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The Method in Economics: Can It Generate Myths?

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Abstract

Discussions about method are not purely abstract. As the two examples discussed below demonstrate, they correspond to ideological choices that lead to distinct and significant economic policy decisions, depending on the method adopted. One must avoid abstractions or theories assumed to hold true in all times and situations, and instead recognise that economics is a historical science—shaped by historical contingencies and concrete circumstances. Following Popper, any legitimate degree of abstraction must rest on an empirical and historical foundation. Otherwise, myths are constructed, and nothing can be built upon myths.

Keywords

Method, Mith, Competition

1. Introduction

At times, narratives arise—even within disciplines that define themselves as scientific—that rely on "mathematics" and logical reasoning. Yet these narratives must themselves be the object of analysis. In this regard, economics 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 give shape to a world that is conceptually or theoretically non-existent? In this sense, economics is not celestial mechanics *per se*, but rather a model of thought—an ideology that shapes our perception of reality by imposing order and structure even upon concepts that have no physical or practical counterpart. It is a "non-existent world because it refers to an economic utopia—an ideal system never realised, or to a theoretical abstraction.

Does economics, in defining the "rules of the game" for this hypothetical world,

make it appear logically coherent even though it does not exist in reality? The discussion that follows reflects on the method, supported by reference to two examples.

1.1. What Is a Myth?

A figure or concept becomes mythical when it belongs to 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 speak of a myth when the questions it raises surpass the understanding of those who pose them. What, then, is the role of rationality?

A myth is not a legend. A legend generally refers to a traditional story with a historical basis, as in the legends of King Arthur or Robin Hood. By contrast, a myth may serve to *legitimise and sustain an order one seeks to establish or preserve*—whether royal power, a political project, or a prevailing economic orthodoxy—but is, in any case, not real. A legend, by contrast, is founded on historical facts.

Perfect competition—one of the two examples examined below—often appears as an idealised or ideological representation of reality, typically advanced by an intellectual or political elite seeking its acceptance by a broader public or social group. It is, at the very least, a desire or aspiration regarded as unattainable, yet nevertheless promoted—not, perhaps, with a mystical faith, but certainly with a considerable degree of abstraction from reality.

Myths concern matters fundamental to the existence of a community. In recounting the origins of the world, of a people, or of institutions, they do not seek to offer a *causal* explanation but rather to legitimise and sanction them—projecting them into an ideal and somewhat mythical time and providing them with justification, often of a religious nature and, above all in our case, with a guarantee of immutability and credibility. In the past, such justification was religious, later ethical; today, it largely dispenses with either.

The myth is therefore integral to the forms of existence of a community, while at the same time providing models for human activity. It constitutes an ideal or ideological representation of reality—one generally advanced by an intellectual or political elite and embraced with an almost mystical faith by a people or social group.

Even without invoking such quasi-mythical faith, it may nonetheless be accepted or transmitted through a shared sentiment: a desire to portray a certain reality as an ideal. There exists, for example, the positivist myth of progress, and regrettably, there has also existed the myth of racial purity under National Socialism. In every instance, it is an idealised representation of what is considered ideal. Yet it is not a fact; it is not a reality.

1.2. What Defines the Structure of the Market, and What Factors Influence It?

Within the structure of the market—and the economy—the forms that actually

exist, arising from the development and application of the principle of free enterprise, are monopoly, oligopoly, and monopolistic competition. For a long time, economic theory imprecisely identified the concept of free enterprise with that of (perfect) competition. In reality, however, the typical outcome of a system operating under the principle of free enterprise is not perfect competition but monopolistic competition.

An essential feature of the system of free enterprise, as Chamberlin observed, is "*the attempt on the part of each businessman to build his own monopoly, extending it whenever possible and defending it against the attempts of others to extend their own monopolies*"—for example, by creating distinctive brands such as *Champagne* to differentiate it from similar wines. Excessive standardisation of products, by contrast, would be a consequence of purely competitive markets and would not be desirable.

As Chamberlin further notes, "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". Should we not, then, look realistically toward an intermediate system between perfect competition and monopoly—one that incorporates elements of both?

I have stated that I intend to highlight two themes, illustrate two examples.

1.3. Comparative Advantage

The first theme concerns the well-known Ricardian theorem of comparative advantage. The intention here is not to question the role of free trade, which is shaped primarily by macroeconomic factors. Trade is an adventure—an endeavour of certain individuals, merchants above all, though not only merchants. They are visionaries, yet trade is also the product of institutional arrangements.

In general, households benefit from the opportunity to exchange, as it allows each individual to specialise in what they do best—whether cultivating the land, producing clothing, or building houses. Through exchange, each household can obtain a greater variety of goods and services at lower cost. Nations, like households, benefit from their capacity to engage in trade relations.

The study of trade and finance stands at the very origin of modern economic theory. The debates over British trade policy in the nineteenth century helped transform economics from a discursive and informal discipline into a far more formalised science. With regard to the macroeconomic and political conditions that decisively shape trade—more so than the purely economic ones—the theory of comparative advantage played a central role in this formalisation. Yet the very author of that theory, David Ricardo, would in all probability revise it were he writing today.

The validity of free trade was clearly expressed by **Luigi Einaudi** 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, and today one might add Japan, India, and others] *remains in a state of misery* [this was in 1948]. *The enrichment of Europe is a necessary condition for the 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 comparative advantage, consider two examples illustrating how the topic is typically presented.

The first, from a standard economics textbook, by N. Gregory Mankiw[1] reads as follows (Mankiw, 2020):

"*Tom Brady, the legendary quarterback of the New England Patriots in Boston, spends much of his time on grassy fields. Brady is one of the most talented football players of all time, capable of throwing passes with a speed and precision that most non-professional athletes can only dream of. Suppose that he can also mow his lawn faster than anyone else. But does that mean he should do it?*

Assume that Tom Brady can mow his lawn in two hours, and in that same two hours he could film a new commercial and earn $20,000. *His neighbour's son, Forrest Gump, could mow the lawn in four hours, or work at McDonald's and earn* $40. *Brady thus has an absolute advantage in mowing the lawn, but Forrest has a comparative advantage, since for Brady the opportunity cost of mowing is* $20,000, *while for Forrest it is* $40. *Both benefit if Brady pays him more than* $40 *but less than* $20,000".

