actions of individuals; this is the crucial postulate that should underlie the humanist classical-Keynesian view of society in which the prospering of the individual remains the ultimate end. In chapters 4 and 6 it has been mentioned that full employment and income distribution grounded on a social consensus involving distributive justice are most important social preconditions.

Hence Keynes’s heavy emphasis on short-term behaviour requires complementing by a social foundation, i.e. a system of complementary social and individualistic institutions which consists of a material basis and an institutional superstructure. The key points are the typical Keynesian notions of the ‘monetary production economy’ and ‘effective demand’. These essentially social concepts enable us to integrate the classical view of the institutional system, i.e. the material basis-cum-superstructure scheme, with Keynes’s way of looking at socioeconomic phenomena as is reflected in his notion of the monetary production economy. On the theoretical level this means combining the proportions-based classical approach to value and distribution with his principle of effective demand which deals with the scale of

economic activity. Both the classical proportions approach and Keynes's principle of effective demand are social laws in the sense that the entire institutional system, directly or indirectly, enters the picture to determine value, distribution and employment in a monetary production economy.

Ethics, politics and political economy

Keynes's views on ethics are set out in chapter 3 of Fitzgibbons (1988) and in chapter 6 of O'Donnell (1989). Criticizing Hume, 'Keynes found a formal parallel between probabilistic reasoning and ethical reasoning . . . In the medium of probability, which is the stuff of the world, the connection between facts and values would be reestablished' (Fitzgibbons 1988, p. 35). '[I]f non-demonstrable probabilistic knowledge *was* valid, as Keynes believed, then the same reasoning could be extended to and be valid in ethics' (p. 36). Hence we may advance 'arguments [which] are rational and claim some weight without pretending to be certain. In metaphysics, in science, and in conduct, most of the arguments, upon which we habitually base our rational beliefs, are admitted to be inconclusive in a greater or less degree' (Keynes 1973a, p. 3). 'If probable knowledge is valid, then it can only be on the basis of non-demonstrable logic and rational intuition. However, if there is a rational intuition, then it can be equally applicable to ethics' (Fitzgibbons 1988, p. 36). Hence, Keynes's view on knowledge in the domain of ethics is an application of his general theory of knowledge (Keynes 1973a) sketched in chapter 2 (pp. 57–75).

'Keynes's rational ethics . . . is an ethics of motives rather than consequences. It is similar to the doctrine of *Natural Law, the traditional philosophy* [our emphasis] which advocated the performance of duty, which understood rational action as being correlative with the virtues, the major way in which, the medievals believed, reason could be expressed in an uncertain world' (Fitzgibbons 1988, p. 37). This is very important, above all if confronted with Schumpeter's views on *natural law*, as he argues that the natural law philosophies were at the origin of the social sciences and subsequently petered out to be replaced by positive science (Schumpeter 1954, part II, chapter 2, pp. 73–142). Presently, there seems to be a resurgence of the natural law approach; Utz (1964–94), Schack (1978) and Brown (1986, chapter 6) are indications of this. In chapter 2 (pp. 39–53) it is suggested that the proposed *humanist* system of political and individual ethics ought to be based upon Aristotle's *Politics* and *Nicomachean Ethics* respectively, as is done in Brown (1986, chapter 6). This implies the *natural law* approach. The corresponding ethical system is supposed to be based on objectively given and invariable *concrete* or *material* values (for instance, the classical virtues, fair distribution, full employment). The supreme value in the political sphere is the common weal, to which corresponds happiness in the individual domain. Both the common weal and happiness embody a structured system of complementary values. This is due to the *nature* or *essence* of society and of man, both of which are structured entities. The dispositions to perceive and eventually to pursue objectively given values are supposed to be anchored in human nature. This is sharply opposed to utilitarian and Kantian ethics, for example, which attempt to establish *formal* rules to

guide correct behaviour, 'utility maximization' and 'categorical imperatives', which are without reference to the material content of actions. Rules of behaviour are important, but such rules can be established only once concrete values have been identified and their importance justified (on this, see also Schack 1978 and Brown 1986).

A strong link between politics and ethics is implied in Keynes's vision:

Modern political theory is based on considerations of power, whereas traditional political philosophy was based as much on ethics . . . Keynes's theory of politics was based entirely on ethics. He wrote in the old idealist tradition of political philosophy, which, believing that the state should be ruled by reason and true ideals, was concerned to define the appropriate structure to rule. The tradition also holds, and Keynes himself believed, that democracy and the rights of man can be means but can never have the rank of political ends, because the state has ultimate moral responsibilities, whereas democratic politics are inconstant and are part of the flux. But it had also been traditionally assumed, not as a principle but as a practical reality, that the lot of common humanity was to suffer debilitating and ineradicable poverty. Keynes revised traditional political philosophy in the light of modern economic growth, which he declared to be the most significant change that civilization had ever experienced (Fitzgibbons 1988, p. 53).

Technical progress enhances labour productivity such as to render possible a decent life for every member of the various societies, which, in spite of the enormous growth of population in recent decades, may still be possible.

The typical Platonian opposition of (perfect) ideas to (chaotic) reality re-emerges in this passage. Therefore, the crucially important relationship between ethics and politics ought, in our view, to be based on Aristotle, not on Plato (chapter 2, pp. 20–57). The latter, similarly to Hegel, looked at matters concerning man and society from the point of view of the absolute. On this assumption, Plato and Hegel worked out grand systems, the misconceived application of which to real-world problems might give rise (and gave rise) to tragic consequences: the attempted realization of totalitarian utopias is the most obvious case in point. Keynes, however, looked at reality from the point of view of the imperfect human being as his stressing of probable and uncertain knowledge clearly shows. The same is true of Aristotle. His *Nicomachean Ethics* and *Politics* picture a system of individual and political ethics which is founded on the *real* man and takes account of his possible weaknesses and imperfections. Aristotle combined the deductive and essentialist method with the inductive (empirical and historical) method. Similarly to Keynes, Aristotle thought that those responsible for public affairs ought to create, as well as they can, the preconditions for 'a good and decent life' of all citizens making up a society. Based on the social disposition of man, linked with inequality and complementarity, the basic aim of politics is to establish as much harmony as possible within society or to eliminate alienation as far as is possible (chapter 2, pp. 20–57). This requires, in turn, the presence of an objectively given (but unattainable) ideal. But, 'the temptation of constructing an ideal [Platonian] polity founded on mere guesses and hopes [must be avoided] . . . there is an ideal polity for each State, if not one for all States . . . But it is only to be discovered in the paths of history and observation' (Amos 1883, p.v.), grounded on theoretical and metaphysical reasoning.

Hence political action in each society ought to aim at approaching the imperfectly known ideal of the public interest or the common weal (the most fundamental and the most complex value) as closely as possible; this is equivalent to reducing system-caused alienation as far as possible (chapter 2, pp. 39–53). *Politics*,

as the queen of the social sciences, has to co-ordinate the other social sciences to prepare the way for improving the institutional system: 'Politics [comprises] all those branches of knowledge which depend on the composite nature of man both as isolated and as in society. Such are Ethics in the Aristotelian sense . . . ; political economy, which deals with the conditions under which national wealth is produced, accumulated, and distributed; law and legislation [and] Sociology' (Amos 1883, p. 3). How the social sciences are co-ordinated and what policy actions are effectively undertaken depends upon the social philosophy which underlies the dominant vision of the broad functioning of society.

Given the crucial importance of Aristotle and Keynes's heavy reliance on Plato one might ask whether very old and hotly disputed issues, capable of no solution, are reintroduced into the social sciences. Three reasons may be advanced to dispel this fear. First, Aristotle's philosophy in general and his *Ethics* and *Politics* in particular are sound and realistic and capable of providing principles that can be applied to very varied real-world situations. Second, Keynes is presumably more Aristotelian than emerges from Fitzgibbons (1988). Third, Aristotle and Plato are, on a fundamental level, complementary (Hirschberger 1984, 1988, vol. I, preface to the fourth edition, pp. VI–VIII; Jaeger 1955): Plato takes the point of view of the Absolute and Aristotle the position of man capable of probable knowledge only.

In chapter 2 (pp. 20–57) it has been suggested that Aristotle might be considered as the founder of the *humanist* middle way in the social sciences and stands behind a great tradition in political philosophy (for a survey of political thought, see Fetscher and Münkler 1985–93). His way of looking at social and political phenomena was carried on by Cicero who developed the concept of the mixed constitution; Aquinas' notion of the common weal was taken up by the Christian Social Doctrine and complemented by the principles of solidarity and subsidiarity; Montesquieu and Burke wrote on institutions and institutional reform; Friedrich List and Gustav Schmoller emphasized the importance of institutions and of productive forces, as did other members of the German Historical School and of American Institutionalism. Marx was an admirer of Aristotle; his theoretical and, simultaneously, historical method is profoundly Aristotelian. Finally, the classical view of the institutional system, i.e. the material basis-cum-superstructure scheme, may, in principle, be combined with Keynes's way of looking at socioeconomic phenomena through the lens of his notion of the monetary production economy.

Philosophy of history and political economy

The economic theories of liberalism and socialism are each embedded in a social philosophy and in a wider view of socioeconomic, political and cultural evolution which could be called a philosophy of history. Liberalism asserts that individual freedom, above all in the economic sphere, leads to a permanent improvement of the material situation which will provide a steady firmer basis for satisfying higher cultural needs which will, in turn, broaden the scope for freedom; incidentally, Marshall, under Hegelian influence, broadly thought on these lines (Groenewegen 1990; 1995, p. 611).

According to extreme socialist doctrine societies deterministically move through various modes of production, driven on by internal contradictions which constitute the engine of change; these conflicts would disappear within communism which is free of alienation and represents as such the final stage of history. Hence the *idea of progress* is all important in liberalism and socialism. General progress is rendered possible in both systems of thought by scientific progress: the growth of scientific knowledge in the natural and in the social sciences is said to enable man to master the forces of nature and to organize societies with growing perfection.

The immense influence exerted on practical affairs by both liberal and socialist doctrines is not primarily due to their economic theories but to the social philosophies and the philosophies of history underlying both; in a way, these doctrines represent secular religions. Hence classical-Keynesian political economy must be complemented by a complete system of socioeconomic thought too if it is to exert a decisive influence on socioeconomic policy-making. This requires elaborating a specifically *humanist* social philosophy and a corresponding philosophy of history. The former is sketched in chapter 2 (pp. 20–57), while some hints at the latter are provided in this subsection.

We start with a brief discussion on the supposed sense of history, particularly the probable aim to be reached. Next the close association between Aristotelian-based philosophy of history, i.e. historical realism, and classical-Keynesian political economy is sketched. Subsequently, some special issues are considered: the actor in history, the significance of alienation, the problem of imperfect knowledge, the phenomenon of social and cultural change; and, finally, the problems of pursuing aims under alienated conditions and of learning from history are touched upon. In dealing with these immensely complex issues – of which principles can only be sketched – we take up some threads of thought developed in previous chapters.

The problem of the *supposed sense of history* may be tackled in a speculative or in a realist way. In the *speculative* view the aim of history is in the future and as a rule consists of a situation free from alienation, characterized by a perfect organization of society and mastery of the forces of nature by man such that individual aims like freedom and self-realization may be fully achieved. Widely differing perceptions of the ideal state of affairs and of the way which leads to it are associated with great modern ideologies embodying a philosophy of history, for example liberalism, socialism and Hegelianism. An important common characteristic of these systems of thought is that the thinking about history and its end is in terms of the *Absolute*. Liberalism is deistic, and man is gradually supposed to acquire complete mastery of his fate, especially the forces of nature, the result being freedom and material affluence. Socialism is naturalistic and aims at the same ends as does liberalism, although the way and the means are different. Hegel's pantheistic system conceives of history as the action of a rationally acting *Weltgeist* striving for absolute knowledge and freedom. A striking feature of these ideologies is the speculative and even theological elements they contain. As a matter of fact, liberalism and socialism are, in some way, secular religions. Hegel's system has been denoted a piece of rational theology. Indeed the speculative way of looking at the course of history seems, explicitly or implicitly, to end up in theological considerations. Such considerations are of course legitimate *per*

se but are not part of a system of social science although they may be used to put the social sciences into a wider and more profound context.

In the *realist* way of looking at the course of history the aim of history is not in an undetermined future but in the present. This aim is fundamentally ethical: the same immutable ideals provide signposts for action in all domains. Regarding human affairs this means continuous efforts to reduce imperfections in order to approach more closely the ideal of the common weal (chapter 2, pp. 39–53). The realist way of looking at the real world presupposes that there are immutable ontological, aesthetical and ethical principles underlying visible reality, which represent the essence of existing things. These essences are also ethically and aesthetically perfect. This implies that on a fundamental level truth, goodness and beauty coincide.

The fundamental principles (pictured in layer VII of scheme 3, p. 106) have a double function. On the one hand they shape part of the real world, predominantly nature and the physical aspects of man and of society, i.e. the material basis of social and cultural life. This implies that the contents of the fundamental principles are realized in different forms varying widely in space and time. A striking example is the social process of production which, in principle, remains invariant but has undergone immense changes in form with the transition of traditional to modern industrialized societies. On the other hand these principles provide natural and invariable guidelines for the behaviour of man in all domains, economic, political, moral and cultural. However, for various reasons – imperfect knowledge, particular interests and defective organizations of society – there will always exist a gap between the ideal and the existing, that is alienation (chapter 2, pp. 39–53). This implies that, in the course of history, individuals always act in alienated circumstances.

Hence the realist way of looking at history is from the point of view of imperfect and fallible human beings most of whom attempt to do better in changing material circumstances. This more modest and more limited way of looking at history does not preclude the study of wide epochs characterized by specific fundamental values like the Middle Ages, or of secular movements, for example the transition from traditional to modern industrial societies. The realist way of looking at history intimately links up with humanist social philosophy (chapter 2) and is, as such, essentially Aristotelian. Modern historians implicitly taking up variants of the realist approach are, for example, Burckhardt (1978), Carr (1986) and Lloyd (1986), who, incidentally, coined the notion of *historical realism*.

