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THE METHOD IN ECONOMICS: CAN IT GENERATE MYTHS?

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ABSTRACT

Discussions of method are never purely abstract. As the two examplesexamined below illustrate, methodological choices correspond to ideological orientations that lead to distinct and often significant economic policy implications. The point of departure, therefore, must be a rejection of those abstractions or theories presumed valid in all times and circumstances. Economics, as this paper argues, should be understood as a historical science, shaped by contingent and concrete realities. Following Karl Popper, any legitimate abstraction must rest on a firm empirical and historical foundation. Without such grounding, economics risks constructing myths – conceptual edifices devoid of real-world substance – upon which no sound policy or science can stand.

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INTRODUCTION

Even within disciplines that define themselves as scientific, narratives often emerge – relying on mathematics and logical reasoning – that acquire an aura of inevitability. Yet thesenarratives must themselves become the object of critical reflection. Economics, in this respect, has at times been described as"*the celestial mechanics of a non-existent world*". Can economics, conceived as a system of laws and principles, create and sustain a conceptual world that has no empirical counterpart?If so, economics is not celestial mechanics *per se,* but rather an ideological framework – a mode of thought that imposes structure and coherence even upon phenomena that do not exist in reality. The "non-existent world" thus represents an economic utopia: an idealised system never realised in practice, a purely theoretical abstraction. This paper reflects on method by examining two illustrative examples. Its central claim is that the way economics constructs and legitimises its models can, under certain conditions, amount to myth-making – a process through which abstraction hardens into ideology.

What is a myth?

A figure or concept becomes mythical when it enters a shared narrative or belief system: a myth is, above all, a story -one that conveys meaning, evokes emotion, and often transcends rational explanation. We invokemyth whenever the questions it raises exceeds the understanding of those who ask them. A myth is not a legend. Whereas a legend usually refers to a story grounded in historical fact – such as those of King Arthur or Robin Hood – a myth serves to legitimise an order one seeks to create or preserve: a political system , a moral hierarch y, or, as in our case, an economic orthodoxy.

Myths are not real; they are ideological representations of reality, often advanced by intellectual or political elites and embraced by the broader public as if they were truths. The concept of perfect competition, discussed below can be understood as such a myth: an idealised construction – sometimes consciously, sometimes not – used to legitimise a particular vision of the market and its presumed efficiency. Myths concern those dimensions of the collective life that are fundamental to the existence and self-understanding of a community. In recounting the origins of the world, of a people, or of institutions, they do not aim to provide *causalexplanations* but rather to legitimise and sanctify them—projecting these origins into an idealised, timeless realm.

Through this projection, myths furnish justification – once religious, later ethical, and today often secular – endowing social and institutional arrangement with a semblance of immutability and credibility. Myth, therefore, is not a marginal phenomenon but an integral component of communal life, serving both to preserve social order and to provide models for human action.It represents an idealised or ideological depiction of reality, typically advanced by intellectual or political elites and often embraced by the wider public with an almost ritualistic faith. Even in the absence of explicit belief, myths persist through shared sentiments – through the collective desire to portray a certain reality as ideal. Modem examples abound: the positivist myth of progress, or the far more tragic and pernicious myth of racial purity in National Socialism. In every instance, myth functions as an idealised representation of an ideal, not as a fact. It offers coherence and meaning, but it is not reality.

What defines the structure of the market, and what factors influence it?

Within the economic sphere, the actual structures that emerge from the operation of free enterprise are monopoly, oligopoly, and monopolistic competition. As Edward Chamberlain observed "*the essential characteristic of free enterprise is the attempt on the part of each businessman to build his own monopoly, extending it whenever possible and defending it against the attempt of others to extend theirs*". This tendency manifests itself in production differentiation – creating unique brands such as *Champagne* to distinguish one's output from similar goods. Excessive standardisation, by contrast, would be the logical outcome of perfect competition – yet such uniformity is neither typical or desirable.

Chamberlin further noted that "differences in tastes, desires, incomes, and in the location of buyers, and differences in the uses they wish to make of goods, are all elements indicating the need for variety". These variations underscore the inherent heterogeneity of market structures and the impossibility of a world governed by the assumptions of perfect competition. Should we not, then, adopt a more realistic perspective – one that recognises the coexistence of competitive and monopolistic elements? Such an intermediate framework, rather than the polar extremes of perfect competition or pure monopoly, corresponds more closely to the empirical reality of contemporary markets and to the institutional settings in which they operate. In what follows, I intend to illustrate this argument by discussing two examples, each shedding light on how methodological assumptions can evolve into myths that shape both economic theory and policy.

Comparative advantage

The first theme concerns the well-known Ricardian theorem of comparative advantage. The aim here is not to challenge the value of free trade per se whose dynamics are determined above all by macroeconomic and institutional factors, but to reconsider the methodological assumptions on which the Ricardian model rests. Trade, fundamental, is an adventure – the undertaking of individuals, especially merchants, though not exclusively so. It is driven by vision and enterprise, but equally by the institutional and social frameworks within which exchange occurs. Commerce is not a purely spontaneous or abstract process; it is embedded in rules, conventions and historical conditions that shape both opportunity and outcome.

At the micro level, households benefit from the possibility of exchange, as it allows each to specialise in the activity they perform more efficiently – be it cultivating land, producing garments, or constructing dwellings. Through trade, households gain access to a greater diversity of goods and services at lower cost. By analogy, nations too benefit from the capacity to engage in mutually advantageous exchange. The analysis of trade and finance lies at the very foundation of modern economic thought. Indeed, the nineteenth-century debates on British trade policy played a decisive role in transforming economics from a discursive and moral discipline into a more formalised and technical science. Within this evolution, the theory of comparative advantage represented a key step in the mathematization and abstraction of economic reasoning – an intellectual milestone that shaped subsequent conceptions of equilibrium and efficiency.

Yet, viewed from the standpoint of contemporary complexity, Ricardo's model appears both elegant and incomplete. Were he writing today, confronted with globalised production networks, asymmetric information, and structural inequalities between nations, Ricardo himself would likely reconsider or reformulate the theoretical foundations of his model. The world he described – one of factor immobility, constant returns, and perfect competition – no longer corresponds t the empirical reality of international trade.

The legitimacy of free trade is often encapsulated in a statement by **Luigi Einaudi**, given in an interview on April 16, 1948:

"Many people believe that trade is based on the profit one person or one country makes at the expense of others. This notion belongs to ages and people who live by plunder. If trade is to endure, it must rest on an entirely different principle—on the benefit it brings to both contracting parties. The United States cannot hope to achieve greater prosperity so long as Europe [Trump's conception and his tariffs, one might add Japan, India, and others as well-that is, everyone]*remains in a state of misery*[this was in 1948].*The enrichment of Europe is a necessary condition for the enrichment – or further enrichment of the United States.There is no conflict of interest between one country and another: both continents must derive their prosperity from cooperation".*

(The Marshall Plan, essential to the Recovery of the Italian Economy, Il Tempo, April 16, 1948).

To return to the Ricardian question, consider how the theory is traditionally introduced into mainstream economics. In a widely used textbook, Mankiw illustrates it with a simple parable[1]:

"Tom Brady, the legendary quarterback, can mow his lawn in two hours, but in that same time he could earn $20,000 filming a commercial. His neighbour, Forrest Gump, could mow the same lawn in four hours or earn $40 at McDonald's. Although Brady has an absolute advantage in both activities, Gump has the comparative advantage, since Brady's opportunity cost of mowing is $20,000 while Gump's is $40. If Brady pays Gump anything between those two figures, both gain".

This stylised example, which trades on humour and intuition, leads directly to the theorem of comparative costs – succinctly reformulated by Martin Ford through another parable[2]. A giftenneurosuregoen, Jane also happens to be an excellent cook; her friend Tom is merely competent. Even though Jane surpasses Tom in both skills, it is rational for her to specialise in surgery and hire Tom to cook. Comparative advantage, in this view, legitimises specialisation and exchange not only among individuals but also among nations.
Yet *the transition from "individual" analogy to international trade* profoundly alters the terms of the argument. Ricardo's formalisation

[1]N. Gregory Mankiw. *L'essenziale di economia.* Zanichelli. 2020. Sesta edizione italiana condotta sulla settima edizione americana.

[2]Martin Ford. *Il futuro senza lavoro. Accelerazione tecnologica e macchine intelligenti.* Il Saggiatore. 2017. p. 87; Paul A. Samuelson, William D. Nordhaus, Carlo A. Bollino. *Economia.* Diciannovesima edizione. McGrill. 2009. in particolare sul vantaggio comparato v. p. 657 e ss. cfr.Paul Krugman e Robin Wells. L'essenziale di economia. Zanichelli terza edizione italiana condotta sulla quarta edizione americana. 2018. p. 30 e 490 ss.; Paul Krugman e Robin Wells. *Microeconomia.* Seconda edizione italiana condotta sulla terza edizione americana. Zanichelli. 2013 p. 32 e 202; stessi autori. *Macroeconomia.* Seconda edizione italiana condotta sulla terza edizione americana. Zanichelli. 2013. p. 32 e 121, con riferimento al commercio internazionale e al modello di Heckscher-Ohlin; nelle discussioni spesso si ignora che ogni paese ha un vantaggio comparato nella produzione di qualcosa: tutti hanno un vantaggio comparato in qualcosa e uno svantaggio in qualcosa d'altro. Gli Stati Uniti possono avere un vantaggio assoluto nella produzione di aeroplani, grandi e piccoli, nell'esempio di Krugman, cioè in un'ora un lavoratore statunitense potrebbe produrre una maggiore quantità di aeroplani di entrambe le dimensioni e si potrebbe pensare che nulla abbiano gli Stati Uniti da guadagnare da uno scambio con il meno produttivo Brasile. Ma gli Stati Uniti possono trarre giovamento dall'instaurare rapporti di scambio con il Brasile, perché alla base dei benefici dello scambio c'è il vantaggio comparato non quello assoluto. Non importa se il Brasile impiega più risorse degli Stati Uniti per produrre un piccolo aeroplano; quello che conta e che per il Brasile il costo opportunità dei piccoli aeroplani in termini di grandi aeroplani e minore del costo opportunità degli Stati Uniti. Cosi nonostante lo svantaggio assoluto in entrambe le attività, il Brasile ha un vantaggio comparato nella costruzione di piccoli aeroplani. Gli economisti valutano positivamente il commercio internazionale perché lo valutano nell'ottica del principio del vantaggio comparato. Il commercio internazionale apporta benefici a tutti i sistemi economici coinvolti: ogni paese può consumare di più se intrattiene rapporti commerciali con gli altri, invece che restare autosufficiente. Infatti, questi reciproci vantaggi non dipendono dal fatto che un paese sia più abile di un altro, in termini assoluti, nella produzione di qualcosa: anche se un paese vanta una produzione per occupato più elevata in tutti i settori, lo scambio apporta comunque benefici a tutte le parti coinvolte. cfr: P. A. Samuelson e Wolfgang F. Stopler. *Protection and Real Wages, Reviewof Economic Studies,* IX,1, 1941, p. 58-73; P. A. Samuelson. *The Gains from International Trade Once Again.* Economic Journal, LXXII, 288, 1962. p. 820-82

of *Principles of Political Economy and Taxation*(1817) used the case of two goods- wine and clothing – and two countries – England and Portugal – to show that both could gain tfrom trade. The analysis assumed that labour was the only input and that all workers were identical. Under suchrestrictive conditions, total output rises and all participants share in the benefit. Once capital and it mobility are introduced, however, the simplicity of this reasoning collapses. Classical expositions, such as that in Samuelson's textbook, retain the logic: trade promotes specialisation, which raises productivity and living standards. The principle is said to hold even when a country is more or less efficient than all others in every sector, provided it focuses on what it does relatively better.

Ricardo illustrated this numerically: if America requires one labour hour to produce food and two for clothing, while Europe requires three and four respectively, then America has an absolute advantage in both goods but a comparative advantage in food. By specialising accordingly, both regions gain. The parable remains elegant, but—as history has shown—America went to the moon, and Europe did not.