This familiar example parallels another. Martin Ford provides a similar, equally clear illustration[2] (Ford, 2017; Krugman & Wells, 2013, 2018; Samuelson et al.,

[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 qualcos'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, pp. 58-73; P. A. Samuelson. *The Gains from International Trade Once Again.* Economic Journal, LXXII, 288, 1962. pp. 820-882.

2009).

"*Jane is a highly skilled neurosurgeon who also became an excellent cook. Tom, by contrast, is an ordinary person who could never perform surgery, though he cook reasonably well. Jane has an absolute advantage in both activities, but she cannot devote herself to both. The theorem of comparative advantage suggests that Jane should hire Tom as her cook and dedicate herself to surgery—the activity in which she excels and which is more profitable.*"

The reasoning is straightforward: one should devote oneself to one's work, specialising in it and, above all in the activity one performs least poorly relative to others. Others, in turn, can specialise in their own fields and earn higher incomes. For Tom, cooking is the activity in which he is least efficient; Jane, more fortunate, excels in activity that commands a far higher market value.

In practice, the theory of comparative advantage justifies not only specialisation, but also exchange—whether between individuals or between nations. Yet the transition from "individual" examples to relations among states, when viewed historically, profoundly alters the issue itself.

The principle was articulated by David Ricardo in his *Principles of Political Economy and Taxation* (1817). His example of two goods—wine and clothing—and two countries—England and Portugal—was intended to show how both could benefit from opening to trade and from specialisation based on comparative advantage. Ricardo's analysis rested entirely on the assumption that production required only labour and that all workers were identical. Under these conditions, the economy as a whole became wealthier, and all shared in the benefit.

When capital, as well as labour, is taken into account, however, the analysis becomes considerably more complex.

What are the economic forces underlying the growth of international trade? Trade promotes specialisation and increases productivity; in the long run, rising trade and higher productivity are expected to raise living standards for all. This is how Samuelson's well-known economics textbook introduces the topic (Samuelson & Stopler, 1941; Samuelson, 1962).

The principle of comparative advantage goes beyond common sense. It asserts that a country can benefit from trade even if it is, in absolute terms, more—or less—efficient than other countries in the production of every good.

Consider a simple example. Suppose Italy has a higher output per worker than the rest of the world in producing both computers and steel. However, Italian productivity exceeds that of other countries by 50% in computers and by 10% in steel. Italy would therefore gain by exporting the good in which it is relatively more efficient—computers—and importing steel, where its relative advantage is smaller.

Similarly, a poor country such as Mali, whose output per worker is only a fraction of that in industrialised nations, might still benefit from exporting the goods in which it is relatively more efficient—say, textiles—and importing those in which it is relatively less efficient, such as automobiles.

In short, the principle holds that every country gains by specialising in the production and export of goods that it can produce at a relatively low cost, while importing those it produces at a relatively higher cost.

Now consider America and Europe in the past century. If labour—or resources more generally—is absolutely more productive in America than in Europe, does that imply America should import nothing? Should Europe protect its markets through tariffs? David Ricardo answered "no", illustrating his argument with a simple model involving two regions and two goods, with production costs measured in labour hours.

In Ricardo's example, one hour of labour in America produces one unit of food, while clothing requires two. In Europe, food requires three hours and clothing four. America thus enjoys an absolute advantage in both goods but a relative advantage in food, while Europe's relative advantage lies in clothing. Bot wold therefore gain by specialising accordingly—America in food, Europe in clothing.

In reality, however, America went to the moon, and Europe did not. The theory, one might way, captures a snapshot in the development of two economies and freezes it in time—as if nothing could change in technology, institutions, or other circumstances.

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*". This has been true for Italy, and not only for Italy. Through work, initiative, research, and institutional evolution, a country can overcome the sterility of its soil, the absence of raw materials, and even unfavourable natural conditions.

How, then, can economic development be effectively pursued? One explanation for persistent developmental shortcomings lies in the traditional approaches that continue to shape international trade theory. Mainstream economics remains anchored to Ricardo's postulate of comparative advantage: every nation, it is assumed, should specialise in activities where it enjoys lower unit production costs and open itself to international trade. In the long run—though the timeframe is never specified—factor returns are expected to converge and prosperity to prevail.

Yet historical experience, from Italy's unification to the present, contradicts these assumptions—challenged in theory by Myrdal, Reinert[3] (Myrdal, 1957), and others, but above all disproved by history itself. In practice, poorer countries tend to specialise in agriculture, where returns are diminishing, while richer nations concentrate on manufacturing and high-technology sectors, characterised by increasing returns. Their relative rates of growth—and developmental trajectories—therefore diverge, invariably to the advantage of the latter.

Not only England (contrary to Ricardo's implicit claim) but also the United States and, historically, Italy failed to conform to the theoretical framework that later became dominant among economists. Should Italy have confined itself to

[3]Erik S. Reinert. *Come Pochi paesi sono diventati ricchi e perché gli altri rimangono poveri*. Castelvecchi. 2023. pag. 26, 30 e 198 e ss; Gunnar Myrdal. *Economic Theory and Underdeveloped Regions*. Londra Duckworth. 1957.

exporting citrus fruit? Should the United States have remained a cotton exporter?

The guiding principle of the Founding Fathers was unambiguous: "*Do not do what the English tell you to do*; *do what the English did*". The United States, rather than merely exporting cotton, went to the moon, and Italy, far from remaining agricultural, developed on of the largest manufacturing sectors in Europe.

More recently, Reinert (2023) has revisited the question of international trade through the metaphor of two tribes separated by a river—one living in the Stone Age, the other in the Bronze Age. Dominant trade theory rejects the notion of *emulation*: that the less advanced tribe might seek to imitate the other as a necessary stage of development. Yet historical experience demonstrates that progress has in fact occurred through processes of imitation and learning.

Starting from Ricardo's premise that abstract labour is the sole source of value, one concludes that the Stone Age tribe must choose between preserving its "comparative advantage" in remaining primitive or attempting to emulate its neighbour. The result is a trap of underdevelopment—precisely the fate of certain communities in the Amazon or New Guinea. As Reinert recalls, Joseph Schumpeter observed in the 1950s that Ricardo's theory, though elegant, was "*an excellent theory that can never be refuted—because it lacks only common sense*". Empirical evidence has proved him right.

