



UNIVERSITÀ DEGLI STUDI DI MACERATA

*Dipartimento di Istituzioni Economiche e Finanziarie*

The “solitude of the reformist”  
Public Policy and Value Judgments  
in the Work of Federico Caffè

P. Ramazzotti

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**Abstract**

Caffè’s pursuit of a more humane society is strictly related to his view of the economy as a human construction within a more encompassing historical process. Based on this view, he conceives of economics as a policy-oriented social science where value judgments play a crucial role. They frame the questions that need to be answered in order to carry out purposeful change. They also structure the analysis, thus the way questions are answered. A commonly shared understanding of the economy is, therefore, unlikely. Although this would seem to undermine Caffè’s view that a “reasonable core” in economic thought exists, the paper – based on methodological premises that differ, to some extent, from those of Caffè - contends that disciplinary dialogue remains possible provided economists acknowledge the need to make their methodological value judgments explicit.

*Paolo Ramazzotti*, Università degli Studi di Macerata.  
E-mail: ramazzotti@unimc.it.

# 1 Introduction

In 1982 Federico Caffè published an article on an Italian newspaper<sup>1</sup>. Although it was less than 700 words long, it provided a clear view of Caffè's general approach to economics. What Caffè argued was that dominant ideologies assume either that nothing can be changed or that change requires the radical subversion of the system, what Caffè ironically referred to as a "revolutionary palingenesis"<sup>2</sup>. Caffè's alternative - reformist - view, which was greatly inspired by Keynes, was that it is possible and necessary to pursue a "possible civilization".

'Possible' acquires a twofold meaning, in Caffè's approach. On the one hand it is the opposite of 'impossible': it denies that the status quo cannot be changed. On the other, it means 'practicable' in a complex world. The task for whoever wishes to change the *status quo* is to deal with a manifold set of problems. These include misleading views of the world we live in as well as vested interests. Change requires, in this perspective, an idea of what a better world should be and the awareness that each step towards that better world involves a multi-tier action: ethical, technical and cultural. Practicability means identifying a set of day by day actions to this end.

A reformist is one who provides the ideas that will eventually allow change to occur. Unfortunately, it is easier to deny the possibility of a step by step transformation of society than to pursue it. This is what dooms the reformist to a minority role. This is what the solitude of the reformist is about. Despite this solitude, Caffè is unwilling to forsake reformism. He concludes his article with a famous citation from Keynes (1973 [1936], 383-4).

In the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

The aim of this paper is to discuss the issues that Caffè raises and to assess their relevance today, more than twenty years after he left us. It will do so by focusing on three major issues: the meaning of "a possible civilization"; the reason why such a goal may seem to be unpalatable; the prospect that it may cease to be so. My contention is that, although many circumstances may determine the solitude of the reformist, at least one of them may be overcome. I refer to what I believe remained an open issue in Caffè's approach, namely the role that value judgements have in the depiction of a possible civilization.

I deem it appropriate to clarify that my attempt is not to state what Caffè 'really' said. I believe he provided insights that gave rise to new questions. These questions do not lead us into a dead end, nor do they relate to fields of inquiry other than the economist's. Quite to the contrary, they have been addressed by other scholars. My attempt therefore is, if possible, to establish some connections<sup>3</sup> in the hope that they may clarify why we still have much to learn from Caffè's view of the economy and of economics.

## 2 Many Possible Worlds

A reformist is someone who wishes to change the economy and/or society in order to make it a better place to live in. Let us leave aside, for the time being, what 'better' means and who is supposed to define it, and focus on whether and how it is possible to achieve such a goal.

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<sup>1</sup>"The solitude of the reformist", in *Il manifesto*, January 29, 1982. The article is also in CAFFÈ (1990, 3-5), in CAFFÈ (2007a, 383-4) and in CAFFÈ (2007b, 81-82).

<sup>2</sup>KEYNES 1963 [1925] - one of Caffè's major points of reference - labeled these two ideologies respectively "die-hard conservatives" and "party of catastrophe".

<sup>3</sup>"The conceptual basis for this view of knowledge is the notion of a system as a set of elements and an incomplete set of connections between them; thus not only different sets of elements but also different ways of connecting a given set of elements define different systems." (LOASBY 2005, 59)

From a conventional<sup>4</sup> perspective the way to answer this question is to draw on the division of labor between positive and normative analysis. The aim of the former is to provide a consistent account of how the economy works. The aim of the latter is to derive normative prescriptions from it. In this perspective, ‘possible’ relates to the compatibility between desired change and economic constraints.

The conventional perspective provides two notions of a ‘better’ place to live in. The first one is centered on efficiency: better involves a shift from the economy as it actually is towards the ‘optimal’ configuration of the economy<sup>5</sup>: this is the typical market failure approach where ‘better’ involves an improvement in terms of Paretian efficiency<sup>6</sup>. The second notion is centered on equity. It relates to distribution. The problem with equity, however, is that it involves an explicit value judgment concerning who is to gain and who is to lose from a given price structure and, consequently, from a possible redistribution. Another problem with equity is that redistribution may involve a cost in terms of efficiency. The assessment of the trade off between efficiency and equity ultimately depends on a value judgment.

The efficiency-based notion of ‘better’ is fairly trivial, at least if one is willing to believe that only the gains and losses of isolated individuals matter and they can be identified. Indeed, anyone is willing to accept a situation where someone gains something and nobody loses anything. The real issue is whether Pareto improvements are what is really relevant. Hence, on the grounds that distribution cannot be forsaken, Caffè (1984) recalls Bruno De Finetti’s remark that a Pareto optimum may be optimal but it needn’t be good.

So the second notion of better cannot be left aside. Equity is a crucial matter and any notion of a possible civilization must take it into account. Under these circumstances, however, a possible civilization must comply with two constraints. The first one is technical: the efficiency-equity trade off must not be such as to preclude change. The second one is ‘political’: value judgments must be in favor of the envisaged change.

The difficulties related to value judgements are fairly straightforward, although I will need to return to them further on. The nature of the technical constraints, instead, must be discussed. If economics was a hard science, it would be possible to identify these constraints once and for all. The policy maker might have to adapt them to the historical context but the conditions for change would be fairly clear. Despite the existence of many economic theories, they would all relate to a unique reality.