The problem lies in freezing development in time, as though technology, institutions, and factor endowments were immutable. As Montesquieu observed, "The sterility of the land renders men industrious, frugal, and accustomed to labour; for they must find a way to produce what the soil denies them." Through initiative, innovation, and institutional design, nations can transcend their initial endowments. Mainstream trade theory, however, often persists in static reasoning, asserting that every nation should specialise where costs are lowest and that, in the long run, factor returns will converge. History tells a different story. Following Myrdal, Reinert, and others, we observe that poorer economies tend to specialise in agriculture or resource extraction, sectors subject to diminishing returns, while richer economies dominate manufacturing and high-technology industries characterised by increasing returns. The consequence is divergence, not convergence. England, the United States, and Italy alike defied Ricardo's framework. Should Italy have confined itself to citrus exports? Should the United States have remained a cotton producer? The Founding Fathers' maxim was clear: *"Do not do what the English tell you to do; do what the English did."* America went to the moon; Italy built one of Europe's largest manufacturing sectors.

More recently, Erik S. Reinert revisited this issue through the metaphor of two tribes separated by a river – one in the Stone Age, the other in the Bronze Age. Conventional trade theory denies the less advanced tribe the right to emulate the other, urging it instead to exploit its "comparative advantage" in backwardness. The result is a development trap. As Joseph Schumpeter wryly observed, Ricardo's theorem is "*an excellent theory that can never be refuted – because it lacks only common sense".*

Empirical evidence supports this view. Reinert cites data from the *Norwegian Statistical Yearbook*(1900),which recorded that although sailing ships required greater skill than steamships, wages for steam engineers were twice as high. What matters, then, is not individual effort but the nature of the productive activity. Technological progress raises wages, stimulates local demand, and spreads prosperity through interlinked sectors. Such positive externalities are often unintended. Profits earned through innovation yield a fare greater social dividend than those from preserving obsolete methods. Technologicalrevolutions act as catalysts, propelling living standards upward. The type of activity encouraged or neglected by public authorities therefore becomes decisive. Economic progress can enhance welfare in two ways: through higher wages or through lower prices. Classical thought favoured the latter—making people "richer" by enforcing deflationary discipline. Yet the path of technological innovation, though riskier, benefits entrepreneurs, workers, and the state alike by broadening the tax base. Historically, those engaged in mechanised production contributed more to fiscal revenues than those bound to the soil. Development, in this sense, resembles a form of monopoly rent derived from advanced productive capabilities. Workers in rich countries enjoy far higher real wages than equally skilled counterparts in poorer economies. The difference lies not in individual productivity but in the technological content of the activities performed.

Economic theory cannot claim universal validity across historical epochs. Human behaviour, shaped by culture and institutions, cannot be reduced to invariant "laws." Smith and Ricardo both endorsed the division of labour, yet neither envisaged a global fragmentation of production across national borders. In their time, communication was slow, capital immobile, and outsourcing impracticable. Ricardo's assumptions reflected these "primitive" conditions: factor immobility made domestic specialisation plausible. After 1870, with the telegraph, the steamship, limited-liability firms, and global finance, capital mobility transformed the landscape. Protectionist America surpassed free-trade Britain. Today, digital technology and instantaneous communication have further eroded Ricardo's premises. Production is fragmented across continents; software replicates value endlessly. But prudence suggests retaining strategic industries at home—for reasons of both security and resilience.

In the current global order, research is conducted in one region, production in another. Earlier episodes of globalisation—from 1860 to 1914 and during the Bretton Woods era - were embedded in institutional safeguards: strong unions, regulated finance, and social compacts forged after the Great Depression.

Today's arrangement resembles an exchange between Asia and America: low-cost labour traded for investment, codified by the WTO. As Isaiah Berlin warned, "Freedom for the wolves has often meant death for the lambs." Deregulation in the 1990s - under Bill Clinton, mirroring Tony Blair's reforms - removed constraints on banking and derivatives, paving the way for the crisis of 2008. Freedom was granted to the wolves, at the expense of the sheep.

Even agriculture illustrates this dynamic. By 2017, the share of U.S. farmland managed by holdings under 1,000 acres had fallen from 57 per cent in the 1990s to 36 per cent, displaced by multinational agribusiness. The outcome was political disillusion—the rise of populism—and renewed demands for protection.

The neoclassical assumption that **factors of production remain within national borders** is empirically untenable. There is no global equalisation of factor prices; hence, comparative advantage alone cannot determine trade patterns. When capital becomes internationally mobile, it pursues **absolute advantage**, relocating to regions of highest return. The receiving nations gain; the others often lose. This shift transforms trade from a**win–win** paradigm to one of **asymmetric outcomes**. The fundamental issue is not trade itself but **unrestricted capital mobility.** As **Paul Krugman** observed in his **New York Times** column, "The Trouble with Trade" (28 December 2007), free trade generates both winners and losers. Krugman called for stronger social safety nets; one might add the need for **renewed oversight of capital flows**, in the spirit of Bretton Woods.

Trade between similar economies, such as the United States and Canada, can remain mutually beneficial. But when it occurs between nations separated by vast asymmetries in productivity, wages, and institutions**, distributional conflict** becomes inevitable. Initially, the effects of trade with low-wage countries on advanced-economy labour markets were modest. Yet scale matters: as the share of manufactured imports in U.S. GDP rose from 2.5 per cent in 1990 to 6 per cent in 2006, the cumulative impact on wages and employment became impossible to ignore. Highly educated workers may gain; the majority do not.

For this reason, a **realistic political economy of trade** must go beyond abstract models. It must recognise the historical, social, and institutional conditions that determine who gains and who loses—and design policies that restore balance rather than perpetuate myth. Tariffs, however, rarely operate in isolation. They may give rise to new and sometimes unintended political alliances, with potentially adverse consequences for the very states that impose them. Recent developments suggest that regional trade agreements are emerging among long-standing rivals - Japan, South Korea and China – often at the expense of third parties. Could such alignments eventually contribute to an isolation of the United States, accompanies by a broader reorientation of global trade routes?

In the short term, the introduction of tariffs or trade barriers typically triggers a wave of corporate adjustment – most visibly, through layoffs and the contraction of production. The resulting economic disruptions can impede not only the rebalancing of trade but also the formation of new exchange in trade routes are indeed plausible yet the reversibility is uncertain. Establishing production in a networks. A practical example may illustrate the point. Shifts foreign country entail substantial sunk costs and long-term commitments that cannot be unwound in a matter of months. For instance, the Italian food manufacturer*Rana*required two years to establish its production facilities in the United States. One such investments are made, they anchor supply chains geographically, creating inertia in global production patterns. Moreover, the composition of exports matters. Not all goods are equally suited or acceptable to foreign markets – particularly those such as China or India, whose consumer preferences and regulatory standards duffer significant from those in Western economies. As a result, in the short term , firms often respond by reducing staff, with immediate and visible social consequences that complicate both economic adjustment and the emergence of new trade equilibria.

In the long run, the adjustment problem becomes even more pronounced. A revealing anecdote captures the asymmetry between economic theory and livedexperience. During the early phase of globalisation, a prominent American trade union leader expressed concern to Larry Summer, then U.S. Treasury Secretary and Harvard economist., about the massive influx of low-cost labour into the global market. Corporations, the unionist noted, were relocated production to countries where wages were a fraction of those at home, prioritising the production of low-cost goods – such as televisions – over the maintenance of decent domestic wages. Summer's reply was emblematic of the optimism underpinning mainstream globalisation theory: over time, he explained, wages would rise everywhere, and global conditions would eventually converge. China and Bangladesh, too, would see wages increase; televisions, he predicted, would no longer be produced there indefinitely.

The union leader's response was succinct and devastating: *"When will that levelling occur?"* Summers answered: "*in about five generations*".

In other words, a century.

The exchange underscores a fundamental temporal asymmetry in globalisation: the gains from liberalisation accrue quickly, while the social and distributive adjustments unfold over generations. The promise of convergence may thus be true in the abstract but remains irrelevant to those living through its costs.

Perfect Competition: First of all, when formulating theories – which may themselves verge on myth – it isalso necessary to take into account the issue of uncertainty. Uncertainty is pervasive and cannot be reduced to probabilistic risk. Economic agents not only fail to know the effects of their actions; they are also unaware of the underlying probability distribution across different possible scenarios. This does not mean that they act irrationally. As Herbert Simon observed, individuals aim to achieve outcomes that are merely "satisfactory", according to behavioural models and expectation frameworks that vary greatly from those assumed, for example, by Robert Lucas. In this respect, it is worth recalling Keynes - his reflections on uncertainty and its consequences - and how macroeconomic factors are influenced by microeconomic behaviour, while the individual economic agent remains incapable of controlling certain phenomena.

Keynes, from whom it is worth taking our starting point, wrote: "*the volume of investment is influenced by two kinds of risk. The first is the risk of the entrepreneur, or debtor, arising from doubts in his own mind as to the probability of actually achieving the return which he hopes to obtain*[…]*Where a system of debt and credit exists, a second type of risk becomes relevant, which we may call the risk of the creditor".* The shift from an optimistic to a cautious assessment of these two risks – by both investors and financiers – marks the turning point of crisis. Expectations, Keynes observed, are "*based on a shifting and unreliable evidence",*on probabilities which are seldom calculable, and on assumptions that are often conventional: "*the essence of the convention* […] *lies i assuming that the existing state of affairs will continue indefinitely, at least until we have specific reasons to expect a change […]. To the precariousness inherent in the convention must be attributed, in no small degree, the emergence of a problem of inadequate investment"* (Keynes).

Modern macroeconomic models are based on the assumption that even long-term expectations are rational – that is, that the future can be predicted with a certain degree of confidence. This represents one of the crucial points in the historical debate over Keynes's legacy.
With regard to short-term expectations, in a 1937 note for a series of lectures he gave at Cambridge, Keynes wrote: "*I now think that if I were to rewrite The General Theory, I should begin by formulating my theory on the assumption that short-term expectations are always fulfilled, and in a subsequent chapter show what the consequences would be if these expectations were disappointed".* Keynes drew a clear distinction between probability and uncertainty. Probability expresses the greater or lesser likelihood that a given event will occur, whereas uncertainty refers to the difficulty of forming any idea of that probability - and thus to the degree of confidence one can pace in it.
He clarified that this concept in an article published in the Quarterly Journal of Economics in 1937, explaining that, in speaking of uncertainty, he did not mean to distinguish between what is certain and what is merely probable. In this sense, a game of roulette is not subject to uncertainty,nor is theprospect of a Victory Bond being drawn. Similarly, life expectancy is only slightly uncertain, and even the weather is only moderately so.

The kind of uncertainty Keynes referred concerns matters such as the prospect of a war in Europe, or the price of copper and the rate of interest twenty years from now – areas for which no scientific basis exists to assign any numerical probability. As Giorgio La Malfa has recently reminded us, many scholars have argued that the essential difference between Keynes and other economists in their use of mathematics lies precisely here: the latter regard economics as the *logic of choice under conditions of scarcity,* whereas for Keynes it is *the logic of choice under conditions of uncertainty.*

Both Keynes and Irving Fisher devoted considerable attention to the analysis of financial instability, the latter theorising an economy spiralling into recession through debt deflation. In a typically post-Keynesian interpretation, Charles Kindlebergerreformulated Hyman P. Minsky's model into a sequence of logical phases: displacement; the object of speculation; euphoria; tension; the warning signal; discredit; crisis; and its consequences.

All these phenomena are often independent of the individual entrepreneur, being inherent to the very nature of business risk. They cannot be eliminated without eliminating enterprise itself, and they are neither manageable nor foreseeable by entrepreneurs, since they consist of a multitude of isolated events scattered across countless locations (H.P. Minsky, C.P. Kindleberger). Returning to Keynes's writings, Minsky saw uncertainty, irrationality, and the conventional character of expectations as constant sources of instability. In periods of optimism, economic agents begin to take on debt, encouraged by bankers who share their expectations. Even when risk-taking does not reach the extreme form of "Ponzi Finance", the growth of indebtedness means that, when expectations are positive, risks accumulate within the system, laying the groundwork for crisis.
When many economic units can no longer maintain a sufficient flow of revenue to remain solvent, even a modest rise in interest rates, a tightening of credit, or a fall in prices can plunge the entire system into a severe crisis. The real effects are transmitted - through the intricate networks of credit and debt - across the whole economy, affecting even the most cautious and solvent operators, and spreading rapidly, almost instantaneously. Ultimately, the flow of profits determines the capacity of economic agents to repay their debts, and in this respect Minsky and the post-Keynesians draw upon the

insights of Kalecki and Lévy. The current flow of profits depends on investment, government, deficit spending, and - within an open economy - exports. Expectations concerning the returns and volumes of future investments influence the current level of investment and, consequently, the flow of profits. None of this negates the value of financial regulation, which remains essential to prevent firms and banks from becoming excessively or recklessly indebted[3]. Yet all of these dynamics profoundly affect what is referred to as "perfect competition". I therefore seek to dispel certain myths - commonplaces of mainstream economics. Foremost among them is the theorem of comparative costs, so central to the theory of international trade, though in several respects I also challenge other established frameworks. Among these are persistent myths surrounding the notion of perfect competition.