This concept may be felicitously combined with classical-Keynesian political economy to provide a broad framework for coming to grips with historical processes. The key notion linking up historical realism and political economy is that of the *social surplus*, which, according to the political economy approach, emerges from the social process of production, i.e. the material basis of society. The social surplus allows the setting up of an institutional superstructure (chapters 3 and 4), the shape of which depends upon the use of the surplus; state activities (defence, administration, education), social and cultural purposes, luxury consumption and accumulation of capital are possible uses. The notion of the social surplus is of the greatest importance for picturing historical processes. Indeed the way in which the social surplus is

produced, appropriated, distributed and used characterizes historical situations; as such the surplus approach allows the linking up of the socioeconomic sphere of society with the political, legal and cultural domains and to study interactions between these spheres. This is not to argue that the material basis determines what is going on in the superstructure as some Marxists have done. The surplus principle merely implies that each activity, whether economic, political or cultural, requires a material basis. Here is not the place, and there is no need, to develop systematically the links existing between historical realism and classical political economy. In this field, the classical economists, most importantly Marx, have provided the conceptual foundations, and a very great number of historians have, explicitly or implicitly, made use of classical political economy, complemented by Keynesian elements in this century, in historical analyses. In the following, only some issues associated with historical realism and its links with classical-Keynesian political economy are sketched.

First, in historical realism the *actor in history* is *real* man, i.e. *the social individual* pictured in Marx's *Grundrisse* (Marx 1974 [1857/58]), who as an individual may egoistically pursue individual aims and is *simultaneously* a social or a political being (Aristotle, *Politics*). As such the social individual acts within a social framework which, through constraints, determines his actions to some extent. For example, a lack of effective demand resulting in involuntary unemployment crucially shapes the general atmosphere in a society and the behaviour of individuals. This comprehensive realist view stands in sharp contrast to the liberal and socialist view. Liberalism and socialism are in fact based on the idealization of part of human nature. The former praises the individual and egoistic aspect of human nature, and emphasizes the principle of self-regulation; the latter wants to crush egoism and to transform man into a social and benevolent being.

Second, the social individuals always act in alienated, i.e. not ideal, situations, wherein systemic alienation is fundamentally important – for example, involuntary unemployment and its social and political side-effects. There are two main sources of system-caused alienation: first, a greater or less degree of ignorance of social matters, for instance of the causes of unemployment, and, second, the excessive pursuit of particular interests, mainly in the economic and political spheres. It is important to note that the pursuit of particular interests need not, in itself, be associated with the alienation. The latter comes about if particular interest-seeking disturbs the socially appropriate proportions or the harmony of the system. For example, in chapter 4 (pp. 154–75) we have argued that profits play a socially useful role. However, from the supermultiplier relation it emerges that the profit *share* must not exceed a certain size – dependent on all the other variables and parameters contained in the supermultiplier relation – if the full-employment level is to be preserved. If entrepreneurs pursue profits within these socially appropriate limits, system-caused alienation will not occur. If, however, the profit share grows excessively large, because of speculative profits for instance, involuntary unemployment and system-caused alienation will come into being.

System-caused alienation plays a crucial role in history because alienation may be self-reinforcing. This may produce intolerable strains on the institutional system and cause its breakdown. The latter may engender chaos, particularly in the economic and

legal spheres. In a legal vacuum the law of the strongest will prevail with all the political consequences that may ensue. Germany in 1932 and at the beginning of 1933 is perhaps the prime example of the uncontrollable effects of self-amplifying alienation caused by involuntary mass unemployment which, reinforced by the feeling of frustration generated by a lost world war and by a socially disastrous hyperinflation, almost inevitably ended up in a totalitarian régime. The events which occurred were largely caused by the determining influence of the system upon behaviour which, in turn, may itself run a deterministic course : a totalitarian régime once established cannot be easily overthrown, mainly because of the terror, fear and mutual mistrust it creates; moreover, short-run economic, political and military successes may even reinforce it; subsequently such a régime may enforce most irrational and ethically reprehensible actions. This example illustrates how in history the determinism of the system and behaviour within constraints interact sequentially and may even produce pieces of historical inevitability.

Third, imperfect knowledge – a kind of alienation – about individual or social affairs may prevent ethically correct actions; the aims pursued by the social individuals may be ethically good or bad in varying degrees and depend upon specific value systems. Hence the attempts to narrow the gap existing between historically existing and probably and imperfectly known ideal situations, i.e. alienation, are always tentative. Since knowledge about actually existing and about desirable situations will always remain probable in Keynes's sense, alienation will never be eliminated; eventually, it can be reduced to some extent.

To obtain knowledge about principles is particularly difficult because fundamental values and principles are invisible: the multiplier principle may be seen at work, but the principle itself (the causal force embodied in the multiplier) cannot be seen. Therefore, it is very difficult to bring into the open the way in which fundamental values are embodied in the various societies and are expressed in individual actions. For example, it is evident that ways of life are different in France and Germany or in Great Britain and on the Continent. Yet it is extremely difficult to say precisely what the difference consists of. An immense amount of theoretical, empirical and historical knowledge, complemented by experience and understanding, is required before even tentative judgements can be made on these and similar matters. An analogous argument holds for the understanding of the way in which fundamental principles work. For example, the long-period principle of effective demand, which is, in principle, captured by the supermultiplier relation, is implemented in entirely different ways in the various countries and regions. Again, the principles shaping reality cannot be directly observed. Hence these must be thought out; subsequently an attempt may be made to grasp the way in which principles act in the real world. These intellectual processes are set into motion by real-world events that give rise to problems and consequently require an explanation, for example mass unemployment. The invisibility and the complexity of fundamental values and principles embodied in the real world is, incidentally, one of the main features of Keynes's vision (Fitzgibbons 1988; O'Donnell 1989).

Since the immensely complicated working mechanism of invisible values and principles cannot be directly observed, systematic thinking on these matters is required.

Here visions about the objects of inquiry play an important role. This implies that scientific thinking can never be entirely free from ideology: science will always be alienated to some extent. Intellectual activities show up in scientific and moral institutions, which are part of the central layers of reality. Putting into practice systems of socioeconomic and political thought in the course of historical time gives rise to a complex set of social and individualistic institutions. For example, liberal and socialist institutions have been set up in different forms in the last two centuries.

The acquisition of historical truth can be greatly enhanced, however, if real-world phenomena are hypothetically ordered according to their degrees of persistence (scheme 3, p. 106). This reflects a broad arrangement according to essentials. Moving from the upper layers to the lower ones implies penetrating into more and more essential spheres of the real world. To understand probably (in Keynes's sense) parts of the real world in terms of ever deeper causes means that truth becomes correspondingly more and more profound. More essential and hence 'more true' elements of material and spiritual reality are also ethically better and are aesthetically more satisfying. This shows up in the fact that societies tend to preserve those institutions considered to be appropriate, reasonable and natural, thus 'good' for the society in question; simultaneously, the individuals or groups of individuals who created these institutions are favourably remembered. This is not to argue that defective or heavily alienated institutions, dictatorships for example, do not persist or that only great statesmen are favourably mentioned in history books. However, heavily alienated institutions cannot last for ever because they are not based on attempts to bring about justice and can, therefore, only be maintained by sheer force. Similarly, history books presenting tyrants as great statesmen are not based on the search for truth but on deliberate deception. Both force and deception are doomed sooner or later as historical experience shows. The fundamental reason is that heavily alienated institutions are in contradiction to human nature. A similar argument holds for the aesthetically satisfying, that is beautiful elements of the material and spiritual world: each society tries to preserve and to remember these elements of reality, be this in the spheres of architecture, painting, music or literature, in order to derive enjoyment from them in the present and in the future. All this is typically Aristotelian, and also Keynesian as emerges from Keynes's early work set forth and commented on by Fitzgibbons (1988) and O'Donnell (1989). Time and again, Keynes points to the fact that truth, goodness and justice, and beauty are not only the most fundamental, but also the most complex concepts as they relate to all spheres of the real world which together form an immensely complex whole.

To approach the natural, essential or unalienated in the various spheres of social and individual life takes time. In periods of rapid change the sense of the essential may even be temporarily lost.

Fourth, the phenomena of *social and cultural change* may be conveniently dealt with by the historical realism encompassing political economy. Here the historical process is conceived of as an interaction between socioeconomic systems and individuals and collectives acting within the system. On the one hand, systems determine, to some extent, actions of individuals and collectives, e.g. effective demand

governs output and employment and sets restrictions on individuals; on the other hand, individuals and collectives shape the system through their pursuing individual and social aims. In the course of time, circumstances – the system – values and behaviour change. Hence historical realism comprises a theory of social change which is one of the important subject matters of sociology: ‘From its beginnings sociology was closely connected with the philosophy of history and the interpretations of the rapid and violent changes in European societies in the eighteenth and nineteenth centuries’ (Bottomore 1971, p. 283). As a rule social change goes along with cultural change and is associated with varying uses of the social surplus. Perhaps the most impressive theory of social change was established by Marx. In *Das Kapital* he emphasizes the deterministic influence exercised by the evolution of the socioeconomic system upon behaviour.

Technological, social and cultural change may be captured in principle by horizontal causalities (chapter 3, pp. 118–30). In the long run the driving force behind social and cultural change is changes in the value system. In some periods of time egoism and materialistic values dominate, in others social and cultural aims are more intensely pursued. Social and cultural changes are linked with changes in the use of the social surplus as emerges from the social process of production. Technological change continuously changes the *means* required to reach *given* aims. For example, the tremendous progress in the computer sciences has brought entirely new possibilities for storing personal data. This requires new legal means to protect individuals from state and other bureaucracies.

More specifically, two main factors bring about social change. First, progress in the natural sciences opens up new possibilities in the socioeconomic sphere. Partly, societies have to adapt to the new technological achievements, but partly the achievements may be integrated into an existing social situation. Second, there is the dissatisfaction of social groups with the existing situation, due to a discrepancy between an actually prevailing and a desired state of affairs: this is subjectively perceived alienation. Whether social change occurs at all depends on the distribution of power between conservative and progressive forces. In this context, the importance of the above-mentioned determinism exercised by the socioeconomic system should be borne in mind: if the system produces severe involuntary unemployment, change will be socially destructive in that poverty increases, for example. Social action may relieve some effects of poverty in the short term; the problem, however, consists in tackling the causes: for example, a very unequal income distribution may be the main cause of severe involuntary unemployment; hence parts of the socioeconomic system would have to be changed, i.e. distribution rendered more equitable in the case considered. This would require long-period institutional change related to the organization of society.

The organization of social and economic life was relatively easy in the basically agrarian societies preceding the Industrial Revolution. The very extensive division of labour initiated by the Industrial Revolution enormously increased the complexity of socioeconomic life. The necessity to understand economic events, which were now no longer immediately obvious, gave rise to a new art, political economy, which should

provide the conceptual basis for governments to organize socioeconomic life in monetary production economies.

Hence history may be understood as an incessant struggle by individuals and collectives to do better in all spheres of life in ever evolving material conditions and in an ever alienated environment. In this, man is guided by fundamental ontological principles and by moral and aesthetic ideals which can be but imperfectly perceived, however. Nevertheless, aesthetic near-perfection was reached at times as is attested by the great achievements in architecture, sculpture, literature, painting and music which each society tries to preserve and to remember. In the political and social sphere, humanity seems, perhaps with a few limited exceptions, to have been less successful, and the possibility that self-amplifying alienation gets out of control will perhaps never vanish. However, the immense achievements in science and technology in the last two hundred years might provide the material preconditions for a happier life for all individuals. This is one of the main tenets of Keynes's vision (Fitzgibbons 1988, p. 53). But the social preconditions have to be created first: full employment and a fair distribution of incomes are essential (Keynes 1973b, p. 372). Population policies will almost certainly become increasingly important in the future. In this context, we ought to remember that Malthus and Ricardo conceived of an 'optimum' population size associated with the natural wage and the stationary state.

Given the imperfection of human knowledge and of the perception of moral standards, history cannot and will never be a clean story of linear progress. The central reason is that alienation is always present in some form which is another way of saying that historical development never was and never will be in a perfect 'common weal equilibrium'. Moreover, the alienated past will act upon the present to create new alienation: the attempt to repair past injustice by force may create new injustice; for example, people unjustly expelled from their homes may try to reconquer their land harming thereby the new inhabitants. Hence, the perpetuation of alienation in historical time implies that societies will never get into a comprehensive common weal equilibrium; this is analogous to economies which cannot get into a golden age equilibrium. Therefore, new problems and challenges ever arise and setbacks and even disasters, to be followed by periods of prosperity, seem inevitable. History seems to evolve cyclically around a broad trend of material and scientific advance. Progress is always relative however; for example technological advances may lead to setbacks or growing alienation in the social sphere: an excessive division of labour may lead to a disintegration of social life accompanied by excessive individualism and growing loneliness. Or, material affluence may negatively affect social and cultural standards.

Hence the great problems relate to the organization of society and consist of transforming potential economic growth into social and cultural improvement. Political action in this field must be guided by two factors: first, knowledge of existing socioeconomic situations which has to be provided by political economy and, second, a vision of the ideal society to be elaborated by social or political ethics which leads one to specify ends to be pursued. The probable knowledge of actual situations and of ends puts the politician in a position to act in the most appropriate way possible.