This is not Caffè’s view, however. According to Caffè, there is more to public policy than the mere identification of specific solutions to practical issues within a given economic context. Caffè explicitly refers to A.C.L. Day’s (1955) discussion of the single universe approach provided by Friedman, and his remark that, quite to the contrary, more than one world is possible. Given “the immense range of possibilities of the future.” (Day in Caffè 1971b, 23)<sup>7</sup>, the scope for a theory of public policy is definitely broader. According to Caffè (1971b, 23)

The effort ... [of] the researcher ... is to resort to the available tools and techniques of analysis in order to provide an outline of the constellation of possible economic situations, which are schematically depicted, thereby abstracting from the greater complexity associated to concrete situations.

The reason why more than one world is possible depends on at least three important circumstances. The first one is that the world we live in, thus the economy as a part of this world, is not the outcome of deterministic mechanisms. It is a human creation. Caffè is extremely critical of the recurrent attempt to “reduce economics to a ‘half-science’, taking account exclusively of tech-

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<sup>4</sup>‘Conventional’ refers to what is broadly considered the mainstream. In Section 5 I will qualify the definition by referring to assumptions concerning systemic openness/closure.

<sup>5</sup>The ‘second best’ theorem shows that closer needn’t mean better but the perfect configuration remains the policy maker’s point of reference.

<sup>6</sup>If unemployment is viewed as the outcome of a macroeconomic market failure (ACOCCELLA 1998), aggregate demand management policies may be considered as Pareto improvements and encompassed in this framework.

<sup>7</sup>All translations from Italian texts are the author’s.

nological relations and doing away with its subjective and psychological aspects.” (Caffè 1981, 79). Drawing on one of his most eminent and authoritative teachers, Caffè recalls that “Leaving aside all understatements and with his typical epistemological acumen, Gustavo Del Vecchio referred to these approaches as a reductive transformation of economic science into a more or less elaborated accounting system.” (*ibid.*). Thus, the theory of economic policy relates less to the compliance to given constraints than to a proactive behavior that aims to assess and, if necessary, change those very constraints: “Neglect of an essential feature of economic science – i.e. that it is motivated and purposive – means that one is engaging in another science.” (*ibid.*).

The second circumstance is that economic choice cannot always be separated from other choices. Economic outcomes are the combined effect of market and non-market considerations. Consider, in this regard, social costs. Caffè (1978, 46-47) stresses that, despite efforts to provide a quantitative assessment of social costs, in many cases they just cannot be measured in purely monetary terms: there are consequences of economic activity that need to be assessed in terms of criteria other than market values. This implies that when Caffè refers to a “motivated and purposive” economics, what he has in mind is a range of choices that include societal values which transcend the market. This obviously broadens the scope for economic policy.

The third circumstance is that the economy is embedded in a more general historical process. This does not only mean that the economy evolves. Given the above discussion, its evolution is the outcome of an interaction with the rest of society. Economic development cannot be reduced to a mechanistic process because at every point in time a range of choices is possible based on different decision criteria: “A single-exit outcome can be contrasted by reflecting on what history teaches us – that a multidirectionality of effects ultimately provides responsible human decisions with a wide range of choices.” (Caffè 1970a, 70).

Given the importance of this issue it is worthwhile to briefly elaborate on it. Caffè does not conceive of history just as a determinant of exogenous variables (e.g. technology or preferences) and of shocks associated to these variables. He does not believe that it all amounts to circumstances that interfere with the way the economy functions, much like a comet may disrupt the orderly movements within the solar system. He views it as the evolving process of a human (and natural) society that encompasses the economy.

Caffè is aware that abstract theories and models are necessary in order to carry out economic inquiries. However, owing to his view that extra-economic variables interact with the economy, thereby affecting the way it evolves over time, he stresses that the gap between that abstractness and what is required for its application to the world “as it is” raises some non-trivial problems. For instance, in his discussion of Timbergen’s contribution to the theory of economic policy, he points out that

There is no doubt that, if Timbergen’s model were handled incautiously, it might lend itself to the naïve expectation that the measures of economic policy . . . can be identified at once on the basis of the computational results provided by modern computers. The process that shapes economic policy will never be reducible, obviously, to a mere counting of equations and unknowns.

(Caffè 1971b, 187)<sup>8</sup>.

This same view leads to the conclusion that there cannot be a once and for all model of the economy. This leads Caffè continuously to lay emphasis – in applied analysis<sup>9</sup> as well as in theoretical debate<sup>10</sup> – on the gap between existing theories of the capitalist economy and the capitalist economy

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<sup>8</sup>Caffè is also careful to note that TIMBERGEN himself stated, in his *The Design of Development*, that programming cannot substitute common sense but should supplement it (CAFFÈ 1971b, 187).

<sup>9</sup>In an important paper on the stock market, CAFFÈ (1971a) contends that “The shortcomings of the financial/stock market, . . . , should not be ascribed to fortuitous circumstances or to institutional flaws but to an intrinsic disequilibrium of the capitalist economy *as it has historically developed*.” (160-1; my emphasis) and goes on to argue that “if the way the [financial] market should operate is fairly clear, the analysis of *how it actually operates* is today characterized by mutually inconsistent views, which are likely to depend on persistent gaps in our knowledge” (172; my emphasis).

<sup>10</sup>When asked to comment on a paper by SEN (1985) where the latter provides an outline of the shortcomings of the market, CAFFÈ (1986) polemically contrasts Sen’s ahistorical approach with HICKS’ (1969) treatment of how the

“as it has historically developed”<sup>11</sup>.

### 3 Beyond Buckets

The previous section argued that, according to Caffè, it is possible to envisage many possible worlds. This changes the scope for public policy. Its function is not just to mend a malfunctioning market. It is to achieve a better society, if possible. How policy can pursue such an end is a different issue than the conventional market-centered one. Let us examine it in greater detail by going back to equity.

The intuition of the conventional view is that, in general<sup>12</sup>, ‘too much’ equity tends to prevent the market from functioning properly, which implies that, all other things given, less output will be produced. Okun’s (1975) leaky bucket metaphor visualizes the limit to redistribution: the more money you transfer to those in need, the more will be lost on its way and the less will be available to the community as a whole. In order to choose appropriately, you must assess the trade off between the equity goal and efficiency. The trade off determines the burden that the community must bear in order to achieve its equity goals.