In general, discussions of market failure tend to treat such situationsas exceptions to the paradigm of perfect competition. That is, when circumstances arise in which the economic system fails to ensure the attainment of efficiency, they are described as "market failures". These are regarded as *deviations from a supposed reference model– perfect competition* – which is assumed to function as the natural state of the economy.

These strictly economic considerations echo more political reflections expressed by Giovanni Amendola, an Italian statesman writing in the early twentieth century after the First World War. Commenting on what he perceived as an epochal change in mentality, Amendola observed that a new society had emerged in the aftermath of the Great War: "*The old bourgeois society, upon which the implacable sentence of history fell in August 1914, was founded on the individualist dogma—the cornerstone supporting the particularism of individuals, classes, and states, and the consequent anarchy of private interests and international relations*". He then added, "*The war has enlightened us. The individual has no absolute rights against tradition and society, because tradition and society largely constitute him. Therefore, the autonomy of the individual—upon which civil liberty is founded—does not absolve him of his responsibilitiestoward the past, the present, and the future of the society in which he lives, but rather makes them more precise and imperative*"[4].

Amendola thus theorised a form of communitarian and solidaristic liberalism,: while upholding private property as a social cornerstone, he maintained that it should not be exercised against society. The community, he argued, must retain the ability to regulate private interests, which, if left unchecked, might destroy it. Society, therefore, should ensure that individuals act with due regard for the solidarity that binds them to one another, since each person's actions are never isolated but reverberate – whether for good or ill – through the lives of all. But market power and informational asymmetries also exist almost invariably. The recurrence of these conditions should perhaps lead us to regard then bit as exceptions but as the rule – and to reconsider therelationship between such phenomena and the ideal model of perfect competition, with all the political implications this entails. In a theoretical world of perfect competition, numerous small firms possess neither market power nor the political influence to shape government policy, social structures or consumer behaviour. yet when market power and other asymmetries exist – as they almost always do – they inevitably exert influence over society, politics and consumers alike. The proper attitude, therefore, should be one of realism: to seek appropriate remedies, including legislative measures, in defence of the freedom of all.

One should remember that economic science must not become "*the celestial mechanics of a non-existent world*".

Let us take, for instance, the case of market power, leaving aside for the moment the other so-called market failures. A firm possessing market power can circumvent or nullify the consumer's power, influence tariffs, exert pressure on governments seeking to impose them, and attempt to secure protection from the state – consider, for example, the case of Google, the U.S. government, mad the European Union. Market power arises from the presence of economies of scale of scope. Economies of scale allow producers to spread fixed costs over a greater number of units, encouraging the expansion of firm size. Economies of scope make it advantageous for a producer—again by distributing fixed costs more efficiently – to manufacture different goods with the same range of products. In both cases, market power is created, and the system moves further away from the ideal of perfect competition.

But what if this were not the exception, but the **rule – a natural consequence of the principle of freedom of enterprise? It seems to me that it is precisely so, just as in the other cases described above.**

Today, **competition** is exalted almost uncritically, often without distinction or nuance. Yet the market structure of **"perfect competition"** is unattainable. Mainstream economics remains wedded to the supposed correspondence between free enterprise ad competition, but historical experience contradict this assumption. In reality, what exists is better described as monopolistic competition, ,arising from the application of the principle of free enterprise – whether in manufacturing, industry more broadly, or the service sector.

Not to mention the financial sector, where, since the Middle Ages - in Renaissance Italy and elsewhere - small has never been synonymous with beautiful. This is the real market structure: one that produces product differentiation (including financial products), which is also in the consumers' interest. It drives innovation, the introduction of new processes and products – material or financial alike. But it does not produce firms without market or political power, nor a system free of countervailing influences. Indeed, it is precisely because firms are not small and powerless – forced to accept prices as given – that the economy also requires the presence of law as a balancing and regulatory.

Is Perfect Competition a myth or reality? Monopolistic competition rests on the natural desire of every entrepreneur – and indeed, of every individual – to differentiate their product, and, in essence, to distinguish and define themselves. Each seeks to present their products through unique characteristics – whether in methods of sale, credit facilities, or physical features – that best express the identity of their maker or seller. These traits are marks of their labour, inventiveness, genius, or simply their thought (and that of their collaborators): a reflection of the self and of the organisation, however complex it may be[5].

[3]cfr. v. S. Nerozzi, G. Ricchiuti, *Pensare la macroeconomia. Storia, dibattiti, prospettive*, Pearson, London 2020, pp. 197 e 198; J.M. Keynes *The General Theory of Employement Interest and Money,* Mcmillan, London 1936, pp. 144, 152–153 e 317; I. Fisher, *The Debt–Deflation Theory of Great Depressions,* in ≪Econometrica≫, 1933, pp. 337–357; H.P. Minsky, *Stabilizing an Unstable Economy,* Yale University Press, New Haven 2008; C.P. Kindleberger, *Manias, Panics, and Crashes. A History of Financial Crises,* Mcmillan, London 1978; John Maynard Keynes. *Teoria Generale dell'occupazione, dell'interesse e della moneta.* Mondadori.2023, annotata a cura di Giorgio La Malfa ,p.562 e 610 per le affermazioni sull'incertezza ;più in generale su Keynes e l'incertezza *Cfr. Anna Carabelli "Keynes on Uncertainty and Tragic Happiness" (2021),* pubblicato da Palgrave Macmillan(con traduzione è di Alessandro Guerriero): Keynes nella sua introduzione alla serie di Manuali Economici di Cambridge (1922-3), Keynes scrive: "*La teoria dell'economia non fornisce un corpo di conclusioni stabilite immediatamente applicabili alla politica. È un metodo piuttosto che una dottrina, che aiuta il suo possessore a trarre conclusioni corrette" (*CW XII, 856). Questo passaggio evidenzia la continuità tra il *Trattato sulla probabilità* e le opere economiche di Keynes. Nella sua discussione con Roy Harrod nel 1938, cioè nel suo manifesto metodologico più maturo e schietto, quando afferma che *"l'economia è una branca della logica, un modo di pensare, piuttosto che una scienza pseudo-naturale"* Per lui, è meglio avere approssimativamente ragione che precisamente torto. Gli interessa l'esattezza, non la precisione.

[4]) G. Bedeschi, *La fabbrica delle ideologie. Il pensiero politico nell'Italia del Novecento,* Laterza, Roma–Bari 2002, p. 146, per le citazioni di Amendola

[5]F. Zatti, *Il problema della responsabilità politica nelle "reti di regolatori" indipendenti del mercato*, "Aperta Contrada. Riflessioni su societa, diritto,economia", 9 novembre 2012; S. Zuboff, *Il capitalismo della sorveglianza. Il futuro dell'umanità nell'era dei nuovi poteri*, Luiss University Press, Roma 2019; M. Zuckemberg, *Bringing the World Closer Togheter*, Facebook, 22 giugno 2017; D. Solito, *Un italiano su due compra ciò che viene consigliato dagli influencer*, "La Repubblica", 5 ottobre 2023; J.V. Robinson,

For this reason, perfect competition is not a fact – it is a myth. Beyond the various definitions and interpretations of the term myth[6], and the many classifications of myths – including *etiological myths*, which recount the origins of social and political institutions, traditions, orcustoms – one must ask:

If real market structures take the form of concrete types of competition, then apart from its ideological function – namely, to assert a certain model proposed by an elite – why should perfect competition be studied within a scientific discipline such as economics, which ought to concern itself with reality rather than ideology? At the very least, one should be aware that this is what it represents.

Consider, by analogy, the Black Death of the mid-fourteenth century, which claimed the lives of roughly a third of Europe's population and had profound economic consequences. The physicians of the late Middle Ages knew neither the cause nor the means by which the plague spread. "*In the fourteenth century there existed neither the means to identify the pathogenic agent of the plague, nor the theoretical knowledge necessary to move beyond the classical medicine of the time, founded on humoral pathology"*[7].As has been noted of the Black Death of 1347,"*in an age that knew nothing of microscopes or antibiotics, knowledge could advance no further. Yeti t would be wrong to ignore that humoral pathology, despite its practical deficiencies, represented in itself a logical system of though which appeared to account convincingly for the causes and symptoms of many diseases"*[8](6).

One might add that, in seeking the causes of certain phenomena, one must not proceed as the physiciansof the fourteenth century did - when Pope Clement VI, seeking the cause of the plague "*ordered autopsies of plague victims. So convinced were the doctors of the humoral theory that, in their dissections, they sought and found confirmation of it".*In other words, in search for explanations – whether of factors or theories – one must avoid looking *a priori* for confirmation of one's own preconceptions.

Thus, while perfect competition is certainly not a diseases, it isalso not a fact, as the plague was. Yet the theoretical construction built around it seems to resemble closely that "logical system of thought" which, in the case of the plague, appeared to explain the phenomenon – though it remained merely a system of reasoning. In the fourteenth century, that system sought to explain a real event – a phenomenon that was actuallyoccurring (people were dying). In our case, it seeks to explain an assumption, a phenomenon that does not exist in reality.

The method: We have sen how two of the most well-known economic theories share a common flaw: they both rely on assumptions that either do not exist or exist only partially. If their foundational premises collapse, should not the theories themselves collapse as well – just as if we were speaking of myths or fables?. In the case of comparative advantage, one might generously say that the theory captures a particular moment in the country's development, while neglecting the fact that it was formulated on the basis of the following assumptions:

- trade between two countries must concern goods that both are capable of producing;
- the factors of production – labour and capital – are perfectly transferable within the domestic market, yet immobile internationally;
- the cost of goods is determined by the number of labour hours required to produce them;
- transport and insurance costs are zero.

According to non-neoclassical economists, however, the application of free trade and comparative advantage theories rests on assumptions that are neither theoretically nor empirically valid. Several factors influence trade between states beyond existing relative advantages. One is geographical proximity; others may be cultural or topographical. Canada, for instance, has aneconomy comparable to Spain's but trades far more with the United States than with European countries of similar size. Indeed, Canada trades with the United State as much as it trades with the entirety of Europe. Empirical studies show that an increase in distance between two countries is associated with a reduction of between 0.7 and 1 percent in trade between them - a decline reflecting the rising cost of transporting goods and services. Yet less tangible factors also play a role: trade tends to be more intense when close personal, cultural, or historical ties exist between countries, and such ties tend to weaken as distance increases.

Turning to the theme of perfect competition, one could say – provocatively – that the real world is the one revealed by certain news stories. Consider this example:

"*His name was Sebastian Galassi, he was 26 years old, and he worked in Florence as a delivery rider for Glovo. He supported his web design studies that way. In the evenings, he would put on his soaked work clothes and pedal as fast as possible to beat the algorithm's timing and endure the pain of a precarious condition shared by thousands of men and women. On the night of October 2, 2022, he was late for a delivery, and Glovo immediately fired him. They did not know that Sebastian was already dead at Careggi Hospital, struck by a car along with his bicycle. They did not know that their chains had produced yet another victim, a man trying to meet delivery deadlines set by an algorithm that respects no one. The following morning, an automatic email arrived in his inbox, notifying him of his dismissal for breach of contract terms and conditions. In that email lies the full measure of the evil of a dehumanizing economic model, in which the worker is no longer a human being, but merely the 'capricciosa' pizza he manages—or fails—to deliver alive."*

In discussing so-called *market failures*, we have already mentioned market power and externalities. To these, we must add issues related to the distribution of information among economic agents - problems of incomplete or asymmetric information, where some actors possess informational advantages over others. As explored by George Akerlof, Robert J. Shiller, and John Kenneth Galbraith, information asymmetry undermines the notion of consumer sovereignty, exposing instead the manipulative power of firms and their capacity to crate artificial needs.

Alongside issues of moral hazard and the nature of experience and credence goods – whose qualities can be assessed only after purchase, or sometimes not even then – we may conclude that perfect competition not only does not exist, but cannot exist.

