

Keynes's Relevance Today: 90 Years After the Publication of the General Theory of Employment, Interest and Money

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Abstract

This research aims to identify what could be considered Keynes's undisputed legacy, or at least the less debatable one. That is, the theme of uncertainty and realism. The essential difference between Keynes and other economists is that the latter believe that economics is a logic of choice under conditions of scarcity, while for Keynes it is a logic of choice under conditions of uncertainty. When Keynes speaks of animal spirits, he also places conventional psychological elements at the center of his research, elements that act powerfully in society, beyond mere economic factors. They also shape a social structure that has economic repercussions. To emerge from the crisis of the 1930s, it was necessary (and still is necessary today) to consider psychological, conventional, and cultural aspects, not strictly economic ones: this would not even understand the role of the entrepreneur, who is a person who, first and foremost, has a project and wants to realize it. He does not aim simply to accumulate money. Unlike the speculator, he sees the world as a place populated by opportunities to be seized and, often, suffers if, due to a crisis that has reduced turnover by half, he puts dozens of jobs in his company at risk, because the company contains a good part of his life, his history. A vision, perhaps romantic in a world populated today by large corporations.

Keywords: John Maynard Keynes, Keynesian Economics, General Theory, Keynesian Macroeconomics, Fundamental Uncertainty, Economic Uncertainty, Animal Spirits, Effective Demand, Involuntary Unemployment, Aggregate Demand

Introduction and definition of the research

A famous maxim attributed to John Maynard Keynes states: "It is better to be approximately right than precisely wrong." This quote contains a profound critique of the obsession with mathematical precision for its own sake, especially when applied to complex and unpredictable systems like the economy or real life. There is often an illusion in the economic world: The illusion of precision: Economic or statistical models often use extremely precise data and formulas. However, if the starting assumptions are unrealistic or incorrect, the final result will be a perfect and detailed error (being "exactly wrong").

On the contrary, the value of intuition matters: identifying the correct general trend or a fundamental truth, even without calculating its decimal points (being "approximately right"), allows for significantly better practical decisions. In short, Keynes reminds us that reality is intrinsically uncertain and that a sensible approximation is always preferable to mathematical precision based on faulty assumptions.

In aid of this, Jacob Viner, as Lionel Robbins (L. Robbins, *The Theory of Economic Development in the History of Economic Thought*, Utet. p. 173) recalls when discussing economic development and different per

capita incomes in different eras, said that many are ready to measure the immeasurable down to the millimeter.

Jacob Viner ironically criticized the tendency of modern economics to quantify and measure with pinpoint precision aspects of social and human reality that, by their very nature, are immeasurable. He warned against an obsession with rigid mathematical models that ignore qualitative, psychological, and institutional variables. Calculating intrinsically approximate data "down to the millimeter" creates the illusion of scientific precision that does not exist in reality. As an exponent of the early Chicago School, Viner advocated an approach to economics that never lost sight of the complexity of human behavior and history.

The relevance of Keynes, 90 years after the publication of his major work, will be the subject of my research. I mean relevance for those aspects that, it seems to me, no one doubts.

Certainly, as everyone knows, Keynes based his theory on:

- a) the existence of equilibria with involuntary unemployment, that is, situations in which the free operation of market forces cannot automatically lead to the reabsorption of unemployment;
- b) the principle of effective demand, according to which demand generates supply and not vice versa, as was believed by the theory that preceded him.

On this basis, when faced with a reduction in demand, production and employment contract without market mechanisms being able to restore full employment: the only way to increase production and employment is then to increase demand, even by resorting to an increase in government demand for goods and services.

Furthermore:

c- gave birth to macroeconomics.

Until him, there was no distinction between microeconomics and macroeconomics, but economic theory existed without other connotations. Theory dealt with the behavior of individual subjects and, by aggregating individual behaviors, believed that aggregate behavior could be obtained.

Keynes, on the other hand, believed that aggregate behavior cannot be considered simply the sum of the behaviors predicted by theory for individual individuals, but follows its own logic. Hence the role of government. Since the free behavior of individuals seeking to maximize utility (which microeconomics deals with) in the aggregate does not lead to optimal outcomes, public intervention is essential.

Subsequently, the so-called New Classical Macroeconomics (Robert Lucas, Thomas Sargent) criticized Keynesian theory, and in particular the so-called neoclassical synthesis, for not having adequately microfounded aggregate behavior as the sum of the individual behaviors studied by microeconomics. For example, to explain involuntary unemployment, it would not be sufficient to justify the stickiness of prices and wages by stating that in reality they are indeed sticky and do not change until the end of the contract. It would be necessary to demonstrate that stickiness is a consequence of the maximizing behaviors of individuals, the maximizing behaviors upon which microeconomics is based.

Aside from the fact that the modern findings of so-called behavioral economics (of which, in some respects, Keynes unwittingly anticipated certain themes) demonstrate that maximizing behaviors do not exist, but even if they did exist, Lucas and Sargent's theory demonstrates a misunderstanding.

Aggregate behaviors, macroeconomics, are/is something different from microeconomics and individual behaviors.

Pretending to base macroeconomics on microeconomics, imposing that aggregate and collective behaviors must follow the (alleged) same rules as microeconomics, is wrong. However, Joseph Stiglitz, George Akerlof, and Andrew Michael Spence have more recently microfounded some of the conclusions of Keynesian theory, referring to the existence of incomplete information, always present (Hayek was right about this), and asymmetrically distributed (this too is always present).

But my attention will not be focused on these important, yet still discussed and debated, issues, such as the idea that every production generates an income of an equivalent amount and this income is entirely spent on the purchase of goods and services.

Keynes believed the first part of the argument to be correct, but not the second. A portion of this income can, in fact, be kept in liquid form without being lent to entrepreneurs for investment.

My attention will not even be focused on the question of whether Keynes was a liberal or a "socialist," a topic on which, since the time of Alvin H. Hansen, with his volume "A Guide to the Study of Keynes" (1), it has been clear that Keynes was a liberal, affirming that individualism is the best safeguard of personal freedom and the best safeguard of the variety of life, and adding that modern systems of authoritarian state seem to solve the problem of unemployment at the expense of efficiency and freedom.

Keynes wanted to safeguard, by trying to solve the problem of unemployment, both efficiency and freedom (this lesson should also be remembered by worshippers of Asian states).

Keynes was a realist in addressing problems and wanted to avoid the evil of unemployment but not fall into worse evils. His realism on free trade, protectionism, and international cooperation led him to envision international relations based on the principles of free trade (he expressed his opinion on this in the 1920s). However, in the 1930s, he advocated a combined system of import tariffs and export subsidies. Realistically, as a second-best solution, given an overvalued exchange rate and a situation of uncertainty characterized by high unemployment and downward wage rigidity, protectionist policies could, in the short term, avoid disruptive social crises.

However, he also emphasized that trade barriers, in the long run, entailed costs in terms of lost efficiency in the allocation of resources.

Protectionism as an alternative to devaluation?

However, forms of control over foreign trade and automatic, non-discretionary adjustments-readjustments in the event of an imbalance in foreign accounts, as well as cooperation between states, so as not to burden only the weakest, deficit-debtor state with the cost of rebalancing, but also automatically involving the creditor country in surplus. By doing so, a series of political conflicts, born in relations between the IMF and Third World countries, would have been realistically avoided, controversies between the EU and China, between the US and other countries, between the EU states and Germany would have been avoided. The system he supported at Bretton Woods demonstrates not only how far-sighted he was, but above all how realistic he was: because with conflict, apart from the damage inflicted on someone, the problem is not solved (2).

The Italian economist Federico Caffè rightly said in the mid-seventies, "[Some] extremely realistic suggestions put forward by Keynes regarding the control of capital movements, the moderate acceptance of protectionist policies, and the uninhibited maneuvering of the exchange rate have been increasingly overshadowed as if they were weaknesses that it would be convenient to overlook" (3).

The most realistic thing - but realism is typical of geniuses, not doctrinaires - is to foresee "a system of trade regulated through international negotiations that do not aim to preclude the use of various measures that interfere with the free flow of trade, but regulate it according to the principles of cooperation and therefore take into account the repercussions that they have, not only internally, but also on the rest of the world, appears more and more like the only adequate solution to deal with the current neo-protectionist pressures present in the area of industrialized countries" (Milone, commenting on Keynes's overall work).

What then will I be dealing with, 90 years after The General Theory?

A legacy of Keynes that seems uncontested to me, unlike the theories mentioned above: the theme of uncertainty and realism (4).

The essential difference between Keynes and other economists (regarding the use of mathematics) is that the

the latter think of economics as a logic of choice under conditions of scarcity, while for Keynes it is a logic of choice under conditions of uncertainty (5) (La Malfa).

Regarding Keynes, it is important to distinguish his positions on probability from those on uncertainty. The themes are intertwined, but it is best to keep them separate at first glance.

Keynes is central to the topic of uncertainty: one need only look at what he wrote in his 1936 General Theory, an article written in 1937 (Keynes. The General Theory of Employment, in the Quarterly Journal of Economics, 51), and what he wrote earlier, in his 1921 A Treatise on Probability.

Probability and uncertainty are closely related concepts.

Keynes addressed the former in 1921 and the latter in 1936–1937.

Generally speaking, for any uncertain phenomenon, we are interested in knowing the probability with which it can occur, however controversial this value may be.

For Keynes, uncertainty represents the main component of his analysis, the one that allows him to explain the inability of economic theory to account for the phenomenon of unemployment. In agreement with Knight, he believes that knowledge of economic agents is imperfect and, consequently, a context exists where aspects such as investment activity and profit cannot be adequately addressed.

Keynes and probability

First of all, he considers probability a property of human reasoning rather than of observed reality: it is a relation that expresses a degree of belief in a proposition.

For Keynes, the so-called frequentist approach is reductive (knowledge of the relative frequencies of an outcome in a series of similar cases is available in some circumstances, not in others - no one knew about a cell phone before it existed - in other cases, knowledge, even if available, is not significant).

Furthermore, it is common-and this happens in reality, rightly or wrongly-to express a probabilistic judgment even if it is not possible to empirically observe a series of cases. In many cases, quantitative reasoning cannot be applied, but only qualitative reasoning (affirming that an event in the range between impossibility and certainty is more or less probable than another does not mean that a precise number can be attributed to all events. There are not only probabilities that can be expressed with a precise number, but also probabilities that are called "non-numeric": often, only qualitative comparisons of probabilities can be made.

The reference to the existence of non-numeric probabilities, contested by many economists (Edgeworth, first and foremost), has been seen as a demonstration of great intuition: Keynes would have anticipated those who thought it necessary to delve deeper, even from a mathematical point of view, into the idea that subjective probabilities are intervals of probabilities and, therefore, not a precise number but an interval between a maximum probability and a Minimum. Keynes, unlike Knight, who left the scope of investigation regarding what he called estimates undefined, deepens it with a probabilistic analysis that begins with the possibility of developing non-numeric probabilities.

In reasoning, the degree of confidence matters; obtaining new evidence can modify the probability, making it increase or decrease, but in any case, it makes us more confident in identifying the probability.

He gives an example: we have an urn with a certain number of balls that can be either white or black, but we don't know in what proportion. Since we can assume that each ball is either white or black, and that the events - being a white or black ball - are independent, we can conclude that the possibility of drawing a white ball from the urn is 50%. But suppose we have another urn with the same number of balls as the previous one, either white or black, but we know that the proportion of balls is 50% white and 50% black. Even in this second case, the probability is half as in the previous case, but in this second case, a greater weight of argument supports the conclusion of 1/2, or to use Knight's term, the confidence in the probability assessment is greater in the second case.

In relation to behavior, therefore, Keynes recalls the two main characteristics of probabilities:

- 1- probabilities always exist, but they are not necessarily precise numbers;
- 2- their actual value must be weighed against the weight of the argument, depending on the amount of evidence available.

Hence, as he would argue in *The General Theory* of 1936, a mathematical approach to the theory of choice, an approach that favors numerical precision over the value of non-numerical logic, is inadequate.

Human action cannot rely on precise numerical calculations (this does not mean that they should not be done or that they are useless): it does not mean acting without criteria because probabilistic logic is rational; human action must be conscious and not extemporaneous. But it must rely on social "conventions" Bilateral, it can sometimes be necessary or in any case it happens even unconsciously, it is rational for it to happen and in action, in judging an action we must take it into account in some way.

Keynes and uncertainty

Keynes approached the topic of uncertainty as a development from his earlier work on uncertainty in *A Treatise on Probability*, because the two elements, probability and uncertainty, are interconnected. The topic was addressed in the 1936 *General Theory* and in a subsequent article in 1937, and uncertainty was addressed primarily to inform economic policy decisions that would not hinder Britain's growth.

Keynes's analysis is developed in Chapter 12 of the *General Theory*, entitled "The State of Long-Run Expectation."