Since the whole of society must be considered, such knowledge is likely to be of immense complexity and should partly result from an evaluation of the significance of historical socioeconomic facts and ideas. The problem is to learn from the past in order to be able to tackle present problems more appropriately. The study of history seems, therefore, indispensable at all levels of education, in the humanities in general and in the social sciences in particular. The study of history is also immensely fruitful because it provides information on the nature of society and of man: the individuals living in various societies strive after the same immutable values in very different situations. The point is to observe and to attempt to understand the widely differing ways by which social individuals have attempted to reach greater perfection in the various spheres of life and to ask why they have partly failed and partly succeeded at times. Here the global view of events, i.e. history in the grand style, *à la* Vico, Montesquieu, Hegel, Marx and Toynbee for example, is complementary to the study of the details. The object of the former is the evolution of societies seen as wholes, the latter investigates the behaviour in specific spheres of individuals and collectives within institutional systems. The study of history is therefore not *de l'art pour l'art* made useless by progress. It helps us understand the present in the light of the past and to make guesses at possible future evolutions. Galbraith puts this admirably when he says that '[t]he present is the future of the past' (Galbraith 1987). Perhaps the main reason why the study of history can promote the understanding of mankind and its destiny in the course of time is the presence of fixed reference points provided by fundamental values: 'Sensible men mutually understand each other over thousands of years on the basis of commonly shared fundamental values [for example truth, honesty, sense of duty and the common weal]' (Schack 1978, p. 18; a.tr.).

Methodological implications

The importance of the history of economic theory

When attempting to broadly classify economic theories, it is essential that the visions implied in the various approaches be brought out clearly. The underlying social philosophies (variants of liberalism, socialism and humanism, made up of historical realism and naturalism) would then appear. Social philosophies constitute the unifying basis of the social sciences (chapter 2, pp. 20–57) and, as such, permit us to put in perspective the close links existing between political economy and other social sciences (public law, social and political ethics, political science, sociology). Moreover, revealing the vision hidden behind the premises of theories would greatly clarify the discussions between social scientists (Myrdal 1976a; Baranzini and Scazzieri 1986).

Based on a broad classification of theories, the discussions between different schools could proceed in a spirit of tolerance and of mutual recognition of alternative conceptual starting points. This is not sufficient, however, since mutual respect may, sometimes, imply mutual ignorance. The study of alternative approaches, i.e. acquiring theoretical experience, is essential. Before the Second World War the majority of social scientists studied and respected Marx without blindly accepting all his opinions.

Specifically, Marx's unequalled combination of theory and history, which is based on Aristotle and Hegel, was widely admired while his somewhat mechanistic views on the course and the final purpose of history were rightly rejected by most social scientists. Presently, even to mention theoretical precursors of Marx, Ricardo say, raises, in many instances, doubts about the intellectual sanity of an economist. However, social scientists who do not take the opinions of their theoretical opponents seriously hamper scientific progress and run the danger of stagnating within ever increasing formalism.

The attempt to gain deeper insights into the nature of economic theories will certainly lead to more work in the history of economic theory and of political economy, since the implications of theories can be understood better if their historical evolution is examined. To Maynard Keynes the study of the history of ideas, mainly the study of the great authors, meant *emancipation of the mind* since theoreticians and practical men would no longer be 'slaves of some defunct economist' (Keynes 1973b, p. 383).

In the history of economic thought the *locus classicus* is Schumpeter's great *History of Economic Analysis* (Schumpeter 1954). However, Edgar Salin states that Schumpeter's *History* is more of an encyclopedia of economic analysis rather than a history of political economy: '[Schumpeters *Geschichte* ist] eine Art von Lexikon der ökonomischen Analyse geworden . . . aber keine Geschichte der politischen Ökonomie' (Salin 1967, p. 196). Indeed, the *History* is too one-sided in that the Walrasian system and the associated individualism constitute the focal point in the development of economic theory and in that everything else is seen in terms of deviations from the Walrasian framework; consequently, society and political economy are neglected. According to Schumpeter, there is only one correct approach to economics, i.e. the (Walrasian) demand-and-supply framework, in terms of which each piece of theory is subsequently assessed. This leads Schumpeter to make rather strange statements, for instance: 'Ricardo was completely blind to the nature, and the logical place in economic theory, of the supply-and-demand apparatus and . . . he took it to represent a theory of value distinct from and opposed to his own. This reflects little credit on him as a theorist' (Schumpeter 1954, p. 601)! Consequently, no satisfactory explanation of the differences between Ricardian-Marxian political economy and neoclassical (Walrasian-Marshallian) economics can be found in his *History*. In order to enable this comparison, a more comprehensive framework of analysis, integrating the study of behaviour and of social structures, ought to be developed. For the philosophical and historical aspects of such a framework Salin's (1967) work might constitute an appropriate starting point, particularly his *Exkurs über die Wege der theoretischen Forschung* (Salin 1967, pp. 175–93). Salin is certainly right when he says that a comprehensive history of economic theory and political economy remains to be written: 'Eine umfassende Geschichte [der ökonomischen Theorie], die zugleich Staats-, Wirtschafts-, Sozial-, Ideen-, System- und Dogmengeschichte sein müsste, eine echte *Geschichte der Staatswissenschaften* also, ist noch zu schreiben' (Salin 1967, p. 196). Important steps in this direction have already been made. A few outstanding examples are Oncken (1902), Roll (1973 [1938]), Sweezy (1942), Heilbroner (1980 [1953]), Salin (1967), Dobb (1973),

Bharadwaj (1986, 1989), Deane (1978, 1989), Galbraith (1987) and Screpanti and Zamagni (1993).

Regarding future work it might be fruitful to give special attention to the distinction between *economic science* and *the art of political economy* proposed by Phyllis Deane. The latter deals with the understanding of the functioning of social systems and with creating the social preconditions for individual action; the object of the former is the behaviour of individuals in the economic sphere, with social structures treated as given. The way of arguing in political economy is essentially organic: the system as a whole and the relationships between the whole and its parts must be considered. The method of economic science is mechanical: the interactions between individuals are co-ordinated by automatic mechanisms, most importantly the market.

The excessive variety of present economic theory combined with the domination of the neoclassical approach is largely due to the loss of historical perspective. The idea of *linear progress* successively established in European thought since the Renaissance and the Enlightenment led many social scientists to believe that the newest theories were normally the best ones. This implies grossly overestimating the possibilities of the human intellect: science is confidently expected to go on acquiring steadily more perfect knowledge. This seems to imply that the partial knowledge gained through the sciences can be put together without major problems so that a 'body of science' obtains.

This optimistic view of things overlooks the fact that, regarding approaches and principles, very little is really new in the social sciences. Modern theories frequently appear as adaptations and formal improvements of earlier conceptual frameworks. Moreover, the complexity of the real world implies that certain ultimate questions will ever remain unanswered, for instance the functioning of a specific monetary production economy or the ultimate purpose of history; therefore, knowledge will always remain probable in Keynes's sense. Most importantly, however, the significance of the various theories may change in the course of time: societies form immensely complex wholes governed by a variety of principles, for example the law of supply and demand or the principle of effective demand in the economic sphere. Which principles are considered of primary importance and which of secondary importance depends on the vision which in turn rests on a social philosophy. Visions heavily depend on the economic, social and political circumstances characterizing a given epoch and evolve in time as historical situations change. Hence presently dominant theories may become largely irrelevant tomorrow because of a change in vision: the surprisingly rich mercantilist and cameralist thinking on socioeconomic matters was replaced by the physiocratic and the classical schools. The latter was supplanted by liberal and socialist streams of thought. Mercantilist thought re-entered the scene in the course of the Keynesian revolution. Keynes's vision was, in turn, gradually pushed into the background by monetarist thought and was apparently ousted completely by the rational expectations school for some time: 'In the 1970s . . . the Keynesian paradigm was rejected by a great many academic economists, especially in the United States, in favour of what we now call new classical economics. By about 1980, it was hard to find an American academic macroeconomist under the age of 40 who professed to be a Keynesian. [However,]

macroeconomics is already in the midst of another revolution which amounts to a return to Keynesianism' (Blinder 1988, p. 278; for an excellent survey on recent developments in economics, see Harcourt 1986, pp. 9–45). Finally, even at the moment when the neoclassical victory seemed complete, the tiny group of classical-Keynesians were, and still are, furbishing arms to fight current orthodoxy. Hence there is no linear progress. If there is some progress, it is circular and partial in the sense that a particular approach, e.g. the Ricardian one, is clarified and its implication brought out explicitly. Moreover, there is an incessant struggle to forge appropriate theoretical and applied frameworks in order to attempt to master the problems of the day. The basic problems of value, distribution, employment, inflation and their explanation, in principle, on the basis of various approaches, i.e. pure theories, remain, but historical circumstances change.

In this incessant search for the appropriate theoretical framework the history of economic theory provides us with valuable signposts, provided by the works of the great economists of the past. Neglecting these pointers means running the danger of getting lost in the dark owing to a lack of perspective: the important problems, and possible methods to tackle these, fall out of sight and explanation of facts may be replaced by sophistry, the result being confusion. To some extent this partly holds for the current intellectual scenery. There is, presently, an urgent need to get acquainted again on a large scale with the great systems of economic thought elaborated in the past. To study the great authors is extremely fruitful: a medieval philosopher believed the 'modern' thinkers of his time were dwarfs in comparison with some of the past giants. Nevertheless, he argued that the dwarfs are able to see farther than the giants simply because the former can climb on the shoulders of the latter. There is, indeed, no better way for an economist to become *comprehensively* acquainted with the crucial issues in economics and in political economy (value, distribution, employment, growth and development, money, international trade) and the ways of tackling these than by reading a great author or first-class secondary literature. This simple truth, still believed to be valid to some extent in the 1960s, was largely replaced by a strong belief in progress and the history of economic theory as a *compulsory* branch of study was gradually abolished in economics faculties. In the humanist perspective associated with historical realism this situation should definitely change since knowledge about the great authors of the past is *always* essential to the understanding of the great theoretical issues.

In addition to a better understanding of economic theory and of reality, deeper insights into the philosophical foundations of economic theories can be gained by an intensified study of the history of economic thought. For example, Recktenwald remarks, quite surprisingly, that with respect to the vision of society Aquinas is perhaps closest to Adam Smith (Smith 1978 [1776], translated by H.C. Recktenwald, introduction, p. LXXII). To establish such links is appropriate since both elaborated a comprehensive and realistic vision of man and society, although Aquinas's approach is essentially social and Smith's predominantly behavioural. This is exemplified by the notion of the common weal insisted upon by Aquinas and by the *two* main works written by Adam Smith, the *Theory of Moral Sentiments* and the *Wealth of Nations*

which, together, form a greater and integrated whole (on this see Skinner 1979 and Kurz 1990). However, to establish links between Adam Smith and Aquinas is tantamount to going back to Aristotle, especially to his *Ethics* and *Politics* because of the very close links existing between Aquinas and Aristotle. This leads straightaway to the humanist social philosophy suggested in chapter 2.

A remark on ideologies

The study of alternative approaches to economic theory, i.e. *economics* and *political economy*, as have been developed in the course of time means *emancipation of the mind* (Keynes): it is a way to break out of entrenched modes of thought. There is indeed a constant danger that thinking gets too much institutionalized and thus follows well-trodden paths. This implies that the correctness of a certain approach is taken for granted and that the underlying premises are no longer questioned; this, in turn, implies narrowmindedness. Consequently, theorizing becomes mechanical and formalism increases. Hence theories may become isolated from the real world and may become instruments of pressure groups using them in order to promote particular interests. Such theories Marx called ideologies or alienated knowledge, for example in his *Paris Manuscripts* (Marx 1973 [1844]). The latter means that theories are no longer vehicles to increase knowledge but serve to justify particular interests. However, ideologies are perhaps most dangerous in the hands of well-intentioned and zealous but fundamentalist politicians who tend to apply them uncompromisingly. Perhaps the most important recent work on the problem of ideology is Maurice Dobb's *Theories of Value and Distribution since Adam Smith* which carries the significant subtitle 'Ideology and economic theory' (Dobb 1973).

Large parts of neoclassical economics and of the economic theory of socialism are ideologies *if* put to use without further qualification in a fundamentalist way. For two main reasons there is little danger of classical-Keynesian political economy, i.e. the humanist approach in political economy suggested in chapter 2, becoming an ideology. First, though clear-cut regarding principles, the classical-Keynesian framework seems flexible enough to be applied to very varied circumstances and to provide a framework for synthesis of widely diverging theories, including behavioural elements of neoclassical economics and some macroeconomic features of the economic theory of socialism. This is perhaps due to the fact that classical-Keynesianism considers societies as complex entities where each institution is important, including the market and some (indicative) planning devices: institutions are complementary in the humanist view. A second reason is based upon the theory of knowledge underlying the classical-Keynesian system (Keynes 1973a): knowledge of complex issues is always probable to a greater or less degree and knowledge itself is multidimensional comprising metaphysical and scientific elements, historical experience and empirical facts (chapter 2, pp. 20–75), and pure theory is merely a vehicle for acquiring probable knowledge. In this view knowledge on complex social matters is never definitive: seemingly unquestionable propositions must constantly be justified. Moreover, the theoretical and empirical arguments of opponents have to be taken seriously; for example, the

neoclassical economist ought to study Marx and Keynes in depth in order to be able to evaluate his own conceptual starting point; conversely, no classical-Keynesian economist can ignore the great achievements of the founders of the neoclassical school regarding the analysis of behaviour and of behavioural outcomes. One of the main tenets of Keynes's theory of knowledge is that there are no realistic premises to start from. This requires openmindedness which is perhaps the most efficient weapon to combat ideologies.

Historical versus mathematical method

A stronger position of classical-Keynesian political economy within the social sciences would be beneficial to the teaching of economics: students would be more motivated since links between theory and historical reality can be easily established. On the basis of positive classical-Keynesian theory (pure causal models or ideal types) frameworks for empirical and historical investigations (applied models or real types) may be elaborated. These enable the social scientist to ask questions of highly practical interest. He may inquire into the nature of unemployment, the determinants of distribution, the formation of prices and the economic development of nations and regions; the effects of certain institutions upon economic events may be investigated and so on. The gap between theory and historical reality would be reduced, teaching would become easier and students would be attracted more strongly by a subject as exciting as political economy.