Reinert cites data from the *Norwegian Statistical Yearbook* of 1900 showing that, although sailing a ship required far greater skill than operating a steamship, the wages of a first officer on a steamship were more than 30% higher, and those of a steam engineer twice as high. Investment in steam rather than sails thus raised overall wage levels. What matters, therefore, is not so much individual skill as the nature of the activity undertaken. High wages in technologically advanced sectors generate greater local demand, spreading prosperity to bakers, carpenters, artisans, and even barbers—who can, in turn, invest in better tools and improve productivity.

The social benefits derived from entrepreneurial choices—sometimes encouraged or directed by public authorities—are often unintended by-products of profit-seeking, depending above all on the type of activity pursued. Profits earned by introducing new technologies, such as steamships, yield a far greater social dividend than profits earned by maintaining obsolete ones. Bursts of productivity act as catalysts, rapidly raising living standards; yet much depends on the activities that states choose to support or neglect.

Today, however, both economic theory and public policy often follow a different logic. How, then, can living standards and wages be raised? The traditional answer is twofold: either be earning high wages through innovation and productivity growth, or by reducing the cost of goods. Classical economics has often pursued the latter path, seeking to make people "richer" by lowering prices through austerity and deflation. Yet technological development, which demands greater effort, investment, and risk from entrepreneurs, generates benefits not only for owners and investors but also for workers, the wider economy, and ultimately the

state, by broadening the tax base.

The profits generated by certain types of activity—such as the historical transition from sail to steam—translate into higher wages for those employed in the new industries, because new skills are required and remain scarce. The spread of new technologies increases purchasing power and stimulates wider economic benefits. Hairdressers and musicians in wealthy countries—though not directly engaged in these industries—nonetheless benefit, as they can now afford many more goods than in the past. By contrast, hairdressers and musicians in poorer countries, even if equally skilled, remain poor. The same holds true across occupations, particularly in services: workers in poorer nations may be equally efficient, yet their real wages remain vastly lower.

Economic development thus often assumes the form of a monopoly rent, derived from the production of certain goods and services. The state benefits as well, since revenues increase not by squeezing taxpayers but by expanding the taxable base. Historically, those who worked with machinery and enhanced productivity contributed far more in taxes than those who worked the land.

Economic theory, therefore, cannot be universally valid—equally applicable across epochs characterised by profoundly different social structures. Human behaviour cannot be understood apart from its cultural and institutional context. Even among so-called "primitive" societies, actions are mediated by norms and collective meanings. To be truly understood, the economic system must therefore be viewed through a historical and social lens.

Ricardo's theory of comparative advantage, like Adam Smith's advocacy of the division of labour, did not envision fragmenting production processes across nations. Both thinkers reflected the conditions of their time, when trade involved raw materials and finished goods rather than intermediate goods or services, and when communication and capital mobility were limited. The difficulties of coordinating production across borders made outsourcing impractical, and even enterprising capitalists preferred domestic investment despite lower profits.

After 1870, technological and institutional changes—the telegraph, steamship, limited-liability company, and global banking—transformed these assumptions. As capital became mobile and communication costs fell, Ricardo's theory came under strain. Britain's advantage eroded, while protectionist policies helped the United States rise.

In the contemporary era, production is globally fragmented: research may occur in one country and manufacturing in another. Globalisation, which had historical precedents in 1860-1914 and later under Bretton Woods, does not operate under WTO rules that exchange Asian labour for Western capital. Yet, the dispersal of production has weakened the link between innovation, employment, and domestic growth.

The deregulation of finance under Bill Clinton in 1997—extending even beyond Regan's measures—removed constraints on banks and derivatives, setting the stage for the 2008 crisis. In Isaiah Berlin'0s words, "freedom for the wolves has often meant death for the lambs": liberalisation benefited financiers at the expense

of workers, small investors, and homeowners.

By 2017, U.S. farmland operated by small, family-run farms under one thousand acres had fallen from 57% in the 1990s to 36%, replaced largely by multinational corporations—a development reflected broader economic dislocation that helps explain the rise of populism.

The neoclassical assumption that factors of production remain within national borders lacks theoretical and empirical basis, as factor prices are not equalised globally. When production factors, especially capital, are internationally mobile, they migrate toward countries of higher productivity, benefiting host nations but not necessarily others. In such conditions, comparative advantage gives way to absolute advantage, shifting trade from a win-win to a win-lose framework.

Paul Krugman, in *The New York Times* (28 December 2007), acknowledged the uneven effects of free trade and advocated stronger social protections rather than trade restriction. The deeper issue, however, lies in unrestricted capital mobility. A partial return to Bretton Woods principles—particularly controls on capital flows—could help mitigate instability.

While trade expansion benefits poorer nations, it has harmed certain groups in advanced economies, notably American workers. Trade between similar economies, such as the U.S. and Canada, can still yield mutual gains, but between highly unequal countries it creates winners and losers. Early studies found limited wage effects from developing-country imports, yet as import volumes grew—from 2.5% of U.S. GDP in 1990 to 6& in 2006—their impact became more pronounced, especially on the middle classes.

Educated workers may benefit, but they are fewer than those disadvantaged by globalisation. Economic, social, and political dimensions must therefore all be considered. Tariffs, however, risk unlimited geopolitical consequences, such as new trade alliances among Asian powers that could marginalise the United States.

In the short term, shifts in trade routes and production locations entail layoffs and investment rigidity, as firms cannot easily relocate. In the long term, wage convergence remains uncertain: when asked how long it would take for global wages to equalise, economist Larry Summers estimated "about five generations"—roughly a century.

1.4. Perfect Competition

Economic theories, however rigorous, must reckon with uncertainty—a condition distinct from measurable risk. Economic agents do not act irrationally; rather, as Herbert Simon observed, they seek "satisfactory" outcomes within bounded rationality, unlike the perfectly rational agents assumed by Robert Lucas.

Keynes (1971) placed uncertainty at the centre of economic thought, showing that investment depends both on entrepreneurial and creditor risk. Crises emerge when optimism gives way to caution, for expectations rest on "shifting and unreliable evidence" and on conventions assuming that current conditions will persist. Modern macroeconomics, by contrast, assumes rational expectations and a pre-

dictable future—a key point of divergence from Keynes. In his 1937 Cambridge writings, Keynes distinguished between probability, which admits quantifiable likelihoods, and uncertainty, which applies where no scientific basis exists for assigning probabilities—as in the case of wars or long-term interest rates.