For Keynes, investment is crucial to growth: it is tied to returns, the expected future returns; future returns are based on expectations and, therefore, on the confidence with which expectations are formulated. The key point for financial and stock markets, which Keynes emphasizes, is that the current value of an investment is constantly (re)evaluated on a daily basis. Buying and selling transactions that value an existing investment also have an indirect effect on the valuation of new investments. Investments are valued based on the estimate of factors that occur in future periods and on the expectations formed, which are also generated by daily fluctuations in the stock market. The description of the role of expectations in the stock market (more important in the Anglo-Saxon world than in ours because it generates and manages savings for income - for pensioners, for example - or for investment) is one of the most cited in Keynes's work.

The valuation of an investment, therefore, cannot be based on a certain mathematical expectation, since expectations depend not only on the probability of the expected future returns being realized, but also on the confidence with which they are formulated.

But secondly, there is the speculative activity carried out by those operators who buy on the market not because they have an idea of the fundamental values of the asset, but because they believe other operators will also buy that particular security. For these operators, the important thing is to correctly anticipate the market trend, not to identify which investment will truly have the capacity to generate profits in the future. And if these operators are the majority at a particular moment in time, the market will move in the direction they believe it should go without any real connection to the underlying real structure of the economy or will move randomly.

Market values calculated in this way express a "conventional valuation," with all due respect, I might add, to Eugene Fama and his theory of perfect markets. The uncertainty surrounding business activity is both an uncertainty inherent in the individual investment and one linked to an external environment that moves according to the dictates of speculation: "classical" economics, according to Keynes, responds to such a scenario by ignoring it.

The analysis in Chapter 12 is limited to financial markets, but the issue is more general and the considerations can be easily extended. Keynes believes that the uncertainty that conditions economic activity means there is no "scientific basis on which to form any calculable probability," and one -

cannot proceed by pretending that the issue is a question of risk, according to Knight's terminology, that is, calculable. When he says that certain phenomena are particularly uncertain due to the impossibility of conceiving any calculable probability, Keynes means by calculable probability numerical probability.

Post-Keynesians will go further, and I personally believe that, today, the distinction between calculable and non-calculable probability is almost meaningless if, above all, it refers to a probability that takes into account and is based on all information and that the information is knowable.

For this reason, Keynes believed that political intervention is necessary, with targeted public investments (Keynesian, not South American) if private investments are not undertaken due to uncertainty. Public interventions are substitutes or supplements when this uncertainty is reasonably present; they are not constitutive of the market. Political authority, on which we can rely in acute crisis situations, cannot help but refuse to recognize the rationality of market outcomes when it is clear that they are guided by conventional judgments, and it is precisely in situations of true uncertainty that economic policy action is essential.

Decisions, whether personal, political, or economic, cannot depend on strict mathematical expectations: in situations of "Keynesian" uncertainty, not only is it difficult to formulate precise probabilities, but their degree of reliability is so low that Keynes focused on non-numerical probabilities.

Post-Keynesians

Regarding their opinions, while many consider uncertainty to refer to situations involving incomplete information, post-Keynesians also consider uncertainty to be related to situations where information is not available at the time of a decision. Keynes believed that calculable probabilities might not exist and that it was impossible to specify a list of contingencies that could influence decisions. Post-Keynesians place greater emphasis on the importance of unforeseen events, and "the irreducibility of uncertainty to risk is therefore based on the rejection not so much of the axiom of certainty as of the idea that the decision-making context can be represented by a complete list of states of nature" (Carlo Zappia). Keynesian uncertainty would be unmeasurable in terms of probability, even though post-Keynesians have been accused of failing to propose alternative behavioral norms for decision-makers in conditions of true uncertainty.

For post-Keynesians, uncertainty is pervasive and cannot be reduced to probabilistic risk.

In fact, agents do not know the effects of their actions, but neither do they know the probability distribution underlying different scenarios. This does not mean that they act irrationally, but, as Simon also says, according to behavioral models and formulations of expectations very different from those assumed by Lucas. In any case, Keynes has a more open attitude toward the possibility of probabilistic calculation than post-Keynesians, and the fact that there are or are not calculable probabilities does not mean that probabilistic reasoning should be abandoned.

Could the events of the 2008 crisis, which post-Keynesians believed were due to the failed claim that market participants believed they could "price" every risk, be attributed to temporary deviations in market participants' ability to correctly assess the fundamental values of investments and related financial assets, or to a lack of controls, conflicts of interest, and the inability to calculate new or unforeseeable contingencies, or at least to calculate all contingencies? Keynes would have answered the question by rejecting the fear, as a remedy for the 2008 situation, that state intervention would create a "crowding out" effect on private investment. This was, conversely, the view of Eugene Fama, who believed that risks could be properly incorporated into prices and that financial innovation, even when liberalized, is beneficial because market competition would be capable of excluding any innovation that does not provide added value. The state would hinder risk assessment models rather than foster them and make them effective.

But are financial markets examples of mechanisms that always create efficient allocation?

However, we will see later how the actual functioning of financial markets is essentially different from that of goods, how psychological or conventional factors and mechanisms that are independent of so-called fundamental values also come into play: there is an unavoidable instability.

The Dutch who bought tulips might respond: calculation is impossible when data is incomplete, and when faced with ignorance, rationality is a mere pretense (Shackle, in G.L.S. Shackle. *Expectation in Economics*. Cambridge University Press. 1952, cited by Carlo Zappia, p. 161).

Keynes

Is it necessary to assert the relevance of the General Theory's lessons?

Obviously, we cannot ignore the changed circumstances of the current context, even though there are many similarities between the Great Depression of the 1930s - the context in which Keynes wrote - and the current crisis, just as there is a great similarity between pre-Keynesian and current economic theory. The return to Keynes that I would like to advocate, in arguing for his relevance and relevance, is primarily in terms of method. In a famous letter to George B. Shaw, a few months before the publication of *The General Theory* in February 1936, Keynes announced it as a book "that will enormously revolutionize [...] the way the world thinks about economic problems." And in the same letter, he added: "When my new theory has been well assimilated and has mixed with politics and feelings and passions [...] there will be a great change."

Instead of appealing to the "scientific nature" of his theory, Keynes relies on "politics, sentiment, and passion" to ensure his message is received. A couple of years later, in a letter, this time addressed to Roy F. Harrod, he recalls the episode that is said to have given rise to Newton's discovery, while watching an apple fall from a tree, to demonstrate the questions an economist should ask. Ask yourself: "whether the apple's fall to the ground depends on the apple's motives, whether it is in the apple's interest to fall or not, and whether the earth really wants the apple to fall, and whether the apple calculates well or badly how far it is from the center of the earth."

Economics – explains Keynes – "has to do with introspection and with values [...], with motivations, expectations and psychological uncertainty" (ibid.), a frame of reference that is "neither constant nor homogeneous" (6).

There can be no analogy with the physical sciences, because while the aim of physics is to discover regularities from which to derive general laws, that of economics is to explain decisions taken in a context of uncertainty and with varying degrees of information. The objective that the economist must set himself is to develop a logical way of reasoning about elements that are "transient and fluctuating."

When Keynes in the *General Theory* explains why the level of employment oscillates around an "intermediate position" below the full employment level and above that corresponding to the subsistence minimum, he clarifies that this position "is a fact of observation concerning the world as it is or has been, and not a necessary principle that cannot be changed." In economics, in fact, "we cannot hope to make completely accurate generalizations," because the economic system is not governed by natural forces that economists must discover. The economist's task is rather to "select the variables that can be deliberately controlled and governed by a central authority in the kind of system in which we live." Keynes's criticism is directed against the conception of economics as a discipline of society modeled on the physical sciences, arguing that it must become an inquiry that seeks to create desirable situations.

Only by revealing the false analogy of economic causes with physical causes does the economist open the possibility of promoting values and attitudes that can improve society. Keynes writes: "Many generations have passed since individual men began to employ reason and morality in place of blind instinct as the springs of action. Now has come It's time to do it collectively." Let's look at the multiplier.

The multiplier - the heart of Keynesian effective demand theory - has had a history of mixed fortunes over the eighty-five years of its existence. It is a formula that shows how any increase in autonomous spending (for example, investment or exports) generates - through induced spending (consumption, net of taxes and imports) - an increase in income greater than the initial expenditure if there is unused productive capacity and unemployment. Hence the name multiplier, whose value is typically greater than one. Budget deficit spending, that is, government spending greater than tax revenue, thus becomes justified from two -

perspectives: a) because it creates income; b) because it generates the savings and revenue (which are a function of income) necessary to finance the initial investment. Consensus on this proposition lasted for almost thirty years, until it was strongly attacked during the monetarist onslaught of the 1960s.

Milton Friedman – also drawing on the work of Franco Modigliani – showed through empirical analysis that the independent variable in the consumption function is not current income, but income that can be considered "permanent" over an individual's lifetime. The value of the multiplier is much lower in this case because consumption does not respond to increases in current income.

The seeds of renewed distrust in the effectiveness of fiscal policy were thus sown.

This, which came to be called the monetarist counter-revolution, was pursued even more radically by Robert Lucas and the economists of the New Classical School throughout the 1990s, with a theoretically weak defense by the so-called New Keynesians, who relegated the effectiveness of the multiplier to the short run, a condition defined by rigid prices and wages that prevent the system from reaching the long-run equilibrium of full employment. However, the multiplier returned to the scene after the crisis.

In the 1950s and 1960s, at the height of Keynesianism, the multiplier was estimated to be approximately two.

In the 1990s and 2000s, econometric estimates showed very low values, settling around 0.5-0.7.

In 2009, the IMF and the EU brought their multiplier estimates within a range between 0.9 and 1.76.

We finally have a multiplier that multiplies again, because this cannot be ignored - as in the case of austerity Europe - when autonomous spending declines. This is an example not only of the strong link between empirical results and the models chosen to find them, but also of the relevance of the behavioral assumptions made to build these models. In so-called orthodox economic theory, consumers are assumed to be guided by perfect information and full knowledge of the possible states that can exist over an infinite horizon.

This is the opposite of what is assumed in Keynesian macroeconomics, where perfect forecasting and complete rationality are unacceptable assumptions. This is an economy where the calculus of probabilities is not always applicable, since when true uncertainty dominates, that calculation is not possible. The assumption of perfect market information, common in mainstream theory, was discredited by the events of 2007-2008, which in some cases led to substantial revisions in the macro-models used to incorporate the idea of limited rationality and knowledge, and imperfections in the goods, labor, and especially financial markets.

However, these changes were made within a theoretical framework that remained largely unchanged and still distant from Keynes's understanding and description of behavior, which never assumed anonymous "agents," but individuals with specific functions and characteristics. For Keynes, the behavior of consumers, entrepreneurs, or speculators in a context of uncertainty cannot be traced back to the rational, optimizing choice of the utilitarian tradition.

Every economic decision requires the evaluation of information; this is often contradictory or at least ambiguous, and often insufficient to allow us to predict the future.

Therefore, we must "weigh" it with our knowledge and experience.

Decisions made under uncertainty should not, however, be interpreted as a renunciation of the possibility of rational choice, even if not "rational" in the sense of traditional theory.

The rationality Keynes speaks of - which has a different meaning than optimizing - can also be found in a different context.

It becomes the "reasonableness" to be applied to situations in which seemingly rational behaviors (from an abstract economic perspective) can have disastrous results.

We find it in the way Keynes approached the issue of war reparations to be inflicted on Germany after the First World War, in the negotiations he conducted for the repayment of debts contracted by Britain with the United States during the Second World War, and we can also apply it today to recent situations, asking ourselves whether it was a "reasonable" choice to let Lehman Brothers fail.

But Keynes did not advocate the indiscriminate use of public investments financed by budget deficits; The General Theory's call for state intervention should be interpreted in the sense of controlling the total level of investment, through the direct or indirect action of a public or semi-public authority, but always looking at market incentives and the creation of a climate of trust for entrepreneurs. In the General Theory this is explicitly stated: "if the state is able to determine the overall amount of resources allocated to increasing the means of production and the basic rate of remuneration for those who own them, it will have done everything necessary" (7). He does not believe in high taxes to finance pensions and social security.

He believes that the costs of social protection should also fall on employers, whose interest is to have a workforce in adequate conditions.

He favors maximum cost-effectiveness and transparency in state accounts, regarding which and how many public goods and services are actually provided, at what cost, and how they are financed, because this is "the only way to keep good accounts, to measure efficiency, to save money, and to keep citizens informed of how much everything costs." Keynes and Uncertainty and the Political Consequences of Certain Approaches

Keynes was among the first to address the issue of uncertainty (though not the only one) in economics and how it can be (un)manageable, creating obvious consequences. Or at least it should. He addresses the relationship between uncertainty, economic theories, and the resulting reality. In the twentieth century, two essential theories clashed.