The isolation of economic theory within social and political theory in general was less pronounced in the nineteenth and early twentieth centuries when classical and Marxian economics, the German Historical School and American Institutionalism co-existed with neoclassical theory and its precursors. Presently economic theory seems to have lost touch with the historical and social sciences, however. Large parts of modern theory in fact resemble pure and applied physics. The use of sophisticated mathematical tools is widespread. Indeed, many neoclassical economists tend to formalize with great care equilibrium situations based upon the principle of exchange, and deviations from equilibria, which means generalizing to the utmost the principle of exchange. Instead of social relations, *relations between agents and things* (represented by utility and production functions and the optimizing behaviour of agents) are put to the fore. This leads to an individualistic and mechanical approach in economics. It is interesting to hear Walras on this: 'Il est à présent bien certain que l'économie politique est, comme l'astronomie, comme la mécanique, une science à la fois expérimentale et rationnelle . . . l'économique mathématique prendra son rang à côté de l'astronomie et de la mécanique mathématiques; et, ce jour-là aussi, justice nous sera rendu' (Walras 1952 [1900], p. xx)! Moreover, in modern equilibrium models formal truth, i.e. the internal consistency of models, is given priority over probable logical truth proper, that is the approximate correspondence between models and essential features of reality.

The excessively mathematical and hence axiomatic character of parts of economic theory associated with a widening gap between models and reality repels the

political economists and attracts the mathematicians, and the explanation of real-world phenomena is left to historians, lawyers, sociologists and political scientists. Keynes, himself a trained mathematician, is extremely severe with mathematical economics:

It is a great fault of symbolic pseudo-mathematical methods of formalising a system of economic analysis . . . that they expressly assume strict independence between the factors involved and lose all their cogency and authority if this hypothesis is disallowed; whereas, in ordinary discourse, where we are not blindly manipulating but know all the time what we are doing and what the words mean, we can keep 'at the back of our heads' the necessary reserves and qualifications and the adjustments which we shall have to make later on, in a way in which we cannot keep complicated partial differentials 'at the back' of several pages of algebra which assume that they all vanish. Too large a proportion of recent 'mathematical' economics are merely concoctions, as imprecise as the initial assumptions they rest on, which allow the author to lose sight of the complexities and interdependencies of the real world in a maze of pretentious and unhelpful symbols (Keynes 1973b, pp. 297–8; see also Fitzgibbons 1988, pp. 138–43, and O'Donnell 1989, pp. 183–207).

Mathematical methods cannot be used to picture *real-world* events in their full *organic* complexity, e.g. the socioeconomic system: 'my point is that [neoclassical theory] is not incomplete in the sense that it deals with the special rather than the general case. I maintain that as a theory it applies to no [real world] case at all' (Keynes 1973c, p. 593). However, '[t]he dogmatic extremes of total hostility to the use of mathematics on the one hand, and the zealous attempt to mathematise everything on the other, were alien to his [Keynes's] position . . . For Keynes mathematics had definite roles to play in both economic theory and econometrics, but these roles were limited' (O'Donnell 1989, p. 204). While mathematical models cannot deal with properties of the social system they can capture well-defined aspects of human behaviour.

'Marshall [too] was a brilliant mathematician [but became very sceptical about the use of mathematical methods later in his life]' (Kaldor 1985a, pp. 58–9). This is not surprising since, as quoted above, the 'Mecca of the economist does not lie in mechanics, but in biology' (Marshall 1920, p. xiv). In the social sciences the *qualitative* elements reflecting part-whole relationships are of primary importance. This is particularly true of distributional problems associated with the notion of distributive justice; or the very complex interplay of institutions implied in the right-hand side of the supermultiplier relation cannot be reduced to a formula since the 'independent variables' are interdependent in specific ways in each particular situation considered. We might say that the aim of the natural sciences is to *explain* and that the social sciences aim at *understanding* historically grown and unique situations. This may go along with a *tentative explanation* of the facts in question with the help of explanatory frameworks (real types).

To be sure, there are quantitative aspects in the social sciences in general and in economics in particular which justify the moderate use of mathematical techniques including diagrams. However, the economic and social meaning of analysis must always be immediately evident so as to enable the social scientist to understand at any moment the significance of the conclusions arrived at. For example, Pasinetti (1977) is quite mathematical. Yet it helps us to grasp the significance of the social process of production (commodities are produced by commodities and labour). Starting from this, the significance of prices and the nature of distribution can be brought out. However, Pasinetti (1977) is only a first step to understanding these problems: it prepares the way for Pasinetti (1981, 1993) which are much less mathematical and

where the meaning of economic phenomena is set out in such a way as to be accessible to the layman. Pasinetti (1977, 1981, 1993) do not fully explain the economic aspects of the real world. These works tell us something about the hidden structure of selected aspects of reality, i.e. how production, long-period pricing and distribution are regulated *in principle*. Once the principles, which are probable reflections of the *essence* of things, are broadly understood one may go on to acquire a deeper understanding of the respective facts: applied frameworks may be elaborated and put to use.

A similar reasoning applies to econometrics and statistics. If these techniques are put to work reasonably, mainly in relation to micro- and mesoeconomic problems dealing with the behaviour of individuals in various spheres, important results may be produced. The estimation of Engel curves, or of demand and supply curves, is a prominent example. Moreover, nobody will deny that mathematical techniques, developed within the field of operations research (linear programming, for instance), have contributed to solving many real-world problems that allow a clear-cut specification. Transport problems, stock-keeping and organizational problems are but a few outstanding examples. The understanding of selected macroeconomic problems may also be furthered by econometric methods. For example, the relation between consumption and national income may certainly be more fully understood through the estimation of consumption functions. Simple causal relations *à la* Hermann Wold may thus be estimated without difficulty as has been argued by Pasinetti (Pasinetti 1964/65, pp. 242–3). Empirical estimations of simple causal relations exhibiting close correlations are not yet proofs of the existence of corresponding causal forces in the real world. These are but signposts indicating that the researcher is possibly on the right track.

However, mathematical and econometric techniques are bound to fail if applied in an unconsidered way to complex socioeconomic facts especially if related to the functioning of an economy as a whole, e.g. the determination of employment levels. For example, to estimate the supermultiplier relation would be of little use since there are too many causal relations interacting in an immensely complicated way. Moreover, each theoretical and empirical statement, however elaborate, represents *probable* knowledge only which may be interpreted differently according to the vision held. For example, the close correlation between the ‘quantity of money’ and the ‘price level’ is interpreted in entirely different ways by monetarists and classical-Keynesians. The former argue that the quantity of money determines prices, the latter claim that price rises are the result of a distributional conflict and that the ‘quantity of money’ adjusts to the higher price level. All this is broadly in line with Keynes’s critique of econometrics (Fitzgibbons 1988, pp. 154–8; O’Donnell 1989, chapter 9): if an organically complex socioeconomic state of affairs is considered there are no realistic premises nor dependent and independent variables.

Mathematical techniques are *formal* methods suited to deal with specific aspects of reality from an individualistic point of view. The principal aim of the mathematical economist is to *generalize* on the basis of a single principle, i.e. exchange. It should be borne in mind, however, that more generalization implies, as a rule, more formalism and

less content. This is the essence of reductionism. The historically minded social scientist, however, aims at understanding and explaining complex and *unique* historical situations (e.g. the crisis of the thirties) which are brought about by a great many causes, i.e. principles. This implies that in historical theories the *content* of an argument is put to the fore and formal aspects have to adjust. Since societies are complex wholes which are something more than the sum of their parts and possess their own laws, the historical economist must properly appreciate the importance of non-economic facts; these may directly influence economic outcomes in an interrelated system.

The art of political economy and economic science

The complexity of the object historically minded political economists are faced with points to the very high level of standards imposed on them. Nobody, perhaps, has defined the 'ideal' political economist more appropriately than Keynes himself:

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 – to 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 purpose of the future. No part of man's nature or his institutions must lie 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 1972a, pp. 173–4).

This statement suggests that political economy, pure and applied as well as positive and normative, is an art rather than a science, a point put to the fore more recently by Phyllis Deane (1991); in the former the qualitative element dominates, in the latter a quantitative. The central reason is that the socioeconomic and political system steered by a hierarchy of values is of organic complexity with intricate part-whole relationships dominant (chapter 2, pp. 20–57). Therefore, relationships between parts and wholes must constantly be held in view when conducting an argument. For example, when discussing the relationship between the educational system and the export performance in a particular country the functioning of the society in question and its external relations constantly enter the picture. Normative political economy is an art because the problem is to improve the functioning of the social system, i.e. to create more harmony between its elements, to reduce antagonisms and thus alienation (chapters 2 and 6).

This does not mean that there are no scientific spheres in the social sciences. Pure theory, i.e. the examination of principles in political economy and in economics, is certainly scientific, although not in the narrow positivistic sense. Moreover, the *systematic study of behaviour* within a given institutional system *is* scientific. Incidentally, this proposition reflects the basic tenet of methodological individualism. The behaviour of individuals is partly dependent on objectively given permanent factors, i.e. institutions, that may be independent from each other *regarding their influence upon individuals*, but are interrelated in their roles as parts of the socioeconomic system. The science of economics might thus be defined, as is usual, as the study of the rational and optimizing or other behaviour in the economic domain; the co-ordination function of the market gives rise to behavioural subsystems and to

comprehensive systems which are the object of partial and general equilibrium economics respectively. The methods of economic science may be applied to behaviour in other spheres. This gives rise to sciences like the economic theory of politics, of the arts and of crime, the new economic history and the new institutionalism.

The art of political economy and the science of economics are not opposed to each other but complementary and interrelated. The object of the former is the socioeconomic and political system as an entity, i.e. institutions and their interplay. The latter deals with economic behaviour and its co-ordination by the market and the production system respectively. The complementarity between political economy and economic science might open perspectives for synthesizing classical-Keynesian political economy with parts of neoclassical economics.

Ideally, the art of political economy ought to culminate in actions of the state that are in the public interest; this proposition leads to establishing some connection between this subsection and chapter 6. From the positive classical-Keynesian system of political economy set forth in the preceding chapters and the normative system sketched above it emerges that the state must, in co-operation with the relevant parts of the civil society, trade unions and entrepreneurial associations for example, intervene in important areas of economic life. It is the principal task of politics, which includes political economy, to co-ordinate social activities so as to establish as much harmony as possible within the social structure. This is to create the best possible social preconditions for individuals to prosper, and means striving for the public interest or the common weal. This aim may only be approximated, with greater or less perfection; a lack of knowledge about the positive and the ideal state of society and egoistic particular interests are perhaps the main obstacles to a better society: it will never be possible to eliminate system-caused alienation entirely (chapter 2, pp. 20–57). The long-period policy means consist of the setting up, or favouring the establishment, of socially appropriate institutions.

At the outset of his *Wealth of Nations* Adam Smith argued that the basic aim of political economy was to enhance the productive powers of a socioeconomic system to increase the surplus at society's disposal. Political economists, like James Steuart, Karl Marx and, particularly, Friedrich List (1920 [1841]) argued along similar lines. Modern writers continuing this line of thought are, on the theoretical level, Luigi Pasinetti (1977, 1981, 1993) and, on the conceptual and applied level, Maynard Keynes. The view that the economy ought to provide the material means to reach cultural ends – in the widest sense of the term – has been taken over from this tradition and is embodied in the preceding pages of this book: the economy ought to stand in the service of society and of the individuals composing it. Socially useful technical progress allows a society to reach two basic aims: a higher surplus, permitting a wider range of political, social and cultural activities, or a reduction of working time. This is equivalent to promoting *public welfare* which might be defined as a state of affairs in which the individuals composing a society are in a position to realize to the largest possible extent those (ethically good) fundamental values they ought to aim at in the various spheres of life (chapter 2, pp. 39–53). The notion of public interest, public

welfare or common weal is, in fact, the classical-Keynesian counterpart to the liberal (neoclassical) Pareto optimum. In the latter, individual utility maximization spontaneously yields social welfare, in the former the notion of *a higher-order social harmony* is crucial; man and society are considered to be entities whose parts have to be mutually compatible: the activities of individuals have to be harmoniously arranged in line with dispositions and abilities to promote the well-being of individuals. Similarly, the socioeconomic, political and cultural institutions of a society must be in appropriate proportions if the public welfare is to be approximated. This strand of thinking on individual and social affairs was initiated by Aristotle in his *Nicomachean Ethics* (regarding the individual) and in his *Politics* (regarding society), pursued by many classical economists and taken up in this century mainly by Maynard Keynes, as emerges from Fitzgibbons (1988) and O'Donnell (1989).

Hence, to define the public welfare as social harmony enabling individuals to prosper implies that political economy is an art, not a science – a proposition established by Keynes and taken up by Nicholas Kaldor and Phyllis Deane (see especially Deane 1991). The central problem of political economy is to establish socially appropriate institutions and proportions within the socioeconomic sphere in line with the political and cultural sphere. This emerges from the supermultiplier relation and from the input–output cum vertical integration framework set forth by Pasinetti (1977, 1981, 1993): the variables and parameters appearing in the supermultiplier (government expenditures, exports, the terms of trade and the import coefficient, income distribution, e.g. the target mark-up, consumption and investment) have to be compatible with full employment. This implies preserving, creating and/or favouring the coming into being of socially appropriate institutions. Once the aggregate demand components are given, technology embodied in the social process of production and consumption habits govern the sectoral and industrial structure, e.g. the fully adjusted situation pictured by Pasinetti (1981, part I).

Political economy as the art of regulating proportions or of establishing appropriate relationships between parts of society and society as a whole was practised systematically for the first time by François Quesnay in his *tableau économique*. He should therefore be considered the founder of political economy. The tradition initiated by Quesnay contrasts with the neoclassical vision of things. Here, economics is considered as a science: economic phenomena are explained mechanically on the basis of the behaviour of individuals. Apparently, this point was first elaborated systematically by Carl Menger (Menger 1969 [1883], book III, chapter 2). Given the different object of investigation, the art of political economy and economic science are largely complementary.