When discussing perfect competition, it is worth turning our attention to the actual structure of markets and to the mechanisms of price formation.

For example, Don Patinkin introduces money into the individual's utility function, treating itas a good that provides a serviced. The demand form money thus depends on the stock of money already held by the individual[9].Consequently, a decrease in prices and in monetary

L'economia della concorrenza imperfetta, a cura di G. Nardozzi, Etas Kompass, Milano 1973; E.H. Chamberlin, *Teoria della concorrenza monopolistica*, a cura di H. Brawer Liberanome, La Nuova Italia, Firenze 1961

[6]Una definizione e, che potrebbe anche adattarsi al nostro caso, quella del mito indicato come segue ≪*Studiato dal vivo, il mito non e una spiegazione che soddisfi un interesse scientifico, ma la resurrezione in forma di narrazione di una realtà primigenia, che viene raccontata per soddisfare profondi bisogni religiosi, esigenze morali, esso esprime, stimola e codifica la credenza; salvaguarda e rafforza la moralità ; garantisce l'efficienza del rito e contiene regole pratiche per la condotta dell'uomo. Il mito e dunque un ingrediente vitale della civiltà umana; non favola inutile, ma forza attiva costruita nel tempo*≫, v. B. Malinowski, *Myth in Primitive Psychcology*, 1926, p. 101

[7]K. Bergdolt, *La Grande pandemia. Come la peste nera generò il mondo nuovo*, con nota di Alessandro Barbero, Libreria pienogiorno, Milano 2020, p. 34.

[8]K. Bergdolt, *La Grande pandemia*, cit., pp. 38 e 85.

[9]Sebastiano Nerozzi Giorgio Ricchiuti. *Pensare la macroeconomia. Storia, dibattiti,*

income, with a constant money stock, entails a revaluation of real monetary balances held by households and firms.

This revaluation affects aggregate demand in several ways:

- it lowers the interest rate (since the demand for money as a store of value declines);
- it increases consumption and the demand for consumer goods (since higher real balances make individuals feel wealthier);
- and it stimulates overall demand (as the purchasing power of money rises).

Patinkin concludes that there can be no situation in which price flexibility proves ineffective in curing unemployment. Any increase in the money supply or fall in prices not only reduces the interest rate (shifting the LM curve) but also directly stimulates the demand for consumer and investment goods - making a reduction in the interest rate unnecessary. Thus, a general fall in prices would, in theory, suffice to resolve unemployment, primarily through the reduction of wages. Unemployment, Patinkin argues, can never be anequilibrium phenomenon; it must instead *result from wage rigidity, that is, from the labour market's inability to reach a wage level consistent with full employment.*

Fortunately, after constructing the theoretical framework, Patinkin acknowledges that the kind of flexibility he describes does not exist in reality.He therefore concedes the need for expansionary monetary policies to reduce unemployment.But are these enough? I do not think so[10]. If imperfect and monopolistic competition exist – as demonstrated by Joan Robinson and Edward Chamberlin as early as the 1920s – then inflation can be understood as arising from variations in wages. Firms are no longer *price takers*; they set prices by adding a mark-up over production costs. In theory, it would be enough to reduce wages in order to reduce prices - or at least to ensure that wages grow only in proportion to productivity. Yet productivity often depends on external factor, not on workers themselves, and it tends to decline during recessions regardless of workers' merits or shortcomings[11].

As for the idea that lowering wages could reduce unemployment - according to certain neoclassical theorems that deny the very existence of involuntary unemployment - one must, as always, turn to empirical verification, as I will later discuss. In Italy, for instance, one could at least say that – judging by firm size – companies are price takers! According to an ISTAT survey published in 2007 on firms operating in the industrial and service sectors (excluding financial intermediation and public administration) - sectors that account for two-thirds of total employment and form the core of Italy's productive structure - the average firm size is small or very small.
In 2005, across these two sectors, there were 4.3 million firms employing 16.3 million people, including both employees and the self-employed. Micro-enterprises - those with fewer than ten employees - numbered just under 4.1 million, representing 95% of all firms and employing about 8 million people, or 48% of total employment. In such enterprises, relations between workers and entrepreneurs are often more personal or even familial, with lower levels of conflict, greater solidarity, and higher flexibility. It is therefore far less likely to find the kind of antagonistic relationship described in economic theory - between workers' bargaining power and firms' mark-ups. Instead, what tends to prevail are interpersonal dynamics and informal relationships, rather than those captured by the neoclassical model - or even by its critics (such as Brancaccio).
Including small enterprises (those with up to 49 employees), these account for 99% of all firms in the two sectors and just under 70% of total employment. They share similar features to micro-enterprises in

prospettive. Pearson editore.2020.pag.105-106

[10]Sebastiano Nerozzi Giorgio Ricchiuti. *Pensare la macroeconomia. Storia, dibattiti, prospettive.* cit.pag.107.pag.109

[11]Per questo dibattito basta vedere le osservazioni fatte contro Blanchard da Emiliano Brancaccio circa appunto il lavoro. L'unica soluzione ottimale per i lavoratori sarebbe secondo l'impostazione dominante recuperare (un po') di salario reale o potere attraverso le norme antitrust che dovrebbero diminuire i prezzi per via della concorrenza che si assume sempre da perseguire come perfetta. cfr. Olivier Blanchard, Alessia Amighini, Francesco Giavazzi. *Scoprire la macroeconomia. I. Quello che non si può non sapere.* Il Mulino.2016; Olivier Blanchard, Alessia Amighini, Francesco Giavazzi. *Scoprire la macroeconomia. I Quello che non si può non sapere.* Il Mulino.2017; Olivier Blanchard, Alessia Amighini, Francesco Giavazzi. *Macroeconomia. Una prospettiva europea.* Il Mulino. 2016; Olivier Blanchard, Alessia Amighini, Francesco Giavazzi. *Scoprire la macroeconomia. II. Un passo in più*. Il Mulino. 2017; David W. Findalay. *Esercizi di macroeconomia. 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Pag. 123-127 e 130-133; Luca Ricolfi. *Sinistra e popolo. Il conflitto politico nell'era dei populismi.* Longanesi. 2017 pag.152- 172 circa il populismo americano ed europeo, l'esigenza di protezione cui cerca di rispondere e l'insufficienza della risposta della sinistra riformista; Robert Jackson e Georg Sorensen. *Relazioni internazionali.* Egea. 2014. pag.60-61 e 202-235, sugli aspetti internazionali dell'economia, la globalizzazione, il nazionalismo economico; John Maynard Keynes. *Teoria Generale dell'occupazione, dell'interesse e della moneta.* UTET 2013 (introduzione di Terenzio Cozzi. Pag. 9-45; John Maynard Keynes. *Come uscire dalla crisi.* Laterza. 2012 (a cura di) Pierluigi Sabbatini. John Maynard Keynes nella relazione "*I mezzi per raggiungere il benessere economico*" John Maynard Keynes. *L'assurdità dei sacrifici. 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terms of labour–capital relations. Medium-sized firms (50 to 250 employees) werefewer than 22,000 – only 0.5% of the total – but employed 13% of the workforce. Large firms were extremely rare: only about 3,000 in total, representing 0.1% of firms yet 20% of employment. It is clear, then, that genuine trade union power - understood as resistance to flexibility, as a constraint on firms' mark-ups, or as opposition to agreements that could otherwise foster productivity - is concentrated only within this final segment of firms, and at most, the last two.

*In Italy, the very small size of firms is characterised by the exceptionally high presence of self-employed workers.*If we define "employees" as including both dependent and independent workers, then in Italy one out of every three workers is self-employed. In Spain, the ratio is half that; in France, only one in twenty workers is self-employed. It follows that the theory according to which lowering wages leads to economic recovery - that workers should accept wage moderation, that they cannot influence the *mark-ups*, and that competition is inherently beneficial for real wage growth - does not apply to a system in which one out of three workers is self-employed and, in essence, his own master.

*If the price is not remunerative, he simply closes down.*He ceases to be both a producer (perhaps one who might have acted "anti-competitively", in the sense of perfect competition) and a consumer. He stops investing - both directly and indirectly (for example, by depositing savings in a bank that might otherwise invest them in enterprises, shares, or loans). In recent decades, the average size of firms has decreased across Europe, but the phenomenon has been particularly marked in Italy. The smaller scale of enterprises has led to a decline in research and development – precisely at a time when, with the rise of new technologies, such investment would be more crucial than ever. This is the major weakness of the Italian production system - more so than the structure of the market itself (which could be addressed through antitrust legislation) or th issues related to labour costs or worker bargaining power as analysed by classical theory.

METHODOLOGICAL

The prevailing theory - namely, that which most closely adheres to the conception identifying the essence of the labour problem in the relationship between supply and demand, with flexible wages and unemployment that can never be involuntary - is, above all, unrealistic. As in many cases, economic models are constructed on unrealistic assumptions, and upon these models equally unrealistic policy proposals are advanced. In reality, for example, efficiency wages include cases in which firms have an interest in attracting workers of higher quality. Paying higher wages allows firms to draw in more productive workers, who move from one company to another in order to improve their standard of living. Offering a higher wage can also motivate workers more effectively, fostering greater loyalty to the firm's mission and making them feel part of a shared project.
In other circumstances, firms may raise wages to maintain good industrial relations with their employees - reducing conflict or limiting the level of unionization within the enterprise. Wage rigidity also depends, as is well known, on the insider–outsider relationship. Wage contracts are negotiated between firms and trade unions. The union seeks to represent the claims and interests of its members. It does not defend workers in general but rather represents the preferences of those who are employed - and who are unionized. (This assumption is especially characteristic of Anglo-Saxon countries). As a result, the union gives less consideration to the interests of the unemployed. It will therefore demand wages higher than those corresponding to equilibrium, since its members favour a more aggressive wage policy. This, in turn, leads to higher and more persistent unemployment. If a negative shock reduces employment, those who lose their jobs will cease to be represented by the union, which will have even stronger incentives to raise its wage demands.
This process can generate hysteresis in the labour market: effects on employment, labour demand, and labour supply that tend to become permanent, thereby creating long-term unemployment. The insider–outsider model thus explains how actual wages may remain above the level consistent with full employment. A group of unemployed workers risks rapidly losing their skills and qualifications, and a single shock can significantly raise the overall level of unemployment. This is, evidently, an equilibrium situation with involuntary unemployment: the unemployed would be willing to work for lower wages, yet firms are unwilling to hire them.

Still on the subject of unrealism, one continually encounters political proposals built upon the model of "*perfect competition*". Before anything else, we should ask whether the model that assumes equality among marginal cost, marginal revenue, and price would actually be socially desirable if it were realised - not only advantageous for the firm, but also beneficial for society as a whole, for innovation and research, upon which progress and development depend. In reality, however - and it is no coincidence that these are the models that actually exist - we find monopolistic competition, oligopoly, and monopoly. Under perfect competition, if a positive shock reduces marginal costs, all firms must lower prices or risk losing their entire demand. Yet under monopolistic competition - that is, in the real world, the world of the models we actually have to reckon with - things do not work that way. Firms maximize profits at a price level above the point where marginal cost equals marginal revenue. The equilibrium quantities will therefore be lower, and prices higher, generating macroeconomic effects consistent with a situation of underemployment equilibrium. Thus, in addressing the problem of employment, we must perform what might be called a reality check - a "*bath of humility*," as it were - and immerse ourselves in real-world models and assumptions: imperfect competition, incomplete information, and informational asymmetries.

For this reason, policy solutions are often, at best, second-best solutions; but methodologically, they must begin with an acknowledgment that any proposal must be grounded in what actually exists - what has been and what is - not in a chimera. To base economic prescriptions - or even the representation of problems and situations - on models and assumptions that we already know to be not only unrealistic but impossible to realize is methodologically unsound. As an old proverb says: "*If my grandmother had wheels, she'd be a tram".*What do I mean by that? Reasoning built upon impossible premises – no matter how elegant – cannot take us anywhere. One insists on holding up the model of*"perfect competition"*– a model that the classical liberals themselves knew never existed and never could exist. Yeti t is treated either as though it once existed or as though it could one day exist,andwe are told that we must move toward it because, eventually, we will get there.

In a sense, this attitude is strikingly Marxist: the myth of "*perfect competition to come"*merely replaces the Marxist myth of the "inevitable collapse of capitalism". The same methodological error is repeated.

To put it more plainly, it is the classic case of "*if my grandmother had wheels, she'd be a tram*".