One, developed by the English economist John Maynard Keynes, led to greater state intervention in the economy; the other, revived by the monetarist school of Milton Friedman, draws on the classical economists of the 19th century and contains a defense of the freedom of private enterprise. The "summa" of Keynes's thought can be found in the treatise "The General Theory of Employment, Interest and Money." The Chicago economist, winner of the 1976 Nobel Prize, left behind a remarkable body of specialized articles and a few isolated works, most of which are unavailable in Italian. However, it may be helpful to consult his text "Economic Efficiency and Freedom." Keynes is often seen as a statist, and his implications undoubtedly point in that direction. Political disputes aside, however, Keynes's importance should not be underestimated. Not only did the Nordic social democracies draw inspiration or theoretical justification from him, but many governments, including Italian ones, throughout the postwar period: consider the center-left experience (from 1963) that began with the nationalization of ENEL. Keynes, along with Piero Sraffa, is the most shining example of how twentieth-century economists sought paths that, once pursued, would lead to the great dream of Western-Christian humanism: making the benefits of technical progress available to the greatest possible number of people.

He primarily challenges the extreme faith in the way prices are formed in "free trade" held by all the economists who preceded him, whom he calls "classical."

Keynes does away with Smithian assumptions, beginning with the "invisible hand" that guides the choices of agents (consumers and producers), arguing that such a situation can only be created with truly "perfect knowledge" of all parameters. In the classical market model, formulated by the Englishman Edgeworth, this is guaranteed by the presence of an auctioneer who, as happens in auctions, provides all the information to those who will then exchange goods for money or vice versa. The auctioneer is a theoretical invention, but Keynes argues that without him, the classical model cannot function: without him, uncertainty, expectations, and forecasts come into play; money takes on a role of security, especially for end consumers.

Faced with market price uncertainty due to the lack of coordination, consumers prefer to hold a certain amount of liquid money, in order to protect themselves from future and unpredictable fluctuations. They therefore prefer to save rather than spend at least part of their money. This creates crises in the markets due to insufficient demand for consumer goods, causing businesses to sell less, see no inflow of capital, and lack the resources for investment. The Keynesian recipe for unemployment, summarized in the motto "sustaining demand," stems precisely from this. Keynes was the first economist to recognize the existence of short-term crises in economic cycles, those lasting less than a year. In such a situation, with fixed wages and prices, he argued that unemployment ultimately stems from insufficient consumer demand for goods: this leads to low revenues for businesses that are unwilling to invest and hire. By "sustaining demand," that is, by -

encouraging consumers to purchase goods, "fresh" capital flows would flow to businesses, which could then, to produce more, reinvest it and hire new workers, leading the system out of the unemployment crisis.

But how can we increase the consumer base?

Keynes recommended increasing the quantity of money in circulation, and this could essentially be achieved in two ways: either by increasing public spending while maintaining tax levels, or by reducing taxes to give citizens more money. The second method, however, is inadvisable because consumers might decide not to allocate the money saved by lowering taxes to consumption. Keynes even argued, paradoxically, that if the government hired the unemployed to do unproductive work (such as digging holes and then filling them back in), this, however absurd, would still have the positive effect of providing money and spending to people who previously lacked it. The fact that the analysis focuses on the short term has been considered a limitation: another can be identified in the assumption of a particular type of unemployment, called "involuntary," in which the unemployed approach businesses but they find it inconvenient to hire them because they lack capital due to insufficient demand for goods.

Milton Friedman attempted to redefine liberal theories by reviving the monetarist school.

Friedman did not place any faith in demand support: he believed that the economic system would often be unable to satisfy growing demand because it already had an equilibrium level of production, and since there was no reason for firms to alter an already balanced level of production, increased demand would simply translate into higher prices. The monetarist school analyzed the concept of unemployment, finding that it often depends on imperfections in the labor market - in other words, heterogeneity of qualifications or geographical location, or a lack of information. This leads to the simultaneous existence of vacant positions and unemployed people. For example, there may be blue-collar vacancies and unemployed people aspiring to white-collar positions (heterogeneity of qualifications), or vacancies in Veneto and unemployed people in Campania (heterogeneity of geographical location), or finally, insufficient information about vacancies (poor market transparency).

This unemployment, ignored by Keynes, is called "voluntary" and is associated with a "natural rate of unemployment" defined as a number of unemployed equal to the number of vacancies: this is what corresponds to the "natural" equilibrium that Friedman speaks of. The controversy can be reduced to understanding which of the two types of unemployment prevails in a given system and at a given historical moment, since it is highly likely that the two types are concomitant. Therefore, a theoretical approach to the question requires economic policymakers to adhere to a precise analysis of reality.

However, for Keynesians, on the one hand, the price increases that Friedman speaks of occur when productive forces are fully utilized, and while they do not deny the inevitable presence of a certain rate of unemployment due to a lack of information or the time it takes to find another job, massive unemployment is involuntary.

Certainly, since the dawn of Keynesian theory, there was a widespread awareness that an increase in aggregate demand beyond a certain limit could lead to a rise in inflation well before full employment was achieved. However, Keynes believed that in some sectors of the economy, bottlenecks could exist - shortages of raw materials (today we have rising gas prices, once upon a time oil prices) or machinery or specific skills (in Italy, the discussion should be opened on education and schooling and the extent to which these two elements are responsible for unemployment, the mismatch between labor supply and demand, and the rise in prices, including wages, which are a price, for the few skilled workers who can be found). These bottlenecks, if stimulated by increased demand, could cause inflation, even if the rest of the system has ample unused resources.

However, the basis for understanding Keynes is the overcoming of Say's Law.

I have already mentioned it. It states that all produced goods can find a profitable market, thus ensuring that general crises of overproduction cannot occur.

If, in fact, the value of goods is determined by the wages, profits, and rents required to produce them -

every act of production also automatically generates a corresponding income. The income received will, in turn, be spent entirely on the purchase of goods or services, whether consumer goods or investment goods. Therefore, supply always creates its own demand, and the economy cannot grind to a halt due to a lack of aggregate demand. Only sectoral crises are possible, in which some types of goods and services remain unsold.

But lower demand in one sector will be precisely offset by increased demand in others where demand exceeds supply, triggering the necessary adjustment mechanisms. The orthodox school of classical economics recognized that supply and demand may not meet in a given market and that there could be overproduction or excess supply of some particular goods for reasons that could arise from the demand or supply side, but it believed that excess supply in one industry would imply excess demand in another. It is argued that «if you produce a car and sell it at a price of 9,000 dollars and try to deduct from the price the wages of the various factors of production, there will by definition be no residue, because what does not constitute wages, rent or interest, goes to the capitalists as profit. This means that after the purchase of the car there are 9,000 dollars of purchasing power in the hands of workers, landowners and capitalists. The same situation occurs at the level of the entire economic system, in the sense that the value of the annual product is distributed as purchasing power among the various economic subjects and therefore the problem of ascertaining whether the purchasing power generated by the production process is always sufficient to repurchase the goods produced does not arise» (8). But, one might say, it is as if the purchasing power of a worker were identical to that of a landowner or a capitalist, or as if the number of workers were equal to that of capitalists, or as if everyone could effectively transform from workers into capitalists, or from workers in one sector or industry into workers in another. This does not take into account the psychological aspects of each individual, which are often determined by the environment, the life of each individual, the environment in which they are born and live, circumstances that exist, which they do not determine, the social structure, individual expectations, but also the context and social conventions or norms, aspects of which Keynes was attentive and aware even in his theoretical expositions, elements, all, that can block the hypothesized transformation mechanism. Warren Buffett was the first to say that outside of his specific context, he would have had almost no value. In particular, that he had a talent for allocating capital but nothing else. The ability to use this talent depended on the society into which he was born: one could also add the opportunities and circumstances of his life. If he were not strong, had he been born into a tribe of hunters, he would not have had the talent suited to that particular society: it is the society that "values my talent and gave me a good education to develop it and created laws and a financial system that allowed me to do what I love, and so I made a lot of money. The least I can do is help pay for all this."

Would it be simple to "transform and transfer" Warren Buffet to do something else, in another sector, a gas station attendant or a lawyer, an electronics or mechanical engineer, a doctor? By his own admission, it seems not!

As you can see, these are ancient but very current problems.

In fact, as Lionel Robbins noted, for Keynes, what mattered more than saving was investment, determined, I would add, also by unpredictable factors - animal spirits.

Robbins said that "the core of the Keynesian analysis is that an intention to save that is not matched by a corresponding intention to invest leads to a downward pressure on incomes and production, but if equivalent investment actually occurs, then all is well." For example, for Malthus, a critic of Say, the position was reversed.

Yet even though the classics themselves recognized that supply and demand may not always meet in a given market (thank goodness!) and that therefore there can be overproduction or excess supply of some goods for reasons that can arise from both the demand and supply sides, the problem was solvable, in their opinion, in the long run.

Excess supply in one industry would imply excess demand in another - as if this solved everything, one might add - because even with differing purchasing power among individuals belonging to different categories, everyone could change sectors or categories: that is, it was a purely theoretical discussion. It's worth remembering Kant's saying, "This may be right in theory, but it doesn't hold true in practice." To reiterate what was said above about Keynes not being a doctrinaire, realism combined with the awareness -

an uncertain world and one difficult to control in aggregate behavior led him, unknowingly, to Kantian positions!

Indeed, according to classical economists, under the assumption of flexible prices and resource mobility, factors of production would have shifted from industries with excess supply to those with excess demand, thus ensuring full employment of resources in the long run. But even if purchasing power were sufficient to repurchase the goods on the market, what guarantee would there be that it would actually be used?

The answer to Say's Law was that, in any case, supply creates its own demand.

In reality, the answer was, and still is, insufficient because the discussion should not have focused on whether supply creates its own demand, but rather on whether supply only generates potential demand. The key, for Keynes, was whether potential demand is expressed as effective demand, which is what matters. Ricardo and Say responded simply by stating that all potential purchasing power would return to the market as demand for either consumer goods or investment goods. In essence, a reaffirmation of what Adam Smith had previously said. This excluded the possibility of hoarding (people might not spend out of fear of the future, or entrepreneurs might not invest out of the same fear), and the role of money was reduced to that of a pure medium of exchange. Overall, Say argued, supply and demand will be in equilibrium; they tend toward equilibrium.

So, are supply-side policies all that are needed? Why does supply create demand?

Keynes rejected this configuration, and modern capitalist economies, if left to their own devices, suffer structurally from a lack of investment, and business cycles oscillate around an equilibrium point of "underemployment." The interest rate is not the equilibrium price between savings and investment, and the interest rate can only influence investment to a limited extent, which, for Keynes, is determined primarily by entrepreneurs' expectations. He also denied the causal link in Say's Law: he denied it out of realism and because he understood the psychology of agents.

It is not supply that creates demand, ensuring full employment, but the opposite.

In conditions of underemployment, supply is limited by effective demand, and only an expansion of demand generates an increase in supply. This latter configuration derives precisely from the analysis of how an initial increase in effective demand for goods and services generates subsequent waves of spending that increase incomes and, with them, the consumption and savings of the community. The great instability of investments (which depend on expectations rather than the interest rate and the balance it creates between savings and investment), combined with a certain stability of the consumption function, generates significant effects on effective demand and income. The Keynesian system, in this configuration, can well be considered an alternative to the neoclassical one! When the 1929 crisis struck, attributed, according to many, to international deflation in real markets and the speculative growth of financial values, the response was both increased protectionism and, starting in 1931, following intense capital flight and growing pressure for devaluation, finally abandoning the gold standard. But the dominant economic doctrine blamed the 1929 crisis on monetary and speculative phenomena: the excess issuance of money had favored financial speculation and would, first, drain capital from the rest of the world and then precipitate a crisis when asset values proved unrealistic.

It was a crisis of overinvestment, and price deflation could even be a useful tool for eliminating the least efficient firms. There was a strong belief that, according to Say's Law, if prices and wages were flexible, the monetary destruction associated with the financial crisis would not have a detrimental effect on the real economy: deflation would have had only a nominal effect, with no change in incomes, employment, or production. Unemployment would have resulted from workers' resistance to declining nominal wages. An expansionary monetary policy would have delayed the market's cleansing and the restoration of a balance between labor supply and demand.

A public works policy financed by new taxes or the issuance of public debt would have taken resources away from private businesses, further reducing employment (Treasury view).

All that was needed was to wait and intervene only to break wage rigidity in a way that would benefit businesses. When the decline in costs exceeded the decline in prices, the reappearance of profit margins would induce businesses to invest and hire workers. But even if it had worked, in the long run, we're all dead! But it didn't work even then, because monetary changes have real effects, leading to a contraction in investment, consumption, and income.

Banks, for example, were no longer willing to grant credit; money was hoarded, further depressing aggregate demand, deepening the decline in prices and employment. A whole series of Keynesian arguments relating to money, speculative money, and how its use, the interest rate, can depend on "conventional" motives - often irrational in the sense that they derive from perfectly explainable behaviors even if they don't fit the neoclassical homo oeconomicus framework - are now being taken up by what is known as behavioral economics. Will behavioral economics, then, be a revolution capable of nullifying hundreds of pages of microeconomics textbooks?

There are those who seek to downplay its significance.