As Giorgio La Malfa has noted, Keynes differed from other economists in that he conceived economics not as the logic of choice under scarcity, but as the logic of choice under uncertainty. Building on this perspective, Irving Fisher analysed financial instability through debt deflation, while post-Keynesians such as Hyman Minsk and Charles Kindleberger developed dynamic models of speculation and crisis. Minsky showed how optimism fuels debt accumulation: when revenues falter, even minor shocks can trigger systemic collapse transmitted through network of credit and debt. Profits, determining solvency, depend on investment, fiscal policy, and exports, while expectations about future returns influence present activity. Hence, financial regulation remains essential to prevent excessive leverage and instability.

These dynamics challenge the conventional notion of perfect competition. The mainstream view treats crises as "market failures", deviations from an ideal equilibrium. Yet the prevalence of uncertainty, asymmetry, and systemic risk suggests that such equilibrium never exists in reality. As Keynes warned, economic science must not become "*the celestial mechanics of a non-existent world*".

Giovanni Amendola's reflections after the First World War eco this critique in political terms. He argued that the war had ended the era of individualist liberalism, giving rise to a society founded on solidarity and shared responsibility. Private property, he maintained, must not be exercised against the community. Similarly, in economics, market power and informational asymmetries are not exceptions but structural conditions. They shape both markets and politics, requiring regulation to preserve freedom and fairness.

Market power typically arises from economies of scale and scope, which lower costs by expanding output or diversifying production. These forces naturally lead to concentration, distancing the system from the ideal of perfect competition. In practice, such concentration is not an anomaly but the logical outcome of entrepreneurial freedom. Real markets are characterised by monopolistic competition: firms differentiate products, cultivate brand identity, and exercise both economic and political influence. This structure drives innovation and diversity but necessitates institutional counterbalances.

Perfect competition, therefore, is not a fact but a myth—an abstract construct that serves an ideological rather than a scientific function. Real markets operate through concrete, historically specific forms of competition, shaped by power, regulation, and innovation.

One might add a methodological caution. In seeking the causes of economic phenomena, economists should avoid the error of the fourteenth-century physicians who, under Pope Clement VI, conducted autopsies during the Black Death in search for confirmation for the humoral theory. So convinced were they of its

validity that they found precisely what they expected. Likewise, the theory of perfect competition, while not a disease, resembles that logical but self-contained system: internally coherent yet detached from empirical reality. Medieval medicine sought to explain an observable catastrophe—people dying of plague. Economic theory, in contrast, often seeks to explain an assumption—a phenomenon that does not, and never has, existed.

2. The Method

Two of the most influential economic theories—comparative advantage and perfect competition—share a common weakness: they rest on assumptions that do not correspond to reality, or only do so partially. If their premises collapse, the theories collapse as well, much like myths sustained by belief rather than evidence. Comparative advantage presupposes that:

- trade occurs in goods both nations can produce;
- labour and capital are perfectly mobile domestically but immobile internationally;
- costs depend solely on labour hours; and
- transport and insurance costs are zero.

These assumptions bear little resemblance to actual conditions. Non-neoclassical economists argue that theories of free trade and comparative advantage lack bot theoretical and empirical validity. In practice, trade patterns are shared by geography, proximity, culture, and history. Canada, for instance, trades as much with the United States as with all of Europe combined—proof that distance and cultural affinity outweigh abstract comparative costs. Empirical evidence confirms that a 1% increase in distance between countries reduces trade by roughly 0.7% - 1%, reflecting transport costs and weaker ties.

Turning to the perfect competition, the real economy is captured less by textbook models than by lived experience. The story of Sebastian Galassi, a young delivery worker in Florence who died while racing to meet algorithmic deadlines, exemplifies the dehumanising effects of modern "competitive" labour markets. His posthumous dismissal e-mail epitomises an economic order that treats human beings as expendable instruments of efficiency.

Beyond market power and externalities, imperfect information further undermines perfect competition. As shown by George Akerlof, Robert J. Shiller, and John Kenneth Galbraith, information asymmetry enables firms to manipulate consumers and create artificial needs, eroding the very notion of consumer sovereignty. Problems of moral hazard and "experience" or "credence" goods—whose quality can be judged only after or not even after purchase—reinforce the conclusion that perfect competition neither exists or can exist.

Attention must therefore shift to the real structure of markets ad to price formation mechanisms. Don Patinkin introduced money directly into utility function, treating it as a good yields a service. When prices and incomes fall while money holdings remain constant, real balances increase, lowering interest rates,

raising consumption, and stimulating demand. From this, Patinkin concluded that price flexibility should theoretically eliminate unemployment: falling wages and prices would restore equilibrium.

Yet Patinkin himself recognised that such flexibility does not exist in practice and accepted the need for expansionary monetary policy to reduce unemployment, though even this may be insufficient. Under conditions of imperfect or monopolistic competition, as demonstrated by Joan Robinson and Edward Chamberlin, firms are not price takers but price makers, setting mark-ups over production costs. Inflation thus stems not from excess demand alone but also from wage dynamics and cost variations.

In theory, reducing wages could lower prices or align them with productivity. In reality, productivity depends on external factors and tends to decline during recessions, regardless of workers' efforts. The interaction of wage setting, imperfect competition, and uncertainty shows that the assumptions underpinning both free-trade and perfect-competition models belong more to the realm of abstraction than empirical economics.

The neoclassical view that wage reductions can restore employment by denying the existence of involuntary employment must, as always, be tested against empirical evidence. In Italy, firm size alone challenges this assumption.

According to an ISTAT survey (2007) of industrial and service-sector firms—which together account for two-thirds of national employment—the Italian productive system is dominated by micro- and small enterprises. In 2005, there were 4.3 million firms employing 16.3 million people. Of these, 4.1 million were micro-enterprises with fewer than ten employees, representing 95% of all firms and 48% of total employment. Including small firms(up to 49 employees), this share rises to 99% of all firms and nearly 70% of total employment. Medium-sized enterprises (50 to 250 employees) made up just 0.5% of firms but employed 13% of the workforce, while large firms accounted for a mere 0.1%, though they employed 20% of workers.

In such a structure, firms are too small to exert significant market power; they are, in effect, price takers. Relations between employers and workers are often personal or familial, marked by flexibility, mutual dependence, and low conflict. The antagonistic dynamic between labour and capital described by both neoclassical and critical theories—such as those of Brancaccio—scarcely applies.