Hence the art of political economy consists in permanently guiding the particular interests such as to promote the public interest. This can perhaps be illustrated best by the problem of income distribution. If distribution (reflected in the wage structure and in the division of national income between wage and property income) is too equal, labour productivity may diminish and the surplus shrink; if particular interests manage to impose a distributional outcome which is very unequal from a social point of view,

speculative activities may set in and involuntary unemployment may result, as is evident from the supermultiplier relation.

From these brief remarks on the art of political economy the immense complexity of policy-making in general and of socioeconomic policies in particular emerges. True policy, i.e. policy promoting the public interest, requires knowledge in various broad fields (political economy, law, sociology, history), and a vision of society in general, based upon a social philosophy. The latter permits the co-ordination in an orderly way of partial knowledge obtained from the social sciences.

Hence political economy in the traditional and the modern classical-Keynesian sense is an art because the socially appropriate proportions between the various spheres of social and individual life do not obtain spontaneously, but must be designed. A well-proportioned society, i.e. a harmonious institutional set-up, cannot be brought about by technocratic organization aimed at influencing the behaviour of individuals. A very extensive knowledge about the functioning of the socioeconomic system as a whole and power of persuasion are both required. This is, basically, the argument set forth in Keynes's *End of Laissez-Faire* (Keynes 1972b).

Society and the state on humanist lines

This section deals with two selected issues concerning society and the state which are closely associated with the overall argument set out in the present study. Initially, we consider a fundamental social problem, i.e. development and change. Subsequently, some suggestions about the state along humanist lines are made.

Development and change

Ideology and economic development

The process of development may be broadly conceived as a transition from a traditional to a modern industrialized society. This process is decisively shaped by the development policies pursued. The latter are founded upon development theories which rest on a broader vision of how societies and economies evolve in principle. The previously mentioned ideological elements may in turn influence the vision of the development process. If such elements predominate, an ideological bias may distort theories of economic development. Marx would have called this alienated knowledge. As a consequence, development policies and actual development processes may also become alienated, i.e. proceed along undesirable lines.

A hallmark of strongly ideologically based theories is their being immune to real-world events. An equilibrium economist can, even in the midst of a heavy depression, assert that there would be less unemployment if imperfections obstructing the proper functioning of markets were removed, or if no policy mistakes had been made in the past. Starting from real-world immunity a strange phenomenon, i.e. *fundamentalism*, may develop: the *belief* in an ideologically based theory seems to become stronger the more the real-world situation moves away from what is predicted by theory. The deepening cleavage between theory and reality is explained by some outside event (oil price shocks, for example) or by wrong economic policies pursued in the past. The

latter shows up in a particularly striking way in the formerly socialist countries: the currently worsening economic situation is said to be *entirely* caused by the socialist past, and social scientists now argue that considerable suffering will be required in order to arrive safely in the liberal haven. Consciousness about problems that might be associated with the functioning of capitalist economies seems to be largely lacking. All this points to the almost religious character of liberal and socialist fundamentalism: both are matters of belief.

If economic policies are pursued on the basis of ideologically based theories, grave hardship may result. For instance, many monetarist experiments carried out in recent years in economically advanced and underdeveloped countries have resulted in severe unemployment and in a more unequal distribution of incomes and wealth; in the latter the situation has, in many instances, been aggravated by the very severe austerity policies imposed by international monetary institutions (see, for example, Chossudovsky 1991). The silent socioeconomic catastrophes going on in many poor countries where, without appropriate preparation, market experiments are performed are distressing to any sensible human being. To some extent this also holds for the formerly socialist countries. Conversely, there is no need to describe the disastrous effects of despotic socialism linked with a rigid bureaucracy. This goes along with the catastrophic results of fundamentalist socialist experiments in many Third and Fourth World countries.

Given the failure of many fundamentalist liberal and socialist experiments in various maldeveloped and more advanced countries, the question of the relevance of the humanist classical-Keynesian theory of social and economic development arises. Because of the great variety of historically developed socioeconomic and political situations all over the world, a *general* classical-Keynesian (real-type) theory of economic development cannot be worked out; only a few principles may be set forth. Each country, even each region, has its own specific institutional set-up which is linked with a particular system of values; there is also a specific social structure and a particular interaction of institutions.

The development problem consists of initiating appropriate institutional changes which will result in a modernization of the apparatus of production and in higher labour productivity. However, those parts of the historical heritage which are required for the stability of a society and its future development should be preserved. Subsequently, the heritage of the past should be appropriately combined with the new institutions needed to bring about economic development, for example an education system adapted to an industrializing society and the creation of an entrepreneurial class. These immensely complex processes can only be set in motion if there is no uncontrolled dependence on the vagaries of the world market. This is suggested by the role of foreign trade in the determination of economic activity described in chapter 4 (pp. 190–9) and the policy actions required in consequence (chapter 6, pp. 326–43).

Two additional issues are associated with the problem of structural change and the problem of the scale of employment respectively. The theoretical framework set forth by Pasinetti (1981, 1993) attempts to capture how the continuous structural change regarding methods of production and the types of goods and services

produced goes on *in principle* in growing economies. The structure of employment and the nature of work also change. More labour is needed in industry and in the service sector, less labour is employed in agriculture. This requires high agricultural productivity growth to render possible the transfer of labour from agriculture to other sectors. These very complex processes were first systematically described in book III of the *Wealth of Nations* where Adam Smith discusses the interaction of industry and agriculture in the process of economic development. Any structural change is, as a rule, associated with great human hardship. Traditional, homely ways of life have to be given up, frequently for an uncertain future. This goes along with a further great problem faced by many economically less developed countries: the cleavage between the material basis and the institutional superstructure that may arise in the development process. In some cases the very fast change in the forces of production does not allow the relations of production and the political and cultural superstructure to adjust; in other cases the institutional superstructure is 'modernized' while the material basis largely remains traditional. The latter is very likely to result in a heavy import dependence on the developed parts of the world.

The scale of employment deserves particular attention in a classical-Keynesian theory of economic development. In traditional economies with a relatively simple structure of production economic activity is, as a broad rule, governed by supply factors. However, in modern monetary production economies with extensive division of labour, effective demand governs the scale of output and employment. The latter depends on a set of predetermined variables and parameters which are governed by institutions regulating income distribution, consumption, the volume of investment, the activities of the state and the foreign balance position (the supermultiplier relation); in any period of time, there is a specific institutional set-up compatible with full employment. The institutional change occurring in the process of economic development may now lead to social structures not compatible with full employment. For example, income distribution may become very unequal and produce a lack of effective demand. This implies limited markets and hence few profitable investment possibilities. The latter may be associated with low rates of productivity growth. Consequently, wages are low which, in turn, influences labour productivity negatively. Moreover, the scale of activity may be negatively influenced by an excessive dependence on outside forces, for instance the vagaries of world markets; this may lead to a chronic lack of foreign exchange. In these circumstances it may prove extremely difficult to maintain a high level of employment in the process of economic development since profound institutional changes may act negatively on the level of economic activity.

Because of its links with a changing social structure the process of economic development is immensely complex. Social change is, in turn, very difficult to steer since the social structure forms an interconnected entity governed by an evolving system of values. Therefore, to be able to formulate a coherent policy of economic development for some country or region requires an intimate knowledge of the historically developed initial socioeconomic and political situation and the tendencies of change at work; moreover, the fundamental principles of political economy have to be

taken account of. Only economists commanding vast theoretical and practical experience combined with a profound knowledge of a specific situation are in a position to set up comprehensive and consistent programmes of economic development. It is difficult to see how this could be done by foreign experts, above all if experience and familiarity with some specific situation is lacking. This is not to deny that outside advice on specific projects may be precious if this is properly inserted into a comprehensive development programme already in place. Moreover, given the heavily alienated situation in most poor countries, humanitarian projects are highly necessary to pave the way for self-sustained development.

To 'import' strategies for socioeconomic development is difficult since the institutional set-up and the interaction of institutions form a very complex entity. Institutions are specific and complementary. Therefore, it may be very difficult, in some cases even impossible, to transfer institutions specific to one civilization to regions having completely different cultural backgrounds. In this view the simple fact of enlarging the market sector in a traditional society becomes an extremely complex process that can only be initiated and guided by people having a broad historical and theoretical background and possibly a vast experience in political matters regarding the society in question.

Classical-Keynesian development theory implies that 'development is a process coming from inside' (Schumpeter 1912): social (institutional) change must originate from forces at work inside a society; one cannot buy development by realizing isolated private or public foreign investment projects. Given effective demand and profitable investment opportunities such projects may simply displace domestic investment, heavily damage traditional domestic production and increase dependence from the industrialized countries (Bortis 1979). Moreover, striking examples of project failures are provided by the great number of white elephants set up in various underdeveloped countries. Whenever institutions and technology have to be imported these must be adapted to domestic circumstances. The way of life – associated with a specific hierarchy of values – prevailing in a particular economically underdeveloped country must be respected and only gradually adapted to the changing material basis in order to prevent large-scale alienation.

Moreover, the people and the leaders of the developing countries must initiate and carry on the process of development largely by themselves. This can be achieved only if the élites of the non-Western countries rely on traditional values of their own and are not too much dependent, culturally and politically, on outside influences. Finally, the countries of the Third and Fourth Worlds must become conscious again of their own values, in many instances of their great historical past and of their immense cultural achievements, and lay aside the inferiority complex towards Western civilization, which, though impressive on a technical and scientific level, is presently faced with serious social and cultural problems. Consequently, there is no reason to impose the Western model to the whole world entailing thus cultural standardization. Cultural diversity is essential and is a precondition for fruitful cultural exchange and interaction on an equal footing. More widely, cultural, economic, social and political relations on the basis of equality between economically less developed and highly

developed countries will involve a mutual learning process enhancing comprehensive world development.

In the process of economic development, top priority must be given to securing full employment and an equitable income distribution, not only for economic but also for social reasons. The transformation of a traditional society into a monetary production economy with extensive division of labour is always accompanied by a social transformation. Traditional social entities, the family and the village, lose part of their social significance. An important part of social life is displaced into the economic sphere – that is the enterprise, the sector of production and the process of production; moreover, as is in line with the surplus principle, economic activity provides the material basis for the higher social, political and cultural activities. Therefore, to be involuntarily unemployed not only means exclusion from economic life but from social life altogether; a two-class society may thus emerge, those who are included in the social system and those who are excluded. This means profound distress even if unemployment benefits are temporarily paid. Moreover, involuntary unemployment increases poverty and income inequality which, in turn, acts negatively on employment as is evident from the supermultiplier relation. There is no need to give examples of the destructive social and political consequences of mass unemployment associated with an unfair distribution of income. History speaks for itself.

Last but not least, full employment and an equitable income distribution are, together with education, indispensable preconditions for more effective population policies which are very much required at present: excessive *population growth* menaces socioeconomic development and threatens the natural environment in vast areas of the underdeveloped world. Ricardo's and Malthus's notion of a *natural wage rate* at which population remains constant is not a fancy (see, for instance, Ricardo 1951 [1821], pp. 93ff.).

Social change

One of the main purposes of institutions is to preserve a given state of affairs. Institutions are brought into existence by individuals or groups to enable the persistent pursuit of individual and social aims. This kind of causal force is associated with the notions of final causality linked up with the pursuit of aims (chapter 2, pp. 53–7) and of vertical causality (chapter 3, pp. 120–1). Horizontal causality (chapter 3, pp. 122–3), however, is related to social and institutional change. For example, past efforts to improve the educational system of a society may lead to an improvement of export performance and to higher levels of employment. Or, severe unemployment, due to a past deterioration of income and wealth distribution, may further impair the social and political situation.

Social change implies that a given – traditional – society is gradually transformed into a new – modern – society. This implies a *qualitative* transformation in social organization which is accompanied by *quantitative* changes (in this context Marx argued that the former brought about the latter which need not be the case in general). For example, specific institutions like the common ownership of land, the production of use values and personal dependencies are characteristic of feudal societies.

Quantitative changes, the extension of private property, the production of exchange values (for the market) and formal personal liberties, went along with the – qualitative – transformation of feudal into capitalist societies. This process may go on gradually, as in England, or abruptly, as was the case with France.

In principle, social change occurs in two ways. First, social change is brought about by deliberate institutional change (reforms in some social sphere). As a rule, reforms are initiated if there is some kind of alienation (chapter 2, pp. 39–53), i.e. a discrepancy between a given situation and some desired (normative) situation, that becomes politically relevant. Whether action is effectively undertaken depends on power relations in the widest sense of the phrase, wherein the dominant positive and normative economic theory is only one important factor. Experience shows that it may be very difficult to initiate substantial social and institutional change because the forces tending to preserve given situations may be very strong, due to ‘the normative power of the existing’ (die normative Kraft des Faktischen). Depending on the situation, this may be an element of socially beneficial stability or an obstacle to progress. Second, social change may come about almost deterministically through exogenous factors and through the poor functioning of the social system (this is the efficient cause, mentioned in chapter 2, pp. 53–7). Perhaps the most important exogenous factors initiating social change are evolutions of the value system and technical change. The poor functioning of a socioeconomic system may result in an undesirable social evolution, i.e. a self-amplifying increase in alienation may come into existence; for example, a slackening export performance and a growing inequality in income distribution may lead to rising unemployment which, in turn, produces increasing poverty and slums; the latter may act negatively on the initial causes, i.e. exports and distribution. Efficient causes linked with the functioning of the social system may also work in the reverse direction to result in a steadily improving situation. How this works in principle may be roughly understood with the help of the supermultiplier relation set out in chapter 4 (pp. 149–204).