Indeed, it is pointed out that in economics, we study the behaviors, however desired, of actors, regardless of any influences. Some add that uncertainty is a fact of an unplanned economy, and blaming uncertainty for the problems of capitalism is wrong, because in each historical period, we must go back to objective circumstances, to the prevailing policies that lead to investment choices, and that even anarchists have a certain stability on which to base themselves. But, aside from the fact that Smith himself, and later Keynes, held discourses that took psychological aspects into account more significantly than many mathematical economists, in love with algorithms, that exist today, behavioral economics undoubtedly cannot fail to be a revolution. Its leading exponents have significantly said, "If you read an economics textbook, you will discover that homo oeconomicus has the intellectual faculties of Albert Einstein, a memory capacity comparable to that of Big Blue, an IBM supercomputer, and a willpower worthy of Gandhi." That this is not the case is evident, and this reality cannot fail to influence economic reality and the existence of so-called perfect competition, where small economic entities are imagined as having not only market power but also political influence, and where everyone's behavior occurs almost mechanically, precisely because economic entities are small and can only behave in a certain way. They occur rationally, taking into account all information, as if agents had an unlimited capacity to absorb and evaluate information.

In truth, companies operating in perfect competition, rather than acting mechanically, are incapable of setting the selling prices of goods and the purchase prices of inputs. They are, in other words, powerless entities that must act mechanically, automatically out of impotence, and the only thing they can decide, perhaps, concerns the quantities of inputs to purchase and outputs to produce. They should not consider, or at least would largely be irrelevant, the characteristics of demand. But the world is different; economic and political constraints exist, and so do the phenomena described in behavioral economics experiments.

What happened in the 2010-2011 school year in the Chicago metropolitan area is real. An experiment was conducted to study whether and how awarding monetary bonuses proportional to student performance, with the condition that a certain minimum result be reached, could increase teachers' performance. Half of the teachers received a bonus at the end of the year, while the other half received an advance bonus. Those who received the bonus immediately would be forced to return it if student performance did not reach certain levels. In both cases, teachers received the same bonus. Behavioral economists believed that the success of the incentive program would depend on how the incentive was presented. Teachers who received the bonus immediately performed better than others because they were more reluctant to return it. Perhaps the outcome in Italy would have been different: everyone would have received the bonus immediately and no one would have returned anything!

But this Italian consequence, if it existed, would paradoxically demonstrate that in economics, customs and culture matter, not just algorithms. However, we cannot ignore the existence of so-called cognitive and behavioral biases (distortions), which are also predictable and systematic, and many have been identified. Because of them, behavior is not typical of homo oeconomicus: there are phenomena of -

loss aversion, distortion toward the status quo, courage, the endowment effect, effects due to mental accounting, and others. Just as it's impossible to ignore the outcome of certain experiments known as the "dictator game" and the "ultimatum game." The latter, for example, serves to test how the concepts of fairness and justice can influence human behavior. This latter experiment also demonstrates what had always been intuited: the importance of each person's specific culture depending on their cultural background.

The ultimatum game involves two players: the proposer and the other party. The proposer makes a proposal on how to divide a sum of money (or a certain quantity of goods) between themselves and the other party. The other party must accept the proposal or not. If they accept, the proposed division is increased. If they refuse, both go home empty-handed. In Western environments with similar cultures, participants' behavior is very similar, regardless of their country of origin. But in field experiments, rather than laboratory experiments, the results have been noted to be much more heterogeneous.

Some populations are willing to share, others behave selfishly.

Populations accustomed to collaborating to procure food exhibit more prosocial behavior, while other populations, more individualistic and distrustful of others, exhibit different behaviors (the Hazda, for example). In other populations, the other party often rejects generous offers from the proposer: cultural reasons! The Au and Gnao have the custom of exchanging increasingly larger gifts. If a gift is given, the other party feels obligated to reciprocate with a larger one, and so on. Therefore, this cultural attitude leads subjects to refuse generous offers. The experimenter emphasized that the game could only be played once, but the choices of these populations were unable to abstract from their cultural heritage. In certain contexts, constructing choices, implementing nudge techniques that take into account the existence of biases to achieve the public good, and establishing a choice architecture, become relevant. In one of his latest books, Richard Thaler begins with Adam Smith's famous statement in *The Theory of Moral Sentiments*, according to which "the pleasure we shall enjoy ten years hence interests us so little compared with that which we enjoy today," to demonstrate that certain equally famous concepts and statements by Keynes, always considered too short-termist, are not unique to Keynes. He then goes on to illustrate Samuelson's theory in his work, where the author is well aware of the differences and variations in intertemporal behavior.

He warns readers about this aspect. He knows that normal people - Humans in Thaler's parlance - behave in a way that changes over time. Intertemporal choice should be taken into account, yet often, despite Samuelson's own warnings, it hasn't been done, and theories are constructed that aren't realistic. They're not for Humans, but for Econs, abstract, rational beings that don't exist. In fact, if we address the issue of the marginal propensity to consume and how we react and what economic effects certain measures can have - for example, an increase in income following a tax cut - we see how certain theories are, we might say, "irrational" because they don't take into account that Humans exist, not Econs, and are therefore of little use. Let's look in more detail. What happens if a family increases its income, for example following a tax cut? Keynes, Friedman, and Modigliani answer differently.

But, for me, only Keynes, perhaps unconsciously, responds convincingly, even though he wasn't aware of the existence of the term "Human," but almost as if he did, that flesh-and-blood people exist, not abstract beings.

1 – Keynes argues that when family income increases, a distinction must be made between poor and rich families. The former are more likely to spend following an extraordinary income, say €1,000, because it has a greater impact on their standard of living. They will save some of it, but they will allocate part to consumption they couldn't previously afford. For a rich family, an extra €1,000 may make little difference, at least in terms of their propensity to consume.

Short-sighted reasoning?

That doesn't take into account other, more responsible behaviors that even poor families should adopt?

Are poor families more idle, less rational? We could continue.

2 – Friedman argues, however, that all families, without distinction, have the foresight to spread their consumption over time.

Therefore, a family will not spend 950 euros in the year in which the extraordinary income occurs but will spread it over a long period of time, suggesting three years. That is, instead of, for example, 950 euros, it will spend 317 euros in the first year (950 divided by 3): this is the so-called permanent income hypothesis.

3 – Modigliani even argues that rather than focusing on short periods, three years, a family takes into account its income, the income of an individual over their entire lifetime. He hypothesizes, has the foresight to estimate what it might be over the entire lifespan (the life-cycle hypothesis). That is, consumers, perfect rational economists, establish a consumption plan for their entire lifespan from a young age and perhaps plan to leave something to their heirs or plan behaviors for retirement. Therefore, extraordinary income has a limited impact, more limited, almost zero, compared to Friedman's albeit reductive hypothesis. Let's leave aside the unpredictable events that play out in everyone's lives. Young people today have no income, or an income that doesn't allow them to make any calculations, only to live day by day. This has a macroeconomic impact, and will increasingly so, because with meager pensions, consumption will decline: a pension or healthcare system that produces peace of mind even more than economic security incentivizes consumption. But the premise of non-Keynesian theories is that we are dealing with farsighted economic agents, highly capable of exerting enough willpower to postpone consumption, even for decades, especially in Modigliani's version. Economists have generally chosen the Modigliani model (they may all be bachelors or modest... but perhaps they don't look around, where the world is full of people who aren't and can't be changed, and if one wants to make predictions or analyze the situation, one must take into account many short periods, the people who populate them).

Even one economist, Robert Barro, argues that parents worry about their children and grandchildren. Moreover, I don't know if the highly individualistic American society is aware of the phenomenon of parents and grandparents worrying about their descendants. To remain within the legal sphere, the lack of legal rules on inheritance that reserve shares of assets to certain family members, as happens in Italy, would be enough to demonstrate the limited importance of the family and the interests of descendants. Barro's hypothesis, even if it were conceivable, is not always true, especially in many American contexts, and these theses should also be adapted to specific cultural contexts rather than being proposed in a neutral and general manner.

Therefore, by planning their future spending and their legacy, if the government were to take actions that generated extraordinary revenues of €1,000, families and individuals would know that in the future there would be higher taxes to cover a larger public debt, and that if this revenue were financed by issuing government bonds, there would be higher taxes in the future that would cancel out the benefits, allowing them to cover the debt payments. On this specific point, still remaining within the hypothetical realm of perfect rationality, it has been argued that tax cuts, even if financed by issuing bonds, would stimulate the economy (especially for poor families, but more or less for all). The stimulus would be sufficient to repay the bonds because tax revenues would increase: there would be no need to change anyone's inheritance plans, even if they had been made in youth, one might say...

This rationality, perhaps, clashes with legal common sense, which views a will as an essentially revocable or modifiable act because jurists know that conditions change and people are not rational Economists but Humans, and that intertemporal conditions, to use Samuelson's term, exist, that the medium-long term is a trend line but not a sequence of events or behaviors that necessarily occur. The Modigliani-style life cycle hypothesis often arouses ridicule among psychologists.

Individuals who make necessary calculations and have rational expectations about how much they will earn, How long will they live, how much will they devote to self-consumption, who have a self-control that makes any action, private or public, irrelevant, makes the State unnecessary. This becomes a political theorem!

Everyone is self-sufficient and any public action unnecessary because there is no difference between the short and medium-long term. Indeed, the former does not exist. Thaler rightly says, "To understand household consumption behavior, we clearly need to return to studying Humans rather than Economists. Humans do not have the brain of Einstein (or Barro), nor do they have the self-control of an ascetic Buddhist monk. Instead, they have passions, faulty telescopes, they treat different components of wealth differently, and they can be influenced by short-term returns in the stock market. We need a model for these types of Humans." It is a model, which Thaler seeks to examine and explore, that draws more on the older Adam Smith, the Theory of Moral Sentiments.

One might think that every business, large and small, can foresee all changes, even these, and adapt: a sort of Hercules. In economics, perhaps only Robert Lucas thinks something similar.

But beyond Keynes and the Keynesians, and past situations regarding uncertainty and possible culpability or responsibility in economics, we can reach the current Lord Mervyn King, former governor of the Bank of England, who in his book *The End of Alchemy*, speaks of radical uncertainty, which "means an uncertainty so profound that it prevents us from making exhaustive predictions about the future." "Anything can happen," think of Lehman, Greece, Brexit, and Trump - all events that can lead, or will lead, to regime changes that will render old empirical relationships obsolete. In Organization Studies, an initial definition of uncertainty comes from studies conducted in the field of decision theory (March, Simon, 1958; March, 1994). In accordance with this concept, it is necessary to distinguish between: situations of certainty; Risk situations; situations of uncertainty. A classic definition of uncertainty (Thompson, 1967) distinguishes between uncertainty in ends and uncertainty in means: in the former, the objectives to be achieved are unclear, while in the latter, the solutions to be adopted to achieve those results are unclear.

This concept of uncertainty can be broadened, however, to also consider additional situations that an individual must manage: uncertainty in preferences; uncertainty in the evaluation of actions and their effects; uncertainty in cause-effect relationships; uncertainty in behavioral alternatives. In many cases, it may be difficult to evaluate *ex post* the actions taken or the consequences of one's choices or of contextual events. For example, it may be technically difficult to observe and measure the resources consumed to perform an activity, the results achieved, the manner in which the activity was performed, or the actual behavior followed. Furthermore, the teachings of Keynes, which have been taken up to some extent today by Robert Shiller, cannot be ignored. Keynes, in Chapter 15 of *The General Theory*, emphasized that there were three ways in which money could be demanded regarding the interest rate and money. He emphasized how the interest rate, which is a determinant of economic conditions and which enables or influences investment decisions, is subject to uncertainty, highly discretionary, irrational, and unpredictable decisions, and conventions. The first reason for which money could be demanded was to make payments for the purchase of goods and services (transactional motive). The second reason was to cope with unforeseeable events, which require non-deferrable payments, such as a car breakdown or illness (precautionary motive). The third motive is speculative, because individuals, at least some of them, desire to hold liquid assets so they can readily invest them in the financial market, taking advantage of the best profit opportunities.

Speculative money is expressed in the securities market, where traders exchange money for securities. Securities entail a immobilization, but they yield interest. Immobilizing a portion of one's liquid assets in securities means giving up the ability to invest in other assets. Hence the need to be compensated for this loss of liquidity in one's portfolio. The interest rate is precisely defined as the premium that rewards for giving up the liquidity needed to invest in a given asset. The more individuals desire to hold liquid money, the higher the rate of return on securities must rise to convince them to give it up. The interest rate, it is said, can be defined as the "opportunity cost" of holding money in liquid form. But while the first two motives (transactional and precautionary) depend and make the demand for money dependent on income, the third motive (speculative) is largely independent of income. The demand for speculative money is highly unstable; it depends on expectations about a range of variables, not just economic ones, which are difficult to predict and know with certainty. Individuals' preference for liquidity depends not only on the interest rate but also on expectations about the value of securities and long-term returns. It varies very rapidly and tends to be very high in periods of great uncertainty, when market participants perceive a sharp increase in the risk of default or losses on securities.