What is not clear, in Okun’s metaphor, is why we need a bucket in the first place. Conceptually, it is fairly easy to determine the trade off once we formulate the *coeteris paribus* assumption. The problem, however, is whether such an assumption is legitimate. In fact what it involves is not only that a market is required to achieve output. It also involves that a very specific market is required: the existing one. So it is reasonable to ask: Is it the only arrangement we can resort to? Wouldn’t it be possible to change the economy so that we would not need the bucket?

The claim that this is how things are – or, more rigorously, that we need to take account of constraints as they have come to being over time - can be defended on the grounds that policy cannot change all of the above circumstances at once. This may be true in the short run but it is most unlikely to be true in general. According to Caffè, an economist should transcend the status quo in order to identify possible solutions to relevant issues. In this perspective, Caffè (1971b, 44) stresses that inquiries pointing to some appropriate action should be carried out independently of whether policy makers request them or not, even though it is the latter who will eventually have to decide whether to carry them out. In other terms, an economist should be free of the constraints that the ‘counselor of the Prince’ is subject to<sup>13</sup>.

Alternatively, the claim in favor of the status quo may be defended on the grounds that policy must not affect it because it is the outcome of efficient choices. But this leads us to a dog chasing its tail: efficient choices reflect given circumstances; if the given circumstances were different, efficient choices would differ just as well<sup>14</sup>. So even if the *status quo* were to reflect efficient choices, these would be the outcome of only one out of many possible technological and institutional setups. Thus, a more appropriate way to frame the choice issue is to consider a two-tier process: the first tier relates to the choices that economic actors make, the other relates to the choice contexts that those actors must choose from<sup>15</sup>. The decision over which choice context is to be preferred depends on distribution, so that “the analysis itself does not lead to the identification of an absolute maximum

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market emerged historically, “where emphasis is laid on the empirical process of its formation, rather than on the moral merits that may be assigned, or denied, to it.” (CAFFÈ 1986, 29).

<sup>11</sup>TIBERI (1997, 133) stresses this point by referring to Caffè’s epistemological background as based on “a sort of ‘absolute historicism’, that is necessary to look at the things of this world, far from any providentialism or metaphysical determinism”.

<sup>12</sup>The ideal but unlikely case being when the Second Welfare Theorem applies and it is possible to separate equity from efficiency so that the trade off is nul.

<sup>13</sup>Commenting on Timbergen’s approach, CAFFÈ (1971b, 185) points out that “in terms of its final ends, economic analysis does not have, therefore, . . . a task of passive acceptance of externally fixed *desiderata*, but also a positive function, one of clarification, of critical assessment and of innovative incitement.”

<sup>14</sup>Firms may efficiently choose how to produce something both when child labour is legal and when it is not. The techniques of production that they use may differ and the output they produce may not be the same in the two instances but the (maximizing) rationale underlying the behavior of the firms remains the same.

<sup>15</sup>For simplicity’s sake, in what follows we leave aside issues concerning incomplete information, bounded rationality or the inconsistency between individual and collective rationality.

for the collectivity, but to *a maximum relative to the initial resource endowment.*” (Caffè 1971b, 119; emphasis in the original).

Note that a choice context does not only affect potential choice within a given market. It determines the very boundaries of that market. Pollution, for instance, can be conceived of as a tradable good – thereby implying that a market for such a good should be enhanced - rather than being forbidden because of the lexicographic preferences of society. Similarly, a range of goods and services can be provided through mechanisms other than contracted exchange (e.g. a public health service or a public education system), so that redistribution and solidarity substitute the rationale of the market<sup>16</sup>.

A choice context therefore depends not only on how the market is organized but on the more general organization of the economy. The latter may involve the establishment of non-market economic activities like the welfare state. Activities that would not be profitable for private actors may be carried out because they comply with non-market societal requirements – as in the case of the assistance to the socially disadvantaged or the maintenance of common goods such as natural environments. Depending on values that may well transcend the market, these activities may be differently framed within the institutions of society: the unemployed, for instance, may be entitled – that is, have the right - to a share of the community’s income rather than be deprived of such a right and be subject to the discretionary action of the Salvation Army or of some other charity<sup>17</sup>. Similarly, depending on the peculiar relation established between the economy and society as a whole, the environment, money or the labor force – workers – may or may not be treated as (fictitious) commodities (Polanyi 1944). Ultimately, all these configurations of the economy lead to different distributional arrangements. They affect resource allocation in ways that cannot be disregarded when the key concern is to determine a more humane society.

The implication of the above discussion is that the notion of a trade off between equity and efficiency is misleading because it assumes that there is only one possible choice context. Quite to the contrary, a variety of contexts is possible depending on the rules that regulate the market. The rules do not relate to the choice between efficiency and equity but to the choice among different equity-related arrangements, each of which is open to an efficient outcome. A closer look at the issue suggests that the market – the section of the economy centered on contracted exchange - is only one of the means to achieve the goals set out by society. The criteria that underlie other sections of the economy, such as the family, non-profit organizations, the welfare state, etc. – Polanyi’s (1957) redistribution and reciprocity - are neither efficient nor inefficient. They simply reflect altogether different priorities.

The above discussion broadens the scope for economic policy. It is not restricted to improving the performance of the market but it must determine the role that the market must play in the pursuit of goals that transcend market priorities. The question this leads to is what may constrain the pursuit of these non-market-specific goals. This is the topic of the next section.

## 4 Arguing About Value Judgments

The previous section argued that ‘many possible worlds’ can be envisaged depending on what rights are assigned to whom, within the market and beyond the market. Since there are a great variety of potential setups, there is no unique trade off between efficiency and social goals, because efficiency can be achieved with any predefined institutional setup.

It may nonetheless be necessary to decide what ‘possible world’ should be pursued. Apparently we are back to the original trade off but the situation is fairly different. First, distribution is not conceived of as a non-economic issue that unwontedly breaks into the economic scene, interfering with the allocation of resources. Caffè (1971b, 113-4) stresses this point by citing I.M.D. Little who contends that “We do not believe that any definition of an increase in wealth, welfare, efficiency, or real social income which excludes income distribution is acceptable.” (Little 1950, 93-4). Second,

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<sup>16</sup>These issues are discussed in greater detail by SCHMID (1987) and BROMLEY (1989).