Italy also displays an unusually high rate of self-employment: one in three workers is self-employed, compared to one in six in Spain and one in twenty in France. This composition undermines theories linking wage moderation to recovery or asserting that lower wages stimulate competitiveness and employment. A self-employed worker who cannot obtain a remunerative price simply ceases activity -becoming neither producer nor consumer -and withdraws both direct and indirect investment from the economy.

In recent decades, firm size has decreased across Europe, but nowhere more sharply than in Italy. The fragmentation has weakened research and development,

precisely when technological progress demands greater investment. Hence, the principal vulnerability of the Italian economy lies less in market structure or labour costs than in the small scale of its enterprises, which limits innovation capacity and long-term productive growth.

3. Methodological Question

The prevailing theory—identifying the labour problem with the interaction of supply and demand under flexible wages, and denying the existence of involuntary unemployment—is fundamentally unrealistic. Economic models are often constructed on implausible assumptions, and policy proposals based upon them inherit the same flaws.

In practice, efficiency wages illustrate why firms may rationally pay above-market wages: to attract higher-quality workers, enhance motivation and loyalty, and maintain stable industrial relations by reducing conflict or unionization. Wage rigidity also arises from insider–outsider dynamics, as unions negotiate on behalf of employed members rather than the unemployed. Consequently, unions may pursue higher wages than equilibrium levels, perpetuating unemployment. Following a negative shock, job losses further strengthen insider bargaining power, generating hysteresis—persistent unemployment and skill erosion among the jobless. This produces an equilibrium with involuntary unemployment, where firms refuse to hire workers even at lower wages.

Equally unrealistic is the continued reliance on the model of perfect competition. Even if such a model were achievable, one must ask whether an equilibrium where price equals marginal cost would be socially optimal or conducive to innovation. In reality, markets are characterized by monopolistic competition, oligopoly, and monopoly. Under monopolistic competition, firms set prices above marginal cost and produce below potential output, leading to underemployment equilibria.

Addressing employment thus requires a methodological "reality check", recognising the constraints of imperfect competition, incomplete information, and asymmetry. Economic policy can only ever yield second-best outcomes, but it must at least rest upon plausible assumptions. To base prescriptions on impossible premises is methodologically unsound. As the proverb goes: "*If my grandmother had wheels, she'd be a tram*".

Despite this, economists often treat perfect competition as an ideal benchmark, a methodological chimera pursued "as if" it could exist. The tendency resembles, in its teleological optimism, the Marxist notion of capitalism's inevitable collapse—both grounded in hypothetical constructs.

Milton Friedman's "as if" methodology, introduced in *The Methodology of Positive Economics* (1953), defends this abstraction. He argued that models should be judged by the accuracy of their predictions, not by the realism of their assumptions. Economists may therefore act *as if* agents are perfectly rational and informed, provided that models yield empirically valid forecasts. This predictive cri-

terion justifies the use of unrealistic assumptions if they produce reliable outcomes.

Yet such an approach neglects institutional, political, and behavioural realities. Can models that assume conditions never observed in practice truly serve explanatory or policy purposes? The methodological choice between evaluating models by their predictions or their assumptions has deep implications for empirical economics.

Empirical studies, from Oxford (1939) to later work by Philip Andrews (1949), Michal Kalecki (1954), and Paolo Sylos Labini (1956), show that firms set prices through mark-up rules rather than by equating marginal cost and revenue. Real-world firms are price-makers, not price-takers. Costs are typically flat ("basin-shaped") over wide output ranges, and prices are determined by adding a mark-up to average variable costs sufficient to cover fixed costs and investment, typically around ten percent profit. Large corporations, moreover, pursue growth and stability, not mere short-term profit maximization.

Such evidence challenges neoclassical theory: if entrepreneurs behave differently from its predictions, then models built on "as if" rationality fail not only descriptively but also methodologically. Sound economics must begin with the world as it is, not with a hypothetical one that never was.

In practice, firms set prices according to a simple rule:

Price – Unit Cost + X% (to cover fixed costs) + 10% profit.

As early as 1949, Philip Andrews observed that firms' average and marginal cost curves are *basin-shaped*, not U-shaped: costs remain constant up to high levels of capacity utilisation. This empirical regularity cannot be ignored. Investment decisions are structured to ensure excess capacity, allowing firms to respond to unexpected demand increases without facing sharply rising costs. As long as output remains below full capacity, production expands at constant cost, and firms adjust quantities rather than prices. Even in downturns, they often resist price cuts to avoid "spoiling the market."

Hence, there is no single condition ensuring the efficient use of resources, but rather a range of feasible equilibria, among which firms choose based on expected demand and production requirements (Tortorella Esposito). This is the real world—not the abstract one described by models of perfect or neoclassical competition.

In such a setting, the production function does not determine the equilibrium level of employment or profit. Given a specific level of *effective demand*, firms operate with a fixed-coefficient production function designed to meet that demand and secure a programmed profit margin (Tortorella Esposito). Substitution between labour and capital is limited; what varies is the degree of unused capacity (Weintraub).

Accordingly, prices depend on the ratio of the nominal wage to labour productivity, increased by a mark-up. Crucially, this mark-up is endogenous—determined not by the degree of market competition, as mainstream theory claims, but

by the balance of power between firms and workers. As the economy approaches full employment, unions strengthen, raising real wages and reducing profit margins. The resulting distributional conflict generates inflationary pressures, driving up both prices and nominal wages until an implicit agreement is reached over income distribution (Weintraub).

In reality, therefore, equilibrium is not a natural or automatic outcome but the contingent result of structural tensions between entrepreneurs and workers with divergent interests. Investment decisions are shaped by firms seeking to realise planned returns, while savings reflect workers' efforts to maintain their living standards. The two groups' conflicting objectives mean that macroeconomic equilibrium is never spontaneous.

This post-Keynesian perspective rests on empirically verifiable foundations, unlike the purely hypothetical constructs of perfect competition or neoclassical models. As Milton Friedman's "as if" proposition illustrates, such models persist despite being based on assumptions known to be false, defended merely for their supposed predictive capacity. Yet the evidence shows that mark-ups and prices are governed less by abstract market structures than by concrete power relations between capital and labour.