It is based, says Keynes, with observations that Robert Shiller has more recently taken up and expanded upon, on judgments and assessments that Keynes describes as "psychological" but above all "conventional," that is, based on prevailing opinions among market participants, which often have little to do with the analysis of the fundamental values of the economy or companies and are subject to waves of pessimism and optimism and can remain stable for a long time. This, among other things, explains a series of reasons why interest rates can remain high for an extended period of time, relative to the expected profitability of investments, thus hindering investment decisions. This original observation by Keynes, now revisited by Robert Shiller, Daniel Kahneman, and Amos Tversky, makes investing in stocks and bonds, and indeed their (exclusive) relationship with the markets, highly uncertain. This is especially true when it comes to investing, for example, in pension savings.

Furthermore, interest rates can also be maintained at high levels for macroeconomic reasons, such as the fight against inflation - that is, for economic policy decisions or decisions dictated by macroeconomic motivations, independent of an assessment of corporate fundamentals. It affects corporate financing. It impacts growth, full employment, and the economic system. In Italy (but not only), if interest rates rise or fall, this impacts banking and business financing, indirectly depressing or increasing their value and profitability, and therefore influencing the stock and bond markets. But even in Anglo-Saxon (or less bank-centric) countries, changes in interest rates still influence the business financing system, raising or lowering their values. Therefore, in connection with the use of pension savings, for example, a funded system is subject to the consequences of changes in economic parameters (interest rates) much more than a pay-as-you-go system. These changes often occur due to general macroeconomic considerations. However, they also impact the business financing system, whether it is more bank-centric or more based on recourse to the stock market.

How Financial and Credit Markets Work, Unlike Goods Markets.

The maximizing individual also in the financial field?

Let's look at two phenomena.

A) The first concerns the so-called speculative demand for money.

A speculator is someone who buys when the price of a security is low and sells when it is high.

Let's recap the fundamental aspects. A security, as we know, is the receipt for a loan made to a company or the government. It can have a nominal value, for example, €1,000, and pay an annual coupon, for example, €100. There is a primary market where newly issued securities are traded (those who buy them are savers and those who sell them are companies or the government), and there is a secondary market where old securities are traded (savers purchase them from other savers who had previously purchased them). If a bond has a par value of €1,000 and a coupon of €100, its price may differ from its par value. If someone who purchased the bond at €1,000 in 2025 wanted to resell it in 2026 on the secondary market, they might find that the interest rate paid on newly issued bonds has increased in the meantime. For example, the government, for economic and budgetary reasons, is forced to issue new bonds at a higher interest rate, with a higher yield, to entice savers to purchase them. If someone owns an "old" bond and wants to sell it in 2026, they won't be able to get the same amount they bought it for, because if the interest rate has risen, to 20% for example, this means that the new bonds yield a 20% yield, or €200, and still cost €1,000. Therefore, the buyer of bonds can choose between newly issued bonds yielding €200 annually and old-issue bonds yielding €100 annually. Obviously, the seller of old-issue bonds must discount the price. He must sell them for €500. So, for the buyer, it makes no difference whether he buys two old-issue bonds yielding €100 each at a price of €500 each, or a new bond yielding €200 at a price of €1,000. There is an inverse relationship: when the interest rate increases, the price of the old-issue bond sold on the secondary market decreases; when the interest rate decreases, the price of the old-issue bond increases.

What is the point of this?

If speculators believe that interest rates on newly issued bonds, or those to be issued, will rise next year, they will sell (even en masse) their old bonds.

Thus:

- they avoid, if they sell them next year, suffering a loss by having to sell them at a lower price than when they bought them;
- in a year's time, they can use the same amount to purchase higher-yielding bonds.

The gist of this is that the fundamentals of each company that issued the bonds are ignored; that the value of bonds, companies, or the government, is independent of fundamentals. It is linked to forecasts, psychological factors, and discretionary and conventional assessments. A speculator will prefer to hold liquid money and not bonds; he will demand money if he believes that the yield, the interest rate, will rise next year. Every speculator forms his expectations with reference to a future interest rate, a rate he considers normal. If the market rate is higher than he considers normal, the speculator expects the market rate to decrease, that is, the price of old bonds to increase: therefore, he will prefer bonds over money. And vice versa.

So the value, price, and size of sales or purchases of bonds are linked to expectations, not to the so-called fundamentals of the bonds.

Is the financial market by its nature unstable?

Does it have an equilibrium?

Is it different from the goods market, where equilibrium exists, or is it more likely to exist?

To answer these questions, let's look at a second phenomenon.

B) The second phenomenon concerns a comparison between the goods market and the financial market.

Let's simplify the example. I'll take inspiration from a recent work (Franco Spinelli and Carmine Trecroci. *Financial Crises in History. Teachings, Costs, Theories, Physiology and Structural Nature*. Giappichelli Editore, 2026).

We have a goods market at the beginning of the week.

There are two merchants, a baker selling bread and a farmer selling potatoes, who are positioned in a square so that they cannot see each other.

The baker has no doubts that he can sell the same amount of bread on Monday as on Friday and offers the same price as last week. The farmer, on the other hand, knows that the potato harvest has been significant, more abundant than the previous one. He has therefore brought more potatoes to the market and offers them at a lower price. Even though the two goods are not identical (bread and potatoes), this situation affects their sales. Buyers notice that potatoes are cheaper than last week, both in absolute terms and relative to bread, and they buy more potatoes and less bread. The baker is unaware of the abundant potato harvest and their lower price, but he notices that the demand for bread has decreased compared to expected.

To avoid ending the day with unsold bread, he lowers the price of bread.

This decision increases the demand for bread but reduces that for potatoes.

The farmer notices only the lower demand for potatoes and, to avoid unsold goods, adjusts the price of potatoes downward. At that point, demand shifts from bread to potatoes, resulting in a second reduction in the price of bread, which leads to a further reduction in the price of potatoes, and so on.

It's a price war between invisible traders, largely independent of the value of the two goods: traders respond to demand signals.

Eventually, a stable equilibrium is reached at a lower price level and with a lower relative price of potatoes, thus eliminating the increased quantity supplied.

In theory, without external intervention, we will have lower (higher) prices that stimulate a greater (lesser) quantity of demand.

Let's see what happens if a surprise, a shock, arrives that alters this equilibrium.

A man suddenly shows up, after equilibrium has been reached, and asks for a large quantity of bread.

The price war begins again: the baker raises his price, to avoid finding himself unable to satisfy demand for the rest of the day. So, buyers return to buy more potatoes, but the farmer also increases his price, and so on until a new equilibrium is reached, marked by a higher price for bread than last week.

Since this leads to greater profits for the baker, once he has ensured, over time, that the man who suddenly asked for more bread (the shock, the surprise) is a constant presence, that is, he always returns, he will increase production. In this example, referring to Keynes, we can already say that demand is in charge. Supply, production, comes later. At this point, however, a greater demand for bread will have stimulated greater supply, production, and all the determinants - of price and quantity - of endogenous reequilibration have been activated. But to return to our discussion, this is a schematic view of a goods market.

Does the financial market work the same way? It tends toward an endogenous equilibrium-reequilibration.

Many, mistakenly, answer yes (Samuelson. *Economics, An Introductory Analysis*. 4th Edition, p. 39).

In reality, this is not the case.

Yes, after seeing the first phenomenon, we should have understood how different the financial market is, where expectations dominate, where the so-called fundamentals of the securities do not.

But let's look more deeply.

On the market, there is a broker and a banker.

The broker arranges the different types of securities on the counter, like the baker did with the types of bread. Unlike the baker, the broker has two prices in front of him.

The price at which he is willing to buy and the price at which he is willing to sell, slightly higher to cover business costs and ensure a profit. The broker repeats the same two prices as last week.

The banker is also interested in two types of transactions: raising money (deposits) and investing money (loans). Unlike the farmer, he displays two prices. The interest rate he is willing to pay on deposits is the same as the rate he charges on loans. In this second case, too, the second price is slightly higher, to cover costs and ensure a profit. In this case, we discover that the financial market is unstable, not only due to the presence of expectations, psychological elements, or the like, but also due to its objective characteristics.

But in any case, my point remains the same: does the myth of equilibrium exist, based on the rational will of agents? The activities of the two operators correspond to the different habits and needs of the inhabitants. Some are prudent and risk-averse and keep their savings in the form of bank deposits. Others are more risk-taking and resort to bank loans to purchase debt securities ("leveraged") with the aim of profiting from their fluctuations in value.

In a real village, at least these two categories of people exist, and they cannot be ignored.

The banker, knowing that even a small, unpaid loan would cause him a large loss compared to the interest margin earned on many other successful loans, grants loans equal to only a fraction of the value of the securities the customers intend to purchase. This amount is expressed by a percentage called the loan-to-value ratio, which is less than 100, meaning the loan is less than the market value of the securities.

Furthermore, he demands the securities be delivered as collateral for the loan granted. If at any point the securities' prices fall toward the amount of the loan, he orders the borrower to reinstate the collateral; if this fails to happen, he proceeds to sell the securities, which pushes the prices further down. If, however, the prices rise from their initial values, the banker is ready to increase the size of the loan, which, by allowing the borrower-client to make further investments, further increases the prices.

The destabilizing potential of a collateral and mark-to-market mechanism capable of triggering and fueling ascending or descending feedback loops is evident (as is the decoupling from the intrinsic value of the securities). Let's assume that after various operations to reinstate/sell the collateral or grant new loans, the prices stabilize and an equilibrium is reached.

Something unexpected, something new, occurs.

A person enters the scene, having learned that the bakery is doing very well, and wants to buy 100 of its shares. Not bread, but shares. Let's imagine that the bakery has a billion shares in circulation and that the broker is willing to sell those shares at €1.01 each and buy them at €1.00, and that therefore the banker values each share received as collateral at €1.00.

Once the person (the surprise) has paid €1.01 and taken the 100 shares, he leaves.

The broker, however, reflects on the increased demand for the stock and revises the previous prices offered to the public, declaring that he is willing to buy at €1.01 and sell at €1.02.

The banker notices this and knows, at this point, that both the bakery and the customers' collateral are worth €10 million more. Mark-to-market accounting meant that the movement of just 101 euros created greater book value, thus enabling the bank to grant additional loans of as much as 10 million euros.

Suppose that, at the behest of borrowers, this potential translates into actual new loans of one million euros, which ultimately result in further share purchases. The initial new demand for 100 euros of securities has created an additional demand of one million euros. The process continues because the additional demand determines a new and more significant increase in the share price, thus triggering a second round of new and even more significant loans, and so on.

After the arrival of the shock, the bread market reaches equilibrium.

The arrival of the foreigner who wants to buy shares (second shock), combined with the possibility of debt investments, the collateral technique, and mark-to-market accounting, create a self-sustaining spiral that results in a financial bubble that eventually explodes. If the incoming individual had sold rather than purchased 100 shares, an equally explosive downward spiral would have been triggered.

In both cases, the securities market does not quickly find a new equilibrium; psychological and more objective reasons make it peculiar; it is moving toward a breaking point. And beyond the importance of the financial market compared to the material goods market, precisely because the aforementioned mechanisms fuel it more than the latter, it is intrinsically unstable. But if it is, it becomes so due to its importance and the interconnections that exist between markets, including the material goods market.

The solution lies in good rules. Not excessive, but good.

Uncertainty in the economy and in economic decisions is the unavoidable theme

This is a topic that is perhaps not given sufficient consideration.

One can begin with Knight Frank's classic works, *Risk, Uncertainty, and Profit* (1921; Italian translation 1960); *Capital, Time, and Interest Rate* (1934); *The Ethics of Competition and Other Essays* (1935); *Freedom and Reform* (1948); *The Economic Organization* (1951); *Essays on the History and Method of Economics* (1956); *Intelligence and Democratic Action* (1960), and then John Maynard Keynes (who, to my knowledge, did not give Knight credit) in Chapter 12 of his *General Theory of Employment, Interest, and Money* (1936). For Keynes, "The market can remain irrational longer than you can remain solvent." In 1936, he stated, regarding the Wall Street stock exchange, that when it was open, at least half of the purchases or sales of investments were undertaken with the expectation, on the part of the speculator (who for him was simply someone engaged in an activity that attempted to predict the psychology of the market, while entrepreneurship was someone who attempted to predict the future return of an investment over the course of his or her lifetime), of performing the reverse operation within the same day. And this, he added, also applied to the commodity market, not just financial products.

So, the whole world is the same, and for centuries...

Are there bad guys, or do economic conditions often change without an entrepreneur not only being able to do anything about it, but even predicting it? It's doubtful that even deficit-ridden states can be labeled as guilty or bad guys and must suffer as the price of their laziness or weakness. Let's take a simple example. With this example, we will see how much individual behavior matters, rational or not, virtuous or not, typical of an ant or a grasshopper, according to Aesop's famous fable. As in macroeconomics, which is essentially different from microeconomics, aggregate behavior and unpredictable events come into play.

An exogenous shock can hit a country (once a bad harvest, now a sudden increase in the price of a raw material due to a war, or a flood, or any other event that is not the country's fault).