The model of perfect competition is oftendescribed, charitably, as a "*benchmark*".But can an unrealistic model truly serve as the basis for economic policy in the real world?Should we not,rather, draw upon the general principles of liberty, instead of chasing after models that do not exist – and applying them in a binding, almost obsessive, manner? One might say that, in trying to imagine what would happen (or what happens) *if my grandmother had wheels, we would not get very far*[12].

[12]Francesco Guala. *Filosofia dell'economia. Modelli, causalità, previsione.* Il Mulino. 2006. pag.9 per la citazione del proverbio, pag.55 per l'importanza dei modelli "in che modo i modelli ci aiutano a comprendere la realtà?" si domanda l'autore, pag.69 e ss. sul noto saggio di Milton Friedman "*La metodologia dell'economia positiva",* contenuto nel volume italiano dal titolo *"Metodo,consumo e moneta"* Il Mulino.1996. Molti economisti postkeynesiani partono da un'impostazione realista secondo la quale la realtà è "*stratificata e le regolarità rintracciabili nelle relazioni fra alcuni fenomeni a un livello non bastano a rilevare le cause sottostanti. La spiegazione dei*

According to Milton Friedman, economics should construct models that allow for predictions, rather than models that merely explain reality. In his view, the primary function of economic models is therefore to *predict*.

But one might object: even if these are predictions, can they truly serve a purpose if we already know that the conditions under which they might be realised can never actually occur?

*Moreover, why should the role of economics be to devise models capable of prediction rather than to represent reality itself?*Why, in this pursuit of predictive power rather than descriptive accuracy, does one accept the use of unrealistic assumptions – or rely on only some assumptions, even when they are not real or not complete representations of reality – thus simplifying the picture?

From this standpoint, it is asserted that the correct economic methodology should be one in which models are evaluated on the basis of their "*predictions"* not on the "*realism of their assumptions*".

Friedman's approach is best captured in his well-known expression "*as if*". What does this mean?

Milton Friedman's "as if" approach is a methodological stance in economics that holds that it is unnecessary to evaluate the realism of a model's assumptions; rather, what matters is its ability to make accurate predictions. In practice, one should act "as if" the assumptions where true, provided that themodel can reliably predict economic phenomena – ignoring the abstractions and focusing instead on empirical results.

- The approach was introduced by Friedman in his essay The Methodology of Positive Economics (1953).
- Friedman defended a "test it and see" methodology emphasising the predictive validity of economic models over the correspondence of their assumptions to reality.
- This approach explicitly allows one to disregard factors that go beyond methodological individualism – such a political institutions, procedures, and restrictive practices.

Let us consider a practical example. One might treat an economic model *as if* individuals acted rationally and were perfectly informed. What matters is not whether individuals actually behave this way, but whether their aggregate, predictable actions yield accurate forecasts. Friedman's "*as if*" approach thus justifies the use of **unrealistic assumptions** in economic models, provided that their **predictions** are empirically successful.

In**The Methodology of Positive Economics**(1953), Friedman argued that it is not necessary for a model's assumptions to be literally true; what matters is that themodel's predictions be correct when subjected to empiricaltesting. For Friedman, the value of an economic theory lies not in the truth of its assumptions but in its predictive power.
An analogy may help: a textbook may describe people as behaving *as if* they were perfectly rational and fully informed, even if, in reality, they are not. What matters is that this simplified model allows us to reliably predict their general behaviour.

The"*as if"*approach has been used, for example, to assess hypotheses about investor preferences, to interpretsurvey data, and to test the "law of motion" of wealth.This methodological debate – whether theories should be assessed in terms of their "*predictions*" (as Milton Friedman claimed) or their*"assumptions"*- has important implications for how we interpret empirical evidence and for the operational conclusions we draw from theory.

Let us follow an example proposed by Professor Guala in the book cited earlier. The study—one among several—concerns how prices are formed in real markets and the actual structure of markets, rather than the imaginary structures often postulated by mainstream economic theory (such as perfect competition).

To simplify matters, one could note that saying the graph of a firm's average and marginal costs resembles a flat basin rather than the U-shaped curve assumed by neoclassical theory is, admittedly, a discussion for specialists. Yet the point is crucial.

The study, developed in Oxford in 1939, examined how entrepreneurs actually set prices – quite differently from what neoclassical economics suggests. Shouldn't such evidence call into question, or even invalidate, traditional theory, if entrepreneurs behave in ways that contradict it? In fact, studies like this lead precisely to that conclusion. They expose the inadequacy of the traditional model, unless one maintains that models must be judged by their "*predictions*" alone and not by the realism of their "*assumptions*".
For my part, I do not agree. Let us look instead at the reality of market structures and the process of price formation.

Numerous authors - Philip Andrews (since 1949),Michal Kaleki (1954), and Paolo Sylos Labini (1956) – observed that entrepreneurs set prices in a manner very different from what neoclassical models predict. Firms are not *price- takers*but*price -makers*and*quantity takers*. Today, firms – especially large corporations – enjoy significantmarket power and are managed by professional executives who pursue growth and expansion rather than mere profit maximisation. (This is less visible in Italy but widespread internationally). Empirical studies show that firms' average and marginal cost curves are basin-shaped, not U-shaped as assumed by neoclassical theory. What does this mean? It means that costs remain roughly constant up to a high level of capacity utilization. Firms set their prices by fixing a mark-up over average variable costs (such as wages). The mark-up must also cover fixed costs (for example, rent or overheads) and finance new investment, allowing firms to minimize reliance on external finance.

fenomeni è, dunque, più importante della sola capacità predittiva. In ogni caso la ricerca di ipotesi più realistiche, o quantomeno non palesemente irrealistiche, costituisce un obiettivo fondamentale per il ricercatore "cfr. Sebastiano Nerozzi e Giorgio Ricchiuti. *Pensare la macroeconomia.* cit.pag193-210. I neo keynesiani ritengono a proposito di occupazione e disoccupazione, forse non tenendo conto a sufficienza dei problemi connessi alla globalizzazione e alla delocalizzazione, che: **a** - occupazione e disoccupazione sono determinate non sul mercato del lavoro ma sul mercato dei beni; si tratta di fenomeni macroeconomici e la flessibilità verso il basso dei salari non solo è praticamente irrealizzabile o molto difficile, ma non serve ad aumentare l'occupazione; **b** - la disoccupazione involontaria esiste ed è dovuta alla domanda insufficiente, ciò non significa che non possa avere delle cause microeconomiche connesse a specifici mercati, ma è soprattutto un fenomeno macroeconomico; **c** - la relazione fra investimenti e risparmi è fondamentale nel determinare il processo di crescita e la causalità va dagli investimenti ai risparmi e non viceversa ed infatti sono le decisioni delle imprese ad avere un ruolo centrale rispetto a quelle dei consumatori e delle famiglie e sono le decisioni di investimento (insieme al deficit di bilancio e alle esportazioni) che determinano la crescita dei profitti e del reddito; **d** - in un 'economia monetaria i flussi di moneta (in entrata e in uscita), cioè in particolare la loro differenza determina i profitti ma se le aspettative di profitto sono pessime la moneta viene tesaureggiata e, perciò è importante la finanza perché permette di anticipare i flussi monetari necessari agli investimenti: le relazioni di debito e credito non sono accessorie ma costitutive; **e** - la moneta non è mai neutrale ma ha effetti reali sulla produzione ed occupazione sia nel breve sia nel lungo periodo ed è generata dai rapporti di debito e credito (è endogena) e i suoi movimenti sono connessi alle variazioni della domanda effettiva e sono seguiti da variazioni del reddito, il tasso di interesse è, al contrario determinato dalla Banca centrale (è esogeno); **f**- l'incertezza è pervasiva e impedisce non solo di conoscere gli effetti delle proprie azioni ma anche la distribuzione di probabilità sottostante ai diversi scenari ,ma ciò nonostante i soggetti non agiscono in modo irrazionale ma con razionalità limitata scegliendo spesso semplicemente le soluzioni che soddisfano anche se in astratto non sono massimizzanti di un'utilità o basate sul suo calcolo ,sono solo soddisfacenti .Da qui l'importanza dell'azione dello stato per orientare le aspettative ,gli investimenti ,per permettere al sistema di avvicinarsi alla piena occupazione ,con politiche fiscali ,monetarie di regolazione finanziaria ,politiche dei redditi ,nella consapevolezza che la produzione è determinata dalle componenti autonome della domanda ed essa difficilmente coinciderà con la piena occupazione che non è la condizione naturale cui le economie tendono spontaneamente: infatti la domanda effettiva dipende dalle decisioni di spesa degli agenti e la disponibilità di credito e, perciò esse hanno un ruolo determinante per conseguire la piena occupazione, in particolare la domanda effettiva attesa dagli imprenditori

In practice, entrepreneurs determine price by adding to the unit cost of production(the cost of labour per unit of output) a certain percentage – varying by sector – to cover fixed costs, plus roughly 10 percent to secure a profit:

Price – unit cost + X% fixed costs + 10% profit.

This, one might way, is the real theory – unlike the neoclassical one. As mentioned, Philip Andrews argued as early as 1949 that firms' average and marginal cost curves are basin-shaped, not U-shaped: costs remain constant up to high levels of capacity utilisation. How can this empirical regularity be ignored?

Investment decisions, moreover, are designed to create *excess productive capacity*, so that firms are neverunable to meet sudden increases in demand – or forced to do so only at prohibitively high costs. As long as output remains below maximum capacity, production can expand at constant costs.

Consequently, firms are rarely compelled to change prices in order to increase production: with unused capacity and constant costs over a wide range, they adjust quantities rather than prices in response to demand. Even if demand falls, firms often avoid cutting prices to prevent "spoiling the market".

Therefore, there is not a single condition ensuring the efficient use of resources, but a *multiplicity of possible conditions,* among which the entrepreneur chooses depending on production needs and the level of expected demand (as noted by Tortorella Esposito). This is the real world, not the abstract one depicted by theories based on perfect or neoclassical competition. Accordingly, it is not the production function that determines the equilibrium level of employment or ensures conditions of maximum profit for firms. Rather, given a certain level of effective demand to be met, firms produce with a "*fixed-coefficient production function",* capable of delivering an output consistent with that demand and securing the programmed profit margin (Tortorella Esposito).

Within this framework, the substitution process between capital and labour is limited: what varies is the degree of unused capacity (as noted by Sidney Weintraub).Hence, the price of goods becomes a function of the ratio between the nominal wage and labour productivity, increased by a mark-up. The mark-up is not determined, as mainstream theory claims, by the degree of competition – i.e., it is not an exogenous variable. Much also depends on the balance of power between workers and firms. In particular, when the economy approaches full employment, trade unions tend to strengthen, succeeding in raising real wages and thereby reducing the mark-up. For this arise inflationary pressuresthat accelerate the dynamics of prices and nominal wages – until the two sides reach an agreement on how to distribute income between wages and profits (Weintraub).
In reality, there exists a distributional conflict –*nothing is predetermined as if it were the result of a natural law.* There is a persistent struggle over income distribution and production relations, a structural tension between entrepreneurs and workers driven by different interests. Economic equilibrium, therefore, becomes a special case, difficult to verify empirically, precisely because these divergent interests exist.

Typically, the level of investment is determined by entrepreneurs seeking to realise their planned returns, while the level of savings determined by workers seeking to maintain their standard of living. The two groups represent distinct categories with opposing objectives, and the equilibrium of the economic system is, therefore, not automatic. *This reality – transformed into theory by post-Keynesian authors – is at least grounded in empirically verifiable data, unlike other theories* (such as perfect competition or neoclassical models), which exist only on paper. As Milton Friedman famously put it in his "*as if"*preposition, these models rest on assumptions that are known to be unrealistic, yet are treated as useful simply because they can, supposedly, predict outcomes. But this overturns the convention wisdom that mark-ups are determined by market structures rather than power relations between firms and workers. The debate, therefore, originates in the empirical question of whetherfirms are price takers or price makers, and what entrepreneurs actually do when they set prices[13]. If, as aconsequence of what has been argued, effective demand – that is, *"expected"*demand – guidesproduction decisions, then firms organise their production functions accordingly to ensure output consistent with that demandand capable of guaranteeing a pre-set profit margin. This creates a chain linking expectations, investment, credit, and money, which, in an*uncertain world, cam lead to significantinstability in effective demand, income, and employment.* Full employment, in this context, is not the natural condition toward which economies spontaneously gravitate. If firms are not rice takers, but large corporations with substantial fixed costs up to certain volumes of production, then we must acknowledge that certain theories are not merely unrealistic, but simply *false*? Consider a few facts. In the financial sector of New York, between 2000 and 2013, employment fell from 150,000 to 100,000 workers, while profits surged dramatically. In 2006, Google acquired YouTube for 1.65 billion dollars—YouTube had 65 employees, meaning a purchase price of 25 million dollars per employee. In 2012, Facebook bought Instagram—with 13 employees—for 1 billion dollars, or 77 million per employee. And in 2014, it acquired WhatsApp, with 55 employees, for 19 billion dollars, amounting to 345 million per employee.