<sup>17</sup>CAFFÈ (1956, xiv-xv) explicitly refers to the suggestions made by E.R. WALKER (1943) and T.W. HUTCHINSON (1938), concerning the determination of “minimal standards in living conditions and . . . the methods that should be deployed (in production and in distribution) to ensure them to all the members of a community.”

there are no ‘broken buckets’. Resources need not be wasted: they can simply be used in different manners. Thus, what is at issue is not the economy versus social (‘non-economic’) requirements but the ‘best’ way to arrange the economy. Third, precisely because the issue is not to meet an equity requirement with a given institutional setup but to change the latter in order to make it consistent with the former, economic policy does not follow economic analysis: it is an intrinsic part of it. Both economic policy and economic analysis depend on what questions are deemed relevant. Both require answers that depend on assumptions – concerning features of ‘the world we live in’ - deemed reliable. The relevance of the questions and the appropriateness of the assumptions both depend on value judgments<sup>18</sup>.

It is appropriate to note that value judgments make their entrance in two situations: when a policy maker has to formulate his choice, and when an economist formulates the questions she aims to answer. While the former situation is generally acknowledged to be standard practice, in that it is the policy maker’s business to choose on behalf of the community, quite a few scholars may have problems in accepting the latter because it gives economic inquiry a subjective nature that clashes with the desire for objectivity in science. The question is whether a common ground is possible or views depend on idiosyncratic viewpoints alone.

What is at issue is that there is no unique way to frame a problem, and it is up to the scholar to judge how to frame it. The reason why this is so is that knowledge includes not only statements that are true or false but also statements that may be more or less plausible but are not certain. Avoiding the latter may favor preciseness but at the expense of relevance<sup>19</sup>. Different views of the world – i.e. different views both of how things are and of how they ought to be – lead to different value judgments concerning relevance. In turn these different value judgments imply that a single issue may be approached in a variety of ways.

Caffè did not consider this variety to be a drawback. He often recalled a remark by Samuelson (1974) to the effect that eclecticism in economics is a necessity. Different perspectives provide different insights and help to clarify all aspects of an issue. Scientific dialogue is nevertheless possible, because logical rigor allows the economist to make explicit all the assumptions that underlie a given inquiry, thereby identifying incontrovertible statements, isolating subjective views and, consequently, pointing out the issues that do remain controversial. This is precisely how Caffè discusses economic theory, an example being his reconstruction (in Caffè, 1971b, chapter 4) of the debate on the relation between efficiency and distribution in welfare economics.

In order for progress to occur, however, it must be possible – at least potentially – to settle open issues. If ideas are to prevail over vested interests, it is reasonable to believe that sooner or later they have to be commonly understood and shared.

Let us consider three types of open issues. The first one has to do with unsolved logical problems. A typical case is when a theory is proved to be internally inconsistent. Caffè did not seem to consider this a major problem. Although he was obviously aware that internal consistency matters, he also knew that the history of science is replete with formal solutions that come long after the original intuition, e.g. Fermat’s Last Theorem. Indeed, he was very dubious of scholars who thought that a theory could be dismissed just because of its logical flaws<sup>20</sup>.

The second case has to do with value judgments. In particular, it is concerned with moral value judgments, i.e. those that relate to moral statements. The conventional approach to moral value judgments in economics is that there is no arguing about tastes or, as the traditional Latin

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<sup>18</sup>Caffè criticizes Robbins for his distinction between positive and normative economics on the grounds that “this view, whereby the need of ‘an end, of a general scope’ should arise at a certain point of economic inquiry, rather than being an integral part of it, is hardly convincing in the light of the most subtle analyses carried out recently on the role and function of human ideals in scientific research” (CAFFÈ 1971b, 28). In a footnote that follows this passage, Caffè briefly refers to Myrdal’s treatment of value judgements as an intrinsic part of economic inquiry.

<sup>19</sup>In an essay included in CAFFÈ (1956), LITTLE (1949) contends that “little can be gained by attempts to be objective and precise about a subject in which people have an ethical interest, and about which they speak in terms which, in so far as they have any descriptive meaning, are essentially vague.” (I.M.D. LITTLE, 1949, 245-6). See also Caffè’s own remarks in CAFFÈ (1956, xiv).

<sup>20</sup>“There are various ways to deal with the construction of economic science and with the contribution of those who were its major creators. . . . There is an approach that does not limit itself to assigning a privileged nature to a specific conception, but deems it necessary for a ‘demolitionist’s’ action to dismantle, once and for all, approaches that have nevertheless constituted an integral part in the march of economic science.” (CAFFÈ, 1978, 17).



saying puts it: *De gustibus non est disputandum*. Traditionally, the claim is that you cannot argue over someone's preference for meat rather than cheese. Based on the presumed parallel between the natural sciences and morals, "what agreement there is between attitudes seems merely a brute fact, irrelevant to morals, and disagreement seems utterly inarbitrable by reason, bridgeable only by propaganda, arm-twisting, or emotional manipulation." (Taylor 1993, 213).

In a reassessment of this approach, entitled with the Latin saying cited above, Becker and Stigler (1977) deal with the fairly commonplace objection that people apparently do switch from one good to another. They distinguish between commodities – what households consume – and market goods, which are only a component of commodities. Households produce commodities "with market goods, their own time, their skills, training and other human capital, and other inputs." (*ibid.*, 77). On these grounds, Becker and Stigler argue that, while people may actually switch from one market good to another, their preference for commodities remains nonetheless the same.

Becker and Stigler are extremely lucid about the scope of their paper. While the nature of their hypothesis "does not permit of direct proof because it is an assertion about the world, not a proposition in logic" (*ibid.*, 76), the rationale of their paper is to "apply *standard economic logic* as extensively as possible" (*ibid.*, 89; my emphasis), which amounts to tracing economic behavior back to its key determinants. According to this foundationalist – or reductionist - perspective

knowledge claims are to be checked, to be assessed as fully and responsibly as they can be, by breaking them down and identifying their ultimate foundations, as distinct from the chain of inferences which build from these towards our original unreflecting beliefs.