1 – The exogenous shock mentioned above hits country A, which leads to a reduction in imports from country B because its (guiltless) income decreases.

2 – Therefore, there is also a reduction in B's exports. Nothing has changed in A's exports to B (whose income remains constant): it is well known that if imports depend on a country's income (the more its income increases, the more its imports can increase, following the increase in consumption), a country's exports do not depend on its income but on the income of other countries, those to which it exports (exports can also depend on the competitiveness of domestic goods, technology, and specialization, but we won't go into details). Therefore, following the exogenous shock to A (through no fault of its own), A has reduced imports from B, but A's exports to B have not decreased because B's income remains unchanged.

Let's continue.

3 – Country B will develop a balance of payments deficit and A will develop a surplus.

A, the country that has reduced income and imports, but not exports, has a surplus, and B, the one that has not reduced income, has a deficit. A beautiful paradox! But the effects continue.

4 – B's exports to A are an important part of B's aggregate demand: if this demand decreases, B's income decreases. It no longer remains unchanged.

5 – But if B's income decreases, its demand for A also decreases, and so does A's income (which will export less to B).

6 – And so on until, theory says (but it remains to be seen) (after subsequent downward adjustments), B's deficit disappears and A's trade balance returns to balance.

7 – But equilibrium is re-established at a lower level of income and employment for both countries.

But without either being specifically to blame, or even being able to do so, even at the outset, there were rankings of virtuousness. The example is abstract and very simplified, but it gets the idea across.

Keynes said, regarding the labels of laziness or weakness to be atoned for that some countries wanted to give to others, when the gold standard existed. With a gold standard ethic that shamed certain countries for accumulating debt, but often benefiting other countries with surpluses, in the international order, as in ordinary life, beggars were rarely the real villains.

That is, the gold standard system often led to deflation and unemployment. With a wholly moral approach.

It was believed that inherent in the gold standard system was the concept that suffering was a price worth paying because a country was lazy, indolent, a grasshopper, weak, etc. Not understanding that if a country had ineffective economic infrastructure, it was right to address it, but that sometimes trade deficits weren't due to specific causes (for example, the increase in raw materials they didn't have). Nations had trade deficits because they had to, not because they were more or less reckless with what they had. Let's look at certain practices that even involve states without their knowledge. The carry trade is a system whereby money is borrowed in countries with low interest rates, such as Russia or Brazil. After the Lehman bankruptcy, a phenomenon well described by Krugman occurred, similar to what had previously occurred in Japan. The author says, "The flow of funds from Japan to other countries with low interest rates had stopped... Since capital was no longer leaving Japan, the value of the yen increased; and since capital was no longer entering emerging markets, the value of their currencies decreased. This caused huge capital losses for all those who they had financed themselves in one currency and lent in another... emerging market companies that had financed themselves cheaply abroad suddenly found themselves posting huge losses" (Paul Krugman).

Certain governments, like the Russian one, for example, which believed they would not be affected by the US or Lehman scandal, discovered, almost unknowingly, that their attempts, perhaps at proper governance or isolation, were being undermined by the private sector's unjustified risk appetite. In Russia, banks and companies had sought massive financing abroad because interest rates were lower than those on the ruble. The Russian government, like an ant, had foreign reserves of \$560 billion, but its banks and companies had foreign debts of \$460 billion. Suddenly, these companies and banks found their credit lines blocked, while the ruble value of their debts soared. The same was true for Brazilian banks, which may not have had significant foreign exposures themselves - they too were ants, but their domestic clients, unfortunately, did.

While certain macroeconomic approaches can influence uncertainty and the actions of economic agents, perhaps even suddenly, as in the case of monetary policy, but indirectly, other microeconomic considerations influence them just as rapidly, but also continuously and directly. This controversy or debate is known as the "evolution of demand theory," and it also leads to today's behavioral economics, which refers to the existence of bounded rationality or points out, in economics, that perfect competition (with many small, perfectly rational players maximizing their utility) or monopoly does not exist, but rather monopolistic competition and imperfect competition do. So much so that goods sell because, above all, advertising. Advertising creates desires and needs, and does more than simply inform, and advertising should not even exist in a world dominated by perfect competition. Therefore, following a traditional path, let's examine some approaches to the so-called "demand theory." Demand theory, in a microeconomic context, leaving aside what has already been discussed and the notes for reference to the more modern theory of behavioral economics, which represents a methodological revolution. And it should also be so in business practices. I speak of considerations pertaining to demand theory in traditional economics because they act directly on businesses, unlike the more important, in some ways, macroeconomic considerations, which have an indirect effect.

Microeconomic theories of demand are important because they connect to macroeconomic concepts of demand, which influences/is influenced by consumption and therefore directly determines business behavior. In the classical model, price determination relied on conditions that were based on supply (the cost of labor, the cost of production, the cost of production factors), and the question arose as to whether cost and supply were the crucial factors in determining prices or whether utility and demand were the crucial factors in determining prices. Menger and Walras claimed that value depends entirely on demand, Marshall was in favour of an iteration of supply and demand: is it utility or production cost that determines the price?

Is the price of various factors of production, such as wages, determined by demand or does it determine the price of goods?

In the classical model, demand theory, according to which as prices decrease, the quantity demanded increases, was based on the hypothesis of utility maximization.

Modern demand theory developed to address a series of objections that doubted the measurability of utility and that a demand theory based on hedonistic psychology was unsatisfactory. Therefore, attempts were made to delve deeper into and clarify the meaning of consumer behavior theory.

Many psychologists argued that economics was built on false psychological premises.

Economists believed that techniques based on so-called Indifference curves, that is, the concept that consumers are "indifferent" between different baskets of consumer goods (although the entire concept of indifference curves is entirely theoretical, as there is no way to empirically measure indifference or construct indifference curves). The starting point was the psychological principle that consumers look exclusively to their own interests and behave in a maximizing manner. But as it has been noted, the theory of consumer behavior becomes tautological. It assumes that consumers are free to purchase any good consistent with their income and preferences. But then, given that there is no way to determine preferences unless they are revealed through consumer purchases, it follows that what is actually purchased must be precisely what is preferred; and since the consumer is a maximizing agent, purchasing becomes synonymous with maximizing. This is a tautological theory that actually says nothing about consumer behavior. Even with the modifications made to this theory by Paul Samuelson (the revealed preference approach), the theory remains entirely behaviorist, and the only thing it requires of the economist is to record consumer choices as they manifest themselves in the market. Regarding its practical applicability, a theory of demand without a theory of consumer behavior becomes devoid of practical content. This is why recent developments in utility theory have emerged (which are not purely tautological theories about utility maximization). Utility analysis has thus been extended to include the factor of risk. Then the conceptualization of the approach to utility has been modified. This leads to a utility analysis that focuses on choices made under conditions of uncertainty. For example, suppose you have to decide whether to go fishing or study: fishing generates ten degrees of utility, while studying carries a 50% chance of passing an exam - which yields fifteen degrees of utility - and a 50% chance of failing - which obviously yields zero degrees of utility. From this set of information, and given your level of risk aversion, you can calculate the expected utility for each alternative by multiplying the probability of its occurrence by the utility you would derive if it were to occur. Assuming risk neutrality, in the example given, one should choose to go fishing, since this action provides 10 expected degrees of utility, compared to 7.5 degrees of utility if one decides to study.

Various variations and other methods have been proposed (see Kenneth Arrow, Gary Becker, and Kelvin J. Lancaster and their works), but is this how reality works? Economists have tried to link demand theory to notions of measurable utility based on hypotheses borrowed from hedonistic psychology, but when psychologists questioned the pain/pleasure dichotomy, economists went into crisis. Perhaps, beyond recalling actual consumer behavior, and therefore corporate behavior and managing its uncertainty, as well as recalling the notions highlighted by behavioral economics (Robert Shiller, with his analyses of the stock market, which so greatly influences the structure and very survival of businesses, Richard Thaler, etc.), it is better to analyze Herbert A. Simon's insightful observations on bounded rationality. Simon has always been interested in clarifying how real people - who are not infinitely wise, rational, or intelligent - make their decisions. This includes how entrepreneurs and company directors themselves make them. This led to the study of cognitive psychology, the processing of information by individuals, and Simon's final proposal (a Nobel Prize winner in 1978) is to adopt a different approach to rationality, which consists in assuming what is called "bounded rationality," in order to take into account the limitations faced by the human brain in processing the information at its disposal. Based on bounded rationality, it therefore becomes irrational to be fully rational, as hypothesized by neoclassical theory. This consideration has led to the construction of a "satisfying model" of corporate behavior, as well as consumer behavior, in which profit maximization is not the primary objective but where profit margin and quantitative sales targets tend to be set simultaneously.

Conclusions. How reality can once again impact theory

Could certain consequences of economic theories even determine what has been defined as "tired democracy" (9), with obvious repercussions on the implementation of these theories themselves? In the United States, from 1950 to 1978, rich and poor shared the gains of economic growth; real family income doubled for low-, middle-, and high-income Americans, confirming the economic maxim that a rising tide would lift all boats. But from 1979 to 1993, this maxim no longer held true: the increase in family incomes concerned the richest quintile of the population. Today's data dramatically confirm this trend. The republican tradition warns that severe inequality undermines freedom, corrupts the character of both rich and poor, and destroys the community necessary for self-government. Aristotle warned against a society of extremes, because it would lack the spirit of friendship that self-government requires.

Rousseau argued that it was best that "no citizen be so rich as to be able to buy another, and no one so poor as to be forced to sell himself." Absolute equality is neither possible nor desirable, but a state cannot tolerate "neither the opulent nor the beggars," because these two conditions hardly make the common good attainable (10). Today, the wealthy withdraw from public life and live in homogeneous enclaves, where they have little contact with the less fortunate. Public parks and playgrounds are deteriorating, private health clubs and golf, tennis, and skating clubs accessible only to paying members are multiplying. In 1990, 45% of children attending New York City public schools were on welfare. Increasingly, the wealthy are abandoning public spaces, retreating to privatized communities, defined by income level or the zip code that marketing agencies use to identify potential customers. One operator proclaims: "Tell me a person's zip code and I'll tell you what they eat, what they drink, what car they drive, and even what they think" (11). The collective character of public schools consisted both in their funding and in their teaching, because at least ideally it was a place where children of all classes would mix and learn the habits of a common citizenry. The deterioration of public schools is often the most obvious and damaging example of this trend, as is the growth of private security services: the demand, particularly present in the US, for this professional category in shopping malls, airports, retail stores, and residential communities, which in 1990 exceeded the number of public police officers, is indicative of the fact that a nation is placing less emphasis on crime control for all and more emphasis on private police officers who mark out safe zones for those who pay for such protection (12). Can this undermine a sense of civic, common citizenship?

Can market forces erode aspects of community life? Are the rich, distracted by luxury and prone to ambition, unwilling to obey, while the poor, constrained by necessity and prone to envy, no longer fit to govern? The answers are beyond the scope of my study. However, politics and economics are intertwined, and we must remember Kant's "this may be right in theory, but it doesn't hold true in practice." Capitalism and democracy have had an uneasy coexistence, and as Sandel (13) says, recalling Aristotle, "since the time of Aristotle, the republican tradition has viewed self-government as an activity rooted in a particular place, carried out by citizens loyal to that place and the way of life it embodies. Today's self-government, however, requires a politics that unfolds in a multiplicity of contexts, from neighborhoods to nations to the world as a whole. Such a politics requires citizens who can think and act as themselves, displaced in a multiplicity of situations." He concludes, "capitalism seeks to organize productive activity according to private law; democracy seeks to empower citizens for the purposes of self-government. From the beginning, the political economy of citizenship has been an attempt to reconcile these two projects. This means that, in different ways and at different times, it has attempted to prevent capitalists from exercising political domination and to counter capitalism's tendency to exploit workers and diminish their capacity as citizens" (14). Politics is a continuous negotiation between the necessary and the possible; the line can shift in one direction or another, but it is often more realistic than economics, which extols certain structures or theories as necessary and to be adopted necessarily and ineluctably. While, as commentator Erza Klein said regarding what former American President Biden thought, "Biden's constant frustration is that economists don't understand politics" (15).

This is also why an economist like Keynes is relevant today.

During the Second World War, he declared that "anything we can do right now, we can afford," admitting the primacy of politics, but nevertheless demonstrating how his attention to the political dimension had always been present throughout his life as a scholar, trying never to clearly separate the two dimensions.

The Keynesian revolution didn't seek to change customs, it had no educational pretensions, but it accepted existing consumer preferences and sought to regulate the economy by influencing aggregate demand. An example of realism? Three themes certainly emerged. The first was an emphasis on consumption. Consumption is the sole aim and purpose of all economic activity, Keynes said in *The General Theory*.