Shouldn't such data be taken into account when formulating theories? The U.S. economy produces one-third more today than in 1998, yet with roughly the same labour force and a larger population. Although obtaining a university degree remains important for earning higher wages than those with only a high-school diploma, even the earnings of graduates—burdened by student debt—have declined. This trend has contributed to the growth of self-employment, which, though formally "employment", often represents disguised unemployment, especially among older workers seeking to supplement inadequate incomes. Nearly half of Americans, without taking on debt, would be unable to pay a $400 medical bill. Meanwhile, Amazon, Google, and Facebook have become the masters of the internet in the age of tech monopolies. Together, these three Silicon Valley giants control nearly all e-commerce, social networking, online advertising, and web

[13]Dal punto di vista generale certe impostazioni di microeconomia, di tipo neoclassico, oggi devono essere riviste alla luce delle nuove acquisizioni. Penso a Daniel Kahnemann e alla sua teoria comportamentale su base psicologica. cfr: Daniel Kahneman. *Economia della felicità*. Il Sole 24 ore, 2007; Daniel Kahneman. *Pensieri lenti e veloci.* Mondadori, 2012; Marco Novarese. *Economia comportamentale e scelte del consumatore* in Consumatori, Diritti e Mercato. Argomenti, n 3/2010; George Akerlof *Racconti di un Nobel dell'economia. Asimmetria informativa e vita quotidiana.* ed. Il Sole 24 ore. 2003; George Akerlof e Rachel Kranton. *Economia dell'identità. Come le nostre identità determinano lavoro, salari e benessere.* Laterza. 2012; George A. Akerlof e Robert J. Shiller.*Ci prendono per fessi . L'economia della manipolazione e dell'inganno.*Mondadori .2016; George A. Akerlof e Robert J. Shiller.*Spiriti animali.Come la natura umana può salvare l'economia.*Rizzoli. 2009. Richard H.Thaler.Misbehaving. *La nascita dell'economia comportamentale.* Einaudi.2018. Herbert Simon *Il comportamento amministrativo.* Il Mulino. 2001; Paul Krugman e Robin Wells. *Microeconomia.* Zanichelli. seconda edizione. 2013, pag. 239-253; John Sloman, Dean Garrat. *Microeconomia.* Quarta edizione. Il Mulino. 2014, pag 44-47; v. Emiliano Brancaccio. *Nobel 2017: Thaler e le contraddizioni della "spinta gentile"* su Economia e politica del 10 ottobre 2017.Cass. R. Sunstein. Semplice. *L'arte del governo nel terzo millennio.* Feltrinelli. 2014; Cass. R. Sunstein, Richard. Thaler. *Nudge. La spinta gentile. La nuova strategia per migliorare le nostre decisioni su denaro, salute, felicità.* Feltrinelli. 2009; Elena Mieli. *Noi umani abbiamo un superpotere È l'empatia che ci rende eccezionali,* su Il Corriere della Sera del 10 aprile 2017.L'economia comportamentale, a mio modesto parere, è una vera rivoluzione. Robert Solow ha sostenuto che i più accaniti neoclassici contemporanei, Lucas ecc.., dovrebbero essere considerati come quei matti che si credono Napoleone e che vogliono discutere con il resto della popolazione della battaglia di Austerlitz ed è ridicolo sia analizzare i dettagli di quella battaglia come le minuzie dei modelli neoclassici assolutamente improbabili circa la loro possibilità di accadere. Perciò non si può considerare l'equilibrio neo classico un ideale cui tendere come se ritenessimo che quella persona che si presenta come Napoleone non sia in fondo così pazzo ma "*un saggio massimizzatore da emulare*"... Giustamente Thaler, dice "*Per comprendere il comportamento di consumo delle famiglie, abbiamo chiaramente bisogno di tornare a studiare gli Human piuttosto che gli Econ. Gli Human non hanno il cervello di Einstein (o di Barro), né hanno l'autocontrollo di un asceta monaco buddista. Hanno invece passioni, telescopi difettosi, trattano in modo diverso componenti diverse della ricchezza, e possono essere influenzati da rendimenti di breve periodo nel mercato azionario. Ci occorre un modello per questi tipi di Human*"

searches. Such a concentration of power has not been seen in more than a century - a risk both for users and for democracy itself. Today, Google controls 88% of the search engine market; Facebook (including WhatsApp, Instagram,and Messenger) commands 77% of social network traffic; and Amazondominates over half of online retail sales and 74% of the e-book market."*They are, in effect, monopolies. It is time to stop treating Silicon Valley as a sanctuary".* Some argue - whether rightly or wrongly - that firms do not increase investment when prices fall, and that workers do not increase consumption when their incomes decline. To believe otherwise is hardly credible. On the contrary, as firms and workers (that is, debtors) face a growing real debt burden under deflation, they are driven toward insolvency and thus tend to cut spending.

Consequently, there is no stable relationship between the price level and aggregate demand. A reduction in aggregate demand—such as through austerity policies—reduces employment, while price and wage flexibility has no positive effects. In my view, we must proceed to empirical verification—perhaps state by state—to determine whether firms actually increase investment when prices fall, or whether workers increase consumption when their incomes fall—or whether the opposite occurs. This requires the kind of careful historical and statistical inquiry one would apply when studying archival documents: research that may later be revised, contradicted, or found to hold only for certain countries and not others.

The social sciences cannot claim to possess laws characterised by universality or near-permeance, as in the natural sciences. The "*laws"*of economics hold *rebus sic stantibus* – so long as current conditions persists - until new evidence falsifies them, perhaps in one country but not others. Economists, in this view, would become less like chemists or physicists and more like historians or humanists – but thereby more useful. Otherwise, we remain trapped in the sterile debate over whether it is "*credible"* (as Brancaccio notes) that firms increase investment when prices fall, or that workers increase consumption when wages fall – arguing endlessly over the slope of the aggregatedemand curve. Is that truly the goal?

My view, I believe, does not contradict – but rather accords with – KarlPopper's idea that a hypothesesor theory is scientific only if it is susceptible to being refuted by empirical facts. In other words, it must be falsifiable, and a single fact is sufficient to falsify it. At that point, one moves on to another theory. From his first major work, *The Logic of Scientific Discovery*(1935), Popper argued, on the basis of an asymmetry between verification and falsification, that no number of confirming instances can ever conclusively verify a universal statement (the prototype of a scientific law), whereas a single counterexample is enough to invalidate it. He thus identified falsification as the defining characteristic of scientific theories – the feature that distinguishes them from metaphysical doctrine – and the hypothetic-deductive method as the typical procedure of scientific inquiry. Rather than proceeding by inductive generalisations (which, for Popper, reduce to the neopositivist notion of verification), science advances through hypotheses subjected to rigorous attempts at falsification, consisting in testing their validity by examining their empirical consequences. *"It is important at this point to underline the difference between the assertion that a theory is falsifiable and the assertion that it has been falsified. A falsifiable theory is one that can be shown to be false on the basis of empirical observation"*[14]. Does empirical verification, then, truly matter? According to Popper, a good theory must formulate very precise predictions – predictions that can be contradicted by facts. The more precise the prediction, the more falsifiable the theory becomes, in the sense that the wider the range of possible events of disproving it, the stronger its scientific character. Bad theories, by contrast, are those that are vague – theories that can always be made to fit the facts. Even if Popper's observations are not always valid (as they tend to privilege deduction over induction in the scientific method), keeping them as a guiding compass helps prevent the kind of errors that still occur today among even well-known economists who belong, as one might way, to a certain "circle". The episode I recall in a note is well known[15]; yet,

[14]Cfr. Francesco Guala. *Filosofia dell'economia.* cit. pag. 120 e prosegue *"Tutte le teorie veramente scientifiche devono essere falsificabili, secondo Popper, e per questo devono fornire previsioni precise e non ambigue riguardo ad eventi osservabili in futuro. Una teoria è falsificata invece quando essa viene effettivamente controllata dal punto di vista empirico, e fallisce nella predizione di un evento futuro".* L'autore conclude che nonostante similitudini superficiali le idee di Friedman e quelle di Popper sono diverse, appartengono a mondi diversi, anche se si sottolinea l'importanza delle previsioni in entrambe le teorie, per Popper la falsificazione è essenziale per controllare se una teoria è falsa, ma la possibilità di confutazione tramite prove empiriche per Popper è essenziale (v .il libro *Congetture e confutazioni* del 1963). Perciò, come affermo, facendo un parallelo con la ricerca storica, ma solo a titolo di esempio, la raccolta di documenti di archivio e non, la raccolta di dati in genere (fatta in modo preventivo prima di elaborare una teoria o eseguita anche dopo, come appunto fanno gli storici, salvo smentita da ricerche più complete o dall'apertura di archivi o dalla scoperta di nuovi dati) rientra nell'impostazione di Popper, così come vi rientra la verifica empirica con esperimenti ,anche se possono essere smentiti da successivi esperimenti perché l'essenziale e che siano condotti con onestà intellettuale *cioè senza pregiudizi*, nella consapevolezza che non esiste nulla di definitivo e che ciascuno di essi potrà essere migliorabile da tecniche o tecnologie successive e migliori. Ma questa non mi sembra la concezione e l'approccio mentale di Friedman e di numerosi economisti che non si interessano della verità o della falsità di una teoria perché "*non ha senso dire che uno strumento (un martello ad esempio) è vero o falso*" cfr. Gioia, Vitantonio. "*Gli Economisti e Popper.*" Quaderni Di Storia Dell'economia Politica 6, no. 3 (1988): 165–79. http://www.jstor.org/stable/43317350. v. "*Nessuna quantità di esperimenti potrà dimostrare che ho ragione; un unico esperimento potrà dimostrare che ho sbagliato."* (Albert Einstein, lettera a Max Born del 4 dicembre 1926).Da quasi 30 anni l'Italia attua le politiche economiche di austerità, proposte come "senza alternative" dai supposti esperti dell'Unione Europea. Se queste dottrine economiche avessero un fondamento scientifico, dovrebbero essere falsificabili. Ovvero: dopo anni di applicazione di queste dottrine, avendo ottenuto anche un solo risultato fallimentare (ad esempio il tracollo economico della Grecia o dell'Italia), questo dovrebbe essere sufficiente a dichiararne l'inaffidabilità, muovendosi per cercare altre teorie economiche più adeguate. Non è sufficiente che una certa teoria abbia funzionato bene "in certi casi" o addirittura "in molti casi". Una teoria per essere fondata deve essere vera sempre, se no si dimostra inadeguata. Se coloro che determinano le politiche economiche del nostro paese applicassero questo tipo di ragionamento, si renderebbero conto che in economia non esistono scelte inevitabili, ma che esistono invece delle scelte che dipendono dalle finalità da perseguire, che dovrebbero essere oggetto di un dibattito pubblico e democratico. E sarebbe evidente a tutti che le "raccomandazioni" dell'Unione Europea non sono altro che una opinione fra tante, non dei pareri indiscutibili di "grandi esperti". I DSGE, ad esempio, sono modelli usati per le decisioni di politica economica e monetaria. Soprattutto da parte delle Banche centrali. Gli agenti sono tutti razionali e massimizzatori di utilità. I mercati non hanno esternalità. In realtà nei DSGE le imprese e le famiglie non sono rappresentate come effettivamente sono ed operano nella realtà e sia l'economia comportamentale è poco contemplata sia si fa un uso troppo estensivo dell'agente rappresentativo. I DSGE assumendo l'esistenza di un settore rappresentativo in cui gli agenti hanno aspettative razionali non sono in grado di spiegare molti cambiamenti, le diversità tra diversi settori e ad esempio l'impossibilità per alcuni fattori di produzione (lavoro) di spostarsi da un settore all'altro (un parrucchiere difficilmente può trasformarsi in un ingegnere e viceversa*).* Siamo ad esempio sicuri che con un modello si possa veramente dire "facciamo cosi e cresceremo di più"? Magari occorrono 4 anni e durante il tempo molte cose cambiano o il tasso di disoccupazione schizza al 20% e di fatto provoca reazioni che impediscono di raggiungere il risultato.