(Taylor 1993, 213; my emphasis).

Insofar as these ultimate foundations are "a brute fact", there seems to be no ground for a convergence in value judgments. Even if logical problems were eventually to be solved, this would not be enough to provide for a common understanding – not to speak of sharing - of those ideas which, as we saw above, are what is really relevant for Keynes and Caffè. If there is a way out of this stalemate, it requires a different approach to value judgments.

Hirschman (1984) provides an alternative treatment of the value judgment issue. Drawing on Sen (1982), he distinguishes between preferences and values. More specifically, Hirschman (1984, 89) argues that

men and women have the ability to step back from their 'revealed' wants, volitions, and preferences, to ask themselves whether they really want these wants and prefer these preferences, and consequently to form meta-preferences that may differ from their preferences.

The key issue, here, is that, while you may be unable to argue about a preference – e.g. whether you like meat more than cheese - you can argue about a meta-preference, e.g. whether it is right to kill animals in order to eat their meat.

The difference between the conventional approach and Hirschman's reflects a different methodology. According to the conventional approach, there is no point in assuming that a conflict may arise between preferences and values (meta-preferences) because it is the former that underlie the latter. Any attempt to identify other causes, aside from what are generally named 'exogenous shocks', would be unsatisfactory from a scientific point of view and ultimately "unilluminating", as Becker and Stigler would say<sup>21</sup>.

The title of Hirschman's essay - Against Parsimony: Three Easy Ways of Complicating Some Categories of Economic Discourse – clearly claims that attempts at extreme simplification, as with the foundationalist research program, do not allow for a clear understanding of economic phenomena. His suggestion is exactly the opposite: to cross boundaries. Thus, rather than tracing a common

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<sup>21</sup> "... from the foundationalist perspective, only the apodeictic mode of reasoning is really satisfactory; the appeal to shared fundamental commitment seems simply a recourse to common prejudices. The very Enlightenment notion of prejudice encapsulates this negative judgment." (TAYLOR 1993, 213).

determinant for preferences and values, he tries to account for the differences that exist between them.

Although Hirschman focuses on the value system of individuals and makes no attempt to identify a value principle for the community as a whole, he does suggest that, since values can be questioned, a convergence may occur. If “men and women have the ability to ... ask themselves whether they really want these wants” there is more opportunity for dialogue. This may not assure that a convergence is always possible but it does avoid precluding it from the very outset.

My intention, here, is not to provide an exhaustive treatment of the literature on value judgments. I merely wish to point to the key assumptions concerning how people formulate moral value judgments. Questioning a preference involves assessing it according to some criterion. If the questioning process is not just one of internal consistency, i.e. aligning the preference with its corresponding value, the criterion must be independent of the preference itself. So the issue is where such a criterion could possibly come from. This leads us to the third open issue, which has to do with cognitive value judgments. This is the topic of the section that follows.

## 5 Value Judgments and Economic Knowledge

Recall that Becker and Stigler focus on applying “standard economic logic”, which consists in assuming that “widespread and/or generalized human behavior can be explained by a generalized calculus of utility-maximizing behavior”. In other terms, there is no point in trying to consider anything other than utility maximization. Hirschman, quite to the contrary, explicitly transcends such a behavior and considers situations where things that individuals think and want turn out to be inconsistent with other things that those same individuals think and want.

What is at issue is neither rationality nor information. Although these elements may influence behavior, the difference between the above scholars is not centered on them. Bounded rationality may prevent individuals from making complete sense of what they think and want but, if utility-maximization is the only rule of the game, consistency is just a matter of correcting one’s mistakes until everything gets straightened out. If the required information is missing, here too we can conceive of a process whereby, as the available data increases and tends towards completeness, individuals converge towards their ultimate utility-maximizing goal. Asymmetric information may prevent optimality but in itself it does not preclude utility-maximizing behavior. The real issue is why utility-maximization should be the only rule of the game and why it should be possible to know what information is required. What allows a proper assessment of these assumptions is whether the economy is conceived of as an open or a closed system<sup>22</sup>.

The economic system that “standard economic logic” applies to must be closed. Its boundaries must be identifiable so that it is possible, potentially, to achieve completeness of information. Were this not the case, it would not be possible to assess whether the available information is adequate, i.e. sufficient to formulate reliable expectations. If the absence of closure prevented the relevant information from being identifiable, an individual would have to acknowledge that there might be some information ‘somewhere out there’ that could affect her choice but that she does not know about and that she cannot know about, given the endless extension of the fields of knowledge. Precisely because information is not circumscribed, it is not possible to judge whether what one knows is ‘enough’ or not<sup>23</sup>.

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<sup>22</sup> “An open system is one where not all of the constituent variables and structural relationships are known or knowable, and thus the boundaries of the system are not known or knowable. ... an open system can be segmented into subsystems which can be approximated to closed systems for partial analysis, but which are always open organically to influences from other parts of the overall system. While there is no inevitability of order, there are understood to be underlying forces which can maintain, or restore, order in an indeterminate way.” (Dow, 1996, 14)

<sup>23</sup> “Thus Keynes argued that the confidence held in the understanding of the (unquantified) probability attached to a proposition would be greater the more weight attached to the probability. Weight increases the more relevant evidence is available. But this is fundamentally different from the notion of an increase in sample-size for a frequency distribution calculation. [...] if the evidence reveals wider realms of ignorance than were previously anticipated, the increased evidence might actually reduce the confidence held in the probability judgment. [...] there is the prior judgment as to whether to recognize new evidence, and whether to recognize its relevance to the probability judgment. Conventions play a large part in the formation of judgments under uncertainty” (Dow 1996, 19). A more detailed

Similarly, should there be behavioral rules other than utility-maximization, a rational individual might have to choose between two possibly inconsistent behaviors. For instance, utility maximization might be deemed appropriate for an economic context while some other behavioral rule might be preferred in what concerns religion. In the absence of boundaries that separate each context, one behavior might interfere with the other, which is precisely what Hirschman suggests.

An open systems view<sup>24</sup> implies that systems are interdependent and that their interdependence changes in space and over time, so that boundaries are bound to change as well. For instance, people interact within the economy on the basis of views of the world such as those concerning which distribution is appropriate and socially just. But these views change over time, so that, e.g. what once was a concern for money income associated to some job is subsequently extended to welfare provisions associated to a non-market institution. This change in views involves a shift in the boundaries of the economy<sup>25</sup>.