The central debate thus turns on an empirical question: are firms price-takers or price-makers, and how do entrepreneurs actually set prices? If, as argued above, *effective*—that is, *expected*—demand guides production decisions, firms accordingly organize their production to ensure output consistent with that demand and sufficient to secure a pre-set profit margin. This establishes a chain linking expectations, investment, credit, and money, which, in an uncertain world, can generate significant instability in effective demand, income, and employment.

Under these conditions, full employment is not a natural equilibrium toward which economies spontaneously gravitate. If large corporations operate with substantial fixed costs and possess the capacity to adjust output without altering prices, then theories premised on perfectly competitive price-taking are not merely unrealistic but empirically false.

Consider the evidence. Between 2000 and 2013, employment in New York's financial sector fell from 150,000 to 100,000, even as profits surged. In 2006, Google acquired YouTube for $1.65 billion—equivalent to $25 million per employee. Facebook's 2012 purchase of Instagram (13 employees) for $1 billion valued each worker at $77 million, and its 2014 acquisition of WhatsApp (55 employees) for $19 billion implied $345 million per employee. Such data should inform, if not redefine, our theoretical frameworks.

The U.S. economy now produces roughly one-third more than in 1998, with a similar labour force and a larger population. Yet, despite the earnings premium associated with higher education, real wages have stagnated, and many graduates—encumbered by student debt—face declining returns to their qualifications. The rise in self-employment, often a form of disguised unemployment, particularly among older workers supplementing inadequate incomes, underscores this

shift.

Nearly half of Americans could not cover a $400 medical expense without borrowing, while Amazon, Google, and Facebook dominate e-commerce, online advertising, and social networking. These firms—controlling, respectively, about 88% of search, 77% of social network traffic, and over half of online retail—constitute de facto monopolies, reminiscent of early-twentieth-century industrial concentrations. Such power poses risks not only to consumers but also to democratic governance.

Proponents of market self-adjustment claim that firms increase investment when prices fall and that workers expand consumption when incomes decline. Empirically, this is implausible. Under deflation, real debt burdens rise, discouraging both corporate investment and household spending. Thus, no stable relationship exists between price levels and aggregate demand. Contractionary policies that suppress demand reduce employment, while price and wage flexibility fail to restore equilibrium.

It is therefore essential to move from theoretical assertion to empirical verification—examining, perhaps state by state, whether firms actually invest more when prices fall, or whether workers consume more when their incomes fall. This calls for historical and statistical research comparable in rigour to archival inquiry: open to revision, sensitive to context, and attentive to national particularities. Only such evidence-based analysis can reveal whether prevailing assumptions about market adjustment correspond to reality.

The social sciences cannot claim the kind of universal or permanent laws found in the natural sciences. Economic "laws" hold *rebus sic stantibus*—so long as prevailing conditions persist—until new evidence falsifies them, perhaps in one context but not in another. Economists, therefore, should see themselves less as physicists or chemists and more as historians or humanists—and, in doing so, become more useful.

Otherwise, we risk remaining trapped in sterile debates over the "credibility" of assumptions—whether, for instance, firms increase investment when prices fall or workers raise consumption when wages decline (as Brancaccio observes)—arguing endlessly about the slope of the aggregate demand curve. Is that truly the objective of economic inquiry?

This position aligns with Karl Popper's principle that a hypothesis or theory is scientific only if it is falsifiable, that is, capable of being refuted by empirical facts. From *The Logic of Scientific Discovery* (1935) onward, Popper emphasized the asymmetry between verification and falsification: no number of confirming instances can conclusively prove a universal statement, yet a single counterexample is sufficient to disprove it.

Popper thus identified falsifiability as the defining criterion of scientific knowledge and the hypothetico-deductive method as the core of scientific reasoning. Rather than relying on inductive generalizations—which, for Popper, collapse into verificationism—science advances through bold hypotheses rigorously tested against

observable consequences. Importantly, a falsifiable theory is not one already falsified, but one *capable* of being shown false through empirical observation.

For Popper, then, empirical verification matters profoundly: a sound theory must make precise, testable predictions—predictions that can, in principle, be contradicted by facts. The more specific a theory's predictions, the more falsifiable, and therefore the more *scientific*, it becomes. Conversely, vague theories—those that can always be reconciled with outcomes—are scientifically weak.

Even if Popper's framework may overemphasize deduction relative to induction, it remains a valuable methodological compass, one that would prevent many of the errors still committed by economists today, including those within the mainstream "circle." The well-known episode I recall elsewhere could scarcely have occurred had Popper's method been applied, even as a guiding principle. And while not all such missteps are spectacular, their consequences for economic policy can be equally severe.

4. The Menger-Schmoller Debate

Historically, the so-called Old Historical School[4]—represented by Friedrich List, Bruno Hildebrand, and Karl Knies—argued that economic theory could not be applied indiscriminately across all epochs and cultures (Landreth & Colander, 1996). The conclusions of argued that the conclusions of Adam Smith, David Ricardo, and John Stuart Mill, while valid for rapidly industrialising England were not equally applied to economies still rooted in agriculture, such as Germany's. Their approach, though coloured by national sentiment rested on a fundamental methodological claim: economics, like all the social sciences, must be grounded in historicism, and one of Ricardo's greatest errors was to import into economics the methodology of the physical sciences.

Knies rejected abstract theory outright, while others admitted that deductive and inductive methods could coexist. My own critique of Ricardian theory—especially of comparative advantage, which captures only a static moment—derives from the same methodological concern. List, notably nationalist, regarded economics as the study of laws governing stages of economic development. He and his contemporaries assembled vast amounts of historical and statistical evidence to support their analyses. List, for instance, identified five stages of development—nomadism, pastoralism, agriculture, manufacturing, and trade—while Hildebrand focused on the evolution of exchange systems: barter, money, and credit. Though abstract in their conclusions, their value lay in their method—the systematic use of historical and statistical inquiry as the basis of economic analysis.

A second generation, led by Gustav von Schmoller (1838-1917), continued the critique of classical theory's universalism but turned from grand evolutionary narratives toward empirical and social concerns. Schmoller emphasised inductive inquiry, quantitative research, and the role of the state in social reform.