Halvin Hansen, one of the main proponents of Keynesianism in America, emphasized increased consumption as the key to a prosperous economy. The second was the rejection of the formative ambition of a civic tradition, the disappearance of an educational ideal as such, the improvement of the citizen's character. In some ways, this was linked to the emphasis on consumption. There was a deflation of American ideals (16). But it has been argued that the rejection of an educational project is not a deflation but a revision of American ideals, a revision that favors the liberal conception of freedom. According to a certain -

tradition, freedom depends on self-government, which in turn requires certain character qualities, certain moral and civic virtues. Liberals objected that attributing to government a role in shaping citizens' character opens the door to coercion and fails to respect the individual as a free and independent subject, capable of choosing his or her own ends. A different conception of freedom was gaining ground. The third theme concerned how freedom had been defined by advocates of laissez-faire. Government intervention, they argued, violated freedom by not allowing workers and employers to choose for themselves the terms under which they exchanged labor for wages. But a truly voluntary conception presupposed fair bargaining between the parties to a contract, which in some cases justified government regulation.

Keynes proposed a way for government to regulate aggregate demand without regulating the choices of individual consumers. For him, laissez-faire meant respecting people's freedom to choose their own ends; public intervention had to be consistent with respect for individual choices: "If the rate of aggregate public spending in the community can be regulated, we can safely leave the way in which personal income is spent and the means by which demand is satisfied to be free and individual [...] [This is] the only way to avoid the destruction of choice." Four decades of financially driven globalization have led to income and wealth inequalities not seen since the 1920s. With obvious real consequences! Political ones!

Since the late 1970s, most of the nation's income increases have gone to the top 10% of those on the income ladder. In real terms, in 2016, the median income for working-age men was lower than it was four decades earlier.

Since 1980, the richest 1% of Americans have doubled their share of national income and now earn more than the combined incomes of the bottom half (17). The new financialized economy not only diverts resources from productive activity, but also exposes the economy to devastating risks and heightens the tension between capitalism and democracy. In post-World War II capitalism, companies made money by producing goods, selling them at a profit, and investing the profits in new productive capacity. This brought employment and economic growth widely shared across income classes. In finance-dominated capitalism, companies made money not by investing but by speculating on the value of existing assets.

Levy, an economic historian, as Sandel recalls, calls it the "capitalism of rising asset prices" (18). But one of the tasks of a democratic government, as the 1979 Economic Report of the President stated, is to maintain the conditions under which citizens can feel in control of their own destiny. Otherwise, the erosion of trust in government and social institutions, and the resulting frustration, including regarding the value of wages, leads to political and real consequences, such as those indicated in the previous paragraphs, which also make economic measures impossible. And in any case, it leads to populism.

Epilogue

What might Keynes's position be today on some current economic issues?

The answers are impossible, and in part the question could be considered a game. But on some issues, the answer is imaginable.

1. When China has an annual trade surplus of over a trillion dollars in 2025, and is expected to exceed that in 2026, when China, also using the weapons of state dirigism to favor its national champions, practices the competitive devaluation of the renminbi-yuan, which makes its competition even more competitive, perhaps simultaneously presenting itself as a champion of free trade against protectionist temptations, creating an economic model based on exports supported by public credit, Keynes would probably remember what he advocated at Bretton Woods. Today, for every percentage point of Chinese GDP, growth in the rest of the world is -0.1 (once, for every percentage point of Chinese GDP, growth in the rest of the world was about 0.2 percentage points).

Why is such a dominant export now turning Chinese prosperity into recession elsewhere?

In addition to the practices mentioned above, China, unlike Japan, Germany, and South Korea, has no interest in leaving the mature, low-margin segments to others and wants to manufacture everything from steel to next-generation aircraft. But if this - i.e., implementing an industrial policy - can be a lesson for us, that doesn't mean Keynesian proposals on trade, in the name of realism and even in a healthy, non-confrontational

relationship between states (which can lead to various conflicts), cannot be considered topical.

2. In America, four companies control 80% of beef production, 70% of pork, and 60% of poultry.

Moving from agriculture to other sectors, today, a few multinationals decide what is produced and the prices we pay. They control the economy and the companies that employ millions of American workers.

Three major Wall Street firms - Vanguard, BlackRock, and State Street - are the major shareholders of 95% of the companies listed in the S&P 500 index. They own General Motors, as well as Ford, which is supposed to be its competitor. They are the largest shareholders of ExxonMobil and Chevron, and of pharmaceutical companies such as Pfizer, Merck, and Johnson & Johnson. Keynes certainly did not address the issues of antitrust and competition, partly because there was a sort of suspension on these issues during the Great Depression. However, his attention to Beveridge's welfare plan and to social aspects, as opposed to corporate welfare, place him as one of the economists most interested in the conditions of individuals and workers, and not just in issues of aggregate demand. Indeed, this issue was seen as a function of liberal protection for the weaker classes.

3. Keynes, an expert on money, but also on philosophy, demonstrated that the solution to the economic crisis was not limited to monetary and financial matters. He, an economist and philosopher, applied a more general rule to economics: the solution to a problem that arises in a given context is not found by remaining within that context, but by seeking it outside of it. In the midst of a systemic crisis, the real crisis lies in people's negative expectations, and therefore in their trust, in their lack of credit and belief in the system and its institutions. When trust and confidence are lacking, monetary and financial interventions become ineffective: "You can lead a horse to the fountain," Keynes said, "but you can't make him drink." Keynes demonstrated that the next level plan was government intervention, the launch of a season of public spending (I would add, prudent), which alone would have freed the economic system from the trap of distrust and pessimism into which it had fallen. Economists in the 1930s reasoned about the crisis based on monetary and financial interventions, on how to fix the parity of currencies to gold; today, countries within the euro area, forgetting as they did yesterday, that without reviving employment and with it confidence, they run the risk of the system failing to recover: we need to regulate finances and begin to distinguish between public spending due solely to waste and public spending, both national and European, which could revitalize employment, with the awareness that today, unlike 90 years ago, public spending cannot be the only factor, since compared to 1929, the world is much more decentralized and differentiated. But the Keynesian lesson on animal spirits remains the same: as Ford recalled, if his experts had conducted a market survey to understand Americans' transportation needs and had asked them what they needed, in a typically "economic" manner, I might add, they would have answered "faster horses and carriages," not the automobile. It is often not in business schools that values are born, but in communities, in the inventiveness of uncertain, psychological, conventional elements, which act powerfully in society, beyond a mere economic fact. They also shape a social structure that has economic repercussions. To emerge from the crisis of the 1930s, it was necessary (and still is necessary today) to consider psychological, conventional, cultural aspects, not strictly economic ones: one would not even understand the role of the entrepreneur, who is a person who first of all has a project and wants to realize it. He does not aim only to accumulate money. Unlike the speculator, he sees the world as a place populated by opportunities to be seized, and he often suffers if, due to a crisis that has halved the turnover, dozens of jobs in his company are put at risk, because the enterprise contains a good part of his life, his history. A vision, perhaps romantic in a world populated today by large corporations.

Speaking of "animal spirits and the opening of markets," in the second half of the fifteenth century, many sailors wanted to attempt to explore the ocean to the West. They had to cross an uncharted sea, for which nautical charts could not exist: yet they needed a map. A Genoese navigator, Christopher Columbus, decided to set sail not only when he found funding but also when a map of the ocean was provided to him by a Florentine, Paolo dal Pozzo Toscanelli, a spice merchant and astronomer who, probably because he was a merchant, was also interested in a shorter route to the Indies. He drew a map, crucial for Columbus, based on the accounts of travelers with whom he engaged in conversations in Florence, made up of facts, both real and imaginary, fantastic (the legendary kingdom of Prester John). A new world, largely dreamed of, born from listening to Portuguese, Venetians, and Spanish who claimed to have seen, perhaps by *fata morgana* phenomena, lands emerging to the west. Columbus's enterprise was the fruit of two geniuses, even of this sort of map, born of spirit, art, science, and economics, of Florence and Lisbon, of Italy and Europe.

Today, setting sail towards an unknown sea, undertaking, is necessary: are we missing a Columbus and a Toscanelli, capable of drawing a map? Like Ford, in the economic field, the Italian writer Cesare Pavese recalled, as the Italian economist Luigino Bruni recalls (19), that medieval and Renaissance man knew that "the best poems are those told by illiterate sailors on the forecandle" (Introduction to *Moby Dick*), but we have forgotten this. Keynes probably always kept this in mind.

NOTE

(1) A.H. Hansen. *Keynes Study Guide*. Giannini Editore, 1964, p.257, English edition McGraw-Hill Book Company. New York, 1953); A. M. Carabelli, John Maynard Keynes: Economic Reasoning. Complexity, Uncertainty, Happiness, Tragic Dilemmas, Carocci, 2024; C. Zappia. *Uncertainty in Economics. A History of Theories from Keynes to the Present Day*. Carocci. 2024. The theme of uncertainty is also widely studied in the legal field, for its economic and social implications and on individual rights. See L. Viola. *Overruling and Predictive Justice*. Giuffrè. 2020; G. Gometz. *Legal Uncertainty*. Giappichelli. 2024; N. Bobbio. Is Legal Certainty a Myth?, in *Rivista Internazionale di Filosofia del Diritto*, 28, 1951, according to which "law is either certain or it is not even law."

(2) L. M. Milone. *Free Trade, Protectionism, and International Cooperation in Keynes's Thought*. La Nuova Italia Scientifica, 1993, p. 12 and p. 104 ff.

(3) F. Caffè. *Keynesian Economics and Economic Policy*. *Rassegna economica*, 4 July/August, 1975, p. 849

(4) On the theory demonstrating the imperfection of markets connected to information problems, see Joseph E. Stiglitz. *Economics and Information. Autobiography, writings and interviews*, in particular *Information and Change in Economics*, speech on the occasion of the awarding of the Nobel Prize. Alhambra Editore 2006; on economic history, see the introductory pages by Nicola Bocella, Fabio D'Orlando and Azzurra Rinaldi. *Macroeconomics. Led. Edizioni Universitarie di Lettere, Economia, Diritto*. 2014, pp. 14-21, as well as Lionel Robbins. *The Theory of Economic Development in the History of Economic Thought*. Utet. 1970 and J. Tinbergen. *Principles and Methods of Economic Policy*. Franco Angeli Editore 1969; on some contemporary problems, see Julia Cagé and Thomas Piketty. *A History of Political Conflict: Elections and Social Inequalities in France 1789–2022*. La nave di Teseo, 2024, pp. 733-736, "In hindsight, most observers agree on one point: these rigid, poorly calibrated, and ill-timed fiscal policies only contributed to blocking the European recovery and causing a new, entirely unnecessary and avoidable recession in the eurozone in 2011-2012, while the United States, thanks to its pragmatism, continued its recovery and ultimately recovered well before Europe from the crisis that it itself had, moreover, caused." If the bankers and governors, while "in the 1930s, shaped by liberal orthodoxy and the myth of a return to the pre-1914 gold standard, let the financial system and the economy as a whole sink, their successors in the 21st century have not repeated the same mistakes." But this is because the issue was approached pragmatically, especially on the US side, with the Fed lending profusely to ensure the solvency of banks and insurance companies and finance the state, even temporarily nationalizing General Motors, quickly reviving the US economy in 2010. This is unlike the situation in Europe, where the euro had been introduced ten years earlier and a minimally interventionist stance prevailed, initially following Jean-Claude Trichet's decision not to guarantee all eurozone debt (particularly Greek debt, which otherwise accounted for only a small share of the total). Mario Draghi's "whatever it takes" logic has been criticized because it would lead to a socialization of losses and a privatization of profits, of the advantages for bankers and shareholders and the ruling classes who never pay for their sins, because significant public resources would have to be allocated not only to save the banks, but also for the climate, health or education, especially for more social purposes, in a period in which citizens' incomes are compressed by inflation and precarious work, but undoubtedly pragmatic approaches serve to immediately resolve, when the house is burning, certain problems that otherwise, in the fire, would burn down the entire city with greater damage for everyone, which would not even resolve their problems of health, education, and income compression.

(5) G. La Malfa. *General Theory of Employment, Interest and Money*. Annotated edition edited by G. La Malfa. Mondadori 2023, p.610; "An economist who is only an economist is a bad economist" is a phrase attributed to Hayek, also cited by Joan Robinson and the Italian Luigi Einaudi, as well as other economists, and it well expresses the concept that an economist who limits himself exclusively to the technical and quantitative models of his own discipline lacks the overall vision necessary to understand social and human reality: behavior, in fact, does not always follow the perfect rationality of mathematical -

models, economic decisions are made within institutions, laws and power dynamics that influence real outcomes, and to interpret markets and well-being, history, sociology, philosophy and psychology are needed. Ronald Coase was right when he jokingly stated that if economists wanted to study horses, they wouldn't go and observe horses, but would shut themselves away in their studies and say to themselves, "What if I were a horse?" And he was right, even more jokingly, when Arthur, known as Art, Buchwald stated that an economist is a man who knows hundreds of ways to make love but doesn't know a single woman.

(6) J. M. Keynes, *The Collected Writings of John Maynard Keynes*, vol. XIII. *The General Theory and After: Part I, Preparation*, edited by E. Johnson and D.E. Moggridge, London: Macmillan. 5 J.M. Keynes, *The Collected Writings of John Maynard Keynes*, vol. XIV. *The General Theory and After: Part II, Defense and Development*, edited by E. Johnson and D.E. Moggridge, London: Macmillan.