[15]Si tratta della teoria elaborata da due economisti, tra i più accreditati, uno ex capo economista del FMI, Carmen Reinhard e Kenneth Rogoff, che in base ad un articolo pubblicato su "American Economic Review"nel 2010, è *possibile scaricare un* Working Paper preliminare all'indirizzo http://www.nber.org/papers/w15639.pdf, (v il volume dei due autori. *Questa volta è diverso.* Il Saggiatore. 2010) avendo esaminato un arco temporale di 200 anni e 44 paesi, sostenevano che i risultati "empirici" dimostravano che superata la soglia del 90% del Pil il debito provocava un effetto negativo sulla crescita. Sulla base di questo anche politici importanti dell'U.E ritenevano che il livello del debito pubblico tende a diventare un ostacolo per la crescita: la tesi della austerità espansiva e della necessità di tagli al debito. Peccato che tutto non fosse assolutamente fondato. anzi fosse vero il contrario quasi! Proprio la presunzione, anti popperiana e alla Friedman, potremmo dire, unita ad una certa presunzione accademica, ad un atteggiamento per cui ci si fida del nome degli autori, della loro provenienza e del referaggio delle riviste, che non segue procedimenti popperiani evidentemente, ha fatto si che la teoria fosse tutta campata per aria: un dottorando di Amherst nel Massachussetts ha scoperto, andando a controllare i dati che c'erano errori nel codice Excel, che l'esclusione discutibile di alcuni dati dall'analisi e l'uso non convenzionale di una metodologia statistica, rendevano il lavoro talmente poco accurato che i risultati cambiavano. Cioè "*la crescita media del Pil per i paesi che hanno un rapporto debito/Pil superiore al 90% non è drammaticamente differente da quella dei paesi che presentano un rapporto debito/Pil inferiore"* Sebastiano Nerozzi e Giorgio Ricchiuti. *Pensare la macroeconomia.* cit. pag. 252e 253 Cfr per una critica radicale. Paul Krugman, *The Excel Depression*, The New York Times, 18 aprile 2013 ("*Quello che ci insegna il caso dello studio Reinhart-Rogoff è fino a che punto*

had Popper's method been followed – even merely as a guiding principle -it would hardly have occurred. There are, moreover, less spectacular cases, though with equally serious consequences for economic policy[16].

The Menger – Schomoller Debate: Historically, there existed the so-called "Old Historical School"[17], represented by Friedrich List, Bruno Hildebrand, and Karl Knies, which maintained that economic theory could not be applied indiscriminately to all epochs and cultures. They argued that the conclusions of Adam Smith, David Ricardo, and John Stuart Mill – though valid for an economy undergoing rapid industrialisation, such as the English one – could not be applied in the same way to an economy still largely based on agriculture, such as Germany's. (It must also be acknowledged th
at a certain nationalistic sentiment was present in their theories).

They held that economic science, like all the social sciences, should adopt a methodology grounded in a historicist perspective, and that one of the fundamental errors - particularly on the part of Ricardo and the Ricardians- lay in the attempt to import into economics the methodology of the physical sciences. While Knies rejected any recourse to abstract theory, others were willing to acknowledge that deductive and historical-inductive methods could, in fact, be compatible.Some of my own criticism of Ricardian theory, especially concerning the theory of comparative advantage, which focuses on a single instant, stem from this same methodological point of departure. Without going into detail, it may be noted that List was particularly nationalist; one might say that th historical method he proposed reflected his conviction that the principal task of economic science is to identify the laws governing the various stages of economic growth and development.These scholars collected large amount of historical and statistical data to support their analyses. (List, for instance, argued that economic systems in temperate regions had passed through five stages: nomadism, pastoralism, agriculture, agriculture with manufacturing, and agriculture with manufacturing and trade; Hildebrand, for his part, observed that the crucial factor in the stages of growth was the conditions of exchange, identifying three phases: barter, money, and credit).

Their conclusions may have been rather abstract, but what interests me here is their method – the systematic collection of historical and statistical information as the foundation of analysis. Subsequently, a second generation of the German Historical School emerged, whose typical representative was Gustav von Schmoller (1838-1917). On the one hand, he continued the critique of the classical economic theory of Smith and Ricardo, especially the claim of its universal applicability across all periods and situations; on the other, he focused more on specific issues rather than formulating grand theories about the stages of historical development. There was a pronounced tendency toward inductive methods of inquiry and toward the view that theories could arise from the quantitative collection of empirical data. Attention was also devoted to social reform and state intervention. The marginalist analysis and the use of abstract, deductive model-building developed by Menger, Jevons, and Walras – still largely dominant today – came into conflict in the early 1870s with the Historical School, giving rise to the famous Methodenstreit (the "method dispute") between Merger and Schmoller. This methodological controversy, in some respects, echoes some of my own considerations, though I take into account Popper's lesson (Menger's "*Investigations into the Method of the Social Sciences, with Special Reference to Economics*").

The most complete elaboration of the Historical School's method was formulated by Gustav Schmoller, who gave the School its mature economic expression in *Outline of General National Economics*. In particular, against Menger's uncompromisingdefence of the abstract-deductive method – even though Menger himself used no mathematical tools, relying instead on verbally presented abstract models, such as the Robinson Crusoe framework - Schmoller opposed a distinction between moral laws and natural laws. The former, relating to the historical development of economic institutions, operate within a changing reality such as society, and therefore lead to relative conclusions, dependent on the variability of their frame of reference. The latter, characteristic of physics, lead instead to universal conclusions. From what has been said so far, it is clear that the Historical School regarded moral laws as proper to economics, whereas the Marginalist School considered economic laws analogous to those of natural sciences. According to the Historical School, it is impossible to derive universally valid economic laws from a few postulates; the continuous evolution of economic conditions ensures that the conclusions of economic theory cannot long retain their initial correspondence with reality.

This awareness allows us to frame the differences between the physical and social sciences on a deeper level: the distinction concerns degree. Only physical laws can measure deviations from reality precisely because they operate under conditions that frequently mirror it. Economic laws, by contrast, operate within a reality that continually introduces new, concrete conditions - conditions that substantially modify those very laws. Unlike the representatives of the Old Historical School, Schmoller did not completely reject the deductive method; rather, it is more accurate to speak of a complementarity between inductive and deductive approaches - provided that the latter rests on premises derived from empirical observation rather than from the postulate of *Homo economicus*.

Since the motives of human conduct are multiple, isolating just one – an error committed when accepting the *Homo Economicus* postulate – inevitably leads to false conclusions:

The individual's self-interest cannot be isolated and elevated to the sole universal principle of human motivation.

Beginning in 1883—the year in which Menger published his *Investigations into the Method of the Social Sciences and of Political Economy in Particular,* Schmoller and Menger entered into a polemic. Menger's work was intended by his own admission, to reaffirm the indispensability of theory in economics.

To the importance that Schmoller attached to observation and to historical-descriptive and statistical research, Menger opposed his "exact" approach, whose aim was to establish rigorous laws and regularities in the sequence of phenomena - that is, to trace human phenomena back to their most elementary and simple constitutive factors, assigning them a measure consistent with their nature, and seek the laws by which more complex phenomena arise from those simpler elements. Schmoller criticised Menger for taking for granted that he already identified the ultimate and fundamental elements of economic phenomena (self-interest and private gain). Starting from these assumptions, everything becomes easy: once such elements are given, all complex facts and events can be explained deductively from them. Many of the later controversies against behavioural economists and others who consider multiple motivation were, in embryonic form, already present here. It is undeniable that such elements, which exist in sciences like mathematics and physics, and from which conclusions can indeed be derived, have never been clearly defined in any science of thought, feeling, or human action, and even less so in the social sciences. Schmoller's criticism of Menger's method centred on the latter's attempt to isolate the economic aspect of social life, reducing the essential task of theoretical economics to explaining value and price formation, income distribution, and the nature of

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l'austerityè stata spacciata servendosi di falsi pretesti. Per tre anni, l'adozione di politiche di austerity è stata presentata non come una scelta ma come una necessità. Secondo i suoi sostenitori, era la ricerca economica ad aver mostrare come eventi terribili succedano ogni volta che il debito superi il 90 per cento del PIL. Ma la "ricerca economica" non ha affatto mostrato cose del genere; è stata una coppia di economisti a sostenere quell'asserzione, mentre molti altri dissentivano. I decisori delle policy*hanno abbandonato i disoccupati e si sono rivolti all'austerity per scelta, non perché vi fossero costretti.")*

[16]Bisogna fare sempre verifiche empiriche. Gli sbagli legati ai calcoli sull'effetto dei moltiplicatori, come dirò, messi in evidenza da Blanchard e Leigh sembrano veniali rispetto a quelli di Rogoff e Reinhard, ma anche questi possono creare gravi danni sociali.

[17]Harry Landreth e David C.Colander .*Storia del pensiero economico.* Il Mulino 1996.p550 e ss

money - without realizing that these concepts are incomprehensible if not analysed in relation to the life of the State and the Nation. According to Schmoller, Menger could not grasp the necessity of the HistoricalSchool becausehe thought only in terms of exchange, value, and money, never of the institutions and structures that form the backbone of the economic organism. As for the origin of such institutions - the State, language, money, and law - Menger rejected the idea that they were the product of deliberate, intentional planning aimed at creating indispensable social structures. Instead, he regarded them as the unintended results of human actions directed toward satisfying individual interests. While agreeing with Menger that all social institutions can ultimately be traced to individual psychological processes, Schmoller accused the Austrian economist of overlooking a crucial point: the major advances in empirical psychology and philosophy could not be ignored, since they had yielded important insights into mass psychology and collective behaviour.

The legacy of the German Historical School crossed the Atlantic, evolving into Institutionalism. Just as in nineteenth-century Germany, in the United States there was, in those same years, deep dissatisfaction with the neoclassical approach to economics. A central idea in Institutionalist analysis, which embodied this discontent, was the conviction that economic activity is so conditioned by the institutional environment that it cannot be analysed without prior knowledge of the nature and evolutionary tendencies of institutions, whose function is to provide the framework for the economic actions of individuals and groups. The success of Institutionalism in American economic thought prior to the New Deal was due, as John R. Commons himself observed, to widespread dissatisfaction with the optimism of systematic approaches such as the neoclassical, criticized for their excessive abstraction and formalism.

CONCLUSIONS

It is well established that Pierluigi Ciocca is a fervent proponent of a renewed integration between economic theory, history, and the other human and social sciences. He argues that these disciplines – artificially separated – constitute, in essence, a single field of inquiry: "The theory and history of economics are non-experimental sciences. They must resist the**fictio**of assimilating themselves to physics. Both rely on the art of communication and persuasion, according to established rules. Economic historians and economists alike are hunters and storytellers of plausible narratives. […] Both the theory and history of economics concern themselves with human motivations and decisions, and with the consequences these have for society. Each has as its primary object the search for the proximate and deeper causes of those decisions and consequences»[18] (pages48-49). I share this perspective within the framework of a modern reappraisal of the German Historical School, whose insightsanticipatedseveral strands of contemporary theory have since gained international recognition - including Nobel Prizes – awarded to scholars such as Stiglitz, Akerlof, Shiller,and Thaler. Economic behaviour is always embedded in social contexts[19]. It cannot be reduced to the logic of cost-benefit calculation alone, for it also reflects identity, social bonds, emotions, and symbolic practices. Economic action is therefore situated within networks of r relationships, norms, affections, and meanings that shape human interaction and decision-making. Moreover, there exist marked asymmetries in access to and use of information, often uneven and unequal, as well as in the capacity to employ digital tools and technologies. These differences generate forms of cognitive inequality – an underexplored but increasingly significant dimension of economic disparity in contemporary societies.