Openness implies that you cannot take boundaries for granted. It involves that, in order to deal with specific issues, you need to choose how to trace the boundaries of the economic system, as well as those of the discipline required to investigate it. This involves dealing with two interdependent issues: what happens within the system and how the system interacts with its surrounding environment. It involves dealing with the complexity associated to the extension of the system in space and over time and with the number of elements and the types of interaction

Given the above complexity, scholars who follow an open systems approach need to acknowledge that it is impossible to grasp the economy as a whole. While this supports Caffè's emphasis on eclecticism, it also shows that what must be included in a single inquiry depends on its relevance for the questions asked. Hence Caffè's emphasis on policy issues as an integral part of economic analysis rather than something that merely follows it.

This inevitably requires the formulation of value judgments concerning what is relevant. Relevance refers, here, not only to the appropriateness of the questions – in relation to the moral values of the inquirer – but to how the inquiry is framed. This is what cognitive value judgments are about.

This takes us back to our discussion about the potential for a common understanding and sharing of ideas. In the closed system view the field of inquiry is (claimed to be) given, so that a common ground for scientific debate is defined *a priori*, and value judgments relate to moral issues alone. Following this approach, economists are bound to reach an agreement over technical issues while maintaining different views as to the appropriateness of one policy rather than another.

The open systems view argues that society, the economy as a part of society and economics as the discipline that studies the economy, are all subject to change. As society changes, the same is likely to occur to moral value judgments, so that a convergence may never occur. Hirschman's approach, which is consistent with the open systems view, suggests, however, that you can argue about values, so that an economic discourse remains possible.

How does this apply to cognitive value judgments? Based on the discussion above, a cognitive value judgment reflects the moral value judgments and the more general views of the world of whoever tries to make sense of a complex reality. Although, as Becker and Stigler would state, it “does not permit of direct proof because it is an assertion about the world”, it is nevertheless subject to potential debate. It is possible to debate whether “standard economic logic” is more appropriate or not, even though a standard criterion of truth is missing.

There is an asymmetry between the two main systemic views, however. Conventional economists, centered on closed systems, follow the same approach as Becker and Stigler whereby it is best to rely on “standard economic logic as extensively as possible”. Inquiries may resort to other types of explanation but these accounts are depicted as ‘ad hoc’ and are clearly deemed less satisfactory from a scientific point of view. The more such inquiries move away from ‘standard logic’ the less likely will a commonly framed discourse be possible.

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discussion of Keynes' open systems approach to economics is in CHICK, DOW (2001).

<sup>24</sup>There are different characterizations of systemic openness, depending on different schools of thought. Here I will refer to openness only in relation to its implications for Caffè's work. For a detailed analysis see DOW (1996).

<sup>25</sup>It is interesting to note, in this respect, that CAFFÈ (1971b, 184) cites Timbergen's contention that economists are bound to deal with the ends of the economic system on the grounds that the latter change as a result of how the boundaries of economic analysis tend to shift over time.

The same does not hold from the alternative perspective. Open systems theorists can be extremely confident that their interpretation of the economy is appropriate but, precisely because openness involves uncertainty, they can never be sure. Openness involves fallibility<sup>26</sup>. It does not warrant any claim to true methodological standards and theoretical models. Thus, while conventional economists are likely to consider other approaches wrong on methodological grounds, quite independently of what their theoretical content may be, open systems approaches can dismiss conventional approaches only on the grounds that they appear to be irrelevant.

## 6 Caffè's Value Judgments

Caffè's notion of a possible civilization is not the radical dream of a conventional economist. It is based on the view that the economy is deeply embedded in history. It entails that it may be difficult to carry out a desired change, because a historically embedded economy is a much more complex phenomenon than a systemically closed one. But, because the economy is not the same as a clockwork, there is no a priori reason for change not to be possible.

Caffè's notion of a possible civilization is not even a moderate version of the palingenetic view. Precisely because the economy is not a clockwork, change occurs as a process that begins today, based on all of the constraints associated to the present historical context, and is projected in the future by drawing on all of the possible worlds envisaged by concerned economists. It emerges from the historicity of the economy.

Caffè's notion of a possible civilization is strictly related to his methodology. Caffè's non-mechanistic view of the economy is extended to economics by emphasizing the relevance of uncertainty. The significance of any school of economic thought depends on the available evidence and on how it is situated within the inquiry by the (cognitive value judgments of the) economists. Given the nature of knowledge in an uncertain environment, all theoretical outlooks may provide insights and no approach can plausibly claim to be more scientific than others. In this perspective, the eclecticism that Caffè purports has less to do with a pragmatic approach to difficult matters than with a methodological stance towards an intrinsically complex subject.

From a policy-oriented perspective this has important implications. Although any attempt to model a phenomenon involves some closure and internal consistency requirements, the key issue is whether such a model allows us to deal with the actual problem it sets out to solve. This "practical" relevance is a common ground for most economists – independently of their theoretical and methodological backgrounds - and this is why it is here that Caffè situates his assessment of different economic explanations. Thus, when he criticizes Coase's approach to social costs, his concern is not for the internal consistency of the latter's theory but for its inability to account for the persistence of unpaid costs. Given a commonly acknowledged problem, Coase's response is deemed inadequate because:

although the remark put forward by Coase is subtly elaborated and although he attempts to stress its relevance with various examples, it is somewhat difficult to claim that the capitalist economy suffers from an excess amount of measures to correct for "externalities", whereas, if anything, it suffers from the absence of such measures.

(Caffè 1978, 46).