To understand social change, whether brought about by deliberate action or deterministically through the social system, classical-Keynesian political economy must necessarily cross the boundaries of other social sciences, i.e. law, sociology and the political sciences. The principal reason is that the economic, social, political and legal spheres are not merely domains in which individuals become active; the institutions located in these spheres are complementary and form an entity, i.e. society. This implies that social, political and legal institutions are not just a framework, as is the case of neoclassical theory, but may directly influence the outcome of economic events, income distribution and the scale of employment for example. The necessity to understand approximately the functioning of the entire social system to explain social change follows then from the fact that this system forms a structured entity; this was the central tenet of the German Historical School and of American Institutionalism.

From a normative point of view the purpose of social change should be to eliminate alienation as far as is possible for imperfect human beings; or, social reform should aim at establishing as much harmony within society as is feasible. Alienation has been defined as the gap existing between some given situation and an ideal or natural

state of affairs in which the public interest or the common weal would be realized (chapter 2, pp. 39–53). Since the notion of alienation essentially relates to system-caused alienation, of which involuntary unemployment is the main component, purposeful social change aimed at reducing alienation must be system policy: in principle, the problem consists in attempting to set up an institutional system corresponding as closely as possible to the nature – the mentality – of the citizens composing a state. This is the problem of politics in the Aristotelian sense.

Two specific issues concerning social change should be mentioned here. First, alienation is not eliminated deterministically in the course of history as Hegel and Marx suggested. Constant efforts are required to improve the organization of society and to maintain what has been achieved. The main reason is that various forces constantly upset social situations existing at some moment of time. Changes in technology and the evolution of value systems are perhaps most important. These alterations result in social change. New situations implying new kinds of alienation continuously come into being; this requires specific social policies. Moreover, the excessive pursuit of particular interests in the economic sphere constantly results in a tendency towards a more unequal distribution of incomes and wealth; involuntary and structural unemployment persistently threaten the normal functioning of societies. Thus incomes and employment policies are permanently required. Finally, alienation will never be eliminated, simply because of a lack of knowledge on the functioning of complex social systems.

Second, if changes go on too quickly it may be very difficult to pursue consistent social policies aimed at a reduction of alienation. Social situations may get out of control mainly because distribution gets more and more unequal and involuntary and structural unemployment increases. As a consequence, people get uprooted because of forced migration, the fight for survival between individuals and social classes intensifies, and particular interests increasingly dominate the scene at the cost of policies in the public interest. In such circumstances, public order may eventually be restored by a strong government but at the cost of immense human suffering. More than sixty years ago Keynes severely criticized the very rapid socioeconomic transformation in the Soviet Union: ‘it is of the nature of economic processes to be rooted in time. A rapid transition will involve so much pure destruction of wealth that the new state of affairs will be, at first, far worse than the old, and the grand experiment will be discredited’ (Keynes 1982, p. 245). It would seem that this statement also applies to the massive socioeconomic changes set in motion by the creation of huge common markets. Distribution and the employment problems could eventually get out of control (Bortis 1992).

Too rapid social and economic change is so pernicious for societies because of the social disorganization it brings about, for example structural unemployment linked up with a professional and geographical transfer of labour. Since economies are not self-stabilizing this may create almost insuperable organizational problems. Even in a static society it is exceedingly difficult to improve the social organization in the sense that alienation is reduced or the common weal furthered. It takes time to find out what is appropriate or natural for the citizens making up a society. This is all the more true if

a society is complex and diverse. The difficulty of the task of the politician emerges in relation to distribution and employment policies if self-regulating markets cannot be relied upon (chapter 6). In a monetary production economy the problem is to create or to encourage the coming into being of an institutional set-up implying full employment and a socially acceptable distribution of income.

Hence institutional change has to go on slowly to realize true social progress. To render possible a slow and secure institutional change requires, besides a profound knowledge of the country-specific situation, a solid positive and normative socioeconomic theory to analyse correctly the initial situation, to fix the aims to be reached and to determine the path of social evolution. In the light of the overall argument advanced in this book it would seem that classical-Keynesian political economy is far better suited to meet these requirements than neoclassical economics or the economic theory of centrally planned socialism.

Some suggestions on the state

Universalism is a hallmark of liberal and socialist doctrine: both ultimately imply a weak state with an undefined territorial extent. This is evident for liberalism. Marx's *Early Writings* imply that the state would vanish in mature socialism, i.e. communism (see, for example, Marx 1973 [1844], pp. 533–46, specifically p. 536). According to the liberal doctrine, the role of the state essentially consists in setting up a legal framework, i.e. a system of private law to partly regulate relations between individuals. Socialism basically requires a system of public law determining the relations between various collectives and society (chapter 2, pp. 27–39).

Based upon the notion of universality, the idea of a liberal or a socialist world republic was advanced at times. It is an irony of history that the realization of both doctrines was frequently linked up with strong governments and was accompanied by outbursts of nationalism. In centrally planned socialism, governments were so strong that nationalist movements could easily be crushed; consequently, its breakdown immediately led to a rise in nationalism. The capitalist era – capitalism is the realization of liberalism – was also predominantly nationalist: colonialism and imperialism in the nineteenth century and two world wars in the twentieth century were intimately linked up with capitalism and nationalism. It has only been during the unprecedented upswing following the Second World War that nationalism has receded somewhat, presumably because the struggle for new markets tends to be less intensive in times of prosperity. The main economic reason for 'liberal nationalism' is that – capitalist – free-market economies do not produce a tendency towards full employment. Consequently foreign trade becomes a weapon for securing jobs by means of the external employment mechanism set out in chapter 4 (pp. 190–9); the nation-state and the capitalist economy spontaneously tend to collaborate to secure a prominent position on world markets. Capitalism also produced deep depressions accompanied by social disorder. In some instances, this resulted in highly nationalistic and strong 'law-and-order' or even totalitarian governments. The twenties and the thirties are a case in point.

The following suggestions on the state in a humanist perspective link up with the fundamentals of political philosophy dealt with in chapter 2 (pp. 20–57) and the various and complex problems related to a monetary production economy alluded to in chapters 4–6. These considerations imply that *each polity is a structured, historically grown entity which is unique since it is characterized by a particular institutional set-up reflecting a specific way of life and by a clearly bounded territory*. On the level of the principles of political economy, this crucial point is put to the fore by Pasinetti who argues that his natural system

contains an important explanation of why each economic system is necessarily bounded; and, therefore, indirectly, of the fragmentation of the world into a multiplicity of economic systems . . . the source of the explanation is to be found in [the] macroeconomic . . . condition for economically significant equilibrium solutions [which] concerns and connects the entire economic system to which it refers. Hence it makes of it a unitary entity, and at the same time separates it from all other economic systems (Pasinetti 1993, p. 148).

Thus, on a fundamental level, each polity is a unity because of the existence of *genuinely social* phenomena, like the social process of production or distribution, giving rise to part–whole relationships.

Hence the humanist view of the state rejects universalism, which implies that the main task of the state is to partly regulate the relations between individuals and collectives, and postulates instead that the polity must be bounded because intricate part–whole relationships have to be dealt with in connection with distributive justice in the widest sense of the term – for example, a socially acceptable distribution of incomes, elimination of involuntary unemployment, regional policies and social policies regarding ethnic, linguistic and religious groups.

In the humanist perspective, the state in general and the government in particular are moral institutions which ought to act in the public interest in order to approach the common weal as closely as possible. This is the fundamental aim to be pursued by the state. It implies creating the social preconditions such that individuals are in a position to unfold their physical and intellectual potential as extensively as is humanly possible. Among the socioeconomic preconditions, full employment and a socially acceptable distribution of wealth and incomes are, in a Keynesian vein, most important: 'The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes' (Keynes 1973b, p. 372).

The fundamental aim of the state should be pursued in a way that minimizes the size of the state, particularly the central or federal state. This implies putting to use two complementary principles of social ethics regulating the relations between society and individuals, i.e. the principles of subsidiarity and solidarity. According to the principle of *subsidiarity* the state should not intervene whenever problems can be solved by social institutions or by individuals, which implies that the federal state should not intervene if the states or the regions can solve problems on their own. Hence the principle of subsidiarity ensures that social and individual rights and hence the scope of freedom are as extensive as possible. The principle of *solidarity* deals with the social preconditions required for the prospering of individuals within society, for example the education system and the social security system, but also a socially acceptable income

distribution and full employment. The principle of solidarity requires state intervention in the economic domain, mainly because the market mechanism is not capable of solving the great economic problems, i.e. long-period value, distribution and employment. The proper application of the principles of subsidiarity and solidarity requires a solid theoretical foundation which is to be provided by classical-Keynesian political economy.

Some of the fundamental issues related to applying the principles of subsidiarity and solidarity can perhaps be posed best in terms of two interrelated and, sometimes, conflicting aims: *distributive justice* and the *social potential*, both taken in the widest possible sense. Distributive justice is about the ethically appropriate proportions between individuals and social entities regarding social status, which encompasses material and immaterial elements. The social status may, for example, relate to income, wealth, social and political power, and honour. The social potential is associated with the scale of individual and social activities which may, for example, be cultural, economic or military. The value system prevailing in a specific epoch will govern the weight to be given to the various activities and to the way distribution is regulated. Distributive justice is closely related to the distribution of the social surplus, the social potential to the size of the surplus, which, in turn, depends upon technology, the intensity of work and upon the territorial and demographic size of a polity.

In the following, some issues related to distributive justice are dealt with first. Subsequently, a few considerations of the implications of the social potential are made. Both points prepare the terrain for discussing the question of the constitution in line with the basic aim of the state.

Distributive justice deals, then, with the relationship between parts (individuals and collectives) and the whole of society. This gives rise to a variety of genuinely *social* problems: the regulation of personal and functional income distribution, i.e. the wages structure and the shares of wages, profits and rents in national income; the maintenance of full employment and of price stability; the distribution of political power between central and local authorities; the social and political position of the various regions and of linguistic, religious and ethnic groups within society; the extent and the role of non-profit organizations; and the elaboration of a system of public law which regulates part of the relations between individuals and collectives and society as a whole, i.e. the relationships between individuals of differing status and society. The latter is a precondition to setting up a system of private law which regulates the relationship between equal individuals. All these very complex problems are associated with the organization of society and the state. The organization of a society becomes more complicated the greater the size and the variety of the polity, for example if a polity is composed of a great number of ethnic and religious groups. Two very important corollaries follow from this proposition. First, the complexity of the policy problem (chapter 6) does not imply that a society ought to be uniform to facilitate its organization: diversity of various kinds is highly desirable since a richer social and cultural life may obtain. A large and diversified political entity may be rendered governable through an appropriate division of power between central or federal, regional and local government; this issue will be taken up later on. Second, to render

possible the pursuit of consistent policies within the state territory requires, on the one hand, a broad social consensus encompassing the *whole* of the population, specifically minorities, as to the social organization and to the way of life to be pursued, and, on the other hand, the same rights and duties for all citizens. Hence the fundamental elements of a polity are the territory, the social consensus and equality. The linguistic, ethnic and religious composition of the population is the result of a historical process and must be taken as given. This humanist view of the state is intimately associated with the principles of tolerance and freedom.

The complexity of the policy issues associated with distributive justice would seem to require relatively small political entities. However, the *social potential* of a society is intimately linked up with the size of the social surplus (chapter 4, pp. 154–89) and hence with the territorial and demographic size of a polity. In a large polity there will be more scope for division of labour and accordingly for establishing a strong economic basis, and the social surplus will be potentially larger. Provided the government acts in the public interest a large social surplus enhances the social potential of a political unity: a diversified set of political, legal, social and cultural institutions may be built up. Hence a large polity may potentially become more socially diversified and culturally richer. Moreover, the large polity will be less dependent on abroad: a certain degree of autarky is politically desirable (chapter 6, pp. 326–43).

However, in a relatively large state the complex problems associated with distributive justice may tend to get out of hand and particular interests may increasingly dominate political life. The use of the social surplus may be perverted in that parts of the surplus may be used to practise power politics, and resources may be devoted to excessively enriching particular social groups. Or, even worse, aggressive foreign policies may be practised to defend so-called vital interests which are likely to coincide with the interests of the dominating pressure groups. All this may be summarized by ‘alienation in the political sphere’.

The socially appropriate *constitution* is the basic means of reaching the fundamental aim of the state, i.e. to approach the common weal as closely as is humanly possible. This aim gives rise to extremely intricate issues of social organization: society is organically complex because of the complementarity of the various institutions structured by a hierarchy of values. In a humanist view, automatic mechanisms – markets or voting procedures – cannot, in the *long* run, co-ordinate particular interests in a socially appropriate way, i.e. such that a tendency towards the common weal obtains. On the level of principles, this proposition follows from the outcome of the capital-theory debate (chapter 5, pp. 281–93) and from Condorcet contradictions associated with voting procedures (Arrow 1951). In the humanist view, practical politics requires a conceptual underpinning based upon *visions and theories of the functioning of society as a whole* and of the basic social aims to be achieved. Given the enormous complexity of the policy task, which consists of dealing with *immensely complex part-whole relationships*, both finding out and putting into practice the basic policy principles cannot possibly be a matter of voting procedures.