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

The marginalist revolution—developed by Menger, Jevons, and Walras—brought this methodological divergence to a head producing the celebrated *Methodenstreit* of the 1870s between Menger and Schmoller. In *Investigations into the Method of the Social Sciences, with Special Reference to Economics* (1883), Merger defended an abstract, deductive approach aimed at discovering universal "exact laws" of economic phenomena. Schmoller, in his *Outline of General National Economics*, countered with a distinction between moral laws, proper t the historical development of human institutions, and natural law, proper to the physical sciences. The former yield relative, context-dependent conclusions; the latter aspire to universality.

For Schmoller and the Historical School, economic law belongs to the moral sphere—their validity contingent on time and place—whereas the marginalists treated them as immutable, analogous to the laws of physics. The continuous evolution of social and institutional contexts ensures that no economic conclusion can retain permanent correspondence with reality. The difference between physical and social science, therefore, is not merely categorical but a matter of degree: natural laws can measure deviations precisely because they operate in stable conditions, while economic "laws" evolve as reality itself changes.

Unlike the Old Historical School, Schmoller did not reject deduction entirely but instead on its complementarity with induction, provided that deductive reasoning rests on empirically derived premises rather than on the postulate of *Homo economicus*. To isolate self-interest as the sole motive of human conduct, he argued, is to reduce a complex social reality to an abstraction, yielding inevitable false conclusions.

Merger, by contrast, sought to identify the simplest elements of human behaviour—self-interest and utility—and to deduce complex phenomena such as value, prices, and money from them. Schmoller objected that Menger's "exact" method presupposed what it needed to prove: the existence of fixed and universal behavioural elements. Economic life, Schmoller insisted, could not be understood apart from the institutions and collective structures—the state, law, money, and language—that shape it.

Menger viewed these institutions as unintended outcomes of individual actions, whereas Schmoller, while acknowledging their psychological origins, stressed the importance of empirical psychology and collective behaviour. Their methodological dispute anticipated later debates with behavioural and institutional economists over the limits of rational choice and the role of social context in economic life.

The legacy of the German Historical School extended across the Atlantic, where it evolved into American Institutionalism. As in nineteenth-century Germany, economists such as John R. Commons and Thorsten Veblen expressed deep dissatisfaction with the abstract formalism of neoclassical theory. Institutionalists argued that economic activity is conditioned by the institutional environment—its laws, norms, and conventions—and cannot be understood apart from these evolving frameworks. The success of Institutionalism in the United States, particularly

before the New Deal, reflected widespread disillusionment with the optimistic universalism of neoclassical economics.

5. Conclusion

Personally, I firmly believe that the real market structure is one of monopolistic competition. This is true even in agriculture, as demonstrated by the so-called Pachino tomato and champagne wine, ways to differentiate products.

Today, we find a wide variety of tomatoes in the supermarket, and among these, those from Pachino stand out. The town in the province of Syracuse and some neighboring towns produce a tomato that has even been able to boast PGI (Protected Geographical Indication) status since 2003. In that area, the climate, temperature, soil, position, and salinity of the irrigation water are particularly suited to producing one of the prides of Sicilian and Italian agri-food: the Pachino PGI tomato. Consumers now use this term to identify the classic "cherry" tomato. In reality, the PGI mark only identifies the production area. But in reality, the first crops were the result of technology (greenhouses), not nature, and it was in 1989 that the Israeli biotech seed company Hazera Genetics introduced it to Sicily. Thus, the story of Creso rice, registered in the register of wheat varieties in 1974, is a wheat variety obtained from a Mexican hybrid of durum and soft wheat, crossed with a genetically mutated line of the delicious Senatore Cappelli wheat. It initially enjoyed widespread diffusion (in the 1980s and 1990s) in countries such as Australia, China, the USA, Canada, and Argentina, but it is a variety that is not the result of natural selection implemented by some ingenious farmer, but entirely "made in the laboratory": it was obtained by Alessandro Bozzini and Carlo Mosconi within the group of geneticists at the Casaccia Center of the CNEN, now ENEA. The Dutch experience is also useful. The Netherlands, smaller than Lombardy and Emilia-Romagna combined, is the world's second-largest food exporter by value, after the United States (236 times larger). About 50 percent of its land is used for agriculture and horticulture in climate-controlled greenhouses. Netherlands is the leading exporter, by value, of tomatoes, potatoes, and onions, and the second largest exporter of vegetables. The secret?

It's the world's most advanced scientific center in the sector (Wageningen University & Research), which has established experimental farms, etc. The Netherlands produces 144,352 tons of tomatoes per square mile (260 hectares), six times more than Spain.

Regarding prices, they can be determined for many reasons, not all of which can be traced back to the classic approaches of neoclassical economics. An entrepreneur may set them to secure a margin, or simply because he believes he will sell a product at a higher price tomorrow than he bought it for today. As well-known cases from the past demonstrate, a tulip can be sold at a price determined by its characteristics (the so-called product differentiation by which many in 17th-century Holland distinguished a Gouda tulip or an Admirael von Eijck tulip from other tulips or appreciated the planting of bulbs) or simply because someone is

eager to buy a product, even tulips, and then resell them. In France in the 19th century and in Holland in the early 20th century, the phenomenon of the red spider lily led to price variations and increases similar to, if not greater than, the well-known 17th-century madness. The innovations that give rise to monopolistic competition can be product-related or process-related, but both, besides being incessant, are inevitable, almost beyond the emphasis placed on them by Schumpeter. Above all, they are continuous and differentiate products; process-related innovations also differentiate them, perhaps by constantly introducing small improvements. Competition, the pricing system that sees companies as price takers, aiming to maximize profits, does not take into account not only that they are often price-makers and quantity takers, with extensive market power and with managers who look at the size of the company rather than maximizing profits, but, above all, that in reality the so-called mark-up, that is, the profit margin for companies, but also everything that serves to sustain extra costs with respect to labor, such as the cost of raw materials, can vary based on the balance of power between workers and companies and is not determined exogenously by the more or less competitive structure of the markets. The relationship between savings and investments is fundamental for growth, but the causality goes from investments to savings and not vice versa. Do prices, like investments, also depend on expectations of future profits and the decisions of entrepreneurs? Even those who are strongly opposed to Keynes and the Keynesians, it seems to me, admit this. For example, Jesus Huerta de Soto, in his lectures, denies that costs determine prices, because in this case, he argues, there would be no entrepreneurial problem, whereas there actually is: it would be enough, in fact, to always apply a markup to costs and sell everything produced, always earning a profit. It is not costs that determine prices, this proud anti-Keynesian maintains, but rather prices that determine costs. On the basis of valuation scales drawn up by economic agents, by entrepreneurs, they estimate, with respect to the consumer goods of interest to them, what the market price will be tomorrow and, based on this estimate of price and profit, they decide today to buy the production factors to produce the goods: they imagine tomorrow's prices and demand, if today's production factors are convenient ("a sombrero is sold for 100 euros not because it costs 90 to produce and a 10 euro markup is applied; its price is 100 euros because those who produce sombreros think they can sell them for 100 tomorrow too and today are willing to spend up to 90 to produce them"). I don't know if this argument is well-founded because in some cases the entrepreneur has market and forecasting power (he values, as de Soto says, certain goods) on the basis of which he determines how much the good will be worth, sets its price and consequently adjusts costs, that is, he purchases the various production factors (labor, etc.) at a given price, but in many other cases he cannot do this. Although the classic neoclassical model of many small businesses for which the price is a given is not present, and although the entrepreneur has a certain market power to determine the price in his reference market, he cannot determine prices, and costs follow. We are not thinking of the sale of the final good (the sombrero),