Various responses have been given to the "fundamentalists" which exalt the possibility and even the necessity of perfect competition or which support the necessity of the absence of any public intervention. First of all, George Akerlof is considered one of those who, with his contribution, responded to the approach of Lucas and the new classical macroeconomics, "*microfounded what are considered the two main conclusions of Keynesian theory: the existence of persistent involuntary unemployment and the real effectiveness (i.e., not only on prices, but also on GDP) of public intervention in the economy. This microfoundation is achieved in various ways, but above all by assuming that incomplete and asymmetrically distributed information exists in markets, that is, that some subjects have informational advantages over others*" (cfr. Nicola Boccella, Fabio D'Orlando, and Azzurra Rinaldi. Macroeconomics. University Editions of Letture Economia Diritto. Led. 2014, p. 20).

Then, if we start from the old considerations of Piero Sraffa (in the 1926 essay, "*The Laws of Returns under Competitive Conditions*," in the Economic Journal, December 1926, republished in Italian in Volume IV of the Nuova Collana di Economisti with the title "*The Laws of Productivity in a Regime of Competition*"), taken up in part by Paolo Sylos Labini, at least in Italy, which have had such an impact on the theory of price determination, we must conclude that a competitive firm finds a limit to the expansion of production in the increase in unit cost that occurs starting from a certain production level. Traditional theory held that price is a given for a competitive firm; if average cost increases starting from a certain production volume, there will be a point beyond which any further expansion of production itself lowers the overall benefit.

Sraffa argued that experience showed that the limit to the expansion of production, in firms that are in a position of mutual competition, does not derive from cost trends but from demand conditions.

More precisely, any attempt to expand production would require a decrease in price: if this is true, Sraffa argued that for a competitive firm, price is not a given, but a decreasing function of sales volume. Therefore, the firm itself would face not a single price but an entire demand curve. Therefore, a system of perfect competition does not allow the firm to change the price or the markup. What market structure is assumed if the price were a given for the firm?

It was assumed that the firm was small relative to the size of the overall market. But for the overall market to exist, it was also assumed that buyers made absolutely no difference whether they purchased from one firm or another. In practice, each firm was in a vast, perfectly homogeneous market, in which it was impossible for any firm to sell at a higher price than that charged by any other firm, because otherwise it would lose all its customers. This meant that there was a single price which was presented as a given for each individual bidder. If, on the other hand, we assume that for a given company, the price decreases as a function of sales, the representation of a homogeneous market no longer exists, and we must assume that each company has its own specific market. Consequently, it becomes significant for buyers to purchase from one company rather than another. This circumstance is due to various reasons.

Following Sraffa's approach, taken up and developed by Robinson and especially Chamberlin, buyers make significant difference between purchasing from one company and another. Sraffa, among the reasons, lists the force of habit, personal knowledge, confidence in the product's quality, proximity, awareness of specific needs, the ability to obtain credit, the prestige of a trademark, and the particularities of a product model or design that serve to distinguish it from the products of other companies. Sraffa is describing what will be called "imperfect competition" or monopolistic competition, but which is the reality.

[18]Giovanni Busino, «*Note di storia economica e storia delle dottrine economiche*»,Revue européenne des sciences sociales, XLVIII-145|2010, 101-163.*Storia economica d'Italia.* 1. *Interpretazioni*, a cura di Pierluigi Ciocca e Gianni Toniolo, Bari, Laterza, 1999, XIX-419 pp.; Stefano Battilossi, *Storia economica d'Italia.* 2. *Annali*, Bari, Laterza, 1999, XI-713 pp; *Storia economica d'Italia.* 3. *Industrie, mercati, istituzioni.* 1. *Le strutture dell'economia*, a cura di Pierluigi Ciocca e Gianni Toniolo, Bari, Laterza, 2003, VII-587pp.; *Storia economica d'Italia.* 3. *Industrie, mercati, istituzioni.* 2. *I vincoli e le opportunità*, a cura di Pierluigi Ciocca e Gianni Toniolo, Bari, Laterza, 2003, 635 pp.

[19]v. Adam S. Hayes. *Irrational Together. The Social Forces That Invisibly SHAPE Our Economic Bahavior.* Chicago UP. 2025

There are as many specific markets as there are firms, and this leads to a sort of analogy between this market structure and a monopoly. Even in a monopoly, price is a decreasing function of sales. In perfect competition, some customers can shift to substitutable goods, something that, in principle, is excluded in a monopoly. Monopolistic competition is very different from perfect competition: while in perfect competition there would be a single price for the goods produced by a myriad of firms in an industry, in the competition envisioned by Sraffa, each firm can sell at its own price, even if (and this is the difference from a monopoly) these prices are not independent of one another. Finally, in Blanchard's model, the parameters consisting of both the degree of conflict (one of the criteria of the theory that Professor Brancaccio calls "z," but the parameter also includes the level of unemployment benefits, the type of labor protection regulations, and the degree of unionization) and the markup (which is the profit margin for firms, but also everything needed to cover extra costs beyond labor, such as the cost of raw materials) are believed to be exogenous. That is, they are given and are insensitive to bargaining between firms and workers. They are parameters that cannot be influenced, but must simply be acknowledged by social actors. This point is important for our topic of competition.Competition is a theme around which an economic approach and method has been built to address economic problems, to approach and define what the economy itself is.

Keynes said what economics meant to him in a letter dated July 4, 1938, to Roy Harrod: "*It seems to me that economics is a branch of logic, a way of thinking, and I find that you reject quite firmly attempts… to… make it a natural pseudoscience*." In response to another letter from Harrod, who considered the work of economists and statisticians to be fruitful and observed that, for example, in the case of the multiplier it is useful to have an idea of what its value might be, Keynes stated to Harrod*: "In chemistry and physics… the aim of the experiment is to find the actual values of the various quantities and factors which appear in an equation or formula… In economics this is not the case, and to convert a model into a formula is to destroy its usefulness as a tool for reflection… I want to emphasize strongly that economics is a moral science. I have already said that it deals with introspection and values. I could have added that it deals with motivations, expectations, psychological uncertainties. One must guard against the temptation to treat these objects as if they were constant and homogeneous, on pain of falling to the ground, against the actual desire of the ground that the apple should fall, and against any error in the calculation of the distance that separates the apple from the center of the earth*."(Keynes. 16 The CollectedWritimgs, a cura di E.Johnson e D. Moggridge. Sotto la direzione scientifica di R.F. Kahn R.F. Harrod e A. Robinson, 30 voll., London, Royal Economic Society - McMillan 1971-1989. pag. 296- 297, 299-300).

Many concrete economic policy approaches are based on abstract assumptions, mathematical models (they begin by saying "let's assume that..." even if the assumptions don't exist or haven't been verified to exist), and purely abstract reasoning where algebra hides a lack of realism, that is, the flaw in the data from which they begin. Therefore, it must be remembered that in reality, for example, employment and unemployment are determined by the goods market rather than the labor market. These are essentially macroeconomic phenomena, and downward wage flexibility is not only practically difficult to achieve but also doesn't serve to increase employment. Involuntary unemployment, for example, which, as Keynes said, exists, is due to insufficient effective demand. This does not mean that unemployment cannot also have microeconomic reasons at the level of specific markets, but it is above all a macroeconomic phenomenon.

I don't want to return to Erasmus of Rotterdam's "*In Praise of Folly*," where he highlighted how fragility, desire, emotion, and excess are part of our nature, and how recognizing this phenomenon doesn't mean abandoning oneself to chaos, but rather living not only less hypocritically. Above all, I want to dispel a myth: that of the rational man, of the world that demands rational perfection. Because if we look at the world and approach economics only from this perspective, we misunderstand reality and what can happen. The aim is not to highlight, as Erasmus does, the man who has studied everything except how to live, the sage disconnected from reality, the intellectual who turns out to be unsuited to power and politics, but also inept in everyday life and in the common and social situations that give color and meaning to existence. But rather, to acquire the awareness that:
-We must think of economics in general as a social science in dialogue with other social sciences;

-We must think of economics in general in relation to history;

-We must think of macroeconomics by freeing ourselves from the myth of general economic equilibrium, thinking of it as a process where efficiency and sustainability must go hand in hand, looking at economic history and history in general but without ignoring the real data of the moment, and of each historical period, because every historical condition and historical structure has also been the result of objective and technological circumstances and situations, of beliefs that were in force at the time, and which now could or have changed. The so-called computational approach can be useful, but so can thinking of economics as the result of prevailing ethical beliefs, because ends and means are interconnected and both are subject to ethical scrutiny based on prevailing beliefs. As Keynes said of conventions: supply and demand are dimensions that evolve together and are determined by changing conventions.

A certain opinion, linked to the model of perfect competition, holds that the labor market would spontaneously tend to achieve full employment thanks to wage flexibility: not only will full employment be achieved, but it will tend to be maintained. But history proves otherwise. Indeed, contrary to the prevailing view, some economists have argued that in crisis situations, firms don't want to reduce wages. Instead, they lay off workers. Equilibrium is achieved not by lowering wages, but by drastically reducing employment. Why do employers make this choice—layoffs rather than wage cuts—because:

- Layoffs reduce operating costs;

- By laying off less productive workers, an employer can increase the productivity of their workforce;
- Workers might respond to a wage reduction by working less (or they might work more, if they believed doing so would reduce the likelihood of being laid off); - When the wages of all workers in a plant or office are reduced, all workers are dissatisfied; By firing, however, dissatisfied workers are out the door; those who remain, if dissatisfied, will be intimidated, and that may be enough for the employer.

Then, if wages fall in a single factory or office, it doesn't necessarily mean they'll fall in all or everywhere. In Greece, during the recent crisis, wages may have fallen, and consequently prices as well, but do some prices—for example, those of goods produced by companies working for foreign countries, and especially the prices of imported goods—fall? No one can force such a result. Jobs and even production sectors are many and diverse. The above theory takes this little account. So, aside from feelings of envy among workers, if wages don't fall everywhere, prices don't fall everywhere. Not only does the self-correcting mechanism described above not kick in, but some workers may lose out because purchasing power in some cases declines due to reduced wages, but in other cases, not only does it not, but prices remain unchanged, with obvious damage. If wages, however, fall below a certain threshold, many workers will leave on their own because they will find better ways to spend their time (perhaps continuing their studies) rather than working for pittance, even if the employer would have preferred to keep them. A perfect competition system involves many firms, none of which has the power to influence or determine prices, which are taken as given. Furthermore, each firm sells and produces identical goods. But is this the real-world system, or rather one in which firms, many large due to market size and economies of scale, produce many goods that are not identical, but similar and differentiated? Many firms produce biscuits,

hygiene products, computers, shopping malls with different products, but competing shopping malls, firms selling products that differ from one another. And these firms—we're talking about monopolistic competition—can influence prices, unlike a perfect competition system, even though they are numerous, because the goods they sell are not identical.

If a perfect competition system is a utopia, Schumpeter's words, which extolled or emphasized the role of large firms in innovation and research, i.e., development, may be relevant today. Most economists must recognize that it is unlikely that small grocers or farmers can carry out research projects. While small businesses cannot be neglected, it comes close to Schumpeter's words: "*The modern standard of living of the masses evolved during the period in which 'big business' operated relatively unhindered [the history of capitalism and the market economy is often different from theory]. If one lists the items that make up the balance sheet of today's worker and observes the trend of prices since 1899... one cannot help but be struck by the rate of progress which, considering the extraordinary improvement in quality, seems to have been greater rather than less than it was previously... But that is not all. As soon as... we examine the individual items most affected by progress, the trail leads not to the doors of enterprises operating under conditions of relatively free competition, but to large corporations—to which, as in the case of agricultural machinery, much of the progress in the competitive sector is due—and thus the disturbing suspicion arises that large corporations have contributed to raising the standard of living rather than keeping it low*."

An author, who cannot be considered either a free marketeer or a Marxist, Polanyi denies the "naturalness" of market society, considering it rather an anomaly in the history of human society (which leads him to reject the identification of the human economy with its commercial form). He supports the normative concept of embeddedness. The economy is not detached from society, but cannot help but be embedded, that is, integrated, rooted within society itself. Considered a somewhat heretical author, he is today the object of renewed interest. Many scholars of contemporary social phenomenologies, such as globalization and its consequences, turn to him. Interest in Karl Polanyi is generally central to those who do not consider the economy an activity separable and isolable from the rest of human activities, and do not believe in the self-regulating virtues of the market. According to Professor Alpa, the market is not a portion of nature that would have a life of its own without human intervention. The product of spontaneous forces that intermingle, reaching equilibrium according to laws that would have a natural course if there were no human intervention. In reality, legal rules operate within the market; there is no market without social aggregation. The market does not exist ex nihilo, but depends on other institutions, such as the legal system and money.

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