Policy relevance is a criterion that may favor dialogue across methodological and theoretical boundaries but, since systemic openness calls for the interpretation of whatever data is available, it does not warrant agreement. The implicit denial of truth and of the dualism between perfect

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<sup>26</sup> "While an orthodox economist might also subscribe to fallibilism, it is presented differently. Either the approach is subjectivist, effectively allowing for several versions of the 'truth', or else the issue of truth is regarded as one which can in principle be resolved, by internal logic or by empirical testing. What logic and/or testing can reveal, in principle at least, is understood as objective truth, independent of value systems and beliefs. What heterodox economists identify as distinguishing schools of thought – beliefs about reality, and values – are regarded by orthodox economists as 'ideology' which, by their understanding of what is involved in economics, is outside economics." (DOW 2008, 16).

knowledge and total ignorance – thus also of the true-false dualism – is all but reassuring to many scholars. Although doubt is the typical point of departure for whoever carries out research, Caffè suggests that it is inherent in a twofold complexity: the complexity of the world, which includes the evolving social and natural environment, and; the complexity of a discipline (economics) that can never fully grasp all of the features of that all encompassing and ever changing world. In this sense, although there are differences between Caffè and Herbert Simon, it is possible to refer to Caffè's view of knowledge as 'satisficing'.

These issues may definitely support Caffè's contention that a reformist is doomed to solitude. My impression, however, is that there may be more to the issue than the disquieting nature of Caffè's approach and the restlessness of those who seek substantive, rather than satisficing, knowledge. More specifically, I believe that a problem may be identified in the relation he establishes between value judgments and eclecticism.

As I mentioned above, Caffè always stressed the importance of value judgments in economic analysis. They are relevant not only in that they are the motives that underlie the pursuit of knowledge. They are also the viewpoints that frame and make sense of any economic inquiry. But, precisely because value judgments do not merely cause an inquiry but also frame it, different value judgments are likely to lead to different views of the economy. So the problem is how these different views can lead to a common understanding. When Caffè mentions the need for eclecticism, he acknowledges that no inquiry can be all-encompassing and that the results of different inquiries may complement each other. But how can this happen? In order for integration to occur, there must be a common denominator for all of the inquiries. They must be compatible, otherwise we would be confronted with a relativistic view of the discipline whereby 'anything holds'. From the perspective of our discussion, this would imply that Caffè's reliance on ideas would be doomed to failure.

Let us return to the above discussion about value judgments. We mentioned two approaches. The conventional one assumes that moral value judgments do not preclude a common understanding of economics as a science. A *standard* economic logic applies so that, even if points of departure differ, the outcomes of all inquiries are bound to converge within a commonly accepted framework. The alternative, heterodox, approach assumes away a standard logic and claims that how one conducts an inquiry also depends on value judgments. Thus, a common understanding is possible in the conventional view, although just in terms of 'positive analysis', while the heterodox view acknowledges that the existence of approaches based on contrasting cognitive value judgments may lead to incommensurable outcomes<sup>27</sup>. However, contrary to the conventional approach, value judgments in the heterodox approach are not like preferences: they can be subject to dispute. From this heterodox perspective the outcomes of economic inquiries need not converge towards a common understanding. What is required for a convergence to occur is a preliminary understanding over the premises – thus the value judgments - of the inquiry.

Let us now consider Caffè's views. As the discussion of his overall approach and outlook suggests, he was very critical of the conventional approach and closer to the heterodox one. However, the relation between cognitive value judgments and the convergence of ideas remains an open issue in his treatment of economics. He is undoubtedly of the view that there is no "privileged conception that encompasses the premises of all further development" (Caffè 1978, 17) and that it is important to appreciate the valid contribution of all schools of thought. What he tends to neglect is that schools of thought may differ not only in terms of the theories they purport but of the methodology they resort to. Consider, in this respect, Caffè's discussion of Marshall.

According to Caffè (1971b, 76; my emphasis).

the historical importance of the Marshallian perspective on public action in the economy lies in the internal critique of the ultimate outcomes of a competitive state of equilibrium, a critique that is carried out according to the logic of economic reasoning and not by resorting to arguments external to it, which are typical of social reformers or of authors who are inclined to economic heterodoxy. This point should be regarded basically on conceptual grounds, not because of its immediate practical

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<sup>27</sup>Incommensurability applies even to language, since the same word may be assigned different meanings according to the value judgments underlying the analysis. See CHICK and DOW (2001) for a more detailed discussion of this issue.

implications.

Here, the suggested distinction is between the logic of economic reasoning, which is the one centered on the analysis of a competitive state of equilibrium, and the logic of authors who are inclined to economic heterodoxy, which is external to economic reasoning. It implies that, although economic heterodoxy should be appreciated in so far as it contributes to the advancement of economic knowledge, the criterion whereby all contributions are assessed is the orthodox one. But this is tantamount to assigning to the orthodox approach a privileged position on methodological, if not strictly theoretical, grounds.

Let us consider another example. As I argued above, according to Caffè, economic theory must meet the needs that arise from society, and the separation between the economy and the rest of society cannot but be artificial. This point clearly emerges in his discussion of Pigou's notion of welfare. Once he has clearly summarized all of the logical steps that lead to Pigou's distinction between economic welfare and overall welfare, Caffè stresses that such a distinction is the inevitable result of a compromise, since a more rigorous solution is not available in practice. In so doing he acknowledges that the two concepts cannot be separated other than by resorting to a convention (see Caffè 1971b, 90). However, when he turns to Hicks' (1939; 1959) critique of the distinction, whereby it does not adequately take into account the non-economic effects of policy measures, he dismisses it on the grounds that Pigou was well aware of these shortcomings<sup>28</sup>.

My impression is that such a dismissal is, at the very least, hasty. Quite independently of what Hicks had to say about the whole matter, the compromise underlying the distinction between economic welfare and overall welfare required not only the identification but also an assessment of the assumptions that allowed it. Based on the above discussion, such an assessment may reflect two situations. The first one – which is consistent with a closed system view – is that, once economic welfare à la Pigou is assessed, the analysis can be extended to overall welfare by proceeding in a (roughly) additive manner. In this perspective, the distinction holds despite possible (minor) shortcomings. The assumptions underlying the compromise are of a “heuristic” type (Musgrave 1981), i.e. they provide for a temporary simplification, which will be abandoned in subsequent steps of the inquiry.

In the second situation – which reflects an open systems view – the interdependence between economic and non economic welfare is so important that any attempt to proceed stepwise from economic to overall welfare may undermine the overall assessment. Social costs are a case in point. If they basically amount to exceptions, relative to the general functioning of the market, and can be expressed in money terms, they can be accommodated within the framework outlined by Pigou. Quite to the contrary, if social costs are a key feature of capitalism and cannot (always) be expressed in money terms, it is doubtful that one can first measure income and then adjust it for such costs. In this case, the assumptions underlying the compromise are “domain” assumptions (*ibid.*): they cannot be abandoned if the theory is to hold<sup>29</sup>.