Hence it is likely that Schumpeter’s competition for power and hence for government between various political parties (Schumpeter 1942, part IV) does not

work properly for two central reasons, associated with the nature of society and with the problem of getting into power. First, the liberal way of governing implies governing on the basis of a changing majority combining *partial* interests, involving, ideally, an *equilibrium* between political forces. In the humanist view, governing ought to be in the *public* interest which is associated with society as a whole and is, as such, above and independent of the partial interests. The policy aim is to get as near as possible to a *harmonious society* characterized by *harmonious relationships between all the parts and the whole of society*. This implies that the common weal *encompasses* the partial interests but transcends them and is, therefore, much more than the sum of partial interest or than some combination of such interests resulting from an agreement between political parties. For example, partial interests govern the variables and parameters of the supermultiplier equation (relation 7 in chapter 4). These, in turn, determine the normal level of employment which is, as a rule, below the full employment level. However, the public interest requires fixing *socially appropriate relationships or proportions* between the variables and parameters of the supermultiplier such that full employment obtains. *A great number of proportional relations is possible none of which can be derived from combining particular interests without considering the whole of society*. As has been emphasized in chapter 4 this is associated with the fact that there are social laws which are independent from the behaviour of individuals. *This* requires a government above the partial and particular interests. In fact the liberal way of governing is based upon the crucial assumption that partial interests may be transformed into the public interest through negotiations, voting procedures or markets. Most importantly, competitive economies are seen as self-regulating: the market mechanism is supposed to transform the optimising behaviour of individuals into a social optimum. In times of prosperity, normally brought about by a favourable functioning of the external employment mechanism and of the profit-investment mechanism, democracy may function smoothly in the economically successful countries. Problems arise with economic and social unrest because there are no automatic mechanisms to restore equilibrium. If the situation gets out of control, democracy may dialectically change into dictatorship as the experience of the 1930s shows. Hence the ‘free’ play of particular interests may even prove destructive. Second, in a *régime* of parliamentary democracy the effort to get into and to stay in power, i.e. to get elected and re-elected is, in many instances, more demanding than exercising power, i.e. to govern. It is likely that the struggle for power will intensify as party programs get more and more similar as seems presently the case. In the liberal view governing is, in principle, not very difficult since very important problems, employment and distribution for example, are supposed to be solved on the market place. The continuous efforts to stay in power enhance short-term policy actions associated with the political business cycle which is part of Economic Theory of Politics. The latter applies neoclassical optimum theory to the political domain, specifically to the problem of getting into and preserving power. Frequently, the problem of liberal politics is to repair the consequences of defects of the functioning of the system, for example involuntary unemployment and its social

consequences. Also it may be attempted to prevent income distribution from becoming too unequal.

In the humanist view, state activities should, essentially, consist of long-period policies aimed at bringing about a socially appropriate institutional framework. The problem is to create a social or institutional foundation such that individuals may prosper. To be able to consistently pursue long-period policies, the government and the administration should not be subject to the vagaries of periodic re-elections. Both must permanently concentrate on government affairs, based upon the social and political sciences which have to deliver the policy conceptions and under the control of the parliament, i.e. the representatives of the people. This view of politics implies that in a true democracy votes and elections are of secondary importance. What is crucial are appropriate social foundations such that the social individuals may realise their natural potentialities as far as is humanly possible. Full employment and a socially acceptable income distribution are, as has been emphasized throughout, the most important economic foundations. In the social domain, a high-standard state education system is of crucial importance for social mobility which, in turn, is fundamental for true democracy since very strong links between the population and the government are thus established. The public education system should be freely accessible on all levels. No fees should have to be paid, access should be uniquely based on performance. The obligation to pay fees automatically restricts access for the children of poor parents. If this combines with a qualitative superiority of private schools a highly undemocratic state of affairs may result, showing up in a gap between upper and lower classes of the population.

Hence the fundamental problem of politics is to create and to favour the coming into being of socially appropriate institutions such that the ethically ideal proportions (as are in line with the common weal) between the various institutions are approximated as closely as possible. In the humanist view of society, politics is about *social* ethics and is as such independent of individual behaviour and of partial interests. Therefore *the state must stand above the partial interests* to be able to fulfil the fundamental policy task. Hence the fundamental constitutional problem is to bring into power an impartial government which is independent of these interests.

Historically, the institution of monarchy is certainly the most ambitious attempt to solve this constitutional problem. This institution was in many instances successful, above all in very diverse and complex political entities. However, historical experience also shows that constitutions based upon a single principle, for instance monarchy, are threatened by decay or tend to degenerate, the main reason perhaps being the institutionalized dominance of particular interests that may gradually develop if power is not checked and controlled. The conflicts arising between strong interest groups may prove destructive to a polity. It would seem, therefore, that the old principle of the *mixed constitution*, associated with the names of Polybius and Cicero (Fetscher and Münkler 1985–93, vol. I, pp. 512ff.), is best suited to ground stable political organizations of the humanist type, mainly because division of power combined with control of political and judicial institutions is rendered possible. In pre-modern times the mixed constitution would have been realized as a combination of the institutions of

monarchy, aristocracy and democracy to which, in the modern era, broadly correspond the President and his government, the Civil Service, and Parliament, which through the political parties, is inevitably linked up with partial interests. In the humanist view, the executive institutions ought, in principle, to act in the *public* interest to promote the common weal and ought to be independent of *partial* interests. Therefore the Executive must stand above Parliament and the political parties. On the practical level, this would imply that *legislation* ought to be a matter of the Executive; this would be in line with the fundamental task of the government which consists of creating or favouring the coming into being of socially desirable institutions. The task of Parliament would be to supervise and to control government activities. Hence the people, through its parliamentary representatives, would, on the one hand, assess governmental activity. This democratic element could be decisively reinforced by the Swiss institutions of *referendum* - against a law proposed by the government - and *initiative* - to set up a new law. On the other hand, Parliament would inform the government of problems that may exist in some region or some social group and ask for government action. In this view, Parliament would constitute the political link between the population and the government and would, as such, provide a mutual feedback between both. The controlling power of Parliament would also extend to the Judiciary which must of course be independent of the government, i.e. the Legislature and the Executive. The exercise of control by Parliament, and its being the link between citizens and government constitutes the essence of modern democracy in a humanist perspective, which is broadly in line with Keynes's views on good government (Fitzgibbons 1988, pp. 170-73).

The complexity of the task of government requires, in turn, that politicians and high ranking civil servants ought to be appropriately *trained* in the *Social and Political Sciences* (*Staatswissenschaften*). The foundations of this system of sciences would be provided by *social and political philosophy* upon which systems of social and political sciences could be erected, made up of *politics* in the traditional - Aristotelian - sense, *law*, *sociology* and *political economy*. *Social and political ethics* would add the roof to the whole edifice. The history of facts and ideas would play an essential role in the social and political sciences since, as Keynes once remarked, knowledge about differing, even opposed systems of thought, means emancipation of the mind. In this system of social and political sciences *political economy* emerges as the *key science*: politics is impossible without a knowledge of the principles of political economy. The main reason is that, following up the Industrial Revolution, economic life has become immensely complex because of the division of labour and of the extension of money and finance. Traditional market economies became monetary production economies. *Politics* in the traditional sense (chapter 2) is and has always been the most difficult of all the arts (Aristotle) since it requires a comprehensive view of society and state. As a consequence, there must be a specific training for those who exercise this art. Perhaps, it should be mentioned, that governing in the humanist sense does not primarily mean exercising power but serving the country, which is in line with the moral character of the social and political sciences so much emphasized by Keynes.

The mode of election of the President is a crucial element in a constitution along humanist lines. It would seem that universal elections do not guarantee the appointment of an impartial President since the political parties, financial and economic pressure groups and the mass media may decisively influence the outcome of an election in favour of some interest groups. Moreover, given the complexity of the policy problem, most citizens lack the ability and the information required to appraise the political fitness of presidential candidates, i.e. their capacity to govern in the public interest. To decide on this matter requires a profound knowledge of theoretical and practical politics, and the careful selection of the electors is evidently of the utmost importance. These ought to be outstanding and generally recognized personalities, independent of particular interest groups and belonging to all spheres of society, minorities of all kinds included. In this sense the electors' assembly - *Senate* would be an appropriate label - ought to consist of experienced persons familiar with political matters. To guarantee continuity and to minimize the struggle for power, the members of the Senate and the President ought to be elected for long time-periods, possibly even for life. This would enable the Executive to govern in the public interest without particular interests interfering significantly (which, incidentally, is, in principle, realised in Switzerland where the government is, *de facto*, though not *de jure*, elected by Parliament for life). Another possible way of electing the President and/or the Government would be through *multi-stage elections*. The citizens elect the local magistrates. These, in turn, elect the regional governing body which finally elects the federal or central members of government.

The mode of election of the Senate, if any, would be another issue of crucial importance. The problem is to produce a Senate which stands above the particular interests. For example, one could imagine that one-third of the Senate be elected by Parliament, i.e. the representatives of the people, one-third by the government and the civil service and one-third by the scientific communities (universities and learned societies). Besides electing the President, the Senate might supervise the whole political and judicial sphere regarding the principles of government and legislation which role might include the possibility of impeaching the President should he obviously fail in his task. It is evident that, for the reasons alluded to above, such a political system - as any political system - will be truly democratic only if the state education system is of a higher standard than private educational institutions.

Given the complexity of the problems related to the organization of society, it seems desirable that a polity should not be too large to allow for a socially acceptable solution of the issues associated with distributive justice. This is perhaps the main reason why the Greek theory of the state (Plato and Aristotle) considered the small city-state the ideal polity. Two main issues are associated with relatively large and/or diversified states. First, the various issues linked up with distributive justice may perhaps be given less and less consideration and political activities may tend to be increasingly dominated by particular interests. This implies that public law is gradually eclipsed by private law. The dominance of private law was almost total in the Roman empire where it dominated even the political sphere (see, for example, Oncken 1902, pp. 57–9). However, if the various problems associated with distributive justice

mentioned before are not given sufficient attention, the existence of the polity may become threatened or a very strong government may be required to maintain it. This leads to a second point associated with relatively large and diversified states. Such states would - as Montesquieu already perceived - seem to require relatively strong governments in order to secure the public interest. The complexity and the difficulty to enforce socially desirable part-whole relationships - for example in the domain of distribution - could be the main reason for a strong government. In terms of the notion of the mixed constitution mentioned above this would mean strengthening the presidency and the civil service at the expense of Parliament. Obviously, the danger of perversion would be considerable here, especially in times of economic and social crisis.

However, large polities do and must exist and solutions have to be found to render them governable in a socially acceptable way. The existence of large and diversified political entities is required for two main reasons. The first is associated with ethnic, linguistic and religious diversity which, *per se*, is highly desirable. Such polities result, as a rule, from long historical processes and ought to be maintained in order to prevent conflicts between the different population groups or even civil wars. Such wars may be enhanced by foreign interference, and they tend to continue since it may be impossible to draw mutually recognized frontiers. Second, large political entities may also be required to secure the balance of power on the regional or on the world level. The disintegration of a polity always creates a political vacuum leading to conflicts between the remaining powers eager to strengthen their international position.

To render large polities governable an appropriately structured *vertical* division of power between central (or federal), state, regional and local government may be required. This particular type of division of power ought to be based upon the principle of subsidiarity: the higher-level authorities should not do what the lower-level governments or social institutions, for example non-profit organizations, can do. The most important economic problems, employment and distribution for example, ought to be solved on the state or regional level. This would require regional currencies in order to enable states or regions to pursue a full-employment policy. The federal state would mainly exercise co-ordinating activities. Such issues have been sketched in chapter 6.

Alienation in the relations between states mainly occurs if frontiers are not mutually recognized. A great number of international conflicts were (and are) due to boundary issues. The existence of secure and mutually recognized frontiers is a most precious result of history and should not be considered unimportant as is frequently done by the universalist liberal and socialist political scientists. In a humanist view secure boundaries are the basis of mutually beneficial relations in all spheres – economic, social and cultural – between states, especially neighbouring states. This also holds for the satisfactory solution of the great social problems associated with distributive justice *within* countries, which is an essential condition for a fruitful co-operation in all domains *between* states along the lines suggested in chapter 6 (pp. 326–43). Heavy involuntary unemployment and the subsequent mercantilist struggle for markets and jobs never furthered the cause of peace.

Ways ahead

In this section some threads of thought hinted at in preceding chapters are taken up to point to the direction to move in. The starting point is provided by the wider significance of the classical-Keynesian middle way which, negatively formulated, is associated with the fact that the normative systems of liberalism and of socialism seem conceptually too weak to carry the policy conceptions required for immensely complex monetary production economies. Strictly liberal economic and social policies may lead to unacceptable differences in incomes and wealth between individuals and nations and to the periodic occurrence of involuntary mass unemployment. Centrally planned socialism, on the other hand, is associated with bureaucratic despotism and low labour productivity with respect to the quantity and the quality of the goods produced; moreover, a rigid socialist system is not able to transform inventions into innovations on a sufficiently large scale.

In this study it has been suggested that the humanist approach in the social sciences should be given more weight: classical-Keynesian political economy would furnish the principles to explain socioeconomic phenomena in specific countries and regions on the basis of historical developments. This would constitute social or historical realism in the sense of Lloyd (1986). Subsequently, policy principles could be formulated along the lines suggested in chapter 6.

It may be asked whether a broad consensus on *principles*, i.e. about *pure* explanatory and normative theories and the policy principles ensuing therefrom can be reached. In a Keynesian *Treatise on Probability* vein, an approximate agreement may be achieved on this issue if the argument is comprehensive in the sense that a global view of things is taken, i.e. that a vision is developed on the basis of historical, scientific and metaphysical elements as has been attempted in the preceding pages. Hence it should be possible to decide whether the liberal, the socialist or the classical-Keynesian and humanist principles are the most appropriate basis for explanation and for policy action. However, it has to be emphasized that it may be exceedingly difficult, if not impossible, to bring about even a broad consensus at the level of *real-type* models addressed to complex issues, for example the causes of the First World War or the Great Depression of the thirties.

Currently, most societies are run according to liberal or, until recently, socialist principles. Either there is too much individualism and ruthless competition or there has been too much collectivism and central planning. In societies organized along humanist lines the *principle of co-operation* between individuals and groups would be given increased emphasis. This is linked up with the nature of the social: social situations arise from complementarities and from the imperfection of individuals, both of which require co-operation. This principle has two dimensions: on the one hand, society and the state provide the social basis for individual behaviour; on the other hand, individuals become more perfect through performing social activities.