(7) M.C. Marcuzzo M.C. "Whatever happened to the Keynesian multiplier?", in Baranzini R. and Allisson F. (eds.), *Economics and Other Branches: In the Shade of the Oak Tree. Essays in Honor of Pas cal Bridel*, London: Pickering & Chatto, pp. 157-168. 7J. M. Keynes, *The Collected Writings of John Maynard Keynes*, vol. VII. *The General Theory of Employment, Interest and Money*, edited by E. Johnson and D.E. Moggridge, London: Macmillan. 8see Backhouse R. E. and Bateman B. W. (2012), "Keynes and the Welfare State", *History of Economic Thought and Policy*, vol. 1 no. 1, pp. 7-19. Available at URL <https://doi.org/10.3280/SPE2012-00100>. 9Keynes J. M. (1980a), *The Collected Writings of John Maynard Keynes*, vol. XXVI. *Activities 1941–1946: Shaping the Post–War World: Bretton Woods and Reparations*, edited by E. Johnson and D. E. Moggridge, London: Macmillan.

(8) Harry Landreth and David C. Colander. *History of Economic Thought*. Il Mulino, pp. 220-225 and pp. 788-791 and p. 757 ff. 11 Lionel Robbins. *The Theory of Economic Development*. Utet. cit. p. 67 for the observations on Say, Keynes, and Malthus and p. 71 on the position of J.S. Mill, which agreed with Keynes's later position; for the influence of macroeconomics on microeconomics and individual behavior, for all: Richard Thaler. *Misbehaving: The Birth of Behavioral Economics*. Einaudi, 2018, p. 112 ff. Thaler and Sunstein cited by David A. Besanko, Ronald R. Braeutigam. *Microeconomics*. Graw Hill Education, 3rd edition. 2016. Dornbusch, S. Fischer, R. Startz, G. Canullo, P. Pettenati. *Macroeconomics*. McGraw-Hill. 2014. p. 348; Paul Krugman, Robin Wells, Kathryn Graddy. *Essential Economics*. Zanichelli, second edition. 2012; Paul Krugman and Robin Wells. *Macroeconomics*. Zanichelli. Second Italian edition based on the third American edition 2013. p. 508 on the birth of the term macroeconomics; Paul Krugman and Robin Wells. *Microeconomics*. Zanichelli. Second Italian edition based on the third American edition. 2013. Paul Samuelson, William D. Nordhaus, Carlo A. Bollino. *Economics*. McGraw-Hill. 2009, D. Ariely. *Predictably Irrational*. Rizzoli 2008. Kennet Arrow. *Social Choice and Individual Values*. Milan: Etas. 2003. George A. Akerlof and Robert J. Shiller. *They Take Us for Fools: The Economics of Manipulation and Deception*. Mondadori. 2016. Robert J. Shiller. *Economics and Narratives: How Stories Go Viral and Drive Major Economic Events*. Franco Angeli Editore. 2020. Robert J. Shiller. *Irrational Euphoria: Ups and Downs in the Stock Market*. Il Mulino. 2020. R Luigi Pasinetti. *Some Counterfactual Hypotheses on the Current Crisis: Investments, Profits, Growth, and Income Distribution*. Alfabeta 2, March 31, 2011, excerpt from the paper given at the conference "Post-Keynesian Cambridge Economists and Italy," *Accademia Nazionale dei Lincei*, March 11-12, 2009. Abridged text (with the most detailed passages omitted) for a non-academic audience...; Luigi. Pasinetti, *Keynes and the Cambridge Keynesians*. A 'Revolution in Economics' to be Completed, Laterza, Rome 2010; L. Pasinetti. *Keynes and the Cambridge Keynesians*. Laterza. 2010. Mancur Olson. *The Rise and Decline of Nations. Economic Growth, Stagflation and Social Rigidities*. New Haven – London [The Rise and Decline of Nations. Economic Growth, Stagflation and Social Rigidities. Il Mulino. 1984] P. De Grauwe. *Economics of Monetary Union*. Ninth Edition. Il Mulino. 2012. N. Wapshott. *Keynes or Hayek. The Clash That Defined Modern Economics*. Feltrinelli. 2011. Nurkse. *International Investment to –day in the Light of Nineteenth–Century Experience*. *Economic Journal* 64, December 1954; Zachary D. Carter. *The Price of Peace: Economics, Democracy and the Life of John Maynard Keynes*. Neri Pozza. 2022. p. 363 John Maynard Keynes. *A Treatise on Money: The Pure Theory and the Applied Theory of Money*. Complete Set. Martino Fine Books (1930) 201p. 399–402. *Treatise on Money* In two volumes Feltrinelli. 1979. 12 The cyclical trend of the economy, for example for Keynes, is to be ascribed to the changing attitude of investors as phases of optimism or vital spirit alternate with phases of stagnant pessimism. All this to say that the state of long-term expectation, which determines the marginal efficiency of capital and the volume of -

current investment, is linked, according to Keynes, more than to a rational calculation, to the subjective expectations of entrepreneurs, as a long-term element, and to the changing nature of speculators on the stock markets, as a short-term element. Both subjects have in common the fact that they try to break through the “veil of ignorance” that separates them from the future, even though they act with different time perspectives and objectives in mind. cf. on offers related to ultimatum games or similar games see Steffen Andersen, Seda Etrac, Uri Gneezy, Moshe Hoffman and John A. List, *Stakes Matter in Ultimatum Games*, *American Economic Review*, 101, n. 7 (2011), pp. 3427-3439; to the peoples of the on offers g Stanic M. *The Keynesian Reform. Analysis of the General Theory of J.M. Keynes*. Edizioni del Faro. 2015, p. 25 et seq., 70; Arrow K., (1974), *The Limits of Organizations*, Norton, New York, NY.; Cyert R. M., March J. G., (1963), *A Behavioral Theory of The Firm*, Prentice Hall, Englewood Cliffs, NJ.; Cyert R.M. , March J.G., (1963), *A Behavioral Theory of The Firm*, Prentice Hall, Englewood Cliffs, NJ.; Daft R.L. , Lengel R.H., (1984), “Information Richness: A New Approach to Managerial Behavior and Organizational Design”, in Staw B.M., Cummings L.L., (eds.), 6, JAI Press, CO.; Daft R.L., Lengel R.H., (1986), “Organizational Information Requirements, Media Richness and Structural Design”, *Management Science*, vol. 32, no. 5; Daft R.L., Lengel R.H., Trevino L.K., (1987), *Message Equivocality Media Selection, and Manager Performance: Implications for Information Systems*, *MIS Quarterly*, September; Daft R.L., Macintosh N.B. , (1981), “A Tentative Exploration into the Amount and Equivocality of Information Processing in Organizational Work Units”, *Administrative Science Quarterly*, vol. 25; Giddens A. , (1976), *New Rules of Sociological Method*, Basic Books, New York, N; Giddens A., (1979), *Central Problems in Social Theory: Action, Structure, and Contradiction in Social Analysis*, University of California Press, Berkley, CA; Giddens A., (1984), *The Constitution of Society: Outline of the Theory of Structuration*, University of California Press, Berkley, CA; Heiner R.A., (1983), “Origin of Predictable Behavior”, *American Economic Review*, 73; Heiner R.A., (1986–1986), “Rational Expectations When Agents Imperfectly Use Information,” *Journal of Post Keynesian Economics*, 8; March J. G., (1994), *A Primer Decision making. How Decision Happen*, The Free Press, New York; March J. G., Olsen J.P., (1986), “Garbage Can Models of Decision Making in Organizations”, in March J.G., Weissinger–Baylon R., *Ambiguity and Command*, Ballinger, Cambridge, MA; March J.G., Olsen J.P., (1989), *Rediscovering Organizations. The Organizational Basis of Politics*, Free Press, New York, NY; March J.G., Olsen J.P., (eds.), (1976), *Ambiguity and Choice in Organizations*, Universitetsforlaget, Bergen; March J.G., Simon H. A., (1958), *Organizations*, John Wiley & Sons, Chichester, England, UK; Simon H. A., (1947), *Administrative Behaviour*, Macmillan, New York, N; Simon H. A., (1960), *The New Science of Management Decision*, Harper & Row, New York, NY; Simon H. A., (1981), “Studying Human Intelligence by Creating Artificial Intelligence”, *American Scientist*, n. 69; Simon H. A., (1984), *Reason in Human Events*, Il Mulino, Bologna; Simon H. A., (1988), *Computer Science, Business Management and Work Organization*, FrancoAngeli, Milan; Taylor R. S., (1968), “Question–Negotiation and Information Seeking in Libraries”, *College & Research Libraries*, vol. 29, n. 3; Thompson J. D., (1967), *Organizations in Action*, McGraw–Hill, New York. Smith himself and then Keynes held speeches that They took psychological aspects into account more significantly than many mathematical economists, in love with algorithms, which now undoubtedly exist. Behavioral economics cannot fail to be a revolution; Vernon L. Smith. *Rationality in Economics. Between Theory and Experimental Practice*. IBL Libri 2010, which relates to themes in which the teachings of Friedrich von Hayek can be found: through socioeconomic institutions and spontaneous cultural norms, people achieve ends that are involuntary and poorly understood. As Matteo Motterlini and Francesco Guala write in their preface, “Smith's message is that we learn more by studying markets than market theories, because markets have evolved to solve problems that theorists have represented in a distorted way from the beginning. While his exhortation to directly investigate economic reality may seem obvious to many scientists, it is not at all in a theory-dominated discipline like contemporary economics.” Monopolistic competition entails and clarifies that in reality there are as many particular markets as there are companies and prices at which they operate. The prices companies can sell at are different because each company can sell at its own price, as there is no single standard price for a perfectly competitive market, even if these prices are not independent. Imperfectly competitive markets exist in practically every country in the world and for every product. Advertising becomes essential in differentiating the product or service. But the cost of advertising is, obviously, passed on to prices and passed on to consumers. Hence the accusations of waste leveled at advertising by some radical economists such as J. K. Galbraith and P. M. Sweezy. According to P. Nelson (*Advertising as Information*, 1974), on the contrary,

much of the advertising that apparently constitutes a waste of resources actually serves to send signals to consumers. What matters is not so much what advertising says, but the implicit message according to which, if the company spends a lot on advertising, it means it believes in its product, and the consumer can also believe in it without fearing bitter disillusionment.

(9) M. J. Sandel. *Democracy Tires. New Dangers and Possible Solutions for Difficult Times*. Feltrinelli. 2024. p. 228 ff. where the theme is now extensively covered; for all, see J. E. Stiglitz. Einaudi. 2013.

(10) Aristotle. *The Politics*. Ernest Barker (ed.), book IV, Oxford University Press. London 1946. chap. 11 (1295b). pp. 202-224. Aristotle. *Works. 9 Politics. Treatise on Economics*. Laterza. 1991. p. 136; Rousseau, *On the Social Contract* (1762). Donald A. Cress (ed.), book II. Hackett. Indianapolis pp. 46-47, trans. Gerratana. *The Social Contract*. Einaudi. 1966 p. 712. (11) M. J. Sandel. *Democracy is Tired: New Dangers and Possible Solutions for Difficult Times*. Feltrinelli, 2024, p. 229.

(12) M. J. Sandel. *Democracy is Tired: New Dangers and Possible Solutions for Difficult Times*. Feltrinelli, 2024, p. 230.

(13) M. J. Sandel. *Democracy is Tired: New Dangers and Possible Solutions for Difficult Times*. Feltrinelli, 2024, p. 243.

(14) M. J. Sandel. *Democracy is Tired: New Dangers and Possible Solutions for Difficult Times*. Feltrinelli, 2024, p. 245.

(15) M. J. Sandel. *Democracy is Tired: New Dangers and Possible Solutions for Difficult Times*. Feltrinelli, 2024, p. 288.

(16) M. J. Sandel. *Democracy is Tired: New Dangers and Possible Solutions for Difficult Times*. Feltrinelli. 2024. p. 172.

(17) M. J. Sandel. *Democracy is Tired*. cit. p. 276. 18 As is evidenced by certain phenomena, always cited as examples by Sandel: the Ford Motor Company, at the beginning of the 2000s, made more money selling car loans than selling cars, General Electric made more money selling credit cards and financing stock market takeovers than selling refrigerators. In 1978, US manufacturing companies derived 18% of their profits from financial activities; in 1990, 60%; in the 1980s, while U.S. Steel was closing plants in the Northeast and the Midwest, its CEO declared that the company was “no longer in the business of producing steel,” it was “in the business of making profits.” Just catchphrases? Or indications of a trend?.

(18) M. J. Sandel. *Democracy is Tired*. cit. p. 256 and notes 27, 28, and 29 for citation references.

(19) L. Bruni. *Economics with a Soul*. Emi Sferi. 2013, p. 82, on Keynes' role in the 1930s, and pp. 117-118 on the Colombian affair.

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