By dismissing the Hicksian critique, Caffè is implicitly assuming that it is the first situation that holds. However, Caffè's treatment of social costs is much more consistent with the second situation. Caffè is extremely careful to identify all the (implicit) assumptions that underlie a theory or a model, and he acknowledges that they should be assessed with respect to the internal consistency of the theory and to what appears to be the world in its concrete reality. However, here just as in the Marshallian example, he tends to neglect that those assumptions should also be assessed in relation to meta-assumptions – cognitive value judgments – concerning how that same world can be partitioned in order to be investigated.

This unsolved methodological inconsistency makes dialogue between Caffè and other economists rather difficult. Consider, for instance, Caffè's (1976a) claim that the IMF should respect what institutional and political peculiarities its member countries choose, rather than subordinate them to its policy prescriptions. Viewed from the conventional approach, this appears to be less an economic policy contention than a political statement, i.e. one that lies beyond economic analysis.

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<sup>28</sup> “Since Pigou would have never wished to contrast these claims in any way, the substantial sterility of this polemic is evident.” (CAFFÈ 1971b, 98).

<sup>29</sup> CAFFÈ's (1978) emphasis on KAPP (1963) suggests that he believes that it is the second situation that holds.

This is because, if one follows a closed systems approach, institutional and political peculiarities are, at the very least, auxiliary elements with respect to the logic of economic reasoning. They are not relevant as such but only in relation to their effect on economic goals such as income growth or price stability. Quite to the contrary, when viewed in an open systems perspective, the institutional and political peculiarities of a country – how it chooses to conduct its activities – are on the same standing as income growth or any other strictly economic goal, so that the latter cannot be pursued by just disregarding the former.

A conventional economist is likely not to deem Caffè's contention as downright wrong; she will simply consider it as irrelevant in that it is extra-economic. What happens to be a key element in Caffè's discussion of the IMF – that no 'technical' argument can transcend a country's freedom to organize itself as it deems best - will not be given its due importance because it will be considered a value judgment, thus not subject to debate, just like preferences. Quite to the contrary, a proper assessment of Caffè's discussion would require the acknowledgment that he is, albeit implicitly, formulating assumptions on the nature of the economy that are altogether different from those of the conventional view and that the cognitive value judgments that underlie those assumptions should be reasoned about, rather than just be accepted or rejected.

It is most likely that the lack of clarity over these issues made the solitude of a reformist like Caffè even greater. Unfortunately, even though history seems to have vindicated a great deal of his ideas, this lack of clarity still needs to be overcome.

## 7 Conclusions

There are many reasons why a reformist such as Caffè should feel isolated by his colleagues. Leaving aside those that have to do with (the defense of) vested interests or with a narrow view of the function that an economist should have in society, some of the reasons relate to the creation and assessment of ideas. These are the reasons that Caffè would be most concerned about, since it is ideas that "soon or late, . . . are dangerous for good or evil."

Caffè was very critical of the misleading, if reassuring, reliance on mechanistic views of the economy and on scientific views of economics. Caffè contrasted the pretense to an objective economic science by stressing that the separation between positive and normative analysis was inappropriate. Following Gunnar Myrdal (1953; see also Myrdal 1998), he pointed out that both economics and economic policy were disciplines based on the preliminary formulation of value judgments. His emphasis on the complexity associated to history made him focus on all opportunities for social improvement, regardless of what was presumed to happen in the long run. When he pointed out that

The effort to eliminate these shortcomings [of economic development on income distribution], when it helps to improve the living conditions within the economic system for a reasonable space of time, appears to be worthwhile, independently of what the final destiny of the system may be.

(Caffè 1978, 132)

he was stressing that he was less concerned with the fate of the economy than with the dramatic issues that had to be solved. This lack of concern was polemically addressed both to those who believed that no substantial improvement was possible unless everything changed and to those who believed that economic compatibilities had to be put to the fore, despite their costs in terms of grievous social consequences.

Value judgments reflect a view of the world. They may focus on two distinct – although not separate – issues. The first one is 'what the economy ought to be'; I referred to these as moral value judgments. The second issue is 'what economic analysis ought to be'; I referred to these as cognitive value judgments. Moral value judgments are the motives that lead to an inquiry as well as the criteria that underlie a policy choice. But what frames an inquiry is not only the question you ask but also how you choose to seek an answer. In a complex world, where uncertainty affects what and how you learn, cognitive value judgments are the views that frame an inquiry.

Caffè's confidence that ideas would eventually prevail over vested interests was based on a view of economics as a unitary edifice where all approaches could be fitted. But this required the contributions of different schools of thought potentially to complement each other. A common methodological framework was called for, quite independently of the different value judgments that each economist had. I have argued, however, that reconciling the unitary edifice with theories based on different (cognitive) value judgments is rather problematic. One possibility is to identify a common criterion to assess different theories. This is what underlies the "standard economic logic" that Becker and Stigler refer to. It is also what Caffè seems to have in mind when he refers to the "logic of economic reasoning". The problem with this criterion is that it leaves out much of what Caffè himself believed, e.g. the relevance of history. Another possibility is to acknowledge that the variety of cognitive value judgments underlying the existing schools of thought is bound to determine incommensurable theories. This criterion undermines Caffè's belief that economics is a one and only edifice.

A third criterion consists in acknowledging that the variety of cognitive value judgments may lead to incommensurable theoretical frameworks but that dialogue may still occur if there is clarity as to the methodologies used. This involves making explicit what premises – i.e. what cognitive value judgments – hold. It need not lead to any theoretical convergence, but it will nonetheless breach the incommunicability between different schools of thought. Furthermore, in so far as the systemic openness of both the economy and of economics is acknowledged, it will favor awareness of fallibility, thus also of the potential gains from dialogue.

The latter criterion is consistent with Caffè's general approach to economics and it may well be promising at a time when, as Bigo (2008, 527) points out, authors such as Friedman and Hahn have acknowledged that modern mainstream economics, with its logic of economic reasoning, "is not too successful at providing insight" but, at the same time, the existing alternatives remain a minority.

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