Co-operation is required in various spheres. In the process of production, enterprises or associations of enterprises have to co-operate in order to ensure the proper delivery of intermediate goods. Similarly, enterprises may co-operate with

respect to research and development. Conventions regulating market shares and aimed at fixing fair prices are other forms of co-operation between enterprises. Moreover, there have to be agreements between entrepreneurs, the trade unions and the state regarding work conditions and the preservation of the environment. Trade unions have to co-operate with entrepreneurs to fix the share of wages in national income; they also have to care about the socially appropriate wage structure. Hence, co-operation is also required with respect to *distribution*, which, ideally, ought to be the outcome of a social consensus between workers, managers and private or public owners. As a general rule, certain activities related to *production and exchange* must be institutionalized because ‘production takes time’ (Paul Davidson). Producers would never engage in production if there was complete uncertainty about the future. Institutional arrangements create areas of near-certainty which enable entrepreneurs to produce under reasonably tranquil conditions and to introduce new techniques of production. This, in turn, requires a close co-operation between banks and enterprises since it is impossible perfectly to synchronize outgoings and income over time. Or, there ought to be some co-operation between civil society and the state regarding the use of parts of the social surplus, e.g. investment and state consumption.

In a humanist view, the principle of co-operation is not only basic within a country or a region but also between countries and regions. The co-operation between states and societies will be all the more beneficial the better the great socioeconomic problems, mainly the employment problem, have been solved within the individual countries. This is implied in chapters 4 (pp. 190–9) and 6 (pp. 326–43). Once again, the great social problems cannot be tackled on the basis of ever larger – and ungovernable – economic and political entities as are presently fashionable in regions where liberalism dominates.

Several areas of co-operation relate to international trade relations. First, the principle of broad foreign trade management, specifically regarding non-necessities, must be mutually accepted so as to enable each individual country or region to achieve full employment (chapters 4, pp. 190–9, and 6, pp. 326–43); this is required since there is no mechanism ensuring an automatic tendency towards full employment on the regional, national or world level. Second, international co-operation is required in order to maximize the welfare effect of international trade based upon the principle of comparative advantage. This is bound to lead to an extensive international division of labour, giving rise to mutual dependence of countries in the sphere of production. Third, the proper delivery of goods required in the process of production (necessary imports) from one country to another must be ensured by a network of contracts in order to avoid disruptions of production in particular countries. A fourth domain of international co-operation is money and finance, mainly the management of a world currency to be set up eventually, i.e. Keynes’s ‘bancor’ (chapter 6, pp. 338–9). However, the most important sphere of co-operation is certainly the natural environment. Effective action in this field seems possible only if a world economic order along classical-Keynesian lines is implemented (chapter 6, pp. 319–48). Firms would no longer have to face elimination from the market and individual countries would no longer have to fear the loss of jobs when taking steps to protect the

environment because full employment could be maintained by a socially appropriate management of foreign trade. The present struggle for survival on world markets does not leave much scope for really serious environmental policies.

The principle of co-operation also implies a strengthening of the vast range of social activities lying in between individual and state activities, i.e. civil society in general and the non-profit sector in particular: ‘in many cases the ideal size for the unit of control and organisation lies somewhere between the individual and the modern State’ (Keynes 1972b, p. 288). Hence the state should not intervene in matters that can be solved by individuals and collectives; for example, trade unions and entrepreneurial associations may solve the problem of distribution to a large extent, and the state should only intervene if agreements cannot be reached; or various non-profit organizations in the economic, social and cultural spheres may autonomously solve specific problems. This amounts to applying the principle of subsidiarity: ‘We must aim at separating those services which are *technically social* from those which are *technically individual* . . . The important thing for government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which . . . are not done at all’ (Keynes 1972b, p. 291). This task would be simplified considerably if there were a self-regulating mechanism in the economic sphere as is postulated by the liberals. However, important economic phenomena, mainly persistent involuntary unemployment, cannot be reduced to the behaviour of individuals but result from the functioning of the socioeconomic system:

Many of the greatest evils of our time are the fruits of risk, uncertainty, and ignorance. It is because particular individuals, fortunate in situation or in abilities, are able to take advantage of uncertainty and ignorance, and also because for the same reason big business is often a lottery, that great inequalities of wealth and income come about; and these same factors are also the cause of unemployment of labour, or the disappointment of reasonable business expectations, and of the impairment of efficiency and production. Yet the cure lies outside the operations of individuals (Keynes 1972b, p. 291).

Therefore, ‘[our] problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life’ (p. 294).

In the liberal view the task of organizing society is, in principle, relatively simple: the primary problem is to partly regulate the behaviour between individuals and collectives in various domains, e.g. economic and social; this amounts to setting up a framework of private law (chapter 2, pp. 21–7). The solution of the great economic problems is subsequently confined to a self-regulating mechanism, i.e. the market. On the political level this implies that there is no upper size to political entities in the liberal doctrine (see the preceding section). Liberalism, like socialism, is universalist. The attempts to create ever larger free trade areas are an example of the universalist tendencies of liberalism. However, in a humanist perspective the historically grown independent and sovereign state defined by its territory (territorial state) forms a moral entity: the social and political organization ought to be conducive to promoting the public interest. As such the state is the primary *locus* for political action. The central problem is to regulate the relationship between individuals and collectives on the one hand and society on the other (chapter 2, pp. 21–7), which, in legal terms, is covered

by the domain of public law and, in terms of political philosophy, by the principle of solidarity. In a humanist view the primary problem is the organization of society by the means of public law and of social customs and habits. The partial regulation of relationships between individuals and collectives through private law is a secondary task to be tackled once the social foundations have been laid. Distribution is a relationship between parts (individuals and collectives) and the social whole (society); this has been insisted upon in chapters 4 (pp. 154–89) and 6 (pp. 309–10). Employment is also a social problem implying part–whole issues (chapter 4, pp. 142–204). Employment and distribution constitute perhaps the most important domains for applying the principle of solidarity. Other social problems would be the relationship between regions and the social and political position of linguistic and religious groups and of socioeconomic classes. However, the organization of the way of life, comprising, for instance, the length of work time, the leisure activities to be pursued and the content of cultural life, is of an essentially behavioural nature related to purposeful actions of individuals. Here the state should minimize its interventions as is required by the principle of subsidiarity.

All this is not to say that the principles of individualism, and of planning, are no longer required. The purpose of a social organization along humanist lines is precisely to leave the widest possible scope for individual freedom. On the other hand, some planning may be required with respect to the use of land, the preservation of the environment and the maintenance of full employment, above all in widely open economies: the market and the plan are means to be used to organize societies, not basic principles regulating them.

Last but not least, co-operation should be practised more intensely by social scientists in general and by economic theorists in particular. As a first step, mutual understanding between rival groups ought to be promoted by clarifying the nature of their respective approaches: this is to reveal the social philosophies underlying the premises of theories. On this basis, co-operation may develop. Specifically, many analytical techniques relating to the optimizing behaviour of individuals and collectives developed by neoclassical economists can be integrated into a classical-Keynesian framework without difficulty. For instance, the concept of marginal costs might be used to explain short-run supply behaviour if full utilization of productive capacities is approached; or, optimization techniques might be required to select techniques of production or consumption plans (examples of fruitful scientific co-operation between neoclassical and classical-Keynesians are Baranzini 1991 and Scazzieri 1993).

In a wider view, the classical-Keynesians would investigate how the socioeconomic system works to partly determine the actions of individuals (chapter 4). The determining effect of the system shows up in restrictions set on the number of jobs available in an economy. The neoclassicals – including the ‘new institutionalists’, the ‘new economic historians’ and the economic theorists of various domains (for example the legal, political, social and cultural domains) – would deal with the behaviour of individuals within given structures, that is within the system or the restrictions set by the system.

The principle of co-operation also implies that economists ought to work together on the basis of the historical heritage. The aim would be to form syntheses between similar theories and to establish links between different approaches:

in political economy the theory which explains value by utility . . . has so fascinated by no means the worst sort of economists, that they have almost forgotten, or at least degraded, the older and in some respects more important theory which connects value with sacrifice and labour. There is even a danger that, as we press on to seize new conceptions, we should lose the positions which have been already won. *Hence the history of theory is particularly instructive in political economy* (Edgeworth, quoted in Salin 1967, p. 197).

Hegel makes the same point when he deals with *Aufhebung*: the *synthesis* preserves the *thesis* and the *anti-thesis* and puts them into a wider perspective.

Edgeworth puts *political economy* on the same footing as *economics*. In the present study, however, these two concepts have been distinguished (chapter 3, pp. 76–8). Neoclassical theory is termed *economics* and the classical-Keynesian framework *political economy*. Economics focuses upon the study of the behaviour of economic agents within a given institutional set-up, i.e. a given social structure, of which markets and their organization are parts. Classical-Keynesian political economy, however, deals with the functioning of the institutional set-up, i.e. the socioeconomic and political structure or the system as a whole, and with the deterministic effects exercised by the system upon the behaviour of individuals (chapter 4).

While the principle of co-operation is crucial in modern societies embodying immensely complex monetary production economies, it ought to be remembered that this principle must be complemented by the principle of *co-ordination*. The absence of automatic stabilizers in the sphere of production, value, distribution and employment requires considerable state intervention to promote the public interest (see the preceding section and chapters 4 and 6). In any case, extensive co-operation is possible only if distribution is socially accepted and if full employment prevails in the sense that there is no involuntary unemployment. Massive involuntary unemployment produces a struggle for survival and is as such a source of mistrust and conflict.

To conclude the considerations taken up in this study it seems appropriate to turn to a famous distinction made by Aristotle which, subsequently, proved to be of immense importance. Aristotle spoke of two meanings of economics. Economics in a wider sense, political economy to wit, is called *oikonomike* and economics in a narrower sense is termed *chrematistike* (*Politics*, 1256b and 1257a). *Oikonomike* deals with the art of providing a community (a family, a city, a country) with the necessities of life. This broadly corresponds to the definition of *political economy* by James Steuart (1966 [1767], pp. 16–17), the Physiocrats, the classical economists, and by the classical-Keynesians. The central problem is the determination of the size, the distribution and the use of the social surplus. Economics in the narrow sense, *chrematistike*, is the art of ‘money-making or wealth accumulation’, that is making more money out of a given sum of money. Marx took up this Aristotelian device to characterize the essence of ‘capital’. Presumably, Keynes would have associated *chrematistike* with ‘destabilizing speculation’ (Fitzgibbons 1988, p. 91, n. 1).

Neoclassical economists would claim that, under competitive conditions, *chrematistike* is the fundamental means of realizing *oikonomike*. This broadly corresponds to a simplified version of Adam Smith's 'invisible hand': egoistic behaviour in the economic sphere leads to a favourable social outcome. Financial capitalism, if associated with large-scale speculation, is equivalent to pure *chrematistike*; socialism corresponds to a pure form of *oikonomike*. Classical-Keynesian political economy, however, sees moderate *chrematistike*, or *socially appropriate behaviour* in the economic domain, as *one* of the means to achieve *oikonomike*: some competition associated with egoism of the individual enterprises and the possibility of realizing socially acceptable profits – such that the profit share is in line with the full-employment requirement – is indispensable to bringing about increased material well-being. However, the latter should not be an end in itself, but a means to achieve social, political and cultural aims. In Aristotelian terms the economy has to provide the material basis which renders possible 'a good and decent life of the citizens'. On the behavioural level this broadly corresponds to the view held by Adam Smith, if account is taken of the *Wealth of Nations* and of the *Moral Sentiments*, and almost exactly to the physiocratic-classical view and to Keynes's vision set forth by Fitzgibbons (1988) and O'Donnell (1989). The economy is subordinate to the other spheres of individual and social life.

Oikonomike comprises

that species of acquisition . . . only which[,] according to nature[,] are] part of the economy . . . and which are useful as well for the state as the family. And true riches seem to consist in these; and the acquisition of those possessions which are necessary for a happy life is not infinite . . . for the instruments of no art whatsoever are infinite, either in their number or their magnitude; but riches are a number of instruments in domestic and civil economy (Aristotle, *Politics* 1256b).

Thus the quantity of goods required for a good and decent life of the citizens is *limited*. However, '[there] is also another species of acquisition which they particularly call pecuniary, and with great propriety; and by this indeed it seems that there are no bounds to riches and wealth' (Aristotle, *Politics*, 1257a). The latter is the key feature of *chrematistike* which, if pushed to the extreme, may heavily damage or even destroy the institutional set-up associated with and underlying production (*oikonomike*). This is also Marx's and Keynes's view.

Capitalism, especially financial capitalism, was and still is associated with unbounded accumulation of real and financial wealth: real capital, money, shares and bonds and other stores of value, land and old masters, for example. Material well-being and the economy are overrated compared to other spheres of individual and social life and are seen as ends in themselves. Oncken and Salin interpret this as a reaction of modern hedonism against the asceticism of the Middle Ages (Oncken 1902; Salin 1967). However, Salin goes on to say, that the economy, overrated in the era of capitalism, will take on its ancillary role again in the future: '[Es könnte sein,] dass . . . die Wirtschaft, überbeachtet und überbewertet von den Menschen der kapitalistischen Zeit, vergessen wieder in ihre dienende Rolle herabsinken werde' (Salin 1967, p. 172). This would be in line with humanist classical-Keynesian political economy where the economy stands in the service of society and of the individuals composing it and not

the other way round as seems to be implied in modern liberal economics and in capitalist reality. To emphasize the ancillary role of the economy within society is not to argue that the art of political economy is unimportant. *Political economy* aims at understanding how monetary production economies function and is as such the key social science of the modern era, while the most important and all-encompassing social science remains *politics* in the Aristotelian sense.

A glance at the current state of the world economy would seem to suggest that the chrematistic feature of capitalism, characterized by the conquest of markets by all means and by financial speculation on a huge scale, has reached its limits. Could it be that the present age of unlimited accumulation is coming to an end and that an era of *oikonomike*, of political economy, is about to begin? In view of the immense socioeconomic and ecological problems worldwide and given the justified aspiration of the poor countries for a higher level of material well-being, less chrematistics and more political economy could prove a historical necessity.