but each good, for its production and subsequent sale, is part of a supply chain, made up of other, different and successive entrepreneurs and so on, including various intermediaries, who merely provide a service rather than producing a good or a part of it. Each of them provides a component, a raw material, a "piece" of the final good and this whole process leads to the final good whose price is conditioned by it. The seller of the final good is constrained by the prices of intermediate goods, by the prices of intermediate services (services would require an analysis and an entire book on their own if even Apple believes in the future to earn more from services than from iPhones, i.e. the innovative good, for example how is the valorisation determined according to the language of de Soto and then the presumable future price of a service, which service, i.e. the one connected to the chain of intermediate goods or the final service, services, moreover, are often not very standardizable and are very personal in the sense that they concern the person and that they require a performance characterised by personality and therefore very variable, in some cases, they are provided by individuals who must conform to a strict but specific professional ethic and cannot act, for example, by providing care or other services, looking only at those who request the intervention and are able to pay; it is probably the issue of services that leads to the neo-Keynesian thesis of a markup (a markup on costs), from the price of raw materials, from a series of elements and constraints that he does not control and on which it depends, first of all the price-cost of raw materials, of energy, which is determined abroad, perhaps depends on exchange rate reasons that are beyond the control of intermediate and final entrepreneurs. Therefore, the neo-Keynesian markup model, the markup on costs, does not generally seem to me to be dismissive in its assertion that prices determine costs. However, De Soto's argument has its validity because, like Keynes, it highlights the role of the entrepreneur, a central role, because investments and the decision whether or not to make them depend on him and on his prospects and expectations at every level. De Soto, like Keynes, highlights the centrality of entrepreneurial decisions, linked to future expectations, partly unrelated to the interest rate, based on presumed demand and forecasts today, on the basis of the valuation of a good, on a predictable price, tomorrow. These are considerations of a staunch anti-Keynesian, but in reality, they are linked to what Keynes himself states in the General Theory, in chapter three, reverses a conventional perspective and, looking at reality, asks who is the economic actor who sets the level of production. Is it the worker who offers his labor at a given real wage who induces the entrepreneur to produce more? Or is it instead the entrepreneur who decides which products he has a well-founded hope, that is, the expectation, of being able to place profitably on the market? In the second case, the entrepreneur will choose the level of employment that, given the existing capital stock, is necessary to produce the quantity of goods he expects to be able to place profitably on the market: in reality, demand and profit expectations prevail, to a lesser extent, the interest rate and costs. Kaleki, in particular, realistically, taking into account what I have stated above about the costs present in a business, observes that the so-called "full

cost" exists in non-competitive markets, but that this is the reality. Full cost is a pricing criterion often followed by businesses with market power, that is, in systems that actually exist. It consists of setting the price by adding to variable costs (for example, wages) a proportional margin intended to cover fixed costs (such as the cost of renting a warehouse) and overheads, thus ensuring a profit margin. In this way, businesses determine the price, not according to the utopian criteria of marginalism, and earn a profit, which, i.e., a rate of profit, is an indicator of the potential rate of growth of the economy, because profits are likely to be used for other purposes, in addition to investments. The traditional theory's view was criticized by a 1939 study conducted in Oxford, which highlighted how businessmen maximized their profits differently from that indicated by marginalist doctrine: they relied on the "full cost" rule. Without going into detail, empirical research has developed views that deny that businesses operate by seeking equality between marginal cost and marginal revenue. This is due, for example, to a lack of knowledge of their demand curve, or to a lack of information. In practice, the company sets the price based on some criterion and sells at that price whatever quantity the market can absorb. Perhaps Kant was right, and economists should take this into account when he stated, "This may be correct in theory, but it is not true in practice."

It is well known that Pierluigi Ciocca has long advocated a renewed rapprochement between economic theory, history, and the other human and social sciences. He maintains that these disciplines—artificially separated in the modern academic division of labour—are, in truth, parts of 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*".[5] (Battilossi, 1999; Busino, 2010; Ciocca & Toniolo, 1999).

I share these views, particularly within the framework of a modern reappraisal of the German Historical School, which in many respects anticipated insights now central to contemporary economic thought—and recognised through Nobel Prizes awarded to scholars such as Joseph Stiglitz, George Akerlof, Robert Shiller, and Richard Thaler.

Economic action is always socially embedded[6] (Hayes, 2025). It cannot be re-

[5]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, istiuzioni.* 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.

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

duced to the logic of cost-benefit calculation alone. Decisions are shaped by identity, by relationships, by emotions, and by the social practices rooted in networks of norms, affections, and symbols. Human behaviour in the economy is thus as much cultural and institutional as it is rational.

Moreover, the diffusion of digital technology has created new asymmetries in knowledge and capability. Profound differences persist in both access to information and capacity to use it effectively—a phenomenon that can be termed cognitive inequality. Such disparities have far-reaching consequences for participation, productivity, and power in modern economies.

In light of these considerations, a renewed synthesis of theory, history, and social analysis appears not only desirable but necessary. Economists must recover their humanistic dimension if they are to remain relevant to the world it seeks to interpret and transform.

Various responses have been given to the "fundamentalists" who exalt the possibility and even the necessity of perfect competition, or who 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.

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 pseudo-science*." 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 Collected Writimgs, 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 discon-

nected 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, and 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.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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